

ASX / Media Release

22 September 2017

ASX code: **K2F**

Appendix 4E Clarification Notice

Enterprise asset management technology company K2fly Limited (**ASX: K2F**) would like to clarify the position of the Company pursuant to ASX Listing Rule 4.3A and the Appendix 4E lodged with the ASX on 1 September 2017.

Pursuant to ASX Listing Rule 4.3A, the Company makes the following statements:

1. The financial statements contained in the Appendix 4E lodged on 1 September 2017 were based on accounts which at the time of the lodgement of the Appendix 4E were subject to review, and in the process of being audited; and
2. The Appendix 4E has been re-lodged as attached. Please note that there have been no changes made to the previously lodged Appendix 4E. The Company is currently finalising the remaining conditions of the audit for the full year and will be lodging its 2017 Annual Report in the next 7 days.

If any shareholders have any queries regarding the Appendix 4E they are directed to contact the Company using the contact information outlined below.

ENDS

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About K2fly

K2fly Ltd is an ASX listed Technology company which targets asset intensive industries. It supplies people, products and strategic alliances focussed on solving problems for clients.

K2fly owns the following technologies for use in Tier 1 companies:

INFOSCOPE : A Data Collaboration solution

ADAM Asset Data Analysis Management

NovIn Real Time Asset Inspection Management App

DocMan Mobility Solution: Task Management App

TagMan Mobility Solution: Asset Verification App

HandoverNotes Mobility Solution: Electronic Information Sharing App

PropertyInspector Mobility Solution: Asset Inspection App

K2fly also re-sells market leading software which has been developed by industry leaders in the USA and UK. These solutions come from OBI Partners (USA), Kony (USA), Pointerra Limited (Aus) and Capita plc (UK), where they have an outstanding track record of delivering benefits to clients.

Finally, K2fly provides cutting edge advice, consultancy and services when it deploys its subject matter experts who have extensive domain knowledge in such areas as Rail, Electricity, Gas, Water, Mining, Oil & Gas, Facilities Management, Aviation and Defence.

K2FLY LIMITED

ABN 69 125 345 502

Appendix 4E

Preliminary Final Report – 30 June 2017

This report has been prepared in compliance
with ASX Listing Rule 4.3A

Pursuant to ASX Listing Rule 4.3A, the Company makes the following statement:

The financial statements contained in the Appendix 4E are based on accounts which at the time of the lodgement of the Appendix 4E were subject to review, and in the process of being audited.

Appendix 4E

Preliminary Final Report

Name of entity
K2fly Limited

ABN or equivalent company reference	Preliminary final (tick)	Financial year ended ('current period')
69 125 345 502	✓	30 JUNE 2017

Results announced to the market (This information should be read in conjunction with the last annual report and any announcements to the market by K2fly Limited during the period)				
	Year Ended 30/06/17 \$A	Year Ended 30/06/16 \$A	Amount change \$A	Percentage change %
Revenue from ordinary activities	626,698	-	626,698	100
Loss from ordinary activities after tax attributable to members	(3,179,025)	(65,999)	(3,113,026)	4,716
Net loss for the year attributable to members	(3,179,025)	(65,999)	(3,113,026)	4,716

Comment
The increase in revenue from ordinary activities is due to the change in strategic direction for the Company into the Software-as-a-Service sector selling enterprise technology for asset management and asset maintenance for the asset intensive service industries.

Dividends (distributions)
There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the financial year ended 30 June 2017.

Net tangible asset per ordinary security	30 June 2017	30 June 2016
Net tangible assets	1,706,095	(76,580)
Number of shares on issue at reporting date	50,867,535	47,187,501
Net tangible asset per ordinary security	3.35 cents	(0.16) cents

Control Gained or Lost over Entities
Not Applicable

Associates and joint ventures
Not Applicable

Foreign Entities Accounting Framework
Not Applicable



Gino D'Anna
Executive Director
31 August 2017

The information required by listing rule 4.2A is contained in this Appendix 4E. The full year reporting information should be read in conjunction with the most recent annual financial report of the Company.

K2FLY LIMITED

ABN 69 125 345 502

Preliminary Final Report – 30 June 2017

Consolidated Statement of Comprehensive Income For the year ended 30 June 2017

	2017 \$	2016 \$
Revenue	626,698	-
Cost of sales	(249,098)	-
Gross profit	377,600	-
Interest revenue	8,956	6
Administration expense	(410,364)	(27,707)
Amortisation expense	(424,274)	-
Compliance & regulatory expense	(119,248)	(38,298)
Consultancy expense	(826,390)	-
Depreciation expense	(2,563)	-
Directors fees	(299,131)	-
Employee benefit expense	(228,142)	-
Impairment of intangible assets	(900,000)	-
Impairment of exploration and evaluation expenditure	(32,091)	-
Occupancy expense	(42,184)	-
Public relation & marketing expense	(50,062)	-
Research costs	(51,214)	-
Share-based payments	(123,500)	-
Travel expense	(56,408)	-
Loss before income tax expense	(3,179,025)	(65,999)
Income tax expense	-	-
Loss for the year	(3,179,025)	(65,999)
Other comprehensive income, net of income tax:		
<i>Items that may be reclassified to profit and loss</i>		
Changes in the fair value of available-for-sale assets	-	120
Income tax relating to these items	-	-
Other comprehensive income for the year, net of tax	-	120
Total comprehensive loss for the year	(3,179,025)	(65,879)
Basic loss per share (cents per share)	(9.53)	(1.31)

Consolidated Statement of Financial Position
As at 30 June 2017

	2017 \$	2016 \$
Assets		
Current assets		
Cash and cash equivalents	1,743,582	30,126
Trade and other receivables	360,297	2,002
Total current assets	2,103,879	32,128
Non-current assets		
Other financial assets	844	844
Plant and equipment	13,486	-
Intangible assets	2,175,726	-
Exploration and evaluation expenditure	-	24,187
Other assets	2,480	-
Total current assets	2,192,536	25,031
Total assets	4,296,415	57,159
Liabilities		
Current liabilities		
Trade and other payables	345,844	33,739
Borrowings	-	100,000
Total current liabilities	345,844	133,739
Non-current liabilities		
Trade and other payables	68,750	-
Total non-current liabilities	68,750	133,739
Total liabilities	414,594	133,739
Net assets / (liabilities)	3,881,821	(76,580)
Equity		
Issued capital	11,682,697	4,813,977
Reserves	268,826	120
Accumulated losses	(8,069,702)	(4,890,677)
Total equity	3,881,821	(76,580)

The accompanying notes form part of these financial statements

Consolidated statement of changes in equity
For the year ended 30 June 2017

	Issued capital \$	Share-based payments reserve \$	Option reserve \$	Available-for- sale reserve \$	Accumulated losses \$	Total equity \$
30 June 2015	4,813,977	-	-	-	(4,824,678)	(10,701)
Loss for the year	-	-	-	-	(65,999)	(65,999)
Other comprehensive income for the year	-	-	-	120	-	120
Total comprehensive loss for the year	-	-	-	120	(65,999)	(65,879)
30 June 2016	4,813,977	-	-	120	(4,890,677)	(76,580)
30 June 2016	4,813,977	-	-	120	(4,890,677)	(76,580)
Loss for the year					(3,179,025)	(3,179,025)
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(3,179,025)	(3,179,025)
Shares issues	9,110,000	-	-	-	-	9,110,000
Share issue costs	(2,241,280)	-	-	-	-	(2,241,280)
Share-based payments	-	123,500	145,206	-	-	268,706
30 June 2017	11,682,697	123,500	145,206	120	(8,069,702)	3,881,821

The accompanying notes form part of these financial statements

Consolidated Statement of Cash Flows
For the year ended 30 June 2017

	2017 \$ Inflows / (Outflows)	2016 \$ Inflows / (Outflows)
Cash flows from operating activities		
Receipts from customers	310,610	-
Payments to suppliers and employees	(1,993,685)	(60,794)
Interest received	8,956	6
Interest paid	(2,398)	-
Net cash (used in) operating activities	(1,676,517)	(60,788)
Cash flows from investing activities		
Payments for plant and equipment	(16,049)	-
Payments for exploration and evaluation expenditure	(7,904)	(1,484)
Net cash (used in) investing activities	(23,953)	(1,484)
Cash flows from financing activities		
Proceeds from the issue of shares	4,143,000	-
Payments for share issue costs	(730,410)	-
Proceeds from option entitlement issue	101,335	-
Proceeds from borrowings	30,000	65,000
Repayment of borrowings	(130,000)	-
Net cash provided by financing activities	3,413,926	65,000
Net increase/(decrease) in cash held	1,713,456	2,728
Cash at beginning of the half year	30,126	27,398
Cash and cash equivalents at the end of the half year	1,743,582	30,126

The accompanying notes form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 30 June 2017

Basis of preparation

The consolidated financial statements have been prepared on an accrual basis and are based on historical cost.

The consolidated financial statements are presented in Australian Dollars.

Significant accounting judgements and key estimates

The application of accounting policies requires the use of judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period the revision and future periods if the revision affects both current and future periods.

Except as described below, in preparing this financial report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2016.

In the year ended 30 June 2017, management reassessed its estimates in respect of:

- **Impairment of asset**

In assessing impairment, management estimates the recoverable amount of the Technology Assets based on expected cash flows from the sale of the licences associated with the Technology Assets. In addition, management makes an estimate of the overachievement or underachievement of the sales performance of the Technology Assets. Factors such as expected new clients and expected recurring monthly revenue are used as inputs into the gross value ascribed to the Technology Assets. In instances of underperformance of sales, management makes an assessment of the likelihood of sales performance recovering and the life cycle of the Technology Assets. These factors play a role in the impairment of the value of the Technology Assets. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

- **Intangible asset**

The Company determines whether intangibles with indefinite useful lives are impaired at least on an annual basis. This requires estimation of the recoverable amount of the cash generating units to which the intangibles with indefinite useful lives are allocated.

- **Performance rights**

The Company measures performance rights at the period end when the conditions of the particular class of rights have been achieved, calculated using 100% probability and the Company share price at the period end. Shareholder approval for the issue of the performance rights is being sought at the Company's 2017 Annual General Meeting to be held in November 2017. No discount has been applied to the probability weighting based on uncertainty of the shareholder approval. During the financial year, three classes of performance rights had their hurdles achieved, which at the time of shareholder approval will convert on a 1-for-1 basis into fully paid ordinary shares.

- **Options**

The Company measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted.

Notes to the consolidated financial statements
For the year ended 30 June 2017

Going concern

The financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlements of liabilities in the ordinary course of business.

Earnings per share	30 June 2017	30 June 2016
Basic loss per share (cents per share)	(9.48)	(1.31)
Weighted average number of shares	33,357,767	5,019,947

Issued capital	30 June 2017		30 June 2016	
	Number	\$	Number	\$
Opening balance	47,187,501	4,813,977	47,187,501	4,813,977
Share consolidation	(42,167,466)	-	-	-
	5,020,035	4,813,977	47,187,501	4,813,977
Capital raising	20,625,000	4,125,000	-	-
Placement shares	7,750,000	1,550,000	-	-
Consideration shares	16,000,000	3,200,000	-	-
Convertible note shares	1,272,500	217,000	-	-
Escrow shares	200,000	18,000	-	-
Share issue costs	-	(2,241,280)	-	-
Closing balance	50,867,535	11,698,697	47,187,501	4,813,977

Notes to the consolidated financial statements
For the year ended 30 June 2017

Share-based payment reserve

During the year, \$123,500 was recognised as a share-based payment made to the Directors of the Company.

The fair value of these Directors Performance Rights was calculated by using a probability based valuation methodology with reference to the share price at the grant date to issue the performance rights.

	Number	Value per share	Probability	Condition	Total Value
Class 1	320,000	\$0.20	100%	Non-Market	\$64,000
Class 2	310,000	\$0.20	0%	Market	-
Class 3	310,000	\$0.20	0%	Market	-
Class 4	350,000	\$0.20	0%	Non-Market	-
Class 5	350,000	\$0.085	100%	Non-Market	29,750
Class 6	350,000	\$0.085	100%	Non-Market	29,750
Class 7	410,000	\$0.20	0%	Non-Market	-
Class 8	550,000	\$0.20	0%	Non-Market	-
Class 9	550,000	\$0.20	0%	Non-Market	-
	<u>3,500,000</u>				<u>123,500</u>

These Performance Rights, which, upon their achievement, will convert into shares (on a one for one basis). Milestones attached to the Performance Rights are as follows:

Class 1	Successfully completing its proposed capital raising of not less than \$4 million and being admitted to the Official List of the ASX following an intellectual property acquisition
Class 2	Weighted average price (VWAP) of the shares as traded on ASX over 20 days being equal to or exceeding 200% of the initial listing price of the Shares pursuant to the re-listing
Class 3	Weighted average price (VWAP) of the shares as traded on ASX over 20 days being equal to or exceeding 400% of the initial listing price of the Shares pursuant to the re-listing
Class 4	Company converting not less than three (3) of the existing users of ADAM software across to an acceptable market-rate subscription of the Company
Class 5	Company successfully executed a Distribution Partnership Agreement/Re-seller Agreement with an acceptable agent based in the European region
Class 6	Company successfully executed a Distribution Partnership Agreement/Re-seller Agreement with an acceptable agent based in the Asian region
Class 7	Company achieving total sales revenue over a full financial year of not less than \$1.5million with a minimum 10% net profit margin (before tax)
Class 8	Company achieving total sales revenue over a full financial year of not less than \$3million with a minimum 15% net profit margin (before tax)
Class 9	Company achieving total sales revenue over a full financial year of not less than \$5million with a minimum 20% net profit margin (before tax)

Notes to the consolidated financial statements
For the year ended 30 June 2017

Option reserve

Unlisted options

On 17 November 2016 and 1 December 2016, the Group issued 1,920,000 and 800,000 options expiring 17 November 2020 and 1 December 2020 respectively.

The Group has rebutted the presumption that the fair value of service can be a reliable measure as a result the options have been separately valued and the fair value determination is as follows:

The assessed fair value at grant date of options issued during the year amounted to \$43,871, determined by internal valuation using Black-Scholes option pricing model.

Set out below are the valuation model inputs used to determine the fair value of the options issued:

Series 1 and 2	
Share price at grant date:	\$0.15
Life of option:	4 years
Expected share price volatility:	32%
Risk free rate:	1.5%

	Number	Grant Date	Expiry Date	Exercise Price \$	Fair Value at Grant Date	Vesting Date
Series 1	1,920,000	17/11/2016	17/11/2020	0.25	\$30,968	17/11/2016
Series 2	800,000	17/11/2016	11/12/2020	0.25	\$12,903	1/12/2020
	2,270,000				\$43,871	

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

Listed Options

Under an Entitlement Issue Prospectus dated 12 April 2017, a non-renounceable entitlement issue was undertaken.

One (1) option was issued for every five (5) shares held by those shareholders registered in Australia or New Zealand on 20 April 2017 at issue price of \$0.01 per option to raise \$101,335.

The amount payable on exercise of the option is \$0.20 each and will expire 3 years from the date of issue. An option not exercised before the expiry date will automatically lapse.

	Number	Grant Date	Expiry Date	Exercise Price \$	Fair Value at Grant Date	Vesting Date
Series 3	10,133,507	31/05/2017	31/05/2020	0.20	101,335	31/05/2017

Notes to the consolidated financial statements
For the year ended 30 June 2017

Investment in controlled entities		
	2017	2016
	Ordinary shares	
	Percentage owned	
	%	%
Controlled entities		
Power Minerals Pty Ltd	100	100
Acquisition of controlled entities		
There were no acquisitions of controlled entities during the year (2016: Nil)		

Significant events after Balance Date
On 10th July 2017, K2fly Limited acquired InfoScope Pty Ltd by way of cash consideration of \$475,000, repayment of an outstanding loan of \$150,000 plus interest, the issue of \$275,000 worth of K2fly shares and 350,000 options.
Other than noted above, there has been no additional matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the company in future financial periods.