

K2FLY LIMITED

ABN 69 125 345 502

Appendix 4E

Preliminary Final Report – 30 June 2018

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 are 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 2018

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 Jun 18 \$A	Year Ended 30 Jun 17 \$A	Amount change \$A	Percentage change %
Revenue from ordinary activities	2,523,151	626,698	1,896,453	303
Loss from ordinary activities after tax attributable to members	(5,410,273)	(2,235,085)	(3,175,188)	142
Net loss for the year attributable to members	(5,410,273)	(2,235,085)	(3,175,188)	142

Comment
The increase in revenue from ordinary activities is due to the continued growth of the company, new contract wins and sales to Tier 1 clients. The Company's revenues have been further enhanced as a result of the acquisition of Infoscope Pty Ltd in July 2017. Included in the net loss in FY18 is a significant impairment expense for \$2,375,726 in relation to intangible assets which were acquired back in 2016. Refer to note 6(b) attached for full details.

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 2018.

Net tangible asset per ordinary security	30 June 2018	30 June 2017
Net tangible assets	526,973	1,706,095
Number of shares on issue at reporting date	60,409,751	50,867,535
Net tangible asset per ordinary security	0.87 cents	3.35 cents

Control Gained or Lost over Entities
On 7 July 2017, the Company acquired 100% of the issued capital of Infoscope Pty Ltd (Infoscope). The acquired entity contributed \$1,060,579 to the Group's revenues from the date that K2fly assumed control being 7 July 2017 to 30 June 2018. The acquired entity contributed \$131,277 to the Group's net loss after tax for the same period however excluding non-cash items net profit after tax for the period amounted to \$130,608.

Associates and joint ventures

Not Applicable

Foreign Entities Accounting Framework
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Not Applicable



Brian Miller
Executive Director and CEO
30 August 2018

The information required by listing rule 4.3A is contained in this Appendix 4E.

K2FLY LIMITED

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Consolidated Statement of Comprehensive Income For the year ended 30 June 2018

	Note	2018 \$	2017 \$
Revenue	5	2,523,151	626,698
Cost of sales		(1,286,689)	(249,098)
Gross profit		1,236,462	377,600
Other income		22,766	8,956
Administration expense		(275,816)	(410,364)
Amortisation expense		(712,185)	(424,274)
Compliance & regulatory expense		(113,140)	(119,248)
Consultancy expense		(389,342)	(826,390)
Depreciation expense		(10,834)	(2,563)
Directors fees		(132,000)	(299,131)
Employee benefit expense		(1,725,104)	(228,142)
Impairment of Intangible Asset	6(b)	(2,375,726)	-
Impairment of exploration and evaluation expenditure		(309)	(32,091)
Occupancy expense		(78,429)	(42,184)
Public relation & marketing expense		(118,860)	(50,062)
Research costs		(122,814)	(51,214)
Share-based payments	11	(452,310)	(79,560)
Travel expense		(162,632)	(56,408)
Loss before income tax expense		(5,410,273)	(2,235,085)
Income tax expense		-	-
Loss for the year		(5,410,273)	(2,235,085)
Other comprehensive income, net of income tax:			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of available-for-sale assets		-	-
Income tax relating to these items		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(5,410,273)	(2,235,085)
Basic and diluted loss per share (cents per share)	4	(9.55)	(6.70)

K2FLY LIMITED

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Preliminary Final Report – 30 June 2018

Consolidated Statement of Financial Position As at 30 June 2018

	Note	2018 \$	2017 \$
Assets			
Current assets			
Cash and cash equivalents		774,158	1,743,582
Trade and other receivables		677,228	360,297
Total current assets		1,451,386	2,103,879
Non-current assets			
Restricted cash		54,145	-
Plant and equipment		25,032	13,486
Intangible assets	6	-	3,075,726
Goodwill	7	731,543	-
Other financial assets		844	844
Other assets		-	2,480
Total non-current assets		811,564	3,092,536
Total assets		2,262,950	5,196,415
Liabilities			
Current liabilities			
Trade and other payables	8	975,101	345,844
Total current liabilities		975,101	345,844
Non-current liabilities			
Trade and other payables	8	-	68,750
Provisions		29,333	-
Total non-current liabilities		29,333	68,750
Total liabilities		1,004,434	414,594
Net assets		1,258,516	4,781,821
Equity			
Issued capital	9	13,136,705	11,682,697
Reserves	10	657,846	224,886
Accumulated losses		(12,536,035)	(7,125,762)
Total equity		1,258,516	4,781,821

K2FLY LIMITED

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Consolidated statement of changes in equity For the year ended 30 June 2018

	Issued capital	Share-based payments reserve	Option reserve	Available-for- sale reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2016	4,813,977	-	-	120	(4,890,677)	(76,580)
Loss for the year	-	-	-	-	(2,235,085)	(2,235,085)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(2,235,085)	(2,235,085)
Issue of shares	9,110,000	-	-	-	-	9,110,000
Share issue costs	(2,241,280)	-	-	-	-	(2,241,280)
Share-based payments	-	79,560	145,206	-	-	224,766
Balance as at 30 June 2017	11,682,697	79,560	145,206	120	(7,125,762)	4,781,821
Loss for the year	-	-	-	-	(5,410,273)	(5,410,273)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(5,410,273)	(5,410,273)
Issue of shares – acquisition of InfoScope	275,000	-	-	-	-	275,000
Issue of shares – placement	1,224,302	-	-	-	-	1,224,302
Share issue costs	(75,294)	-	-	-	-	(75,294)
Share-based payments	30,000	293,340	139,620	-	-	462,960
Balance as at 30 June 2018	13,136,705	372,900	284,826	120	(12,536,035)	1,258,516

K2FLY LIMITED

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Preliminary Final Report – 30 June 2018

Consolidated Statement of Cash Flows For the year ended 30 June 2018

	2018	2017
	\$	\$
	Inflows / (Outflows)	Inflows / (Outflows)
Cash flows from operating activities		
Receipts from customers	2,759,462	310,610
Payments to suppliers and employees	(4,226,153)	(1,975,684)
Interest received	309	8,956
Interest paid	(4,630)	(2,398)
Movement of cash from non-restricted to restricted	(54,145)	-
Net cash (used in) operating activities	(1,525,157)	(1,658,516)
Cash flows from investing activities		
Payments for plant and equipment	(22,380)	(16,049)
Payments for exploration and evaluation expenditure	(309)	(7,904)
Investment in subsidiaries (InfoScope)	(475,000)	-
Cash acquired on acquisition of accounting subsidiary	69,013	-
Net cash (used in) investing activities	(428,676)	(23,953)
Cash flows from financing activities		
Proceeds from the issue of shares	1,224,302	4,125,000
Payments for share issue costs	(75,294)	(730,410)
Proceeds from option entitlement issue	-	101,335
Proceeds from borrowings	-	30,000
Repayment of borrowings	(150,247)	(130,000)
Net cash provided by financing activities	998,761	3,395,925
Net increase in cash held	(955,072)	1,713,456
Cash at beginning of the year	1,743,582	30,126
Effects of exchange rate fluctuations on cash held	(14,352)	-
Cash and cash equivalents at the end of the year	774,158	1,743,582

Notes to the consolidated financial statements

For the year ended 30 June 2018

1. Basis of preparation

The financial statements comprise the consolidated financial statements for K2fly Limited (**Company**) and its controlled entities (**Group**). For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

The financial statements have been prepared on a historical cost basis, except for available-for-sale investments which have been measured at fair value. Historical cost is based on the fair values of the consideration given in exchange for goods and services. The financial statements are presented in Australian dollars.

The Company is a listed public Company, incorporated and operating in Australia.

2. Significant accounting judgements and key estimates

The application of accounting policies requires the use of judgements, estimates and assumptions about 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 underlying 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 of the revision and future periods if the revision affects both current and future periods.

Impairment

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Impairment of intangibles with indefinite useful lives and goodwill:

The Group determines whether intangibles with indefinite useful lives and goodwill and impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in note 6 and note 7.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees, directors and consultants by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black-Scholes model, using the assumptions detailed in note 11.

Performance rights

The Company measures performance rights based upon the grant date being the date of a shared understanding of the terms and conditions being achieved or the date of shareholder approval if required. Where the grant date is after the period in which services have begun to be rendered, the grant date fair value is estimated by reference to the period end share price. This was the case in respect of performance rights agreed to be issued in the year ended 30 June 2017, for which shareholder approval for the issue thereof was obtained at the Company's Annual General Meeting held in November 2017 (**AGM**). Once the date of grant is known (being the date the Company's AGM was held), the earlier estimate is revised. During the financial year, the Company has revised its valuation of performance rights (now issued), as set out in note 11.

Business combinations

Management uses valuation techniques in determining the fair values of the various elements of a business combination. Particularly, the fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability.

3. 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.

4. Loss per share

Earnings per share	2018	2017
Basic loss per share (cents per share)	(9.55)	(6.70)
Weighted average number of shares	56,653,267	33,357,767

Notes to the consolidated financial statements For the year ended 30 June 2018

5. Revenue

	2018 \$	2017 \$
Consulting revenue	1,875,955	583,376
Sales of own software	472,946	43,322
Sales of third party software	150,000	-
Hosting services revenue	24,250	-
	2,523,151	626,698

6. Intangible Assets

	2018 \$	2017 \$
Customer Contracts at cost (a)	12,185	-
Customer Contracts - accumulated amortisation (a)	(12,185)	-
	-	-
Software at cost (b)	3,500,000	3,500,000
Software - accumulated amortisation (b)	(1,124,274)	(424,274)
Software – Impairment (b)	(2,375,726)	-
Total Intangible Assets	-	3,075,726
<i>Movements:</i>		
Carrying amount at the beginning of the year	3,075,726	-
Acquired	12,185	3,500,000
Amortisation	(712,185)	(424,274)
Impairment – software	(2,375,726)	-
Carrying amount at the end of the year	-	3,075,726

- (a) The fair value of contracts acquired as part of the Infoscope Acquisition (refer note 14) at acquisition date has been calculated using the discounted cash-flow model based on the following assumptions:
- i. Life of Contracts - Using the remaining life of each contract at acquisition date and the net cash flows from each contract;
 - ii. Cash flows from Contracts - Cash revenues are based on the contract values for each contract. The values assigned to the operating costs on each contract represent management's assessment of estimated costs to deliver on the contracts based on internal sources (historical data); and
 - iii. Discount rate - The discount rate used is based on the estimated weighted average cost of raising funds by the Company.

Amortisation of the contracts is based on the remaining life of the contracts at acquisition date and has been fully amortised in the period to 30 June 2018.

- (b) During the year ended 30 June 2017, the Company issued 16,000,000 shares at \$0.20 per share to K2fly NL for the acquisition of technology as well as 1,500,000 shares at \$0.20 per share to K2 Technology Pty Ltd for the balance of the acquisition of technology assets (**Technology Assets**).

Impairment assessment undertaken at 30 June 2017

As detailed in the Company's 30 June 2017 Annual Report, management conducted an impairment assessment in relation to the recoverable amount of its intangible assets given an impairment indicator arising being ongoing losses. Based upon the results of that impairment assessment the intangible assets were not considered impaired at 30 June 2017.

Further, the recoverable amount was based on the value-in-use and was determined at the cash-generating unit level ("CGU") being the business as a whole. The pre-tax discount rate adopted was 68% and the value-in-use was based upon forecast cash flows over a five year period with a final terminal value. Based upon the headroom over the carrying amount of the CGU at 30 June 2017, management did not believe any reasonable changes in key inputs based on sensitivities would result in an impairment.

Impairment assessment undertaken at 30 June 2018

During the year ended 30 June 2018, an impairment expense of \$2,375,726 has been recognised, such that the carrying value of intangible assets at balance date is nil.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Intangible Assets (continued)

The significant impairment expense recorded during the year was determined on balance, having regard to the following key factors:

- a change in the core focus of the business; and
- reassessment of the identified CGU to which the Technology Assets belong;

full details of which are summarised below.

During the twelve (12) months to 30 June 2018, the business operations of K2F have continued to evolve. The revenue streams of the business include:

- Owned software;
- 3rd party software; and
- Consulting services.

As part of its strategic plan with regards to owned software, the Directors have determined that the key focus of the business is on Infoscope (Infoscope having been acquired in July 2017). The board sees a far greater opportunity to grow and develop its Infoscope product offering business, as compared to the Technology Assets. As announced, the listing of the Infoscope Land Management System on the SAP App Center is seen a significant step for the Company and its ability to market its flagship product.

At 30 June 2018, management have formed the view that the "business as a whole" CGU that was used in the previous year for the purposes of impairment assessment is no longer appropriate. Rather, the board have identified a more narrowly defined CGU to be that which relates only to the acquired Technology Assets (**Software CGU**). The Technology Assets include ADAM, Novin, Docman, Tagman and the other acquired technology assets from K2 Technology (**Software**). The revised Software CGU identifies the business operations related to this Software only. As detailed above, the focus of the business does not lie with the Software and as such management does not forecast any significant revenues from these products. The directors have taken a prudent approach to recognise an impairment expense of \$2,375,726, such that the carrying value of intangible assets at balance date is nil.

7. Goodwill

	2018 \$	2017 \$
Goodwill (a)	731,543	-

- (a) Goodwill acquired in relation to Infoscope Acquisition. During the year ended 30 June 2018, management have conducted an impairment assessment in relation to goodwill. The recoverable amount was based on a value-in-use calculation and was determined at the cash-generating unit level (**Infoscope CGU**). The pre-tax discount rate adopted was 29.2% and the value-in-use was based upon forecast cash flows over a five year period with a final year terminal value. The five year forecast used as the basis for the value-in-use model was based on budget and forecast assumptions as approved by the Board of Directors. The assumptions are considered reasonable and supportable and were derived with due consideration to actual Infoscope CGU performance indicators and existing revenue streams. Based upon the value in use calculation, no impairment has been recognised.

8. Trade and Other Payables

	2018 \$	2017 \$
Current		
Accounts payable	285,129	75,155
Accrued expenses	207,164	44,208
Other payable (i)	172,746	172,646
Employee liabilities	291,683	53,835
Unearned revenue	18,379	-
	<u>975,101</u>	<u>345,844</u>
Non-current		
Other payable (i)	-	68,750
	<u>-</u>	<u>68,750</u>

- (i) Amount owing to Kalgoorlie Mine Management as stipulated in the Amended and Restated Sale of Asset Agreement in respect of consulting fees at 30 June 2018 is \$68,750 (2017: \$233,750).

Notes to the consolidated financial statements

For the year ended 30 June 2018

9. Issued Capital

	2018	2017
	\$	\$
Issued and paid up capital	15,453,279	13,923,977
Share issue costs	(2,316,574)	(2,241,280)
	<u>13,136,705</u>	<u>11,682,697</u>

Movements:	2018		2017	
	Number	\$	Number	\$
Opening balance	50,867,535	11,682,697	47,187,501	4,813,977
Capital reconstruction (1:9.4)	-	-	(42,167,466)	-
Placement of Shares via prospectus	-	-	20,625,000	4,125,000
Placement of Shares (acquisition of technology assets) – 12 months' escrow	-	-	16,000,000	3,200,000
Placement of Shares – 24 months escrow'	-	-	7,250,000	1,450,000
Convertible note conversion (1:25)	-	-	937,500	150,000
Lead manager placements	-	-	835,000	167,000
Director fees	-	-	200,000	18,000
Shares issued – InfoScope acquisition (07/07/17) (refer note 14)	3,525,642	275,000	-	-
Shares issued to advisors (01/11/17) (refer note 11)	120,000	15,000	-	-
Shares issued to advisors (28/12/17) (refer note 11)	79,365	15,000	-	-
Share cancellation (15/01/18) (a)	(200,000)	-	-	-
Share issue (15/01/18) (a)	200,000	-	-	-
Shares issued – Placement (b)	4,897,209	1,224,302	-	-
Shares issued – vesting of performance rights (refer note 11)	920,000	-	-	-
Share issue costs	-	(75,294)	-	(2,241,280)
Closing balance	<u>60,409,751</u>	<u>13,136,705</u>	<u>50,867,535</u>	<u>11,682,697</u>

- (a) As approved by shareholders at the special general meeting held on 15 January 2018, the Company completed the cancellation of 200,000 shares. As approved by shareholders at the general meeting held on 15 January 2018, the Company has issued 200,000 shares. These shares refer to those issued to K2fly former director, Mr Noel Bonnick, in lieu of director's fees of \$18,000.
- (b) On 24 January 2018, the Company announced it had received firm commitments to raise approximately \$1.2m via an over-subscribed share placement at a price of \$0.25 per share (**Placement**). The issue price represented a discount of approximately 10% to K2fly's last closing price of \$0.28 prior to the Placement and a discount of 16.5% to the 5 day volume weighted average price (VWAP). For every three shares subscribed under the Placement, investors were entitled to received one listed \$0.20 option (ASX Code: K2FOA).

On 2 February 2018, the Company issued 4,897,209 shares at \$0.25 each to raise \$1,224,302 (before costs) and issued 1,632,403 listed options exercisable at \$0.20 expiring 18 May 2020 upon completion of the Placement. The Placement shares and options were issued using K2fly's existing 15% placement capacity under ASX listing rule 7.1.

10. Reserves

Nature and purpose of reserves

Available-for-sale reserve

The asset revaluation reserve is used to record increases in the fair value of investments to the extent that such decreases relate to an increase on the same asset previously recognised in equity.

Share-based payments and option reserves

This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration or arises from services performed. Refer to note 11 for further details of these plans.

Notes to the consolidated financial statements
For the year ended 30 June 2018

Reserves (continued)

	2018	2017
	\$	\$
Performance rights reserve (a)	372,900	79,560
Option reserve (b)	284,826	145,206
Available-for-sale reserve	120	120
	<u>657,846</u>	<u>224,886</u>
(a) Movements in performance rights reserve		
Carrying amount at the beginning of the period	79,560	-
Issue of performance rights – Share-based payment expense recorded through profit or loss	293,340	79,560
Carrying amount at the end of the period	<u>372,900</u>	<u>79,560</u>
(b) Movements in option reserve		
Carrying amount at the beginning of the period	145,206	-
Issue of listed options	-	101,355
Issue of unlisted options – Infoscope Acquisition (refer note 14)	10,650	-
Issue of unlisted options – Share-based payments expense recorded through profit or loss	128,970	43,851
Carrying amount at the end of the period	<u>284,826</u>	<u>145,206</u>

11. Share-based Payments Expense

	2018	2017
	\$	\$
Shares issued to advisor (a)	30,000	-
Unlisted options issued to advisors (b)	128,970	-
Unlisted options issued for Infoscope Acquisition (c)	-	-
Performance rights issued to directors (e)	293,340	79,560
	<u>452,310</u>	<u>79,560</u>

(a) Shares

During the year ended 30 June 2018, the Company issued the following shares to an advisor in respect of consultancy services provided:

- 120,000 shares issued 1 November 2017 at \$0.125 per share;
- 79,365 shares issued 28 December 2017 at \$0.189 per share.

(b) Unlisted options

During the year ended 30 June 2018, the Company issued the following unlisted options to an advisor in respect of marketing services provided:

- 350,000 unlisted option at an exercise price of \$0.20 expiring 1 November 2019 (issued 1 November 2017) (Series 4);
- 400,000 unlisted option at an exercise price of \$0.225 expiring 28 December 2019 (issued 28 December 2017) (Series 5);
- 450,000 unlisted option at an exercise price of \$0.25 expiring 28 December 2019 (issued 28 December 2017) (Series 6).

(c) Unlisted options Infoscope acquisition

During the year ended 30 June 2018, the Company issued the following unlisted options in relation to the Infoscope Acquisition:

- 350,000 unlisted option at an exercise price of \$0.25 expiring 7 July 2020 (issued 7 July 2017) (Series 8).

Notes to the consolidated financial statements

For the year ended 30 June 2018

Share-based Payments Expense (continued)

(d) Valuation of unlisted options

The fair value of the equity-settled share options granted is estimated as at the date of grant using the Black-Scholes model taking into account the terms and conditions upon which the options were granted. 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.

The following table lists the input to the model for unlisted options:

	Series 4	Series 5	Series 6	Series 8
Dividend yield (%)	Nil	Nil	Nil	Nil
Expected volatility (%)	100%	100%	100%	100%
Risk free interest rate (%)	1.79%	1.90%	1.90%	1.95%
Exercise price (\$)	\$0.20	\$0.225	\$0.25	\$0.25
Marketability discount (%)	Nil	Nil	Nil	Nil
Expected life of options (years)	2.0	2.0	2.0	3.0
Share price at grant date (\$)	\$0.09	\$0.255	\$0.255	\$0.078
Value per option (\$)	\$0.0305	\$0.1426	\$0.1361	\$0.0304

No unlisted options were exercised during the year.

(e) Performance rights

During the year ended 30 June 2018, \$293,340 was recognised as a share-based payment in respect of performance rights issued to Directors of the Company. Shareholder approval for the issue of these Performance Rights was obtained at the Company's annual general meeting (**AGM**) held on 21 November 2017. As disclosed in the Company's previous annual report, an amount of \$79,560 was recognised in the year ended 30 June 2017 in respect of performance rights, which were subject to shareholder approval at that time.

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

	Number	Value per Performance right	Probability	Condition	Vested / Not Vested	Total Value \$
Class 1	320,000	\$0.11	100%	Non-Market	Vested	35,200
Class 2	310,000	\$0.11	100%	Market	Not vested	34,100
Class 3	310,000	\$0.11	100%	Market	Not vested	34,100
Class 4	350,000	\$0.11	0%	Non-Market	Not vested	-
Class 5	350,000	\$0.11	100%	Non-Market	Vested	38,500
Class 6	350,000	\$0.11	100%	Non-Market	Vested	38,500
Class 7	410,000	\$0.11	100%	Non-Market	Not vested	45,100
Class 8	550,000	\$0.11	100%	Non-Market	Not vested	60,500
Class 9	550,000	\$0.11	100%	Non-Market	Not vested	60,500
Class 10	240,000	\$0.11	100%	Non-market	Vested	26,400
	<u>3,740,000</u>					<u>372,900</u>

These performance rights, upon milestone achievements being met (vesting), will convert into shares at the election of the holder (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

Notes to the consolidated financial statements

For the year ended 30 June 2018

Share-based Payments Expense (continued)

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)
Class 10	Company successfully executing a Distribution Partnership Agreement/Re-seller Agreement with an acceptable agent based in the United States of America

During the year, a total of 920,000 shares were issued in respect of vested performance rights.

At 30 June 2018, there remained 2,820,000 performance rights on issue. Of this balance, 340,000 rights have vested.

12. Unlisted Options (Share-based Payments)

The following refers to unlisted options issued as share-based payment. Other options issued by the Company which do not constitute a share-based payment are not included in this disclosure note.

The following share-based payment arrangements were in place during the current and prior periods.

	Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Vesting date
Series 1	1,920,000	22/11/2016	17/11/2020	\$0.25	\$30,968	17/11/2016
Series 2	800,000	22/11/2016	01/12/2020	\$0.25	\$12,903	17/11/2016
Series 4	350,000	01/11/2017	01/11/2019	\$0.20	\$10,670	01/11/2017
Series 5	400,000	28/12/2017	28/12/2019	\$0.225	\$57,047	28/12/2017
Series 6	450,000	28/12/2017	28/12/2019	\$0.25	\$61,253	28/12/2017
Series 8	350,000	07/7/2017	07/7/2020	\$0.25	\$10,650	07/7/2017
	<u>4,270,000</u>				<u>\$183,491</u>	

There has been no alteration of the terms and conditions of the above share-based payment arrangements since grant date.

The following table illustrates the number and weighted average price and movements in share options issued during the year.

	2018		2017	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Opening balance	2,720,000	\$0.25	-	-
Granted	1,550,000	\$0.23	2,720,000	\$0.25
Outstanding at the end of the year	4,270,000	\$0.24	2,720,000	\$0.25
Exercisable at the end of year	4,270,000	\$0.24	2,720,000	\$0.25

No unlisted options were exercised during the year (2017: \$nil).

Unlisted options outstanding at 30 June 2018 had a weighted average exercise price of \$0.24 (2017: \$0.25) and a weighted average remaining contractual life of 767 days (2017: 1,210 days).

The weighted average fair value of options granted during the year was \$0.090 (2017: \$0.016).

Notes to the consolidated financial statements

For the year ended 30 June 2018

13. Listed Options

The following listed options were in place during the current and prior periods.

	Number	Issue date	Expiry date	Exercise price	Premium received \$	Vesting date
Series 3 (ASX Code: K2FOA)	10,133,507	31/05/2017	18/05/2020	\$0.20	101,355	31/05/2017
Series 7 (ASX Code: K2FOA)	1,632,403	02/02/2018	18/05/2020	\$0.20	-	02/02/2018
	<u>11,765,910</u>				<u>101,355</u>	

The following table illustrates the number and weighted average price and movements in share options issued during the year.

	2018		2017	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Opening balance	10,133,507	\$0.20	-	-
Granted	1,632,403	\$0.20	10,133,507	\$0.20
Outstanding at the end of the year	11,765,910	\$0.20	10,133,507	\$0.20
Exercisable at the end of year	11,765,910	\$0.20	10,133,507	\$0.20

There were no listed options exercised during the year (2017: \$nil).

14. Business Combination

On 7 July 2017, the Company completed the acquisition of 100% of the issued share capital and voting rights of Infoscope Pty Ltd (**Infoscope**) (**Infoscope Acquisition**). Infoscope is a specialist data collaboration company. Infoscope specialises in the connection of disparate data sources eliminating information silos and assembling different information layers to present a single source of data in a clear format around "Matter". The Infoscope solution is directly applicable to the mining and materials, energy, utilities, infrastructure, cultural and environmental sectors - asset intensive industries in which the Company already operates. The objective of the acquisition includes exposure to future potential cash flows from an established and profitable business.

Details of the business combination are as follows:

	Note	\$
Consideration		
Cash		475,000
Loan Repayment (iScape)		150,247
Shares issued	9	275,000
Unlisted options issued	10(b)	10,650
		<u>910,897</u>
Assets Acquired		
Cash acquired		69,013
Trade and other receivables		328,268
Intangible asset		12,185
Deferred tax asset		-
		<u>409,465</u>
Less: Trade and other payables (excluding iScape Loan assumed by K2fly)		(169,875)
Less: Provisions		(60,236)
		<u>179,354</u>
Goodwill	7	<u>731,543</u>
Net cash outflow arising on acquisition		
Cash paid		475,000
Less net cash acquired with the subsidiary		(69,013)
Net cash outflow		<u>405,987</u>

Notes to the consolidated financial statements For the year ended 30 June 2018

Business Combinations (continued)

Identifiable net assets

The fair values of the identifiable intangible assets have been determined at 7 July 2017. The fair value of the trade and other receivables acquired as part of the business combination amounted to \$328,268. The value of intangible assets amounted to \$12,185 as outlined in the intangible assets note (refer note 6).

Goodwill

The goodwill that arose on the combination can be attributed to the synergies expected to be derived from the combination and the value of the workforce of K2fly and Infoscope which cannot be recognised as an intangible asset. At the reporting date, the Board have conducted an impairment assessment in relation to the recoverable amount of its intangible assets and determined that no impairment is required.

Infoscope's contribution to the Group's results

The acquired entity contributed \$1,060,579 to the Group's revenues from the date that K2fly assumed control being 7 July 2017 to 30 June 2018. The acquired entity contributed \$131,277 to the Group's net loss after tax for the same period however excluding non-cash items net profit after tax for the period amounted to \$130,608.

Had the acquisition occurred on 1 July 2017, the Group's revenue and income for the year ended 30 June 2018 would have been \$2,545,916 and the Group's result for the year would have been a loss of \$5,537,805.

Financial Instruments

The Directors consider that the carrying value of the financial assets and liabilities as recognised in the financial statement approximate their fair values.