



K2fly Limited

ABN 69 125 345 502

ANNUAL REPORT

For the Year Ended

30 June 2018

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DIRECTORS

Brian Miller (Executive Director and CEO)
Jenny Cutri (Non- Executive Chairman)
Neil Canby (Non-Executive Director)
James Deacon (Non-Executive Director)

JOINT COMPANY SECRETARY

Melissa Chapman
Catherine Grant-Edwards

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

Level 1, Grand Central
26 Railway Road
Subiaco WA 6008
Telephone: (08) 6333 1833
Website: www.k2fly.com

SHARE REGISTRY

Advanced Share Registry
110 Stirling Highway
Nedlands WA 6009
Telephone: (08) 9389 8033
Facsimile: (08) 9262 3723

BANKERS

Commonwealth Bank of Australia
150 St Georges Terrace
Perth WA 6000

AUDITORS

HLB Mann Judd
Level 4
130 Stirling Street
Perth WA 6000
Telephone: (08) 9227 7500

SOLICITORS

Steinepreis Paganin
Level 4, The Read Building
16 Milligan Street
Perth WA 6000

AUSTRALIAN SECURITIES EXCHANGE

K2fly Limited Shares (K2F) and options (K2FOA) are listed on the Australian Securities Exchange

CEO REPORT

Dear Fellow Shareholders,

I am happy to deliver this year end report as CEO of K2fly.

Our year started positively with the acquisition of Infoscope. Since the acquisition, the two teams have merged together seamlessly and with minimal transition cost, and we now have an effective structure in place. Amongst our many key developments in the last year, our porting of the Infoscope Land management solution to the SAP S/4 HANA platform remains the most significant. Within 6 months of having initial discussions, we had successfully moved Infoscope across to the SAP Cloud Platform and our solution was made available to the SAP salesforce and customers on the SAP App Center in June 2018.

Since that time the enquiries arising from these developments have been very encouraging with requests for demonstrations and commercial discussions emanating from Australia, Indonesia, Russia, Africa, Canada and Brazil. I am very pleased with the steps we took with this new solution in FY2018 and this will stand us in good stead for 2019 and beyond.

We also made real progress in our consultancy practice. Work undertaken in Western Power, Horizon Power, Snowy Hydro, Public Transport Authority, FMG and Programmed have brought in significant revenues during the year. I am grateful to the efforts of our staff who have brought real subject matter expertise to our clients across the asset-intensive sectors.

In the Mobile applications space, we are particularly pleased to have implemented the Fieldreach solution with Arc Infrastructure. This was a successful project with a new software solution and the outcome was very pleasing. The current year will see this project roll out to additional asset groups and that is always a good sign.

The Company has made great progress in the last 12 months. At the end of June 2017, we had a handful of staff and a few small clients. 12 months later we had in excess of 30 staff and a growing client base. We have invested heavily in staff development and have attained recognition with key partners. The current year is set to be even more exciting than the last.

Brian Miller, CEO
25 September 2018

DIRECTORS' REPORT

Your Directors present their report together with the financial statements of the Group consisting of K2fly Limited and the entities it controlled for the financial year ended 30 June 2018. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

DIRECTORS

The names of Directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Brian Miller B.Ed (Hons), M.A

Executive Director and CEO (Chairman until 30 June 2018)

Mr Miller is a 30 year veteran of the IT sector. Founding member of the Institute of Asset Management (UK). Influenced the development of the initial BS5750 standard for asset management within the UK energy sector. Worked closely with various UK industry regulators including Energy, Water and Rail. He has held Board directorships with UK and Australian IT companies. He also brings an extensive network of contacts, opportunities and experience within the mobility in asset intensive sectors.

In the 3 years immediately before the end of the financial year, Mr Miller did not serve as a Director on any other ASX listed company.

Neil Canby BA Hons (Accounting and Financial Management), ACA, MAICD

Non-Executive Director

Mr Canby has an extensive history of senior roles across a variety of industries including energy and utilities with responsibilities ranging from business development, project and operational delivery and commercial and financial management.

In the 3 years immediately before the end of the financial year, Mr Canby did not serve as a Director on any other ASX listed company.

James Deacon BSc MBA (Exec) GAICD

Non-Executive Director

Mr Deacon is a veteran of the technology sector with a proven track record in successful business transformation in IT services across a number of industries including utilities, mining and airlines. He currently provides advisory services to the management teams of large Australian private and public sector organisations. He has held senior positions at Information Services Group (ISG), Horizon Power, UnisysWest and US Airways Mr Deacon is a Certified Professional and Member of the Australian Computer Society and Member of the International Association of Outsourcing Professionals.

In the 3 years immediately before the end of the financial year, Mr Deacon did not serve as a Director on any other ASX listed company.

Jenny Cutri B Laws (LLB), B Juris, BCom (Accounting), Grad Dip Executive (MBA)

Non-Executive Chair (Chair since 1 July 2018)

Ms Cutri is a highly experienced legal practitioner and compliance specialist with over 20 years' experience, in both the private and public sectors. Ms Cutri is a member of WA Law Society's Commercial Law Committee (previously having being its Convenor (Chair) in 2016 to 2017), a member of Law Council of Australia (Business Law section) and was previously a Director with City of Perth Surf Life Saving Club Inc. Ms Cutri has extensive experience in the regulatory environment previously having been: Assistant [State] Manager, Listings Compliance at ASX in Perth for 7 years; and National Disclosure Supervisor, WA Compliance Manager (Financial Services Regulation) and Senior Legal Officer with the Australian Securities and Investments Commission (ASIC). She has also worked with Bankwest heading up their Marketing Compliance. Ms Cutri began her legal career with Parker & Parker (now Herbert Smith Freehills).

In the 3 years immediately before the end of the financial year, Ms Cutri did not serve as a Director on any other ASX listed company.

INTERESTS IN THE SHARES, OPTIONS AND PERFORMANCE RIGHTS OF THE COMPANY AND RELATED BODIES CORPORATE

At the date of this report, shares, options and performance rights held directly or indirectly by Directors are:

	Fully paid ordinary shares Number	Options Number	Performance rights Number
Brian Miller	1,744,610	63,998	1,820,000
Neil Canby	325,000	30,000	-
James Deacon	94,273	-	-
Jenny Cutri	50,169	-	-

JOINT COMPANY SECRETARY**Melissa Chapman**

Ms Chapman is a certified practising accountant with over 15 years of experience in the mining industry. She has worked extensively in Australia and the United Kingdom. Ms Chapman has a Bachelor of Accounting from Murdoch University and has been a member of CPA Australia since 2000. Melissa has completed a Graduate Diploma of Corporate Governance with the Governance Institute of Australia, and the company director's course with the Australian Institute of Company Directors.

Catherine Grant-Edwards

Ms Grant-Edwards has a Bachelor of Commerce degree from the University of Western Australia, majoring in Accounting and Finance. She commenced her career at Ernst & Young, where she qualified as an Accountant with the Institute of Chartered Accountants Australia (ICAA) in 2007. Ms Grant-Edwards has over 14 years' experience in accounting and finance and currently provides accounting and company secretarial services to several listed resource companies.

PRINCIPAL ACTIVITIES

The principal activities of the entities within the Group during the year were: asset management consulting services; software and integration consulting services; and sales of owned and third-party software for the asset management and asset intensive industries.

K2fly Limited is a Consulting Systems Integrator which derives revenue from multiple channels including software licencing, consulting, support and configuration. The Group focuses on enabling the "essential" industries and it delivers value through partnership.

The Group licences its own proprietary software, Infoscope (**InfoScope**).

K2fly Limited is also working with its international partners, such as Kony, Capita and ABB, providing the Group with access to additional systems and software solutions, allowing K2fly Limited to enhance its own software offering and become a value-added reseller in Australia.

The Company also supplies top quality advisory, consultancy and implementation services through its team of experienced industry experts.

REVIEW OF OPERATIONS**ACTIVITIES REPORT****Highlights**

- Revenue continues to grow and outlook for FY19 remains positive
- Total revenue for FY18 is \$2.52m, a growth of 303% on the FY17 revenue of \$627k
- K2fly's operations may be classified into 3 operational areas: owned software; 3rd Party software; and consulting services
- K2fly's owned software Infoscope solution was ported to the SAP S/4 HANA platform and was placed on the prestigious SAP App Center
- K2fly successfully deployed the market-leading Mobility software, Fieldreach, to ARC Infrastructure in the transport infrastructure sector
- K2fly has had continued wins in consultancy and advisory contracts, including with Tier 1 clients

OWNED SOFTWARE**Acquisition of Infoscope Pty Ltd**

During the year, the Group completed the acquisition of Infoscope. This represents a highly complementary, synergistic and value accretive acquisition for K2fly. Infoscope is an established and successful business that owns and operates a leading-edge data collaboration platform.

Infoscope's client base included major corporates, Fortescue Metals Group (**FMG**), The National Trust, APIM and Westgold Resources. The business delivered revenue of approximately \$1.5 million for the year ended 30 June 2017 and an EBIT of approximately \$400,000.

Infoscope is a data collaboration platform that specialises in the connection of disparate data sources and assembles the different information layers to create a visually presentable data store that is easily configured and readily accessible. With leading edge market solutions, Infoscope is engaged with major entities, to bring innovative solutions to the market around data collaboration and operational efficiency. Infoscope was designed and developed to address a pressing corporate problem – information silos. The unique Infoscope platform eliminates boundaries found in traditional systems by optimising every piece of information. This is achieved through a new approach to data connections, where the user defines and connects disparate data sources to make sense of it all. Infoscope provides new perspectives to data through limitless connections and visually integrated presentation.

The system provides secure, powerful, comprehensive management of all information to operate efficiently, meet compliance requirements and reduce risk. Within major clients such as FMG, the Infoscope solution is used to control and manage their Enterprise Land Management Function.

The Infoscope solution is directly applicable to the resources, utilities, infrastructure, environment & biodiversity, and cultural heritage sectors and supports the increasingly important desire of large-scale organisations to demonstrate their 'Social Licence to Operate' in the environments key to their business operations.

A number of synergies have been harvested through the acquisition. Given the opportunities that Infoscope presents to K2fly, Infoscope has quickly become a core product and has been integrated into the operations of K2fly, ensuring:

- Business development leverages the opportunities to position Infoscope into existing K2fly clients and to position K2fly in existing Infoscope customers.
- Development Teams from other previous core functions have been gradually combined. The Infoscope platform is based on the Microsoft Suite, which is the same as K2fly's previous core product, ADAM. Infoscope also uses the same nearshore development partner Mitrais, allowing this core relationship to be strengthened and optimised.

Back office consolidation occurred as planned across Accounting, HR, Insurance, IT and other overlapping functions to remove duplication and to leverage economies of scale.

Early strategic success from the acquisition of Infoscope: the partnership between SAP and K2fly

In October 2017, K2fly joined the SAP Partner Edge Program and soon afterwards negotiated with the large European software company to convert or port the Infoscope technology on to the SAP Cloud Platform (SCP) and their HANA database. SAP is a ~A\$33 billion company with approximately 90,000 employees, 25,000 of which are based in the Asia-Pacific-Japan region.

On 3 April 2018, the Company announced that its team with the SAP Co-Innovation Lab (**COIL**) completed the second phase of integrating the InfoScope Land Management System into the SAP S/4 HANA ecosystem, on time and within the project budget. It is highly unusual for a company of K2fly's size to be afforded the opportunity to collaborate with COIL in Germany, and it was the first Australian company to do so.

On 20 June 2018, the Company announced that it had hit another significant milestone in its partnership with SAP by listing its flagship product, InfoScope Land Management System, on the SAP App Center, which enables SAP Account Executives to sell InfoScope directly to end user clients. The Company is currently engaged with SAP in joint sales campaigns with a number of significant Tier 1 Resources' Companies.

K2fly also took part in the Future Mining Conference in Sydney in May where it was a co-exhibitor with SAP. K2fly with SAP has showcased Infoscope at several national and international conferences and exhibitions in 2018.

K2fly Awarded New Contract Win with API Management

In October 2017, K2fly announced the signing of a licence of its Infoscope Enterprise Land Management solution to a new account in the mining sector, API Management, which is the manager of assets owned by the Australian Premium Iron Joint Venture and the Red Hill Joint Venture. These entities are working in the West Pilbara Iron Ore Project. The software was delivered in October 2017 and was deployed as a Software as a Service (SaaS) Solution.

Other owned software

K2fly is no longer focusing on owned software products: ADAM, Novin, Docman, Tagman and the other acquired technology assets from K2 Technology Pty Ltd. K2fly has determined there is currently little demand or interest for these products, and as Infoscope provides greater opportunities, it has become the Company's focus for its current Owned Software. Consequently, the carrying value on the statement of financial position for these other owned software products has been impaired.

THIRD PARTY SOFTWARE

K2fly announced in August 2017, that it had entered into a partnership and signed a reseller agreement with Kony Inc. (**Kony**). Under the terms of the Agreement, K2fly targets high-value enterprise customers who have specific asset management challenges to offer Kony's cloud-based enterprise application and mobility solutions within Australia.

Built on the industry's leading digital platform, Kony provides innovative and secure omni-channel applications, with exceptional user experience and application design. Kony's cross-platform, low-code solution empowers organisations to develop and manage their own apps to better engage with their customers, partners and employees.

K2fly Joins GE Digital Alliance Program

In September 2017, K2fly announced that it had joined the GE Digital Alliance Program. K2fly believes that digital industrial transformation promises both immediate cost benefits and long term strategic advantages to its growing list of industrial clients. Under the terms of the Agreement, K2fly is working with the GE Digital teams with a range of prospective clients in the Resources, Transport and Utilities sectors.

GE Digital's Predix edge-to-cloud platform for the Industrial Internet of Things is specifically designed for the unique and complex challenges of industrial companies. Organisations use this platform to create innovative Industrial Internet applications that turn real-time operational data into insights for better and faster decision-making while maximising machine efficiency.

K2fly Executes Smart Energy Technology Reseller Agreement

K2fly announced in September 2017 that it had entered a partnership and signed a reseller Agreement with AMT-SYBEX, part of Capita plc, for its Affinity Meterflow®, Affinity Marketflow® and Affinity Networkflow® products. The Meterflow, Affinity Marketflow and Networkflow products are market leaders in the European energy sector and cite some of the world's largest energy companies as users.

This partnership sees K2fly well positioned as industry experts in a fast-moving field within the Australian market place and represents a major coup for the Company.

Under the terms of the Agreement, K2fly is targeting clients within the energy retail sector who have a need for software solutions that support innovation in customer acquisition as well as smart metering. This partnership allows K2fly to offer a range of solutions to address some of the biggest challenges currently facing energy companies and how they interact with their customers.

K2fly Wins Major Contract in Transport Infrastructure Sector

K2fly announced in November 2017, a major contract win with Arc Infrastructure. K2fly subsequently went on to deploy the market-leading Mobility software, Fieldreach, to this transport infrastructure manager. This further enhanced K2fly's presence in the asset intensive sectors and proved that it has the right people, products and industry alliances to offer solutions to Tier 1 clients. The solution went fully operational in Arc Infrastructure in July 2018.

CONSULTANCY SERVICES

Our staff have become subject matter experts who bring leading edge advice to our clients. Consequently, K2fly continues to win consulting/advisory contracts, and contract extensions with Tier 1 clients such as Western Power, Fortescue Metals Group (FMG) and Programmed.

K2fly Awarded New Contracts with Western Power

In October 2017 K2fly announced it had won a significant consultancy contract with Western Power.

In February 2018 K2fly announced that it had won a further significant services contract with Western Power. The contract initially ran for approximately 5 months and the associated revenues were in the range of \$250,000 - \$300,000. Elements of this contract have subsequently been expanded and extended to include further advisory work to the tune of another \$150,000.

On 31 May 2018, the Company announced that it had won an interim Systems Integration contract with Western Power. The contract will run for approximately 3 – 4 months and the associated revenues are likely to be in excess of \$550,000.

Statement of Compliance

During the financial year ended 30 June 2018, K2fly used its cash and assets in a form readily convertible to cash that it had at the time of readmission, other than expenditure on ADAM, in a manner that was consistent with its stated business objectives. The Company purchased Infoscope in July 2017. The Company worked with SAP to deliver the Infoscope Enterprise Land Management solution utilising SAP HANA and the SAP Cloud Platform, and is now commercially available via the SAP App Center. The Board believes this presents much greater opportunities for K2fly than the ADAM software. Investors have been kept regularly informed of this through announcements to the ASX.

Currently there is limited interest in the ADAM software. The Board determined not to invest further in ADAM or to build ADAMlite at this time, accordingly the carrying value of the ADAM software has been impaired in the financial statements.

FINANCIAL RESULTS**Operating Results**

The Group incurred a net loss after income tax during the full year of \$5,410,273 (30 June 2017: \$2,235,085).

The loss for the year includes an impairment expense of \$2,375,726 in respect of a full write down of the Company's technology assets (**Technology Assets**) which were acquired from K2fly NL and K2 Technology Pty Ltd in the previous financial year. The significant impairment expense was determined based on a change in the core focus of the business, and a reassessment of the identified cash generating unit to which Technology Assets belong. 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" cash-generating unit (**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 K2fly NL and K2 Technology Pty Ltd (**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.

Financial Position

At 30 June 2018, the Group had cash reserves of \$774,158 (30 June 2017: \$1,743,582).

DIRECTORS' REPORT

Financial Year ended 30 June 2018 Commentary

The financial year ended 30 June 2018 represented a positive and successful period for K2fly, in which we continued to build our capabilities across a number of different sectors. We continue to grow and win new contracts.

Revenue for FY 2018 was \$2.52m and this represented a 303% increase from the \$627K revenue generated in FY 2017.

CORPORATE

Board Changes

During the year, the following board changes occurred:

- Ms Jenny Cutri was appointed Non-Executive Director effective 15 September 2017
- Mr Gino D'Anna resigned as a Non-Executive Director effective 15 September 2017
- Mr Russell Moran resigned as a Non-Executive Director effective 15 September 2017

Change in Company Secretary

During the year, Mr Gino D'Anna resigned as Company Secretary. Ms Melissa Chapman and Ms Catherine Grant-Edwards were appointed as Joint Company Secretary effective 22 November 2017.

Annual General Meeting

The Company's Annual General Meeting (**AGM**) was held 21 November 2017, where all resolutions put to shareholders were passed. For more information, refer to the Notice of AGM and Results available via the Company's website at www.k2fly.com.

Placement

On 2 February 2018, the Company completed a placement of 4,897,209 fully paid ordinary shares at \$0.25 per share and raised cash funds of \$1,224,302 (before costs) (**Placement**). A placement fee of 6% was paid on the funds raised. The issue price represented a discount of approximately 10% to K2fly's last closing price prior to the Placement of \$0.28 and a discount of 16.5% to the 5-day volume weighted average price (VWAP). On the same date, the Company issued 1,632,403 listed 20 cent options (ASX Code: K2FOA) to shareholders who participated in the Placement.

Funds raised from the Placement were used to grow the business, including employing additional business development staff to support the sales roll out of the Infoscope land management software within the SAP S/4 HANA Enterprise Resource Planning (ERP) system, and for other working capital purposes relating to the training and development of staff in advance of implementation projects.

The Placement shares and options were issued under K2F's existing 15% placement capacity under ASX listing rule 7.1 and therefore shareholder approval was not required.

New Website

K2fly launched its new website in June 2018 to coincide with its presence in the Energy Networks Australia 2018 Conference in Sydney.

Share Cancellation and Replacement Share Issue

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.

Shares

During the year, the Company issued the following shares:

- 3,525,642 shares issued on 7 July 2017 as part consideration for the Infoscope Acquisition
- 120,000 shares issued on 1 November 2017
- 79,365 shares issued on 28 December 2017
- 4,897,209 shares issued on 2 February 2018 under the Placement
- 920,000 shares issued on 16 April 2018 on vesting of performance rights

DIRECTORS' REPORT

A total of 9,799,364 fully paid ordinary shares previously held under escrow trading restrictions were released from escrow on 18 November 2017.

Unlisted Options

During the year, the Company issued the following unlisted options:

- 350,000 unlisted options with an exercise price of \$0.25 expiring 7 July 2020 in relation to the Infoscope Acquisition
- 350,000 unlisted options with an exercise price of \$0.20 expiring 1 November 2019
- 400,000 unlisted options with an exercise price of \$0.225 expiring 28 December 2019
- 450,000 unlisted options with an exercise price of \$0.25 expiring 28 December 2019

There were no shares issued during the year as a result of exercise of unlisted options. No unlisted options expired or lapsed during the year.

Listed Options

During the year, the Company issued the following listed options:

- 1,632,403 listed options with an exercise price of \$0.20 expiring 18 May 2020 in relation to the Placement

There were no shares issued during the year as a result of exercise of listed options. No listed options expired or lapsed during the year.

Performance Rights

During the year, the Company issued the following performance rights:

- 1,000,000 performance rights issued on 27 November 2017
- 2,740,000 performance rights issued on 4 December 2017

In accordance with the terms of the performance rights at the election of the holder, Mr Brian Miller, 920,000 shares were issued on 13 April 2018 in respect of vested performance rights.

No performance rights were cancelled during the year.

DIVIDENDS

No dividends have been paid or declared since the start of the financial year and/or the Directors do not recommend the payment of a dividend in respect of the financial year.

DIRECTORS' MEETINGS

The number of meetings of Directors held during the financial year and the number of meetings attended by each Director were as follows:

	Board Meetings	
	Eligible to Attend	Attended
Brian Miller	10	10
Neil Canby	10	10
James Deacon	10	9
Jenny Cutri	9	9
Gino D'Anna	2	2
Russell Moran	2	2

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Group to the date of this report.

DIRECTORS' REPORT

SIGNIFICANT EVENTS AFTER BALANCE DATE

Board Restructure

On 1 July 2018, Ms Jenny Cutri was appointed as Independent Non-Executive Chair of the Company, replacing Mr Brian Miller, who remains as CEO and Executive Director.

Shares Released from Escrow

On 6 July 2018 3,525,642 fully paid ordinary shares (**Escrowed Shares**) were released from voluntary escrow. The Escrowed Shares, issued as part consideration for the acquisition of InfoScope, which was completed 7 July 2017, were subject to 12 months escrow provisions.

Non-Renounceable Entitlement Issue

On 12 September 2018, the Company announced a non-renounceable entitlement issue of one share in the capital of the Company for every ten shares held by those shareholders registered at the record date of 18 September 2018 at an issue price of \$0.30 per share to raise up to \$1,812,293 (together with one free attaching option for every four shares subscribed for and issued) (**Offer**). The Offer is fully underwritten by K S Capital Pty Limited (ACN 124 761 557).

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.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is uncertain and therefore not appropriate to disclose. Therefore, this information has not been presented in this report.

SHARE OPTIONS GRANTED TO DIRECTORS

At the date of this report, no share options have been granted to the Directors of the Company and the entities it controlled as part of their remuneration.

SHARES

At the date of this report there are 60,409,751 fully paid ordinary shares on issue (including 16,143,144 shares escrowed until 18 November 2018).

UNISSUED SHARES UNDER OPTION

At the date of this report unissued ordinary shares or interests of the Company under option are:

	Date options granted	Number of shares under option	Exercise price of options	Expiry date of option	Listed / Unlisted
Series 1	22/11/2016	1,920,000	\$0.25	17/11/2020	Unlisted
Series 2	22/11/2016	800,000	\$0.25	01/12/2020	Unlisted
Series 3	31/05/2017	10,133,507	\$0.20	18/05/2020	Listed
Series 4	01/11/2017	350,000	\$0.20	01/11/2019	Unlisted
Series 5	28/12/2017	400,000	\$0.225	28/12/2019	Unlisted
Series 6	28/12/2017	450,000	\$0.25	28/12/2019	Unlisted
Series 7	02/02/2018	1,632,403	\$0.20	18/05/2020	Listed
Series 8	07/07/2017	350,000	\$0.25	07/07/2020	Unlisted

No shares were issued since the end of the year to the date of this report as a result of exercise of options.

DIRECTORS' REPORT

PERFORMANCE RIGHTS

At the date of this report, there are 2,820,000 performance rights on issue with no expiry date. Of this balance, 340,000 rights have vested.

REMUNERATION REPORT

The Remuneration Report which forms part of the Directors' Report, outlines the remuneration arrangements in place for Key Management Personnel for the financial year ended 30 June 2018 and is included on pages 13 to 16.

ENVIRONMENTAL LEGISLATION

The Company is not currently subject to any specific environmental regulation. There have not been any known significant breaches of any environmental regulations during the year under review and up until the date of this report.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Under the Company's Constitution and to the extent permitted by law (subject to the restrictions in section 199A and 199B of the *Corporations Act 2001*), the Company indemnifies every person who is or has been an officer of the Company against:

- (a) any liability (other than for legal costs) incurred by that person as an officer of the Company where the Company requested the officer to accept appointment as Director.
- (b) reasonable legal costs incurred in defending an action for a liability incurred by that person as an officer of the Company.

The Company has insured its Directors, Company Secretaries and executive officers. Under the Company's Directors' and Officers' Liability Insurance Policy, the Company cannot release to any third party or otherwise publish details of the nature of the liabilities insured by the policy or the amount of the premium. Accordingly, the Company relies on section 300(9) of the *Corporations Act 2001* to exempt it from the requirement to disclose the nature of the liability insured against and the premium amount of the relevant policy.

The Company also has in place a Deed of Indemnity, Access and Insurance with each of the Directors.

This Deed:

- (i) indemnifies the Director to the extent permitted by law and the Constitution against certain liabilities and legal costs incurred by the Director as an officer of any Group Company;
- (ii) requires the Company to maintain, and pay the premium for, a D&O Policy in respect of the Director; and
- (iii) provides the Director with access to particular papers and documents requested by the Director for a Permitted Purpose; both during the time that the Director holds office and for a seven-year period after the Director ceases to be an officer of any Group Company, on the terms and conditions contained in the Deed.

NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 27 to the financial statements. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the impartiality and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional & Ethical Standards Board.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Section 307C of the *Corporations Act 2001* requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 17 and forms part of this Directors' report for the year ended 30 June 2018.

DIRECTORS' REPORT

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of K2fly Limited support and have adhered to principles of sound corporate governance. The Company continued to follow best practice recommendations as set out by 3rd edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. Where the Company has not followed best practice for any recommendation, an explanation is given in the Corporate Governance Statement which is available on the Company website at <https://www.k2fly.com>.

The Corporate Governance policies of the Company were recently updated by a resolution of the Directors on 27 August 2018.

Signed in accordance with a resolution of the Directors.



Jenny Cutri
Non-Executive Chair
Perth, 25 September 2018

REMUNERATION REPORT (AUDITED)

REMUNERATION REPORT

This report, which forms part of the Directors' report, outlines the remuneration arrangements in place for the Key Management Personnel of K2fly Limited for the year ended 30 June 2018. The information provided in this remuneration report has been audited as required by Section 308(3C) of the *Corporations Act 2001*.

The Remuneration Report details the remuneration arrangements for Key Management Personnel who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Group.

Key Management Personnel

The Directors and other Key Management Personnel of the Group during the financial year were:

Directors

Brian Miller	Chief Executive Officer and Executive Chairman	Appointed 18 November 2016
Neil Canby	Non-Executive Director	Appointed 14 February 2017
James Deacon	Non-Executive Director	Appointed 14 February 2017
Jenny Cutri	Non-Executive Director	Appointed 15 September 2017
Gino D'Anna	Non-Executive Director	Resigned 15 September 2017
Russell Moran	Non-Executive Director	Resigned 15 September 2017

There are no other Key Management Personnel of the Company.

Remuneration Policy

The Board is responsible for determining and reviewing compensation arrangements for the Directors and management. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The Company does not link the nature and amount of the emoluments of such officers to the Company's financial or operational performance. The lack of a performance link at this time is not considered to have a negative impact on retaining and motivating Directors.

As part of its Corporate Governance Policies and Procedures, the Board has adopted a formal Remuneration Committee Charter. The Company has no policy on executives and directors entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

The rewards for Directors' have no set or pre-determined performance conditions or key performance indicators as part of their remuneration due to the current nature of the business operations. The Board determines appropriate levels of performance rewards as and when they consider rewards are warranted. Refer to note 17 in respect to milestones associated with performance rights issued to Mr Brian Miller that have not yet vested.

Remuneration Committee

In November 2017, the Company formed a separate remuneration committee comprising Non-Executive Directors. Mr James Deacon is the chairman of the committee, and its members include Ms Jenny Cutri and Mr Neil Canby.

	Remuneration Committee Meetings	
	Eligible to Attend	Attended
James Deacon	3	3
Neil Canby	3	3
Jenny Cutri	3	3

Remuneration structure

In accordance with best practice corporate governance, the structure of Executive Director and Other Key Management and Non-Executive Directors' remuneration is separate and distinct.

REMUNERATION REPORT (AUDITED)

Executive Director and Other Key Management remuneration

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

Fixed remuneration

Directors receive a fixed fee and are remunerated for any professional services conducted for the Company.

There are no retirement schemes for any Directors or any loans or any other type of compensation.

Non-Executive Director remuneration

The Non-executive Directors are entitled to receive directors' fees of amounts as determined by the shareholders of the Company in general meeting. Non-executive directors may also be remunerated for additional specialised services performed at the request of the Board and reimbursed for reasonable expenses incurred on Company business.

Employment Contracts

Remuneration and other terms of employment of Directors and Other Key Management Personnel are formalised in an employment contract. The major provision of an agreement related to the remuneration is set out below.

	Base salary	Terms of agreement	Notice period
Brian Miller	\$240,000 plus superannuation	Permanent	3 months

Remuneration of Key Management Personnel

	Short-term employee benefits		Post-employment benefits	Share-based payments		Performance based	
	Salary and fees	Cash bonus	Superannuation	Options	Performance Rights	Total	%
30 June 2018	\$	\$	\$	\$	\$	\$	
Brian Miller	252,870	60,000	28,583	-	221,960	563,413	51.1
Neil Canby	36,000	-	-	-	-	36,000	-
James Deacon	36,000	-	-	-	-	36,000	-
Jenny Cutri	30,000	-	-	-	-	30,000	-
Gino D'Anna	21,100	-	-	-	42,917	64,017	67.0
Russell Moran	9,000	-	-	-	28,463	37,463	76.0
	384,970	60,000	28,583	-	293,340	766,893	46.8

Cash bonuses included in remuneration

A cash bonus of \$60,000 plus superannuation was awarded to Mr Miller in relation to the performance of the Company for the year. This bonus is included in the Company's trade and other payables at 30 June 2018.

Share-based remuneration granted as compensation

For details of share-based payments granted during the year, refer to note 17.

REMUNERATION REPORT (AUDITED)

Other information

Ordinary shares held by Key Management Personnel

	Opening Balance No.	Granted No.	Exercised Options / Vested Performance Rights No.	Net Change Other No.	Closing Balance No.
30 June 2018					
Brian Miller	319,990	-	920,000	504,620	1,744,610
Neil Canby	150,000	-	-	175,000	325,000
James Deacon	-	-	-	94,273	94,273
Jenny Cutri	-	-	-	50,169	50,169
Gino D'Anna (a)	1,865,760	-	-	(1,865,760)	-
Russell Moran (b)	5,730,007	-	-	(5,730,007)	-
	8,065,757	-	920,000	(6,771,705)	2,214,052

(a) At the date of his resignation on 15 September 2017, Mr D'Anna held 1,865,760 shares directly and indirectly.

(b) At the date of his resignation on 15 September 2017, Mr Moran held 5,730,007 shares directly and indirectly.

Options held by Key Management Personnel

	Opening Balance No.	Granted No.	Exercised No.	Net Change Other No.	Closing Balance No.
30 June 2018					
Brian Miller	63,998	-	-	-	63,998
Neil Canby	30,000	-	-	-	30,000
James Deacon	-	-	-	-	-
Jenny Cutri	-	-	-	-	-
Gino D'Anna (a)	373,152	-	-	(373,152)	-
Russell Moran (b)	846,001	-	-	(846,001)	-
	1,313,151	-	-	(1,219,153)	93,998

(a) At the date of his resignation on 15 September 2017, Mr D'Anna held 373,152 unlisted options directly and indirectly.

(b) At the date of his resignation on 15 September 2017, Mr Moran held 846,001 listed options indirectly.

Performance rights held by Key Management Personnel

	Opening Balance No.	Granted No.	Converted to shares upon vesting No.	Net Change Other No.	Closing Balance No.
30 June 2018					
Brian Miller (a)	680,000	2,060,000	(920,000)	-	1,820,000
Neil Canby	-	-	-	-	-
James Deacon	-	-	-	-	-
Jenny Cutri	-	-	-	-	-
Gino D'Anna (b)	202,500	-	-	(202,500)	-
Russell Moran (c)	137,500	-	-	(137,500)	-
	1,020,000	2,060,000	(920,000)	(340,000)	1,820,000

(a) Following receipt of shareholder approval at the Company's AGM held on 21 November 2017, Mr Miller was issued 2,740,000 Performance Rights (680,000 of which were disclosed as 'granted' in the year ended 30 June 2017). At his election, Mr Miller was issued 920,000 shares on 13 April 2018 in respect of vested performance rights.

(b) At the date of his resignation on 15 September 2017, Mr D'Anna was entitled to 202,500 shares (subject to shareholder approval) being issued on satisfaction of hurdles attached to Performance Rights. Subsequent to his resignation, Mr D'Anna was issued a total of 600,000 Performance Rights following receipt of shareholder approval at the Company's AGM held 21 November 2017 (202,500 of which were disclosed as 'granted' in the year ended 30 June 2017).

(c) At the date of his resignation on 15 September 2017, Mr Moran was entitled to 137,500 shares (subject to shareholder approval) being issued on satisfaction of hurdles attached to Performance Rights. Subsequent to his resignation, Mr Moran was issued a total of 400,000 Performance Rights following receipt of shareholder approval at the Company's AGM held 21 November 2017 (137,500 of which were disclosed as 'granted' in the year ended 30 June 2017).

REMUNERATION REPORT (AUDITED)

Loans to Key Management Personnel

No loans were granted to Key Management Personnel in the current or prior financial year.

Other transactions with Key Management Personnel

There are no other transactions with Key Management Personnel during the year (2017: nil).

End of audited remuneration report.



Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of K2fly Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

Perth, Western Australia
25 September 2018

A handwritten signature in blue ink, appearing to read 'D I Buckley', with a stylized flourish at the end.

D I Buckley
Partner

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

Level 4 130 Stirling Street Perth WA 6000 | PO Box 8124 Perth BC WA 6849 | Telephone +61 (08) 9227 7500 | Fax +61 (08) 9227 7533

Email: mailbox@hlbwa.com.au | Website: www.hlb.com.au

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 \$	2017 \$
Revenue	2(a)	2,523,151	626,698
Cost of sales		(1,286,689)	(249,098)
Gross profit		1,236,462	377,600
Other revenue	2(b)	22,766	8,956
Administration expense		(275,816)	(410,364)
Amortisation expense	10(b)	(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	10(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	17	(452,310)	(79,560)
Travel expense		(162,632)	(56,408)
Loss before income tax expense		(5,410,273)	(2,235,085)
Income tax expense	3	-	-
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)	5	(9.55)	(6.70)

The accompanying notes form part of the financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	2018 \$	2017 \$
Assets			
Current assets			
Cash and cash equivalents	6	774,158	1,743,582
Trade and other receivables	8	677,228	360,297
Total current assets		1,451,386	2,103,879
Non-current assets			
Restricted cash	7	54,145	-
Plant and equipment	9	25,032	13,486
Intangible assets	10	-	3,075,726
Goodwill	11	731,543	-
Other financial assets	12	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	13	975,101	345,844
Total current liabilities		975,101	345,844
Non-current liabilities			
Trade and other payables	13	-	68,750
Provisions	14	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	15	13,136,705	11,682,697
Reserves	16	657,846	224,886
Accumulated losses		(12,536,035)	(7,125,762)
Total equity		1,258,516	4,781,821

The accompanying notes form part of the financial statements

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

The accompanying notes form part of the financial statements

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 \$ Inflows / (Outflows)	2017 \$ 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	6	(1,525,157)	(1,658,516)
Cash flows from investing activities			
Payments for plant and equipment	9	(22,380)	(16,049)
Payments for exploration and evaluation expenditure		(309)	(7,904)
Investment in subsidiaries (InfoScope)	22	(475,000)	-
Cash acquired on acquisition of accounting subsidiary	22	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	22	(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	6	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	6	774,158	1,743,582

The accompanying notes form part of the financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the *Corporations Act 2001*, Accounting Standards and Interpretations and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements for the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial statements are for the Group consisting of K2fly Limited and its subsidiaries.

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.

(b) Adoption of new and revised standards

New accounting standards adopted in the current period

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are mandatory for the current reporting period. Adoption of these standards and interpretations did not have any effect on the statements of financial position or performance of the Group. The Group has not elected to early adopt any new standards or amendments.

The following relevant standards and interpretations have been applied for the first time for the year ended 30 June 2018:

Reference	Title	Summary	Application date of standard	Application date for K2F
AASB 2016-1	<i>Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses</i>	This Standard makes amendments to AASB 112 <i>Income Taxes</i> to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
AASB 2016-2	<i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</i>	The amendments to AASB 107 <i>Statement of Cash Flows</i> are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).	1 January 2017	1 July 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

New accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2018. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

Reference	Title	Summary	Application date of standard	Application date for K2F
AASB 9, and relevant amending standards	<i>Financial Instruments</i>	<p>AASB 9 replaces AASB 139 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.</p> <p>Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.</p> <p>There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.</p> <p>Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.</p> <p>For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.</p> <p>All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO.</p> <p>The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9.</p> <p>The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.</p> <p>Based on the Company's initial assessment, there will be no significant change from the current measurement of the Company's financial instruments.</p>	1 January 2018	1 July 2018
AASB 2016-5	<i>Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions</i>	<p>This Standard amends AASB 2 <i>Share-based Payment</i>, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:</p> <ul style="list-style-type: none"> - The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments - Share-based payment transactions with a net settlement feature for withholding tax obligations - A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. 	1 January 2018	1 July 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Reference	Title	Summary	Application date of standard	Application date for K2F
		Based on the Company's initial assessment, there will be no significant change from the current measurement of the Company's share-based payment transactions.		
Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>	<p>The Interpretation clarifies the application of the recognition and measurement criteria in AASB 12 <i>Income Taxes</i> when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:</p> <ul style="list-style-type: none"> - Whether an entity considers uncertain tax treatments separately - The assumptions an entity makes about the examination of tax treatments by taxation authorities - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates - How an entity considers changes in facts and circumstances. 	1 January 2019	1 July 2019
AASB 15	<i>Revenue from Contracts with Customers</i>	<p>The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts.</p> <p>The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The core principle of AASB 15 is that it requires identification of discrete performance obligations within a transaction and associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks and rewards. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur when the uncertainties around its measurement are removed.</p> <p>The standard permits either a full retrospective or a modified retrospective approach for the adoption.</p> <p>The Group has commenced the process of evaluating the impact of the new standard on existing revenue streams and will first apply AASB 15 in the financial year beginning 1 July 2018.</p>	1 January 2018	1 July 2018
AASB 16	<i>Leases</i>	<p>AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 <i>Leases</i>. It instead requires an entity to bring most leases into its statement of financial position in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its statement of financial position for most leases.</p> <p>There are some optional exemptions for leases with a period of 12 months or less and for low value leases.</p> <p>Lessor accounting remains largely unchanged from AASB 117.</p> <p>The Group does not expect a significant effect on the financial statements resulting from the change of this standard however the Group is in the process of evaluating the impact of the new leases standard. The changes in the Group's accounting policies from the adoption of AASB 16 will be applied from 1 July 2019 onwards.</p>	1 January 2019	1 July 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

(c) Statement of compliance

The financial report was authorised for issue on 25 September 2018.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) Significant accounting estimates and judgements

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.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

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.

Capitalisation of internally developed software

Distinguishing the research and development phases of a new customised software project and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

Impairment of intangibles with indefinite useful lives and goodwill:

The Group determines whether intangibles with indefinite useful lives and goodwill are 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 11.

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 17.

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 17.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that sufficient future tax profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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.

Fair value of financial instruments

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

(e) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement in the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements listed above.

When the Company has less than a majority of the voting rights in an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties; rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount paid by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by the applicable AASBs). The fair value of any investment retained in

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the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(f) Revenue

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Sale of goods

Revenue is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Contract income is recognised by reference to the total actual costs incurred at the end of the reporting period relative to the proportion of the total costs expected to be incurred over the life of the contract;
- Servicing fees are recognised by reference to the proportion of the total cost of providing the service for the product sold; and
- Revenue from time and material contracts are recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that assets' net carrying amount on initial recognition.

(g) Borrowings costs

Borrowing costs are capitalised that are directly attributable to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(h) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

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The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

K2fly Limited and its 100% owned Australian resident subsidiaries have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liability of these entities are set off in the consolidated financial statements.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

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- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(i) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker.

The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of Directors of K2fly Limited.

(j) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(k) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(l) Cash and cash equivalents

Cash comprises cash at bank and in hand.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(m) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within 30 days.

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Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(n) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Electronic equipment	3 years
Leasehold improvements	3 years
Office equipment	3 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Impairment

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to approximate fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of comprehensive income in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

(o) Intangible assets and goodwill

Intangible assets acquired separately

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is

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reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following useful lives are used in the calculation of amortisation:

Software	3-5 years
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Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment of tangible and intangible assets other than goodwill

The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units, or Groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

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- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(p) Trade and other payables

Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

Employee leave benefits

Wages, salaries, annual leave and sick leave

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave not expected to be settled within 12 months of the balance date are recognised in non-current other payables in respect of employees' services up to the balance date. They are measured as the present value of the estimated future outflows to be made by the Group.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs.

Finance lease assets are depreciated on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's obligation.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the balance date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

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(s) Share-based payments reserve

Equity settled transactions

The Group provides benefits to employees (including Directors) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of K2fly Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each balance date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share, refer note 5.

(t) Issued Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

(u) Business Combination

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the

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subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. These provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139, or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

(v) Parent entity disclosures

The financial information for the parent entity, K2fly Limited, has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the parent entity's financial statements. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

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NOTE 2: REVENUE AND OTHER INCOME

	2018	2017
	\$	\$
(a) Revenue		
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	-
	<u>2,523,151</u>	<u>626,698</u>
(b) Other income		
Interest income	309	8,956
Refund of rent from DMIRS	22,457	-
	<u>22,766</u>	<u>8,956</u>

NOTE 3: INCOME TAX EXPENSE

	2018	2017
	\$	\$
Income tax expense		
The major components of tax expense are:		
Current tax expense / (income)	-	-
Deferred tax expense	-	-
	<u>-</u>	<u>-</u>

Reconciliation

The prima facie income tax expense on pre-tax accounting result from operations reconciles to the income tax expense in the financial statements as follows:

Accounting loss before tax	(5,410,273)	(2,235,085)
Income tax benefit calculated at 27.5% (30.0%)	(1,487,825)	(614,648)
Non-deductible expenses	128,927	28,585
Unused tax losses and tax utilised as deferred tax assets	563,883	240,669
Other deferred tax assets and tax liabilities not recognised	795,015	217,308
Change in tax rate	-	128,086
Income tax expense	<u>-</u>	<u>-</u>

Unrecognised deferred tax balances

The following deferred tax assets and (liabilities) have not been brought to account:

Deferred tax assets comprise:

Losses available for offset against future taxable income	885,593	293,083
Impairment of investments	-	1,555
Depreciation timing differences	1,507,551	731,634
Share issue and business costs	85,994	87,213
Accrued expenses and liabilities	87,369	11,513
Cost of Infoscope acquisition	4,385	-
	<u>2,570,892</u>	<u>1,124,998</u>

Deferred tax liabilities comprise:

Prepayments	-	187
	<u>-</u>	<u>187</u>

Recognised in equity:

Share issue costs	75,772	98,679
	<u>75,772</u>	<u>98,679</u>

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The Group has tax losses arising in Australia of \$3,220,338 (2017: \$1,065,755) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits thereof.

Deferred tax liabilities have not been recognised in respect of these taxable temporary differences as the entity is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTE 4: SEGMENT REPORTING

The Group has adopted AASB 8 *Operating Segments* which requires operating segments to be identified on the basis of internal reports about components of the Group that are reviewed by the Chief Operating Decision Maker in order to allocate resources to the segment and assess its performance. The Board of K2fly Limited reviews internal reports prepared as consolidated financial statements and strategic decisions of the Group are determined upon analysis of these internal reports. During the year, the Group operated predominantly in one business and geographical segment being the technology sector in Australia but identifies their revenue streams from consulting, sale of own software and sale of third party software as its operating segment.

NOTE 5: LOSS PER SHARE

	2018 Cents per share	2017 Cents per share
Basic loss per share	(9.55)	(6.70)
Loss		
Loss used in the calculation of basic loss per share	(5,410,273)	(2,235,085)
Weighted average number of shares		
Weighted average number of ordinary shares	56,653,267	33,357,767

Diluted loss per share has not been calculated as the result does not increase loss per share.

NOTE 6: CASH AND CASH EQUIVALENTS

	2018 \$	2017 \$
Cash at bank and on hand	774,158	1,689,287
Online saver account (cash-securitised account)	-	54,295
	774,158	1,743,582

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Reconciliation to the Statement of Cash Flows:

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank, net of corporate credit cards.

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Cash and cash equivalents as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2018 \$	2017 \$
Cash and cash equivalents	774,158	1,743,582
Reconciliation of profit for the year to net cash flows from operating activities		
Net loss for the year	(5,410,273)	(2,235,085)
<i>Non-cash items:</i>		
Amortisation	712,185	424,274
Depreciation	10,834	2,563
Directors fees settled in shares	-	18,000
Impairment – exploration expenditure	-	32,091
Impairment – intangible assets	2,375,726	-
Share-based payments	452,310	79,560
Employment provisions	41,951	-
<i>Movements in working capital:</i>		
Increase in trade and other receivables	(316,931)	(358,295)
Increase in other assets	(2,480)	(2,480)
Increase in restricted cash	54,145	-
Increase in trade and other payables	557,376	380,856
Net cash used in operating activities	(1,525,157)	(1,658,516)

Non-cash and financing activities

Non-cash financing activities include:

	2018		2017	
	Number	\$	Number	\$
Placement of Shares (acquisition of technology assets) – 12 months' escrow	-	-	16,000,000	-
Placement of Shares – 24 months' escrow	-	-	7,750,000	-
Convertible note conversion (1:25)	-	-	937,500	-
Lead manager placements	-	-	835,000	-
Director fees	-	-	200,000	-
Shares issued – InfoScope acquisition	3,525,642	275,000	-	-
Shares issued to advisors	199,365	30,000	-	-
	3,725,007	300,000	25,522,500	-

NOTE 7: RESTRICTED CASH

	2018 \$	2017 \$
Bank guarantees	54,145	-

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NOTE 8: TRADE AND OTHER RECEIVABLES

	2018 \$	2017 \$
Trade receivables	628,304	316,079
GST receivable	-	4,247
Other	42,924	39,971
Deposits	6,000	-
	<u>677,228</u>	<u>360,297</u>

Terms and conditions relating to the above:

- All amounts are expected to be recoverable.
- Trade receivables are non-interest bearing and normally settled on 30 day terms.
- Due to the short nature of trade and other receivables, their carrying value is assumed to be approximate to their fair value.

Ageing of past due but not impaired

	2018 \$	2017 \$
30 – 60 Days	545,264	166,244
60 – 90 Days	66,000	46,549
90 – 120 Days	17,040	103,285
Total	<u>628,304</u>	<u>316,079</u>

NOTE 9: PLANT AND EQUIPMENT

	Electronic Equipment \$	Leasehold improvements \$	Office equipment \$	Total \$
Cost	29,700	2,939	5,791	38,430
Accumulated depreciation	(8,763)	(1,329)	(3,306)	(13,398)
	<u>20,937</u>	<u>1,610</u>	<u>2,485</u>	<u>25,032</u>
Reconciliation				
Opening balance	9,802	2,590	1,094	13,486
Additions	17,822	-	4,558	22,380
Depreciation	(6,687)	(980)	(3,167)	(10,834)
Closing balance	<u>20,937</u>	<u>1,610</u>	<u>2,485</u>	<u>25,032</u>

NOTE 10: INTANGIBLE ASSETS

	2018 \$	2017 \$
Customer Contracts at cost (a)	12,185	-
Customer Contracts - accumulated amortisation (a)	(12,185)	-
	<u>-</u>	<u>-</u>
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	<u>-</u>	<u>3,075,726</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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	2018	2017
	\$	\$
<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 22) at acquisition date has been calculated using the discounted cash-flow model based on the following assumptions:
- Life of Contracts - Using the remaining life of each contract at acquisition date and the net cash flows from each contract;
 - 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
 - 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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.

NOTE 11: GOODWILL

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

- (a) Goodwill acquired in relation to Infoscope Acquisition (refer note 22). 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.

NOTE 12: OTHER FINANCIAL ASSETS

	2018 \$	2017 \$
Shares in listed entity – at fair value	844	844

NOTE 13: 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	-
	975,101	345,844
Non-current		
Other payable (i)	-	68,750
	-	68,750

- (i) Includes 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).

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Terms and conditions relating to the above:

- All amounts are expected to be settled.
- Trade payable are non-interest bearing and normally settled on 30 day terms.
- Due to the short nature of trade and other payables, their carrying value is assumed to be approximate to their fair value.

NOTE 14: PROVISIONS

	2018 \$	2017 \$
Non Current		
Employee leave provisions	29,333	-
	29,333	-

NOTE 15: ISSUED CAPITAL

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

	2018		2017	
<i>Movements:</i>	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 22)	3,525,642	275,000	-	-
Shares issued to advisors (01/11/17) (refer note 17)	120,000	15,000	-	-
Shares issued to advisors (28/12/17) (refer note 17)	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 17)	920,000	-	-	-
Share issue costs	-	(75,294)	-	(2,241,280)
Closing balance	60,409,751	13,136,705	50,867,535	11,682,697

(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

NOTE 16: 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 17 for further details of these plans.

	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 22)	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>

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NOTE 17: 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
	452,310	79,560

(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 options at an exercise price of \$0.20 expiring 1 November 2019 (issued 1 November 2017) (Series 4);
- 400,000 unlisted options at an exercise price of \$0.225 expiring 28 December 2019 (issued 28 December 2017) (Series 5);
- 450,000 unlisted options 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 options at an exercise price of \$0.25 expiring 7 July 2020 (issued 7 July 2017) (Series 8).

(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

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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
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 \$1.5 million 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 \$3 million 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 \$5 million 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.

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NOTE 18: 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	7/7/2017	7/7/2020	\$0.25	\$10,650	7/7/2017
	<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).

NOTE 19: 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>	

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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).

NOTE 20: INVESTMENT IN CONTROLLED ENTITIES

Transactions with subsidiaries

The consolidated financial statements include the financial statements of K2fly Limited and the subsidiary listed in the following table.

	2018 Percentage owned	2017 Percentage owned
Controlled entities		
Power Minerals Pty Ltd	100%	100%
Infoscope Pty Ltd	100%	-

K2fly Limited is the ultimate Australian parent entity and ultimate parent of the Group.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation.

Acquisitions of controlled entities

K2fly Limited acquired InfoScope Pty Ltd during the year, refer note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 21: PARENT ENTITY DISCLOSURES

	2018 \$	2017 \$
Statement of financial position		
Assets		
Current assets	680,859	2,103,879
Non-current assets	1,304,295	3,091,692
Total assets	<u>1,985,154</u>	<u>5,195,571</u>
Liabilities		
Current liabilities	726,638	345,845
Non-current liabilities	-	68,750
Total liabilities	<u>726,638</u>	<u>414,595</u>
Equity		
Issued capital	13,136,723	11,682,715
Share-based payment reserve	657,725	224,765
Accumulated losses	(12,535,932)	(7,126,504)
Total equity	<u>1,258,516</u>	<u>4,780,976</u>
Statement of comprehensive income		
Loss for the year	(5,409,428)	(2,235,085)
Other comprehensive income	-	-
Total comprehensive income	<u>(5,409,428)</u>	<u>(2,235,085)</u>

No guarantees have been entered into by the parent entity in relation to the debts of its subsidiaries.

Contingent liabilities of the parent entity

At 30 June 2018 the Company has no contingent liabilities or assets.

Commitments

Commitments of the parent entity are the same as those of the Group at 30 June 2018, as detailed at note 23.

NOTE 22: 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	15	275,000
Unlisted options issued	16(b)	10,650
		<u>910,897</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	\$
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	11	<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>

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 10).

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.

NOTE 23: COMMITMENTS

	2018 \$	2017 \$
Commitments in respect to leases on premises:		
Within one year	21,239	44,198
Between one and five years	-	21,853
Longer than five years	-	-
	<u>21,239</u>	<u>66,051</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 24: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group has no contingent liabilities or assets at 30 June 2018.

NOTE 25: FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2017. The Group is involved in the sale of software licenses under a Software-as-a-Service business model. The Group is actively engaged in the direct sale of its own intellectual property rights ("IPR") as well as the sale of third party IPR through its partnership arrangements.

The capital structure of the Group consists of cash and cash equivalents, borrowings and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, dividends and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

Financial assets and liabilities

	2018 \$	2017 \$
Cash	774,158	1,743,582
Trade and other receivables	677,228	360,297
Available-for-sale-financial assets	844	844
Trade and other payables	975,101	345,844

Financial risk management objectives

The Group has exposure to the following risks from their use of financial instruments:

- Market Risk
- Credit Risk
- Liquidity Risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

Interest rate risk management

The Group has no material exposure to interest rate risk.

Equity price risk management

The Group is exposed to equity price risks arising from available-for-sale financial assets. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group. The majority of the Group's investments are publicly traded.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's investment securities. For the parent entity it also arises from receivables due from subsidiaries.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Fair value measurement

Fair value of the Group's financial assets and financial liabilities that's are measured at fair value on a recurring basis.

The Group holds shares in a listed entity which are classified as Available-for-sale financial assets. The fair value of these financial assets as at 30 June 2018 was \$844 (30 June 2017: \$844).

The financial assets are level 1 within the fair value hierarchy and the fair value is determined by reference to quoted market prices.

The Directors consider that the carrying value of the financial assets and financial liabilities recognised in the consolidated financial statements approximates their fair values.

There were no transfers between Level 1 and Level 2 in 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 26: RELATED PARTY DISCLOSURES

	2018	2017
	\$	\$
Short-term employee benefits	444,970	425,960
Post-employment employee benefits	28,583	-
Share-based payment	293,340	79,560
	<u>766,893</u>	<u>505,520</u>

	Payables (Exc. GST)
Payable at 30 June 2018:	
Brian Miller	68,700
Neil Canby	3,000
James Deacon	6,000
Jenny Cutri	3,000

Other transactions with Key Management Personnel

There were no other transactions with Key Management Personnel during the year (2017: \$nil).

NOTE 27: AUDITOR'S REMUNERATION

	2018	2017
	\$	\$
Audit or review of financial statement	40,000	30,000
Taxation compliance	14,800	2,500
	<u>54,800</u>	<u>32,500</u>

NOTE 28: SIGNIFICANT EVENTS AFTER BALANCE DATE

On 1 July 2018, Ms Jenny Cutri was appointed as Independent Non-Executive Chair of the Company, replacing Mr Brian Miller, who remains as CEO and Executive Director.

On 6 July 2018 3,525,642 fully paid ordinary shares (**Escrowed Shares**) were released from voluntary escrow. The Escrowed Shares, issued as part consideration for the acquisition of InfoScope Pty Ltd, which was completed 7 July 2017, were subject to 12 months escrow provisions.

On 12 September 2018, the Company announced a non-renounceable entitlement issue of one share in the capital of the Company for every ten shares held by those shareholders registered at the record date of 18 September 2018 at an issue price of \$0.30 per share to raise up to \$1,812,293 (together with one free attaching option for every four shares subscribed for and issued) (**Offer**). The Offer is fully underwritten by K S Capital Pty Limited (ACN 124 761 557).

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.

DIRECTORS' DECLARATION

In the opinion of the Directors of K2fly Limited (the 'Company'):

- (a) the accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:
 - i. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year then ended; and
 - ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

This declaration is signed in accordance with a resolution of the board of Directors.



Jenny Cutri
Non-Executive Chair

Perth, 25 September 2018



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INDEPENDENT AUDITOR'S REPORT

To the Members of K2fly Limited

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of K2fly Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters


Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

Level 4 130 Stirling Street Perth WA 6000 | PO Box 8124 Perth BC WA 6849 | Telephone +61 (08) 9227 7500 | Fax +61 (08) 9227 7533

Email: mailbox@hlbwa.com.au | Website: www.hlb.com.au

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Key Audit Matter	How our audit addressed the key audit matter
Recoverable amount of separately identifiable definite life intangible assets and goodwill Note 10 and 11 of the financial report	
<p><i>Technology Assets "Software CGU"</i></p> <p>At balance date, management assessed that an indicator of impairment was present in relation to software and as a result was required to test the purchased asset for impairment. A discounted cash flow calculation was performed which resulted in an impairment of \$2,375,726.</p> <p><i>Goodwill</i></p> <p>The carrying amount of goodwill of \$731,543, recognised on acquisition of Infoscope Pty Ltd, is required to be tested for impairment annually, in accordance with AASB 138 <i>Intangible Assets</i> and AASB 136 <i>Impairment of Assets</i>. No impairment was required.</p> <p>It is due to size, complexity and judgement involved that this is considered a key audit matter.</p>	<p>Our audit procedures included but were not limited to:</p> <ul style="list-style-type: none"> Assessing the appropriateness of the allocated cash generating units; Assessing the appropriateness of the methodology in the models and the basis for key assumptions; Assessing the models for consistency with the requirements of Australian Accounting Standards; Performing sensitivity analyses around the key inputs used in the cash flow forecasts and the headroom impact on the models; Reviewing the mathematical accuracy of the models; Comparing the discounted cash flow value to the carrying amount of assets comprising the cash-generating unit; Considering whether the assets comprising the cash-generating unit had been correctly allocated; Assessing the reasonableness of forecast cash flows; Considering the appropriateness of the discount rates used; Assessing the qualifications and experience of the independent valuer; and Assessing the appropriateness of the disclosures included in the relevant notes to the financial report.
Acquisition of Infoscope Pty Ltd Note 23 of financial report	
<p>During the year the Group acquired 100% of the shares in Infoscope Pty Ltd for the issue of the Consideration. The Consideration included a cash payment of \$475,000, the issue of \$275,000 worth of consideration shares and 350,000 consideration options.</p>	<p>Our audit procedures included but were not limited to:</p> <ul style="list-style-type: none"> Reading the share sale agreement to understand the key terms and conditions; Assessing the principles applied in the acquisition accounting;



The acquisition has been accounted for as a business combination under AASB 3 Business Combinations.

Accounting for this transaction is complex and judgemental exercise, requiring management to determine the fair value of the consideration and net assets acquired. The excess of consideration over net assets acquired has been recognised as goodwill.

It is due to size, complexity and judgement involved that this is considered a key audit matter.

- Considering whether or not Infoscope Pty Ltd constituted a business under AASB 3;
- Assessing and recalculating the deemed consideration constituting the purchase price. The excess of the consideration over the fair values of the assets acquired and the liabilities assumed was recognised as goodwill;
- Auditing the net assets acquired; and
- Assessing the appropriateness of the disclosures included in the relevant notes to the financial report in relation to the acquisition.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an



audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of K2fly Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in blue ink that reads 'HLB Mann Judd'.

HLB Mann Judd
Chartered Accountants

A handwritten signature in blue ink that reads 'D I Buckley'.

D I Buckley
Partner

Perth, Western Australia
25 September 2018

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

Level 4 130 Stirling Street Perth WA 6000 | PO Box 8124 Perth BC WA 6849 | Telephone +61 (08) 9227 7500 | Fax +61 (08) 9227 7533

Email: mailbox@hlbwa.com.au | Website: www.hlb.com.au

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ADDITIONAL INFORMATION

HOLDINGS AS AT 18 SEPTEMBER 2018

ORDINARY SHARES

Number of securities held	Fully paid ordinary shares	Number of holders
1 to 1,000	4,131	80
1,001 to 5,000	501,952	256
5,001 to 10,000	638,211	81
10,001 to 100,000	12,429,955	314
100,001 and over	46,835,502	114
Total Number of Holders	60,409,751	845

ASX escrowed shares until 18 November 2018 **16,143,144**

Number of holders of less than a marketable parcel **229**

Percentage of the 20 largest holders **43.04%**

Rank	Name	Units	% of Units
1	KALGOORLIE MINE MANAGEMENT PTY LTD	4,500,000	7.45
2	TALOS MINING PTY LTD <TALOS MINING A/C>	4,230,007	7.00
3	MR PAUL COZZI	2,042,999	3.38
4	INTERNATZIONALE CONSULTING PTY LTD	1,797,760	2.98
5	GROUP # 11856	1,744,610	2.89
.	MR BRIAN PETER MILLER	304,620	0.50
.	MR BRIAN PETER MILLER	519,990	0.86
.	MR BRIAN PETER MILLER	920,000	1.52
8	RETZOS EXECUTIVE PTY LTD <RETZOS EXECUTIVE S/FUND A/C>	1,350,000	2.23
9	GROUP # 35910	1,239,652	2.05
.	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	1,239,652	2.05
10	GROUP # 29957	768,044	1.27
.	CITICORP NOMINEES PTY LIMITED	768,044	1.27
11	MR PHILLIP STANLEY HOLTEN	744,000	1.23
12	GROUP # 36516	632,119	1.05
.	BNP PARIBAS NOMS PTY LTD <DRP>	150	0.00
.	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	631,969	1.05
13	MRS ANNA CARINA HART + MR PAUL HART <HART FAMILY SUPER FUND A/C>	568,000	0.94
14	REAL AUSTRALIA PTY LTD <THE JEHIEL FAMILY A/C>	554,292	0.92
15	ASPEN GOLD INVESTMENTS PTY LTD <THE CHALLENGER A/C>	528,751	0.88
16	MR NEIL DAVID YOUNG + MRS LUCREZIA MARIA YOUNG <THE ZENITH A/C>	500,000	0.83
17	SHAYDEN NOMINEES PTY LTD	500,000	0.83
18	MR NEIL DARREN SCOTNEY	485,000	0.80
19	PETER GEOFFREY EVERITT <EVERITT FAMILY A/C>	479,840	0.79
20	ADPAC PTY LTD <J & BJ VELLA FAMILY A/C>	479,840	0.79
	TOTAL	26,004,914	43.04

ADDITIONAL INFORMATION

Substantial Shareholders

The Group has been notified of the following substantial shareholdings:

	Number
KALGOORLIE MINE MANAGEMENT PTY LTD	4,500,000 (7.45%)
TALOS MINING PTY LTD <TALOS MINING A/C>	4,230,007 (7.00%)

LISTED OPTIONS

Number of securities held	Listed Options (K2FOA)	Number of holders
1 to 1,000	3,573	12
1,001 to 5,000	38,895	12
5,001 to 10,000	104,863	11
10,001 to 100,000	2,792,613	72
100,001 and over	8,825,966	27
Total Number of Holders	11,765,910	134

Listed Options - 20 largest holders

Rank	Name	Units	% of Units
1	B2B HOLDINGS PTY LIMITED	1,000,000	8.5
2	ATLANTIS MG PTY LTD <MG FAMILY A/C>	1,000,000	8.5
3	MR PETER LANCELOT GEBHARDT + MRS CARLENE JOY GEBHARDT <PETARD S/F A/C>	894,483	7.6
4	SMONGO PTY LTD <SMONGO SUPER FUND A/C>	600,000	5.1
5	ANNA CARINA PTY LTD <ANNA CARINA FAMILY A/C>	500,000	4.25
6	GREGORY J WOOD & ASSOCIATES PTY LTD <THE G J WOOD FAMILY A/C>	477,285	4.06
7	INTERNATZIONALE CONSULTING PTY LTD	359,552	3.06
8	RETZOS EXECUTIVE PTY LTD <RETZOS EXECUTIVE S/FUND A/C>	333,333	2.83
9	MR PAUL COZZI	280,000	2.38
10	MERSOUND PTY LTD	250,000	2.12
11	MR NEIL DARREN SCOTNEY	250,000	2.12
12	MR JOE DURAK	250,000	2.12
13	NABIL'S MILLIONS PTY LTD <DAVID SUPER FUND A/C>	243,000	2.07
14	GROUP # 54880	227,600	1.93
.	MR MICHAEL MCMAHON <SUPER FUND A/C>	227,600	1.93
15	REAL AUSTRALIA PTY LTD <THE JEHIEL FAMILY A/C>	225,000	1.91
16	MR NICHOLAS JOHN AXAM	223,000	1.9
17	BASAPA PTY LTD <KEHOE FAMILY A/C>	213,789	1.82
18	MR GEORGE FARAH	200,000	1.7
19	MR RAYMOND TANTI	182,300	1.55
20	MRS PATRICIA HAIGH	180,000	1.53
	TOTAL	7,889,342	67.05

Voting Rights

The Constitution of the Group makes the following provision for voting at general meetings:

On a show of hands, every ordinary shareholder present in person, or by proxy, attorney or representative has one vote.

On a poll, every shareholder present in person, or by proxy, attorney or representative has one vote for any share held by the shareholder.

ADDITIONAL INFORMATION

Unlisted Securities

At 18 September 2018 the Company has on issue 4,270,000 unlisted options over ordinary shares and 2,820,000 performance rights.

The names of security holders holding more than 20% of an unlisted class of security are listed below.

Holder	Performance Rights (Class 1)	Performance Rights (Class 2)	Performance Rights (Class 3)	Performance Rights (Class 4)	Performance Rights (Class 5)	Performance Rights (Class 6)	Performance Rights (Class 7)	Performance Rights (Class 8)	Performance Rights (Class 9)
Brian Peter Miller	-	200,000	200,000	240,000	-	-	300,000	440,000	440,000
Rachael D'Anna	70,000	66,250	66,250	-	66,250	66,250	-	-	-
Talos Mining Pty Ltd <Talos Mining A/C>	50,000				43,750	43,750	-	-	-
Holders individually less than 20%	-	43,750	43,750	110,000	-	-	110,000	110,000	110,000
Total	120,000	310,000	310,000	350,000	110,000	110,000	410,000	550,000	550,000

Holder	Unlisted Options \$0.25 17/11/20	Unlisted Options \$0.25 1/12/20	Unlisted Options \$0.25 7/7/20	Unlisted Options \$0.20 1/11/19	Unlisted Options \$0.225 28/12/19	Unlisted Options \$0.25 28/12/19
Kalgoorlie Mine Management Pty Ltd	-	800,000	-	-	-	-
iScape Pty Ltd	-	-	71,780	-	-	-
Canary Capital Pty Ltd	-	-	-	350,000	400,000	450,000
Holders individually less than 20%	1,920,000	-	278,220	-	-	-
Total	1,920,000	800,000	350,000	350,000	400,000	450,000