K2FLY LIMITED

ABN 69 125 345 502

Appendix 4E

Preliminary Final Report – 30 June 2019

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

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

The financial statements contained in the Appendix 4E are based on accounts which are in the process of being audited.

Appendix 4E
Preliminary Final Report

Name of entity
K2fly Limited

ABN or equivalent company reference	**Preliminary final (tick)**	**Financial year ended (‘current period’)**
69 125 345 502	✓	30 June 2019

Results announced to the market
(This information should be read in conjunction with the last annual report and any announcements to the market by K2fly Limited during the period)

	Year Ended 30 Jun 19 $A	**Year Ended 30 Jun 18 $A**	**Amount change $A**	**Percentage change %**
Revenue from ordinary activities	3,787,826	2,523,151	1,264,675	50
Loss from ordinary activities after tax attributable to members	(1,938,528)	(5,410,273)	3,471,745	(64)
Net loss for the year attributable to members	(1,938,528)	(5,410,273)	3,471,745	(64)

Comment

K2fly Limited has invoiced a total of $4.14m during FY19, representing a 61% increase from the prior year (FY18: $2.57m). K2fly’s revenue reported for FY19 of $3.79m represents at 50% increase from prior year (FY18: $2.52m). Revenue in this Annual Report is recognised and presented in accordance with International Financial Reporting Standards (IFRS), which encompasses the initial adoption of the new revenue accounting standard applicable from 1 July 2018 (AASB 15 Revenue from Contracts with Customers). At 30 June 2019, an amount of $0.44m in contract liabilities is included in the statement of financial position, representing amounts billed for sales where performance obligations from those contracts have not been fully satisfied; these amounts will be reflected in the next year’s reported revenue.

The increase in revenue from ordinary activities is due to the continued growth of the Company, new contract wins and sales to Tier 1 clients. The Company’s revenues have been further enhanced as a result of the acquisition of the assets of RCubed Global Pty Ltd, XCube Holdings Pty Ltd and Prodmark Pty Ltd relating to the RCubed Resources and Reserve Reporting software in May 2019.

Included in the net loss in FY18 is a significant impairment expense for $2,375,726 in relation to intangible assets which were acquired back in 2016. Refer to note 8(b) attached for details.

Dividends (distributions)

There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the financial year ended 30 June 2019.

Net tangible asset per ordinary security	30 June 2019	30 June 2018
Net tangible assets	529,739	526,973
Number of shares on issue at reporting date	75,354,141	60,409,751
Net tangible asset per ordinary security	0.70 cents	0.87 cents

Control Gained or Lost over Entities
On 31 May 2019, K2Fly RCubed Pty Ltd (**K2F RCubed**), a wholly owned subsidiary of K2Fly Limited, acquired 100% of the assets of RCubed Global Pty Ltd, XCube Holdings Pty Ltd and Prodmark Pty Ltd relating to the RCubed Resources and Reserve Reporting software. The acquired asset contributed $18,905 to the Group's revenues from the date that K2Fly assumed control being 31 May 2019 to 30 June 2019. The acquired assets contributed $29,351 to the Group's net loss after tax for the same period however excluding non-cash items net loss after tax for the period amounted to $25,827. Refer to note 18 for details.

Associates and joint ventures
Not Applicable

Foreign Entities Accounting Framework
Not Applicable

Brian Miller
Executive Director and CEO
30 August 2019

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

K2FLY LIMITED

ABN 69 125 345 502

Preliminary Final Report – 30 June 2019

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2019

	Notes	2019 $	2018 $
Revenue	5	3,787,826	2,523,151
Cost of sales		(2,981,101)	(1,286,689)
Gross profit		**806,725**	**1,236,462**
Other income		27,205	22,766
Administration expense		(206,491)	(275,816)
Amortisation expense		(7,187)	(712,185)
Compliance and regulatory expense		(138,090)	(113,140)
Consultancy expense		(291,505)	(389,342)
Depreciation plant and equipment		(15,664)	(10,834)
Depreciation right of use assets		(4,076)	-
Directors fees		(120,000)	(132,000)
Employee benefit expense		(1,447,289)	(1,725,104)
Impairment of intangible asset		-	(2,375,726)
Impairment of fixed assets		(2,798)	-
Impairment of exploration and evaluation expenditure		-	(309)
Impairment of receivables		(16,400)	-
Occupancy expense		(110,150)	(78,429)
Public relations and marketing expense		(205,306)	(118,860)
Research costs		(144,892)	(122,814)
Share-based payments reversal / (expense)	15	38,119	(452,310)
Travel expense		(140,805)	(162,632)
Finance expense		(813)	-
Acquisition expenses		(80,228)	-
Loss before income tax expense		(2,059,645)	(5,410,273)
Income tax benefit		121,117	-
Loss for the year		**(1,938,528)**	**(5,410,273)**
Other comprehensive income, net of income tax:			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign subsidiaries		(1,030)	-
Income tax relating to these items		-	-
Other comprehensive income for the year, net of tax		**-**	**-**
Total comprehensive loss for the year		**(1,939,558)**	**(5,410,273)**
Basic and diluted loss per share (cents per share)	4	(2.94)	(9.55)

K2FLY LIMITED

ABN 69 125 345 502

Preliminary Final Report – 30 June 2019

Consolidated Statement of Financial Position
As at 30 June 2019

	Notes	2019 $	2018 $
Assets			
Current assets			
Cash and cash equivalents		1,059,247	774,158
Trade and other receivables		874,846	654,771
Contract asset	6	68,750	22,457
Total current assets		**2,002,843**	**1,451,386**
Non-current assets			
Restricted cash		15,000	54,145
Plant and equipment		41,080	25,032
Right of use assets	7	178,749	-
Intangible assets	8	424,013	-
Goodwill	9	731,543	731,543
Other financial assets		844	844
Total non-current assets		**1,391,229**	**811,564**
Total assets		**3,394,072**	**2,262,950**
Liabilities			
Current liabilities			
Trade and other payables	10	912,046	843,092
Provisions		145,781	113,630
Interest bearing lease liabilities	11	65,935	-
Contract liabilities	12	436,876	18,379
Total current liabilities		**1,560,638**	**975,101**
Non-current liabilities			
Interest bearing lease liabilities	11	113,389	-
Provisions		34,750	29,333
Total non-current liabilities		**148,139**	**29,333**
Total liabilities		**1,708,777**	**1,004,434**
Net assets		**1,685,295**	**1,258,516**
Equity			
Issued capital	13	15,661,041	13,136,705
Reserves	14	583,697	657,846
Accumulated losses		(14,559,443)	(12,536,035)
Total equity		**1,685,295**	**1,258,516**

K2FLY LIMITED

ABN 69 125 345 502

Preliminary Final Report – 30 June 2019

Consolidated statement of changes in equity
For the year ended 30 June 2019

	Issued capital $	Performance rights reserve $	Option reserve $	FCTR reserve $	Asset revaluation reserve $	Accumulated losses $	Total equity $
Balance at 1 July 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**
Balance at 1 July 2018	**13,136,705**	**372,900**	**284,826**	**-**	**120**	**(12,536,035)**	**1,258,516**
Adjustment on initial application of AASB 15	-	-	-	-	-	(84,880)	(84,880)
Balance at 1 July 2018 (restated)	**13,136,705**	**372,900**	**284,826**	**-**	**120**	**(12,620,915)**	**1,173,636**
Loss for the year	-	-	-	-	-	(1,938,528)	(1,938,528)
Exchange differences on translation of foreign subsidiaries	-	-	-	(1,030)	-	-	(1,030)
Total comprehensive loss for the year	-	-	-	(1,030)	-	(1,938,528)	(1,939,558)
Issue of shares – Rights Issue	1,812,293	-	-	-	-	-	1,812,293
Issue of shares - Placement	800,000	-	-	-	-	-	800,000
Issue of shares – exercise of options	2,400	-	-	-	-	-	2,400
Share issue costs	(176,357)	-	-	-	-	-	(176,357)
Share-based payments – shares	86,000	-	-	-	-	-	86,000
Share-based payments – performance rights forfeited	-	(173,800)	-	-	-	-	(173,800)
Share-based payments – options	-	-	100,681	-	-	-	100,681
Balance as at 30 June 2019	**15,661,041**	**199,100**	**385,507**	**(1,030)**	**120**	**(14,559,443)**	**1,685,295**

K2FLY LIMITED

ABN 69 125 345 502

Preliminary Final Report – 30 June 2019

Consolidated Statement of Cash Flows
For the year ended 30 June 2019

	Notes	2019 $ Inflows / (Outflows)	2018 $ Inflows / (Outflows)
Cash flows from operating activities			
Receipts from customers		4,235,527	2,759,462
Payments to suppliers and employees		(6,140,785)	(4,226,153)
Government grants received		143,117	-
Interest received		205	309
Interest paid		(151)	(4,630)
Movement of cash from non-restricted to restricted		39,145	(54,145)
Net cash (used in) operating activities		**(1,722,942)**	**(1,525,157)**
Cash flows from investing activities			
Payments for plant and equipment		(15,720)	(22,380)
Payments for exploration and evaluation expenditure		27,457	(309)
Investment in subsidiaries	18	(450,000)	(475,000)
Investment in subsidiaries acquisition costs		(24,788)	-
Cash acquired on acquisition of accounting subsidiary		-	69,013
Net cash (used in) investing activities		**(463,051)**	**(428,676)**
Cash flows from financing activities			
Proceeds from the issue of shares		2,612,292	1,224,302
Payments for share issue costs		(125,357)	(75,294)
Proceeds from exercise of options		2,400	-
Repayment of borrowings		-	(150,247)
Net cash provided by financing activities		**2,489,335**	**998,761**
Net increase / (decrease) in cash held		**303,342**	**(955,072)**
Cash at beginning of the year		774,158	1,743,582
Effects of exchange rate fluctuations on cash held		(18,253)	(14,352)
Cash and cash equivalents at the end of the year		**1,059,247**	**774,158**

1. Basis of preparation

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

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

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

2. Significant accounting judgements and key estimates

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 notes 8 and 9.

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 in reference to the prevailing share price on date of grant or by using a Black-Scholes model using the assumptions detailed in note 15.

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.

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.

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.

Significant judgement in determining the lease term of contracts with renewal options
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has an option, under one of its leases to lease the assets for additional terms of 12 months. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

3. Going concern

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

4. Loss per share

Earnings per share	**2019**	**2018**
Basic loss per share (cents per share)	(2.94)	(9.55)
Weighted average number of shares	65,968,473	56,653,267

5. Revenue

The Group derives its revenue from the sale of goods and the provision of services at a point in time and over time in the categories detailed below. The Group operates in one business and geographical segment being the technology sector in Australia. The revenue information disclosed below is consistent with reporting by segment under AASB 8.

	2019 **$**	**2018** **$**
(a) Revenue		
At a point in time		
Sales of third-party software (provided via a perpetual license)	14,729	150,000
	14,729	150,000
Over time		
Consulting revenue	3,389,794	1,875,955
Hosting services revenue	23,750	24,250
Sales of own software (software as a service)	359,553	472,946
	3,773,097	2,373,151
	3,787,826	2,523,151

The Group has applied AASB 15 Revenue from Contracts with Customers for the first time in the current period. AASB 15 establishes a single comprehensive income for entities to use in accounting for revenue arising from contracts with customers.

The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Please refer to note 6 (contract asset) for details on revenue earned from the sale of perpetual licensing fees that have been provided to the customer but not yet invoices. Please refer to note 12 (contract liability) for details on deferred revenue representing contracts that have been billed however the performance obligations are unsatisfied or partially satisfied.

The Group has adopted AASB 15 using the modified retrospective method of adoption (without practical expedients) with the effect of initially applying this standard recognised at the date of initial application, being 1 July 2018. Accordingly, the information presented for 30 June 2018 has not been restated. The effect of the application of AASB 15 has been applied to all contracts at date of initial application. Where the effect is material, an adjustment has been recognised in the statement of changes in equity for the year ended 30 June 2018.

The Group recognised an impairment loss on receivables and contract assets from contracts with customers in the statement of comprehensive income, amounting to $16,400 for the year ended 30 June 2019.

6. Contract Asset

	2019 $	2018 $
Contract assets (a)	68,750	22,457
Allowance for expected credit losses	-	-
	68,750	22,457

(a) This contract asset is initially recognised for revenue earned from perpetual licensing fees that have been provided to the customer (thus satisfying performance obligations) but not yet invoiced.

7. Right of use Assets

	2019 $	2018 $
Right of use assets		
Cost	182,825	-
Accumulated depreciation	(4,076)	-
	178,749	-
Balance as at beginning of year	-	-
Additions	182,825	-
Depreciation	(4,076)	-
Balance at end of year	178,749	-

Leased assets are capitalised at the commencement date of the lease and comprise of the initial lease liability amount, initial direct costs incurred when entering into the lease less any lease incentives received. On initial adoption of AASB 16 the Group has adjusted the right-of-use assets at the date of initial application by the amount of any provision for onerous leases recognised immediately before the date of initial application. Following initial application, an impairment review is undertaken for any right of use lease asset that shows indicators of impairment and an impairment loss is recognised against any right of use lease assets that is impaired.

8. Intangible Assets

	2019 $	2018 $
Customer Contracts at cost	-	12,185
Customer Contracts - accumulated amortisation	-	(12,185)
	-	-
Software at cost (a, b)	431,200	3,500,000
Software - accumulated amortisation (a, b)	(7,187)	(1,124,274)
Software – Impairment (b)	-	(2,375,726)
Total Intangible Assets	424,013	-
Movements:		
Carrying amount at the beginning of the year	-	3,075,726
Acquired	431,200	12,185
Amortisation	(7,187)	(712,185)
Impairment – software	-	(2,375,726)
Carrying amount at the end of the year	424,013	-

(a) During the year ended 30 June 2019, the Company K2Fly RCubed Pty Ltd (**K2F RCubed**), a wholly owned subsidiary of K2Fly Limited, acquired 100% of the assets of RCubed Global Pty Ltd, XCube Holdings Pty Ltd and Prodmark Pty Ltd relating to the RCubed Resources and Reserve Reporting software (**RCubed Acquisition**). Cash consideration of $450,000 was paid for the acquisition of which $431,200 was ascribed to the intellectual property rights associated with the RCubed Resources and Reserve Reporting software (refer note 18). There have been no indicators of impairment since this date.

(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 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.

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

9. Goodwill

	2019 $	2018 $
Goodwill (a)	731,543	731,543

(a) Goodwill acquired in relation to Infoscope Acquisition. During the year ended 30 June 2019, 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% (2018: 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 the 12 month budget (extrapolated over a four year period at a highly conservative nil% growth rate to provide a total five year forecast model) 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, actual revenue achieved in the year immediately before the budgeted year, existing revenue streams, and potential new client revenue streams.

The Company has considered the impact of possible changes in key assumptions. Based on a sensitivity analysis undertaken, the following possible changes (taken in isolation) would not result in a reduction of the carrying value of goodwill:

- reduction of forecast revenue of up to 26% against management's estimates at 30 June 2019
- adjustment of terminal value amount to nil
- increase in the post-tax discount rate to over 75%
- increase of 46% in allocated overhead costs.

Based upon the value in use calculation, no impairment has been recognised.

10. Trade and Other Payables

	2019 $	2018 $
Current		
Accounts payable	437,549	285,129
Accrued expenses	157,555	207,164
Other payable	104,881	172,746
Employee liabilities	212,061	178,053
	912,046	843,092

11. Interest bearing lease liabilities

	2019 $	2018 $
Current		
Lease liability	65,935	-
	65,935	-
Non-Current		
Lease liability	113,389	-
	113,389	-
Total Current and Non-Current	179,324	-

The Group has entered into a commercial lease to rent office space at its head office in Subiaco, Western Australia. The lease has a fixed term of 2 years.

The Group has also entered into a commercial lease to rent office space at its South African branch. The lease has a fixed term of 3 years with a renewal option of a further 12 months following this initial term unless terminated.

During the year, the consolidated statement of comprehensive income includes $110,150 of occupancy expenses of which $44,025 relates to short-term office leases (included $21,239 which was disclosed as a commitment for the year ended 30 June 2018), $39,737 related to short term rental expenses and the balance of $26,388 relates to variable outgoings.
Reconciliation of movements in interest bearing liabilities to cash flows arising from financing activities:

	2019 $	2018 $
Opening balance	-	-
Lease inception	181,850	-
Finance charges (effective interest)	813	-
Payment for lease liability	(3,339)	-
Closing balance	179,324	-

12. Contract liabilities

	2019 $	2018 $
Deferred revenue (a)	436,876	18,379

(a) Represents aggregate amounts of transaction prices relate to the performance obligations from existing contracts that have been billed and received but are unsatisfied or partially satisfied. The significant increase is attributable to increased activities during the year. A break-down of the revenue line items (as reported at note 5) to which these contracts liabilities will be recognised in the next financial year is as follows:

	2019 $	2018 $
Consulting revenue	33,000	12,629
Hosting services revenue	16,000	5,750
Sales of own software (software as a service)	387,876	-
	436,876	18,379

13. Issued Capital

	2019 $	2018 $
Issued and paid up capital	18,153,972	15,453,279
Share issue costs	(2,492,932)	(2,316,574)
	15,661,041	13,136,705

	2019		2018	
Movements:	**Number**	**$**	**Number**	**$**
Opening balance	60,409,751	13,136,705	50,867,535	11,682,697
Shares issued – InfoScope acquisition (07/07/17)	-	-	3,525,642	275,000
Shares issued to advisors (01/11/17)	-	-	120,000	15,000
Shares issued to advisors (28/12/17)	-	-	79,365	15,000
Share cancellation (15/01/18)	-	-	(200,000)	-
Share issue (15/01/18)	-	-	200,000	-
Shares issued – Placement	-	-	4,897,209	1,224,302
Shares issued – vesting of performance rights	-	-	920,000	-
Shares issued – Rights Issue (12/10/18 & 24/10/18) (a)	6,040,976	1,812,293	-	-
Shares issued upon exercise of listed options (26/10/18) (b)	12,000	2,400	-	-
Shares issued – vesting of performance rights (5/11/18) (c)	202,500	-	-	-
Shares issued to advisors (21/12/18) (d)	62,454	20,000		
Shares issued – Placement (13/05/19) (e)	8,000,000	800,000	-	-
Shares issued to advisors (13/05/19) (d)	510,000	51,000	-	-
Shares issued to advisors (13/05/19) (f)	116,460	15,000		
Share issue costs	-	(176,357)	-	(75,294)
Closing balance	75,354,141	15,661,041	60,409,751	13,136,705

(a) During the year, the Company undertook a capital raising by way of a fully underwritten non-renounceable pro-rata rights issue to raise $1,812,293 (before costs) (**Rights Issue**). Under the Rights Issue, eligible shareholders were invited to subscribe for 1 new share for every existing 10 shares held at an issue price of $0.30 per share, together with one listed option (ASX: K2FOA) for every four new shares subscribed for with an exercise price of $0.20 and expiry date of 18 May 2020.

The Rights Issue was fully underwritten by K S Capital Pty Limited. All Directors of K2fly participated in the Rights Issue. In addition to this, Brian Miller, Jenny Cutri and James Deacon sub-underwrote a total of $60,000 of the Rights Issue. In October 2018 a total of 6,040,976 shares and 1,510,268 listed options (K2FOA) were issued pursuant to the Rights Issue.

(b) On 26 October 2018, a total of 12,000 shares were issued upon the exercise of $0.20 listed options for $2,400.

(c) On 5 November 2018, a total of 202,500 shares were issued in respect of vested performance rights, following receipt of a conversion notice from the holder.

(d) On 22 November 2018, the Company announced it had executed a new mandate with Canary Capital Pty Ltd (**Canary Capital**), a boutique Sydney headquartered investment management and corporate advisory firm, to continue to provide investor marketing services to the Company (**Investor Marketing Mandate**).

On 21 December 2018, a total of 62,454 shares were issued to Canary Capital pursuant to the Investor Marketing Mandate as equity-settled fees for the eight-month period from July 2018 to February 2019, valued at $20,000. This amount of $20,000 has been recognised as a share-based payment expense during the year (refer note 15).

Further, on 13 May 2019, a total of 116,460 shares were issued to Canary Capital pursuant to the Investor Marketing Mandate for the six-month period from March 2019 to August 2019, valued at $15,000. This amount of $15,000 has been recognised as a share-based payment expense during the year (refer note 15).

(e) On 13 May 2019, the Company raised $800,000 from sophisticated and professional investors via a placement of 8,000,000 fully paid ordinary shares at $0.10 each to fund the RCubed Acquisition (**Placement**).

(f) On 13 May 2019, Canary Capital received 510,000 shares in lieu of brokerage fees in respect of Placement funds received.

14. Reserves

Nature and purpose of reserves

Asset revaluation 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.

	2019 **$**	**2018** **$**
Performance rights reserve (a)	199,100	372,900
Option reserve (b)	385,507	284,826
FCTR reserve	(1,030)	-
Available-for-sale reserve	120	120
	583,697	657,846
(a) Movements in performance rights reserve		
Carrying amount at the beginning of the period	372,900	79,560
Issue of performance rights – Share-based payment expense recorded through profit or loss	-	293,340
Cancellation of unvested performance rights	(173,800)	-
Carrying amount at the end of the period	199,100	372,900
(b) Movements in option reserve		
Carrying amount at the beginning of the period	284,826	145,206
Issue of listed options	-	-
Issue of unlisted options – Infoscope Acquisition	-	10,650
Issue of unlisted options – Share-based payments expense recorded through profit or loss	-	128,970
Share based payments options	100,681	-
Carrying amount at the end of the period	385,507	284,826

15. Share-based Payments Expense

	2019 **$**	**2018** **$**
Shares issued to advisor (a)	35,000	30,000
Unlisted options issued to advisors	-	128,970
Unlisted options issued to directors, employees and consultants (b)	100,681	-
Performance rights issued to directors / (reversal) (c)	(173,800)	293,340
	(38,119)	452,310

(a) Shares

On 21 December 2018, a total of 62,454 shares were issued to Canary Capital pursuant to Investor Marketing Mandate. Further, on 13 May 2019, a total of 116,460 shares were issued. Refer note 13(d) for further details.

(b) Unlisted options

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

- 1,304,371 unlisted options issued on 21 December 2018 to directors and consultants, as approved by shareholders at the Company's AGM, including:
  - 665,352 unlisted options exercisable at $0 each on or before 26 November 2020 (subject to vesting conditions) (**ZEP Options**) (**Series 8**); and

   - 639,019 unlisted options exercisable at $0.243 each on or before 26 November 2022 (subject to vesting conditions) (**PEP Options**) (**Series 10**); and

- 1,962,045 unlisted options issued on 21 December 2018 to employees under its shareholder approved Employee Incentive Option Plan (**EIOP**), including:
   - 683,866 ZEP Options (**Series 9**); and
   - 1,278,179 PEP Options (**Series 11**).

Fair Value of ZEP Options

The fair value of ZEP Options was calculated using a probability-based valuation methodology with reference to the share price at grant date to issue the ZEP Options.

ZEP Options	**Recipient**	**Number Issued**	**Value per ZEP Option**	**Expected % to vest**	**Vesting Condition**	**Vested / Not Vested**	**Total Value $**
Series 8	Executive Director / CEO	341,933	$0.170	45.6%	Non-Market [1]	Not Vested	$26,507
Series 8	Non-Executive Directors	267,657	$0.170	100%	Non-Market [2]	Not Vested	$45,502
Series 8	Consultants	55,762	$0.170	100%	Non-Market [3]	Not Vested	$9,480
Series 9	Employees (EIOP participants)	683,866	$0.170	39.6%	Non-Market [4]	Not Vested	$46,059
		1,349,218					$127,548

[1] Options shall vest and become exercisable when any vesting conditions (including remaining employed by the Company for a period of 18 months from date of issue of the ZEP Options, that is remaining employed at 26 May 2020) have been satisfied or waived by the Board. The ultimate number of options that are capable of vesting are based on the extent of achievement against both company and individual KPIs in respect of the year ended 30 June 2019, as determined by the Board.
[2] Options shall vest and become exercisable on the date that the Company's next annual general meeting is held, on the condition that the holder remains appointed as a director at the date of that meeting.
[3] Options shall vest and become exercisable on the date that the Company's next annual general meeting is held, on the condition that the holder remains engaged by the Company at the date of that meeting.
[4] Options shall vest and become exercisable when any vesting conditions (including remaining employed by the Company for a period of 18 months from date of issue of the ZEP Options, that is remaining employed at 26 May 2020) have been satisfied or waived by the Board. The ultimate number of options that are capable of vesting are based on the extent of achievement against both company and individual KPIs in respect of the year ended 30 June 2019, as determined by the Board.

Fair Value of PEP Options

The fair value of PEP Options was determined using a Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The following table lists the input to the model for the options:

	PEP Options (Series 10 and Series 11)
Dividend yield (%)	Nil
Expected volatility (%)	96.64%
Risk free interest rate (%)	2.22%
Exercise price ($)	$0.243
Marketability discount (%)	Nil
Expected life of options (years)	4.0
Share price at grant date ($)	$0.170
Value per option ($)	$0.1054

Exercise of options

No unlisted options were exercised during the year.

(c) **Performance rights**

During the year ended 30 June 2019, an amount of $173,800 reversal of share-based payment expense was recognised 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 held on 21 November 2017. As disclosed in the Company's previous Annual Report, an amount of $372,900 had been previously recognised in respect of the 3,740,000 performance rights initially issued.

The share-based payment expense reversal of $173,800 in the current year arose due to the cancellation of 1,820,000 performance rights held by Mr Brian Miller on 20 November 2018.

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. The following table summarises the valuation of the performance rights issued including those converted to shares and excluding performance rights now cancelled.

	Number	Value per Performance right	Probability	Vesting Condition	Vested / Not Vested	Total Value $
Class 1	320,000	$0.11	100%	Non-Market	Vested	35,200
Class 2	110,000	$0.11	100%	Market	Not vested	12,100
Class 3	110,000	$0.11	100%	Market	Not vested	12,100
Class 4	110,000	$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	110,000	$0.11	100%	Non-Market	Not vested	12,100
Class 8	110,000	$0.11	100%	Non-Market	Not vested	12,100
Class 9	110,000	$0.11	100%	Non-Market	Not vested	12,100
Class 10	240,000	$0.11	100%	Non-market	Vested	26,400
	1,920,000					199,100

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 202,500 shares were issued in respect of vested performance rights.

At 30 June 2019, there remained 797,500 performance rights on issue. Of this balance, 137,500 performance rights have vested.

16. 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 per option	Vesting date
Series 1	1,920,000	22/11/2016	17/11/2020	$0.25	$0.016	17/11/2016
Series 2	800,000	22/11/2016	01/12/2020	$0.25	$0.016	17/11/2016
Series 3	350,000	01/11/2017	01/11/2019	$0.20	$0.090	01/11/2017
Series 4	400,000	28/12/2017	28/12/2019	$0.225	$0.255	28/12/2017
Series 5	450,000	28/12/2017	28/12/2019	$0.25	$0.255	28/12/2017
Series 7	350,000	07/7/2017	07/7/2020	$0.25	$0.030	7/7/2017
Series 8	341,933	26/11/2018	26/11/2020	$0.00	$0.170	26/05/2020
Series 8	323,419	26/11/2018	26/11/2020	$0.00	$0.170	30/11/2019
Series 9	683,866	26/11/2018	26/11/2020	$0.00	$0.170	26/05/2020
Series 10	639,019	26/11/2018	26/11/2022	$0.243	$0.105	26/11/2021
Series 11	1,278,179	26/11/2018	26/11/2022	$0.243	$0.105	26/11/2021

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.

	2019		2018	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Opening balance	4,270,000	$0.24	2,720,000	$0.25
Granted	3,266,416	$0.14	1,550,000	$0.23
Outstanding at the end of the year	7,536,416	$0.20	4,270,000	$0.24
Exercisable at the end of year	4,270,000	$0.24	4,270,000	$0.24

No unlisted options were exercised during the year (2018: $nil).

Unlisted options outstanding at 30 June 2019 had a weighted average exercise price of $0.20 (2018: $0.24) and a weighted average remaining contractual life of 637 days (2018: 767 days).

The weighted average fair value of options granted during the year was $0.132 (2018: $0.090).

17. Listed Options

The following listed options were on issue at 30 June 2019:

	Number	Issue date	Expiry date	Exercise price	Premium received $	Vesting
Series 6 (ASX Code: K2FOA)	10,121,507	31/05/2017	18/05/2020	$0.20	101,355	Vested
Series 6 (ASX Code: K2FOA)	1,632,403	02/02/2018	18/05/2020	$0.20	-	Vested
Series 6 (ASX Code: K2FOA)	568,182	12/10/2018	18/05/2020	$0.20	-	Vested
Series 6 (ASX Code: K2FOA)	942,086	24/10/2018	18/05/2020	$0.20	-	Vested
	13,264,178				101,355	

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

	2019		2018	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Opening balance	11,765,910	$0.20	10,133,507	$0.20
Exercised	(12,000)	$0.20	-	-
Granted	1,510,268	$0.20	1,632,403	$0.20
Outstanding at the end of the year	13,264,178	$0.20	11,765,910	$0.20
Exercisable at the end of year	13,264,178	$0.20	11,765,910	$0.20

There were 12,000 listed options exercised during the year (2018: $nil).

18. Business Combination

On 31 May 2019, K2Fly RCubed Pty Ltd (**K2F RCubed**), a wholly owned subsidiary of K2Fly Limited, acquired 100% of the assets of RCubed Global Pty Ltd, XCube Holdings Pty Ltd and Prodmark Pty Ltd relating to the RCubed Resources and Reserve Reporting software. RCubed software generates resource and reserve reports that support reporting codes such as JORC, NI43101 and SAMREC across the major stock exchanges including NYSE, LSE, TSX, ASX and JSE. This acquisition complements the Company's Infoscope enterprise land management software as it assists Mining and Resource companies in complying with their regulatory reporting obligations. The acquisition is expected to bring synergies from the combination and the value of the workforce of K2Fly Limited and K2F RCubed.

Details of the business combination are as follows:

	$
Consideration	
Cash	450,000
	450,000

	$
Assets Acquired	
Intellectual property rights – Sentinel and RCubed	431,200
Tangible fixed assets	18,800
Customer contracts – at cost	-
Deferred tax asset	-
	450,000
Less: Trade and other payables	-
	450,000
Goodwill	-
Net cash outflow arising on acquisition	
Cash paid	450,000
Less net cash acquired	-
Net cash outflow	**450,000**

Contingent liabilities

In accordance with the terms of the Agreement, and subject to the retainment and performance of key operational employees (**Key Executives**) remaining employed by the Company and specified revenue metrics from sales of RCubed software being met, the Key Executives shall have the facility to share in certain incentive payments linked to the achievement of performance milestones.

Identifiable net assets

The fair values of the identifiable intangible assets have been determined at 31 May 2019. The fair value of tangible fixed assets acquired as part of the business combination amounted to $18,800. The value of intangible assets amounted to $431,200 as outlined in the intangible assets note (refer note 8).

RCubed contribution to the Group's results

Acquisition costs incurred by the Company in respect to the K2F RCubed transaction, and included in the Consolidated Statement of Comprehensive Income, amounted to $80,228.

The assets from the acquired entities contributed $18,905 to the Group's revenues from the date that K2Fly assumed control being 31 May 2019 to 30 June 2019. The assets from the acquired entities contributed $29,351 to the Group's net loss after tax for the same period however excluding non-cash items net loss after tax for the period amounted to $25,827.