Leading technology
for optimising assets

K2fly Limited

ABN 69 125 345 502

# ANNUAL REPORT

For the Year Ended

30 June 2019

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

**JOINT COMPANY SECRETARY**
Melissa Chapman
Catherine Grant-Edwards

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

Dear Fellow Shareholders,

On behalf of the K2F Board of Directors I'm pleased to present K2fly Limited's (**Company's** or **K2F's**) Annual Report for the 2019 financial year (**FYE2019**).

FYE2019 was a positive year for the Company. FYE2019 has seen the Company's revenue continue to grow to a record level; we purchased the RCubed software solution and immediately signed a new client; demand for our Infoscope solution increased; we obtained significant contract extensions and new clients for our consultancy work and for our third party software solutions; we cemented key partnership relationships; we implemented an Employee Incentive Plan; successfully completed two capital raisings (including a fully underwritten rights issue and placement); and in the process we increased our geographical footprint.

**Revenue**
In FYE2019 our revenue increased to $3.79M an increase of 50% year on year compared to FYE2018. We also continued to increase our revenue, quarter on quarter compared to the previous corresponding periods in FYE2018.

**Own Software**
In May 2019 we completed the acquisition of RCubed Resources and Reserves Reporting Software solution. The acquisition is highly complementary to K2F's owned software solution, Infoscope. A key strategy of the Company remains to grow the proportion of revenue from software – particularly under the software as a service (SaaS) model.

As part of the acquisition of RCubed, we now have an office in Centurion, near Johannesburg, South Africa.

With the changes introduced by the US Securities and Exchange Commission to the reporting and disclosure requirements of mining companies operating in the US or listed on the NYSE, we are optimistic about the potential prospects and continued demand for the RCubed software solution. Coupled with the demand for companies to be ESG (Environmental, Social and Governance) compliant, our own software products are uniquely positioned to enable companies to complete their ESG reporting and demonstrate their "social licence" to operate.

**Contract Wins**
Our goal to be a trusted advisor, in both the calibre of our consultancy work and the provision of software solutions we are able to offer clients (including third party solutions as appropriate), is showing dividends. In FYE2019 we continued to win consultancy contracts /contract extensions with some of our major clients and were engaged by some new named clients.

**Partnerships**
We continued to work with SAP in leveraging the land management solution which resides on their S4 HANA cloud environment. In August 2018 we entered into a partnership program with Esri, a global leader in geographic information system. Then in May 2019 we entered into a Reseller Agreement with Esri Australia Pty Ltd (the national distributor of global mapping giant Esri's ArcGIS software) to distribute the Infoscope application.

**Board & Leadership Team**
The current Board members have diverse and complementary skills and have made significant contributions to ensure the effectiveness and governance of K2F. Additionally, the Non-Executive Directors are also members of the Company's Remuneration Committee.

In FYE2019, the Company adopted an employee incentive scheme (**EIS**) approved by shareholders at the 2018 Annual General Meeting. The purpose of the EIS is to encourage excellence and retain staff critical to K2F and includes rewards on a non-cash basis, thereby preserving K2F's cash position.

**Our Valued shareholders**
Importantly, on behalf of the Board, I would like to express our gratitude to the valued shareholders of K2F.

Kind Regards,

**Jenny Cutri**
**Non-Executive Chair**

Dear Fellow Shareholders,

I am delighted to deliver this year end (FYE2019) report as CEO of K2fly.

Our year ended positively with the acquisition of RCubed. Since that acquisition, the two teams have merged together seamlessly and with minimal transition cost, and we now have an effective structure in place. Almost as soon as the transaction was completed we signed a contract with Imerys SA which is a major international resources company. More recently we were able to announce further major sales of the RCubed solution to Glencore Canada and Newcrest and this has confirmed the value of this acquisition.

Infoscope and RCubed are our two critical pieces of IP. They are both Software as a Service (SaaS) offerings and the plan is that the SaaS part of our business will grow as a percentage of our overall revenue. This is an impressive start to our SaaS business.

We added Mineral Resources and Panoramic Resources as new Infoscope clients in FYE2019 and we expanded our Infoscope footprint in APIM and Westgold in the last year. FMG contracted us to provide enhancements in the Infoscope solution and we continued to work with The Keeping Place, which houses our indigenous heritage repatriation program which had been sponsored by BHP, Rio Tinto and FMG. We also continued to work with SAP in leveraging the land management solution which resides on their S4 HANA cloud environment (including showcasing Infoscope at the SAP world mining event in Prague in October 2018).

As of September 2019 we now have more than 200 sites worldwide where our own IP is either deployed or is currently being implemented.

In the Mobile applications space, we are particularly pleased with progress made across the 3 software solutions we implement and re-sell on behalf of third-party vendors. Arc Infrastructure has continued to make significant progress with its use of Fieldreach. We signed a reseller agreement with Totalmobile from the UK and almost immediately began work on an EDF Energy implementation. Kony is a world leading Mobile Application Development Platform (MADP) and the software has been successfully deployed in FMG, which is the anchor client for our own Infoscope software. This is a good example of how we are able to cross-sell our solutions to existing clients because we are seen as a company who consistently delivers in the technology arena.

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

The Company has made great progress in the last 12 months. At the end of June 2018, we had about 30 staff and a modest client base. 12 months later we have more than 50 staff and an ever-expanding 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.

Kind Regards,

**Brian Miller**
**CEO**

Your Directors present their report together with the financial statements of the Group consisting of K2fly Limited (the **Company**, **K2fly** or **K2F**) and the entities it controlled during the financial year ended 30 June 2019 (**FYE2019**). 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

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), FCA, 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

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 having held senior positions within the Australian Securities and Investments Commission (ASIC). She has also worked with Bankwest heading up their Marketing Compliance.

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 |
|---|---|---|
| Brian Miller | 2,200,404 | 1,266,189 |
| Neil Canby | 462,500 | 127,344 |
| James Deacon | 120,368 | 95,743 |
| Jenny Cutri | 155,186 | 115,474 |

## 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, including the resources and utility sectors.

K2fly 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**, an Enterprise Land Management, Natural Resource Governance and Stakeholder Relations solution for the Energy and Resources market; and
- **RCubed** a resource and reserve reporting solution that supports reporting codes such as JORC, NI43101 and SAMREC across the major stock exchanges – including NYSE, LSE, TSX, ASX and JSE.

K2fly is also working with its international partners, such as Kony (USA), Pointerra Limited (Aus), ABB (Switzerland), Totalmobile (UK) and Capita plc (UK), providing the Group with access to additional systems and software solutions, allowing the Company 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 the outlook for 2019-2020 remains positive
- Total revenue for FY19 is $3.79m, a growth of 50% on the FY18 revenue of $2.52m
- K2F acquired the RCubed SaaS business and immediately made a sale to Imerys SA
- K2F was engaged on its first overseas' field working project with the Totalmobile software at EDF Energy's (Electricité de France) nuclear power fleet
- New Infoscope clients including: Mineral Resources Ltd and Panoramic Resources Ltd
- Several other new clients acquired by K2F including ABB, Stanwell Energy Ltd, New Hope Group and Queensland Urban Utilities.

## ACQUISITION OF RCUBED SOFTWARE AS A SERVICE (SAAS) BUSINESS

As previously announced K2F's subsidiary, K2fly RCubed Pty Ltd (**K2fly RCubed**) entered into a binding agreement to acquire the assets of Prodmark Pty Ltd (**Prodmark**) (a South African company) and associated entities, relating to the RCubed Resources and Reserve Reporting software (**RCubed**) (refer to ASX announcement on 7 May 2019 for further details).

The acquisition of RCubed was formally completed on 31 May 2019.

The acquisition is highly complementary to K2fly and strengthens its owned Software as a Service (SaaS) solution targeting the Resources sector. As part of the acquisition K2F has set up a South African entity which has taken on the twelve existing staff and the existing office facilities in Centurion, outside Johannesburg.

K2F has already established an impressive pipeline of new name opportunities for RCubed to go alongside existing RCubed clients such as Anglo Gold Ashanti Ltd, Teck Resources Ltd and the recently acquired Imerys SA, Glencore Canada Corporation and Newcrest Mining Ltd. K2F is involved in 5 new name bids as at the date of this report.

## OWNED SOFTWARE

As previously announced, the Infoscope solution is continuing to attract a great deal of interest primarily in the Resources sector. The enterprise land management solution was sold in to two new name resources companies in FYE 2019: Mineral Resources Ltd (**Mineral Resources**) and Panoramic Resources Ltd (**Panoramic Resources**).

WA based Panoramic Resources (a base metal mining and exploration company), signed a contract to use Infoscope in Q3 in FYE2019. Although the revenue from the Panoramic Resource contract is not material on its own, coupled with the Mineral Resources contract (refer ASX announcement dated 13 February 2019), and potential new contracts for Infoscope licenses and implementations, these demonstrate growing market acceptance for the solution.

K2F continues to work with partners and clients across a number of business areas. This includes, for example, The Keeping Place which houses our indigenous heritage repatriation program sponsored by BHP, Rio Tinto and FMG, which had slowed somewhat in 2018 and 2019. A new fit-for-purpose entity has been formed and there is a backlog of Indigenous communities who are waiting to join The Keeping Place.

The Company is also continuing to work with both SAP and Esri in a more targeted approach to acquiring "new name" accounts in Australia and overseas. K2F executives continue to work with senior figures from both SAP and Esri to establish new ways of working together and a new set of sales plans have been developed.

## THIRD PARTY SOFTWARE

K2F continues to make good progress with the Mobile Inspection and Works Management project within Arc Infrastructure, based upon the Fieldreach solution which K2F re-sells on behalf of Capita (UK).

This project saw K2F deliver a solution which went live in 2018, and includes software licensing, software support & maintenance, integration services, consultancy, training and project management. On the back of this success K2F is now engaged in a second phase project and is providing further on-site consultancy which is likely to continue until late-2019.

The demand for digital products that support ever-increasingly mobile workforces is strong and shows no signs of slowing.

One of K2F's key strategic objectives is to be a trusted advisor to Tier 1 clients as this provides truly beneficial relationships for both parties. We believe we demonstrated this with Fortescue Metals Group (**FMG**) who is one of our long-standing Infoscope clients. K2F was recently awarded a contract with FMG for Kony software and services. The project will run throughout 2019 and beyond and is a good example of being able to provide additional services and solutions to existing clients, when you are valued as a trusted supplier.

To be a long-term trusted advisor to our chosen industries, K2F must also regularly assess our 3rd party software relationships to ensure we have the right functionality (functionality that is in demand in our chosen industries) and the right products (products that have strong propositions for our clients). Our clients demand a portfolio of solutions that consists of mature functionality (such as mobility) as well as cutting edge functionality such as Industrial Internet of Things (IIoT). As a result of such analyses, K2F entered into a software reseller agreement with Totalmobile from the UK. This award-winning software solution is particularly strong as a workforce scheduling tool, and K2F will be its sole Australian reseller. The initial, 3-year term can be extended by mutual consent.

The March quarter saw K2F involved in its first Totalmobile implementation with EDF Energy, one of the world's largest power companies. As this assignment was our first assignment overseas and in the nuclear industry, this achievement should not be under-estimated. The initial scoping study was worth approximately $100k to K2F and was delivered in June 2019. The second phase of the implementation is currently being negotiated with the client.

As previously announced to ASX on 10 May 2019, K2F and Esri Australia entered into a reseller agreement to distribute the Infoscope Land Management Solution. K2F had earlier announced (29 August 2018) that it had become a member of the Esri partner program, but the May announcement made it clear that Esri account executives could receive financial remuneration based upon reselling Infoscope licenses.

## CONSULTANCY SERVICES

Our staff are subject matter experts who bring leading edge advice to our clients.

During the FYE June 2019 we variously delivered consultancy services to; Western Power, Arc Infrastructure, Public Transport Authority, Westgold Resources, Programmed, ABB, Horizon Power, New Hope, Stanwell Energy, Queensland Urban Utilities, Mineral Resources and FMG.

Our consultancy services are typically of low volume (shorter timeframe) and high value rather than long term operational support services. We have built a good reputation for delivering cutting edge advice, and as a result these assignments normally attract premium consultancy rates. Consultancy assignments are normally bid for, sold, and then executed typically in a matter of months so, unlike Software as a Service (SaaS) products there are no annuity revenues associated with them once they are complete. Our consulting revenue relies both on our clients having active IT work programs, and on our consultants delivering value on every assignment in order to secure further work.

## FINANCIAL RESULTS

### Operating Results

The Group incurred a net loss after income tax during the full year of $1,938,528 (30 June 2018: $5,410,273).

The loss for the year ended 30 June 2018 included 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.

### Financial Position

At 30 June 2019, the Group had cash reserves of $1,059,247 (30 June 2018: $774,158).

### Financial Year ended 30 June 2019 Commentary

The financial year ended 30 June 2019 represented a positive and successful period for K2F, in which we continued to build our capabilities across a number of different sectors. We continue to grow and win new contracts.

The Company has invoiced a total of $4.14m during FYE19, representing a 61% increase from the prior year (FYE18: $2.57m). K2fly's revenue reported for FYE19 of $3.79m represents at 50% increase from prior year (FYE18: $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.

As at 30 June 2019, the cash at hand was approximately $1.06m with $823k in trade receivables. In addition, there is another $69k in contract assets which can only be invoiced on delivery. K2F also received R&D tax refunds of $121k in FYE 2019.

## CORPORATE

### 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.

### CCO Appointment

On 25 September 2018, the Company announced the appointment of Mr Nic Pollock as Chief Commercial Officer commencing 1 October 2018. With more than 25 years industry experience, during the last 15 years, Mr Pollock has been largely focused on successfully growing some of the most recognised global technology brands in the resources' industry such as; Snowden, Gemcom (now Dassault), Surpac, Mincom (now ABB) and Whittle. Within K2F, Nic is responsible for the growth of the Owned Software division and takes specific interest in the Infoscope and RCubed solutions.

### RCubed Acquisition

In May 2019, the Company executed a binding Heads of Agreement (**HOA**) for its subsidiary, K2fly RCubed Pty Ltd, to acquire the assets of Prodmark Pty Ltd (**Prodmark**) (a South African company) and associated entities, relating to the RCubed Resources and Reserve Reporting software (**RCubed Acquisition**). On 31 May 2019, the RCubed Acquisition was completed.

Consideration included an upfront payment of AUD $450,000 to purchase the assets of Prodmark and associated entities which includes all the Intellectual Property of the RCubed software.

To ensure the retainment and performance of key operational employees over the next three years, performance incentives have been incorporated into the deal.

Year 1: Total revenue* – AUD $715k – Maximum incentive payment AUD $600k payable in two instalments.

Year 2: Total revenue* – AUD $1,215k – Maximum incentive payment AUD $400k in two instalments.

Year 3: Total revenue* – AUD $1,715k – Maximum incentive payment AUD $200k in two instalments.

The Performance Incentives are payable in two instalments. For instance, in Year 1 the first payment is payable 12 months from the date of settlement and second payment 6 months following.

*Annual recurring licence revenue

### Placement

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**).

### Annual General Meeting

The Company's Annual General Meeting (**AGM**) was held on 26 November 2018, 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.

### Change in Constitution

On 26 November 2018, the Company adopted a new constitution following the passing of a special resolution at the AGM.

## Employee Incentive Option Plan

On 26 November 2018, the Company adopted an employee incentive scheme (**Employee Incentive Option Plan**) (**EIOP**), as approved by shareholders at the AGM.

## Rights Issue

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 were issued pursuant to the Rights Issue.

## Canary Mandate

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**). Part of the fees for services rendered pursuant to the Investor Marketing Mandate are paid in shares.

In addition, Canary Capital received 510,000 shares in lieu of brokerage fees in respect of Placement funds received.

## Shares

During the year, the Company issued the following shares:

- 6,040,976 fully paid ordinary shares pursuant to the Rights Issue on 12 October 2018 and 24 October 2018;
- 12,000 fully paid ordinary shares upon exercise of listed options at $0.20 each on 26 October 2018;
- 202,500 fully paid ordinary shares upon vesting of performance rights on 5 November 2018;
- 62,454 shares issued on 21 December 2018 to advisor Canary Capital pursuant to the Investor Marketing Mandate;
- 8,000,000 shares issued on 13 May 2019 pursuant to the Placement;
- 510,000 shares issued on 13 May 2019 to advisor Canary Capital as brokerage fees in respect of the Placement; and
- 116,460 shares issued on 13 May 2019 to advisor Canary Capital pursuant to the Investor Marketing Mandate.

## Listed Options

During the year, the Company issued 1,510,268 free attaching listed options for every 4 shares held at $0.20 expiring 18 May 2020 pursuant to the Rights Issue.

On 26 October 2018, a total of 12,000 listed options at $0.20 each were exercised.

## Unlisted Options

During the year, 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**); and
  - 639,019 unlisted options exercisable at $0.243 each on or before 26 November 2022 (subject to vesting conditions) (**PEP Options**).
- 1,962,045 unlisted options issued on 21 December 2018 to employees under its shareholder-approved Employee Incentive Option Plan, including:
  - 683,866 ZEP Options; and
  - 1,278,179 PEP Options.

## Performance rights

On 5 November 2018, a total of 202,500 shares were issued in respect of vested performance rights.

On 20 November 2018, a total of 1,820,000 performance rights held by Mr Brian Miller were cancelled for nil consideration.

### Escrowed Securities

During the year, the following securities were released from escrow:

- 3,525,642 fully paid ordinary shares on 6 July 2018;
- 16,345,644 fully paid ordinary shares released from escrow on 18 November 2018;
- 2,617,500 performance rights released from escrow on 18 November 2018;
- 1,920,000 unlisted options at $0.25 expiring 17 November 2020 released from escrow on 22 November 2018; and
- 800,000 unlisted options at $0.25 expiring 1 December 2020 released from escrow on 22 November 2018.

## DIVIDENDS

No dividends have been paid or declared since the start of the financial year and 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 | 11* | 11 |
| Neil Canby | 14 | 14 |
| James Deacon | 14 | 14 |
| Jenny Cutri | 14 | 14 |

*Brian Miller was conflicted in the RCubed acquisition and not eligible to attend some Board meetings regarding the acquisition. Refer to note 31 in the Financial Statements for additional information.

## 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.

## SIGNIFICANT EVENTS AFTER BALANCE DATE

On 15 August 2019, the Company announced that Glencore Canada Corporation (a subsidiary of Glencore plc) had signed an agreement to implement its RCubed Resources Governance Software. The software contract and implementation costs are worth more than AU$250,000 in the first year and is renewable annually.

On 2 September 2019, the Company announced that Newcrest Mining Ltd had signed an agreement to implement its RCubed Resources Governance Software. The software contract and implementation costs are worth more than AU$150,000 in the first year and is a 3 year contract.

On 18 September 2019, the Company announced, having received commitments, that it had successfully raised $1M (before costs) in a placement to sophisticated and professional investors. The shares pursuant to this placement were issued on 26 September 2019.

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.

## OPTIONS GRANTED TO DIRECTORS

At the date of this report, the following options were held directly or indirectly by Directors, having been granted as part of their remuneration:

| | Series | Number | Exercise price | Expiry date | Listed / Unlisted |
|---|---|---|---|---|---|
| Brian Miller | Series 8 | 341,933 | $0.00 | 26/11/2020 | Unlisted |
| | Series 10 | 639,019 | $0.243 | 26/11/2022 | Unlisted |
| Neil Canby | Series 8 | 89,219 | $0.00 | 26/11/2020 | Unlisted |
| James Deacon | Series 8 | 89,219 | $0.00 | 26/11/2020 | Unlisted |
| Jenny Cutri | Series 8 | 89,219 | $0.00 | 26/11/2020 | Unlisted |

## SHARES

At 30 June 2019 there were 75,354,141 fully paid ordinary shares on issue. At the date of this report there are 81,604,141 fully paid ordinary shares on issue.

## UNISSUED SHARES UNDER OPTION

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

| | Number of shares under option | Exercise price of options | Expiry date of option | Listed / Unlisted |
|---|---|---|---|---|
| Series 1 | 1,920,000 | $0.25 | 17/11/2020 | Unlisted |
| Series 2 | 800,000 | $0.25 | 01/12/2020 | Unlisted |
| Series 3 | 350,000 | $0.20 | 01/11/2019 | Unlisted |
| Series 4 | 400,000 | $0.225 | 28/12/2019 | Unlisted |
| Series 5 | 450,000 | $0.25 | 28/12/2019 | Unlisted |
| Series 6 | 13,264,178 | $0.20 | 18/05/2020 | Listed |
| Series 7 | 350,000 | $0.25 | 07/07/2020 | Unlisted |
| Series 8 | 665,352 | $0.00 | 26/11/2020 | Unlisted |
| Series 9 | 683,866 | $0.00 | 26/11/2020 | Unlisted |
| Series 10 | 639,019 | $0.243 | 26/11/2022 | Unlisted |
| Series 11 | 1,278,179 | $0.243 | 26/11/2022 | Unlisted |

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

## PERFORMANCE RIGHTS

At the date of this report, there are 797,500 performance rights on issue with no expiry date. Of this balance, 137,500 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 2019 and is included on pages 14 to 18.

## 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, and

(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 (**D&O 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 32 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 19 and forms part of this Directors' report for the year ended 30 June 2019.

## 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 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 September 2019.

Signed in accordance with a resolution of the Directors.

Jenny Cutri
Non-Executive Chair
Perth, 27 September 2019

## 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 2019. 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 Key Management Personnel of the Group during the financial year were:

Directors

| | | |
|---|---|---|
| Brian Miller | Chief Executive Officer and Executive Director | 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 Chairman | Appointed 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.

As part of its Corporate Governance Policies and Procedures, the Board has adopted a formal Remuneration Committee Charter. In accordance with the Company's Securities Trading Policy, employees directors and officers must not enter into transactions or arrangements which operate to limit the economic risk of their security holding in the Company without first seeking and obtaining written acknowledgement from the Chair.

The Company appointed BDO Reward (WA) Pty Ltd (**BDO**) as an independent advisor to the Board for the provision of advice on board and executive remuneration structures and EIOP.

### Remuneration Committee

The Remuneration Committee comprises of 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 Non-Executive Directors' remuneration is separate and distinct.

### Executive Director Remuneration

Remuneration consists of fixed remuneration and variable remuneration.

### Fixed remuneration

Remuneration and other terms of employment of the Executive Director is formalised in an employment contract. The major provision of an agreement related to the remuneration is set out below.

| | Total Fixed Remuneration (TFR) | Terms of agreement | Notice period |
|---|---|---|---|
| Brian Miller | $240,000 plus superannuation | Permanent | 3 months |

### Variable remuneration

During the year, the Company implemented an executive incentive scheme (**Executive Incentive Scheme**) comprising of the following components (representing variable remuneration):

- Short term incentives (STI) – cash based
- Medium term incentives (MTI) – equity based (in the form of Zero Exercise Price Options (**ZEP Options**))
- Long term incentives (LTI) – equity based (in the form of Premium Exercise Price Options (**PEP Options**))

For those eligible to participate in the Executive Incentive Scheme, total fixed remuneration (**TFR**) remains unchanged. However, TFR determines the potential size of the individual's variable remuneration made up of STI, MTI and LTIs.

The amount that may be earned under the STI and MTI components is linked to both company and individual performance metrics. These metrics are agreed with individuals at the commencement of the financial year. For FYE2019 the Company's performance metrics were determined by the Company's Remuneration Committee and are linked to operational objectives (including targets associated with revenue, profitability, working capital, and new client acquisition) and sustainability objectives (including targets associated with customer satisfaction, and revenue mix) (**KPIs**).

In accordance with the Executive Incentive Scheme, in FYE2019 Mr Miller is entitled to the following variable remuneration:

- STI: $21,888 plus superannuation (this amount is included in the Company's trade and other payables at 30 June 2019);
- MTI: 341,933 ZEP Options (unlisted options at $0 each on or before 26 November 2020, subject to vesting conditions). 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. Based on an assessment undertaken at 30 June 2019 and subject to Brian Miller meeting the employment tenure condition, the Board has determined that 155,921 of these options are likely to vest.
- LTI: 639,019 PEP Options (unlisted options at $0.243 each on or before 26 November 2022 (subject to vesting conditions). Options shall vest and become exercisable upon the employee remaining employed by the Company for a period of 3 years from date of issue of the PEP Options, that is remaining employed at 26 November 2021).

For details of share-based payments recognised in respect of options issued to the Executive Director, refer to note 22.

### Director fees

Mr Miller is also entitled to receive a fixed fee of $12,000 per annum in director fees.

## Non-Executive Director remuneration

### Fixed cash 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.

Directors receive a fixed fee and are remunerated for any professional services conducted for the Company. There are no retirement schemes for any Directors.

### Equity based remuneration

Following receipt of shareholder approval at the AGM, Non-Executive Directors Ms. Jenny Cutri, Mr. Neil Canby, and Mr. James Deacon were each issued in lieu of cash remuneration (directly or indirectly) 89,219 ZEP Options (unlisted options at $0 each on or before 26 November 2020 (subject to vesting conditions). 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.

For details of share-based payments recognised in respect of options issued to Non-Executive Directors, refer to note 22.

## Options

### Granted as Compensation

| Recipient | Options | Number Issued | Grant Date | Value per Option at Grant Date | Value of Options at grant date | Vesting and first exercise date | Expiry date |
|---|---|---|---|---|---|---|---|
| Brian Miller | ZEP Options | 341,933 | 26 November 2018 | $0.170 | $26,507 | Not Vested | 26 November 2020 |
| Brian Miller | PEP Options | 639,019 | 26 November 2018 | $0.1054 | $67,353 | Not Vested | 26 November 2022 |
| Neil Canby | ZEP Options | 89,219 | 26 November 2018 | $0.170 | $15,167 | Not Vested | 26 November 2020 |
| James Deacon | ZEP Options | 89,219 | 26 November 2018 | $0.170 | $15,167 | Not Vested | 26 November 2020 |
| Jenny Cutri | ZEP Options | 89,219 | 26 November 2018 | $0.170 | $15,167 | Not Vested | 26 November 2020 |

### Exercised

No options granted as compensation in the current and/or prior year were exercised.

## Remuneration of Key Management Personnel

| | Short-term employee benefits | | Post-employment benefits | Share-based payments | | | Equity based |
|---|---|---|---|---|---|---|---|
| | Salary and fees | Cash bonus | Superannuation | Options | Performance Rights | Total | |
| **30 June 2019** | $ | $ | $ | $ | $ | $ | % |
| Brian Miller | 252,000 | 21,888 | 24,879 | 23,747 | - | 322,514 | 8% |
| Neil Canby | 36,000 | - | - | 8,878 | - | 44,878 | 20% |
| James Deacon | 36,000 | - | - | 8,878 | - | 44,878 | 20% |
| Jenny Cutri | 36,000 | - | - | 8,878 | - | 44,878 | 20% |
| | 360,000 | 21,888 | 24,879 | 50,381 | - | 457,148 | 11% |

| | Short-term employee benefits | | Post-employment benefits | Share-based payments | | | Equity 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% |
| Neil Canby | 36,000 | - | - | - | - | 36,000 | - |
| James Deacon | 36,000 | - | - | - | - | 36,000 | - |
| Jenny Cutri[1] | 30,000 | - | - | - | - | 30,000 | - |
| Gino D'Anna[2] | 21,100 | - | - | - | 42,917 | 64,017 | 67% |
| Russell Moran[3] | 9,000 | - | - | - | 28,463 | 37,463 | 76% |
| | 384,970 | 60,000 | 28,583 | - | 293,340 | 766,893 | 47% |

[1] Appointed 15 September 2017
[2] Resigned effective 15 September 2017
[3] Resigned effective 15 September 2017

## Other information

### Ordinary shares held by Key Management Personnel

| 30 June 2019 | Opening Balance No. | Granted No. | Purchased No. | Net Change Other No. | Closing Balance No. |
|---|---|---|---|---|---|
| Brian Miller | 1,744,610 | - | 455,794 | - | 2,200,404 |
| Neil Canby | 325,000 | - | 137,500 | - | 462,500 |
| James Deacon | 94,273 | - | 26,095 | - | 120,368 |
| Jenny Cutri | 50,169 | - | 105,017 | - | 155,186 |
| | 2,214,052 | - | 724,406 | - | 2,938,458 |

### Options held by Key Management Personnel

| 30 June 2019 | Opening Balance No. | Granted No. | Purchased No. | Net Change Other No. | Closing Balance No. |
|---|---|---|---|---|---|
| Brian Miller | 63,998 | 980,952 | 221,239 | - | 1,266,189 |
| Neil Canby | 30,000 | 89,219 | 8,125 | - | 127,344 |
| James Deacon | - | 89,219 | 6,524 | - | 95,743 |
| Jenny Cutri | - | 89,219 | 26,255 | - | 115,474 |
| | 93,998 | 1,248,609 | 262,143 | - | 1,604,750 |

### Performance rights held by Key Management Personnel

| 30 June 2019 | Opening Balance No. | Granted No. | Converted to shares upon vesting No. | Cancelled No. | Closing Balance No. |
|---|---|---|---|---|---|
| Brian Miller (a) | 1,820,000 | - | - | (1,820,000) | - |
| Neil Canby | - | - | - | - | - |
| James Deacon | - | - | - | - | - |
| Jenny Cutri | - | - | - | - | - |
| | 1,820,000 | - | - | (1,820,000) | - |

(a) On 20 November 2018, a total of 1,820,000 performance rights held by Mr. Brian Miller were cancelled for nil consideration. These rights were originally granted on 4 December 2017.

### Shares issued on exercise of options

There were no shares issued on exercise of options by a Key Management Personnel during the current year.

### Loans to Key Management Personnel

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

### Other transactions with Key Management Personnel

*Loan from Director*

On 31 May 2019, K2fly RCubed Pty Ltd (**K2fly RCubed**) acquired 100% of the assets of RCubed Global Pty Ltd, XCube Holdings Pty Ltd (**XCube**) and Prodmark Pty Ltd (**Prodmark**) relating to the RCubed Resources and Reserve Reporting software pursuant to an asset sale agreement.

In February 2019, Brian Miller, a Director of the Company, entered into a short interest free loan agreement with XCube. In accordance with the loan agreement, Mr. Miller advanced XCube funding of $60,000 in February 2019 and a further $40,000 was advanced in March 2019. Funds advanced under the loan agreement were used to cover operating expenses of XCube and associated entities.

Under the terms of the loan agreement, the total amount advanced of $100,000 was repayable upon the successful acquisition by K2fly RCubed of the assets of RCubed Global Pty Ltd, XCube and Prodmark. Completion occurred on 31 May 2019 and the interest free loan was repaid in full to Mr. Miller on this date.

*Securities issued to directors or director related entities pursuant to the Rights Issue*

As detailed at note 20(a), all Directors of K2F participated in the Rights Issue. In addition to this, certain Directors sub-underwrote a total of $60,000 of the Rights Issue. There were no sub-underwriting fees charged in relation to these arrangements. The amounts sub-underwritten by Mr. Brian Miller, Ms. Jenny Cutri and Mr. James Deacon were $25,000, $30,000 and $5,000 respectively.

Other than noted above, there are no other transactions with Key Management Personnel during the year (2018: nil).

End of audited remuneration report.

HLB MANN JUDD
ADVISORY AND ACCOUNTING

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the consolidated financial report of K2Fly Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of 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**
**27 September 2019**

**D I Buckley**
**Partner**

**hlb.com.au**

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**
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**T:** +61 (0)8 9227 7500 **E:** mailbox@hlbwa.com.au

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2019

| | Notes | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| Revenue | 2(a) | 3,787,826 | 2,523,151 |
| Cost of sales | | (2,981,101) | (1,286,689) |
| **Gross profit** | | **806,725** | **1,236,462** |
| | | | |
| Other income | 2(b) | 27,205 | 22,766 |
| Administration expense | | (206,491) | (275,816) |
| Amortisation expense | 13 | (7,187) | (712,185) |
| Compliance & regulatory expense | | (138,090) | (113,140) |
| Consultancy expense | | (291,505) | (389,342) |
| Depreciation plant and equipment | 11 | (15,664) | (10,834) |
| Depreciation right of use assets | 12 | (4,076) | - |
| Directors fees | | (120,000) | (132,000) |
| Employee benefit expense | 3 | (1,447,289) | (1,725,104) |
| Impairment of intangible asset | 13 | - | (2,375,726) |
| Impairment of fixed assets | 11 | (2,798) | - |
| Impairment of exploration and evaluation expenditure | | - | (309) |
| Impairment of receivables | 2(a) | (16,400) | - |
| Occupancy expense | | (110,150) | (78,429) |
| Public relations & marketing expense | | (205,306) | (118,860) |
| Research costs | | (144,892) | (122,814) |
| Share-based payments reversal / (expense) | 22 | 38,119 | (452,310) |
| Travel expense | | (140,805) | (162,632) |
| Finance expense | 18 | (813) | - |
| Acquisition expenses | 27 | (80,228) | - |
| Loss before income tax expense | | (2,059,645) | (5,410,273) |
| Income tax benefit | 4 | 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) | 6 | (2.94) | (9.55) |

The accompanying notes form part of the financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

| | Notes | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 1,059,247 | 774,158 |
| Trade and other receivables | 8 | 874,846 | 654,771 |
| Contract asset | 9 | 68,750 | 22,457 |
| **Total current assets** | | **2,002,843** | **1,451,386** |
| | | | |
| **Non-current assets** | | | |
| Restricted cash | 10 | 15,000 | 54,145 |
| Plant and equipment | 11 | 41,080 | 25,032 |
| Right of use assets | 12 | 178,749 | - |
| Intangible assets | 13 | 424,013 | - |
| Goodwill | 14 | 731,543 | 731,543 |
| Other financial assets | 15 | 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 | 16 | 912,046 | 843,092 |
| Provisions | 17 | 145,781 | 113,630 |
| Interest bearing lease liabilities | 18 | 65,935 | - |
| Contract liabilities | 19 | 436,876 | 18,379 |
| **Total current liabilities** | | **1,560,638** | **975,101** |
| | | | |
| **Non-current liabilities** | | | |
| Provisions | 17 | 34,750 | 29,333 |
| Interest bearing lease liabilities | 18 | 113,389 | - |
| **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 | 20 | 15,661,041 | 13,136,705 |
| Reserves | 21 | 583,697 | 657,846 |
| Accumulated losses | | (14,559,443) | (12,536,035) |
| **Total equity** | | **1,685,295** | **1,258,516** |

The accompanying notes form part of the financial statements

# 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** |

The accompanying notes form part of the financial statements

## 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 2018** | **13,136,705** | **372,900** | **284,826** | **-** | **120** | **(12,536,035)** | **1,258,516** |
| Adjustment on initial application of AASB 15 (see note 1(c)) | - | - | - | - | - | (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** |

The accompanying notes form part of the financial statements

# CONSOLIDATED STATEMENT OF CASHFLOWS

## 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** | 7 | **(1,722,942)** | **(1,525,157)** |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for plant and equipment | 11 | (15,720) | (22,380) |
| Payments for exploration and evaluation expenditure | | 27,457 | (309) |
| Investment in subsidiaries (K2fly RCubed) | 27 | (450,000) | - |
| Investment in subsidiaries (Infoscope) | 34 | - | (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 | 34 | - | (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 | 7 | 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** | 7 | **1,059,247** | **774,158** |

The accompanying notes form part of the financial statements

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of preparation and statement of compliance**

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 report was authorised for issue on 27 September 2019.

The financial statements are for the Group consisting of K2fly Limited **(Company, K2fly** or **K2F**) and its subsidiaries (**Group**). 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 consolidated financial statements of the Group also comply with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

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. The Company also has a subsidiary which operates in South Africa.

**(b) Going concern**

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Notwithstanding the fact that the Company incurred an operating loss for the period ended 30 June 2019 of $1,938,528 (30 June 2018: $5,410,273 loss), had cash and cash equivalents of $1,059,247 at 30 June 2019 (30 June 2018: $774,158), had a net working capital surplus of $442,205 (30 June 2018: $476,285) and a net cash outflow from operating activities amounting to $1,722,942 (30 June 2018: $1,525,157), the Directors are of the opinion that the Company is a going concern for the reasons outlined below.

The Group's ability to continue as a going concern and to continue to fund its planned activities and operations is dependent on generating additional revenues from its operations and/or reducing operational costs, and if necessary raising further capital. The Company announced on 18 September 2019 that it had raised $1M (before costs) in a placement to sophisticated and professional investors. Based on the management budget and our ongoing monitoring of our revenue, costs and cash position, at this stage the Company has no further immediate plans to raise further cash to fund its current operations.

The Directors believe the Group will continue as a going concern, after consideration of the following factors:

- regular review of management accounts and cash flow forecast, incorporating expected cash inflows from sales invoice and collection of trade receivables;
- close management of both its operating costs and corporate overheads;
- sales pipeline continues to grow and K2F is confident of achieving further sales growth across a number of clients and different product offerings;
- existing contracts are expected to deliver materially significant revenue in the upcoming financial year from both consulting activities and in software sales;
- current assets less current liabilities at 30 June 2019 are $442,205;
- the Company has signed a debt factoring facility in the case need ever arises;
- the Company has a number of options on issue (listed and unlisted). If the options are exercised this will result in a significant capital injection into the Company; and
- the Company has the ability to raise funds through equity issues.

**(c) New standards, interpretations and amendments adopted by the Group**

In the year ended 30 June 2019, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the year end reporting period beginning on or after 1 July 2018.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Company and therefore no material change is necessary to Group accounting policies, other than the following:

***AASB 15 Revenue from Contracts with Customers***

AASB 15 replaces AASB 118 *Revenue* and AASB 111 *Construction Contracts* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

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.

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, including in respect of multiple element arrangements. The core principle of AASB 15 is that it requires identification of distinct 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 or 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.

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. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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 nature and effect of these changes are disclosed below:

| **Impact on profit / (loss) for the year** | **30 June 2019** |
|---|---|
| | **$** |
| Revenue | (277,246) |
| Cost of sales | - |
| Profit for the year | (277,246) |

| **Impact on assets, liabilities and equity at 1 July 2018** | **As previously reported under AASB 118** | **AASB 15 Adjustment** | **As adjusted 1 July 2018** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Contract asset | - | 68,750 | 68,750 |
| Contract liability | (18,379) | (253,630) | (272,009) |
| Revenue | - | (100,000) | (100,000) |
| Accumulated losses | (12,536,035) | (84,880) | (12,620,915) |

| Impact on assets, liabilities and equity at 30 June 2019 | As previously reported under AASB 118 | AASB 15 Adjustment | As adjusted 30 June 2019 |
|---|---|---|---|
| | $ | $ | $ |
| Contract asset | - | 68,750 | 68,750 |
| Contract liability | (6,000) | (430,876) | (436,876) |
| Revenue | 4,065,072 | (277,246) | 3,787,826 |
| Accumulated losses | (14,474,563) | (84,880) | (14,559,443) |

***AASB 16 Leases***

The Group has early adopted AASB 16 Leases with a date of initial application of 1 July 2018. As a result, the Group's policies were amended to comply with AASB 16 as issued in these financial statements. AASB 16 replaces AASB 117 Leases and results in almost all leases being recognised in the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The lease liability is measured at the present value of the lease payments that are not paid at the balance date and is unwound over time using the interest rate implicit in the lease repayments. The right-of-use asset comprises the initial lease liability amount, initial direct costs incurred when entering into the lease less any lease incentives received. The asset is depreciated over the term of the lease. The new standard replaces the Group's operating lease expense with an interest and depreciation expense. The weighted average incremental borrowing rate at the date of initial application was 8%. This has been applied to the liabilities recognised at transition date.

The Group has elected to apply the modified retrospective approach when transitioning to the new standard. Under this approach, the Group will not be required to restate the comparative information for its operating leases. The Group has elected to measure the carrying amounts of the right of use assets as though the standard had applied from the commencement date of the leases. The opening balance adjustment to retained earnings was nil due to the short term nature of the Group's leases at 1 July 2018. The Group leases office premises in Perth and South Africa. As outlined above, no restatement of the prior period has occurred. The overall earnings impact on adoption of AASB 16 at 30 June 2019 is increase in depreciation and amortisation of $4,076 and finance expense of $813. At initial application date there was no intention to renew the existing office lease, which was set to expire in June 2019 therefore the opening lease was treated as a short term lease under practical expedient AASB 16.C10.

**(d) New accounting standards and interpretations 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 2019. The potential effect of these Standards is yet to be fully determined.

| Reference | Title | Summary | Application date of standard | Application date for K2F |
|---|---|---|---|---|
| AASB Interpretation 23, and relevant amending standards | Uncertainty over Income Tax Treatments | The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:<br>• Whether an entity considers uncertain tax treatments separately<br>• The assumptions an entity makes about the examination of tax treatments by taxation authorities<br>• How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates | 1 January 2019 | 1 July 2019 |

| **Reference** | **Title** | **Summary** | **Application date of standard** | **Application date for K2F** |
|---|---|---|---|---|
| | | • How an entity considers changes in facts and circumstances. | | |
| AASB 2018-1 | Australian Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle | The amendments clarify certain requirements in:<br>• AASB 3 Business Combinations and AASB 11 Joint Arrangements - previously held interest in a joint operation<br>• AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity<br>• AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation. | 1 January 2019 | 1 July 2019 |
| Not yet issued by the AASB | Conceptual Framework for Financial Reporting and relevant amending standards | The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:<br>• Chapter 1 – The objective of financial reporting<br>• Chapter 2 – Qualitative characteristics of useful financial information<br>• Chapter 3 – Financial statements and the reporting entity<br>• Chapter 4 – The elements of financial statements<br>• Chapter 5 – Recognition and derecognition<br>• Chapter 6 – Measurement<br>• Chapter 7 – Presentation and disclosure<br>• Chapter 8 – Concepts of capital and capital maintenance<br><br>*Amendments to References to the Conceptual Framework in IFRS Standards* has also been issued, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying IFRS 3 and developing accounting policies for regulatory account balances using IAS 8, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the 2010 Conceptual Framework, and not the definitions in the revised Conceptual Framework. | 1 January 2020 | 1 July 2020 |
| AASB 2018-7 | Definition of Material (Amendments to AASB 101 and AASB 108) | This Standard amends AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. | 1 January 2020 | 1 July 2020 |

**(e) 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 notes 13 and 14.

*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 22.

*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).

**(f) 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 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.

**(g) Revenue**

**Applicable to 30 June 2019**

Revenue is recognised when the significant control of products has been transferred to the customer, recovery of the consideration is probable and the associated costs can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

The Group generates its revenue from owned software, third-party software, and consulting and implementation services. Revenue is recognised based on the principles set out in AASB 15. K2fly has utilised the practical expedient under AASB 15 paragraph 121(a) relating to contracts with an expected duration of 12 months or less, which applies to all of the Company's contracts with customers.

Revenue is recognised upon satisfaction of performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks or rewards.

Revenue is recognised either when the performance obligation in the contract has been performed (so "point in time" recognition) or "over time" as control of the performance obligation is transferred to the customer as determined in reference to the underlying contracts.

For all contracts the Group determines if the arrangement with a customer creates enforceable rights and obligations. The Group enters into contracts which contain extension periods, where the customer can choose to extend the contract or there is an automatic renewal, and/or termination clauses that could impact the actual duration of the contract. Judgement is applied to assess the impact that these clauses have when determining the appropriate contract term. The term of the contract impacts both the period over which revenue from performance obligations may be recognised.

For contracts that include software and services to be delivered management applies judgement to consider whether those promised services are (i) distinct – to be accounted for as separate performance obligations; (ii) not distinct – to be combined with other promised services until a bundle is identified that is distinct; or (iii) part of a series of distinct services that are substantially the same and have the same pattern of transfer to the customer.

At contract inception the total transaction price is estimated, being the amount to which the Group expects to be entitled and has rights to under the present contract. The transaction price does not include estimates of consideration resulting from change orders for additional services unless these are agreed. Once the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative standalone selling prices and recognises revenue when (or as) those performance obligations are satisfied.

**Licenses**

Software licenses delivered by the Group can either be right to access ('active') or right to use ('passive') licenses. Active licenses require continuous upgrade and updates for the software to remain useful, all other license are treated as passive licenses. The assessment of whether a license is active or passive involves judgement. The key determinant of whether a licence is active is whether the Group is required to undertake activities that significantly affect the licensed intellectual property (or the customer has a reasonable expectation that it will do so) and the customer is, therefore, exposed to positive or negative impacts resulting from those changes.

When software upgrades are sold as part of the software license agreement (i.e. software upgrades are promised to the customer), the Group applies judgement to assess whether the software upgrade is distinct from the licence (i.e. a separate performance obligation). If the upgrade is considered fundamental to the ongoing use of the software by the customer, the upgrades are not considered distinct and not accounted for as a separate performance obligation.

The Group considers for each contract that includes a separate licence performance obligation all the facts and circumstances in determining whether the licence revenue is recognised over time or at a point in time from the go live date of the licence.

**Owned Software Provided as a Service**

The Group provides its Owned Software to customers as a service either on the customer's infrastructure or cloud hosted infrastructure sourced by the Group. The Group considers these licenses to be 'Active' licences as the customer has an expectation that the software will be continuously maintained so it remains functional. Much of this maintenance can be related to the infrastructure that the software operates on and is not specifically related to the software itself. Management judgement is that the performance obligation on these contracts occurs over time. Revenue is recognised over time, typically reflecting the annual payment nature of these contracts.

**Owned Software provided via a Perpetual Licence**

The Group provides its Owned Software to customers on a perpetual licence along with an annual support and maintenance arrangement. Management judgement is that the perpetual licence component of these contracts is a point in time performance obligation.

The customer has an expectation that the annual support and maintenance arrangement will lead to the software being continuously maintained so it remains functional. Much of this maintenance can be related to the infrastructure that the software operates on and is not specifically related to the software itself. Management judgement is that the annual support and maintenance arrangement is an over time performance obligation.

**Third-party Software Provided as a Service**

If in future, the Group provides third-party software to customers as a service either on the Customer's infrastructure or cloud hosted infrastructure typically provided by the third-party the Company may account for revenue as follows: the Group will consider if its role in any  contracts is as principal (as opposed to an agent), and will also consider if the Group is engaged to perform the implementation services of any third-party software licenses.

The Group may consider that these licenses are 'active' licences as the customer has an expectation that the software will be continuously maintained so it remains functional. Much of this maintenance can be related to the infrastructure that the software operates on and is generally not specifically related to the software itself. Management judgement will consider if the performance obligation on these contracts occurs over time. Revenue may then be recognised over time, typically reflecting the annual payment nature of these type of contracts.

**Third-party Software Provided via a Perpetual Licence**

The Group provides third-party software to customers on a perpetual licence along with an annual support and maintenance arrangement. The Group considers its role in these contracts is as principal (as opposed to an agent), as the Group is engaged to perform the implementation services of these third-party software licences.

Management judgement is that the perpetual licence component of these contracts is a point in time performance obligation. The customer has an expectation that the annual support and maintenance arrangement will lead to the software being continuously maintained so it remains functional. Much of this maintenance can be related to the infrastructure that the software operates on and is not specifically related to the software itself. Management judgement is that the annual support and maintenance arrangement is an over time performance obligation.

**Consulting and Implementation Services Provided on a Time and Materials Basis**

The Group provides a range of services to customers on a 'time and materials' basis where the customer pays for the actual time spent by the Group's consultants delivering the service based on an hourly or daily rate.

The Group considers these services to be transactional services for which revenue is recognised over time when control of the services has transferred to the customer over time.

**Consulting and Implementation Services Provided on a Fixed Price Basis**

The Group provides some services on a fixed price for a fixed scope of work basis.  The contract duration for these services is typically less than one year. Each contract is broken down in to a set of performance obligations, with revenues and costs recognised on the achievement of each of the performance obligations.

**Contract Assets and Contract Liabilities**

The Group's customer contracts include a diverse range of payment schedules dependent on the nature and type of services being provided.  The timing of invoicing of sales may differ to when revenue is recognised under this accounting policy.  Where sales invoices raised are greater than the revenue recognised at the period end date, the Group recognises a deferred income contract liability for this difference. Where sales have not been invoiced in advance of the revenue being recognised at the period end date, the Group recognises an accrued income contract asset for this difference.

**Government Grants**
Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

**Interest income**

Interest revenue is recognised using the effective interest rate method.

**Applicable to 30 June 2018**

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.

***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.

**(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.

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:

- 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.

*Research and Development*
The Group undertakes expenditure on activities that are categorised as “eligible expenditure” under the Research and Development Tax Incentive which, dependent upon certain criteria, may be subject to a tax offset. Where a tax offset has been received or is receivable in cash, the Group accounts for the tax offset as follows:

- Where a grant is received or receivable in relation to research and development costs which have been capitalised, the tax offset is deducted from the carrying amount of the assets; or
- Where a grant is received or receivable in relation to research and development costs which have been charged to profit or loss during this or a prior financial year, the tax offset shall be credited to the Statement of Comprehensive Income.

**(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/loss per share is calculated as net profit/loss 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/loss per share is calculated as net profit/loss 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

*Initial recognition*
Receivables are initially recognised and measured at fair value. Receivables that are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest are classified and subsequently measured at amortised cost. Receivables that do not meet the criteria for amortised cost are measured at fair value through profit or loss.

*Subsequent measurement*
Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

*Impairment*
The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The expected credit losses on financial assets are estimated based on the Group's historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast conditions at the reporting date.

In relation to all other receivables measured at amortised cost, the Group applies the credit loss model. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, the Group measures the loss allowance at an amount equal to lifetime expected credit loss ("ECL") if the credit risk on the instrument has increased significantly since initial recognition. On the other hand, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

The Group considers an event of default has occurred when external sources indicate that the debtor is unlikely to pay its creditors, including the Group. A financial asset is credit impaired when there is evidence that the counterparty is in significant financial difficulty or a breach of contract, such as a default or past due event has occurred. The Group writes off a financial asset when there is information indicating the counterparty is in severe financial difficulty and there is no realistic prospect of recovering the contractual cash flow.

### (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 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 |

*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:

- 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) Leases**

**Applicable to 30 June 2019**

**Right of use asset**

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

**Lease Liabilities**

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group recognised the lease payments as an expense on a straight line basis over the lease term.

The Group has elected not to recognise right of use assets and lease liabilities for short term leases and low value assets.

**Applicable to 30 June 2018**

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.

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.

**(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.

**(s) Foreign currency translation**

*Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is K2fly Limited's functional and presentation currency.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

*Foreign operations*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

**(t) 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 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 with market vesting conditions 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 6.

**(u) 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.

**(v) 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 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.

**(w) 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.

**NOTE 2: REVENUE AND OTHER INCOME**

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 (see note 5).

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **(a) Revenue** | | |
| **At a point in time** | | |
| Consulting and implementation revenue (provided on a fixed price basis) | 92,936 | - |
| Sales of third-party software (provided via a perpetual license) | 14,729 | 150,000 |
| | 107,665 | 150,000 |
| **Over time** | | |
| Consulting and implementation revenue (provided on a time and material basis) | 3,296,858 | 1,875,955 |
| Hosting services revenue | 23,750 | 24,250 |
| Sales of own software (provided as a service) | 359,553 | 472,946 |
| | 3,680,161 | 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 9 (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 19 (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.

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **(b) Other income** | | |
| Interest income | 205 | 309 |
| Government grants received | 22,000 | - |
| Refund of rent from DMIRS | - | 22,457 |
| Other | 5,000 | - |
| | 27,205 | 22,766 |

## NOTE 3: EMPLOYEE BENEFIT EXPENSE

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Wages and salaries | 992,938 | 1,392,247 |
| Superannuation | 101,169 | 135,506 |
| Redundancies | 118,880 | - |
| Payroll tax | 110,112 | 78,800 |
| Fringe benefits tax | 15,143 | 9,155 |
| Training | 10,731 | - |
| Provision | 57,009 | 70,948 |
| Other | - | (6,563) |
| Recruitment and relocation costs | 41,307 | 45,011 |
| | 1,447,289 | 1,725,104 |

## NOTE 4: INCOME TAX EXPENSE

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Income tax expense** | | |
| The major components of tax expense are: | | |
| Current tax expense / (income) | - | - |
| Deferred tax expense | - | - |
| | - | - |

**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:

| | 2019 | 2018 |
|---|---|---|
| Accounting loss before tax | (2,059,645) | (5,410,273) |
| Income tax benefit calculated at 2019 27.5% (2018: 27.5%) | (566,402) | (1,487,825) |
| Non-deductible expenses | (3,268) | 128,927 |
| R&D refundable rebate | 121,117 | - |
| Unused tax losses and tax utilised as deferred tax assets | 653,733 | 563,883 |
| Other deferred tax assets and tax liabilities not recognised | (84,063) | 795,015 |
| Income tax expense | 121,117 | - |

**Unrecognised deferred tax balances**

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

| | 2019 | 2018 |
|---|---|---|
| *Deferred tax assets comprise:* | | |
| Losses available for offset against future taxable income | 1,508,206 | 885,593 |
| Impairment of investments | - | - |
| Depreciation timing differences | 1,474,175 | 1,507,551 |
| Share issue and business costs | 6,816 | 85,994 |
| Accrued expenses and liabilities | - | 35,730 |
| Employee entitlement | 26,892 | 39,315 |
| Superannuation payable | 13,863 | 12,300 |
| Deferred gains and losses on foreign exchange contracts | 2,283 | 24 |
| Investments | 1,283 | 4,385 |
| Deferred taxes not recognised | (3,033,518) | (2,570,892) |
| | - | - |

| | 2019 $ | 2018 $ |
|---|---|---|
| *Deferred tax liabilities comprise:* | | |
| Prepayments | - | - |
| | - | - |
| *Recognised in equity:* | | |
| Share issue costs | 51,895 | 75,772 |
| | 51,895 | 75,772 |

The Group has tax losses arising in Australia of $5,436,126 (2018: $3,220,338) 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 5: 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.

During 2019, the Groups revenues depended on several main customers as follows:

- $1,543,325 or 41% (2018: $592,518 or 23%)
- $864,481 or 23% (2018: $nil or 0%)
- $615,883 or 16% (2018: $579,531 or 23%)

**NOTE 6: LOSS PER SHARE**

| | 2019 | 2018 |
|---|---|---|
| Basic loss per share (cents per shares) | (2.94) | (9.55) |
| **Loss** | | |
| Loss used in the calculation of basic loss per share ($) | (1,938,528) | (5,410,273) |
| **Weighted average number of shares** | | |
| Weighted average number of ordinary shares (number of shares) | 65,968,473 | 56,653,267 |

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

**NOTE 7: CASH AND CASH EQUIVALENTS**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Cash at bank and on hand | 1,059,247 | 774,158 |
| | 1,059,247 | 774,158 |

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.

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:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Cash and cash equivalents | 1,059,247 | 774,158 |

**Reconciliation of profit for the year to net cash flows from operating activities**

| | 2019 | 2018 |
|---|---|---|
| Net loss for the year | (1,938,528) | (5,410,273) |
| *Non-cash items and other adjustments:* | | |
| Amortisation | 7,187 | 712,185 |
| Depreciation plant and equipment | 15,664 | 10,834 |
| Depreciation leased assets | 4,076 | - |
| Impairment – fixed assets | 2,798 | - |
| Impairment – intangible assets | - | 2,375,726 |
| Share-based payments | (38,119) | 452,310 |
| Employment provisions | 37,512 | 41,951 |
| Impairment of receivables | 16,400 | - |
| Acquisition expenses (investing activity) (note 27) | 80,228 | - |
| *Movements in working capital:* | | |
| Increase in trade and other receivables | (220,075) | (316,931) |
| Increase in other assets | - | (2,480) |
| Increase/(decrease) in restricted cash | (39,145) | 54,145 |
| Increase in provisions | (37,567) | - |
| Increase in contract assets | (46,293) | - |
| Increase in contract liabilities | 416,247 | - |
| Increase in trade and other payables | 16,673 | 557,376 |
| Net cash used in operating activities | (1,722,942) | (1,525,157) |

**Changes in liabilities arising from financing activities**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Opening balance | - | - |
| Acquisition of plant and equipment by means of finance leases | 182,825 | - |
| Interest expense | 813 | - |
| Repayments of principal | (4,314) | - |
| iScape loan assumed by K2fly (refer note 34) | - | 150,247 |
| Repayment of iScape loan (refer note 34) | - | (150,247) |
| Closing balance | 179,324 | - |

## NOTE 8: TRADE AND OTHER RECEIVABLES

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Trade receivables | 823,347 | 628,304 |
| Other | 44,233 | 20,467 |
| Deposits | 7,266 | 6,000 |
| | 874,846 | 654,771 |

**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 to 60 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**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| 30 – 60 Days | 642,452 | 545,264 |
| 60 – 90 Days | - | 66,000 |
| 90 – 120 Days | 110,000 | 17,040 |
| 120+ days (a) | 70,895 | - |
| Total | 823,347 | 628,304 |

(a) The debtor balances included under 120+ days is expected to be recovered based on external sources, no provision for impairment has been included.

## NOTE 9: CONTRACT ASSET

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Contract assets (a) | 68,750 | - |
| Accrued income | - | 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.

**NOTE 10: RESTRICTED CASH**

| | 2019 $ | 2018 $ |
|---|---|---|
| Bank guarantees | 15,000 | 54,145 |

**NOTE 11: PLANT AND EQUIPMENT**

| | Electronic Equipment $ | Leasehold improvements $ | Office equipment $ | Total $ |
|---|---|---|---|---|
| Cost | 48,845 | 2,939 | 10,799 | 62,583 |
| Accumulated depreciation | (15,919) | (2,308) | (3,276) | (21,503) |
| | 32,926 | 631 | 7,523 | 41,080 |
| **Reconciliation** | | | | |
| Opening balance | 20,937 | 1,610 | 2,485 | 25,032 |
| Additions | 15,115 | - | 605 | 15,720 |
| Depreciation | (13,243) | (979) | (1,442) | (15,664) |
| Acquired (refer note 27) | 12,050 | - | 6,750 | 18,800 |
| Loss on disposal of asset | (1,855) | - | (943) | (2,798) |
| Foreign exchange | (78) | - | 68 | (10) |
| Closing balance | 32,926 | 631 | 7,523 | 41,080 |

**NOTE 12: 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.

**NOTE 13: 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 | - |

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| *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, 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 based on an independent valuation at 31 May 2019 (refer note 27). 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 cash generating unit (**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 continued to evolve. The revenue streams of the business included:

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

As part of its strategic plan with regards to owned software, the Directors 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 was no longer appropriate. Rather, the Board have identified a more narrowly defined CGU to 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.

**NOTE 14: GOODWILL**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Goodwill (a) | 731,543 | 731,543 |

(a) Goodwill acquired in relation to Infoscope Acquisition (refer note 34). During the year ended 30 June 2019, management has 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%; and
- increase of 46% in allocated overhead costs.

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

**NOTE 15: OTHER FINANCIAL ASSETS**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Shares in listed entity – at fair value | 844 | 844 |

**NOTE 16: TRADE AND OTHER PAYABLES**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **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 |

**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 17: PROVISIONS**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Current** | | |
| Employee leave provisions | 145,781 | 113,630 |
| | 145,781 | 113,630 |
| **Non Current** | | |
| Employee leave provisions | 34,750 | 29,333 |
| | 34,750 | 29,333 |
| Total Current and Non-Current | 180,531 | 142,963 |

**NOTE 18: INTEREST BEARING LEASE LIABILITIES**

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

**NOTE 19: CONTRACT LIABILITIES**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Deferred revenue (a) | 436,876 | 18,379 |

| *Movements:* | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Opening balance | 18,379 | - |
| Deferred during the year | 436,876 | 18,379 |
| Released to the statement of profit or loss | (18,379) | - |
| Closing balance | 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. A break-down of the revenue line items (as reported at note 2) to which these contracts liabilities will be recognised in the next financial year is as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Consulting revenue (at a point in time) | 24,000 | - |
| Consulting revenue (over time) | 9,000 | 12,629 |
| Hosting services revenue | 7,000 | 5,750 |
| Sales of own software (software as a service) | 396,876 | - |
| | 436,876 | 18,379 |

**NOTE 20: ISSUED CAPITAL**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| 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 22).

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 22).

(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.

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 21: 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. Refer to note 22 for further details of these plans.

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Performance rights reserve (a) | 199,100 | 372,900 |
| Option reserve (b) | 385,507 | 284,826 |
| FCTR reserve | (1,030) | - |
| Asset revaluation 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 |

## NOTE 22: SHARE-BASED PAYMENTS EXPENSE

Total costs arising from share-based payment transactions recognised as an expense during the year were as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| 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 the Investor Marketing Mandate. Further, on 13 May 2019, a total of 116,460 shares were issued. Refer note 20(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 |

The PEP Options shall vest and become exercisable upon the employee remaining employed by the Company for a period of 3 years from date of issue of the PEP Options, that is remaining employed at 26 November 2021.

*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[1] |

[1] Being the amount reflected in the performance rights reserve as at 30 June 2019.

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.

**NOTE 23: 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).

**NOTE 24: 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).

**NOTE 25: 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.

| | Country of Incorporation | 2019 Percentage owned | 2018 Percentage owned |
|---|---|---|---|
| **Controlled entities** | | | |
| Power Minerals Pty Ltd | Australia | 100% | 100% |
| Infoscope Pty Ltd | Australia | 100% | 100% |
| K2fly RCubed Pty Ltd | Australia | 100% | - |
| K2fly South Africa Pty Ltd | South Africa | 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.

**New controlled entities**
K2fly Limited incorporated K2fly RCubed Pty Ltd and K2fly South Africa Pty Ltd during the year.

**NOTE 26: PARENT ENTITY DISCLOSURES**

| | 2019 $ | 2018 $ |
|---|---|---|
| **Statement of financial position** | | |
| **Assets** | | |
| Current assets | 998,005 | 680,859 |
| Non-current assets | 1,639,771 | 1,304,295 |
| Total assets | 2,637,776 | 1,985,154 |
| | | |
| **Liabilities** | | |
| Current liabilities | 920,863 | 726,638 |
| Non-current liabilities | 31,618 | - |
| Total liabilities | 952,482 | 726,638 |
| | | |
| **Equity** | | |
| Issued capital | 15,661,058 | 13,136,723 |
| Share-based payment reserve | 584,606 | 657,725 |
| Accumulated losses | (14,560,369) | (12,535,932) |
| Total equity | 1,685,295 | 1,258,516 |
| | | |
| **Statement of comprehensive income** | | |
| Loss for the year | (2,024,437) | (5,409,428) |
| Other comprehensive income | - | - |
| Total comprehensive loss | (2,024,437) | (5,409,428) |

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

**Contingent liabilities of the parent entity**

Contingent liabilities of the parent entity are the same as those of the Group at 30 June 2019, as detailed at note 29.

**Commitments**

Commitments of the parent entity are the same as those of the Group at 30 June 2019, as detailed at note 28.

**NOTE 27: BUSINESS COMBINATION**

On 31 May 2019, K2fly RCubed Pty Ltd (**K2F RCubed**), a wholly owned subsidiary of the Company, acquired 100% of the assets of RCubed Global Pty Ltd (**RCubed Global**) XCube Holdings Pty Ltd (**XCube**) and Prodmark Pty Ltd (**Prodmark**) 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 and K2F RCubed.

Details of the business combination are as follows:

| | $ |
|---|---|
| **Consideration** | |
| Cash (a) | 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** |

(a) Consideration payment of $450,000 includes the short term loan repayment of $100,000 to Mr Brian Miller (refer note 31).

*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. Refer note 29 for details.

*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 13).

*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 acquired assets 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.

**NOTE 28: COMMITMENTS**

| | 2019 $ | 2018 $ |
|---|---|---|
| Commitments in respect to leases on premises: | | |
| Within one year | - | 21,239 |
| Between one and five years | - | - |
| Longer than five years | - | - |
| | - | 21,239 |

**NOTE 29: CONTINGENT LIABILITIES**

On 31 May 2019 K2F RCubed, a wholly owned subsidiary of the Company, acquired 100% of the assets of RCubed Global, XCube and Prodmark relating to the RCubed Resources and Reserve Reporting software pursuant to an asset sale agreement (**Agreement**).

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, the following incentive payments are payable:

- Milestone Payment A - K2F RCubed has generated not less than AUD$500k of new net recurring annual licence revenue from the RCubed business product from existing and new customers (New Net Revenue) over the 12 month period commencing from the date of completion (31 May 2019);

- Milestone Payment B - K2F RCubed has generated not less than AUD$500k of New Net Revenue in the 12 month period from the end of the Milestone A payment period;

- Milestone Payment C - K2F RCubed has achieved up to AUD$500k of New Net Revenue in the 12 month period from the end of the Milestone B payment period.

The incentive milestone payments are payable in two instalments. The first 50% is payable upon fulfillment of the performance milestone set out above, and the second 50% payable 6 months after the date of fulfillment of the relevant performance milestones.

In late August 2019, the Company announced that Chris Jones, one of the original founders of Specsoft - what has since become known as RCubed and acquired by K2fly, had recently passed away. As detailed above, it was a term of the acquisition agreement for RCubed that certain key executives be with K2fly for a period of time for incentives payments to be payable. If necessary, K2fly will provide an update to the market on this in due course.

**NOTE 30: 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 2018. 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**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Cash | 1,059,247 | 774,158 |
| Trade and other receivables | 874,846 | 654,771 |
| Available-for-sale-financial assets | 844 | 844 |
| Trade and other payables | 912,046 | 843,092 |
| Interest bearing liabilities | 179,324 | - |

**Financial risk management objectives**

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

- Market risk
- Credit risk
- Liquidity risk
- Foreign exchange risk
- Equity price 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.

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 equity investments. 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 trade creditors. For the parent entity it also arises from receivables due from subsidiaries. The Group has adopted the policy of only dealing with credit worthy counterparties where appropriate, as a means of mitigating the risk of financial loss from defaults.

*Foreign Exchange Risk*

Foreign exchange risk arises from future commercial transaction and recognised assets and liability denominated in a currency that is not the Entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however it monitors its foreign currency expenditure in light of exchange rate movements. The international operations are at the start-up stage and there is limited exposure at the reporting date to assets and liabilities denominated in foreign currencies.

*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.

The following tables detail the Groups expected contractual maturity for its non-derivative financial liabilities as at 30 June 2019:

| | **Current** | **Non-Current** | |
|---|---|---|---|
| | **0-1 years** | **1-5 years** | **5+ years** |
| | **$** | **$** | **$** |
| Trade and other payables | 912,046 | - | - |
| Interest bearing liabilities (including interest payments) | 77,014 | 120,219 | - |

The following tables detail the Groups expected contractual maturity for its non-derivative financial liabilities as at 30 June 2018:

| | **Current** | **Non-Current** | |
|---|---|---|---|
| | **0-1 years** | **1-5 years** | **5+ years** |
| | **$** | **$** | **$** |
| Trade and other payables | 843,092 | - | - |
| Interest bearing liabilities | - | - | - |

**Fair value measurement**

Set out below is an overview of financial instrument, other than cash and short-term deposits, held by the Group as at 30 June 2019:

| | **At amortised cost** | **Fair value through profit or loss** | **Fair value through other comprehensive income** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Financial Assets | | | |
| Trade and other receivables | 874,846 | - | - |
| Other Financial assets | - | - | 844 |
| Total Assets | 874,846 | - | 844 |
| | | | |
| Financial Liabilities | | | |
| Trade and other payables | 912,046 | - | - |
| Interest bearing liabilities | 179,324 | - | - |
| | 1,091,370 | - | - |

Set out below is a comparison on the carrying amount and fair values of financial instruments as at 30 June 2019:

| | Carrying Value $ | Fair Value $ |
|---|---|---|
| Financial Assets | | |
| Trade and other receivables | 874,846 | 874,846 |
| Other Financial assets | 844 | 844 |
| Total Assets | 875,690 | 875,690 |
| | | |
| Financial Liabilities | | |
| Trade and other payables | 912,046 | 912,046 |
| Interest bearing liabilities | 179,324 | 179,324 |
| Total Liabilities | 1,091,370 | 1,091,370 |

**Fair value measurement**

Set out below is an overview of financial instrument, other than cash and short-term deposits, held by the Group as at 30 June 2018:

| | At amortised cost $ | Fair value through profit or loss $ | Fair value through other comprehensive income $ |
|---|---|---|---|
| Financial Assets | | | |
| Trade and other receivables | 654,771 | - | - |
| Other Financial assets | - | - | 844 |
| Total Assets | 654,771 | - | 844 |
| | | | |
| Financial Liabilities | | | |
| Trade and other payables | 843,092 | - | - |
| Interest bearing liabilities | - | - | - |
| | 843,092 | - | - |

Set out below is a comparison on the carrying amount and fair values of financial instruments as at 30 June 2018:

| | Carrying Value $ | Fair Value $ |
|---|---|---|
| Financial Assets | | |
| Trade and other receivables | 654,771 | 654,771 |
| Other Financial assets | 844 | 844 |
| Total Assets | 655,615 | 655,615 |
| | | |
| Financial Liabilities | | |
| Trade and other payables | 843,092 | 843,092 |
| Total Liabilities | 843,092 | 843,092 |

**NOTE 31: RELATED PARTY DISCLOSURES**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Short-term employee benefits | 381,888 | 444,970 |
| Post-employment employee benefits | 24,879 | 28,583 |
| Share-based payment | 50,381 | 293,340 |
| | 457,148 | 766,893 |

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Payables (excluding GST):** | | |
| Brian Miller | 9,017 | 68,700 |
| Neil Canby | 6,000 | 3,000 |
| James Deacon | 12,000 | 6,000 |
| Jenny Cutri | 6,000 | 3,000 |

**Other transactions with Key Management Personnel**

*Loan from Director*

On 31 May 2019, K2F RCubed acquired 100% of the assets of RCubed Global, XCube and Prodmark relating to the RCubed Resources and Reserve Reporting software pursuant to an asset sale agreement.

In February 2019, Brian Miller, a Director of the Company, entered into a short interest free loan agreement with XCube. In accordance with the loan agreement, Mr Miller advanced XCube funding of $60,000 in February 2019 and a further $40,000 was advanced in March 2019. Funds advanced under the loan agreement were used to cover operating expenses.

Under the terms of the loan agreement, the total amount advanced of $100,000 was repayable upon the successful acquisition of the assets of RCubed Global, XCube and Prodmark by K2F RCubed. Completion occurred on 31 May 2019 and the loan was repaid in full to Mr Miller on this date.

**NOTE 32: AUDITOR'S REMUNERATION**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Audit or review of financial statements | 41,480 | 40,000 |
| Taxation compliance | 22,075 | 14,800 |
| | 63,555 | 54,800 |

**NOTE 33: SIGNIFICANT EVENTS AFTER BALANCE DATE**

On 15 August 2019, the Company announced that Glencore Canada Corporation (a subsidiary of Glencore plc) had signed an agreement to implement its RCubed Resources Governance Software. The software contract and implementation costs are worth more than AU$250,000 in the first year and is renewable annually.

On 2 September 2019, the Company announced that Newcrest Mining Ltd had signed an agreement to implement its RCubed Resources Governance Software. The software contract and implementation costs are worth more than AU$150,000 in the first year and is a 3 year contract.

On 18 September 2019, the Company announced, having received commitments, that it had successfully raised $1M (before costs) in a placement to sophisticated and professional investors. The shares pursuant to this placement were issued on 26 September 2019.

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 Group, the results of those operations, or the state of affairs of the Group in future financial periods.

**NOTE 34: 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 | 20 | 275,000 |
| Unlisted options issued | 21(b) | 10,650 |
| | | **910,897** |
| **Assets Acquired** | | |
| Cash acquired | | 69,013 |
| Trade and other receivables | | 328,268 |
| Intangible asset | | 12,185 |
| Deferred tax asset | | - |
| | | 409,465 |
| Less: Trade and other payables (excluding iScape Loan assumed by K2fly) | | (169,875) |
| Less: Provisions | | (60,236) |
| | | 179,354 |
| **Goodwill** | 14 | **731,543** |
| **Net cash outflow arising on acquisition** | | |
| Cash paid | | 475,000 |
| Less net cash acquired with the subsidiary | | (69,013) |
| Net cash outflow | | **405,987** |

*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 13).

*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.

*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.

# 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 2019 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 2019.

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

Jenny Cutri
Non-Executive Chair

Perth, 27 September 2019

HLB MANN JUDD
ADVISORY AND ACCOUNTING

**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 2019, 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 K2Fly Limited 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 2019 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.

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HLB MANN JUDD
ADVISORY AND ACCOUNTING

| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| **Going concern**<br>Note 1(b) of the financial report | |
| The Group recorded a consolidated loss of \$1,938,528 and had cash outflows from operating and investing activities of \$1,722,942 and \$463,051 respectively. As at 30 June 2019 the Group had cash and cash equivalents of \$1,059,247.<br><br>If the going concern basis of preparation of the financial statements was inappropriate, the carrying amount of certain assets and liabilities may have significantly differed. In addition, management and the auditor must consider whether a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Disclosure is required in the financial report should significant doubt exist.<br><br>Due to the significant judgement involved with forecasting cash flows, this is considered a key audit matter. | Our audit procedures included but were not limited to:<br><br>• We considered the appropriateness of the going concern basis of accounting by evaluating the underlying assumptions in cash flow projections prepared by the Group including sensitivity analysis;<br>• We have vouched the September 2019 share placement to subsequent bank statements;<br>• Our responsibilities in respect of the going concern basis of accounting are included below under *Auditor's responsibilities for the audit of the financial report*; and<br>• We examined the adequacy of disclosures made in the financial report. |
| **Recoverable amount of goodwill**<br>Note 14 of the financial report | |
| 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 *Intangible Assets* and AASB 136 *Impairment of Assets*.<br><br>It is due to size, complexity and judgement involved that this is considered a key audit matter. | Our audit procedures included but were not limited to:<br><br>• We assessed the appropriateness of the allocated cash generating units;<br>• We assessed the appropriateness of the methodology in the value in use model and the basis for key assumptions;<br>• We assessed the value in use model for consistency with the requirements of Australian Accounting Standards;<br>• We performed sensitivity analyses around the key inputs used in the cash flow forecasts and the headroom impact on the value in use model;<br>• We reviewed the mathematical accuracy of the model;<br>• We compared the discounted cash flow value to the carrying amount of assets comprising the cash-generating unit;<br>• We considered whether the assets comprising the cash-generating unit had been correctly allocated;<br>• We assessed the reasonableness of forecast cash flows;<br>• We considered the appropriateness of the discount rate used; and<br>• We assessed the appropriateness of the disclosures included in the relevant notes to the financial report. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Acquisition of RCubed**<br>Note 27 of the financial report | |
| During the year the Group acquired 100% of the assets of RCubed Global Pty Ltd, XCube Holdings Pty Ltd and Prodmark Pty Ltd which included intangibles, fixed assets and the retention of key management, staff and systems. The consideration was $450,000 in cash.<br><br>The acquisition has been accounted for as a business combination under AASB 3 *Business Combinations*.<br><br>It is due to size, complexity and judgement involved that this is considered a key audit matter. | Our audit procedures included but were not limited to:<br>• We read the share sale agreement to understand the key terms and conditions;<br>• We assessed the principles applied in the acquisition accounting;<br>• We considered whether the companies acquired constituted a business under AASB 3;<br>• We assessed and recalculated the deemed consideration constituting the purchase price;<br>• We audited the net assets acquired;<br>• We assessed the identified intangible asset, being the intellectual property acquired, including review of the recognition and valuation of this asset under AASB 138; and<br>• We assessed the appropriateness of the disclosures included in the relevant notes to the financial report in relation to the acquisition. |
| **Application of AASB 15**<br>Notes 1(c) and 1(g) of the financial report | |
| The adoption of AASB 15 *Revenue from Contracts with Customers* has led to significant changes in the revenue recognition accounting policies adopted across the Group.<br><br>The Group has two distinct categories of revenue being revenue with performance obligations recognised at a point in time, being perpetual software license sales "passive licenses", and revenue with performance obligations recognised over time, being SaaS license sales "active licenses" and consulting revenue, which includes support and maintenance revenue.<br><br>Key assumptions in the recognition of revenue include:<br>- determining whether the licence provides a right to use or right to access the intellectual property; and<br>- the ability to designate the packaged revenue streams as either distinct goods or services or a single performance obligation.<br><br>We focused on this area as a key audit matter due to the number and type of estimation events that may occur over the course of a contract life, leading to judgemental revenue recognition and the direct impact on profit and loss. | Our procedures included but were not limited to the following:<br>• We reviewed and considered a sample of the Group's key contracts to determine if we concurred with management's assessment of performance obligations, the transaction price and any contract liabilities that may arise, the allocation of the transaction price, and when to recognise revenue, either at a point in time, or over time;<br>• We challenged each of management's key assumptions surrounding revenue recognition for each of the key contracts we reviewed;<br>• For a sample of contracts designated for over time recognition, we assessed the methodology and accuracy of recognising revenue at the stage of completion at balance date;<br>• We assessed whether the revenue recognised during the year is appropriate based on the contractual terms and the requirements of AASB 15 to defer revenue where future obligations exist; and<br>• We assessed the accuracy and completeness of the Group's disclosures in the financial report. |

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*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 2019, 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 Company and 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 Company or 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.

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- 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 Company's or 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 Company or 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.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of K2Fly Limited for the year ended 30 June 2019 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.

Buckley

**HLB Mann Judd**
**Chartered Accountants**

**D I Buckley**
**Partner**

**Perth, Western Australia**
**27 September 2019**

**HOLDINGS AS AT 20 SEPTEMBER 2019**

**ORDINARY SHARES**

| Number of securities held | Fully paid ordinary shares | Number of holders |
|---|---|---|
| 1 to 1,000 | 4,810 | 85 |
| 1,001 to 5,000 | 473,467 | 240 |
| 5,001 to 10,000 | 559,196 | 71 |
| 10,001 to 100,000 | 10,788,464 | 289 |
| 100,001 and over | 63,528,204 | 139 |
| **Total Number of Holders** | **75,354,141** | **824** |

| | |
|---|---|
| **ASX escrowed shares** | **Nil** |
| **Number of holders of less than a marketable parcel** | **558** |
| **Percentage of the 20 largest holders** | **52.79%** |

| Rank | Name | Units | % of Units |
|---|---|---|---|
| 1 | **GROUP # 1166450** | **8,037,977** | **10.67** |
| . | MR PAUL JOSEPH COZZI | 300,000 | 0.40 |
| . | MR PAUL JOSEPH COZZI | 800,000 | 1.06 |
| . | MR PAUL COZZI | 6,937,977 | 9.21 |
| 2 | KALGOORLIE MINE MANAGEMENT PTY LTD | 4,500,000 | 5.97 |
| 3 | **GROUP # 1166440** | **4,023,374** | **5.34** |
| . | MRS NARELLE FAY | 896,000 | 1.19 |
| . | MRS NARELLE FAY | 3,127,374 | 4.15 |
| 4 | **GROUP # 1205157** | **3,595,000** | **4.77** |
| . | MRS REBECCA POPE | 500,000 | 0.66 |
| . | DR RAOUL EDWARD POPE | 3,095,000 | 4.11 |
| 5 | **GROUP # 11856** | **2,200,404** | **2.92** |
| . | MR BRIAN PETER MILLER | 533,082 | 0.71 |
| . | MR BRIAN PETER MILLER | 655,322 | 0.87 |
| . | MR BRIAN PETER MILLER | 1,012,000 | 1.34 |
| 6 | **GROUP # 1176152** | **2,000,260** | **2.65** |
| . | RACHEL D'ANNA | 202,500 | 0.27 |
| . | INTERNATZIONALE CONSULTING PTY LTD | 1,797,760 | 2.39 |
| 7 | MR NICHOLAS JOHN AXAM | 1,900,000 | 2.52 |
| 8 | **GROUP # 1166451** | **1,690,924** | **2.24** |
| . | INSYNC EQUITY SERVICES PTY LTD | 131,896 | 0.18 |
| . | ANNA CARINA PTY LTD <ANNA CARINA FAMILY A/C> | 149,378 | 0.20 |
| . | INSYNC EQUITY SERVICES PTY LTD | 150,000 | 0.20 |
| . | MRS ANNA HART + MR PAUL HART <HART FAMILY SUPER FUND A/C> | 603,197 | 0.80 |
| . | MRS ANNA CARINA HART + MR PAUL HART <HART FAMILY SUPER FUND A/C> | 656,453 | 0.87 |
| 9 | **GROUP # 1176150** | **1,251,496** | **1.66** |
| . | GREGORY J WOOD & ASSOCIATES PTY LTD | 15,000 | 0.02 |
| . | B2B HOLDINGS PTY LIMITED | 40,000 | 0.05 |
| . | GREGORY J WOOD & ASSOCIATES PTY LTD | 105,750 | 0.14 |
| . | GREGORY J WOOD & ASSOCIATES PTY LTD <THE G J WOOD FAMILY A/C> | 115,560 | 0.15 |
| . | GREGORY J WOOD & ASSOCIATES PTY LTD <THE G J WOOD FAMILY A/C> | 400,000 | 0.53 |
| . | K S CAPITAL PTY LIMITED | 575,186 | 0.76 |
| 10 | MR PHILLIP STANLEY HOLTEN | 1,237,048 | 1.64 |
| 11 | **GROUP # 35910** | **1,123,618** | **1.49** |
| . | ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C> | 1,123,618 | 1.49 |
| 12 | **GROUP # 1205149** | **1,073,349** | **1.42** |

| Rank | Name | Units | % of Units |
| --- | --- | --- | --- |
| . | MR SEAN MUFFET | 231,167 | 0.31 |
| . | MR SEAN ROBERT MUFFET | 842,182 | 1.12 |
| 13 | **GROUP # 1176146** | **1,002,286** | **1.33** |
| . | MR RAYMOND TANTI | 60,000 | 0.08 |
| . | MR RAYMOND TANTI | 398,000 | 0.53 |
| . | MR RAYMOND TANTI | 544,286 | 0.72 |
| 14 | **GROUP # 29957** | **967,979** | **1.28** |
| . | CITICORP NOMINEES PTY LIMITED | 967,979 | 1.28 |
| 15 | **GROUP # 36516** | **949,446** | **1.26** |
| . | BNP PARIBAS NOMS PTY LTD <DRP> | 150 | - |
| . | BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> | 949,296 | 1.26 |
| 16 | **GROUP # 38979** | **924,000** | **1.23** |
| . | MR MICHAEL MCMAHON + MRS SUSAN MCMAHON <MCMAHON SUPER FUND A/C> | 110,000 | 0.15 |
| . | MR MICHAEL MCMAHON + MRS SUSAN MCMAHON <MCMAHON SUPER FUND A/C> | 150,000 | 0.20 |
| . | MR MICHAEL FRANCIS MCMAHON + MRS SUSAN LESLEY MCMAHON <MCMAHON SUPER FUND A/C> | 220,000 | 0.29 |
| . | MR MICHAEL MCMAHON <SUPER FUND A/C> | 444,000 | 0.59 |
| 17 | CANARY CAPITAL PTY LTD | 858,216 | 1.14 |
| 18 | **GROUP # 1205150** | **850,575** | **1.13** |
| . | MRS CARLENE JOY GEBHARDT | 50,000 | 0.07 |
| . | MR SCOTT DAVID GEBHARDT | 50,000 | 0.07 |
| . | MR PETER LANCELOT GEBHARDT + MRS CARLENE JOY GEBHARDT <PETARD S/F A/C> | 750,575 | 1.00 |
| 19 | MR ANDREW WILLIAM BLACKMAN | 825,000 | 1.09 |
| 20 | **GROUP # 1205152** | **781,000** | **1.04** |
| . | MR EAMONN THOMAS ROLES + MRS OONAGH MARY ROLES <ROLES FAMILY S/F A/C> | 226,000 | 0.30 |
| . | MR EAMONN ROLES + MRS OONAGH ROLES <ROLES FAMILY SUPER FUND A/C> | 555,000 | 0.74 |
| | **TOTAL** | **39,791,952** | **52.79** |

**Substantial Shareholders**

| The Group has been notified of the following substantial shareholdings: | **Number** |
| --- | --- |
| MR PAUL JOSEPH COZZI | 8,037,977 (10.67%) |
| KALGOORLIE MINE MANAGEMENT PTY LTD | 4,500,000 (5.97%) |

**LISTED OPTIONS**

| Number of securities held | Listed Options (K2FOA) | Number of holders |
| --- | --- | --- |
| 1 to 1,000 | 16,751 | 51 |
| 1,001 to 5,000 | 71,817 | 28 |
| 5,001 to 10,000 | 177,167 | 21 |
| 10,001 to 100,000 | 2,796,659 | 78 |
| 100,001 and over | 10,201,784 | 33 |
| **Total Number of Holders** | **13,264,178** | **211** |

**Listed Options - 20 largest holders**

| Rank | Name | Units | % of Units |
|---|---|---|---|
| 1 | B2B HOLDINGS PTY LIMITED | 1,000,000 | 7.54 |
| 2 | ATLANTIS MG PTY LTD <MG FAMILY A/C> | 1,000,000 | 7.54 |
| 3 | MR PETER LANCELOT GEBHARDT + MRS CARLENE JOY GEBHARDT <PETARD S/F A/C> | 905,877 | 6.83 |
| 4 | MR TARECQ ELIAS ALDAOUD | 600,000 | 4.52 |
| 5 | **GROUP # 51109** | **477,992** | **3.60** |
| . | ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C> | 477,992 | 3.60 |
| 6 | ANNA CARINA PTY LTD <ANNA CARINA FAMILY A/C> | 433,183 | 3.27 |
| 7 | MR PAUL COZZI | 411,984 | 3.11 |
| 8 | MR NICHOLAS JOHN AXAM | 410,000 | 3.09 |
| 9 | INTERNATZIONALE CONSULTING PTY LTD | 359,552 | 2.71 |
| 10 | MR PHILLIP STANLEY HOLTEN | 343,217 | 2.59 |
| 11 | RETZOS EXECUTIVE PTY LTD <RETZOS EXECUTIVE S/FUND A/C> | 333,333 | 2.51 |
| 12 | **GROUP # 54880** | **278,509** | **2.10** |
| . | MR MICHAEL MCMAHON <SUPER FUND A/C> | 278,509 | 2.10 |
| 13 | MERSOUND PTY LTD | 255,000 | 1.92 |
| 14 | NABIL'S MILLIONS PTY LTD <DAVID FAMILY SUPER FUND A/C> | 250,636 | 1.89 |
| 15 | MR JOE DURAK | 250,000 | 1.88 |
| 16 | MR RAYMOND TANTI | 215,497 | 1.62 |
| 17 | GT CAPITAL PTY LTD <GREENWOOD SUPER A/C> | 200,000 | 1.51 |
| 18 | GT CAPITAL PTY LTD | 200,000 | 1.51 |
| 19 | MR GEORGE FARAH | 200,000 | 1.51 |
| 20 | SMONGO PTY LTD <SMONGO SUPER FUND A/C> | 200,000 | 1.51 |
| | **TOTAL** | **8,324,780** | **62.76** |

**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.

**Unlisted Securities**

At 20 September 2019 the Company has on issue 7,536,416 unlisted options over ordinary shares and 797,500 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) |
|---|---|---|---|---|---|---|---|---|---|
| Rachael D'Anna | - | 66,250 | 66,250 | 66,250 | - | - | 66,250 | 66,250 | 66,250 |
| Talos Mining Pty Ltd <Talos Mining A/C> | 50,000 | 43,750 | 43,750 | 43,750 | 43,750 | 43,750 | 43,750 | 43,750 | 43,750 |
| Holders individually less than 20% | - | - | - | - | - | - | - | - | - |
| **Total** | **50,000** | **110,000** | **110,000** | **110,000** | **43,750** | **43,750** | **110,000** | **110,000** | **110,000** |

| 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 | Unlisted Options $0.00 26/11/20 | Unlisted Options $0.00 26/11/20 (EIOP) | Unlisted Options $0.243 26/11/22 | Unlisted Options $0.243 26/11/20 (EIOP) |
|---|---|---|---|---|---|---|---|---|---|---|
| Dr Roslyn Jane Carbon | - | - | - | - | - | - | 341,933 | - | 639,019 | - |
| Robert William Pradera | - | - | - | - | - | - | - | 142,472 | - | 284,944 |
| Neil David Young & Lucrezia Maria Young ATF the Zenith Trust <The Zenith A/C> | - | - | - | - | - | - | - | - | - | 268,662 |
| Navin Nirmalrajan & Aparna Navin ATF Elohim Family Trust <Elohim Family Trust> | - | - | - | - | - | - | - | 138,401 | - | 276,803 |
| Livvy Pty Ltd <Pollock Family Trust> | - | - | - | - | - | - | - | 268,662 | - | 447,770 |
| 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 | - | - | - | 323,419 | 134,331 | - | - |
| **Total** | **1,920,000** | **800,000** | **350,000** | **350,000** | **400,000** | **450,000** | **665,352** | **683,866** | **639,019** | **1,278,179** |