

K2FLY LIMITED

ABN 69 125 345 502

Appendix 4E **Preliminary Final Report – 30 June 2022**

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

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

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

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Appendix 4E Preliminary Final Report

Name of entity
K2fly Limited

ABN or equivalent company reference
69 125 345 502

Preliminary final (tick)
✓

Financial year ended ('current period')
30 June 2022

Results announced to the market				
(This information should be read in conjunction with the last annual report and any announcements to the market by K2fly Limited during the period)				
	Year Ended 30 Jun 22 \$A	Year Ended 30 Jun 21 \$A	Amount change \$A	Percentage change %
Revenue from ordinary activities	10,017,475	6,954,942	3,062,533	44.03%
Loss from ordinary activities after tax attributable to members	(4,621,080)	(2,962,795)	(1,658,285)	35.89%
Net loss for the year attributable to members	(4,621,080)	(2,962,795)	(1,658,285)	35.89%

Comment

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K2fly invoiced a total of \$12.20m during the financial year ended 30 June 2022 (FY22), representing an 60% increase from the prior year (FY21: \$7.60m). K2fly's revenue from ordinary activities of \$10.01m represents a 44.03% increase from the prior year (FY21: \$6.95m). The growth in revenue is a function of winning new clients, growing the range of software and services sold to existing clients, and increased sales prices.

Revenue in this Appendix 4E is recognised and presented in accordance with International Financial Reporting Standards (IFRS) including AASB 15 Revenue from Contracts with Customers. At 30 June 2022, an amount of \$4.25m (30 June 2021: \$2.06m) in contract liabilities (deferred revenue) 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 next year's reported revenue.

Included in the FY22 net loss is \$0.75m for amounts payable to the South African taxing authority as a result of fraud by a former employee of the Group's South African registered subsidiary. This cost is non-recurring in nature. The Company has notified its insurer of its intention to make a claim and it is the Company's intention to negotiate a payment arrangement with the taxing authority to minimise the working capital impact of the loss.

Other costs included in FY22 are:

- non-cash share-based payment expenses for options issued to employees under the Company's Employee Incentive Option Plan and to directors (as approved by shareholders) totalling \$0.65m (30 June 2021: \$0.56m) (refer to note 2.14); and
- non-cash amortisation of software expense of \$1.14m (30 June 2021: \$0.36m) (refer to note 2.7).

Cash used in operating activities was a net outflow of \$0.85m during FY22, 48.03% less than the prior year (30 June 2021: \$1.64m), comprising a net outflow of \$1.25m for the half year ended 31 December 2021 and a net inflow of \$0.40m in the half year ended 30 June 2022.

The investment in internally generated intangible assets to enhance the Company's Software as a Service (SaaS) product suite was \$2.71m during FY22, 144.22% higher than the prior year (30 June 2021: \$1.11m).

Dividends (distributions)

There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the financial year ended 30 June 2022.

Net tangible asset per ordinary security	30 June 2022	30 June 2021
Net tangible assets	(360,535)	249,267
Number of shares on issue at reporting date	173,189,505	137,977,777
Net tangible asset per ordinary security	(0.21) cents	0.18 cents

Control Gained or Lost over Entities

Not Applicable

Associates and joint ventures

Not Applicable

Foreign Entities Accounting Framework

Not Applicable

Released with the authority of the K2fly Board
31 August 2022

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

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K2fly Limited

ABN 69 125 345 502

Preliminary Final Report – 30 June 2022

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2022

	Notes	2022 \$	2021 \$
Revenue	2.2	10,017,475	6,954,942
Cost of sales		(5,343,312)	(3,272,257)
Gross profit		4,674,163	3,682,685
Other income	2.2	1,149,359	117,268
Administration expense		(762,343)	(493,288)
Amortisation expense	2.7	(1,139,831)	(361,772)
Compliance & regulatory expense		(154,227)	(155,428)
Consultancy expense		(1,120,461)	(593,356)
Depreciation plant and equipment		(55,123)	(34,253)
Depreciation right of use assets	2.6	(163,271)	(81,876)
Directors' fees		(173,068)	(120,000)
Employee benefit expense		(5,438,373)	(3,353,244)
Public relations & marketing expense		(414,376)	(380,679)
Share-based payments expense	2.14	(650,409)	(557,830)
Finance expense		(100,114)	(17,736)
Stamp duty		-	(288,000)
Acquisition expenses		-	(134,653)
Foreign exchange		(133,605)	(39,820)
Other expenses	2.3	(1,014,580)	(150,813)
Loss before income tax expense		(5,496,259)	(2,962,795)
Income tax benefit		875,179	-
Loss for the year		(4,621,080)	(2,962,795)
Other comprehensive income/(loss), net of income tax:			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign subsidiaries		22,799	(1,904)
Income tax relating to these items		-	-
Other comprehensive income/(loss) for the year, net of tax		22,799	(1,904)
Total comprehensive loss for the year		(4,598,281)	(2,964,699)
Basic and diluted loss per share (cents per share)	2.1	(3.17)	(2.81)

The accompanying notes form part of the financial statements

K2fly Limited

ABN 69 125 345 502

Preliminary Final Report – 30 June 2022

Consolidated Statement of Financial Position

For the year ended 30 June 2022

	Notes	2022 \$	2021 \$
Assets			
Current assets			
Cash and cash equivalents		8,270,720	6,906,331
Trade and other receivables		1,929,942	2,164,674
Total current assets		10,200,662	9,071,005
Non-current assets			
Restricted cash		153,559	125,175
Plant and Equipment		112,656	60,704
Right of use assets	2.6	491,961	70,899
Intangible assets	2.7	7,214,366	5,655,144
Goodwill	2.8	7,342,817	7,342,817
Other financial assets		844	844
Deferred tax asset		900,902	-
Total non-current assets		16,217,105	13,255,583
Total assets		26,417,767	22,326,588
Liabilities			
Current liabilities			
Trade and other payables	2.4	1,912,317	1,670,427
Provisions and other liabilities	2.10	2,695,410	2,232,552
Interest-bearing lease liabilities	2.11	175,378	49,172
Contract liabilities	2.5	4,250,828	2,059,890
Current tax liability		220,840	-
Total current liabilities		9,254,773	6,012,041
Non-current liabilities			
Provisions and other liabilities	2.10	1,729,630	3,030,653
Interest-bearing lease liabilities	2.11	335,632	36,667
Deferred tax liabilities		1,056,277	1,256,475
Total non-current liabilities		3,121,539	4,323,795
Total liabilities		12,376,312	10,335,836
Net assets		14,041,455	11,990,752
Equity			
Issued capital	2.12	36,864,295	30,865,720
Reserves	2.13	2,651,465	1,978,257
Accumulated losses		(25,474,305)	(20,853,225)
Total equity		14,041,455	11,990,752

The accompanying notes form part of the financial statements

K2fly Limited

ABN 69 125 345 502

Preliminary Final Report – 30 June 2022

Consolidated Statement of Changes in Equity For the year ended 30 June 2022

	Issued capital \$	Performance rights reserve \$	Option reserve \$	FCTR reserve \$	Asset revaluation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2021	30,865,720	199,100	1,758,818	20,219	120	(20,853,225)	11,990,752
Loss for the year	-	-	-	-	-	(4,621,080)	(4,621,080)
Exchange differences on translation of foreign subsidiaries	-	-	-	22,799	-	-	22,799
Total comprehensive loss for the year	-	-	-	22,799	-	(4,621,080)	(4,598,281)
Issue of shares – placement	6,205,705	-	-	-	-	-	6,205,705
Conversion of performance shares	155,660	-	-	-	-	-	155,660
Share issue costs	(362,790)	-	-	-	-	-	(362,790)
Share-based payments – options	-	-	650,409	-	-	-	650,409
Balance as at 30 June 2022	36,864,295	199,100	2,409,227	43,018	120	(25,474,305)	14,041,455

The accompanying notes form part of the financial statements

K2fly Limited

ABN 69 125 345 502

Preliminary Final Report – 30 June 2022

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

	Notes	2022 \$ Inflows / (Outflows)	2021 \$ Inflows / (Outflows)
Cash flows from operating activities			
Receipts from customers		12,561,420	7,126,977
Payments to suppliers and employees		(13,581,890)	(8,788,211)
Government grants received		199,485	115,527
Interest received		2,878	1,448
Interest paid		-	-
Income tax paid		-	8,789
Movement of cash from non-restricted to restricted		(28,384)	(105,175)
Net cash (used in) operating activities		(846,491)	(1,640,645)
Cash flows from investing activities			
Proceeds from sale of plant and equipment		(1,568)	-
Payments for plant and equipment		(110,011)	(34,387)
Intangible asset (internally generated)	2.7	(2,699,053)	(1,110,143)
Investment in subsidiaries (Sateva)	2.10	(171,988)	(2,511,836)
Investment in subsidiaries (Decipher)	2.9	-	(5,509)
Payments for vendor incentive remuneration	2.10	(350,000)	(550,000)
Investment in subsidiaries acquisition costs		-	(134,653)
Cash acquired on acquisition of subsidiary (Sateva)		-	2,685,996
Net cash (used in) investing activities		(3,332,620)	(1,660,532)
Cash flows from financing activities			
Proceeds from the issue of shares		6,205,705	7,250,000
Payments for share issue costs		(362,790)	(472,648)
Proceeds from exercise of options		-	648,000
Proceeds from issue of options		-	23
Repayment of lease liabilities		(188,970)	(84,544)
Net cash provided by financing activities		5,653,945	7,340,831
Net increase in cash held		1,474,834	4,039,654
Cash at beginning of the year		6,906,331	2,919,788
Effects of exchange rate fluctuations on cash held		(110,445)	(53,111)
Cash and cash equivalents at the end of the year		8,270,720	6,906,331

The accompanying notes form part of the financial statements

SECTION - 1 ABOUT THIS REPORT

Basis of preparation

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

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

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

Key judgements and estimates

In the application of the Group's accounting policies, management is required to make 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 relevant factors. 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.

Revenue

For contracts which include software and services to be delivered, determining whether those promised services are considered distinct performance obligations that should be accounted for separately rather than together requires significant judgement. In determining the treatment, consideration is given to the nature of the services and terms of the contract.

For services which are provided on a fixed price basis, determination of which performance obligations have been achieved, and where relevant, the proportion of the total project which has been delivered requires significant judgement. Estimates are applied having regard for current information including knowledge of the project plan, estimated progress against that plan and estimated remaining scope of work.

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 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 2.8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

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 of options with an exercise price of nil is calculated using a probability-based valuation methodology and with reference to the share price at grant date. The fair value of other unlisted options is determined in reference to the prevailing share price on date of grant or by using a Black-Scholes model (refer to note 2.14).

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.

Provisions for deferred consideration

Management estimates the value of provisions for deferred consideration by making assumptions about the achievement of performance metrics. Management bases its assumptions on historical performance, current information and plans. The estimated value of the provision may vary from the actual amount payable.

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 options under its leases to extend the term of the lease. 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

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.

For the year ended 30 June 2022, the Group incurred a net loss of \$4,621,808 (30 June 2021: \$2,962,795) and experienced net cash outflows from operating activities of \$846,491 (30 June 2021: \$1,640,645).

At 30 June 2022, the Group had cash and cash equivalents of \$8,270,720 (30 June 2021: \$6,906,331), had a net working capital surplus of \$945,889 (30 June 2021: \$3,058,964), which includes \$4,250,828 of deferred revenue (30 June 2021: \$2,059,890) and non-cash performance shares of \$827,792 (see note 2.10). The working capital position at 30 June 2022 has been adversely impacted by the recognition of a \$755,592 provision for amounts payable to the South African taxing authority. The loss was incurred due to fraud by a former employee of the Group's South African registered subsidiary. The Company has notified its insurer of its intention to make a claim and it is the Company's intention to negotiate a payment arrangement with the taxing authority to minimise the working capital impact of the loss.

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 or reducing costs, and if necessary raising further capital.

The Directors have prepared the financial statements on a going concern basis as they are satisfied that the Group will be able to fund its planned activities and operations. In forming this view, the consideration was given to:

- performance tracking and monitoring disciplines, including regular review of management accounts and cash flow forecasts;
- cost management and control processes;
- recent sales growth and the sales pipeline;
- the portfolio of existing contracts which deliver annual recurring revenues; and
- the demonstrated ability to raise capital through the equity market.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

SECTION - 2 Notes

2.1 Loss per share

	2022	2021
Basic loss per share (cents per shares)	(3.17)	(2.81)
Weighted average number of ordinary shares (number of shares)	145,567,113	105,267,006

2.2 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 being the technology sector.

	2022	2021
	\$	\$
(a) Revenue		
At a point in time		
Consulting and implementation revenue (provided on a fixed price basis)	1,913,966	908,051
Sales of third-party software (provided via a perpetual license)	32,301	18,700
	1,946,267	926,751
Over time		
Consulting and implementation revenue (provided on a time and material basis)	3,536,391	3,223,452
Hosting services revenue	95,595	193,773
Sales of own software (provided as a service)	4,439,222	2,610,966
	8,071,208	6,028,191
Total revenue	10,017,475	6,954,942
(b) Other income		
Revaluation of provisions	939,434	-
Interest income	2,878	1,448
Government grants received	199,485	115,527
Other	7,562	293
Other income	1,149,359	117,268

Revenue is recognised when or as each performance obligation is satisfied at the amount of the transaction price allocated to that performance obligation. A performance obligation may be satisfied at a point in time or over time.

K2fly has utilised the practical expedient under paragraph 121(a) of AASB 15 Revenue from Contracts with Customers relating to transactions with an expected duration of 12 months or less, which, for accounting purposes, applies to all of the Company's transactions with customers.

Certain provisions for deferred consideration were revalued during the period to reflect management's current estimate of amount payables under those agreements. (Refer to note 2.10.)

The Group did not recognise any impairment loss on receivables and contract assets from contracts with customers in the statement of comprehensive income for the year ended 30 June 2022 (2021: \$ nil).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

2.3 Other expenses

	2022	2021
	\$	\$
Loss expense – South Africa	755,592	-
Occupancy	144,086	73,067
Travel expenses	96,902	17,736
Research	18,000	58,655
	<u>1,014,580</u>	<u>150,813</u>

In February 2022, the Group became aware of discrepancies between its records in relation to employee tax obligations in its South African-registered subsidiary and the records of the local taxing authority. An external advisor was appointed undertake a forensic investigation of the matter. The investigation, which was completed in August 2022, concluded that funds had been misappropriated, and estimated the liability to be \$755,592. The matter has been referred to South African police authorities and the Group's insurer has been notified of its intention to submit a claim. The tax non-compliance has been self-reported to the South African taxing authority and it is the Group's intention to negotiate a payment arrangement to minimise the working capital impact of the debt.

2.4 Trade and other payables

	2022	2021
	\$	\$
Current		
Accounts payable	381,134	353,454
Accrued expenses	601,592	656,778
Deferred consideration payable - Sateva	101,525	118,667
Other payable	307,182	193,464
Employee liabilities	520,884	348,064
	<u>1,912,317</u>	<u>1,670,427</u>

2.5 Contract liabilities

	2022	2021
	\$	\$
Deferred revenue	<u>4,250,828</u>	<u>2,059,890</u>
Movements:	\$	\$
Opening balance	2,059,890	1,344,058
Deferred during the year	6,771,898	2,976,280
Acquired as part of Decipher acquisition	-	74,918
Released to the statement of profit or loss	(4,580,960)	(2,335,366)
Closing balance	<u>4,250,828</u>	<u>2,059,890</u>

Deferred revenue is the aggregate transaction prices relating 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 2.2) to which these contracts liabilities will be recognised in the next financial year is as follows:

2022 **2021**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

	\$	\$
Hosting services revenue	-	51,815
Sales of own software (software as a service)	3,658,799	2,008,075
Consulting and implementation revenue (provided on a fixed price basis)	592,029	-
	<u>4,250,828</u>	<u>2,059,890</u>

2.6 Right of use assets

	2022 \$	2021 \$
Right of use assets		
Cost	739,035	229,959
Accumulated depreciation	(247,074)	(159,060)
	<u>491,961</u>	<u>70,899</u>
Balance as at beginning of year	70,899	94,006
Assets acquired	586,503	46,971
Depreciation	(163,270)	(81,876)
Foreign exchange	(2,171)	11,798
Balance at end of year	<u>491,961</u>	<u>70,899</u>

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.

2.7 Intangible assets

	2022 \$	2021 \$
Software at cost	8,821,581	6,110,343
Software - accumulated amortisation	(1,607,215)	(455,199)
Total Intangible Assets	<u>7,214,366</u>	<u>5,655,144</u>

	2022 \$	2021 \$
<i>Movements:</i>		
Carrying amount at the beginning of the year	5,655,144	337,773
Acquired as part of Sateva acquisition (a)	-	565,000
Acquired as part of Decipher acquisition (b)	-	4,004,000
Internally generated intangible assets (c)	2,711,238	1,110,143
Amortisation	(1,152,016)	(361,772)
Carrying amount at the end of the year	<u>7,214,366</u>	<u>5,655,144</u>

- (a) On 5 November 2020, the Company completed the acquisition of 100% of the issued share capital and voting rights of Sateva Pty Ltd and Sateva Development Pty Ltd (**Sateva**). As part of the acquisition accounting, \$565,000 was ascribed to the intellectual property rights associated with the Sateva software based on an independent valuation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

(b) On 31 March 2021, the Company completed the acquisition of the assets held by CSBP Limited (**CSBP**) and Wesfarmers Chemicals, Energy & Fertilisers Limited (**WesCEF**) used in the operation of the 'Decipher for Mining' mining (together **Decipher**). As part of the acquisition accounting, \$4,004,000 was ascribed to the intellectual property rights associated with the Decipher software based on an independent valuation at 12 August 2021 (refer note 2.9).

(c) Expenditure in relation to development of the Company's own IP to enhance its current Software as a Service (**SaaS**) product suite includes:

- new product development and enhancement within the technical assurance solutions, Model Manager and Ore Blocker;
- the Tailings Governance Solution;
- upgrading the Resource Reporting solution to improve ease of use and reduce support complexity; and
- enhancement of the Ground Disturbance, Heritage Management and Land Access solutions.

2.8 Goodwill

	2022	2021
	\$	\$
Goodwill	7,342,817	7,342,817
	2022	2021
	\$	\$
<i>Movements:</i>		
Opening balance	7,342,817	731,543
Acquired as part of Sateva acquisition	-	4,430,642
Acquired as part of Decipher acquisition	-	2,180,632
Carrying amount at the end of the year	7,342,817	7,342,817

The Group has recognised goodwill on the acquisitions of Infoscope, Sateva (refer note 31 of the annual report for the financial year ended 30 June 2021) and Decipher (refer note 2.9).

During the year ended 30 June 2022, the Group conducted an impairment assessment in relation to goodwill. The recoverable amount was determined at the cash generating unit level which is the Group's software and services operations, and was based on a value-in-use calculation. The pre-tax discount rate adopted was 19.2% based on the assumptions considered reasonable by the external advisors engaged in August 2021 to conduct an impairment assessment in relation to goodwill, adjusted for changes in interest rates (2021: 29.2%). 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 base case budget (extrapolated over a four-year period at a 27% cumulative annual growth rate in revenue to provide a total five year forecast model). The assumptions are considered reasonable and supportable and were derived with due consideration to actual performance indicators, recent growth rates, 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 30% against management's estimates at 30 June 2022;
- adjustment of terminal value amount to nil;
- increase in the post-tax discount rate to 54%; and
- increase of 60% in overhead costs.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

2.9 Business combinations

Decipher

On 31 March 2021, the Company completed the acquisition of the assets held by CSBP and WesCEF used in the operation Decipher. Decipher offers cloud-based software-as-a-service monitoring and compliance solutions in tailings management and rehabilitation for mining industry customers. The Decipher software products suite strengthens K2fly's technical assurance suite of software solutions. The objectives of the acquisition including expansion of the software portfolio to better meet the needs of clients, and exposure to future potential cash flows.

The fair values of identifiable assets and liabilities acquired in the business combination were previously provisionally accounted for in accordance with AASB 3. The Company completed a comprehensive analysis of the assets and liabilities acquired, as well as a purchase price allocation, which produced the fair values reported below.

	\$
Consideration	
Cash	5,509
Equity	3,410,007
Performance shares	1,394,639
	<u>4,810,155</u>
	\$
Assets Acquired	
Trade and other receivables	28,001
Tangible fixed assets	5,353
Intellectual property rights – Decipher	4,004,000
	<u>4,037,354</u>
Less: Contract liabilities	(74,918)
Less: Provisions	(231,813)
Less: Deferred tax liability	<u>(1,101,100)</u>
Fair value of net assets acquired	<u>2,629,523</u>
Goodwill	<u>2,180,632</u>
Net cash outflow arising on acquisition	
Cash paid	5,509
Less: net cash acquired	-
Net cash outflow	<u>5,509</u>

Identifiable net assets

The fair values of the identifiable intangible assets have been determined at 31 March 2021. The fair value of the trade and other receivables acquired as part of the business combination amounted to \$28,001 with fixed assets totaling \$5,353. The value of intangible assets amounted to \$4,004,000 as outlined in the intangible assets note (refer note 2.7).

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 the Group and Decipher which cannot be recognised as an intangible asset, and the deferred tax liability on the intangible asset acquired.

As the acquisition accounting has been finalised, a deferred tax asset, which offsets the previously recorded deferred tax liability, has been recognised.

At the reporting date, an impairment assessment of the intangible assets was undertaken. It was determined that no impairment is required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

Deferred consideration

On an annual basis, performance shares issued will convert to a number of fully paid ordinary shares equivalent in value to 22% of the annual revenues attributable to the Decipher business, over a four-year period following completion of the acquisition. A maximum of 5,345,633 fully paid ordinary shares in the Company can be issued to CSBP as a result of the conversion of the performance shares. Each tranche of shares issued on conversion of the performance shares will be subject to voluntary escrow for 12 months. Refer to note 2.10 for details.

2.10 Provisions and liabilities

	2022 \$	2021 \$
Current		
Employee leave provisions	542,902	473,863
RCubed Milestone Incentives (a)	19,571	450,000
Sateva deferred consideration (b)	597,650	471,600
Decipher performance shares (c)	827,792	837,089
Provision for South African payroll tax (fraud loss)	707,495	-
	<u>2,695,410</u>	<u>2,232,552</u>
Non-Current		
Employee leave provisions	37,857	123,103
RCubed Milestone Incentives (a)	-	100,000
Sateva deferred consideration (b)	1,210,099	2,250,000
Decipher performance shares (c)	481,674	557,550
	<u>1,729,630</u>	<u>3,030,653</u>
Total Current and Non-Current	<u>4,425,040</u>	<u>5,263,205</u>

- (a) On 31 May 2019 K2F RCubed Pty Ltd, a wholly owned subsidiary of the Company, 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 pursuant to an asset sale agreement (**Agreement**).

In accordance with the terms of the Agreement (as varied) a final milestone payment of \$19,571 is due. Milestone payments totaling \$1,000,000 have been remitted since acquisition.

- (b) In accordance with the terms of the Sateva acquisition, the Company will pay additional performance-based consideration to the seller. Deferred consideration is calculated at 18% of the invoiced amounts relating to product and product consulting sales from the Sateva Software Products, ongoing or additional development of those products and any other documented or concept products that are being developed by Sateva. The consideration is payable until 30 June 2024.

At 30 June 2022, the Company revalued the deferred consideration to reflect current expectations and reduced the carrying value of the provision by \$759,006. During the year, deferred consideration of \$154,844 was earned by the seller.

- (c) In accordance with the terms of the Decipher acquisition (refer note 2.9), the Company issued performance shares which are converted on an annual basis into a number of fully paid ordinary shares to a value equal to 22% of the annual revenues attributable to the Decipher business, over a four-year period following completion. Each tranche of shares issued on conversion of the performance shares will also be subject to voluntary escrow for 12 months. A maximum of 5,345,633 fully paid ordinary shares in the Company can be issued to CSBP as a result of the conversion of the performance shares. During the year, 475,485 shares valued at \$155,660 were converted.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

2.11 Interest bearing lease liabilities

	2022	2021
	\$	\$
Current		
Lease liability	175,378	49,172
	<u>175,378</u>	<u>49,172</u>
Non-Current		
Lease liability	335,632	36,667
	<u>335,632</u>	<u>36,667</u>
Total Current and Non-Current	<u>511,010</u>	<u>85,839</u>

The Group has a premises lease for its head office in Perth which has a four year initial term and a five year option to renew, and a commercial lease to rent office space at its South African branch. The South African lease has a fixed term of three years with a renewal option of a further 12 months following the initial term. There is no intention to extend those leases at this time.

2.12 Issued capital

	2022	2021
	\$	\$
Issued capital	40,723,084	34,361,719
Share issue costs	(3,858,789)	(3,495,999)
	<u>36,864,295</u>	<u>30,865,720</u>

<i>Movements:</i>	2022		2021	
	Number	\$	Number	\$
Opening balance	137,977,777	30,865,720	91,546,781	18,189,874
Shares issued – Placement (a)	34,476,137	6,205,705	25,000,000	7,250,000
Broker Options issued – Placement	-	-	-	22
Shares issued – Sateva acquisition	-	-	5,633,803	2,000,000
Shares issued – Decipher acquisition (b)	-	-	11,366,691	3,410,007
Shares issued to advisors	-	-	43,860	15,000
Shares issued – Exercise of options (c)	260,106	-	4,386,642	648,000
Shares issued – conversion of performance rights	475,485	155,660	-	-
Share issue costs	-	(362,790)	-	(430,948)
Share based payments – share issued costs	-	-	-	(216,235)
Closing balance	<u>173,189,505</u>	<u>36,864,295</u>	<u>137,977,777</u>	<u>30,865,720</u>

- (a) On 19 April 2022, the Company completed a placement of 34,476,137 fully paid ordinary shares at \$0.18 per share to raise cash funds of \$6,205,705 (before costs) (**Placement**). The Placement was led by strategic investor, Mapttek, who became a 13.2% shareholder in the Company. Funds raised from the Placement will be used for K2fly's product development and working capital requirements.
- (b) On 31 March 2021, the Company issued 11,366,691 shares in respect to the acquisition of Decipher for Mining from CSBP (a subsidiary of Wesfarmers Limited) (refer note 2.9).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

- (c) During the year ended 30 June 2022 the following shares were issued upon the exercise of unlisted options:
- On 6 July 2021 and 11 November 2021, a total of 119,261 shares were issued upon the exercise of 119,261 unlisted options with a nil exercise price, expiring 25 November 2021 (**Series 13**) by employees of the Company (issued under the Company's EIOP).
 - On 21 March 2022, 140,845 shares were issued on the exercise of 140,845 unlisted options with a nil exercise price each expiring on or before 3 May 2022 (subject to vesting conditions) by an employee. The options were issued pursuant to the Sateva Acquisition agreement in exchange for ongoing services to the Company (**Series 20**).

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.

2.13 Reserves

Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve is used to record changes in the fair value of investments.

Performance rights and option reserves

These reserves are used to record the value of equity benefits provided to employees and Directors as part of their remuneration or to consultants arising from services performed.

	2022 \$	2021 \$
Performance rights reserve	199,100	199,100
Option reserve (a)	2,409,227	1,758,818
Foreign currency translation reserve	43,018	20,219
Asset revaluation reserve	120	120
	<u>2,651,465</u>	<u>1,978,257</u>
(a) Movements in option reserve		
Carrying amount at the beginning of the period	1,758,818	999,753
Share-based payments expense – options (recorded through profit or loss)	650,409	542,830
Share-based payments expense – options (recorded through equity in share issue costs)	-	216,235
Carrying amount at the end of the period	<u>2,409,227</u>	<u>1,758,818</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

2.14 Share-based payment expense

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

	2022 \$	2021 \$
Shares issued to advisor	-	15,000
Unlisted options issued to advisors	-	16,495
Unlisted options issued to directors, employees and consultants	650,409	526,335
	<u>650,409</u>	<u>557,830</u>

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

	2022 \$	2021 \$
Options issued to advisor	-	216,235

Unlisted options to directors, employees and consultants

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

- 83,333 unlisted options issued on 3 November 2021 to a consultant of the Company exercisable at \$0 each on or before 31 October 2023 (**Bellatrix Options**) (no vesting conditions) (**Series 28**).
- 785,000 unlisted options issued on 23 December 2021 to directors, as approved by shareholders at the **Company's** Annual General Meeting (**AGM**) with nil exercise price, comprising:
 - 450,000 unlisted options exercisable on or before 29 November 2023 (**ZEP Options**) (no vesting conditions) (**Series 29**);
 - 67,000 unlisted options exercisable on or before 30 June 2025 (**ZEP Options**) (subject to vesting conditions) (**Series 30-1**);
 - 67,000 unlisted options exercisable on or before 30 June 2026 (**ZEP Options**) (subject to vesting conditions) (**Series 30-2**); and
 - 201,000 unlisted options exercisable on or before 30 June 2027 (**ZEP Options**) (subject to vesting conditions) (**Series 30-3**).
- 3,312,976 unlisted options issued on 23 December 2021 to employees under its shareholder approved Employee Incentive Option Plan (**EIOP**) with nil exercise price, comprising:
 - 893,370 unlisted options exercisable on or before 31 August 2025 (**ZEP Options**) (subject to vesting conditions) (**Series 31**);
 - 483,921 unlisted options exercisable on or before 30 September 2025 (**ZEP Options**) (subject to vesting conditions) (**Series 32-1**);
 - 483,921 unlisted options exercisable on or before 30 June 2026 (**ZEP Options**) (subject to vesting conditions) (**Series 32-2**); and
 - 1,451,764 unlisted options exercisable on or before 30 June 2027 (**ZEP Options**) (subject to vesting conditions) (**Series 32-3**).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

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.

Series	Recipient	Number Issued	Value per ZEP Option	Expected % to vest	Condition	Vested / Not Vested	Total Value \$
Series 29	Non-Executive Directors	450,000	\$0.25	100%	Non-Market	Vested	\$112,500
Series 30-1	Executive Director / CEO	67,000	\$0.25	33%	Non-Market ¹	Not Vested	\$5,444
Series 30-2	Executive Director / CEO	67,000	\$0.25	33%	Non-Market ¹	Not Vested	\$5,444
Series 30-3	Executive Director / CEO	201,000	\$0.25	33%	Non-Market ¹	Not Vested	\$16,331
Series 31	Employees (EIOP participants)	893,370	\$0.25	100%	Non-Market ¹	Not Vested	\$223,343
Series 32-1	Employees (EIOP participants)	483,921	\$0.25	47%	Non-Market ¹	Not Vested	\$54,775
Series 32-2	Employees (EIOP participants)	483,921	\$0.25	47%	Non-Market ¹	Not Vested	\$54,775
Series 32-3	Employees (EIOP participants)	1,451,764	\$0.25	47%	Non-Market ¹	Not Vested	\$164,325
		<u>4,097,976</u>					<u>\$636,937</u>

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) 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 2022, as determined by the Board.

Fair Value of Bellatrix Options

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

Series	Recipient	Number Issued	Value per Option	Expected % to vest	Condition	Vested / Not Vested	Total Value \$
Series 28	Bellatrix Options	83,333	\$0.31	100%	Non-Market	Vested	\$25,833
		<u>83,333</u>					<u>\$25,833</u>

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2.15 Contingent assets and liabilities

Contingent assets

In February 2022, the Group became aware of discrepancies between its records in relation to employee tax obligations in South Africa and the records of the local taxing authority. An external advisor was appointed to undertake a forensic investigation of the matter. The investigation, which was completed in August 2022, concluded that the Group had been the victim of a fraud perpetrated by a former employee, and quantified the estimated remaining cost from the fraud to be \$755,592. The matter has been referred to South African police authorities and the Group's insurer has been notified of its intention to submit a claim. The Group's crime insurance policy limit net of the deductible is \$240,000.

There have been no other changes in contingent liabilities or contingent assets since the last annual reporting period (30 June 2021: nil).

2.16 Significant events after balance date

On 30 August 2022, the Company received the final report into the forensic investigation into discrepancies between the Group's records in relation to employee tax obligations in its South African-registered subsidiary and the records of the local taxing authority. That investigation concluded that funds has been misappropriated, and estimated the liability arising from the fraud to be \$755,592. This cost has been recorded in the financial accounts for the year ended 30 June 2022. The matter has been referred to South African police authorities and the Group's insurer has been notified of its intention to submit a claim. The non-compliance has been self-reported to the South African taxing authority and it is the Group's intention to negotiate a payment arrangement to minimise the working capital impact of the debt.

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.

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