

Appendix 4D

K2FLY LIMITED

ABN 69 125 345 502

Half-Year Report – 31 December 2016

RESULTS FOR ANNOUNCEMENT 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)

	Half - Year Ended 31/12/16 \$A	Half - Year Ended 31/12/15 \$A	Amount change \$A	Percentage change %
Revenue from ordinary activities	139,330	-	139,330	100
(Loss) from ordinary activities after tax attributable to members	(1,357,813)	(33,643)	(1,324,170)	3,935
Net (loss) for the half year attributable to members	(1,357,813)	(33,643)	(1,324,170)	3,935

Comment

The increase in revenue from ordinary activities is due to the change in strategic direction for the Company into the Software-as-a-Service sector selling enterprise technology for asset management and asset maintenance for the asset intensive service industries.

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 31 December 2016.

Net tangible asset per ordinary security	31 December 2016	31 December 2015
Net tangible assets	3,523,511	(44,344)
Number of shares on issue at reporting date	50,667,335	47,187,501
Net tangible asset per ordinary security	63.0 cents	(9) cents

Control Gained or Lost over Entities

Not Applicable

Associates and joint ventures

Not Applicable

Foreign Entities Accounting Framework
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Not Applicable

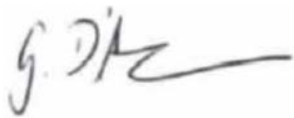
Audit / Review Status

This Appendix 4D and the attached interim financial statements are based on accounts which have been subjected to review. The accounts are not subject to dispute or qualification.

	Current period	Previous corresponding period
Basic (loss) per share in cents	(8) cents	(1) cent

Independent Auditor's Review Report

The Independent Auditor's Review Report can be found on page 7 of the attached financial report for the Half Year ended 31 December 2016.



Gino D'Anna
Executive Director
28 February 2017

The information required by listing rule 4.2A is contained in both this Appendix 4D and the attached half-year report. This half-yearly reporting information should be read in conjunction with the most recent annual financial report of the company.



K2Fly Limited
(formerly Power Resources Ltd)

ABN 69 125 345 502

Half-Year Financial Report

For the Half-Year Ended
31 December 2016

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CORPORATE DIRECTORY

DIRECTORS

Brian Miller (Executive Chairman and CEO)
Noel Bonnick (Non-Executive Director)
Gino D'Anna (Non-Executive Director)
Russell Moran (Non-Executive Director)
Neil Canby (Non-Executive Director)
James Deacon (Non-Executive Director)

COMPANY SECRETARY

Gino D'Anna (appointed 18 November 2016)

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

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

SHARE REGISTRY

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

AUDITORS

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

AUSTRALIAN SECURITIES EXCHANGE

K2fly Limited Shares (K2F) are listed on the Australian Securities Exchange.

DIRECTORS' REPORT

Your Directors present their half-year report on the Company and its controlled entities ("Group") for the half-year ended 31 December 2016.

1. DIRECTORS

The names of the Directors of the Company in office during the financial period and up to the date of this report are as follows.

Directors were in office from the beginning of the financial period until the date of this report unless otherwise stated.

Michael Scivolo	Non-Executive Chairman	Resigned 17 November 2016
Robert John Collins	Non-Executive Director	Resigned 17 November 2016
Hersh Solomon Majteles	Non-Executive Director	Resigned 17 November 2016
Brian Miller	Executive Chairman / CEO	Appointed 18 November 2016
Noel Bonnick	Non-Executive Director	Appointed 18 November 2016 Resigned 14 February 2017
Gino D'Anna	Non-Executive Director	Appointed 18 November 2016
Russell Moran	Non-Executive Director	Appointed 18 November 2016
Neil Canby	Non-Executive Director	Appointed 14 February 2017
James Deacon	Non-Executive Director	Appointed 14 February 2017

2. RESULTS

Operating Results

The Group incurred a net loss after income tax during the half year of \$1,357,813 (December 2015: net loss of \$33,643).

Financial Position

At 31 December 2016, the Group had cash reserves of \$2,490,014 (30 June 2016: \$30,126).

3. ACTIVITIES REPORT

The first half of the financial year of 2017 has yielded a transformative change for K2fly Limited ("K2fly") after the change of strategic direction and the pursuit of a new Software-as-a-Service (SaaS) business operating in the arena of industrial / enterprise grade technology. Armed with this new business model, the Company now licences asset maintenance and asset management technology platforms to asset intensive industries across the world and across multiple industry segments.

Built, developed and refined over a period of more than 12 years, K2fly's software delivers infrastructure asset management solutions. The K2fly software allows asset management professionals to access a centralised system to manage and maintain all their asset data to improve efficiency and outcomes for asset value realisation.

The K2fly software products are applicable to a range of industry sectors including government, utilities, transport, health, education, real estate, oil and gas, and mining, and have been implemented by over 20 clients globally.

This is just the beginning for K2fly and your board and management team are confident of delivering enhanced shareholder returns over the years to come.

DIRECTORS' REPORT (continued)

Some of the pertinent highlights of the past six months are outlined below:

- K2F successfully completed the acquisition of its intellectual property assets and listed on the ASX on 22 November 2016 after completing a capital raising of \$4,125,000
- K2F demonstrated its software sales strategy and participated in tenders in asset intensive sectors across the UK and Europe in collaboration with its FTSE-30 major distribution partner
- The Company launched an innovative cloud-based real-time asset tagging and inspection platform, known as NovIn and entered a partnership with Singapore-based Archer Systems
- Strengthened relationship with ASEAN channel partner, Mitrais, through the upgrade of ADAM technology platform – and expanding its footprint in this important market
- The Company was awarded a milestone contract with a WA-based utility providing K2F with the opportunity to significantly expand its presence within the key utilities sector
- K2F was awarded a contract extension with a tier-1 mining services client which maintains its exposure to the mining sector
- Milestone partnering agreement executed with Atlanta-based OBI Partners for the licencing of Operational Business Intelligence Solutions within Australia
- K2fly is well positioned to win additional contracts within the vertical markets of electricity, gas, water and rail

The first half of the 2017 financial year represented a positive and successful period for K2fly, highlighted by the completion of its intellectual property acquisition and listing on the ASX, on 22 November 2016, after an oversubscribed prospectus offer which raised \$4.25 million at an issue price of 20c per share.

Post re-listing, the Company has made immediate progress in the execution of its business plan, and currently has in place key Partnership Agreements in the UK and Europe as well as the ASEAN region. K2fly has also entered into a number of significant new contracts and partnerships to expand its service provision footprint in the Enterprise Asset Management sector.

With the listing now complete, K2fly's total focus is on business growth and it is anticipated that current contracts and partnerships, along with the Company's continuing business development activities will drive revenues over the coming period.

Commenting on the half-yearly achievements, K2fly CEO and Executive Chairman Brian Miller stated,

"K2fly has undergone a significant transition since the completion of its acquisition and listing on the ASX in November last year. In addition to licencing its own IP, the Company has been able to attract highly experienced partners such as OBI Partners which allows the Company to further enhance its software offering in asset intensive sectors."

"K2fly continues to work with its own Australian clients and the recent award of the milestone contract with the WA-based utility has meant that we are now positioned to win additional contracts in this important sector."

"In 2017, we will continue to focus on the electricity, gas, water and rail sectors as we see these vertical industries as having an increased need for better data management."

DIRECTORS' REPORT (continued)

Contract Extension with Tier-1 WA-Based Mining Services Company

On 9 January 2017, the Company announced it had been awarded a significant contract extension with a tier-1 WA-based mining services company. This is K2fly's second contract extension with this client and signifies the strength in relationship it has with its clients. Under the contract extension K2fly will continue to provide asset-specific data management and analysis, and efficient asset maintenance profiling. The mining services company provides Build-Own-Operate-Transfer (BOOT) and turnkey solutions to mining sector projects globally.

Milestone Partnership Agreement with US-based OBI Partners

On 18 January 2017, K2fly entered into a milestone Partnership Agreement with US-based OBI Partners (OBI), of Atlanta, Georgia. Under the Agreement, K2fly has the exclusive right to licence OBI's services and solutions within the utilities and rail sectors in Australia. OBI is an operational business intelligence solutions provider focused on the utility industry. It provides operational business intelligence solutions in electric and gas distribution companies, and power generation - ranging from hydro to nuclear.

Significant new contract with major Western Australian-based Utility

In December 2016, the Company was awarded a significant milestone-based new business contract with a major Western Australian-based Utility (ASX announcement, 21 December 2016). K2fly will provide consultancy and advisory services as part of a business transformation program within the utility. It is expected that after the successful completion of phase one of the contract, the scope of contract will increase significantly - in the first half of 2017. The successful completion of this contract will position K2fly to win additional contracts in the utilities sector, which is a core focus for the Company.

ADAM Upgrade and Expansion of South East Asian Footprint

In November 2016, K2fly released an upgrade of its flagship software application, real-time analytical platform, ADAM (ASX announcement, 30 November 2016). The upgrade was completed in conjunction with its ASEAN distribution partner Mitrais, and ensures that ADAM continues to be a market leading software platform for real-time analytical and data management for those key asset-intensive industries. The collaboration with Mitrais and the upgrades to ADAM also strengthened its partnership with Mitrais and facilitates the expansion of K2fly's footprint in South East Asia.

Partnership Agreement with Archer Systems and New Product Offering

Also in November 2016, the Company entered into a two-year Distribution and Partnership Agreement with Archer Systems of Singapore to drive sales of its latest innovative software product offering, NovIn (ASX announcement, 25 November 2016). NovIn is a cloud-based asset inspection software that allows asset managers to make decisions in a timely and agile manner and optimise asset maintenance functions. Under the agreement, K2fly will licence NovIn in the UK and Europe, and the ASEAN region, through its distribution partners.

K2fly operates a Software-as-a-Service (SaaS) business model and seeks to develop, market, sell and implement leading edge software in large enterprise-scale companies who rely upon the performance of their assets.

K2fly licences its own proprietary software including the real-time analytical platform, ADAM, as well as a suite of mobile field working solutions. K2fly is also working with its international partners, such as OBI Partners, providing the Company with access to additional systems and software

DIRECTORS' REPORT (continued)

solutions, allowing K2fly to enhance its own software offering and become a value-added reseller in Australia.

K2fly derives revenue from multiple channels including software licencing, consulting, support and configuration.

Auditor's Independence Declaration

Section 307C of the Corporation Act 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 6 and forms part of this Directors' report for the half-year ended 31 December 2016.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001.



Gino D'Anna
Director
Perth, 28 February 2017

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of K2fly Limited for the half-year ended 31 December 2016, 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 review; and
- b) any applicable code of professional conduct in relation to the review.

Perth, Western Australia
28 February 2017



M R W Ohm
Partner

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Consolidated 31 December 2016	Consolidated 31 December 2015
	\$	\$
Revenue		
Rendering of services	139,330	-
Cost of sales	(43,416)	-
Gross profit	95,914	-
Interest revenue	1,999	6
Administration expense	(29,902)	(4,119)
Compliance & regulatory expense	(98,452)	(14,351)
Consultancy expense	(809,892)	(15,179)
Depreciation & amortisation	(77,263)	-
Research costs	(38,700)	-
Directors fees	(203,171)	-
Employee benefit expense	(41,642)	-
Impairment expense	(32,091)	-
Occupancy expense	(15,600)	-
Public relation & marketing expense	(21,456)	-
Share-based payments	(64,000)	-
Travel expense	(23,557)	-
Loss before income tax benefit	(1,357,813)	(33,643)
Income tax benefit	-	-
Loss for the period	(1,357,813)	(33,643)
Other comprehensive income, net of income tax		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of available-for sale assets	-	-
Income tax relating to these items	-	-
Other comprehensive income for the period, net of tax		
Total comprehensive (loss) for the period	(1,357,813)	(33,643)
Basic loss per share (cents)	(0.08)	(0.01)

The accompanying notes form part of these financial statements.

CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	Consolidated 31 December 2016	Consolidated 30 June 2016
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents		2,490,014	30,126
Trade and other receivables	2	257,340	2,002
Total Current Assets		2,747,354	32,128
Non-Current Assets			
Other financial assets		844	844
Exploration and evaluation expenditure	3	-	24,187
Intangible assets	4	3,422,849	-
Plant and equipment	5	11,765	-
Other assets	6	42,357	-
Total Non-Current Assets		3,477,815	25,031
Total Assets		6,225,169	57,159
LIABILITIES			
Current Liabilities			
Trade and other payables	7	546,151	33,739
Borrowings	8	-	100,000
Total Current Liabilities		546,151	133,739
Non-Current Liabilities			
Trade and other payables	7	145,040	-
Total Non-Current Liabilities		145,040	-
Total Liabilities		691,191	133,739
Net Assets/(liabilities)		5,533,978	(76,580)
EQUITY			
Issued capital	9	11,674,477	4,813,977
Reserves		107,991	120
Accumulated losses		(6,248,490)	(4,890,677)
Total Equity		5,533,978	(76,580)

The accompanying notes form part of these financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Note	Issued Capital \$	Share-based payment reserve \$	Financial Assets Reserve \$	Accumulated Losses \$	Total Equity \$
Consolidated						
Balance at 1 July 2015		4,813,977	-	-	(4,824,678)	(10,701)
Loss for the period		-	-	-	(33,643)	(33,643)
Other comprehensive income for the period, net of income tax		-	-	-	-	-
Total comprehensive income for the period		-	-	-	(33,643)	(33,643)
Shares issued		-	-	-	-	-
Share issue costs		-	-	-	-	-
Share based payments		-	-	-	-	-
Balance at 31 December 2015		4,813,977	-	-	(4,858,321)	(44,344)
Consolidated						
Balance at 1 July 2016		4,813,977	-	120	(4,890,677)	(76,580)
Loss for the period		-	-	-	(1,357,813)	(1,357,813)
Other comprehensive income for the period, net of income tax		-	-	-	-	-
Total comprehensive income for the period		-	-	-	(1,357,813)	(1,357,813)
Shares issued		9,092,000	-	-	-	9,092,000
Share issue costs		(2,231,500)	-	-	-	(2,231,500)
Share-based payments – performance rights		-	64,000	-	-	64,000
Share-based payments - options		-	43,871	-	-	43,871
Balance at 31 December 2016	11	11,674,477	107,871	120	(6,248,490)	5,533,978

The accompanying notes form part of these financial statements.

CONDENSED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Consolidated 31 December 2016 \$ Inflows/ (Outflows)	Consolidated 31 December 2015 \$ Inflows/ (Outflows)
Cash flows from operating activities		
Receipts from customers	42,530	-
Payments to suppliers and employees	(868,030)	(34,220)
Interest received	1,999	6
Interest paid	(1,199)	-
Net cash (used in) operating activities	<u>(824,700)</u>	<u>(34,214)</u>
Cash flows from investing activities		
Payments for plant and equipment	(11,878)	-
Payments for exploration and evaluation expenditure	(7,904)	(1,821)
Net cash (used in) investing activities	<u>(19,782)</u>	<u>(1,821)</u>
Cash flows from financing activities		
Proceeds from the issue of shares	4,125,000	-
Payments for share issue costs	(720,630)	-
Proceeds from borrowings	30,000	30,000
Repayment of borrowings	(130,000)	-
Net cash provided by financing activities	<u>3,304,370</u>	<u>30,000</u>
Net increase/(decrease) in cash held	2,459,888	(6,035)
Cash at beginning of the half year	<u>30,126</u>	<u>27,398</u>
Cash and cash equivalents at the end of the half year	<u>2,490,014</u>	<u>21,363</u>

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of Significant Accounting Policies

(a) Statement of compliance

These half-year consolidated financial statements are general purpose financial statements prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This condensed half-year financial report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2016 and any public announcements made by K2fly Limited and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

(b) Basis of preparation

The half-year report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments to fair value. Cost is based on the fair value of the consideration given in exchange for assets. The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(c) Accounting policies and methods of computation

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The following accounting policy has been adopted for the first time in the current period.

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 being five years. 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.

(d) Significant accounting judgments and key estimates

The preparation of interim financial reports requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS

(e) Adoption of new and revised standards

Standards and Interpretations applicable to 31 December 2016

In the half-year ended 31 December 2016, 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 half-year reporting periods beginning on or after 1 July 2016.

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.

Standards and Interpretations in issue not yet adopted applicable to 31 December 2016

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted that are relevant to the Company and effective for the half-year reporting periods beginning on or after 1 January 2017.

As a result of this review, the Directors have determined that the following Standards and Interpretations may have a material effect on the application of future periods:

- AASB 15 'Revenue from contracts with Customers'

Other than the above, there is no other material impact of the new and revised Standards and Interpretations in issue not yet adopted on the Company and therefore no change material change is necessary to Group accounting policies.

(f) Significant accounting judgement and key estimates

The preparation of half-year financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing this half-year financial report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2016.

In the half-year ended 31 December 2016, management reassessed its estimates in respect of:

- Impairment of asset (Note 3)
- Intangible assets (Note 4)
- Performance rights (Note 11)
- Options (Note 10)

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated 31 December 2016 \$	Consolidated 30 June 2016 \$
2. Trade and Other Receivables		
Accounts receivables	18,410	-
Accrued revenue	34,975	-
Cash advance	1,250	-
GST receivable	178,034	2,002
Prepayments	24,671	-
	<u>257,340</u>	<u>2,002</u>
At the reporting date, none of the receivables were past due or impaired		
3. Exploration and evaluation		
Balance at beginning of period	24,187	22,703
Expenditure incurred	7,904	1,484
Expenditure written off	(32,091)	-
Balance at end of period	<u>-</u>	<u>24,187</u>
The carrying value of this tenement as at 31 December 2016 has been impaired as K2fly Ltd is engaged in the technology sector and is no longer an active explorer of the tenement.		
4. Intangible Assets		
Software at cost	3,500,000 ⁽ⁱ⁾	-
Less: Accumulated amortisation	(77,151)	-
Net carrying value	<u>3,422,849</u>	-
(i)	Represents 17,500,000 shares issued at \$0.20 per share to K2fly NL for the acquisition of technology.	
Carrying amount at the beginning of the period	-	-
Additions	3,500,000	-
Amortisation	(77,151)	-
Carrying amount at the end of the period	<u>3,422,849</u>	-
5. Plant & Equipment		
Electronic Equipment	11,877	-
<i>Less: Accumulated depreciation</i>	(112)	-
Net carrying value	<u>11,765</u>	-
Carrying amount at the beginning of period	-	-
Additions	11,877	-
Depreciation	(112)	-
Carrying amount at the end of the period	<u>11,765</u>	-
6. Other assets		
Deposits	42,357	-
	<u>42,357</u>	-

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated 31 December 2016 \$	Consolidated 30 June 2016 \$
7. Trade and Other Payables		
<i>Current Liabilities</i>		
Accounts payable	311,838	17,839
Accrued expenses	63,102	15,900
Other payables	171,211	-
	<u>546,151</u>	<u>33,739</u>

Trade and conditions relating to the above;

- All amounts are expected to be settled
- Trade payables are non-interest bearing and normally settled on 30 day terms.

Due to the short term nature of trade payables and accruals, their carrying value is assumed to be approximate their fair value.

Non-Current Liabilities

Other payables	145,040	-
	<u>145,040</u>	<u>-</u>

8. Borrowings

Loan by unrelated party	-	100,000
	<u>-</u>	<u>100,000</u>

During the period, the loan was paid in full as per the details within the prospectus

9. Issued Capital

50,667,535 fully paid ordinary shares (30 June 2016: 47,187,501)

	31 December 2016		30 June 2016	
	No	\$	No	\$
Issued and paid up capital		13,905,995		4,813,995
Share issue costs		(2,531,518)		(18)
		<u>11,374,477</u>		<u>4,813,977</u>
Ordinary Shares				
Balance as at beginning of period	47,187,501	4,813,995	47,187,501	4,813,995
Capital reconstruction (1:9.4)	(42,167,466)	-	-	-
Placement of Shares via prospectus	20,625,000	4,125,000	-	-
Placement of Shares – 12 months' escrow	16,000,000	3,200,000	-	-
Placement of Shares – 24 months' escrow	7,250,000	1,450,000	-	-
Convertible note conversion 1:25	937,500	150,000	-	-
Lead manager placements	835,000	167,000	-	-
Share issue costs		(2,231,518)	-	(18)
Balance at end of period	<u>50,667,535</u>	<u>11,674,477</u>	<u>47,187,501</u>	<u>4,813,977</u>

NOTES TO THE FINANCIAL STATEMENTS

10. Options

On 17 November 2016 and 1 December 2016, the Group issued 1,920,000 and 800,000 options expiring 17 November 2020 and 1 December 2020 respectively.

The Group has rebutted the presumption that the fair value of service can be a reliable measure as a result the options have been separately valued and the fair value determination is as follows:

The assessed fair value at grant date of options issued during the year amounted to \$43,871, determined by internal valuation using Black-Scholes option pricing model.

Set out below are the valuation model inputs used to determine the fair value of the options issued:

	2016
Share price at grant date:	\$0.15
Life of option:	4 years
Expected share price volatility:	32%
Risk free rate:	1.5%

	Number	Grant Date	Expiry Date	Exercise Price \$	Fair Value at Grant Date	Vesting Date
Series 1	1,920,000	17/11/2016	17/11/2020	0.25	\$30,968	17/11/2016
Series 2	800,000	1/12/2016	01/12/2020	0.25	\$12,903	1/12/2020
	2,720,000				\$43,871	

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

NOTES TO THE FINANCIAL STATEMENTS

11. Performance Rights

During the period, \$64,000 was recognised as a share-based payment made to the Directors of the Company.

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

	Number	Value per share	Probability	Condition	Total Value
Class 1	320,000	\$0.20	100%	Non-Market	\$64,000
Class 2	310,000	\$0.20	0%	Market	\$-
Class 3	310,000	\$0.20	0%	Market	\$-
Class 4	350,000	\$0.20	0%	Non-Market	\$-
Class 5	350,000	\$0.20	0%	Non-Market	\$-
Class 6	350,000	\$0.20	0%	Non-Market	\$-
Class 7	410,000	\$0.20	0%	Non-Market	\$-
Class 8	550,000	\$0.20	0%	Non-Market	\$-
Class 9	550,000	\$0.20	0%	Non-Market	\$-
	<u>3,500,000</u>				<u>\$64,000</u>

These Performance Rights which, upon their achievement, will convert into shares (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 executing a Distribution Partnership Agreement/Re-seller Agreement with an acceptable agent based in the European region
Class 6	Company executing a Distribution Partnership Agreement/Re-seller Agreement with an acceptable agent based in the Asian region
Class 7	Company achieving total sales revenue over a full financial year of not less than \$1.5million with a minimum 10% net profit margin (before tax)
Class 8	Company achieving total sales revenue over a full financial year of not less than \$3million with a minimum 15% net profit margin (before tax)
Class 9	Company achieving total sales revenue over a full financial year of not less than \$5million with a minimum 20% net profit margin (before tax)

12. Contingent Liabilities and contingent assets

There has been no change in contingent liabilities or contingent assets since the last annual reporting period.

NOTES TO THE FINANCIAL STATEMENTS

13. Financial Reporting by Segments

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 period, the Group operated predominantly in one business and geographical segment being the technology sector in Australia. Accordingly, under the 'management approach' outlined only one operating segment has been identified and no further disclosure is required in the notes to the financial statements.

14. Subsequent Events

Following the end of the reporting date the following subsequent event has occurred:

- Appointment of two non-executive directors, Mr Neil Canby and Mr James Deacons.

In the interval between the end of the half year and the date of this report there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of these operations, or the state of affairs of the Group, currently or in future financial years.

DIRECTORS' DECLARATION

The Directors declare that:

- (a) The financial statements and notes, are in accordance with the Corporations Act 2001, including:
 - i. complying with Accounting Standard, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - ii. giving a true and fair view of the Groups financial position as at 31 December 2016 and of its performance, for the half-year ended.
- (b) In the Directors' opinion there are reasonable grounds to believe that K2fly Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors



Gino D'Anna
Director

Perth, 28 February 2017

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of K2fly Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of K2fly Limited (“the company”) which comprises the condensed statement of financial position as at 31 December 2016, the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors’ declaration, for the Group comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors’ responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group’s financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of K2fly Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

A handwritten signature in blue ink, appearing to read 'M R W Ohm'.

M R W Ohm
Partner

Perth, Western Australia
28 February 2017



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