

ASX / Media Release

31 August 2017

ASX code: **K2F**

Operational Review and Activities Summary Financial Year ended 30 June 2017

Highlights:

- Completed the acquisition of Infoscope, an established revenue generating business with FY17 revenue of approximately \$1.5m and EBIT of approximately \$400,000
- Infoscope acquisition represents an attractive EBIT multiple of 1.56 times and an outstanding opportunity for K2Fly - preserving cash reserves in excess of \$1.2m post settlement
- Infoscope is immediately cashflow positive with significant net cash inflows expected from operations during the 2018 financial year
- Significant growth in revenue pipeline – K2F has formally participated in tenders for software and/or consulting services in excess of \$8 million
- Strong revenue generation for the financial year – sales revenue for the 7 months from December 2016 to June 2017 were \$626,698 driven by accelerated growth in the K2F consulting division
- High Gross Profit margin of 59.9% for the 2017 financial year reflecting strong sales growth and prudent cost management - gross profit margin expected to be maintained during the 2018 financial year
- Increased market penetration in the Australian market as K2F continues to establish its credentials in the asset intensive arena
- Partnership and reseller agreement executed with ASX Listed Pointerra Limited for resale of high powered GIS and 3D mapping software – complements K2F's penetration in the mining and utilities sector
- 3-year agreement executed with UK-based Capita plc for licencing and distribution of high demand Capita product offerings - right to extend agreement beyond initial term
- Milestone partnering agreement executed with US-based OBI Partners for licencing of OBI's Operational Business Intelligence Solutions in Australia
- Launched an innovative cloud-based real-time asset tagging and inspection platform, known as NovIn and entered a partnership with Singapore-based Archer Systems

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- **Strengthened relationship with ASEAN channel partner, Mitrais, through the upgrade of ADAM technology platform – and expanding its footprint in this important market**
- **K2fly is well positioned to win additional contracts within the vertical markets of mining, electricity, gas, water and rail**
- **Completed Rights Issue of Options Offer – continued support from key major shareholders**
- **Strengthened board and management - Neil Canby and James Deacon appointed Directors and Robert Pradera joined the executive management team as Director of Asset and Works Management**
- **As at 30 June 2017 K2F had cash and cash equivalents of approximately \$2.1 million – a strong financial position with a solid platform for continued growth**

Financial Year ended 30 June 2017 Operational Review and Commentary

The financial year ended 30 June 2017 represented a positive and successful period for K2fly, in which the Company continued to build on its successful foundations - continuing to work with key existing clients and acquiring new clients in the consulting division. Company owned software sales (predominantly the ADAM technology platform) also generated revenue growth during the financial year and the Company continued to actively respond to major tenders with the promotion of third-party software from its offshore partners. K2fly also completed the milestone acquisition of leading data collaboration business, Infoscope Pty Ltd. Infoscope represents a highly complementary and value accretive acquisition, and its clients include Fortescue Metals Group, National Trust and Metals X.

The Company delivered strong revenue growth during the financial year, with sales over the 7 months from December 2016 to June 2017 totalling \$626,698 driven by accelerated growth in the consulting division, third-party software sales and own software sales.

The Company has achieved a Year to Date Gross Profit margin of 59.9%, reflecting strong sales growth whilst also minimising cost exposures. This is a significant achievement for the Company particularly in light of its listing on the ASX in November 2016 demonstrating its ability to generate revenue whilst minimising costs. Importantly, K2fly expects to maintain this high gross profit margin through the 2018 financial year, which will have a positive impact on the Company's financial position.

With the recent addition of Infoscope to the K2fly group, the Company is in a strong position to continue to drive revenue and margin growth. Recently, the Infoscope business was merged with the administration and office functions of K2fly, providing multiple synergies and future cost savings.

K2fly has a sound cash position at the financial year end with cash and cash equivalents totalling approximately \$2.1 million. K2fly's total focus is on business growth and it is anticipated that current contracts and partnerships, along with the Company's continuing and expanding business development activities will drive strong revenues over the coming period.

Commenting on the achievements of the Company during the 2017 financial year, K2fly CEO and Executive Chairman Brian Miller stated,

"This financial year has been a truly transformative one for our Company. After completing our listing during November 2016, K2fly has continued to build on the strong foundations of its business with a core focus on delivering revenue growth whilst minimising operational costs. Our Company has performed strongly during the financial year with revenue totalling \$626,698. Our software sales

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division and consulting division both performed well and we have been very active in submitting tenders for major consulting and software implementation contracts. This is just the beginning for K2fly and the 2018 financial year will see our Company continue to drive revenue growth and maximise our gross margin”

“Of significant note is the completion of our first acquisition, Infoscope. This acquisition marks a major transition for K2fly as we continue to build our core product offering, and importantly our revenue streams. Infoscope achieved revenue of \$1.5 million with a corresponding EBIT of \$400,000 for the FY17 financial year. We are very pleased with this acquisition and excited about our future growth opportunities.”

“We have a sales pipeline of in excess of \$8 million representing new tenders submitted. Although there is no guarantee we will be awarded any of this work, we are confident that the K2F offering is highly desired by major organisations in asset intensive industries. These tender responses have covered bids to organisations in Queensland, New South Wales, South Australia, Victoria and Western Australia.”

“K2F continues to achieve an increase in market penetration within Australia. We are aggressively seeking further value-add partnership opportunities that will add positive revenue impact to K2fly.”

“During the remainder of 2017 and 2018, we will continue to focus on the Utilities, Rail and Resources sectors as we see these vertical industries as being ripe for digital transformation and the adoption of leading edge software solutions. K2F is positioning itself to play a significant role within Tier 1 clients who adopt a new business strategy based around the Internet of Things. K2F is recruiting new staff, and is also retraining existing personnel to meet the demands of the anticipated growth of the business in 2017 and beyond.”

“We would like to thank our supportive shareholders and look forward to delivering enhanced shareholder returns in the near term as we continue to grow our business and develop our core software and service offerings. This is a very exciting time for our Company.”

Summary of Financial Performance

For the financial year ended 30 June 2017, the Company delivered sales revenue of \$626,698 for the 7 months from December 2016 to June 2017. The loss for the financial year totalled approximately \$3.1 million after allowance for a one-off impairment cost of \$1,300,000. This is a non-cash expense item. In addition, the expenses for the financial year are higher than what would usually be the case for the Company due to its RTO which was completed in November 2016. This included significant one-off costs related to ASX listing fees, legal fees associated with the RTO, cash settlement fees payable to Kalgoorlie Mine Management as well as accounting fees and audit fees associated with the preparation of the Prospectus. Brokerage fees associated with the capital raising were also incurred during the financial year which resulted in higher one-off expenses over this period.

Business development expenses were also higher during the financial year given the roll-out of the new business model associated with the Company and the partnerships that have been delivered with Capita Plc, Mitrais, Archer Systems, ABB and OBI Partners. These costs are incurred ahead of revenue delivery as we build up our pipeline of potential contracts and tenders and are expected to deliver revenue in the next financial year.

It is expected that majority of these costs will no longer exist within the Company and usual operating expenses of the Company will be significantly lower for the 2018 financial year.

Operational Update

Consulting Division

K2Fly's consulting division performed strongly during the financial year with engagements with clients in the utilities, infrastructure and mining services sectors.

The Company gained new consultancy clients in the electricity sector in Western Australia and in the railway sector in Victoria. Much of this is based around asset management consultancy, as well as delivering a mobile field working prototype solution.

Our aim is to become a trusted adviser to these clients and others that K2Fly is successful in acquiring and retaining.

K2Fly continued with its consultancy contracts in Western Power, ABB, Programmed and Mineral Resources. Since the end of the 2017 financial year, K2F has acquired additional consultancy contracts with Horizon Power, Public Transport Authority and Snowy Hydro.

Own Software

Software sales of the Company's real-time analytical platform ADAM and its Mobile Solutions also performed well, with a number of strong new business opportunities generated and currently being pursued.

K2 Technology Pty Ltd, a partner of K2fly, has continued to successfully sell K2fly's own software / IPR including ADAM and Tagman. Software as a Service (**SaaS**) contracts have been concluded with both Woodside in Western Australia and Shell in Queensland. They are currently bidding for comparable opportunities in other Tier 1 Oil & Gas companies.

The Company continues to seek out other opportunities in the mining, infrastructure and facility maintenance sectors which are undergoing a state of transition as automation becomes a focal point in an attempt to maximise efficiencies and reduce costs.

Partnerships

During the financial year, the Company executed a partnership and reseller agreement with Pointerra, a GIS and 3D mapping specialist software provider. Clients that are grappling with 3D datasets that are large and unmanageable require advanced tools and skills for management, processing and analysis. This can lead to inefficient workflows, extra cost and waste, and loss of efficacy. Pointerra specialises in the provision of custom-built IT which addresses this problem. The solution is a breakthrough technology via a cloud-based Data as a Service (DaaS) model where valuable 3D data can be stored, managed, viewed, shared, extracted and monetised.

K2fly has entered in to a reseller agreement with Pointerra with its subscription-based Data as a Service (DaaS) solution for managing, distributing and visualising massive 3D data sets.

During the financial year, K2fly executed two additional milestone partnership and reseller agreements to strengthen its product offering and enhance its position as an active participant in key asset intensive sectors - utilities, electricity, water, gas and rail.

The Company's partnership and reseller agreement with UK and Europe based Capita plc provides K2fly with a 3-year agreement to licence and sell Capita's Affinity Fieldreach and Affinity Geofield Digital Mobile Solutions within Australia. K2F is actively engaged with a number of prospects that

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would benefit from the implementation of these technologies, and is currently pursuing these new business opportunities. In addition, it has already submitted tenders for the implementation of the Capita technologies.

An agreement was also executed with US-based OBI Partners which allows K2F to market, sell and implement the Business Intelligence Solutions of OBI Partners across Australia. The OBI Partners technology is a best-of-breed software offering which is directly applicable to electricity, gas and water utilities. This technology has become part of the core offering of K2F as the Company seeks to achieve a dominant presence in this marketplace.

The Company continues to build on its key existing Partnership Agreements in the US, the UK and Europe as well as the ASEAN region.

K2fly continues to seek additional, strategic relationships as it continues to build out its Internet of Things (IoT) footprint. K2Fly anticipates making other announcements during the second half of 2017 as it secures marketing arrangements with other international providers of leading edge software.

Sale Pipeline Momentum

With the completion of the Infoscope acquisition, the Company has generated a significant revenue pipeline in its first 7 months of operations, with K2F having formally submitted tenders for software and/or consulting services totalling more than \$8 million. This qualified, potential revenue pipeline does not include other business opportunities currently under negotiation at pre-tender stage.

It is expected that future revenue growth will come from our continued positioning of our owned software, as well as 3rd party software, as solutions to asset management problems within asset intensive organisations.

We will also continue to build consulting relationships with asset intensive organisations and assist them with strategy, design, implementation and ongoing improvement of their asset management technologies. We will continue to expand our 3rd party relationships in particular in emerging technologies that are becoming relevant to our client base, such as IoT as a service solutions.

We will also continue to evaluate additional acquisitions which fit within our defined corporate strategy, predominantly in the owned software category.

Acquisition of Infoscope

Subsequent to the end of the financial year, the Company completed the acquisition of Infoscope Pty Ltd (**Infoscope**). This represents a highly complementary, synergistic and value accretive acquisition for K2fly. Infoscope is an established and successful business that owns and operates a leading edge data collaboration platform which connects disparate data sources and assembles multiple information layers to create a visually presentable data store.

Infoscope's client base includes major corporates, Fortescue Metals Group and Metals X. The business delivered record revenue of approximately \$1.5 million for the year ended 30 June 2017 and an EBIT of approximately \$400,000.

Infoscope is a data collaboration platform that specialises in the connection of disparate data sources and assembles the different information layers to create a visually presentable data store that is easily configured and readily accessible. With leading edge market solutions, Infoscope is engaged with major entities, including FMG, Metals X and The National Trust, to bring innovative solutions to the market

around data collaboration and operational efficiency. Infoscope was designed and developed to address a pressing corporate problem – information silos.

The unique Infoscope platform eliminates boundaries found in traditional systems by optimising every piece of information. This is achieved through a new approach to data connections, where the user defines and connects disparate data sources to make sense of it all. Infoscope provides new perspectives to data through limitless connections and visually integrated presentation.

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

The Infoscope solution is directly applicable to the resources, utilities, infrastructure, environment & biodiversity, and cultural heritage sectors.

A number of synergies have been harvested through the acquisition. The operations of Infoscope have been integrated with the operations of K2Fly, ensuring:

- Business Development leverages the opportunities to position Infoscope into existing K2fly clients and position K2fly in existing Infoscope customers.
- Development Teams will be gradually combined. The Infoscope platform is based on the Microsoft Suite, which is the same as the core K2fly product, ADAM. Infoscope also used the same nearshore development partner Mitrais, allowing this core relationship to be strengthened and optimised.
- Back Office consolidation will occur across accounting, Legal, HR, Insurance, IT and other overlapping functions to remove duplication and to leverage economies of scale.

Our Business

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

K2fly licences its own proprietary software including the real-time analytical platform, ADAM, as well as a suite of mobile field working solutions, and the recently acquired Infoscope.

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

K2fly also supplies top quality advisory, consultancy and implementation services through its team of experienced industry experts.

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About K2fly

K2fly Limited is an ASX listed Enterprise Asset Management technology company, which specialises in the provision of infrastructure asset management to asset intensive industries via a software technology platforms and consulting services.

K2fly owns the following proprietary asset management and asset maintenance technologies for use in vertically-integrated asset intensive industries:

INFOSCOPE Data Collaboration Software
ADAM Asset Data Analysis Management
NovIn Real Time Asset Inspection Management App
DocMan Mobility Solutions: Task Management App
TagMan Mobility Solutions: Asset Verification App
HandoverNotes Mobility Solutions: Electronic Information Sharing App
PropertyInspector Mobility Solutions: Asset Inspection App

K2fly also re-sells market leading software which has been developed by industry leaders in Australia, the USA and UK. These solutions come from OBI Partners (USA), Pointerra Limited (Aus) and Capita plc (UK), where they have an outstanding track record of delivering benefits to clients.

Finally, K2fly provides cutting edge advice, consultancy and services when it deploys its subject matter experts who have extensive domain knowledge in such areas as Rail, Electricity, Gas, Water, Mining, Oil & Gas, Facilities Management, Aviation and Defence.

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