Leading technology for asset management

K2fly Limited

(Formerly Power Resources Limited)

ABN 69 125 345 502

ANNUAL REPORT

For the Year Ended

30 June 2017

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

COMPANY SECRETARY
Gino D'Anna

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

Your Directors present their report together with the financial statements of the Group consisting of K2fly Limited and the entities it controlled for the financial year ended 30 June 2017. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

DIRECTORS

The names of Directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Brian Miller B.Ed (Hons), M.A
Executive Chairman / CEO
Appointed 18 November 2016

Mr Miller is a 30 year veteran of the IT sector. Founding member of the Institute of Asset Management (UK). Influenced the development of the initial BS5750 standard for asset management within the UK energy sector. Worked closely with various UK industry regulators including Energy, Water and Rail. Board directorships with UK and Australian IT companies. Brings an extensive network of contacts, opportunities and experience within the mobility in asset intensive sectors.

In the 3 years immediately before the end of the financial year, Mr Miller did not serve as a Director on any other ASX listed company.

Gino D'Anna BCom (Hons) Dip. Finance and Investment, Dip. Financial Analysis, Dip. Corporate Finance
Non-Executive Director
Appointed 18 November 2016
Resigned 15 September 2017

Mr D'Anna has extensive experience in resource exploration, public company operations and administration and financial management. Mr D'Anna was formerly a founding shareholder and Executive Director of Atrum Coal NL

In the 3 years immediately before the end of the financial year, Mr D'Anna also served as a Director of the following ASX listed companies:

- Metalstech Limited *
- Metals Australia LTD *

* denotes current directorships

Russell Moran
Non-Executive Director
Appointed 18 November 2016
Resigned 15 September 2017

Mr Moran has a background in strategic business development in the mining, oil and gas technology sectors. Mr Moran was formerly founder and Executive Director of Atrum Coal NL.

In the 3 years immediately before the end of the financial year, Mr Moran also served as a Director of the following ASX listed companies:

- Metalstech Limited *

* denotes current directorships

James Deacon BSc MBA (Exec) GAICD
Non-Executive Director
Appointed 14 February 2017

Mr Deacon is a veteran of the technology sector with a proven track record in successful business transformation in IT services across a number of industries including utilities, mining and airlines. Has held senior positions at Horizon Power, UnisysWest and US Airways.

In the 3 years immediately before the end of the financial year, Mr Deacon did not serve as a Director on any other ASX listed company.

Noel Bonnick
Non-Executive Director
Appointed 18 November 2016
Resigned 14 February 2017

Mr Bonnick has a mechanical engineering background and over 25 years of industry experience specialising in maintenance support, condition monitoring, maintenance systems development and reliability management.

Noel is the founder and executive chairman of K2 Technology Pty Ltd

In the 3 years immediately before the end of the financial year, Mr Bonnick did not serve as a Director on any other ASX listed company.

Jenny Cutri B Laws (LLB) B Juris, BCom (Accounting), Grad Dip Executive (MBA)
Non-Executive Director
Appointed 15 September 2017

Ms Cutri is a highly experienced legal practitioner and compliance specialist with over 20 years' experience, in both the private and public sectors. Ms Cutri is also the Convener (Chair) of WA Law Society's Commercial Law Committee and a Director with City of Perth Surf Life Saving Club Inc. Ms Cutri has extensive experience in the regulatory environment previously having been: Assistant Manager, Listings Compliance at ASX in Perth for 7 years; and National Disclosure Supervisor, WA Compliance Manager (Financial Services Regulation) and Senior Legal Officer with the Australian Securities and Investments Commission (ASIC). She has also worked with Bankwest heading up their Marketing Compliance. Ms Cutri began her legal career with Parker & Parker (now Herbert Smith Freehills). Ms Cutri has a BLaws (LLB), BJuris, BCom (Accounting) from the University of Western Australia. She also has a Graduate Diploma in Executive MBA from Mt Eliza Business School (now Melbourne Business School).

In the 3 years immediately before the end of the financial year, Ms Cutri did not serve as a Director on any other ASX listed company.

Neil Canby BA Hons (Accounting and Financial Management)

Non-Executive Director
Appointed 14 February 2017

Mr Canby has an extensive history of senior roles across a variety of industries including energy and utilities with responsibilities ranging from business development, project and operational delivery and commercial and financial management.

In the 3 years immediately before the end of the financial year, Mr Canby did not serve as a Director on any other ASX listed company.

Michael Scivolo
Non-Executive Chairman
Resigned 17 November 2016

Mr Scivolo is a Certified Practising Accountant with 35 years' experience in accounting and taxation. He is a former partner and consultant of Perth accounting firm Alessandrino Scivolo.

In the 3 years immediately before the end of the financial year, Mr Scivolo also served as a Director of the following ASX listed companies:

- Sabre Resources Limited *
- South East Asia Resources Limited *
- Metals Australia Ltd *
- Golden Deeps Limited *

* denotes current directorships

Robert John Collins
Non-Executive Chairman
Resigned 17 November 2016

Mr Collins has served on a number of ASX listed industrial and mining company boards and owned a large West Perth accounting practice serving the corporate sector.

In the 3 years immediately before the end of the financial year, Mr Collins also served as a Director of the following ASX listed companies:

- Golden Deeps Limited *
- Covata Limited
- Blaze International Limited

* denotes current directorships

Hersh Solomon Majteles
Non-Executive Chairman
Resigned 17 November 2016

Mr Majteles is a commercial lawyer and has been in private practice in WA since 1972. He has been a board member of a number of publicly listed companies involved in the mining resources, energy and biotech sectors for over 25 years.

In the 3 years immediately before the end of the financial year, Mr Majteles also served as a Director of the following ASX listed companies:

- Promesa Limited (now Thred Limited) *
- Metals Australia Ltd *
- Prime Minerals Limited
- Blaze International Limited

* denotes current directorships

COMPANY SECRETARY

Gino D'Anna BCom (Hons) Dip. Finance and Investment, Dip. Financial Analysis, Dip. Corporate Finance

Mr D'Anna has significant primary and secondary capital markets experience having been involved in a number of IPOs and secondary capital raisings. Mr D'Anna has been involved in a number of corporate reconstructions and capitalisations and has raised in excess of $100 million for companies involved in natural resources, technology and industrial and manufacturing businesses.

Mr D'Anna was a founder of K2fly Limited and was previously Executive Director of ASX Listed Atrum Coal NL. He was previously Executive Director of ASX Listed Ferrum Crescent Limited (ASX: FCR) and ASX Listed SWW Energy Limited (ASX: SWW). Mr D'Anna is currently the Executive Director of 3G Coal NL and Executive Director and Founder of ASX Listed MetalsTech Limited (ASX: MTC) as well as Founder of LiGeneration Limited, now a wholly owned subsidiary of MetalsTech Limited.

PRINCIPAL ACTIVITIES

The principal activities of the entities within the Group during the year were asset management software consulting services and sale of own and third-party software for the asset management and asset intensive industries.

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

The Group licences its own proprietary software including the real-time analytical platform, ADAM, as well as a suite of mobile field working solutions, and the recently acquired Infoscope Pty Ltd ("InfoScope").

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

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

REVIEW OF OPERATIONS

Operating Results

The Group incurred a net loss after income tax during the full year of $2,235,085 (30 June 2016: $(65,999)).

Financial Position

At 30 June 2017, the Group had cash reserves of $1,743,582 (30 June 2016: $30,126).

ACTIVITIES REPORT

Highlights

- K2Fly Limited successfully completed its asset acquisition of K2F technology asset and listed on the ASX on 22 November 2016 after completing a capital raising of $4,130,000

- K2Fly Limited 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

- Completed subsequent to balance date, 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 Limited - 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 – K2fly Limited 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 was $626,698 driven by accelerated growth in the K2fly Limited consulting division

- High gross profit margin of 60.25% 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 K2fly Limited 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 K2fly Limited'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 into 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

- K2fly Limited 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 $1.7 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 Limited, in which the Group 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 Group continued to actively respond to major tenders with the promotion of third-party software from its offshore partners.

On 10 July 2017, K2fly Limited announced that it had 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 Group 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 Group has achieved a Year to Date Gross Profit margin of 60.25%, reflecting strong sales growth whilst also minimising cost exposures. This is a significant achievement for the Group particularly in light of its listing on the ASX in November 2016 demonstrating its ability to generate revenue whilst minimising costs. Importantly, K2fly Limited 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 Limited group, the Group 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 Limited, providing multiple synergies and future cost savings.

K2fly Limited has a sound cash position at the balance date with cash and cash equivalents totalling approximately $1.7 million. K2fly Limited's total focus is on business growth and it is anticipated that current contracts and partnerships, along with the Group's continuing and expanding business development activities will drive strong revenues over the coming period.

Commenting on the achievements of the Group during the 2017 financial year, K2fly Limited 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 Limited 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 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 Limited 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."

"K2fly Limited 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 Limited."

"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. K2fly Limited 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 $2,235,085. The expenses for the financial year are higher than what would usually be the case for the Company due to its asset acquisition of K2Fly technology asset, which was completed in November 2016. This included significant one-off costs related to ASX listing fees, legal fees, cash settlement fees payable to Kalgoorlie Mine Management as well as accounting 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 year given the roll-out of the new business model associated with the Group 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 Group and usual operating expenses of the Group will be significantly lower for the 2018 financial year.

Operational Update

The following section provides an operational update on K2fly Limited for the year ended 30 June 2017.

Consulting Division

K2fly Limited's consulting division performed strongly during the financial year with engagements with clients in the utilities, infrastructure and mining services sectors.

The Group 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 Limited is successful in acquiring and retaining.

Own Software

Software sales of the Group'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 Limited, has continued to successfully sell K2fly Limited'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 Group 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 Group 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 Limited 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 Limited 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 Group'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. K2fly Limited is actively engaged with a number of prospects that 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 K2fly Limited 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 K2fly Limited 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 Limited continues to seek additional, strategic relationships as it continues to build out its Internet of Things (IoT) footprint. K2fly Limited anticipates making other announcements during the second half of 2017 as it secures marketing arrangements with other international providers of leading edge software.

Sales 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 K2fly Limited 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 balance date, the Group completed the acquisition of Infoscope Pty Ltd. This represents a highly complementary, synergistic and value accretive acquisition for K2fly Limited. 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 ("FMG") and Metals X. The business delivered 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 Limited, ensuring:

- Business Development leverages the opportunities to position Infoscope into existing K2fly Limited clients and position K2fly Limited 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 Limited 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.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Group to the date of this report.

DIVIDENDS

No dividends have been paid or declared since the start of the financial year and/or the Directors do not recommend the payment of a dividend in respect of the financial year.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 10 July 2017, K2fly Limited acquired InfoScope by way of cash consideration of $475,000, repayment of an outstanding loan of $150,000 plus interest, the issue of $275,000 worth of K2fly Limited shares and 350,000 options.

On the 15 September 2017, Ms Jenny Cutri was appointed as an Independent Non-Executive Director. Mr Gino D'Anna and Mr Russell Moran elected to stand down from their roles as Non-Executive Directors with Mr D' Anna remaining as Company Secretary.

Other than noted above, there has been no additional matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial periods.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is uncertain and therefore not appropriate to disclose. Therefore, this information has not been presented in this report.

DIRECTORS' MEETINGS

The number of meetings of Directors held during the financial year and the number of meetings attended by each Director were as follows:

	Board Meetings	
	Held	Attended
Brian Miller	4	4
Gino D'Anna	4	4
Russell Moran	4	4
Neil Canby	3	3
James Deacon	3	3
Noel Bonnick	1	-
Michael Scivolo	-	-
Robert John Collins	-	-
Hersh Solomon Majteles	-	-
Jenny Cutri	-	-

INTERESTS IN THE SHARES, OPTIONS AND PERFORMANCE RIGHTS OF THE COMPANY AND RELATED BODIES CORPORATE

At the date of this report, share, options and performance rights granted to Directors of the Company and the entities it controlled are:

	Fully paid ordinary shares	Options	Performance rights
	Number	Number	Number
Brian Miller	714,610	63,998	680,000
Gino D'Anna (*)	1,865,760	373,152	202,500
Russell Moran (*)	5,730,007	846,001	137,500
Neil Canby	275,000	30,000	-
James Deacon	94,273	-	-
Noel Bonnick (*)	728,751	-	-
Jenny Cutri	-	-	-
Michael Scivolo (*)	-	-	-
Robert John Collins (*)	-	-	-
Hersh Solomon Majteles (*)	-	-	-

(*) balance held at date of resignation

SHARE OPTIONS GRANTED TO DIRECTORS

At the date of this report, no share options have been granted to the Directors of the Company and the entities it controlled as part of their remuneration.

UNISSUED SHARES UNDER OPTION

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

	Date options granted	Number of shares under option	Exercise price of options	Expiry date of option
Series 1	22/11/2016	1,920,000	$0.25	22/11/2020
Series 2	22/11/2016	800,000	$0.25	22/11/2020
Series 3	31/05/2017	10,133,507	$0.20	31/05/2020
Series 4	07/07/2017	350,000	$0.25	07/07/2020

SHARES ISSUED DURING OR SINCE THE END OF THE YEAR AS A RESULT OF EXERCISE

No shares were issued during or since the end of the year as a result of exercise.

REMUNERATION REPORT

The Remuneration Report which forms part of the Directors' Report, outlines the remuneration arrangements in place for Key Management Personnel for the financial year ended 30 June 2017 and is included on page 14.

ENVIRONMENTAL LEGISLATION

The Company is not currently subject to any specific environmental regulation. There have not been any known significant breaches of any environmental regulations during the year under review and up until the date of this report.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has agreed to indemnify all the Directors of the Company for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

During the financial year the Company paid a premium in respect of a contract insuring the Directors and officers of the Company and its controlled entities against any liability incurred in the course of their duties to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 24 to the financial statements. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the impartiality and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional & Ethical Standards Board.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Section 307C of the *Corporations Act 2001* requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 17 and forms part of this Directors' report for the year ended 30 June 2017.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of K2fly Limited support and have adhered to principles of sound corporate governance. The Company continued to follow best practice recommendations as set out by 3rd edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. Where the Company has not followed best practice for any recommendation, explanation is given in the Corporate Governance Statement which is available on the Company website at https://www.k2fly.com.

The Corporate Governance principles of the Company were recently updated by a resolution of the Directors on 30 January 2017.

STATEMENT OF COMPLIANCE

The Company confirms that following its asset acquisition, over the period from 18 November 2016 to 30 June 2017, the Company used its cash and assets in a form readily convertible into cash, in a manner that was consistent with its statements contained in its Prospectus dated 22 August 2016, consistent with its business model and its business objectives.

Signed in accordance with a resolution of the Directors.

Brian Miller
Director
Perth, 30 September 2017

This report, which forms part of the Directors' report, outlines the remuneration arrangements in place for the Key Management Personnel of K2fly Limited for the year ended 30 June 2017. The information provided in this remuneration report has been audited as required by Section 308(3C) of the *Corporations Act 2001*.

The Remuneration Report details the remuneration arrangements for Key Management Personnel who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Group.

Key Management Personnel

The Directors and other Key Management Personnel of the Group during the financial year were:

Directors

Brian Miller	Chief Executive Officer Executive Chairman	Appointed 18 November 2016
Gino D'Anna	Non-Executive Director	Appointed 18 November 2016 Resigned 15 September 2017
Russell Moran	Non-Executive Director	Appointed 18 November 2016 Resigned 15 September 2017
Neil Canby	Non-Executive Director	Appointed 14 February 2017
James Deacon	Non-Executive Director	Appointed 14 February 2017
Noel Bonnick	Non-Executive Director	Appointed 18 November 2016 Resigned 14 February 2017
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

Except as noted, the named persons held their current positions for the whole of the financial year and since the financial year. Ms Jenny Cutri was recently appointed as an Independent Non-Executive Director on 15 September 2017.

There are no other Key Management Personnel of the Company.

Remuneration Policy

The Board is responsible for determining and reviewing compensation arrangements for the Directors and management. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The Company does not link the nature and amount of the emoluments of such officers to the Company's financial or operational performance. The lack of a performance link at this time is not considered to have a negative impact on retaining and motivating Directors.

As part of its Corporate Governance Policies and Procedures, the Board has adopted a formal Remuneration Committee Charter. Due to the current size of the Company and number of Directors, the Board has elected not to create a separate Remuneration Committee but has instead decided to undertake the function of the Committee as a full Board under the guidance of the formal charter. The Company has no policy on executives and directors entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

The rewards for Directors' have no set or pre-determined performance conditions or key performance indicators as part of their remuneration due to the current nature of the business operations. The Board determines appropriate levels of performance rewards as and when they consider rewards are warranted.

Remuneration Committee

During the year ended 30 June 2017, the Company did not have a separately established nomination or remuneration committee. Considering the size of the Company, the number of directors and the Company's early stages of its development, the Board is of the view that these functions could be efficiently performed with full Board participation.

Remuneration structure

In accordance with best practice corporate governance, the structure of Executive Director and Other Key Management and Non-Executive Directors' remuneration is separate and distinct.

Executive Director and Other Key Management remuneration

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

Fixed remuneration

Directors receive a fixed fee and remunerated for any professional services conducted for the Company.

There are no retirement schemes for any Directors or any loans or any other type of compensation.

Non-Executive Director remuneration

The non-executive Directors are entitled to receive directors' fees of amounts as determined by the shareholders of the Company in general meeting. Non-executive directors may also be remunerated for additional specialized services performed at the request of the Board and reimbursed for reasonable expenses incurred on Company business.

Employment Contracts

Remuneration and other terms of employment of Directors and Other Key Management Personnel are formalised in an employment contract. The major provision of the agreements related to the remuneration are set out below.

	Base salary	Terms of agreement	Notice period
Brian Miller	$240,000	Permanent	3 months
Gino D'Anna	$120 per hour	Consultancy Agreement	Not Applicable

Remuneration of Key Management Personnel

	Short-term employee benefits		Share-based payments		
30 June 2017	Salary and fees $	Superannuation $	Options $	Performance Rights $	Total $
Brian Miller	254,000	-	-	53,040	307,040
Gino D'Anna	66,960	-	-	15,795	82,755
Russell Moran	25,000	-	-	10,725	35,725
Neil Canby	13,500	-	-	-	13,500
James Deacon	13,500	-	-	-	13,500
Noel Bonnick	18,000	-	-	-	18,000
Michael Scivolo	13,334	-	-	-	13,334
Robert John Collins	19,666	-	-	-	19,666
Hersh Solomon Majteles	2,000	-	-	-	2,000
	425,960	-	-	79,560	505,520

30 June 2016	Short-term employee benefits: Salary and fees $	Short-term employee benefits: Superannuation $	Share-based payments: Options $	Share-based payments: Performance Rights $	Total $
Michael Scivolo	-	-	-	-	-
Robert John Collins	-	-	-	-	-
Hersh Solomon Majteles	-	-	-	-	-

Cash bonuses included in remuneration

No cash bonuses were granted during 2017 (2016: $nil).

Share-based remuneration granted as compensation

For details of share-based payments granted during the year, refer to Note 17 (2016: $nil).

Other information

Ordinary shares held by Key Management Personnel

30 June 2017	Opening Balance Number	Granted Number	Exercised Number	Closing Balance Number	Balance held nominally Number
Brian Miller	-	319,990	-	319,990	319,990
Gino D'Anna	-	1,865,760	-	1,865,760	1,797,760
Russell Moran	-	4,230,007	-	4,230,007	4,230,007
Neil Canby	-	150,000	-	150,000	150,000
James Deacon	-	-	-	-	-
Noel Bonnick	-	728,751	-	728,751	728,751
Michael Scivolo (*)	-	-	-	-	-
Robert John Collins(*)	-	-	-	-	-
Hersh Solomon Majteles(*)	-	-	-	-	-

(*) No interest in shares of the Company held at date of resignation.

Options held by Key Management Personnel

30 June 2017	Opening Balance Number	Granted Number	Exercised Number	Closing Balance Number	Balance held nominally Number
Brian Miller	-	63,998	-	63,998	-
Gino D'Anna	-	373,152	-	373,152	359,552
Russell Moran	-	846,001	-	846,001	846,001
Neil Canby	-	30,000	-	30,000	-
James Deacon	-	-	-	-	-
Noel Bonnick	-	-	-	-	-
Michael Scivolo (*)	-	-	-	-	-
Robert John Collins(*)	-	-	-	-	-
Hersh Solomon Majteles(*)	-	-	-	-	-

(*) No interest in options of the Company held at date of resignation.

Performance rights held by Key Management Personnel

30 June 2017	Opening Balance Number	Granted Number	Exercised Number	Closing Balance Number	Balance held nominally Number
Brian Miller	-	680,000	-	680,000	-
Gino D'Anna	-	202,500	-	202,500	202,500
Russell Moran	-	137,500	-	137,500	137,500
Neil Canby	-	-	-	-	-
James Deacon	-	-	-	-	-
Noel Bonnick	-	-	-	-	-
Michael Scivolo (*)	-	-	-	-	-
Robert John Collins (*)	-	-	-	-	-
Hersh Solomon Majteles(*)	-	-	-	-	-

(*) No interest in performance rights of the Company held at date of resignation.

Loans to Key Management Personnel

No loans were granted to Kay Management Personnel in the current or prior financial year.

Other transactions with Key Management Personnel

There are no other transactions with Key Management Personnel during the year (2016: $nil).

Payables

	Payables (Incl. GST) $	Payables (Excl. GST) $
Brian Miller	23,100	21,000
Gino D'Anna	3,300	3,000
Russell Moran	3,300	3,000
Neil Canby	3,300	3,000
James Deacon	-	-
Noel Bonnick	-	-
Michael Scivolo	-	-
Robert John Collins	-	-
Hersh Solomon Majteles	-	-

End of audited remuneration report.

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of K2fly Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

Perth, Western Australia	**M R Ohm**
30 September 2017	**Partner**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $	2016 $
Revenue	2	626,698	-
Cost of sales		(249,098)	-
Gross profit		**377,600**	**-**
Interest revenue		8,956	6
Administration expense		(410,364)	(27,707)
Amortisation expense		(424,274)	-
Compliance & regulatory expense		(119,248)	(38,298)
Consultancy expense		(826,390)	-
Depreciation expense		(2,563)	-
Directors fees		(299,131)	-
Employee benefit expense		(228,142)	-
Impairment of exploration and evaluation expenditure		(32,091)	-
Occupancy expense		(42,184)	-
Public relation & marketing expense		(50,062)	-
Research costs		(51,214)	-
Share-based payments		(79,560)	-
Travel expense		(56,408)	-
Loss before income tax expense	2	(2,235,085)	(65,999)
Income tax expense	3	-	-
Loss for the year		**(2,235,085)**	**(65,999)**
Other comprehensive income, net of income tax:			
Items that may be reclassified to profit and loss			
Changes in the fair value of available-for-sale assets		-	120
Income tax relating to these items		-	-
Other comprehensive income for the year, net of tax		**-**	**120**
Total comprehensive loss for the year		**(2,235,085)**	**(65,879)**
Basic and diluted loss per share (cents per share)	5	(6.70)	(1.31)

The accompanying notes form part of the financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Notes	2017 $	2016 $
Assets			
Current assets			
Cash and cash equivalents	6	1,743,582	30,126
Trade and other receivables	7	360,297	2,002
Total current assets		**2,103,879**	**32,128**
Non-current assets			
Other financial assets	8	844	844
Plant and equipment	9	13,486	-
Intangible assets	10	3,075,726	-
Exploration and evaluation expenditure	11	-	24,187
Other assets	12	2,480	-
Total non-current assets		**3,092,536**	**25,031**
Total assets		**5,196,415**	**57,159**
Liabilities			
Current liabilities			
Trade and other payables	13	345,844	33,739
Borrowings	14	-	100,000
Total current liabilities		**345,844**	**133,739**
Non-current liabilities			
Trade and other payables	13	68,750	-
Total non-current liabilities		**68,750**	**-**
Total liabilities		**414,594**	**133,739**
Net assets / (liabilities)		**4,781,821**	**(76,580)**
Equity			
Issued capital	15	11,682,697	4,813,977
Reserves	16	224,886	120
Accumulated losses		(7,125,762)	(4,890,677)
Total equity/(deficiency)		**4,781,821**	**(76,580)**

The accompanying notes form part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	Issued capital $	Share-based payments reserve $	Option reserve $	Available-for-sale reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2015	4,813,977	-	-	-	(4,824,678)	(10,701)
Loss for the year	-	-	-	-	(65,999)	(65,999)
Other comprehensive income	-	-	-	120	-	120
Total comprehensive loss for the year	-	-	-	120	(65,999)	(65,879)
Balance as at 30 June 2016	**4,813,977**	**-**	**-**	**120**	**(4,890,677)**	**(76,580)**
Loss for the year					(2,235,085)	(2,235,085)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(2,235,085)	(2,235,085)
Shares issues	9,110,000	-	-	-	-	9,110,000
Share issue costs	(2,241,280)	-	-	-	-	(2,241,280)
Share-based payments	-	79,560	145,206	-	-	224,766
Balance as at 30 June 2017	**11,682,697**	**79,560**	**145,206**	**120**	**(7,125,762)**	**4,781,821**

The accompanying notes form part of the financial statements

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $ Inflows / (Outflows)	2016 $ Inflows / (Outflows)
Cash flows from operating activities			
Receipts from customers		310,610	-
Payments to suppliers and employees		(1,975,684)	(60,794)
Interest received		8,956	6
Interest paid		(2,398)	-
Net cash (used in) operating activities	6	**(1,658,516)**	**(60,788)**
Cash flows from investing activities			
Payments for plant and equipment	9	(16,049)	-
Payments for exploration and evaluation expenditure	11	(7,904)	(1,484)
Net cash (used in) investing activities		**(23,953)**	**(1,484)**
Cash flows from financing activities			
Proceeds from the issue of shares		4,125,000	-
Payments for share issue costs		(730,410)	-
Proceeds from option entitlement issue		101,335	-
Proceeds from borrowings	14	30,000	65,000
Repayment of borrowings	14	(130,000)	-
Net cash provided by financing activities		**3,395,925**	**65,000**
Net increase in cash held		**1,713,456**	**2,728**
Cash at beginning of the year	6	30,126	27,398
Cash and cash equivalents at the end of the year	6	**1,743,582**	**30,126**

The accompanying notes form part of the financial statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the *Corporations Act 2001*, Accounting Standards and Interpretations and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements for the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial statements are for the Group consisting of K2fly Limited and its subsidiaries.

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

(b) Adoption of new and revised standards

Standards and interpretations in issue not yet adopted

Certain new accounting standards and interpretations have been publishes that are not mandatory for 30 June 2017 reporting periods. Those which may have a significant impact to the Group are set out below. The Group does not plan to adopt these standards early.

AASB 9 Financial Instruments (2014)

AASB 9 (2014), published in December 2014, replaces the existing guidance AASB 9 (2009), AASB 9 (2010) and AASB 139 Financial Instruments: Recognition and Measurement and is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The new standard results in changes to accounting policies for financial assets and liabilities covering classification and measurement, hedge accounting and impairment. The Group has assessed these changes and determined that based on the current financial assets and liabilities held at reporting date, the Group will need to reconsider its accounting policies surrounding impairment recognition. The new impairment requirements for financial assets are based on a forward looking 'expected loss model' (rather than the current 'incurred loss model').

The Group does not expect a significant effect on the financial statements resulting from the change of this standard however the Group is in the process of evaluating the impact of the new financial instrument standard. The changes in the Group's accounting policies from the adoption of AASB 9 will be applied from 1 July 2018 onwards.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, including in respect of multiple element arrangements. It replaces existing revenue recognition guidance, AASB 111 Construction Contracts, AASB 118 Revenue and AASB 1004 Contributions. AASB 15 is effective from annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The core principle of AASB 15 is that it requires identification of discrete performance obligations within a transaction and associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks and rewards. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur when the uncertainties around its measurement are removed.

The Group has commenced the process of evaluating the impact of the new standard on existing revenue streams and will first apply AASB 15 in the financial year beginning 1 July 2018.

AASB 16 Leases

AASB 16 replaces the current AASB 17 Leases standard. AASB 16 removes the classification of leases as either operating leases or finance leases- for the lessee - effectively treating all leases as finance leases. Most leases will be capitalised on the balance sheet by recognising a 'right-of-use' asset and a lease liability for the present value obligation. This will result in an increase in the recognised assets and liabilities in the statement of financial position as well as a change in expense recognition, with interest and deprecation replacing operating lease expense.

Lessor accounting remains similar to current practice, i.e. lessors continue to classify leases as finance and operating leases.

AASB 16 is effective from annual reporting periods beginning on or after 1 January 2019, with early adoption permitted for entities that also adopt AASB 15.

The Group does not expect a significant effect on the financial statements resulting from the change of this standard however the Group is in the process of evaluating the impact of the new leases standard. The changes in the Group's accounting policies from the adoption of AASB 9 will be applied from 1 July 2019 onwards.

No other new standards, amendments to standards and interpretations are expected to affect the Group's consolidated financial statements.

(c) Statement of compliance

The financial report was authorised for issue on 30 September 2017.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) Significant accounting estimates and judgements

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

Impairment

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Capitalisation of internally developed software

Distinguishing the research and development phases of a new customised software project and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

Impairment of intangibles with indefinite useful lives and goodwill:

The Group determines whether intangibles with indefinite useful lives and goodwill and 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 Note 10.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black-Scholes model, using the assumptions detailed in Note 17.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted.

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. Shareholder approval for the issue of the performance rights is being sought at the Company's 2017 Annual General Meeting to be held in November 2017. Grant date is therefore after the period in which services have begun to be rendered. Therefore, the grant date fair value is estimated by reference to the period end share price. Once the date of grant is known, this earlier estimate is revised. During the financial year, three classes of performance rights had their hurdles achieved, which at the time of shareholder approval will convert on a 1-for-1 basis into fully paid ordinary shares.

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.

Impairment of available-for-sale financial assets

The Group follows the guidance of AASB 139 *Financial Instruments: Recognition and Measurement* to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

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.

(e) Going concern

Notwithstanding the fact that the Group incurred an operating loss of $2,235,085 for the year ended 30 June 2017, and has a net cash outflow from operating activities amounting to $1,688,516, the Directors are of the opinion that the Company is a going concern owing to cash and cash equivalents of $1,743,582 which will be utilised to fund working capital requirements as well as anticipated increases in revenues going forward. Should it be required, the Group can selectively scale back expenditures to the extent necessary to continue as a going concern for the relevant period.

(f) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement in with the investee; and
- has the ability to its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements listed above.

When the Company has less than a majority of the voting rights if an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties; rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount paid by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by the applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(g) Revenue

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Sale of goods

Revenue is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Contract income is recognised by reference to the total actual costs incurred at the end of the reporting period relative to the proportion of the total costs expected to be incurred over the life of the contract;
- Servicing fees are recognised by reference to the proportion of the total cost of providing the service for the product sold; and
- Revenue from time and material contracts are recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that assets' net carrying amount on initial recognition.

(h) Other income

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

Rental income

Rental income from investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

(i) Borrowings costs

Borrowing costs are capitalised that are directly attributable to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

K2fly Limited and its 100% owned Australian resident subsidiaries have implemented the tax consolidation legislation. Current and deferred tax amounts are accounted for in each individual entity as if each entity continued to act as a taxpayer on its own.

K2fly Limited recognises its own current and deferred tax amounts and those current tax liabilities, current tax assets and deferred tax assets arising from unused tax credits and unused tax losses which it has assumed from its controlled entities within the tax consolidated Group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts payable or receivable from or payable to other entities in the Group. Any difference between the amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) controlled entities in the tax consolidated Group.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(k) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker.

The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of Directors of K2fly Limited.

(l) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(m) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(n) Cash and cash equivalents

Cash comprises cash at bank and in hand.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(o) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(p) Other financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Impairment of financial assets

The Group assesses at each balance date whether a financial asset or Group of financial assets is impaired.

<u>Financial assets carried at amortised cost</u>

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a Group of financial assets with similar credit risk characteristics and that Group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed in subsequent periods.

Available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the statement of comprehensive income. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

(q) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Electronic equipment	3 years
Leasehold improvements	3 years
Office equipment	3 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Impairment

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to approximate fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of comprehensive income in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and any subsequent accumulated impairment losses.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss, except that a decrease offsetting a previous revaluation increase for the same asset is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amounts of the assets and depreciation based on the assets' original costs.

Additionally, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Independent valuations are performed with sufficient regularity to ensure that the carrying amounts do not differ materially from the assets' fair values at the balance date.

(r) Intangible assets and goodwill

Intangible assets acquired separately

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following useful lives are used in the calculation of amortisation:

Software	3 years

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment of tangible and intangible assets other than goodwill

The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units, or Groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(s) Trade and other payables

Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

Employee leave benefits

Wages, salaries, annual leave and sick leave

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave not expected to be settled within 12 months of the balance date are recognised in non-current other payables in respect of employees' services up to the balance date. They are measured as the present value of the estimated future outflows to be made by the Group.

(t) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs.

Finance lease assets are depreciated on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's obligation.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the balance date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(v) Reserves

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to other comprehensive income based on the amount calculated using the direct method of consolidation.

(w) Share-based payments reserve

Equity settled transactions

The Group provides benefits to employees (including Directors) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of K2fly Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each balance date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share, refer Note 5.

Cash settled transactions

The Group also provides benefits to employees in the form of cash-settled share-based payments, whereby employees render services in exchange for cash, the amounts of which are determined by reference to movements in the price of the shares of K2fly Limited.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted, refer Note 21. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured to fair value at each balance date up to and including the settlement date with changes in fair value recognised in profit or loss.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

(x) Business Combination

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. These provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139, or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

(y) Parent entity disclosures

The financial information for the parent entity, K2fly Limited, has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the parent entity's financial statements. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

NOTE 2: REVENUE AND EXPENSES

	2017	2016
	$	$
Revenue		
Consulting revenue	583,376	-
Sales of own software	43,322	-
	626,698	-

NOTE 3: INCOME TAX EXPENSE

	2017	2016
	$	$
Income tax expense		
The major components of tax expense are:		
Current tax expense / (income)	-	-
Deferred tax expense	-	-
	-	-
Reconciliation		
The prima facie income tax expense on pre-tax accounting result from operations reconciles to the income tax expense in the financial statements as follows:		
Accounting loss before tax	(2,235,085)	(65,999)
Income tax benefit calculated at 27.5% (30.0%)	(614,648)	(19,800)
Non-deductible expenses	28,585	-
Unused tax losses and tax utilised as deferred tax assets	240,669	20,695
Other deferred tax assets and tax liabilities not recognised	217,308	(895)
Change in tax rate	128,086	-
Income tax expense	-	-

Unrecognised deferred tax balances

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

	2017	2016
Deferred tax assets comprise:		
Losses available for offset against future taxable income	293,083	1,542,225
Impairment of investments	1,555	1,555
Depreciation timing differences	731,634	-

Share issue and business costs	87,213	-
Accrued expenses and liabilities	11,513	4,320
	1,124,998	1,548,100
Deferred tax liabilities comprise:		
Exploration expenditure capitalised	-	7,256
Prepayments	187	-
	187	7,256
Recognised in equity		
Share issue costs (*i*)	98,679	-
	98,679	-

(i) Shares issued as part of the acquisition of a software asset has given rise to a possible unrecognised tax balance created in equity of $517,672. However, this amount has not been included in the above tax disclosures as it does not constitute current tax or deferred tax in equity pursuant to AASB 112 *Income Taxes*. Instead, this amount is reflected in depreciation timing differences of $731,583 (i.e. not in equity).

The Group has tax losses arising in Australia of $1,065,755 (2016: $Nil) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits thereof.

Deferred tax liabilities have not been recognised in respect of these taxable temporary differences as the entity is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTE 4: SEGMENT REPORTING

The Group has adopted AASB 8 *Operating Segments* which requires operating segments to be identified on the basis of internal reports about components of the Group that are reviewed by the Chief Operating Decision Maker in order to allocate resources to the segment and assess its performance.

The Board of K2fly Limited reviews internal reports prepared as consolidated financial statements and strategic decisions of the Group are determined upon analysis of these internal reports.

During the year, the Group operated predominantly in one business and geographical segment being the technology sector in Australia but identifies their revenue streams from consulting, sale of own software and sale of third party software as its operating segment.

NOTE 5: EARNINGS PER SHARE

	2017	**2016**
	Cents per share	**Cents per share**
Basic loss per share	(6.70)	(1.31)
Earnings		
Earnings used in the calculation of basic earnings per	(2,235,085)	(65,999)

share is as follows:

Weighted average number of shares		
Weighted average number of ordinary shares	33,357,767	5,019,947

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

NOTE 6: CASH AND CASH EQUIVALENTS

	2017	2016
	$	$
Cash at bank and on hand	1,689,287	30,126
Online saver account (cash-securitised account)	54,295	-
	1,743,582	30,126

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Reconciliation to the Statement of Cash Flows:

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank, net of corporate credit cards.

Cash and cash equivalents as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2017	2016
	$	$

Cash and cash equivalents	1,743,581	30,126

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

Net loss for the year	(2,235,085)	(65,999)
Non- cash items		
Amortisation	424,274	-
Depreciation	2,563	-
Directors fees settled in shares	18,000	-
Exploration expenditure impaired	32,091	-
Exploration expenditure written off	-	661
Share-based payments	79,560	-
Movements in working capital		
Increase in trade and other receivables	(358,295)	(214)
Increase in other assets	(2,480)	-
Increase in trade and other payables	380,856	4,764
Net cash used in operating activities	(1,658,516)	(60,788)

Non-cash and financing activities

Non-cash financing activities include:

	2017		2016	
	Number	**$**	**Number**	**$**
Placement of Shares (acquisition of technology assets) – 12 months' escrow	16,000,000	3,200,000	-	-
Placement of Shares – 24 months escrow'	7,750,000	1,450,000	-	-
Convertible note conversion (1:25)	937,500	150,000	-	-
Lead manager placements	835,000	167,000	-	-
Director fees	200,000	18,000	-	-

NOTE 7: TRADE AND OTHER RECEIVABLES

	2017	2016
	$	**$**
Trade receivables	316,079	-
GST receivable	4,247	2,002
Other	39,971	-

	360,297	2,002

Terms and conditions relating to the above:

- All amounts are expected to be recoverable.
- Trade receivables are non-interest bearing and normally settled on 30 day terms.
- Due to the short nature of trade and other receivables, their carrying value is assumed to be approximate to their fair value.

Ageing of past due but not impaired

	2017 $	2016 $
30 – 60 Days	166,244	-
60 – 90 Days	46,549	-
90 – 120 Days	103,285	-
Total	316,079	-

NOTE 8: OTHER FINANCIAL ASSETS

	2017 $	2016 $
Shares in listed entity – at fair value	844	844
Reconciliation		
Opening balance	844	724
Revaluation	-	120
Closing balance	844	844

NOTE 9: PLANT AND EQUIPMENT

	Electronic Equipment $	Leasehold improvements $	Office equipment $	Total $
Cost	11,877	2,939	1,232	16,048
Accumulated depreciation	(2,075)	(349)	(138)	(2,562)

	9,802	2,590	1,094	13,486
Reconciliation				
Opening balance	-	-	-	-
Additions	11,877	2,939	1,232	16,048
Depreciation	(2,075)	(349)	(138)	(2,562)
Closing balance	9,802	2,590	1,095	13,486

NOTE 10: INTANGIBLE ASSETS

	2017 $	2016 $
Software		
At cost	3,500,000	-
Accumulated amortisation	(424,274)	-
	3,075,726	-
Reconciliation		
Opening balance	-	-
Acquired (*i*)	3,500,000	-
Amortisation	(424,274)	-
Closing balance	3,075,726	-

(*i*) Represents 16,000,000 shares issued at $0.20 per share to K2fy NL for the acquisition of technology as well as 1,500,000 shares issued at $0.20 per share to K2 Technology Pty Ltd for the balance of the acquisition of the technology assets. These shares are included in the 7,250,000 placement of shares 24 months escrow, details in Note 15.

As at 30 June 2017, management conducted an impairment assessment in relation to the recoverable amount of its intangible assets given an impairment indicator arising being ongoing losses. Based upon the results of this impairment assessment, the above intangible assets are not considered to be impaired.

The recoverable amount was based on value-in-use and was determined at the cash-generating unit level ("CGU") being the business as a whole by an independent valuer. The pre-tax discount rate adopted was 68% and the value-in-use was based upon forecast cash flows over a five year period with a final year terminal value. Based upon the headroom over the carrying amount of the CGU, management do not believe any reasonable change in key inputs based on sensitivities would result in an impairment.

NOTE 11: EXPLORATION AND EVALUATION EXPENDITURE

	2017 $	2016 $
Costs carried forward in respect of areas of interest in the exploration and evaluation phase		
Exploration and evaluation costs	-	24,187
	-	24,187

Reconciliation		
Opening balance	24,187	22,703
Expenditure incurred	7,904	1,484
Expenditure impaired (*i*)	(32,091)	-
Closing balance	-	24,187

(i) Capitalised exploration and evaluation expenditure impaired as the Group has relinquished rights to tenure.

NOTE 12: OTHER ASSETS

	2017 $	2016 $
Deposits	2,480	-

NOTE 13: TRADE AND OTHER PAYABLES

	2017 $	2016 $
Current		
Accounts payable	75,155	17,839
Accrued expenses	44,208	15,900
Other payable (*i*)	172,646	-
Employee liabilities	53,835	-
	345,844	33,739
Non-current		
Other payable (*i*)	68,750	-
	68,750	-

(i) Represents an amount owing to Kalgoorlie Mine Management as stipulated in the Amended and Restated Sale of Asset Agreement in respect of consulting fees.

Terms and conditions relating to the above:

- All amounts are expected to be settled.
- Trade payable are non-interest bearing and normally settled on 30 day terms.
- Due to the short nature of trade and other payables, their carrying value is assumed to be approximate to their fair value.

NOTE 14: BORROWINGS

	2017 $	2016 $
Unsecured loan	-	100,000

Reconciliation		
Opening balance	100,000	35,000
Advanced	30,000	65,000
Repaid	(130,000)	-
Closing balance	-	100,000

The loan was unsecured, interest free and had no fixed terms of repayment.

NOTE 15: ISSUED CAPITAL

	2017	2016
	$	$
Issued and paid up capital	13,923,977	4,813,977
Share issue costs	(2,241,280)	-
	11,682,697	4,813,977

	2017		2016	
Reconciliation	**Number**	**$**	**Number**	**$**
Opening balance	47,187,501	4,813,977	47,187,501	4,813,977
Capital reconstruction (1:9.4)	(42,167,466)	-	-	-
Placement of Shares via prospectus	20,625,000	4,125,000	-	-
Placement of Shares (acquisition of technology assets) – 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	-	-
Director fees	200,000	18,000	-	-
Share issue costs		(2,241,280)	-	-
Closing balance	50,867,535	11,682,697	47,187,501	4,813,977

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

NOTE 16: RESERVES

Nature and purpose of reserves

Available-for-sale reserve
The asset revaluation reserve is used to record increases in the fair value of investments to the extent that such decreases relate to an increase on the same asset previously recognised in equity.

Share-based payments and option reserves
This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. Refer to note 17 for further details of these plans.

NOTE 17: SHARE-BASED PAYMENTS

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

The following share-based payment arrangements were in place during the current and prior periods.

	Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Vesting date
Series 1	1,920,000	22/11/2016	22/11/2020	$0.25	$30,968	17/11/2016
Series 2	800,000	22/11/2016	22/12/2020	$0.25	$12,903	17/11/2016
	2,720,000				$43,871	

There has been no alteration of the terms and conditions of the above share-based payment arrangements since grant date.

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

	2017		2016	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Opening balance	-	-	-	-
Granted	2,720,000	$0.25	-	-
Outstanding at the end of the year	2,720,000	$0.25	-	-
Exercisable at the end of year	2,720,000	$0.25	-	-

No options were exercised during the year ($2016: nil).

The share options outstanding at the end of the year had an exercise price of $0.25 (2016: $nil) and a weighted average remaining contractual life of 1,235 days (2016: nil days).

The weighted average fair value of options granted during the year was $0.019 (2016: $nil).

The fair value of the equity-settled share options granted is estimated as at the date of grant using the Black-Scholes model taking into account the terms and conditions upon which the options were granted.

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

	Series 1	Series 2
Expected share price volatility:	32%	32%
Risk free interest rate:	1.5%	1.5%
Life of option:	4 years	4 years
Exercise price	$0.25	$0.25
Share price at grant date	$0.05	$0.05

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.

Listed options
Under an Entitlement Issue Prospectus dated 12 April 2017, a non-renounceable entitlement issue was undertaken. One (1) option was issued for every five (5) shares held by those shareholders registered in Australia or New Zealand on 20 April 2017 at issue price of $0.01 per option to raise $101,335.

The following share-based payment arrangements were in place during the current and prior periods.

	Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Vesting date
Series 3	10,133,507	31/05/2017	31/05/2020	$0.20	101,355	31/05/2017
	10,133,507				101,355	

There has been no alteration of the terms and conditions of the above share-based payment arrangements since grant date.

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

	2017		2016	
	Number	**Weighted average exercise price $**	**Number**	**Weighted average exercise price $**
Opening balance	-	-	-	-
Granted	10,133,507	$0.20	-	-
Outstanding at the end of the year	10,133,507	$0.20	-	-
Exercisable at the end of year	10,133,507	$0.20	-	-

No listed options were exercised during the year ($2016: nil).

The share options outstanding at the end of the year had an exercise price of $0.20 (2016: $nil) and a weighted average remaining contractual life of 1,235 days (2016: nil days).

The weighted average fair value of options granted during the year was $0.01 (2016: $nil).

Performance rights

During the year, $79,560 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	$0.078	100%	Non-Market	$24,960
Class 2	310,000	$0.078	0%	Market	-
Class 3	310,000	$0.078	0%	Market	-
Class 4	350,000	$0.078	0%	Non-Market	-
Class 5	350,000	$0.078	100%	Non-Market	$27,300
Class 6	350,000	$0.078	100%	Non-Market	$27,300
Class 7	410,000	$0.078	0%	Non-Market	-
Class 8	550,000	$0.078	0%	Non-Market	-
Class 9	550,000	$0.078	0%	Non-Market	-
	3,500,000				$79,560

These Performance Rights, which, subject to shareholder approval, 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 successfully executed a Distribution Partnership Agreement/Re-seller Agreement

	with an acceptable agent based in the European region
Class 6	Company successfully executed a Distribution Partnership Agreement/Re-seller Agreement with an acceptable agent based in the Asian region
Class 7	Company achieving total sales revenue over a full financial year of not less than $1.5million 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)

NOTE 18: FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2016. The Group is involved in the sale of software licenses under a Software-as-a-Service business model. The Group is actively engaged in the direct sale of its own intellectual property rights ("IPR") as well as the sale of third party IPR through its partnership arrangements.

The capital structure of the Group consists of cash and cash equivalents, borrowings and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, dividends and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

Financial assets and liabilities

	2017	2016
	$	$
Cash	1,743,582	30,126
Trade and other receivables	360,297	2,002
Available-for-sale-financial assets	844	844
Trade and other payables	345,844	33,739
Borrowing	-	100,000

Financial risk management objectives

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

- market risk
- credit risk
- liquidity risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

Interest rate risk management
The Group has no material exposure to interest rate risk.

Equity price risk management
The Group is exposed to equity price risks arising from available-for-sale financial assets. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group. The majority of the Group's investments are publicly traded.

Credit risk management
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's investment securities. For the parent entity it also arises from receivables due from subsidiaries.

Exposure to credit risk
The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

	2017	**2016**
	$	**$**
Borrowings		
3 months to 1 year	-	30,126

Fair value measurement
Fair value of the Group's financial assets and financial liabilities that's are measured at fair value on a recurring basis.

The Group holds shares in a listed entity which are classified as Available-for-sale financial assets. The fair value of these financial assets as at 30 June 2017 was $844 (30 June 2016: $844).

The financial assets are level 1 within the fair value hierarchy and the fair value is determined by reference to quoted market prices.

The Directors consider that the carrying value of the financial assets and financial liabilities recognised in the consolidated financial statements approximates their fair values.

There were no transfers between Level 1 and Level 2 in 2017 and 2016.

NOTE 19: COMMITMENTS

In the prior year the Group had an agreement with a management services company for the provision of services at $235,000 per annum plus CPI. The management services company have agreed to forgo their fees to the Group since January 2012 until such time as the Group has sufficient capital.

Further to the above, the Group had exploration expenditure commitments of $12,000.

There are no material commitments as at balance date.

NOTE 20: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group has committed guarantees on operating leases on premises totaling $34,145 (2016: $nil).

Other than noted above, there has been no change in contingent liabilities or contingent assets since the last annual reporting period.

NOTE 21: RELATED PARTY DISCLOSURES

	2017	**2016**
	$	**$**
Short-term employee benefits	425,960	-
Share-based payment	79,560	-
	505,520	-

Other transactions with Key Management Personnel

There are no other transactions with Key Management Personnel during the year (2016: $nil).

Payables

	Payables (Incl. GST)	Payables (Excl. GST)
Brian Miller	23,100	21,000
Gino D'Anna	3,300	3,000
Russell Moran	3,300	3,000
Neil Canby	3,300	3,000

NOTE 22: INVESTMENT IN CONTROLLED ENTITIES

Transactions with subsidiaries
The consolidated financial statements include the financial statements of K2fly Limited and the subsidiary listed in the following table.

	2017	2016
	Percentage owned	**Percentage owned**
Controlled entities		
Power Minerals Pty Ltd	100%	100%

K2fly Limited is the ultimate Australian parent entity and ultimate parent of the Group.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation.

Acquisitions of controlled entities
There were no acquisitions of controlled entities during the year (2016: nil)

NOTE 23: PARENT ENTITY DISCLOSURES

	2017	2016
	$	**$**
Statement of financial position		
Assets		
Current assets	2,103,879	32,128
Non-current assets	3,091,692	24,187
Total assets	5,195,571	56,315
Liabilities		
Current liabilities	345,845	133,739
Non-current liabilities	68,750	-
Total liabilities	414,595	133,739
Equity		
Issued capital	11,682,715	4,813,995
Share-based payment reserve	224,765	-
Accumulated losses	(7,126,504)	(4,891,419)
Total equity	4,780,976	(77,424)
Statement of comprehensive income		
Loss for the year	(2,235,085)	(65,999)
Other comprehensive income	-	-
Total comprehensive income	(2,235,085)	(65,999)

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

Contingent liabilities of the parent entity
The Company has committed guarantees on operating leases on premises totaling $34,145 (2016: $nil).

Capital commitments
At 30 June 2017 the Company has no material commitments (2016: $nil).

NOTE 24: AUDITOR'S REMUNERATON

	2017	**2016**
	$	**$**
Audit or review of financial statement	30,000	18,500
Other services		
Taxation compliance	2,500	1,900
	32,500	20,400

NOTE 25: SIGNIFICANT EVENTS AFTER BALANCE DATE

On 10 July 2017, K2fly Limited acquired InfoScope Pty Ltd by way of cash consideration of $475,000, repayment of an outstanding loan of $150,000 plus interest, the issue of $275,000 worth of K2fly Limited shares and 350,000 options.

On 15 September 2017, Ms Jenny Cutri was appointed as an Independent Non-Executive Director. Mr Gino D'Anna and Mr Russel Moran elected to stand down from their roles as Non-Executive Directors with Mr D' Anna remaining as Company Secretary.

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.

DIRECTORS' DECLARATION

In the opinion of the Directors of K2fly Limited (the 'Company'):

(a) the accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:

   i. giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year then ended; and

   ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2017.

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

Brian Miller
Director

Perth, 30 September 2017

HLB Mann Judd

INDEPENDENT AUDITOR'S REPORT

To the members of K2fly Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of K2fly Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
Carrying value of intangible assets (Refer Note 10 of the financial report)	
The Group has an intangible assets balance of \$3,075,726 as at 30 June 2017.	Our audit procedures included but were not limited to: - Assessing the appropriateness of the

Due to the ongoing losses incurred in the business, management determined impairment indicators were present and therefore an impairment assessment in relation to intangible assets was required. An independent valuer was engaged to conduct a valuation for the purposes of determining recoverable amount. We considered this to be a key audit matter due to its importance to users' understanding of the financial statements, the degree of estimation involved in future cash flows, discount rates and other inputs to the value-in-use calculation and the degree of audit effort directed towards this area.	methodology in the value-in-use model and the basis for key assumptions; - Assessing the value-in-use model for consistency with the requirements of Australian Accounting Standards; - Performing sensitivity analyses around the key inputs used in the cash flow forecasts and the headroom impact on the model; - Reviewing the mathematical accuracy of the value-in-use model; - Comparing value-in-use to the carrying amount of assets comprising the cash-generating unit; - Considering whether the assets comprising the cash-generating unit had been correctly allocated; - Assessing the reasonableness of forecast cash flows; - Considering the appropriateness of the discount rate used; - Assessing the qualifications and experience of the independent valuer; and - Assessing the appropriateness of the disclosures included in the relevant notes to the financial report.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of K2fly Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

M R Ohm
Partner

Perth, Western Australia
30 September 2017

HOLDINGS AS AT 30 SEPTEMBER 2017

Distribution of Fully Paid Ordinary Shareholders

Number of securities held	**Number of holders**
1 to 1,000	32
1,001 to 5,000	198
5,001 to 10,000	105
10,001 to 100,000	181
100,001 and over	111
Total Number of Holders	627

Escrowed Shares until 18 November 2017	15,223,136
Escrowed Shares until 18 November 2018	9,799,364
Escrowed Shares until 10 July 2018	3,525,642

Number of holders of less than a marketable parcel	240

Substantial Shareholders

The Group has been notified of the following substantial shareholdings:	**Number**
Talos Mining Pty Ltd	4,230,007 (7.78%)
Kalgoorlie Mine Management Pty Ltd	4,500,000 (8.27%)
Mr Paul Cozzi	2,906,012 (5.34%)
Mr Gino D'Anna	1,797,760 (3.31%)

Percentage of the 20 largest holders	**49.56%**

Top 20 Shareholders (K2F)

KALGOORLIE MINE MANAGEMENT PTY LTD	4,500,000	8.27
TALOS MINING PTY LTD <TALOS MINING A/C>	4,230,007	7.78
MR PAUL COZZI	2,906,012	5.34
INTERNATZIONALE CONSULTING PTY LTD	1,797,760	3.31
BASAPA PTY LTD <KEHOE FAMILY A/C>	1,625,000	2.99
K2 TECHNOLOGY PTY LTD	1,500,000	2.76
RETZOS EXECUTIVE PTY LTD <RETZOS EXECUTIVE S/FUND A/C>	1,400,000	2.57
MR NICHOLAS JOHN AXAM	1,315,000	2.42
MR JASON PETERSON + MRS LISA PETERSON <J & L PETERSON S/F A/C>	1,242,250	2.28
WALLIS-MANCE PTY LIMITED <WALLIS-MANCE FAMILY A/C>	900,000	1.65
NOEL BONNICK + TONI BONNICK <JASMAC SUPER FUND A/C>	728,751	1.34
ISCAPE PTY LTD	723,109	1.33
SCINTILLA CAPITAL PTY LTD	528,751	0.97
WALLIS-MANCE PTY LIMITED <WALLIS-MANCE FAMILY A/C>	528,751	0.97
ASPEN GOLD INVESTMENTS PTY LTD <THE CHALLENGER A/C>	528,751	0.97
MR MICHAEL MCMAHON <SUPER FUND A/C>	522,000	0.96
MR BRIAN PETER MILLER	519,990	0.96
SAM GOULOPOULOS PTY LTD <S GOULOPOULOS F/SUPER A/C>	500,000	0.92
ADPAC PTY LTD <J & BJ VELLA FAMILY A/C>	479,840	0.88
PETER GEOFFREY EVERITT <EVERITT FAMILY A/C>	479,840	0.88

Distribution of Listed Options (K2FOA)

Number of securities held	**Listed Options (K2FOA) Number of holders**
1 to 1,000	11
1,001 to 5,000	13
5,001 to 10,000	12
10,001 to 100,000	41
100,001 and over	18
Total Number of Holders	95

Voting Rights

The Constitution of the Group makes the following provision for voting at general meetings:

On a show of hands, every ordinary shareholder present in person, or by proxy, attorney or representative has one vote. On a poll, every shareholder present in person, or by proxy, attorney or representative has one vote for any share held by the shareholder.

SCHEDULE OF MINING TENEMENTS

Project	**Country**	**State/Region**	**Tenement ID**	**Area (km2)**	**Grant date**	**Interest**
Linden (Good Hope) gold	Australia	WA	P 39/5062	0.29	5/08/2010	90%