

ASX / Media Release

29 January 2021

ASX code: **K2F**

Q2 FY21 Quarterly Activities Report

Highlights

- SATEVA Acquisition completed and successfully captures increasing share of WA Iron Ore market
- K2fly achieved SAP Endorsed Apps Certification, one of only 11 companies worldwide to achieve this certification
- In Q2 FY21 invoices of \$1.56M raised (compared \$1.68M in Q2 FY20)
- Negative cash burn for Q2 FY21, includes expenditure to build capability and scale:
 - K2F significantly increasing expenditure and investment on new product developments including Tailings Solution and Model Manager
 - Investment in SAP Endorsed Apps Certification
 - \$400K instalment payment for RCubed acquisition, due to achievement of performance milestones
 - Additional transaction costs from SATEVA acquisition
 - Payment of deferred government costs (\$388k) granted during COVID
- Very positive start to Q3 FY21, 3 new contracts, 10% increase in ARR QTD
 - >\$850k of Purchase Orders already taken for SATEVA
 - Alcoa USA signed new 5-year contract in January 2020
 - FMG extended its Infoscope agreement to overseas operations
 - New Heritage Solution signed for major WA Iron Ore producer
 - Total Contract Value (TCV) increased by \$1.292M in January
- K2F overall remains cash positive from operations for last 3 quarters (Q4 FY20 to Q2 FY21)
- Cash available on 31 December 2020 was \$2.56M, \$0.92M in receivables and no debt

Billing and Cash Flow

K2fly Limited (ASX: K2F) (**K2F, K2fly or the Company**) is pleased to announce that it has raised invoices for \$1.56M in the Q2 FY21 quarter (vs. \$1.68M in the equivalent previous corresponding period in FY20). While, disappointingly, orders for Q2 FY21 were lower than expected this is partially due to the laggard impacts of COVID 19 on overseas markets (particularly in North and South America) resulting in delays. Although, since the end of Q2 FY21 new contracts have been finalised and we have received additional purchase orders.

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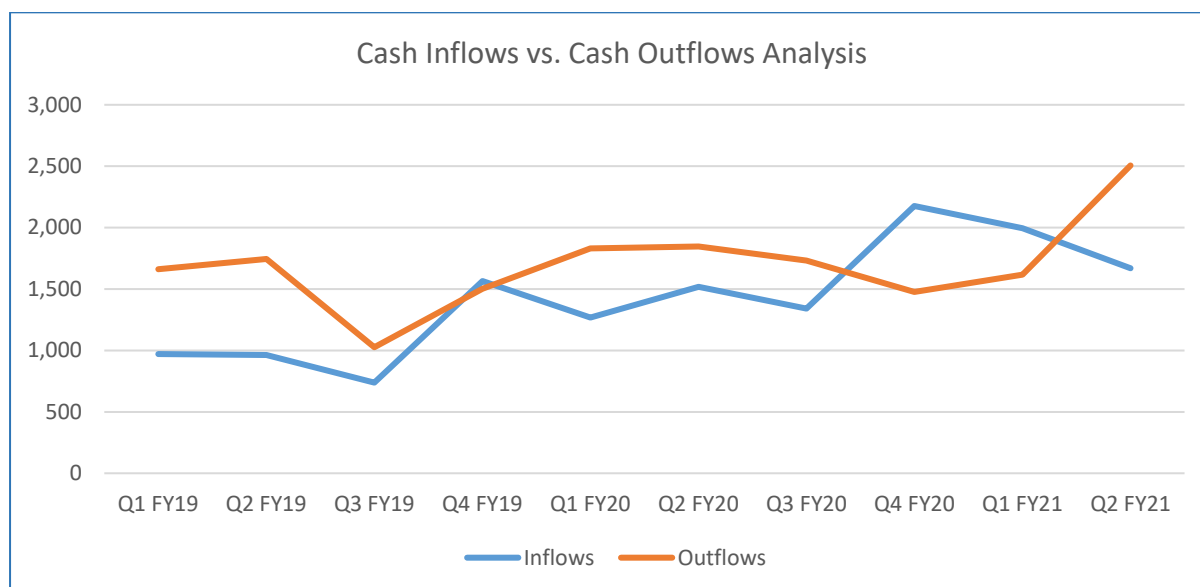
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In Q2 FY21, K2F had negative cash from operations of (\$0.83M) as we invested in building new solutions and scale into our business to support our growing pipeline. K2F overall still remains cash positive from operations for the last 3 quarters (Q4 FY20 (+\$699k), Q1 FY21 (+\$378k) and Q2 FY21 (\$836k)) by \$0.24M.

As at 31 December 2020, the cash available was \$2.56M. In addition, there was \$0.92M in receivables predominantly from Tier 1 clients. K2F has no debt.



In Q2 FY21 the negative cash position (-\$0.55M) was as a result of:

- Increasing expenditure and investment on new product development including within the SATEVA suite of products (Model Manager), and our Tailings Solution which is consistent with our strategy and critical to our long-term sustainability.
- K2F incurring costs in gaining SAP Endorsed Apps Certification described in detail below.
- Additional transactions costs as a result of the SATEVA acquisition, including payment made during the quarter related to the settlement of SATEVA liabilities which offset cash acquired upon acquisition.
- \$400k instalment payment for RCubed acquisition, due to achievement of performance milestones.
- Our mining clients, who were cognisant of the need to pay promptly during the early part of COVID 19, have now reverted to normal payment terms in Q2 FY21. While K2F is financially robust enough to manage these situations, it does mean that if a payment is received in the first week of a new quarter, it impacts the appearance of our cash performance.
- During Q4 FY20 and Q1 FY21, K2F received the benefits of some State and Federal Government concessions relating to COVID 19, including the deferral of some payments. These unwound in Q2 2021 with no cash payments received and payment of all the deferred amounts equal to \$338k.

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Software as a Service (SaaS)

During Q2 we increased our investment expenditure on new product development and business scalability, including new product development within the SATEVA suite of products (Model Manager), and our Tailings Solution.

K2F also invested in attaining SAP Endorsed Apps Certification for its K2F Solutions (Land Access, Communities and Heritage, Ground Disturbance and Rehabilitation).

From these investments we have created both new products and capability to meet our rapidly growing pipeline. The new offerings form part of our well-advertised “land & expand” strategy. We are confident that these investments will pay dividends in 2021 and beyond, especially in conjunction with our new SAP Endorsed Apps Certification bringing these to market.

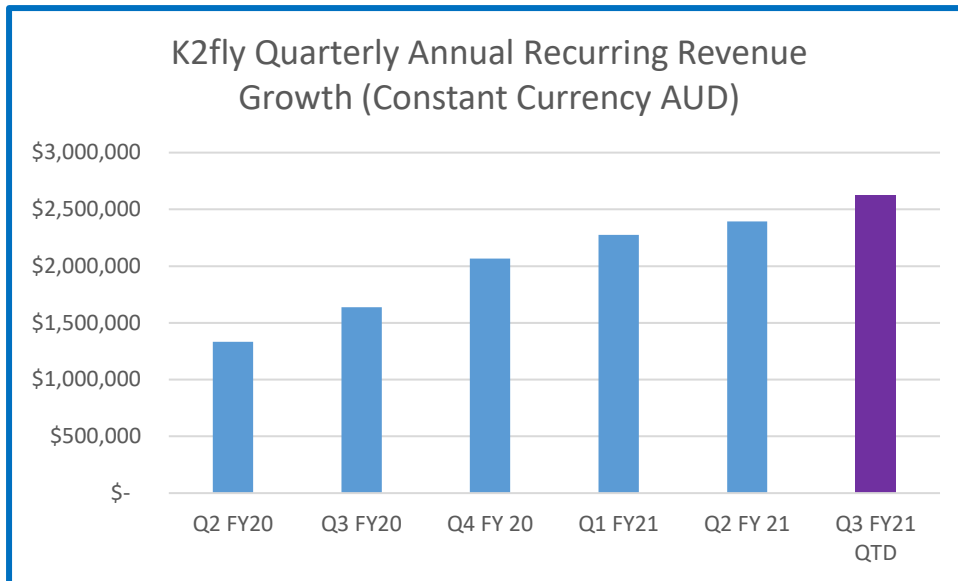
Sales were slower in Q1 and Q2 due to lagged COVID effects particularly in our key growth markets of North America and Brazil where business was delayed. We are now seeing this recover and that is translating to new contract signings. In response we also increased focus back to the West Australian market and Iron Ore with the SATEVA acquisition. This has delivered rapidly for us.

Since the end of the quarter a number of sales have successfully concluded. In January 2021, K2fly has signed 3 new SaaS contracts already: Alcoa (USA) have signed a 5 year contract and we have extended and expanded our agreement with FMG (Fortescue Metals Group) and a new Heritage solution with a major WA Iron Ore Producer.

In Q2 we completed the Vale (Brazil) Proof of Concept (POC) study for our Resource Inventory solution and have presented this successfully across the Vale group including to senior executives.

Annual Recurring Revenue¹ continued to grow marginally in Q2 FY21. However, in Q3 FY21, due to the signing of recent contracts, it is already set to grow again by a considerable margin. The Q3 FY21 bar (above) is based on current contracts already closed – ARR has grown 10% in the quarter and it does not include other SaaS business which may be finalised. Total Contract Value has increased by \$1.292M quarter to date.

¹ ARR Constant Currency – figures have been normalised to eliminate the effect of exchange rate fluctuations. Currency set at 25.01.21



Completion of SATEVA Acquisition

On 28 October 2020, K2fly announced the acquisition of SATEVA Pty Ltd to provide additional applications to its Technical Assurance suite and increase annual recurring revenues (ARR) and to provide more exposure to the booming Iron Ore market. SATEVA’s clients include Rio Tinto Iron Ore, Fortescue Metals Group and Roy Hill. Roy Hill uses the Maximum Return product which is additional ARR to K2fly.

As part of the SATEVA acquisition, Mark Forster joined K2F as Chief Development Officer. The SATEVA team also joined K2F and this integration is already demonstrating positive benefits, with the cross pollination of skills and ideas. Since the completion of the acquisition (<3 months) K2fly has taken in excess of \$850k of purchase orders for upcoming development work. This represents significant growth versus full year FY20 revenue of \$1.4m for SATEVA prior to the acquisition by K2fly.

As planned, the acquisition has also delivered new software solutions to the market such as Model Manager (MM) which integrates into our leading RCubed Mineral Inventory package. The pipeline for MM is growing rapidly along with other applications that have been brought across from SATEVA such as the Automated Ore Blocker which has been successfully trialled at a major iron ore complex in Western Australia.

SAP Endorsed Apps Certification

As noted above, in November 2020 SAP confirmed the certification of K2fly Solutions (Land Access, Communities and Heritage, Ground Disturbance and Rehab) as “Endorsed Apps”. K2fly was one of only 11 companies globally to have achieved this SAP certification at the time and the first in the Mining Industry Business Unit.

Consequently, the SAP global sales force are now compensated directly by SAP to sell K2fly solutions. The Go To Market (GTM) plans are being finalised to roll out sales capability for SAP sales teams globally. The initial focus is via the Mill and Mining Industry Business Unit but will expand across other industry groups such as Oil and Gas.

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Reconciliation Module and Geosciences Thought Leadership

Our Reconciliation Module (part of RCubed) was released in the second half of 2020 and now has several high profile prospects from our existing customer base. During the second quarter our Geosciences team have had considerable success in delivering the first Reconciliation Proof of Concept to Teck Resources Red Dog mine in Canada. We are about to commence another Reconciliation study for another tier 1 miner in Kazakhstan.

Further, our Chief Geoscientist, Heath Arvidson has been selected to curate the Anglo American (AA) Geosciences Academy. This is our first engagement with AA and we are excited by this growing relationship.

Payments to Related Parties and their Associates

In accordance with ASX Listing Rule 4.7C.3, payments to related parties of the Company and their associates during the quarter totalled \$134k relating to the Executive Director salaries and Non-Executive Director fees. This amount is included at Item 6.1 of the Appendix 4C. In addition, during Q2 FY 21 payment of a \$10k 'special exertion fee' to a non-executive director was made in relation to the SATEVA acquisition and is included in Item 2.5 of the Appendix 4C.

Refer to the Remuneration Report in the 2020 Annual Report for further details on director remuneration.

Capital Update

During the quarter, the following changes in securities occurred:

- 2 October 2020 – Issue of 7,500 shares upon the exercise of unlisted options
- 16 October 2020 – Issue of 489,330 shares upon the exercise of unlisted options
- 26 October 2020 – Issue of 43,860 shares and 200,000 unlisted options pursuant to an investor marketing mandate between the Company and Canary Capital (refer ASX announcement 26 October 2020)
- 27 October 2020 – Issue of 278,000 shares upon the exercise of unlisted options
- 3 November 2020 – Issue of 5,633,803 shares and 140,845 unlisted options pursuant to the acquisition of Sateva (refer ASX announcement 28 October 2020)
- 5 November 2020 – Issue of 252,500 shares upon the exercise of unlisted options
- 18 November 2020 – Issue of 1,564,670 shares upon the exercise of unlisted options and expiry of 128,000 unlisted options with an exercise price of \$0.25
- 15 December 2020 – Issue of 1,115,879 unlisted options to Directors and consultants as approved by shareholders at the Company's AGM held on 27 November 2020 and 1,342,114 unlisted options to employees under its shareholder approved Employee Incentive Options Plan

As a result of the exercise of options during Q2 FY21, \$648,000 was received from investors.

Announcement released with authority of K2F board.

ENDS

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About K2fly

K2fly Ltd (K2F) is an ASX listed technology company providing enterprise-level technical assurance and reporting solutions across all aspects of the Environmental, Social and Governance functions.

Servicing the mining, oil & gas, utilities and agriculture sectors, K2fly delivers a suite of solutions in governance and compliance, stakeholder engagement and permits and obligations services for clients covering:

- Land Access
- Community and heritage
- Rehab
- Dams & Tailing
- Resources Inventory and Mine Geology Systems
- Ground Disturbance

Underpinning K2fly's Software as a Service (SaaS) offering are its proprietary technologies: RCubed, Infoscope and the SATEVA Suite.

K2fly has strategic alliances with global technology companies such as Esri (USA), SAP (Germany) and ABB (Switzerland).

In addition, K2fly provides cutting edge business consultancy services with subject matter experts across Rail, Electricity, Gas, Water, Mining, Oil & Gas, and Facilities Management.

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