

ASX Release

ASX code: K2F

20 April 2023

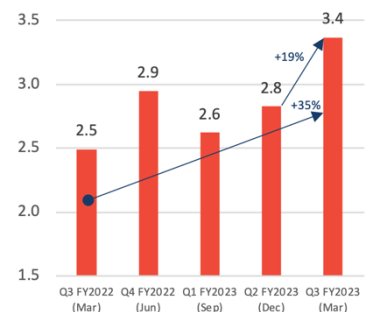
March Q3 FY2023 Quarterly Activities Report

Strong Revenue Growth Supports Focus on Operating Cash Breakeven

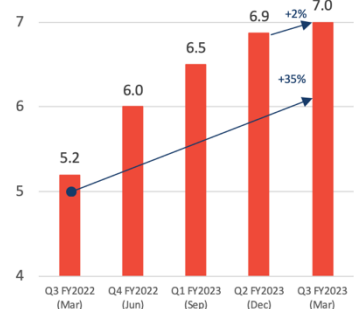
Highlights

- Revenue of \$3.4m in Q3 FY2023, up 19% from Q2 FY2023 and up 35% from Q3 FY2022; due to the commencement of new contracts signed in recent quarters and the achievement of go live milestones
- Annual Recurring Revenue (ARR)² of \$7.0m in Q3 FY2023, 2% higher than Q2 FY2023 and 35% higher than in Q3 FY2022
- Total Contract Value (TCV)² of \$17.1m in Q3 FY2023, 12% lower than Q2 FY2023 and 3% higher than Q3 FY2022 due to contract depletion across all existing contracts, including due to the achievement and billing of implementation milestones, outweighing the value of new contracts
- Cash Receipts from Customers; up 21% at the end of Q3 year to date, up 24% at \$3.6m in Q3 compared to Q2 FY2023 and up 100% compared to Q3 FY2022, a function of growth in the revenue base, the timing of billings including the achievement of implementation milestones, and payment terms
- Net Operating Cash Outflow; improved 36% at the end of Q3 year to date at \$1.8m compared to the end of Q3 FY2022 year to date at \$2.8m; a function of cash receipts on the back of revenue growth
- Material contracts update – implementation go lives of K2fly Solutions with BHP Iron Ore (Ground Disturbance) and Rio Tinto (Reconciliation)
 - BHP Iron Ore Ground Disturbance solution implementation in its WA Iron Ore (WAIO) operations in the Pilbara of Western Australia has gone live.
 - Rio Tinto Reconciliation module implementation has gone live, utilised across 24 reporting sites
- Cash balance on 31 March 2023 was \$4.1m (no debt)

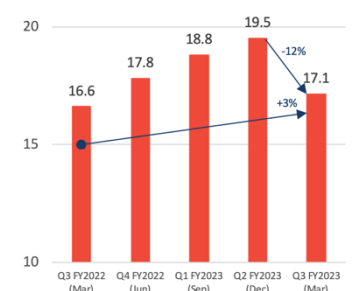
Revenue, \$m



Annual Recurring Revenue (ARR), \$m



Total Contract Value (TCV), \$m



Net Operating Cash Outflow - Q3 YTD



K2fly Limited (K2F, K2fly or the Company) (ASX: K2F), is a leading provider of Resource Governance solutions for 'net positive impact' in Environmental, Social and Governance (ESG) compliance, disclosure, and technical assurance. We focus on the operations of mining and asset intensive industries through our platform-based SaaS cloud solutions. K2fly is pleased to provide commentary regarding its activities for the March quarter, Q3 FY2023.

Nic Pollock CEO of K2fly said "Q3 was a flat quarter for new contract sales on the back of a record Q2 of \$1.52m new ARR. The strong deal flow in Q2 was impetus for strong revenue growth in Q3 of 19% from last quarter and 35% pcp. The Company delivered significantly in milestone project "go lives" with majors such as BHP and Rio Tinto.

Revenue growth coupled with cost control supports the Company's focus on achieving operating cash breakeven. The go live for of our Ground Disturbance solution in a large and complex operation in the Pilbara is our biggest single project to date and a significant milestone for K2fly. This project creates a template for which other resource industry players can use K2fly systems to demonstrate sector leadership in Land Management and Natural Resource Governance. We are extremely proud of this milestone and the collaboration between K2fly and the client's team.

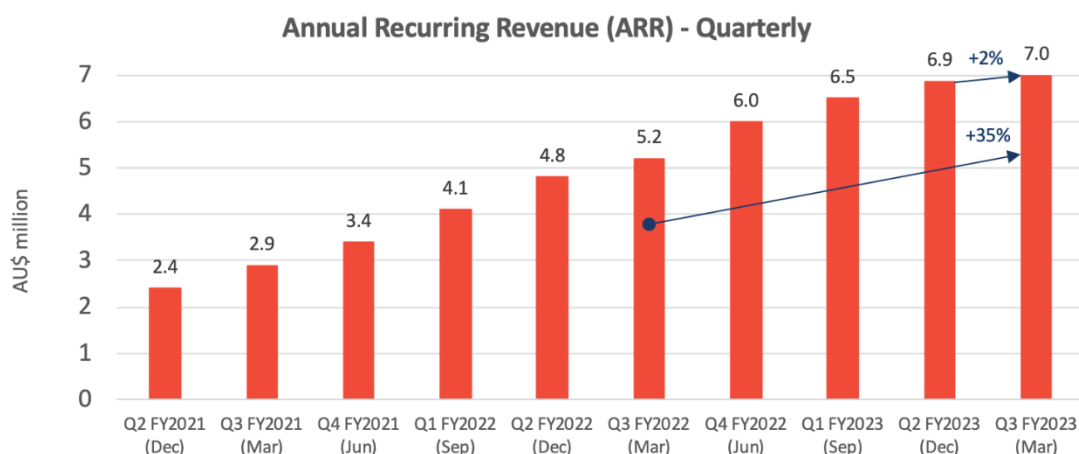
Managing a reconciliation plan to actual is a real challenge for the resource industry and is critical to managing performance. We are very pleased to offer a commercial off the shelf (COTS) solution which addresses this critical industry challenge. We currently have 18 customers of K2fly's RCubed or Resource Disclosure solution which can now leverage this important module. The module is also attracting new customers as a standalone entry offering.

CONTRACTS AND FINANCIAL RESULTS¹

TCV & ARR²:

- **ARR grew 2%** to \$7.0m compared to the record growth in the prior quarter (Q2 FY2023) and **up 35% compared to Q3 FY2022**,
- **TCV declined 12%** to \$17.1m compared to the prior quarter and **was up 3% compared to Q3 FY2022**.
- No new material contracts were signed during the quarter (timing wise Q2 FY2023 saw 5 new contracts signed).

Note: quarter-to-quarter movements in TCV include the net impact of new contracts and the depletion of existing contracts as the remaining term reduces and implementation milestones are achieved.



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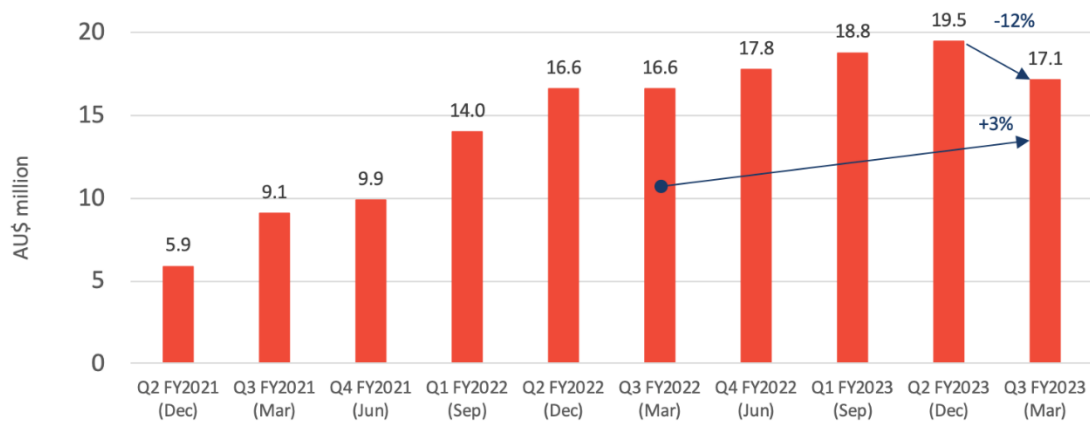


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Total Contract Value (TCV) - Quarterly



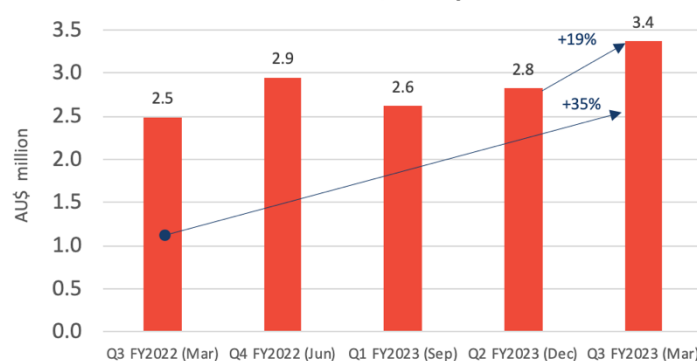
Revenue and Cash Receipts:

Revenue during the quarter was up 19% over Q2 FY2023 at \$3.4m and up 35% over Q3 FY2022. Revenue was up in the quarter due to the acquisition of new contracts in the preceding quarter and the achievement of implementation milestones.

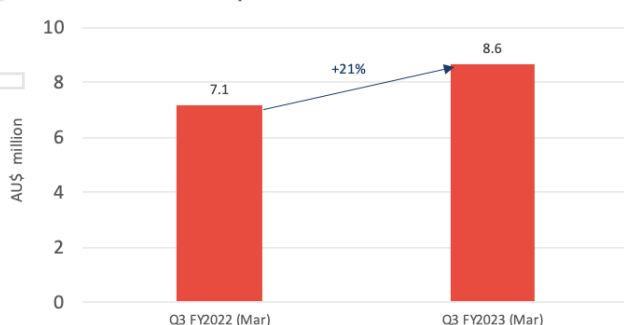
Cash Receipts from Customers are up 21% at the end of Q3 on a year to date basis, up 24% at \$3.6m in Q3 over Q2 FY2023 and up 100% compared to Q3 FY2022.

Note: the timing and collection of Cash Receipts throughout the year vary by month and quarter and are historically concentrated in the June quarter due to anniversary dates of annual contracts. Cash receipts are also influenced by timing of implementation fees against project milestones on individual contracts and payment terms. For this reason, cash receipts are best compared to the same quarter in the prior year.

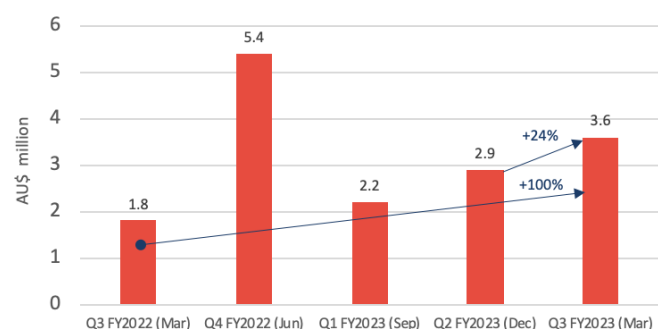
Revenue - Quarterly



Cash Receipts from Customers - Q3 YTD



Cash Receipts from Customers - Quarterly



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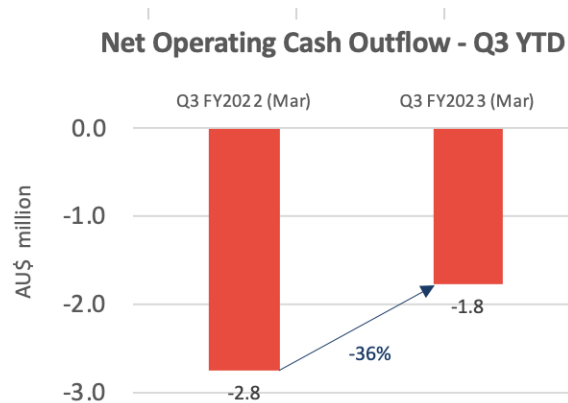

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Net Operating Cashflow:

Net operating cash outflow has improved 36% at the end of Q3 year to date at \$1.8m compared to the end of Q3 FY2022 year to date outflow of \$2.8m. Cost management remains a focus.



MAJOR CONTRACTS UPDATE

No new material contracts were signed during the quarter after record sales in Q2 FY2023.

The Company is pleased to announce an update on implementation go lives with BHP (Ground Disturbance) and Rio Tinto (Reconciliation), and other new non-material contracts.

BHP Ground Disturbance

The Ground Disturbance solution, undergoing implementation across BHP WAIO operations in the Pilbara of Western Australia has gone live. This class leading solution will cover its entire iron ore operations in the Pilbara. The 1-year contract had a Total Contract Value (TCV) of \$2.12m and Annual Recurring Revenue (ARR) of \$620k. The material agreement was announced on 9 May 2022 (see [ASX announcement](#)).

Rio Tinto Mineral Resource Governance Mine Reconciliation

The Reconciliation module sitting within K2fly's Mineral Resource Governance suite is now live across Rio Tinto's 24 reporting sites and across all commodity groups globally. Rio Tinto is the first customer of the Reconciliation module and the solution was delivered in 8 weeks. This solution sits alongside the already implemented K2fly Resource Disclosure (RCubed) solution. The 3-year contract has a TCV of \$360k including implementation fees and ARR of \$75k. The material agreement was announced on 21 November 2022 (see [ASX announcement](#)).

Other non-material contracts

K2fly recently signed a contract with Arafura Rare Earths to provide K2fly's Natural Resource Governance Solution for environmental monitoring (which is being delivered through K2fly's Tailings Solution). The solution will be implemented at Arafura's Nolans Project, 135 km north of Alice Springs in Australia's Northern Territory. Nolans has the potential to supply a significant portion of the world's Neodymium and praseodymium (NdPr) demand. NdPr is highly sought-after for use in the production of high-performance permanent magnets.

CORPORATE

Market engagement:

- **Half Year Report 31 December 2022:** see ASX announcement [here](#).

Upcoming events

- **Coffee Microcaps Conference:** K2fly will present at the upcoming conference to be held in Sydney on Thursday 27 April (Metcalfe Auditorium, State Library of NSW, 1 Shakespeare Place). Registration can be made via the 'Coffee Microcaps' website.

Cash position: The Company held a cash balance on 31 March 2023 of \$4.1m (no debt). Trade receivables at 31 March 2023 were \$2.4m.

The Company received \$362k under the Australian Government's Research and Development Tax Incentive Scheme during the quarter. The claim covers the year ended 30 June 2021.

The R&D Tax Incentive is an Australian Government program developed to assist business recover costs of undertaking research and development. The receipt of these funds is a benefit of K2fly's ongoing commitment to the development of its software as a service (SaaS) product suite.

Operating expenditure: Cash outflows related to ongoing operating expenditures to run business operations and deliver K2fly's platform of 10 solutions to clients which include the key items of: R&D, product manufacturing and operating costs, advertising and marketing, staff costs and administration and corporate costs. Net Cash from Operating Activities was an outflow of \$0.2m (Section 1.9, Appendix 4C). Gross expenditure in the December quarter amounted to cash outflows of \$4.0m (Section 1.2, Appendix 4C). See commentary section Revenue and Cash Receipts for further insight in to K2fly's billing cycle.

Net cash outflow from investing activities: Outflows relate to investment in software development to enhance the current platform of solutions (\$662k), the remittance of deferred payments in relation to the acquisition of Sateva (\$101k) and PPE (\$19k).

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 \$59k relating to Non-Executive Director fees and payments to director-related entities for consulting services. This amount is included at Item 6.1 of the Appendix 4C. Refer to the Remuneration Report in the 2022 Annual Report for further details on director remuneration.

Footnotes

¹ Unaudited.

² Exchange rate fluctuations impact ARR and TCV.

Announcement released with authority of K2fly Board.

For further information, please contact:

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About K2fly

K2fly Limited (ASX: K2F) is an ASX listed technology provider of enterprise-level Resource Governance solutions for '**net positive impact**' in Environmental, Social and Governance (ESG) compliance, disclosure and technical assurance, to operations of mining and asset intensive industries through its platform-based SaaS cloud solutions.

Our solutions address many industry challenges and help manage risk around clients' social license to operate concerning reporting & governance, reputation and disclosure demands.

Product & service offering: We deliver a suite of solutions across three key areas on a single platform:

- Natural Resource Governance
- Mineral Resource Governance
- Technical Assurance

Customers: Spanning all continents, our customer base includes multinational Tier-1 and Tier-2 mining clients operating in 54 countries.

Strategy: Through acquisition, development, and partnerships, K2fly have assembled a unique platform that generates high margin SaaS recurring revenues, being rolled out globally. Our strategy is to 'land and expand' our offering with clients over time whereby additional solutions are rolled out to support central operational management and efficiency gains.

K2fly works closely with peak industry bodies, regulators, and our own industry advisory groups on ESG topics that are driven by rapidly changing regulations, community and investor expectations to build fit for purpose industry solutions that adhere to recognised codes and standards.

Strategic alliances: K2fly has strategic alliances with global technology companies such as Esri (USA), SAP (Germany), Hitachi-ABB (Japan) and Descartes Labs (USA).

Platform [overview](#)

Area	Solution	Related Acquisition
Natural Resource Governance	Heritage Management	Infoscope
	Land Access	Infoscope
	Ground Disturbance	Infoscope
	Tailings Management	Decipher
	Mine Rehabilitation	Decipher
Mineral Resource Governance	Resource Disclosure	RCubed
	Model Manager	RCubed, Sateva
	Mine Reconciliation	RCubed
Technical Assurance	Ore Blocker	Sateva
	Mine Geology	Sateva

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

K2fly Limited

ABN

69 125 345 502

Quarter ended ("current quarter")

31 March 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,570	8,645
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,118)	(4,760)
(c) advertising and marketing	(140)	(401)
(d) leased assets	(49)	(158)
(e) staff costs	(1,298)	(3,687)
(f) administration and corporate costs	(384)	(1,720)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	13	29
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(110)	(110)
1.7 Government grants and tax incentives	-	31
1.8 Other (cash restricted to non-restricted)	(1)	(1)
1.8 Other (R&D refund)	362	362
1.9 Net cash from / (used in) operating activities	(155)	(1,770)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(g) entities	-	-
(h) businesses	(101)	(223)
(i) property, plant and equipment	(19)	(38)
(j) investments	-	-
(k) intellectual property	(662)	(2,177)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(l) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other	-	-
2.6	Net cash from / (used in) investing activities	(782)	(2,438)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,995	8,271
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(155)	(1,770)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(782)	(2,438)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	10	5
4.6	Cash and cash equivalents at end of period	4,068	4,068

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	4,068	4,995
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,068	4,995

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	59
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

Payments included in item 6.1 relates to payment of director fees and non-executive director consulting fees (total: \$59k).

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(155)
8.2 Other (software development) (item 2.1e)	(662)*
8.3 Total relevant outgoings (item 8.1 + item 8.2)	(817)
8.4 Cash and cash equivalents at quarter end (item 4.6)	4,068
8.5 Unused finance facilities available at quarter end (item 7.5)	-
8.6 Total available funding (item 8.4 + item 8.5)	4,068
<p>* The Company considers it appropriate to include cash outflows related to the development of IP activities. Whilst this is not a permanent component of the Company's cost structure, the Company is currently incurring costs in relation to its product development (refer ASX announcement dated 19 April 2021)</p>	
8.7 Estimated quarters of funding available (item 8.4 divided by item 8.1)	5
<p><i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i></p> <p><i>The cash runway calculation does not take into account the timing of cash inflows throughout the annual billing cycle from licence and SaaS fees which are billed annually in advance (aligned with contract anniversary dates).</i></p>	
8.8 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.8.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
8.8.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	

8.8.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 20 April 2023.....

Authorised by: . By the Board.....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.