

Knosys Limited

ABN 96 604 777 862

Appendix 4D

Half-year report

31 December 2018

Reporting period

Report for the half-year ended 31 December 2018.

Previous corresponding period is the half-year ended 31 December 2017.

Results for announcement to the market

		Increase/(decrease) over previous corresponding period	
	\$	\$	%
Revenue from ordinary activities	\$1,569,361	\$1,007,090	179%
Profit/(Loss) from ordinary activities after tax attributable to members	(\$613,651)	\$505,543	45%
Net profit/(loss) for the period attributable to members	(\$613,651)	\$505,543	45%

Dividends

No dividends were paid or declared during the financial period and it is not proposed to pay dividends.

No dividends have previously been declared or paid in prior financial periods and there are no dividend reinvestment plans in place.

Explanation of results

The 179% increase in revenue and the 45% improvement in the net result for the December 2018 half year (compared to the December 2017 half year) are due principally to the impact of the new customer contracts with Singtel, Optus and SBS Bank which were implemented in the 2018 calendar year.

During the December 2018 half year the company has solidified its position with its new major customers and renewed its major contract with ANZ bank for a further 3 year period. In addition to this the company has continued to prudently build up its sales and marketing activities, increasing its resources.

Knosys is also expanding its reach through third parties, including obtaining Microsoft Gold Partner status. This will hold the company in good stead as it looks to launch its cloud based SaaS version of **Knowledge IQ** at end of the March 2019 quarter.

A review of operations and brief explanation of the above figures is contained in the half year consolidated financial report, which has been subject to independent audit review and which is lodged with this Appendix 4D.

Net tangible asset backing

	Current period	Previous corresponding period
Net tangible assets per ordinary security	2.46 cents	-0.46* cents

* Included the impact of the Convertible notes, which were disclosed as a current liability.

Signed:



Stephen Kerr
CFO & Company Secretary

27 February 2019
Melbourne



Knosys Limited

ABN 96 604 777 862

ASX CODE: KNO

Half-Year Report 31 December 2018

The information in this half-year report should be read in conjunction with the annual report of Knosys Limited for the year ended 30 June 2018 and any announcements to the market by Knosys Limited for the half-year ended 31 December 2018

Corporate Information

Directors

Hon. Alan Stockdale – Chairman & Non-Executive Director
John Thompson – Managing Director
Peter Pawlowitsch – Non-Executive Director

Company Secretary

Stephen Kerr

Registered Office

Suite 9.08, Level 9
2 Queen Street
MELBOURNE VIC 3000

Auditors

William Buck
Level 20, 181 William Street
MELBOURNE VIC 3000

Bankers

National Australia Bank Limited

Stock Exchange

Australian Securities Exchange
525 Collins Street
MELBOURNE VIC 3000

Stock Code

‘KNO’

Share Register

Automic Registry Services
Suite 310, Level 3
50 Holt Street
Surry Hills NSW 2010

Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Knosys Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2018.

Directors

The following persons were directors of Knosys Limited during the reporting period and to the date of this report, unless otherwise stated:

Hon. Alan Stockdale – Non-Executive Chairman
John Thompson – Managing Director (appointed a director 27 September 2018)
Peter Pawlowitsch – Non-Executive Director
Richard Levy – Non-Executive Director (retired 27 September 2018)

Principal activities

During the financial period the principal continuing activities of the consolidated entity were computer software development and licencing.

Dividends

No dividends were paid or declared during the financial period.

Review of operations

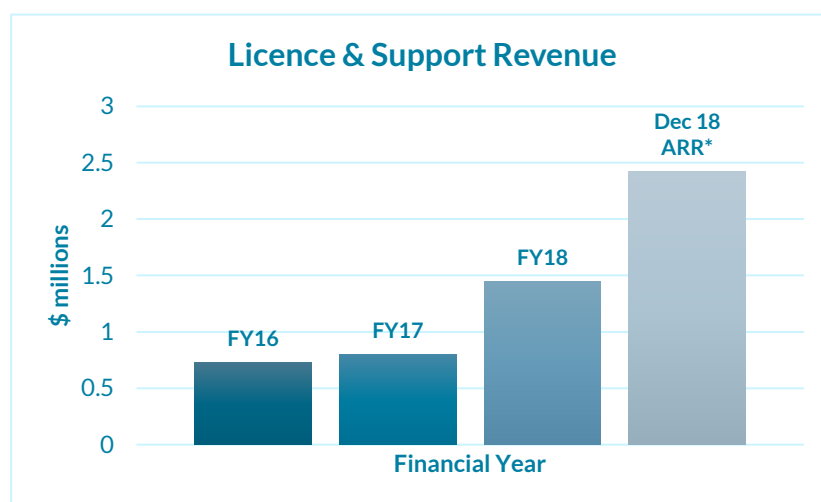
- **Successful capital raise**
- **ANZ Bank signed for a further 3 years**
- **Microsoft Gold Partner status attained**
- **Singtel and Optus revenues flowing from multi-year contracts**

The loss for the consolidated entity for the half year period after providing for income tax amounted to \$613,651 (31 December 2017 loss: \$1,119,194). The consolidated entity had net assets of \$3,525,275 at 31 December 2018 (30 June 2018: \$1,614,549) and had cash on hand of \$2,980,601 (30 June 2018: \$1,065,266).

The consolidated entity is the owner of KnowledgeIQ, a state of the art knowledge solution designed to allow employees and customers to source answers and information when they need it. The platform provides employees, agents, and customers on all channels with real-time access to answers and information they need to optimize customer service and transform customer experience. The Consolidated entity's business model is software-as-a-service (**SaaS**), with a recurring subscription fee payable by clients on a per User basis.

Growth in revenue and number of licensed users

The Company has a robust and growing revenue base from multiple large customers on multi-year contracts.

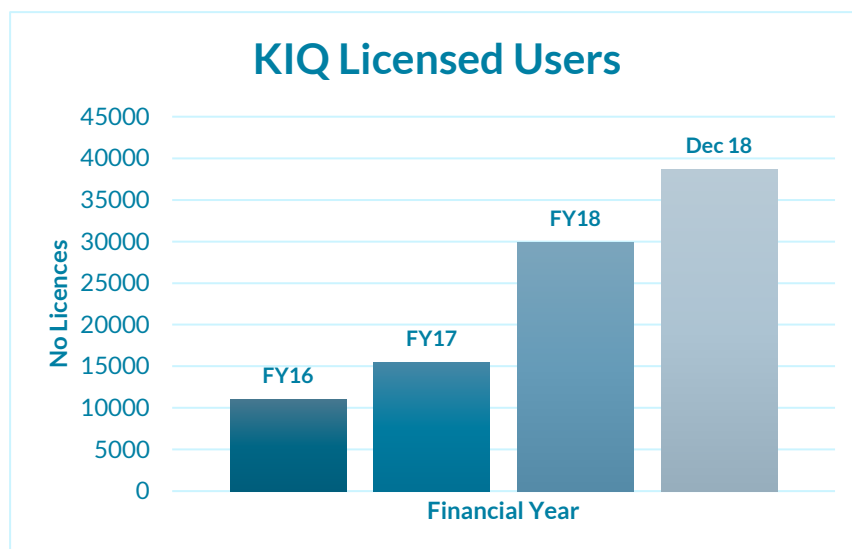


* Dec'18 ARR (Annual Run Rate) is calculated as the licence and support fee revenue for the month of December 2018, multiplied by 12.

The Company is pleased to report a significant improvement on the prior comparative period. The 179% increase in revenue and the 45% improvement in the net result for the December 2018 half year (compared to the December 2017 half year) are due principally to the impact of the new customer contracts with Singtel, Optus and SBS Bank which were implemented in the 2018 calendar year.

During the December 2018 half year the company has solidified its position with its new major customers and renewed its major contract with ANZ bank for a further 3 year period, with an increase in licences and licence fees. This gives the Company a robust and growing revenue base from multiple large customers on multi-year contracts.

The total user licence count at December 2018 was over 38,500, representing a 115+% increase compared to December 2017.



Your directors are pleased that the Company is now in a solid, well-funded ongoing position, but acknowledge that further new contract and resultant stepped revenue growth is needed.

Sales and marketing initiatives

Following the successful capital raising which concluded in early August, Knosys has progressively and prudently increased investment in its sales, marketing and product development in order to pursue APAC customer and revenue growth. Additional employees and resources have been focussed primarily on sales of the Company's leading software platform, KnowledgeIQ.

With the continued expansion of the market and the adoption of knowledge management and business process technology across many industries, Knosys is well placed to expand its customer base and add to its offerings through internal developments and acquisition of technologies.

Whilst sales and marketing efforts are focused on direct initiatives, Knosys is also pursuing further developments that allow greater strategic partnership opportunities with global and domestic software vendors to broaden our market reach going forward. To this end, the Company was pleased to announce that it just attained **Microsoft Gold Partner** status and plans to work closely with Microsoft channel sales teams and partners to promote and sell its flagship knowledge management solution. KnowledgeIQ is already deployed in multiple instances within Microsoft's Azure cloud. This will hold the Company in good stead as it implements its cloud strategy for **Knowledge IQ** at end of the March 2019 quarter and pursue strong growth through this service.



During the period the Company commenced a broader digital marketing campaign and sponsorship of industry conferences to build brand awareness. These included keynote speaking engagements and round tables at KM World in Washington and multiple Records and Information Management conferences in the ACT, Tasmania and NSW. These will continue to evolve as we expand our reach through third parties.

Marketing and sales growth initiatives include further expansion into Singapore with the planned opening of a local office to facilitate better engagement with customers, prospects and partners, with a view to growing Company's sales footprint in the APAC region. Whilst the initial focus will be Singapore, the company will actively pursue sales opportunities in Malaysia, Indonesia and Thailand going forward. The Company also intends to continue to invest in ongoing product development and innovation, focusing on integrations and enhancements to simplify usage and drive adoption of KnowledgeIQ.

Mergers and acquisitions

The Company continues to explore and review potential acquisition opportunities which could complement the Knosys business offering and expand its market presence. We see this strategy as complimentary to our organic growth initiatives as we look for geographic expansion and positive earnings opportunities. The focus remains on businesses which automate business processes, manage information governance, or enhance customer experience by use of information.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial period.


Matters subsequent to the end of the financial period

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration, which forms part of this Directors' Report, is set out on the following page. This report is made in accordance with a resolution of directors.

On behalf of the directors



Hon. Alan Stockdale
Chairman
27 February 2019
Melbourne

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001 TO THE DIRECTORS OF KNOSYS LIMITED**

I declare that, to the best of my knowledge and belief during the half-year ended 31 December 2018 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

William Buck

William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136

A handwritten signature in blue ink, appearing to read 'N. S. Benbow'.

N. S. Benbow
Director

Dated this 27th day of February, 2019

**CHARTERED ACCOUNTANTS
& ADVISORS**

Level 20, 181 William Street
Melbourne VIC 3000
Telephone: +61 3 9824 8555
williambuck.com

Knosys Limited
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31 December 2018

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General information

The financial statements cover Knosys Limited as a consolidated entity consisting of Knosys Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Knosys Limited's functional and presentation currency.

Knosys Limited is an ASX listed public company limited by shares. Its registered office and principal place of business are:

Registered office

Suite 9.08, Level 9
2 Queen Street
Melbourne VIC 3000

Principal place of business

Suite 9.08, Level 9
2 Queen Street
Melbourne VIC 3000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2019. The directors have the power to amend and reissue the financial statements.

Knosys Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2018

	Note	Consolidated December 2018 \$	December 2017 \$
Revenue			
Licence and support fees		1,092,063	529,814
Rendering of services		332,936	7,500
Other income		144,362	24,958
Expenses			
Third party support costs		(256,056)	(148,393)
Employment costs and directors' fees		(1,380,734)	(1,005,373)
Depreciation and amortisation		(16,166)	(13,016)
Legal and accounting		(36,923)	(20,012)
Professional advisory		(92,371)	(100,600)
Travel and accommodation		(80,609)	(45,957)
Marketing		(149,715)	(23,745)
Occupancy		(56,415)	(55,741)
Administrative and corporate		(114,023)	(104,150)
Finance costs		-	(164,479)
Loss before income tax		(613,651)	(1,119,194)
Income tax (expense) credit		-	-
Loss after income tax expense for the year attributable to owners of the parent		(613,651)	(1,119,194)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year attributable to owners of the parent		(613,651)	(1,119,194)
Loss per share for loss attributable to the owners of the parent		Cents	Cents
Basic and diluted loss per share		(0.46)	(1.43)
Weighted average number of shares used in determining basic and diluted loss per share		133,118,831	78,099,386

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Knosys Limited
Statement of financial position
As at 31 December 2018

		Consolidated	
	Note	December	June
		2018	2018
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		2,980,601	1,065,266
Trade and other receivables		1,276,313	708,560
Accrued research and development tax refund receivable		491,332	361,073
Prepayments		90,412	21,680
Total current assets		<u>4,838,658</u>	<u>2,156,579</u>
Non-current assets			
Plant and equipment		49,791	57,432
Total non-current assets		<u>49,791</u>	<u>57,432</u>
Total assets		<u>4,888,449</u>	<u>2,214,011</u>
Liabilities			
Current liabilities			
Trade and other payables		268,061	392,028
Provisions for employee benefits		159,916	142,383
Revenue billed in advance		935,197	65,051
Total current liabilities		<u>1,363,174</u>	<u>599,462</u>
Total liabilities		<u>1,363,174</u>	<u>599,462</u>
Net assets		<u>3,525,275</u>	<u>1,614,549</u>
Equity			
Issued capital	5	8,312,409	5,901,852
Reserves		648,435	534,615
Accumulated losses		<u>(5,435,569)</u>	<u>(4,821,918)</u>
Total equity		<u>3,525,275</u>	<u>1,614,549</u>

The above statement of financial position should be read in conjunction with the accompanying notes

Knosys Limited
Statement of changes in equity
For the half-year ended 31 December 2018

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2017	<u>4,403,765</u>	<u>513,633</u>	<u>(4,190,809)</u>	<u>726,589</u>
Loss after income tax expense for the half year	-	-	(1,119,194)	(1,119,194)
Total comprehensive loss for the half year	<u>-</u>	<u>-</u>	<u>(1,119,194)</u>	<u>(1,119,194)</u>
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 4)				
Equity based payments (note 5)	-	50,186	-	50,186
Balance at 31 December 2017	<u>4,403,765</u>	<u>563,819</u>	<u>(5,310,003)</u>	<u>(342,419)</u>
Consolidated				
Balance at 1 July 2018	<u>5,901,852</u>	<u>534,615</u>	<u>(4,821,918)</u>	<u>1,614,549</u>
Loss after income tax expense for the half year	-	-	(613,651)	(613,651)
Total comprehensive loss for the half year	<u>-</u>	<u>-</u>	<u>(613,651)</u>	<u>(613,651)</u>
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 4)				
	2,410,557	-	-	2,410,557
Equity based payments (note 5)	-	113,820	-	113,820
Balance at 31 December 2018	<u>8,312,409</u>	<u>648,435</u>	<u>(5,435,569)</u>	<u>3,525,275</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes

Knosys Limited
Statement of cash flows
For the half-year ended 31 December 2018

	Note	Consolidated December 2018 \$	December 2017 \$
Cash flows from operating activities			
Receipts from customers		1,826,083	423,650
Payments to suppliers and employees		<u>(2,361,516)</u>	<u>(1,540,398)</u>
		(535,433)	(1,116,748)
Interest received		<u>7,257</u>	<u>24,958</u>
Net cash used in operating activities		<u>(528,176)</u>	<u>(1,091,790)</u>
Cash flows from investing activities			
Payments for plant and equipment		(8,525)	(41,784)
Net cash from investing activities		<u>(8,525)</u>	<u>(41,784)</u>
Cash flows from financing activities			
Proceeds from issue of shares		2,644,382	-
Share issue transaction costs		<u>(192,346)</u>	<u>-</u>
Net cash from financing activities		<u>2,452,036</u>	<u>-</u>
Net (decrease) / increase in cash and cash equivalents		1,915,335	(1,133,574)
Cash and cash equivalents at the beginning of the half year		<u>1,065,266</u>	<u>2,841,416</u>
Cash and cash equivalents at the end of the half year		<u><u>2,980,601</u></u>	<u><u>1,707,842</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with Australian Accounting Standards ensures that these financial statements and notes also comply with International Financial Reporting Standards.

The interim financial statements are intended to provide users with an update on the latest annual financial statements of Knosys Limited. As such, the interim financial statements do not contain information that represents relatively insignificant changes occurring during the half-year of the company. It is therefore recommended that the interim financial statements be read in-conjunction with the annual financial statements of the company for the year ended 30 June 2018, together with any public announcements made during the half-year.

Other than as set out below, these interim financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2018.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 15 Revenue from Contracts with Customers

The consolidated entity has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

There is no material impact on the financial performance and position of the consolidated entity from the adoption of this Accounting Standard.

Revenue recognition

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Note 1. Significant accounting policies (continued)

Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

The consolidated entity earns revenues from its software services. Of these, a portion relates to licensing and support of its software, which is performed over a period of time and for which revenue is recognised over a period of time due to the customer only having a right of access over the software throughout the contract period. For software implementation services provided to the customer, which is specified in the customer contract, revenue is recognised over time as that implementation is performed.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Note 2. Commitments and contingent liabilities

The consolidated entity has no contingent liabilities at the date of this report (June 2018: Nil).

The consolidated entity has the following commitments at 31 December 2018.

Lease commitments – operating

Committed at the reporting date, but not recognised as liabilities, payable:
Within one year

Consolidated	
December	June
2018	2018
\$	\$
7,869	55,080

Note 3. Segment Reporting

During the half-year the consolidated entity operated as a developer and licensor of computer software in the Australasian region.

Note 4. Equity - issued capital

	Legal Parent		Consolidated	
	December	June	December	June
	2018	2018	2018	2018
	Shares	Shares	\$	\$
Ordinary shares - fully paid	143,235,576	102,936,733	8,312,409	5,901,852

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital. On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 5. Equity based payments

Equity instruments issued to Directors, senior management, staff, consultants and resellers

Options

As at 31 December 2018 the following options over ordinary shares in Knosys Limited had been issued (Options).

Option Issue date	Option Expiry date	Exercise price	Balance at 30 June 2018 Number	Issued during the period Number	Exercised during the period Number	Expired or forfeited during the period Number	Balance at 31 December 2018 Number	Vested and exercisable at end of the period Number
09/05/2015	01/07/2019	\$0.25	5,333,334	-	-	-	5,333,334	5,333,334
29/06/2015	01/07/2019	\$0.25	425,000	-	-	-	425,000	425,000
05/04/2016	01/07/2019	\$0.29	200,000	-	-	-	200,000	200,000
05/04/2016	01/07/2020	\$0.29	300,000	-	-	-	300,000	300,000
25/10/2016	01/10/2020	\$0.25	1,400,000	-	-	150,000	1,250,000	833,333
26/11/2018	24/12/2021	\$0.12	-	2,000,000	-	-	2,000,000	2,000,000
Total			7,658,334	-	-	-	9,508,334	9,091,667
Weighted average exercise price			\$0.25				\$0.22	\$0.22

For the Options issued during the period, the valuation model inputs used to determine the fair value, were as follows:

Issue date	Expiry date	Share price at issue date	Exercise price	Marketability Discount	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at issue date
26/11/2018	24/12/2021	\$0.069	\$0.12	0.00%	75%	0.00%	2.095%	\$0.032

As at 30 June 2018 the following options over ordinary shares in Knosys Limited had been issued.

Option Issue date	Option Expiry date	Exercise price	Balance at 30 June 2017 Number	Issued during the period Number	Exercised during the period Number	Expired or forfeited during the period Number	Balance at 30 June 2018 Number	Vested and exercisable at end of the period Number
09/05/2015	01/07/2019	\$0.25	5,333,334	-	-	-	5,333,334	5,333,334
29/06/2015	01/07/2019	\$0.25	425,000	-	-	-	425,000	425,000
05/04/2016	01/07/2019	\$0.29	300,000	-	-	100,000	200,000	200,000
05/04/2016	01/07/2020	\$0.29	300,000	-	-	-	300,000	300,000
25/10/2016	01/10/2020	\$0.25	1,400,000	-	-	-	1,400,000	466,667
Total			7,758,000	-	-	100,000	7,658,334	5,287,666
Weighted average exercise price			\$0.25				\$0.25	\$0.25

Note 5. Equity based payments (continued)

Loan Shares

As at 31 December 2018 the following loan funded shares in Knosys Limited had been issued (Loan Shares).

Loan Shares Grant date	Loan Shares Issue date	Loan Expiry date	Issue price	Balance at 30 June 2018 Number	Issued during the period Number	Sold during the period Number	Forfeited during the period Number	Balance at 31 Dec 2018 Number	Vested at end of the period Number
28/11/2017	19/02/2018	27/11/2022	\$0.06	1,200,000	-	-	-	1,200,000	1,200,000
30/01/2018	19/02/2018	18/02/2023	\$0.10	2,050,000	-	-	-	2,050,000	1,537,500
26/11/2018	24/12/2018	26/11/2023	\$0.08	-	1,000,000	-	-	1,000,000	-
24/12/2018	24/12/2018	24/12/2023	\$0.08	-	1,000,000	-	-	1,000,000	-
24/12/2018	24/12/2018	24/12/2023	\$0.08	-	375,000	-	-	375,000	-
Total				3,250,000	2,375,000	-	-	5,625,000	2,737,500
Weighted average issue price				\$0.085	\$0.08			\$0.083	\$0.083

For the Loan Shares issued during the period, the valuation model inputs used to determine the fair value at each vesting date were as follows:

Grant date	Loan Expiry date	Share price at issue date	Issue price	Marketability Discount	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at issue date
26/11/2018	26/11/2023	\$0.069	\$0.08	0.00%	75%	0.00%	2.340%	\$0.0153
24/12/2018	24/12/2023	\$0.059	\$0.08	0.00%	75%	0.00%	2.045%	\$0.0110
24/12/2018	24/12/2023	\$0.059	\$0.08	0.00%	75%	0.00%	2.045%	\$0.0305

The fair value at issue date is an average of graded tranches.

As at 30 June 2018 the following loan funded shares in Knosys Limited had been issued.

Loan Shares Grant date	Loan Shares Issue date	Loan Expiry date	Issue price	Balance at 30 June 2017 Number	Issued during the period Number	Sold during the period Number	Forfeited during the period Number	Balance at 30 June 2018 Number	Vested at end of the period Number
28/11/2017	19/02/2018	27/11/2022	\$0.06	-	1,200,000	-	-	1,200,000	1,200,000
30/01/2018	19/02/2018	18/02/2023	\$0.10	-	2,050,000	-	-	2,050,000	1,025,000
Total				-	3,250,000	-	-	3,250,000	2,225,000
Weighted average issue price				-	\$0.085			\$0.085	\$0.078

The total number of options outstanding at period end is as follows:

	December 2018 Options	June 2018 Options
Options issued under the employee share option plan	1,250,000	1,400,000
Options issued to directors and executives	2,425,000	2,425,000
Options issued to former directors and executives	3,333,334	3,333,334
Options issued to product resellers	200,000	200,000
Options issued to external advisors	2,300,000	300,000
	<u>9,508,334</u>	<u>7,658,334</u>

Note 5. Equity based payments (continued)

The total number of loan funded shares outstanding at period end is as follows:

	December 2018	June 2018
	Loan funded shares	Loan funded shares
Loan Shares issued under the loan funded share plan to director, executives and staff	2,625,000	2,250,000
Loan Shares issued to director and executives	<u>3,000,000</u>	<u>1,000,000</u>
	<u><u>5,625,000</u></u>	<u><u>3,250,000</u></u>

Expenses arising from share based payment transactions

Net charges arising from share based payment transactions recognised during the financial period were \$113,820 (\$50,187 for prior comparative period). This was comprised of a vesting charge of \$49,820 to the profit and loss, in respect to Options and Loan Shares, and a \$64,000 charged to capital raising costs, in respect to the value of fully vested Options issued to a consultant for capital raising services.

Note 6. Fair value measurement

Due to the nature of the consolidated entity's operating profile, the Directors and management do not consider that the fair values of the consolidated entity's financial assets and liabilities are materially different from their carrying amounts at 31 December 2018.

Note 7. Matters subsequent to the financial period

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Knosys Limited
Directors' declaration
31 December 2018

In the directors' opinion:

1. the attached consolidated financial statements and accompanying notes are in accordance with the *Corporations Act 2001* and;
 - (a) comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial half-year ended on that date; and
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors.

On behalf of the directors



Hon. Alan Stockdale
Chairman

27 February 2019
Melbourne

Knosys Limited

Independent auditor's review report to members

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Knosys Limited (the company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001.

Responsibilities of the Directors for the Half-Year Financial Report

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

Auditor's Responsibilities for the Review of the Half-Year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including:

- giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

CHARTERED ACCOUNTANTS & ADVISORS

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As the auditor of Knosys Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



William Buck Audit (VIC) Pty Ltd

ABN: 59 116 151 136



N. S. Benbow

Director

Melbourne, 27th February 2019