

Knosys Limited

ABN 96 604 777 862

Appendix 4D

Half-year report

31 December 2019

Reporting period

Report for the half-year ended 31 December 2019.

Previous corresponding period is the half-year ended 31 December 2018.

Results for announcement to the market

		Increase/(decrease) over previous corresponding period	
	\$	\$	%
Revenue from ordinary activities	1,939,002	369,641	24%
Loss from ordinary activities after tax attributable to members	(662,614)	(48,963)	(8%)
Loss for the period attributable to members	(662,614)	(48,963)	(8%)

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 for the half year

- Licence and Support fee revenues of \$1,465,660, a 34% increase on December 2018 half year.
- Total revenue (including R&D incentives) of \$1,939,002, a 24% increase on December 2018 half year.
- Continued build of strong sales pipeline.
- Prudent management of expenses, while pursuing new business and expanding geographically.
- Net loss of \$662,614, comparable to the prior corresponding period, an 8% increase on December 2018 half year.

A review of operations and further narrative on 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	1.86 cents	2.46 cents

Signed:



Stephen Kerr
CFO & Company Secretary

26 February 2020
Melbourne



Knosys Limited

ABN 96 604 777 862

ASX CODE: KNO

Half-Year Report 31 December 2019

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 2019 and any announcements to the market by Knosys Limited for the half-year ended 31 December 2019

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

Part Level 8
31 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 2019.

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
Peter Pawlowitsch – Non-Executive Director

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 for half year

Summary

- Licence and Support fee revenues of \$1,465,660, a 34% increase on December 2018 half year
- Total revenue (including R&D incentives) of \$1,939,002, a 24% increase on December 2018 half year
- Continued build of strong sales pipeline
- Prudent management of expenses, while pursuing new business and expanding geographically
- Healthy cash position of \$2,823,786 at December 2019
- Net loss of \$662,614 is comparable to the prior corresponding period, an 8% increase on the December 2018 half year loss

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.

The loss for the consolidated entity for the half year period after providing for income tax amounted to \$662,614 (31 December 2018 loss: \$613,651). The consolidated entity had net assets of \$2,775,403 at 31 December 2019 (30 June 2019: \$3,413,808) and had cash on hand of \$2,823,786 (30 June 2019: \$2,911,318).

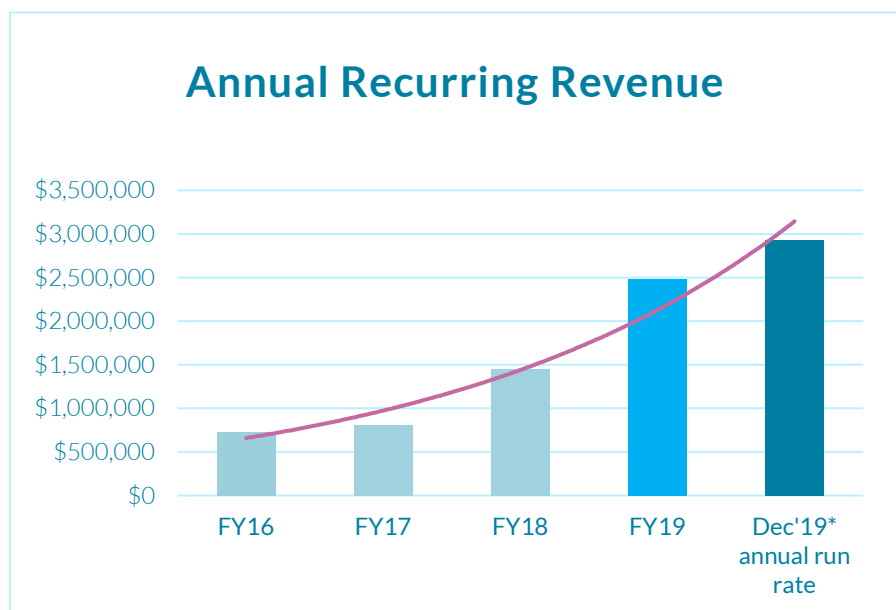
The Company is pleased to report an improvement in revenue on the prior comparative period. Licence and Support revenues increased 34%, compared to the prior comparative December 2018 half year, due to the impact of the recent customer contracts which were implemented in the prior financial year and the increase in average price per licenced user in the second half of FY19 upon full implementation of these contracts. This contributed to a 24% increase in total revenue (including R&D incentives) for the December 2019 half year, compared to the December 2018 half year.

During the December 2019 half year the company has further developed its position with its existing customers and has focused strongly on selling and marketing the Knosys product. Additional expenditure has been deliberately and prudently incurred in these areas and in associated promotional and travel activities to raise the profile of the company and its offering in its target markets. This additional spend has created a 19% increase in total business expenses and resulted in a half year loss that is comparable to the prior year.

The Company incurred total net cash outflows of \$87,532 for the half year and has maintained a healthy cash balance of \$2,823,786 at December 2019, compared to \$2,911,318 at 30 June 2019. For further narrative of the Company's cashflow performance, refer to the Company's Quarterly cash flow announcement and Appendix 4C, lodged with ASX on 31 January 2020.

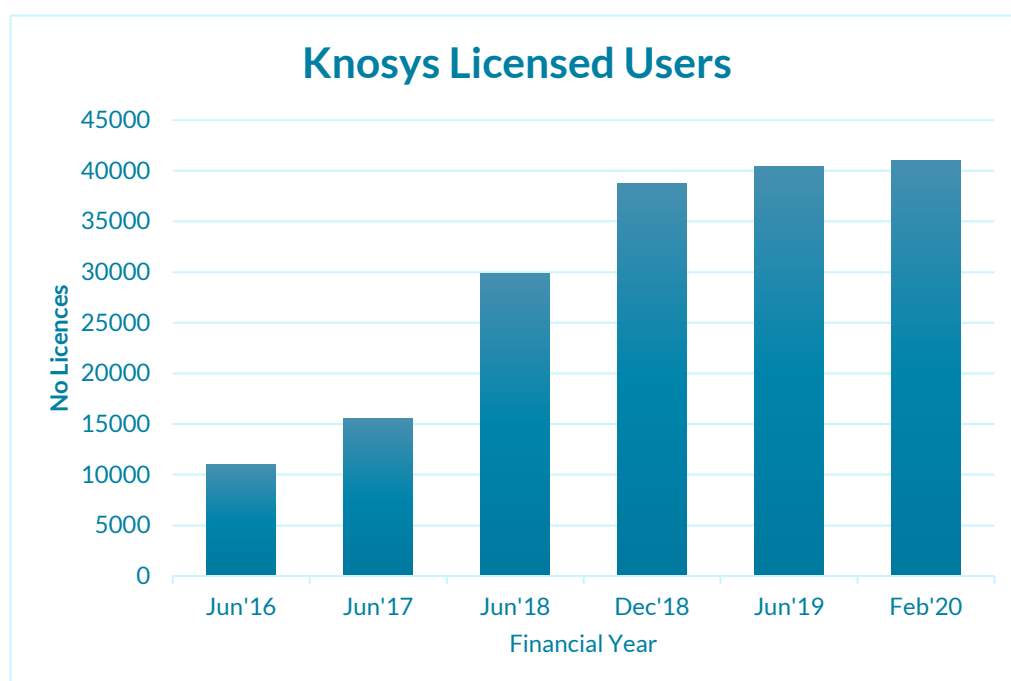
Growth in revenue base and number of licensed users

The Company has a robust and growing revenue base of over \$2.9 million per annum, from multiple large customers on multi-year contracts.



* Dec'19 ARR (Annual Run Rate) is calculated as the licence and support fee revenue for the month of December 2019, multiplied by 12.

The total user licence count at December 2019 was 40,470, representing a 5% increase compared to December 2018. Licence count was over 41,000 at the date of this report.



Your directors are pleased that the Company is in a solid, well-funded ongoing position, but acknowledge that further new customer contracts are needed. The Company is focused on building upon its licenced user based and increasing its recurring revenue levels in the second half of FY2020.

Marketing initiatives and sales pipeline

Over the past six months, the Company has increased its marketing activity through greater participation in a range of technology industry conferences in order to increase brand awareness and explain the innovative Knowledge IQ technology solution. We continue to receive positive feedback that there is strong demand for knowledge management solutions amongst both Enterprise and mid-market companies who operate contact centres and support teams with the core value proposition being to enhance their customer's experience and engagement.

The Company's target market includes companies in highly regulated industries, with dynamic information, that engage with customers through frontline and digital channels. We are also looking to expand into new industry verticals in utilities, health and government.

New sales offices in Sydney and Singapore should enable the Company to capitalise on opportunities throughout the Asia Pacific region. The new Singapore sales office will leverage the existing client base and actively pursue sales opportunities in Malaysia, Indonesia and Thailand and the Company is confident that there will be continued growth in this region in 2H FY20 and beyond.

The December quarter was very active in terms of new business opportunities both in the enterprise segment and the mid-market. The most active regions for us were Western Australia, Queensland and Singapore with several enterprise level opportunities transitioning through the pipeline into the proposal evaluation stage. Total pipeline opportunities have increased significantly compared to the previous quarter. The company is focused on generating new opportunities and converting those in the proposal stage to contracted sales in the next half.

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.

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 2019 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
26 February 2020
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 2019 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. A. Finnis

A. A. Finnis
Director

Melbourne, 26 February 2020

ACCOUNTANTS & ADVISORS

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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

Part Level 8
31 Queen Street
Melbourne VIC 3000

Principal place of business

Part Level 8
31 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 26 February 2020. 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 2019

	Consolidated	
	December	December
	2019	2018
	\$	\$
Revenue		
Licence and support fees	1,465,660	1,092,063
Rendering of services	107,000	332,936
Other income	366,342	144,362
Expenses		
Third party support costs	(332,305)	(256,056)
Employment costs and directors' fees	(1,534,696)	(1,380,734)
Legal and accounting	(69,294)	(36,923)
Professional advisory	(91,787)	(92,371)
Travel and accommodation	(148,195)	(80,609)
Marketing	(138,135)	(149,715)
Occupancy	-	(56,415)
Administrative and corporate	(177,349)	(114,023)
Depreciation and amortisation	(100,154)	(16,166)
Finance costs	(9,701)	-
Loss before income tax	(662,614)	(613,651)
Income tax (expense) credit	-	-
Loss after income tax expense for the year attributable to owners of the parent	(662,614)	(613,651)
Other comprehensive income		
Other comprehensive income for the year, net of tax	-	-
Total comprehensive loss for the year attributable to owners of the parent	<u>(662,614)</u>	<u>(613,651)</u>
Loss per share for loss attributable to the owners of the parent	Cents	Cents
Basic and diluted loss per share	(0.46)	(0.46)
Weighted average number of shares used in determining basic and diluted loss per share	144,209,489	133,118,831

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 2019

		Consolidated	
	Note	December	June
		2019	2019
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		2,823,786	2,911,318
Trade and other receivables		258,690	1,729,553
Accrued research and development tax refund receivable		724,000	420,247
Prepayments		47,887	48,887
Total current assets		<u>3,854,363</u>	<u>5,110,005</u>
Non-current assets			
Buildings - right of use asset	4	386,012	-
Plant and equipment		<u>146,022</u>	<u>176,883</u>
Total non-current assets		<u>532,034</u>	<u>176,883</u>
Total assets		<u>4,386,397</u>	<u>5,286,888</u>
Liabilities			
Current liabilities			
Trade and other payables		319,819	375,751
Provisions for employee benefits		175,878	167,414
Lease Liability	5	111,993	-
Revenue billed in advance		<u>722,186</u>	<u>1,329,915</u>
Total current liabilities		<u>1,329,876</u>	<u>1,873,080</u>
Non-current liabilities			
Lease liability	5	<u>281,118</u>	-
Total non-current liabilities		<u>281,118</u>	-
Total liabilities		<u>1,610,994</u>	<u>1,873,080</u>
Net assets		<u>2,775,403</u>	<u>3,413,808</u>
Equity			
Issued capital	6	8,312,409	8,312,409
Reserves		497,797	695,229
Accumulated losses		<u>(6,034,803)</u>	<u>(5,593,830)</u>
Total equity		<u>2,775,403</u>	<u>3,413,808</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 2019

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
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	2,410,557	-	-	2410,557
Equity based payments (note 7)	<u>-</u>	<u>113,820</u>	<u>-</u>	<u>113,820</u>
Balance at 31 December 2018	<u><u>8,312,409</u></u>	<u><u>648,435</u></u>	<u><u>(5,435,569)</u></u>	<u><u>3,525,275</u></u>
Consolidated				
Balance at 1 July 2019	<u>8,312,409</u>	<u>695,229</u>	<u>(5,593,830)</u>	<u>3,413,808</u>
Loss after income tax expense for the half year	-	-	(662,614)	(662,614)
Total comprehensive loss for the half year	<u>-</u>	<u>-</u>	<u>(662,614)</u>	<u>(662,614)</u>
<i>Transactions with owners in their capacity as owners:</i>				
Equity based payments (note 7)	-	24,209	-	24,209
Transfer from share based payments reserve to accumulated losses on expiry or forfeiture of share based remuneration instruments	<u>-</u>	<u>(221,641)</u>	<u>221,641</u>	<u>-</u>
Balance at 31 December 2019	<u><u>8,312,409</u></u>	<u><u>497,797</u></u>	<u><u>(6,034,803)</u></u>	<u><u>2,775,403</u></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 2019

	Consolidated	
	December	December
	2019	2018
	\$	\$
Cash flows from operating activities		
Receipts from customers	2,512,988	1,826,083
Payments to suppliers and employees	(2,587,554)	(2,361,516)
Grant revenue	36,047	-
Interest received	22,882	7,257
Interest paid	(9,701)	-
	<u>(25,338)</u>	<u>(528,176)</u>
Net cash used in operating activities		
Cash flows used in investing activities		
Payments for plant and equipment	(8,344)	(8,525)
	<u>(8,344)</u>	<u>(8,525)</u>
Net cash used in investing activities		
Cash flows (used in)/from financing activities		
Repayment of lease liabilities	(53,850)	-
Proceeds from issue of shares	-	2,644,382
Share issue transaction costs	-	(192,346)
	<u>(53,850)</u>	<u>2,452,036</u>
Net cash (used in)/from financing activities		
Net (decrease) / increase in cash and cash equivalents	(87,532)	1,915,335
Cash and cash equivalents at the beginning of the half year	<u>2,911,318</u>	<u>1,065,266</u>
Cash and cash equivalents at the end of the half year	<u><u>2,823,786</u></u>	<u><u>2,980,601</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*, which ensures compliance with IAS 34. 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 2019, 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 2019.

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.

From 1 July 2019 the following new accounting standards have been adopted by the consolidated entity;

AASB 16 – Leases (“AASB 16”)

The consolidated entity has adopted AASB 16 from 1 July 2019. This standard replaces AASB 117 “Leases” and for lessees eliminates the classification of operating leases and finance leases. Except for short-term leases and leases of low value assets, right of use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (including operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier period of the lease, the expense associated with the lease under AASB 16 will be higher when compared to the lease expense under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification with the statement of cash-flows, the interest portion is disclosed in operating activities and the principle portion of the lease payments are separately disclosed in the financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits at 1 July 2019 was as follows:

	1 July 2019 \$
Operating lease commitments as at 30 June 2019	491,221
Operating lease commitments discount based on the weighted average incremental borrowing rate of 5.25% (AASB 16)	(44,260)
Accumulated depreciation as at 1 July 2019	-
Right-of-use assets (AASB 16)	446,961
Lease liabilities – current (AASB 16)	(108,717)
Lease liabilities – non-current (AASB 16)	(338,224)
Change in opening accumulated losses as at 1 July 2019	-

Note 1. Significant accounting policies (continued)

Changes in accounting policies

Other than the policies described below there have been no changes in accounting policies during the half-year ended 31 December 2019.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable; any lease payment made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. When the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with a term of 12 months or leases of low-value assets. Lease payments on these assets are expenses to profit or loss as incurred.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payment to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following; future lease payments arising from a change in an index or a rate used, residual guarantees, lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the following right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Note 2. Commitments and contingent liabilities

The consolidated entity has no contingent liabilities at the date of this report (June 2019: Nil).

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. Right of use asset

	Consolidated	
	December	June
	2019	2019
	\$	\$
Buildings – right-of-use	446,961	-
Accumulated depreciation	(60,949)	-
	<u>386,012</u>	<u>-</u>

As required under the adoption of AASB 16 (refer Note 1), additions to the right-of-use assets during the half-year were \$446,961, being the value of the consolidated entity's main office lease. The consolidated entity leases its Melbourne based head office under an agreement of four years duration. The lease has an annual 3.75% escalation clause.

The consolidated leases office equipment under specific agreements. These leases are either short-term or low-value, so have been expensed as incurred and not capitalised as right-of-use assets.

Note 5. Lease liability

	Consolidated	
	December	June
	2019	2019
	\$	\$
Lease Liability – current		
Lease liability	111,993	-
Lease liability - current	<u>111,993</u>	<u>-</u>
Lease liability – Non-current		
Lease liability	281,118	-
Lease liability – Non-current	<u>281,118</u>	<u>-</u>

Note 6. Equity - issued capital

	December 2019 Shares	June 2019 Shares	December 2019 \$	June 2019 \$
Ordinary shares - fully paid	<u>148,835,576</u>	<u>143,235,576</u>	<u>8,312,409</u>	<u>8,312,409</u>

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 7. Equity based payments

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

Options

As at 31 December 2019 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 2019 Number	Issued during the period Number	Exercised during the period Number	Expired or forfeited during the period Number	Balance at 31 December 2019 Number	Vested and exercisable at end of the period Number
09/05/2015	01/07/2019	\$0.25	5,333,334	-	-	5,333,334	-	-
29/06/2015	01/07/2019	\$0.25	425,000	-	-	425,000	-	-
05/04/2016	01/07/2019	\$0.29	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	1,250,000	-	-	-	1,250,000	1,250,000
26/11/2018	24/12/2021	\$0.12	2,000,000	-	-	-	2,000,000	2,000,000
Total			9,508,334	-	-	5,958,334	3,550,000	3,550,000
Weighted average exercise price			\$0.22				\$0.18	\$0.18

Loan Shares

As at 31 December 2019 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 2019 Number	Issued during the period Number	Sold during the period Number	Forfeited during the period Number	Balance at 31 Dec 2019 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	-	-	450,000	1,600,000	1,600,000
26/11/2018	24/12/2018	26/11/2023	\$0.08	1,000,000	-	-	750,000	250,000	250,000
24/12/2018	24/12/2018	24/12/2023	\$0.08	1,375,000	-	-	825,000	550,000	400,000
27/11/2019	29/11/2019	29/11/2024	\$0.101	-	6,500,000	-	-	6,500,000	-
27/11/2019	29/11/2019	29/11/2024	\$0.101	-	1,125,000	-	-	1,125,000	-
Total				5,625,000	7,625,000	-	2,025,000	11,225,000	3,450,000
Weighted average issue price				\$0.083				\$0.095	\$0.082

Note 7. Equity based payments (continued)

Loan Shares issued to Directors and executives

During the period 6,500,000 Loan Shares were issued to Directors and executives. These Loan Shares vest in four equal tranches, subject to service based and applicable share price performance based vesting conditions and have been valued independently at issued date. Details of each tranche are as follows:

Tranche	Number of Loan Shares	Service based vesting date and applicable conditions	Fair value per share at issue date	Total fair value at issue date
Tranche 1	1,625,000	Vest on 30 June 2020.	\$0.040	\$65,000
Tranche 2	1,625,000	Vest on 30 June 2020, if the 20-day volume weighted average price of Knosys Limited shares is \$0.12 or more on that date.	\$0.020	\$32,500
Tranche 3	1,625,000	Vest on 30 June 2021, if the 20-day volume weighted average price of Knosys Limited shares is \$0.16 or more on that date.	\$0.028	\$45,500
Tranche 4	1,625,000	Vest on 30 June 2021, if the 20-day volume weighted average price of Knosys Limited shares is \$0.20 or more on that date.	\$0.024	\$39,000
Total	6,500,000			\$182,000

The valuation model inputs used by the independent valuer 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
27/11/2019	29/11/2024	\$0.087	\$0.101	0.00%	72%	0.00%	0.76%

Loan Shares issued to employees

During the period 1,125,000 Loan Shares were issued to employees. These Loan Shares vest in three tranches, subject to time based vesting conditions and have been valued independently at issued date. Details of each tranche are as follows:

Tranche	Number of Loan Shares	Service based vesting date	Fair value per share at issue date	Total fair value at issue date
Tranche 1	562,500	Vest on 30 June 2020.	\$0.040	\$22,500
Tranche 2	281,250	Vest on 31 December 2020.	\$0.020	\$11,813
Tranche 3	281,250	Vest on 30 June 2021.	\$0.028	\$12,656
Total	1,125,000			\$46,969

The valuation model inputs used by the independent valuer 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
27/11/2019	29/11/2024	\$0.087	\$0.101	0.00%	72%	0.00%	0.76%

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

	December 2019 Options	June 2019 Options
Options issued under the employee share option plan	1,250,000	1,250,000
Options issued to directors and executives	-	2,425,000
Options issued to former directors and executives	-	3,333,334
Options issued to product resellers	-	200,000
Options issued to external advisors	2,300,000	2,300,000
	<u>3,550,000</u>	<u>9,508,334</u>

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

	December 2019 Loan funded shares	June 2019 Loan funded shares
Loan Shares issued under the loan funded share plan to a director, executives and staff.	5,225,000	2,625,000
Loan Shares issued to directors and executives, on the same terms as the loan funded share plan.	6,000,000	3,000,000
	<u>11,225,000</u>	<u>5,625,000</u>

Expenses arising from share based payment transactions

Net charges arising from share based payment transactions recognised during the financial period were \$24,209 (\$113,820 for prior comparative period). This was comprised of a vesting charge of \$24,209 to the profit and loss, in respect to Loan Shares.

Note 8. 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 2019.

Note 9. Matters subsequent to the financial period

No matter or circumstance has arisen since 31 December 2019 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 2019

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 2019 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

26 February 2020
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 2019, 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 2019 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 2019 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*.

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.


ACCOUNTANTS & ADVISORS

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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

**A. A. Finnis**

Director

Melbourne, 26 February 2020