Knosys Limited

ABN 96 604 777 862

Annual Report

30 June 2017

Knosys Limited
Chairman's letter to shareholders
30 June 2017

Dear Shareholders,

I have pleasure in presenting to you the 2017 Annual Report of Knosys Limited.

Following the successful float of the Company and its transition to a fully operational public company in the 2016 financial year, the 2017 year saw the next stage of the Company's development.

During July 2016, Mr. John Thompson was appointed the Company's new CEO. John Thompson is a highly experienced and skilled CEO having been a successful CEO in a wide range of technology businesses from start-ups to large international companies. John has held various CEO positions over more than twenty years and has a strong track record in growing revenue and profits.

Upon joining the Company, John in consultation with the Board conducted a comprehensive review of all aspects of the Company's business and provide recommendations for the Board to consider and implement.

The first was to transform the Company into a sales-focussed technology business. We commenced with the recruitment of a national sales team and the refinement of our sales proposition. We are now better articulating our value proposition to potential customers and are focused on our core vision, that is, "making knowledge matter".

We also adopted a more focused sales strategy targeting Tier 1 and Tier 2 customers in the Banking, Legal/Government and Telecommunication sectors. This approach is expected to deliver customers of similar scale to the ANZ bank and additionally customers in the 200-500 user range over time

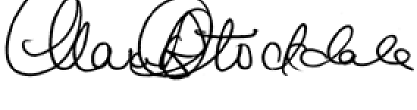
Our partner relationships were also deemed to be under performing and we made significant changes to these during the year. With a greater focus on direct sales we are now less dependent upon resellers. Whilst we still see an opportunity for resellers going forward to expand our sales, we will be more selective and demanding on their performance in the future. The Company also concluded a number of external subcontracting arrangements for software development and support services to offset the costs associated with the expanded internal development team.

The Company also transitioned from a founder driven business to one under the stewardship of independent management. Mr Alistair Wardlaw resigned from the Board of the Company and resigned from his position as Knosys' Chief Technology Officer. Mr Wardlaw was the founder of the Knosys technology and was an owner of the entity acquired by Knosys to secure ownership of the IP associated with the Knosys platform. He has successfully transferred the knowledge around the Knosys technology to the current Knosys management and development teams and everyone associated with Knosys Limited thanks Alistair for his significant contribution to the development of the Company and its technology both before and after listing. Mr Gavin Campion also resigned from his position as a Knosys consultant during the year. He was instrumental in assisting Company to float and introducing strategic partners to the business in its formative years. We thank him for his contribution and support of the business as it moves ahead.

The Board is confident that John Thompson will deliver further success for Knosys and its shareholders as he continues to evolve the Company in the years ahead.

In May 2017 the Company announced the raising of $1.5m through a convertible note issue. Funds were raised for the purpose of supporting the Company's current sales, marketing and business development activities and initiatives, continued product development and its general working capital needs. On behalf of the Directors I would like to thank all investors who supported this fund raising initiative and I thank all stakeholders who have taken an interest in the Company and that have continued to support us.

I present to you the report on the Company and its controlled entities for the financial period ended 30 June 2017.



Hon. Alan Stockdale AO
CHAIRMAN

Knosys Limited
Directors' report
30 June 2017

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 year ended 30 June 2017.

Directors
The following persons were directors of Knosys Limited during the period from 1 July 2016 to the date of this report, unless otherwise stated:

Hon. Alan Stockdale (Non-executive Chairman)
Ashley Gall (Managing Director) resigned 15 July 2016
Alistair Wardlaw (Executive Director) resigned 27 September 2016
Richard Levy (Non-executive Director)
Peter Pawlowitsch (Non-executive Director)

Principal activities
During the financial year the principal continuing activities of the consolidated entity consisted of:
- Computer software development and licencing.

Dividends
No dividends were paid or declared during the financial year.

Review of operations
The loss for the consolidated entity after providing for income tax amounted to $2,085,018 (30 June 2016 loss: $1,411,015).

The consolidated entity had net assets of $726,589 at 30 June 2017 and cash on hand of $2,841,416. The consolidated entity is adequately funded and has the resources to develop its product and its business.

The Knosys Platform enables organisations, large or small, to better capture, manage and access information across often disparate business units, divisions and information technology (IT) platforms, improving and simplifying the knowledge. The Knosys Platform sits above an organisation's existing technology or IT platform, without disrupting existing processes. The Knosys Platform optimises the outcomes of existing IT platforms in an organisation through the integration of their capabilities and content, without moving the data from the legacy system. This is done by indexing the data/information location or tagging the file and creating a virtual link to the information without the requirement to replicate the information into a central repository.

The Consolidated entity's business model is based on a recurring subscription fee payable by customers annually on a per user basis.

The 2017 financial year was a challenging but successful one for Knosys as it addressed a number of strategic imperatives. This was the first full year of trading since listing and we learnt many valuable lessons during this period and implemented a number of targeted actions to position the business for better future trading results. We established a program to further develop the Knosys platform to achieve its real potential in the market, engaged with our customers and commenced building our reputation as world-class software vendor.

We had grown the business by 45% by the end of the 2017 financial year, with the licensed user base increasing from 11,350 (2016) to over 16,500. We focused on our core Banking and Financial Services market and improved our working relationship with our key customer ANZ Bank, which was the primary purchaser of new licenses during the year. We expect additional Tier 2 banking customers and some mid-sized Super Funds to come on line during the next financial year because of our direct sales efforts in this sector in the latter half of 2017. We are therefore working through the protracted sales cycles, that are characteristic of enterprise and government customers, particularly when we are trying to achieve a broader penetration of our offering in these organisations. We are significantly progressed in a number of these sales processes and we are seeing the prospects starting to open for these broad-based roll outs.

Expenses during the year rose as we continued to invest in the business and attract specialist skills within the organisation necessary to position it for growth. During 2017 the Company implemented a number of restructuring plans and reduced its external consulting costs to offset some of the increased labour costs, the full benefits of which will materialise in the following financial year.

The company has moved strongly into the phase where its primary focus is on gaining sales, both direct and through partners. We look forward to releasing news of new customer signings during the coming financial year.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year, other than those discussed already in the review of operations.

Going Concern

For the year ended 30 June 2017, the consolidated entity had an operating net loss of $2,085,018 (2016: $1,411,015) and net cash outflows from operating activities of $1,625,135 (2016: $767,996).

The ability of the consolidated entity to continue as a going concern is dependent upon a number of factors, one being the continuation and availability of funds. The financial statements have been prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of its business, realisation of assets and the settlement of liabilities in the normal course of business.

In determining that the going concern assumption is appropriate, the directors have had regard to:

- Achieving expected increase in sales through both direct sales and the Company's reseller network;
- Prudent management of costs as required;
- Previous success on being eligible for the research and development tax incentive refunds
- Potential reduction of liabilities and additional capital contribution from the conversion of convertible notes to ordinary shares and additional capital from the exercise of options attached to the convertible notes; and
- If required, being able to raise additional capital funds through conducting a capital raising.

The consolidated entity's ability to continue to operate as a going concern is dependent upon the items listed above. Should these events not occur, the consolidated entity may be unable to continue as a going concern and may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2017 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.

Likely developments and expected results of operations
Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation
The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	Hon. Alan Stockdale AO
Title:	Non-Executive Chairman
Experience and expertise:	Hon. Alan Stockdale AO served as Treasurer in the Victorian Government from 1992 to 1999 and his responsibilities included the Government reform agenda and general financial management. Alan was responsible for the privatisation of $A30 billion of Government business enterprises. He was also Minister for IT and Multimedia from 1996 to 1999, promoting Victoria as a leader in the application of multimedia and new information technologies. In the private sector, Alan was employed by Macquarie Bank for a total of six years, co-leading the Macquarie team that successfully bid to acquire Sydney Airport. Taking on a number of other corporate advisory roles, he was involved in a wide range of infrastructure transactions, especially in the power, gas and transport sectors in Australia and overseas. Alan has developed a career as a company Chairman and director of a number of ASX-listed companies and of various unlisted companies and not-for-profit organisations. He has been Chairman of Axon Instruments Inc (incorporated in the USA and listed on the ASX), Symex Holdings Limited, Senetas Corporation Limited and a director of Marriner Financial Limited - all companies listed on the ASX. He is also a consultant to Maddocks Lawyers, Metro Trains and Lazard Australia and Chairman of the Medical Research Commercialisation Fund. He was Federal President of the Liberal Party from 2008 to 2014. Alan holds a Bachelor of Laws and a Bachelor of Arts, both completed at the University of Melbourne, is a Barrister of the Supreme Courts of Victoria and NSW and the High Court of Australia and is a Fellow of the Australian Institute of Company Directors. Mr Stockdale has been a director since 30 April 2015.
Directorships held in other listed entities in the last 3 years	Nil.
Interests in shares	Nil ordinary shares
Interests in options	500,000 options

Name:	Richard Levy
Title:	Non-Executive Director
Experience and expertise:	Richard Levy has had 27 years automotive manufacturer (Nissan/Ford) and supplier (Air International) experience in sales and marketing management positions including four years as Director of Sales and Dealer Operations at Nissan. He has also had investments and participation in several commercial ventures including food, travel and now internet businesses. Richard has been a partner and was Managing Director (resigned Feburary 2017) of MMG Interactive for the last 17 years including involvement with servicing many blue chip and high value SME customers, and has also published papers on the internet and the auto industry - both business-to business and business-to-consumer. He was and continues to be a founding owner of apStream, an internet streaming services company. Richard holds an Economics degree from the ANU. Mr Levy has been a director since 30 April 2015.
Directorships held in other listed entities in the last 3 years	Nil
Interests in shares	10,292,260 ordinary shares
Interests in options	1,000,000 options

Name:	Peter Pawlowitsch
Title:	Non-Executive Director
Experience and expertise:	Peter Pawlowitsch is an accountant by profession with extensive experience as a director and officer of ASX-listed entities. He brings to the team experience in operational management, business administration and project evaluation in the IT, hospitality and mining sectors during the last 15 years. Peter is Chairman of Dubber Corporation Limited (appointed a director on 26 September 2011), and a non-executive director of Ventnor Resources Ltd (appointed 12 February 2010), Novatti Group Limited (appointed 19 June 2015) and a non-executive director of Rewardle Holdings Limited (appointed 30 May 2017) and he was a non-executive director of Department 13 Ltd (30 January 2010 to 18 December 2015), all ASX-listed companies. Peter holds a Bachelor of Commerce from the University of Western Australia, is a current member of the Certified Practising Accountants of Australia and also holds a Masters of Business Administration from Curtin University. Mr Pawlowitsch has been a director since 16 March 2015.
Directorships held in other listed entities in the last 3 years	Dubber Corporation Limited (ASX:DUB) Ventnor Resources Limited (ASX:VRX) Novatti Group Limited (ASX:NOV) Department 13 International Limited (ASX:D13) Rewardle Holdings Limited (ASX:RXH)
Interests in shares	900,000 ordinary shares
Interests in options	500,000 options

Name:	Ashley Gall (resigned 15 July 2016)
Title:	Managing Director and CEO
Experience and expertise:	Ashley Gall has over 25 years' experience working in the information technology sector. This has formed the basis of Ashley's strong industry expertise in enterprise market segments including government, health, utilities, education, finance and banking. Serving as an Enterprise Account Manager with multinational information technology corporation Hewlett-Packard from 1991 until 2009, Ashley then moved on, becoming a Senior Account Manager for Southern Cross Computer Systems from 2009 until 2012. From 2013 to January 2015, Ashley was the Victorian Sales Manager for NTT Communications ICT Solutions. Coming from an engineering background, Ashley has developed his knowledge and skills from working in sales and sales management, with a strong focus on business solutions. Ashley studied at Collingwood & Box Hill TAFE obtaining a Certificate and Associate Degree in Civil Drafting and Civil Engineering. Mr Gall held the position of director from 30 April 2015 to 15 July 2016.
Directorships held in other listed entities in the last 3 years	Nil
Interests in shares	Nil ordinary shares
Interests in options	2,416,667 options

Name:	Alistair Wardlaw (resigned 26 September 2016)
Title:	Executive Director and Chief Technical Officer
Experience and expertise:	Alistair has 20 years' experience in multimedia, information technology and software development and delivery. As a co-founder of the Group and Chief Technology Officer, Alistair has played a key role in productising and commercialising the Knosys Platform, taking the original conceptual model of the Knosys Platform through each phase of the software development life cycle to the final product. For the last 15 years Alistair has been a part owner and operations director of MMG interactive, which has provided services for many blue chip and high value small-to-medium enterprise customers, developing customer-centric websites, application and SaaS platforms. Alistair is also a co-founder of apStream, a streaming and content distribution network to commercial and government sectors. Alistair has academic training from La Trobe University and Monash University and applications experience in electronic graphic design. Mr Wardlaw held the position of director from 30 April 2015 to 26 September 2016.
Directorships held in other listed entities in the last 3 years	Nil
Interests in shares	19,100,000 ordinary shares
Interests in options	416,667 options

Chief Executive Officer - Appointed 18 July 2016

John Thompson (BEng Hons, MBA) was appointed as CEO on 18 July 2016. Mr. Thompson brings a wealth of leadership experience having worked for more than 20 years at the helm of renowned technology companies. Most recently, Mr. Thompson spent 11 years as CEO of Sigtec and 5 years as CEO of Wavenet International in addition to 5 years with CS Communications and Systems in New York and London. Mr. Thompson received a first class honours degree in Engineering from the Queensland University of Technology in addition to a Master of Business Administration from the City University Business School in London. Mr. Thompson has a strong record in driving sales and revenue in addition to his ample experience as a capable CEO providing pivotal leadership expertise across UK, US, Australia and New Zealand markets for multi-national, listed, IPO and start-up technology companies.

Company Secretary and Chief Financial Officer

Stephen Kerr (BCom, CA, FGIA) has held the role of Company Secretary since July 2015. Stephen Kerr is a qualified chartered accountant and chartered company secretary. He is an experienced CFO and governance professional, having held senior finance positions in private and publicly listed company environments across Australia and New Zealand for over 15 years. Stephen holds a Bachelor of Commerce from the University of Melbourne and is a current member of Chartered Accountants Australia and New Zealand and a Fellow of the Governance institute of Australia.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held from 1 July 2016 to the year ended 30 June 2017, and the number of meetings attended by each director were:

	Full board	
	Attended	Held
Hon. Alan Stockdale	13	13
Ashley Gall (resigned 15 July 2016)	0	0
Alistair Wardlaw (resigned 26 September 2016)	2	2
Richard Levy	13	13
Peter Pawlowitsch	12	13

Held: represents the number of meetings held during the time the director held office.

Remuneration Report (audited)
The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:
- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel. The executive remuneration framework is structured to be market competitive and complementary to the strategy of the consolidated entity.

Non-executive directors' remuneration
Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. No such advice was sought for the financial year ended 30 June 2017. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The current maximum aggregate remuneration payable to non-executive directors of the consolidated entity in any financial year is $500,000.

Executive remuneration
The consolidated entity aims to reward executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

The executive remuneration and reward framework has four components:
- base pay, superannuation and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Board, based on individual performance and the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The short-term incentives ('STI') program is designed to align the targets of the business with the targets of those executives responsible for meeting those targets. STI payments are granted to executives based on specific targets and/or key performance indicators ('KPI's') being achieved. These targets are discussed in further detail in the description of service agreements which forms part of this Remuneration Report.

The long-term incentives ('LTI') include long service leave and share-based payments. Options are awarded to executives, vesting over a period of three years based on elapsed time and/or achievement of long-term incentive measures.

Consolidated entity performance and link to remuneration
Remuneration for certain individuals is directly linked to the performance of the consolidated entity. A portion of cash bonus and incentive payments are dependent on defined revenue and earnings targets being met. The remaining portion of the cash bonus and incentive payments are at the discretion of the Board.
In considering the performance of the consolidated entity and benefits for shareholder wealth, the remuneration committee have regard to the following indices in respect of the current financial year and the previous financial years. As this is only the second report as a public ASX listed company, the previous financial information is limited to the immediately previous financial year.

	2017	**2016**
Profit / (loss) attributable to owners of the parent entity	(2,085,018)	(1,411,015)
Dividends paid	-	-
Operating revenue growth	9.9%	-
Change in operating income	(47.8%)	-
Change in share price	(40%)	-
Return on capital employed	(80%)	(48%)

Profit is one of the financial performance targets considered in setting the Short Term Incentive (STI). Profit amounts have been calculated in accordance with Australian Accounting Standards (AASB's). Operating income is operating profit as reported in the statement of profit or loss.

Details of remuneration

Amounts of remuneration
Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity during the year to 30 June 2017 consisted of the following directors of Knosys Limited:
- Alan Stockdale - Non-Executive Chairman
- Peter Pawlowitsch - Non-Executive Director
- Richard Levy - Non-Executive Director
- Ashley Gall - Managing Director and Chief Executive Officer (resigned on 15 July 2016)
- Alistair Wardlaw - Executive Director (resigned 26 September 2016)

And the following persons:
- John Thompson – Chief Executive Officer (appointed 18 July 2016)
- Stephen Kerr - Company Secretary and Chief Financial Officer
- Gavin Campion – Consultant (resigned 21 November 2016)

2017	Short-term benefits: Cash salary and fees $	Short-term benefits: Cash bonus $	Short-term benefits: Non-monetary $	Post-employment benefits: Super-annuation $	Long-term benefits: Long service leave $	Share-based payments: Equity-settled $	Total $
Non-Executive Directors:							
Alan Stockdale (Chairman)	54,795	-	-	5,205	-	3,931	63,931
Peter Pawlowitsch	36,530	-	-	3,470	-	3,931	43,931
Richard Levy	-	-	-	40,000	-	7,861	47,861
Executive Directors:							
Ashley Gall (resigned 15 July 2016)	67,548	-	-	6,507	-	15,104	89,159
Alistair Wardlaw (resigned 26 Sept 2016)	80,555	-	-	-	-	524	81,079
Other Key Management Personnel:							
John Thompson	263,542	-	6,969	25,036	-	-	295,547
Stephen Kerr	136,758	15,000	704	34,992	-	37,083	224,537
Gavin Campion (resigned 21 Nov 2016)	250,333	-	-	-	-	1,396	251,729
	890,061	15,000	7,673	115,210	-	69,830	1,097,774

2016 (1)	Short-term benefits: Cash salary and fees $	Short-term benefits: Cash bonus $	Short-term benefits: Non-monetary $	Post-employment benefits: Super-annuation $	Long-term benefits: Long service leave $	Share-based payments: Equity-settled $	Total $
Non-Executive Directors:							
Alan Stockdale (Chairman)	58,927	-	-	6,073	-	10,574	75,574
Peter Pawlowitsch	29,630	-	-	2,814	-	10,574	43,018
Richard Levy	6,750	-	-	36,666	-	21,148	64,564
Executive Directors:							
Ashley Gall (Managing Director and CEO)	197,869	-	12,817	18,798	-	71,904	301,388
Alistair Wardlaw	231,111	-	-	-	-	21,148	252,259
Other Key Management Personnel:							
Stephen Kerr	120,190	-	1,858	32,363	-	8,608	163,019
Gavin Campion	231,111	-	-	-	-	21,148	252,259
	875,588	-	14,675	96,714	-	165,104	1,152,081

(1) The entity became an ASX listed public entity on 9 September 2015. Remuneration is presented for the full 2016 financial year and includes remuneration structures for the period prior to the entity becoming an ASX listed entity.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration 2017	At risk - STI 2017	At risk - LTI 2017
Non-Executive Directors:			
Alan Stockdale (Chairman)	94%	-%	6%
Peter Pawlowitsch	91%	-%	9%
Richard Levy	84%	-%	16%
Executive Directors:			
Ashley Gall (resigned 15 July 2016)	83%	-%	17%
Alistair Wardlaw (resigned 26 September 2016)	99%	-%	1%
Other Key Management Personnel:			
John Thompson	100%	-%	0%
Stephen Kerr	77%	7%	16%
Gavin Campion (resigned 21 November 2016)	99%	-%	1%

Name	Fixed remuneration 2016	At risk - STI 2016	At risk - LTI 2016
Non-Executive Directors:			
Alan Stockdale (Chairman)	86%	-%	14%
Peter Pawlowitsch	75%	-%	25%
Richard Levy	67%	-%	33%
Executive Directors:			
Ashley Gall	76%	-%	24%
Alistair Wardlaw	92%	-%	8%
Other Key Management Personnel:			
Stephen Kerr	95%	-%	5%
Gavin Campion	92%	-%	8%

No cash bonuses were paid or payable for the year to 30 June 2016.

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	John Thompson
Title:	Chief Executive Officer
Agreement commenced:	18 July 2016
Term of agreement:	No fixed term
Details:	Annual base salary for the year ending 30 June 2017 of $275,000 plus superannuation, to be reviewed annually by the Board, 1 month termination notice by either party, non-disclosure, non-solicitation and non-compete clauses.

Name:	Ashley Gall
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	16 March 2015 – employment ceased 15 July 2016
Term of agreement:	No fixed term
Details:	Annual base salary, up to date of resignation, of $182,650 plus superannuation, to be reviewed annually by the Board, 3 month termination notice by either party, performance bonus of $100,000 (including statutory superannuation) accruing when the Group achieves annual earnings before interest and tax targets as set by the Board, an additional performance bonus of up to $100,000 (including statutory superannuation) payable in fixed increments on the basis of the achievement of KPI's and revenue performance milestones as set by the Board, non-disclosure, non-solicitation and non-compete clauses.

Name:	Stephen Kerr
Title:	Chief Financial Officer and Company Secretary
Agreement commenced:	9 June 2015
Term of agreement:	No fixed term
Details:	Annual base salary for the year ending 30 June 2017 of $175,200 including superannuation, employment is for three days per week during normal working hours on days agreed with the CEO and reasonable additional hours during these days in order to perform responsibilities and duties. Remuneration to be reviewed annually by the Board, 3 month termination notice by either party, STI performance bonus of up to $60,000 (including statutory superannuation) based on financial and non-financial KPI's, non-disclosure, non-solicitation and non-compete clauses. An amount of $15,000 was paid as a bonus entitlement during the year.

Name:	Alistair Wardlaw
Title:	Chief Technical Officer and Executive Director
Agreement commenced:	1 January 2015 – employment ceased 26 September 2016
Term of agreement:	No fixed term
Details:	Up to date of resignation, consultancy agreement with WFT Services Pty Ltd as trustee for the A L Wardlaw Family Trust, for the provision of consultancy services, annual consultancy fee of $250,000, 12 month termination notice by either party non-disclosure, non-solicitation and non-compete clauses.

Name:	Gavin Campion
Title:	Consultant
Agreement commenced:	1 January 2015 – employment ceased 21 November 2016
Term of agreement:	No fixed term
Details:	Up to date of resignation, consultancy agreement with Hydria Plenus Pty Ltd, a company associated with Mr Campion, for the provision of consultancy services, annual consultancy fee of $250,000, 12 month termination notice by either party, non-disclosure, non-solicitation and non-compete clauses.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares
No shares were issued to directors and other key management personnel as part of compensation during the year ended 30 June 2017.

Options
The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Number of options	Expiry date	Exercise price	Fair value per option at grant date
May 2015	7,400,000	1 July 2019	$0.25	3.14 cents
June 2015	425,000	1 July 2019	$0.25	3.14 cents
October 2016	500,000	31 October 2020	$0.25	14.6 cents

Options granted carry no dividend or voting rights.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Vesting and Entitlement
For the Directors, the Options will vest over time, in equal amounts (except for slight adjustments to avoid fractions) every three months, commencing 1 July 2015 with the final vesting date being 1 April 2018. For 425,000 options issued to Stephen Kerr, 20,000 Options will vest on the first two vesting dates, and 38,500 Options will vest on subsequent vesting dates. For 500,000 options issued to Stephen Kerr through the employee share option plan (ESOP), the options are service based and vest over time in three equal amounts every 12 months, commencing 1 October 2017 with the final vesting date being 1 October 2019. If the relevant holder is no longer employed or engaged, as the case may be, by the Group on a vesting date, the Options will not vest to that holder. Options that have previously vested in the holder shall be retained by the holder. The Options will entitle the holder to subscribe for one Share upon the exercise of each Option that has vested in the holder.

Shares issued on the exercise of options
No ordinary shares of Knosys Limited were issued during the year ended 30 June 2017 and up to the date of this report on the exercise of options granted.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below:

Name	Number of options vested and exercisable during the year 2017	% of options vested and exercisable during the year 2017	Number of options forfeited during the year 2017	% of options Forfeited during the year 2017
Alan Stockdale	166,667	33%	-	-
Peter Pawlowitsch	166,667	33%	-	-
Richard Levy	333,333	33%	-	-
Ashley Gall (resigned 15 July 2016)	283,334	8%	983,333	29%
Gavin Campion (resigned 21 November 2016)	166,667	33%	500,000	50%
Alistair Wardlaw (resigned 26 September 2016)	83,334	20%	583,333	58%
Stephen Kerr	154,000	17%	-	-

2016 Name	Number of options vested and exercisable during the year 2016	% of options vested and exercisable during the year 2016	Number of options forfeited during the year 2016	% of options Forfeited during the year 2016
Alan Stockdale	166,667	33%	-	-
Peter Pawlowitsch	166,667	33%	-	-
Richard Levy	333,333	33%	-	-
Ashley Gall	1,133,334	33%	-	-
Gavin Campion	333,333	33%	-	-
Alistair Wardlaw	333,333	33%	-	-
Stephen Kerr	117,000	28%	-	-

Additional disclosures relating to key management personnel

Shareholding
The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Alan Stockdale	-	-	-	-	-
Peter Pawlowitsch	900,000	-	-	-	900,000
Richard Levy	9,921,130	-	-	371,130[1]	10,292,260
Ashley Gall (resigned 15 July 2016)	-	-	-	-	-
Gavin Campion (resigned 21 November 2016)	19,100,000	-	-	-	19,100,000
Alistair Wardlaw (resigned 26 September 2016)	19,471,130	-	-	(371,130)	19,100,000
Stephen Kerr	100,000	-	-	-	100,000
	49,492,260	-	-	-	49,492,260

1. On 21 June 2017, Related parties of Richard Levey acquired 371,130 shares from related parties associated with Alistair Wardlaw for consideration of $0.155 per share.

Option holding
The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted / exercised / expired / forfeited	Balance at the end of the year - vested	Balance at the end of the year - unvested	Balance at the end of the year
Options over ordinary shares					
Alan Stockdale	500,000	-	333,334	166,666	500,000
Peter Pawlowitsch	500,000	-	333,334	166,666	500,000
Richard Levy	1,000,000	-	666,666	333,334	1,000,000
Ashley Gall (resigned 15 July 2016)	3,400,000	(983,333)	2,166,667	250,000	2,416,667
Gavin Campion (resigned 21 Nov 2016)	1,000,000	(500,000)	500,000	-	500,000
Alistair Wardlaw (resigned 26 Sept 2016)	1,000,000	(583,333)	416,667	-	416,667
Stephen Kerr	425,000	500,000[2]	271,000	654,000	925,000
	7,825,000	(1,566,666)	4,687,668	1,570,666	6,258,334

2. Options grant of 500,000 to Stephen Kerr in the current year was allocated through the ESOP

Other transactions with key management personnel and their related parties
During the financial year, payments for office rent, outgoings, technical infrastructure and software development services supplied by MMG Interactive Partnership (director-related entity of Richard Levy and Alistair Wardlaw) of $41,109 were made. All transactions were made on normal commercial terms and conditions and at market rates.

This concludes the remuneration report, which has been audited.

Indemnity and insurance of officers
The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor
The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Corporate Governance Statement
The company's corporate governance statement can be found on the company website at
http://www.knosys.it/investor/documents/Corporate Governance Statement.pdf

Proceedings on behalf of the company
No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services
During the year no non-audit services were provided.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on the following page.

Auditor
William Buck Audit (VIC) Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors

Hon. Alan Stockdale AO
Director

30 August 2017
Melbourne

William Buck

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 year ended 30 June 2017 there have been:

— no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

— no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck

William Buck Audit [Vic] Pty Ltd
ABN 59 116 151 136

N. S. Benbow
Director
Dated this 30th day of August, 2017

CHARTERED 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 year. The financial statements are presented in Australian dollars, which is Knosys Limited's functional and presentation currency.

Knosys Limited is listed on the Australian Securities Exchange (ASX:KNO) and is incorporated and domiciled in Australia.

Registered office	**Principal place of business**
Suite 9.08 Level 9 2 Queen Street Melbourne VIC 3000	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 on 30 August 2017, in accordance with a resolution of directors. 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 year ended 30 June 2017

	Note	Consolidated 2017 $	Consolidated 2016 $
Revenue	3	808,774	736,195
Research and development tax refund		343,890	280,471
Other income		33,547	62,954
Expenses			
Licence fee and support expenses		(157,887)	(180,334)
Payments to suppliers for research and development activities		-	(138,370)
Employee benefits expense	4	(2,214,692)	(1,501,184)
Depreciation and amortisation expense		(14,288)	(3,782)
Legal and accounting expenses		(104,986)	(86,957)
Travel and accommodation		(89,463)	(136,444)
Finance costs		(118,399)	-
Other expenses	4	(571,514)	(443,564)
Loss before income tax		(2,085,018)	(1,411,015)
Income tax (expense) credit	5	-	-
Loss after income tax expense for the year attributable to owners of the parent		(2,085,018)	(1,411,015)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year attributable to owners of the parent		(2,085,018)	(1,411,015)
Loss per share for loss attributable to the owners of the parent		**Cents**	**Cents**
Basic and diluted loss per share	22	(2.67)	(1.89)

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 30 June 2017

	Note	Consolidated 2017 $	2016 $
Assets			
Current assets			
Cash and cash equivalents	6	2,841,416	2,946,975
Trade and other receivables	7	385,152	-
Accrued research and development tax refund receivable		228,071	467,701
Prepayments & sundry debtors		30,099	65,306
Total current assets		3,484,738	3,479,982
Non-current assets			
Plant and equipment		36,928	19,754
Total non-current assets		36,928	19,754
Total assets		3,521,666	3,499,736
Liabilities			
Current liabilities			
Trade and other payables	8	200,177	222,935
Provisions for employee benefits		93,740	74,838
Borrowings – Convertible note	23	1,494,446	-
Revenue billed in advance		1,006,714	708,228
Total current liabilities		2,795,077	1,006,001
Total liabilities		2,795,077	1,006,001
Net assets		726,589	2,493,735
Equity			
Issued capital	9	4,403,765	4,403,765
Convertible note equity reserve		174,958	-
Options reserve		338,675	195,761
Accumulated losses		(4,190,809)	(2,105,791)
Total equity		726,589	2,493,735

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

Knosys Limited
Statement of changes in equity
For the year ended 30 June 2017

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2015	853,452	-	(694,776)	158,676
Loss after income tax expense for the year	-	-	(1,411,015)	(1,411,015)
Total comprehensive loss for the year	-	-	(1,411,015)	(1,411,015)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (Note 9)	3,550,313	-	-	3,550,313
Vesting of share based payments	-	195,761	-	195,761
Balance at 30 June 2016	4,403,765	195,761	(2,105,791)	2,493,735

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2016	4,403,765	195,761	(2,105,791)	2,493,735
Loss after income tax expense for the year	-	-	(2,085,018)	(2,085,518)
Total comprehensive loss for the year	-	-	(2,085,518)	(2,085,518)
Vesting of share based payments	-	142,914	-	142,914
Equity value attributable to the issue of convertible notes (Note 23)	-	174,958	-	174,958
Balance at 30 June 2017	4,403,765	513,633	(4,190,809)	726,589

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

Knosys Limited
Statement of cash flows
For the year ended 30 June 2017

	Note	Consolidated 2017 $	2016 $
Cash flows from operating activities			
Receipts from customers		790,757	1,576,667
Payments to suppliers and employees		(3,044,244)	(2,395,821)
		(2,253,487)	(819,154)
Research and development tax refund		583,519	-
Interest received		44,833	51,158
Net cash used in operating activities	19	(1,625,135)	(767,996)
Cash flows from investing activities			
Payments for plant and equipment		(31,462)	(17,115)
Net cash used in investing activities		(31,462)	(17,115)
Cash flows from financing activities			
Proceeds from issue of shares		-	4,000,000
Proceeds from issue of convertible notes	23	1,650,040	-
Share issue transaction costs		-	(449,687)
Convertible note transaction costs		(99,002)	-
Net cash from financing activities		1,551,038	3,550,313
Net increase (decrease) in cash and cash equivalents		(105,559)	2,765,202
Cash and cash equivalents at the beginning of the financial year		2,946,975	181,773
Cash and cash equivalents at the end of the financial year	6	2,841,416	2,946,975

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

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

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

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

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

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention.

Going Concern
For the year ended 30 June 2017, the consolidated entity had an operating net loss of $2,085,018 (2016: $1,411,015) and net cash outflows from operating activities of $1,625,135 (2016: $767,996).

The ability of the consolidated entity to continue as a going concern is dependent upon a number of factors, one being the continuation and availability of funds. The financial statements have been prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of its business, realisation of assets and the settlement of liabilities in the normal course of business.

In determining that the going concern assumption is appropriate, the directors have had regard to:

- Achieving expected increase in sales through both direct sales and the Company’s reseller network;
- Prudent management of costs as required;
- Previous success on being eligible for the research and development tax incentive refunds
- Potential reduction of liabilities and additional capital contribution from the conversion of convertible notes to ordinary shares and additional capital from the exercise of options attached to the convertible notes; and
- If required, being able to raise additional capital funds through conducting a capital raising.

The consolidated entity’s ability to continue to operate as a going concern is dependent upon the items listed above. Should these events not occur, the consolidated entity may be unable to continue as a going concern and may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Legal Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the legal parent entity is disclosed in note 16.

Note 1. Significant accounting policies (continued)

Principles of consolidation

A controlled entity is any entity controlled by an accounting acquirer. Control exists where an entity has the capacity and power to govern the decision-making in relation to the financial and operating policies of an investee and also participate in the variable returns of that investee.

All inter-group balances and transactions between entities in the Consolidated Entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of controlled entities have been changed where necessary to ensure consistencies with those policies adopted by the parent entity.

Accounting for purchases of non-trading entities through reverse acquisitions

On 23 March 2015 Knosys Limited acquired all of the share capital of Knosys Products Pty Ltd and Knosys Solutions Pty Ltd. This acquisition was effected through the issue of 50,000,000 ordinary fully paid shares including tranches of 47,750,000 ordinary fully paid shares issued on 23 March 2015 and 2,250,000 ordinary fully paid shares issued on 17 July 2015 to the vendors or their nominees. This transaction is considered a reverse acquisition in accordance with Australian Accounting Standards and Knosys Solutions Pty Ltd was deemed to be the acquirer for accounting purposes. Knosys Solutions Pty Ltd is the larger of the combining entities, is the only entity that traded as at the date of the transaction and holds the revenue generating contracts and has recognised assets and liabilities on its statement of financial position. Therefore, Knosys Limited and Knosys Products Pty Ltd have been identified as the accounting acquirees. As a consequence of the reverse acquisition, the financial information represented in the consolidated financial statements is issued under the name of Knosys Limited but is deemed under accounting rules to be a continuation of the legal subsidiary Knosys Solutions Pty Ltd and the number of shares on issue reflect those of Knosys Limited.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Knosys Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Licence fees and rendering of services

Licence fee revenue and rendering of services revenue from implementation and consulting fees is recognised by reference to the stage of completion of the contracts.

Stage of completion is measured by reference to the licence fee period and to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably estimated, revenue is only recognised to the extent of the recoverable costs incurred to date.

Research and development tax refund income

Research and development tax refund income is measured on an accruals basis when the refund can be reliably determined.

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 1. Significant accounting policies (continued)

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Property, plant and equipment

Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment loss. If significant parts of an item of property plant and equipment have different useful lives, then they are accounted for as separate items of property, plant and equipment. Any gain or loss on disposal of an item of property plant and equipment is recognised in profit or loss.

Depreciation
Depreciation is calculated to write off the costs of the items of property, plant and equipment over their estimated useful lives and is generally recognised in profit and loss. Depreciation methods and useful lives are reviewed at each reporting period and adjusted if appropriate.
The estimated useful life of property, plant and equipment for current and comparative periods is as follows:
- Plant and equipment   3 years.

Trade and other payables
Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period, which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

Provisions
Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Note 1. Significant accounting policies (continued)

Employee benefits

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be wholly settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits
The liability for annual leave and long service leave not expected to be wholly settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments
Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Note 1. Significant accounting policies (continued)

Compound financial instruments – Convertible notes
Compound financial instruments issued by the consolidated entity comprise convertible notes and attaching options, as disclosed in Note 23, that can be converted to ordinary shares at the election of the holder by a certain date and where the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component of the financial instrument is initially recognised as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Subsequent to initial recognition, the fair value of the liability component is remeasured at each relevant balance date. The equity component is not remeasured.

Interest calculated on the liability component of the compound financial instrument is recognised in the statement of profit and loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

Revenue billed in advance
Revenue billed in advance is recognised as a current liability in the statement of financial position. The balance of revenue billed in advance represents the unearned revenue portion of amounts invoiced to customers, in accordance with the terms of customer contracts, and paid or payable by the customer at reporting date. As the revenue billed in advance is earned by the consolidated entity, the relevant portion of revenue is relieved from the balance of revenue billed in advance and taken to the profit and loss in accordance with the consolidated entity's revenue recognition policy.

Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 1. Significant accounting policies (continued)

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

Earnings per share
Basic earnings per share is calculated as net profit/loss attributable to members of the Company, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares on issue during the relevant period.
Diluted earnings per share is calculated as net profit/loss attributable to members of the Company, adjusted for:
• costs of servicing equity (other than dividends);
• the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
• and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
• divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element, during the relevant period.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

Note 1. Significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be 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. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer.
Management has considered the impact of AASB 15 and note, based on the analysis performed, that the impact on the consolidated entity would not be material. Under AASB 15 the consolidated entity plans to adopt the modified retrospective approach. The consolidated entity does not anticipate that there will be significant implications of this change in respect of current contracts. The consolidated entity will consider the application of AASB 15 with respect to new contracts as they are entered into. The consolidated entity will adopt this standard from 1 July 2018.

AASB 16 Leases
AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right of use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. A lessee recognises depreciation of the right of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows.
Management has considered the impact of AASB 16 and note, based on the analysis performed, that there would be a material impact on the consolidated entity. It is expected that the operating lease commitments identified in Note 14 to the financial statements will be required to be included in the consolidated statement of financial position when AASB 16 becomes effective.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The following key judgements are relevant to these financial statements:

As stated in Note 1 *Accounting for purchases of non-trading entities through reverse acquisitions*, these financial statements are of the consolidated entity ultimately controlled by Knosys Limited, but the financial information represented in the consolidated financial statements, although issued under the name of Knosys Limited, is deemed under reverse acquisition accounting rules to be a continuation of the legal subsidiary Knosys Solutions Pty Ltd. Management examined the reverse acquisition which took place on 23 March 2015 and assessed that both Knosys Limited and Knosys Products Pty Ltd did not have the necessary inputs, processes and outputs to satisfy the accounting definition of a business. As a consequence, the assets and liabilities acquired at this date are at their written down cost values and not their fair values.

Estimation of accrued research and development tax refund
As at 30 June 2016 the consolidated entity had accrued $218,475 in accrued research and development tax refund credits in-respect of the 2016 tax return. The directors of the consolidated entity engaged an industry expert to prepare and lodge this return. This amount plus an additional $116,066 was receipted into the bank in May 2017 in regard to the 2016 tax return and R&D claim. Based upon the methodology adopted by the industry expert, the consolidated entity has accrued a research and development tax refund receivable of $227,824 for the 2017 financial year. Key matters considered by the directors in calculating this accrual included the following:

- The historical success of lodging and receipting such claims;
- The quantum of eligible research and development spend made during the period; and
- A consideration of any potential change in the assessment of eligibility criteria as gazetted by the Federal government.

Convertible notes
As stated in Note 23, under Australian accounting standards AASB 132, the convertible note is classified as a compound financial instrument. When the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The issuer must first determine the carrying amount of the instrument’s liability component by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity instrument represented by the option to convert the instrument into ordinary shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole. Management judgements and estimates are required in referencing market interest rates for such instruments and in determining the fair value of a similar liability that does not have an associated equity component. Management has determined that a discount rate of 24% is appropriate, this being derived by referencing required rates of return for private capital markets.

Share based payments
As stated in Note 1, the consolidated entity has issued options to directors, executives and staff as part of their remuneration arrangements and has issued options and shares to third parties in consideration for consultancy services received. Management judgements and estimates are required in determining the cost of these equity-settled transactions which have been measured by taking into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Note 3. Revenue

	Consolidated 2017 $	Consolidated 2016 $
Sales revenue		
Licence and support fees	803,474	731,195
Rendering of services	5,300	5,000
Revenue	808,774	736,195

Note 4. Expenses

	Consolidated 2017 $	Consolidated 2016 $
Loss before income tax includes the following specific expenses:		
Rental expense relating to operating leases		
Minimum lease payments	81,881	72,229
Superannuation expense		
Accumulation fund Superannuation expense	178,593	123,805
Share based payments expense	142,914	195,761

Note 5. Income tax expense

	Consolidated	
	2017	**2016**
	$	**$**
Income tax expense		
Current Tax benefit	(481,572)	(304,384)
Deferred tax - origination and reversal of temporary differences	(5,198)	(5,399)
Deferred tax assets not recognised	486,769	309,783
Adjustment recognised for prior periods	-	-
Aggregate income tax expense	-	-
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	-	-
Deferred tax - origination and reversal of temporary differences	-	-
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(2,085,018)	(1,411,015)
Tax at the statutory tax rate of 27.5% (2016 30%)	(573,380)	(423,305)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	2,653	2,481
Research and development costs	139,226	145,650
Share based payments expense	39,301	49,532
Non-assessable R&D refund	(94,570)	(84,141)
	(486,769)	(309,783)
Deferred tax assets not recognised	486,769	309,783
Adjustment recognised for prior periods	-	-
Income tax expense	-	-

Note 6. Current assets - cash and cash equivalents

	Consolidated	
	2017	**2016**
	$	**$**
Cash at bank	2,841,416	2,946,975

Note 7. Current assets - trade and other receivables

	Consolidated 2017 $	Consolidated 2016 $
Trade receivables	385,152	-

As at 30 June 2017, the aging analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired < 30 days	30-60 days	61-90 days
2017	385,152	$13,896	$1,544	$368,168	$1,544
2016	-	-	-	-	-

As at 30 June 2017 no trade receivables were impaired (2016 Nil)

Refer Note 1 – Trade and other receivables, which explains how the consolidated entity manages and accounts for trade receivables.

Note 8. Current liabilities - trade and other payables

	Consolidated 2017 $	Consolidated 2016 $
Trade payables	167,071	105,262
Related party payables	1,000	45,834
Other payables	32,106	71,839
	200,177	222,935

The table below summarises the maturity profile of the consolidated entities current trade and other payables.

	Total	On demand	< 3 months	3 to 12 months
2017	$200,177	-	$200,177	-
2016	$222,935	-	$207,193	$15,742

Refer Note 1 – Trade and other payables, which explains how the consolidated entity manages and accounts for trade and other payables.

Note 9. Equity - issued capital

	Legal Parent 2017 Shares	Legal Parent 2016 Shares	Consolidated 2017 $	Consolidated 2016 $
Ordinary shares - fully paid	78,099,386	78,099,386	4,403,765	4,403,765

Note 9. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	No. of shares Legal Parent 2017	No. of shares Legal Parent 2016
Legal parent			
Balance start of year		78,099,386	55,849,386
Issue of shares to effect the final component of the consideration for the reverse acquisition of Knosys Products Pty Ltd and Knosys Solutions Pty Ltd	17 July 2015	-	2,250,000
Issue of share capital to shareholders	1 Sept 2015	-	20,000,000
Balance at end of year		78,099,386	78,099,386

Details	Date	$	$
Consolidated entity			
As at start of the financial year		4,403,765	853,452
Issue of share capital to shareholders	1 Sept 2015	-	4,000,000
Costs of issuing shares		-	(449,687)
Balance as at end of the financial year		4,403,765	4,403,765

Ordinary shares
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.

Movements in options on issue

Details	Date	No. of options Legal Parent 2017	No. of options Legal Parent 2016
Legal parent			
Balance start of year		8,625,000	7,825,000
Options issued to product resellers	5 April 2016	-	500,000
Options issued to external industry advisors	5 April 2016	-	300,000
Options issued under the employee share option plan	25 Oct 2016	1,400,000	-
Options expired / lapsed		(2,266,666)	-
Balance at end of year		7,758,334	8,625,000

5,758,334 options (of which 4,687,667 are vested at 30 June 2017) are exercisable at $0.25 and expire on 1 July 2019.
300,000 options (of which 200,000 have vested at 30 June 2017) are exercisable at $0.29 and expire on 1 July 2019.
300,000 options (all of which are vested at 30 June 2017) are exercisable at $0.29 and expire on 1 July 2020.
1,400,000 options (none of which are vested at 30 June 2017) are exercisable at $0.25 and expire on 1 October 2020.
All options are unlisted and are subject to a range of vesting conditions.

Note 9. Equity - issued capital (continued)

Capital risk management
The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may issue new shares or return capital to shareholders.

Note 10. Financial instruments

Financial risk management objectives
The consolidated entity's activities expose it to two financial risks: credit risk and liquidity risk. The consolidated entity's overall risk management program, which is managed at Board level, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include ageing analysis for credit risk and cash flow forecasting for liquidity risk.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

Liquidity risk
Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable. All amounts payable are within agreed terms. All third party payment terms are less than 60 days (2016: less than 60 days).

The consolidated entity manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reasonably approximate their fair value.

Note 11. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and key management personnel of the consolidated entity is set out below:

	Consolidated	
	2017 $	2016 $
Short-term employee benefits	912,734	890,263
Share based payments	69,830	165,104
Post-employment benefits	115,210	96,714
	1,097,774	1,152,081

Note 12. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by William Buck Audit (VIC) Pty Ltd ("William Buck"), the auditor of the company, its network firms and unrelated firms:

	Consolidated 2017 $	Consolidated 2016 $
Assurance services – William Buck		
Audit or review of the financial statements	21,650	18,500
Transaction and due diligence services	-	-
	21,650	18,500

Note 13. Contingent liabilities

At reporting date there is a bank guarantee in place of $60,663 in place, which relates to a security deposit for the rental of the Melbourne premises.

The consolidated entity has no other contingent liabilities at reporting date.

Note 14. Commitments

	Consolidated 2017 $	Consolidated 2016 $
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	90,468	110,414
One to five years	52,773	174,610
More than five years	-	-
	143,241	285,024

Operating lease commitments includes contracted amounts for the head office premises under a non-cancellable operating lease, the term of which expires on 31 January 2019.

Note 15. Related party transactions

Legal Parent entity
Knosys Limited is the legal parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 17.

Key management personnel
Disclosures relating to key management personnel are set out in note 11 and the remuneration report in the directors' report.

Note 15. Related party transactions (continued)

Transactions with related parties
The following transactions occurred with related parties:

In the statement of profit and loss and other comprehensive income for the Consolidated Entity the following related party transactions took place:

	Consolidated	
	2017	**2016**
	$	**$**
Payment for goods and services:		
Payment for services from MMG Interactive (a partnership associated with Alistair Wardlaw and Richard Levy)	41,109	109,394

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 16. Legal parent entity information

Set out below is the supplementary information about the legal parent entity.

Statement of profit or loss and other comprehensive income

	Legal Parent	
	2017	**2016**
	$	**$**
Loss after income tax	(272,148)	(265,946)
Total comprehensive income	(272,148)	(265,946)

Statement of financial position

	Legal Parent	
	2017	**2016**
	$	**$**
Total current assets	2,371,359	2,879,065
Total assets	12,886,958	11,365,442
Total current liabilities	1,528,749	52,957
Total liabilities	1,528,749	52,957
Equity		
Issued capital	11,538,887	11,538,887
Convertible note equity reserve	174,958	-
Share based payments reserve	338,675	195,761
Accumulated losses	(694,311)	(422,163)
Total equity	11,358,209	11,312,485

Note 16. Legal parent entity information (continued)

Contingent liabilities
The legal parent entity had no contingent liabilities as at 30 June 2017 and 30 June 2016.

Capital commitments - Property, plant and equipment
The legal parent entity had no capital commitments for property, plant and equipment as at 30 June 2017 and 30 June 2016.

Significant accounting policies
The accounting policies of the legal parent entity are consistent with those of the consolidated entity, as disclosed in note 1. The group does not designate any interests in subsidiaries as being subject to the requirements of accounting standards specifically applicable to financial statements.

Note 17. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of Knosys Limited and the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

		Ownership interest	
Name	**Principal place of business / Country of incorporation**	**2017 %**	**2016 %**
Knosys Solutions Pty Ltd Principal activities – Main operating company of the Knosys group, providing operational infrastructure, employees, sales resources, Knosys Platform research, development and support.	Australia	100%	100%
Knosys Products Pty Ltd Principal activity – Holder of the Knosys Platform intellectual property.	Australia	100%	100%

Note 18. Events after the reporting period

No matter or circumstance has arisen since 30 June 2017 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.

Note 19. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated 2017 $	Consolidated 2016 $
Loss after income tax expense for the year	(2,085,018)	(1,411,015)
Adjustments for:		
Depreciation and amortisation	14,288	3,782
Finance costs	118,367	-
Share based payments expense	142,914	195,761
Change in operating assets and liabilities:		
Decrease/(Increase) in trade and other receivables	(385,154)	814,795
(Decrease)/increase in revenue billed in advance	298,485	(43,584)
Increase in prepayments and other debtors	35,208	(60,306)
Decrease/(increase) in accrued research and development tax refund receivable	239,630	(280,951)
Increase/(decrease) in trade and other payables	(22,758)	(4,475)
Increase in provision for employee benefits	18,902	17,997
Net cash used in operating activities	(1,625,135)	(767,996)

Note 20 Share-based payments

Employee share option plan

An employee share option plan (ESOP) has been established by the consolidated entity, whereby the consolidated entity may, at the discretion of the Board, grant options over ordinary shares in the company to personnel of the consolidated entity. The options are issued for nil consideration and are granted in accordance with time based and/or performance targets established by the Board. The granting of these options gives rise to an ongoing employment benefit expense each financial period and this is accounted for in accordance with the accounting policy on employee benefits, as detailed in Note 1. The expense is included in the share based payment expense amount listed in Note 4.

As at 30 June 2017 the following options had been granted under the ESOP:

Option Issue date	Option Expiry date	Exercise price	Balance at 30 June 2016 Number	Issued during the period Number	Exercised during the period Number	Expired or forfeited during the period Number	Balance at 30 June 2017 Number	Vested and exercisable at end of the period Number
25/10/2016	01/10/2020	$0.25	-	1,400,000	-	-	1,400,000	-
Total			-	1,400,000	-	-	1,400,000	-
Weighted average exercise price			-				$0.25	-

For the options issued during the 2017 financial year, the valuation model inputs to be used to determine the fair value at each vesting date, 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
25/10/2016	01/10/2020	$0.235	$0.25	0.00%	87.57%	0.00%	1.83%	$0.14597

As at 30 June 2016 no options had been granted under the ESOP.

Options issued to Directors and senior management

As at 30 June 2017 the following unvested options over ordinary shares in Knosys Limited had been issued to Directors and senior management (Options). These Options were issued separately to the ESOP.

Set out below are summaries of Options issued to Directors and senior management:

2017

Issue date	Expiry date	Exercise price	Balance at the start of the year	Issued	Exercised Expired/ forfeited	Balance at the end of the year	Number vested
09/05/2015	01/07/2019	$0.25	7,400,000	-	(2,066,666)	5,333,334	4,416,668
29/06/2015	01/07/2019	$0.25	425,000	-	-	425,000	271,000
			7,825,000	-	(2,066,666)	5,758,334	4,687,668
Weighted average exercise price			$0.25	-	-	$0.25	$0.25

Vesting and Entitlement
For the options issued on 9 May 2015, the Options vest over time, in equal amounts (except for slight adjustments to avoid fractions) every three months, commencing 1 July 2015 with the final vesting date being 1 April 2018. For the Options issued on 29 June 2015, 20,000 Options vest on the first two vesting dates, and 38,500 Options vest on subsequent vesting dates. If the relevant holder is no longer employed or engaged, as the case may be, by the Group on a vesting date, the Options will not vest to that holder. Options that have previously vested in the holder shall be retained by the holder. The Options will entitle the holder to subscribe for one Share upon the exercise of each Option that has vested in the holder.

The weighted average remaining contractual life of options outstanding at the end of the financial year was 3 years.

2016

Issue date	Expiry date	Exercise price	Balance at the start of the year	Issued	Exercised Expired/ forfeited	Balance at the end of the year	Number vested
09/05/2015	01/07/2019	$0.25	-	7,400,000	-	7,400,000	2,466,667
29/06/2015	01/07/2019	$0.25	-	425,000	-	425,000	117,000
			-	7,825,000	-	7,825,000	2,583,667
Weighted average exercise price			-	$0.25	-	$0.25	-

No options had vested or were exercisable at the end of the 30 June 2015 financial year.

For the options issued during the 2016 financial year, the valuation model inputs to be used to determine the fair value at each vesting date, 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
09/05/2015	01/07/2019	$0.14	$0.25	30.00%	60.00%	0.00%	2.27%	$0.03141
29/06/2015	01/07/2019	$0.14	$0.25	30.00%	60.00%	0.00%	2.27%	$0.03141

Note 21 Segment information

During the year the consolidated entity operated as a developer and licensor of computer software in the Australasian region.
Concentration of customers – A major Australian customer in the finance sector represented 98.5% of sales revenue for the year (2016:98.5% of sales revenue from unrelated parties)

Note 22 Loss per share

	Consolidated	
	2017	**2016**
	$'000	**$'000**
Loss after income tax attributable to the owners the parent	(2,085,018)	(1,411,015)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	78,099,386	74,552,255
	Cents	**Cents**
Basic loss per share	(2.67)	(1.89)

The 7,758,334 (2016: 8,625,000) options issued could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are anti-dilutive for the periods presented.

Note 23 Convertible Note

During the financial period the Company raised $1,650,040 through the issue of 13,750,337 convertible notes on the following terms:

- Face value per note: 12 cents
- Conversion ratio: 1 note = 1 ordinary share
- Attaching option: 1:1 attaching option received on note conversion.
- Maturity date of convertible note: 31 May 2018.
- Conversion date of convertible note: Maturity date or earlier at the option of the noteholder
- Interest payment date: At the earlier of maturity date or conversion date
- Interest rate: 10% per annum
- Exercise price of an attaching option: 15 cents
- Expiry date of an attaching option: 31 May 2018

Under Australian accounting standards AASB 132, the Company has classified the convertible note as a compound financial instrument. The initial carrying amount of the convertible note has been allocated to its equity and liability components. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component.
The Company determined the carrying amount of the liability component by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the convertible note represented by the option to convert the instrument into ordinary shares was then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

Knosys Limited
Directors' declaration
30 June 2017

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

Hon. Alan Stockdale AO
Director

30 August 2017
Melbourne

Knosys Limited
Independent auditor's report to members

Report on the Audit of the Financial Report

Opinion

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

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:
(i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

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

Material Uncertainty Related to Going Concern

We draw attention to the financial report, which indicates that the Group incurred a net loss of $2,085,018 and net cash outflows from operating activities of $1,625,135 during the year ended 30 June 2017. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

CONVERTIBLE NOTES	
Area of focus **Refer also to notes 1 and 23**	**How our audit addressed it**
The Group issued convertible notes on 12 May 2017 for $1.5 million with a maturity date of 31 May 2018 unless converted into a share and an option. Because the convertible notes have a fixed conversion formula (1 share + attaching option for every note) they are deemed to be a hybrid security featuring a debt component with an equity component. Accounting for these transactions is complex. Upon initial recognition the debt component is measured at fair value, with the residual value taken to equity. The accurate recording of the transactions associated with the convertible notes is dependent on the following: — The determination of an interest rate applicable to the fair value of the debt -component, which was deemed to be 24%, notwithstanding that the coupon rate of the note is 10%; — Accruing an amortised interest charge on the note applying the fair value interest rate; — Recording the residual value of the note in equity; and — Classifying the note as current or non-current in the Statement of Financial Position.	Our audit procedures included: — Examining the underlying convertible notes and ensuring that the underlying inputs were appropriately recorded in the model used to derive values in these financial statements; — Assessing the allocation of the convertible notes between equity and debt in line with the requirements of AASB 132; — Consulting our Corporate Advisory division to ascertain the reasonableness of the 24% fair value interest rate, in the context of like-for-like companies with similar credit ratings and leverage profiles. We also assessed the adequacy of the Group's disclosures in the financial statements in respect of the convertible notes.

SHARE BASED PAYMENTS	
Area of focus **Refer also to notes 1 and 20**	**How our audit addressed it**
The Group operates an employee share option payment plan and also has existing plans for the issue of options to directors and key management personnel. Both plans include service-based vesting periods. Each of the arrangements which form part of the plan required significant judgments and estimations by management, including the following: — The evaluation of the grant date of each arrangement, and the evaluation of the fair value of the underlying share price of the company as at that grant date; — The evaluation of the vesting charge taken to the profit and loss in-respect of the accrual of service conditions attached to those share-based payment arrangements; and — The evaluation of key inputs into the Black-Scholes option pricing model, including the significant judgment of the forecast volatility of the share option over its exercise period. The results of these share-based payment arrangements materially affect the disclosures of these financial statements, including the vesting charge that affects disclosures of key management personnel remuneration.	Our audit procedures included: — Evaluating the fair values of share-based payment arrangements by agreeing assumptions to third party evidence. In determining the grant dates, we evaluated what were the most appropriate dates based on the terms and conditions of the share-based payment arrangements; — Determining the grant dates and evaluating what were the most appropriate dates based on the terms and conditions of the share-based payment arrangements; — Evaluating the progress of the vesting of share-based payments within the service period; and — For the specific application of the Black-Scholes option pricing model, we assessed the experience of the expert used to advise the value of the arrangement. We retested some of the assumptions used in the model and recalculated those fair values using the skill and know-how of our Corporate Advisory team. We considered that the forecast volatility applied in the model to be appropriately reasonable and within industry norms. We also reconciled the vesting of these share-based payment arrangements to disclosures made in both the disclosures in the Remuneration Report and key management personnel compensation note.

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

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

In our opinion, the Remuneration Report of Knosys Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

William Buck

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

N.S. Benbow
Director

Melbourne, 30th August 2017

1. **Shareholding as at 24 August 2017**

a. Distribution of Shareholders

Category (size of holding)	Number Holders	Number Ordinary Shares
1 – 1,000	10	2,604
1,001 – 5,000	22	79,564
5,001 – 10,000	54	499,103
10,001 – 100,000	206	8,227,979
Above 100,001	43	69,290,136
	335	78,099,386

b. The number of shareholdings held in less than marketable parcels is 21.

c. The names of the substantial shareholders listed in the holding Consolidated Group's register as at 24 August 2017 are:

	Shareholder	Number Ordinary shares	%
1	Panchito Services Pty Ltd <Reyes Family A/C>	19,100,000	24.46
2	Earthrise Holdings Pty Ltd <Campion Investment A/C>	19,100,000	24.46
3	Vabake Pty Ltd <Levy Family A/C> and Vabake Pty Ltd	10,292,260	13.18

d. **Voting Rights**

The voting rights attached to each class of equity security are as follows:

Ordinary shares

— Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

e. The names of the shareholders whose shares are escrowed until 9 September 2017 are:

	Shareholder	Number Ordinary shares
1	Panchito Services Pty Ltd <Reyes Family A/C>	19,100,000
2	Earthrise Holdings Pty Ltd <Campion Investment A/C>	19,100,000
3	Vabake Pty Ltd <Levy Family A/C> and Vabake Pty Ltd	9,550,000
4	Gale Enterprises (Aust) Pty Ltd <Cavalier Family A/C>	2,250,000
5	Haven Super Pty Ltd <Haven Super Fund A/C>	450,000
6	Vault (WA) Pty Ltd <Vault A/C>	450,000
	Total	50,900,000

f. 20 Largest Shareholders — Ordinary Shares

	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	Panchito Services Pty Ltd <Reyes Family A/C>	19,100,000	24.46
2	Earthrise Holdings Pty Ltd <Campion Investment A/C>	19,100,000	24.46
3	Vabake Pty Ltd <Levy Family A/C>	9,921,130	12.70
4	BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd	6,039,288	7.73
5	Gale Enterprises (Aust) Pty Ltd <Cavalier Family A/C>	2,250,000	2.88
6	Alocasia Pty Limited <Camellia Super Fund A/C>	1,047,799	1.34
7	Rofra Investments Pty Ltd <Jo Law Super Fund No2 A/C>	875,978	1.12
8	Vonetta Pty Ltd <TRBC S/F A/C>	759,116	0.97
9	Netwealth Investments Limited <Wrap Services A/C>	712,900	0.91
10	Hydro Nominees Pty Ltd <Hydro-Chem Super Fund A/C>	695,000	0.89
11	Netwealth Investments Limited <Super Services A/C>	631,897	0.81
12	Jetan Pty Ltd	509,645	0.65
13	Peta Pty Ltd <Rosebud Super Pension A/C>	492,506	0.63
14	Haven Super Pty Ltd <Haven Super Fund A/C>	450,000	0.58
15	Vault (WA) Pty Ltd <Vault A/C>	450,000	0.58
16	Moonah Capital Pty Ltd	406,864	0.52
17	Vabake Pty Ltd	371,130	0.48
18	P D Williamson Super Pty Ltd <Williamson Super Fund A/C>	367,500	0.47
19	Mr Brendon Patrick Waller	357,142	0.46
20	Yallipse Pty Ltd	320,000	0..41
		64,857,895	83.05

2. The name of the Company Secretary is Mr Stephen Kerr.

3. The address of the principal registered office in Australia is:

Suite 9.08, Level 9, 2 Queen Street
MELBOURNE VIC 3000
Telephone 03 9046 9700

4. Registers of securities are held at the following addresses:

Automic Registry Services
Suite 310, Level 3, 50 Holt Street
SURRY HILLS NSW 2010

5. Securities Exchange Listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited.

6. In accordance with ASX Listing Rule 4.10.19, the Consolidated Group advises that, since listing on 9 September 2015, it has used its cash in a way consistent with its business objectives.