Knosys Limited

ABN 96 604 777 862

Annual Report

30 June 2020

Knosys Limited
Chairman's letter to shareholders
30 June 2020

Dear Shareholders,

I have pleasure in presenting to you the 2020 Annual Report of Knosys Limited. I am pleased to report that the Company has had another successful year during 2020.

We have had strong year-on-year growth in recurring revenue. We have a solid base of enterprise customers that has strong potential for growth. We have added clients in the mid-market sector, and there are more potential clients in the pipeline. We have proven to be resilient despite the COVID-19 pandemic, and because of the nature of our products and services, we may even benefit from it.

Our revenue figures reflect both stability and growth. Licence and support fee revenue for the year to 30 June 2020 rose by 19 per cent compared to the prior year, to $2.94 million. This revenue is primarily generated by long-term enterprise customers on multi-year contracts.

Total operating revenue for the consolidated entity rose by eight per cent to $3.14 million.

The consolidated entity reported a net loss of $908,391 for the 2020 financial year (2019 net loss: $771,912). Cash and cash equivalents amounted to approximately $2.34 million.

We continue to have a solid customer base. The number of licensed users of the Knosys product increased to 41,360 at the end of the 2020 financial year.

One of the highlights of the 2020 year was the announcement in June of a new substantial professional services contract with ANZ Bank New Zealand for the deployment of a standalone Knowledge IQ system. The nine-month project commenced in June is expected to generate revenue of approximately $0.84 million.

Knosys retains a strong core of enterprise customers, which includes ANZ Bank, Optus and Singtel. These customers continue to be a source of revenue growth amid demand for additional licence and services.

We are well positioned to strengthen our position in both the enterprise and mid-market sectors. In the June quarter, our new reseller, Stellar, was signed and achieved its first sales. In the last quarter of the financial year, in the mid-market sector, a local government council and an Asian-based logistics company started using our KIQ Cloud platform. We have witnessed a general increase in mid-market opportunities and anticipate some potential customers will seek knowledge management solutions in the current financial year.

Although new business growth during 2020 was slower than expected — partly because potential customers delayed decisions or put projects on hold in light of the COVID-19 pandemic — the Company is trading well and is well positioned to benefit from the increasing number of people who are now working from home because of pandemic-related restrictions. We are developing a new marketing strategy that has a greater digital focus and is more suited to the COVID-19 environment where traditional in-person marketing activities are limited.

Our growth strategy, based on delivering solutions designed to connect and engage employees and improve customer engagement, is the right strategy for the current environment and the future.

We are well placed to continue building our recurring revenue base and to achieve further sales success in the 2021 financial year.

On behalf of the Directors, I would like to again thank all shareholders for their continuing support and wish them, their families, friends and associates the best during these difficult times across the globe.

Hon. Alan Stockdale AO
CHAIRMAN

26 August 2020

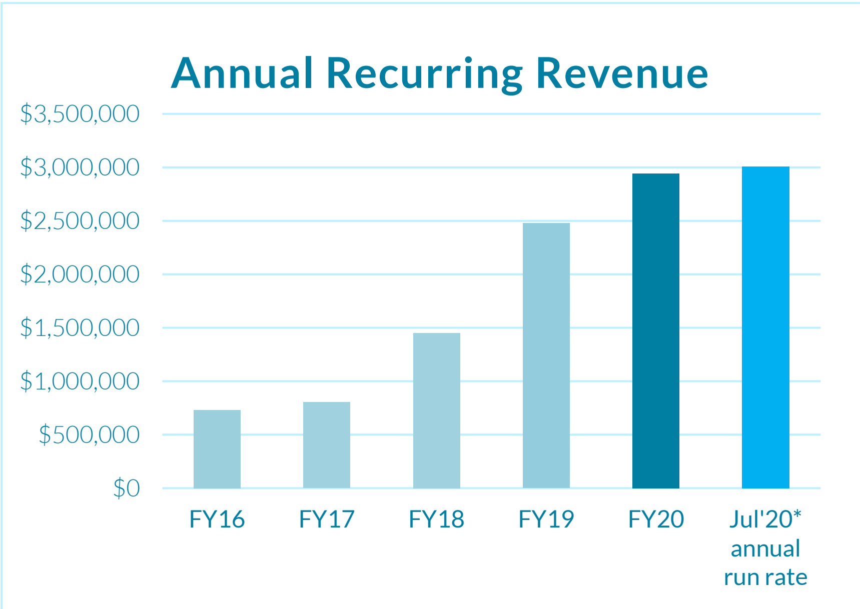
Knosys Limited
Managing Director's Operations Report
30 June 2020

Financial Highlights

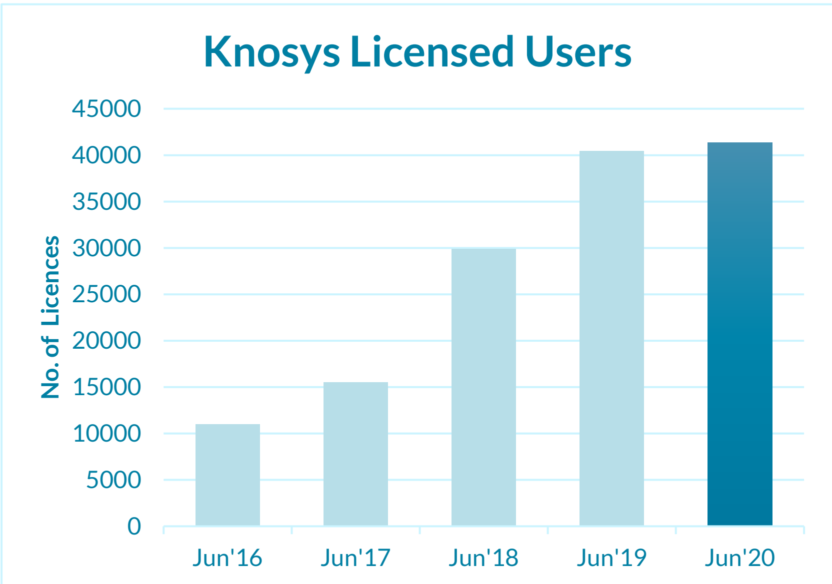
The 2020 financial year has been another step forward for Knosys with continued growth in the Company's revenue.

- Licence and support fee revenues, increased by 19% to $2,945,267 (2019: $2,477,848);
- Total operating revenue for the consolidated entity increased by 8% to $3,137,317 (2019 revenue: $2,909,228);
- The licensed user base of the Knosys product stood at 41,360 at the end of June 2020;
- The loss for the consolidated entity after providing for income tax was $908,391 (2019 loss: $771,912);
- Net cash outflow from operating activities was $477,607 (2019 outflow: $441,006); and
- The consolidated entity had net assets of $2,591,180 at 30 June 2020 (2019: $3,413,808) and held cash and cash equivalents of $2,335,909 (2019: $2,911,318).

Subsequent to year-end, total cash balances were $3.7 million at 31 July 2020, after the collection of annual licence fees and other June 2020 receivables.



*Jul'20 annual run rate is calculated as contracted licence and support fee revenue for the month, multiplied by 12



Overview of Knosys

Knosys is an Australian SaaS software company that is simplifying omni-channel knowledge management to improve the productivity of employees and drive better customer experiences. Our mission is to deliver knowledge management solutions to enable organisations to strengthen customer loyalty, retention and lifetime value. Our market- leading enterprise solution, Knowledge*IQ*, is designed to provide personalised information to customers and their staff that will transform business productivity and engagement.

The Knosys solution is available to mid-market customers through KIQ Cloud. This cloud-based service offers mid-market customers an easier onboarding process, lower total cost of ownership and faster implementation by comparison to our enterprise customers. KIQ Cloud complements our enterprise offering, offers an efficient path to wider sales success and will assist in broadening the sales and revenue profile of the company.

KIQ Cloud is an omni-channel knowledge management solution designed to simplify and centralise the organising and sharing of knowledge. KIQ Cloud makes it easy for teams and individuals to find the right information, exactly when they need it, and provides direction for work-flows, processes and compliance. The cloud service is perfect for businesses that operate customer contact centres, service desks, frontline offices or online self-service channels.

The Knosys solution is designed to be the core application for an information worker, available on their desktop, tablet or smartphone. This app drives productivity and optimises processes by incorporating process wizards, decision guidance, collaboration and feedback. It provides learning based on user behaviours, patterns and profiles. It also acts as the single knowledge hub from which all digital engagement solutions such as chatbots, web sites and self-service kiosks can consume relevant information and interact with end-customers in a consistent manner. The Knosys solution can be deployed across many areas of a business, including, but not limited to, contact centres, distributed frontline offices, sales teams, compliance and administration.

Business performance and market conditions

Knosys has continued its track record of delivering a stable and growing base of recurring revenue. The Company achieved a 19% year-on-year increase in licence and support fee revenues for the year to 30 June 2020. Currently the annual run rate is $3million, principally from long term enterprise customers on multi-year contracts.

In June, Knosys announced the new substantial professional services contract with ANZ Bank New Zealand to deploy a standalone Knowledge*IQ* system in-country. This project commenced in June 2020 and project revenues of approximately $0.84m are expected to be earned over a nine-month project period.

New business growth for the year was slower than anticipated due, at least in part, to potential customers deferring decisions or stalling projects in the second half of the year, given the global pandemic. However, the business is well insulated from the current unprecedented situation, is trading well and anticipates exiting this period as a stronger business.

The Company is well positioned to capitalise on the new paradigm of 'working from home' which is expected to continue in one form or another post-COVID. Knosys believes its vision to be a significant SaaS information management company, delivering solutions designed to connect and engage employees and improve customer engagement, is the correct growth strategy during this period and the future. Knosys therefore continues to focus on product innovation to support existing customers and attract new prospective clients.

Marketing activities

Knosys is investing in two key areas to support what it believes will be an extended COVID business environment that limits traditional in-person marketing activities.

- Articulating the Knosys brand in a way that makes the brand stronger and its offer more distinctive. In the current environment, potential clients are scanning the market virtually entirely by digital means. Brand awareness and the ability to articulate a winning value proposition are even more critical in driving new business.
- Developing a 12-month accountable marketing and content strategy for internal sales, channel partners, advertising and digital channels. The outcome from this work is to ensure the brand story, elevator pitch and key messages are communicated with credibility and clarity across all marketing elements.

Other more traditional sales and marketing activities have been reduced or deferred due to COVID restrictions.

Building growth opportunities

The business is well positioned to build on new business opportunities both in the enterprise segment and the mid-market segment. Knosys' new reseller, Stellar, was onboarded during the June quarter and achieved its first sales through its sales channels. In the enterprise space the Company has progressed discussions with two major prospects (banking and financial services) with pilot programs commenced in the new financial year. These pilots are in use as a means for these prospective customers to evaluate the Knowledge*IQ* platform for potential future deployment.

During the final quarter of the financial year, in the mid-market sector, the Company onboarded a local government council and an Asia-based logistics company to the KIQ Cloud platform. Interest from potential customers is reasonably active despite the tendency to delay purchase decisions because of the COVID-19 pandemic. Knosys has witnessed a general increase in mid-market opportunities and has been advised by several prospective customers that they will go to market in the 2021 financial year to procure new knowledge management solutions.

Knosys continues to have strong core of existing enterprise customers including ANZ Bank, Optus and Singtel. As evidenced by the above-mentioned contract with ANZ Bank New Zealand, these enterprise customers continue to be a source of revenue growth amid demand for additional licences and services. Knosys continues to see strong engagement and remains confident that it provides an important solution for companies seeking to manage their workforce and workflow more efficiently.

The extended COVID environment has resulted in a paradigm shift towards remote working. Consequently, demand for knowledge management has increased markedly. The Company aims to capitalise on this by driving new business initiatives and investing in the Knosys brand proposition over the coming 12 months.

Knosys has also intensified its scan of the market for additional SaaS businesses to acquire. Potential targets must have complementary offerings that tie in with Knosys' vision. Whilst no prospect has yet progressed successfully to completion, the Company continues to negotiate and evaluate opportunities.

Stable cashflow and financial outlook

The Company has entered the new financial year with a healthy cash balance and a track record of stable and reliable cash inflows generated by its licensed user base.

Knosys commences the 2021 financial year with an annual recurring revenue run rate of $3 million, the ANZ New Zealand professional services contract, an expected Research and Development tax rebate in line with prior years and the opportunity for growth from new and existing customers. Combined with the current operational cost base of the core business, this places Knosys in a strong position to improve strongly on the financial and cash performance of the 2020 financial year.

Future Focus

The Knosys Board and Management team are focused on continuing to build Knosys' position as a leading SaaS information management provider by achieving several important goals over the coming year:

- Grow organic revenue to $5m in next 12 months;
- Achieve a break-even and cash flow positive position by June 2021;
- Complete one or more strategic acquisitions; and
- Transition into a multi-offering SaaS business.

In the current COVID-19 environment, Knosys will continue to prioritise the safety and wellbeing of its staff and customers. The business is well settled into its remote working operating model. The Company continues to deliver its services to existing and new customers in a seamless manner without disruption, whilst managing the safety of its dedicated team of employees.

I would like to thank our dedicated staff for pursuing our growth strategy, our product development programs and our geographic expansion in the 2020 financial year. I particularly thank them for their dedication during the second half of this financial year. Our business has a strong team, an excellent product offering and is very well positioned to continue growing its recurring revenue as we move towards an EBITDA-positive position.

We look forward to an exciting year ahead.

John Thompson
MANAGING DIRECTOR

26 August 2020

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 2020.

Directors

The following persons were directors of Knosys Limited during the period from 1 July 2019 to the date of this report, unless otherwise stated:

Hon. Alan Stockdale (Non-executive Chairman)
Mr John Thompson (Managing Director)
Peter Pawlowitsch (Non-executive Director)

Review of operations

Refer Managing Director’s Operations Report.

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of:

- Computer software sales, licencing and development.

Dividends

No dividends were paid or declared during the 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.

Matters subsequent to the end of the financial year

The impact of the Coronavirus (COVID-19) pandemic is ongoing and, while the impact has not been financially negative for the consolidated entity up to 30 June 2020 and has created some potential growth opportunities, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing, lockdowns, quarantine measures, travel restrictions and any economic stimulus that may be provided.

No other matter or circumstance has arisen since 30 June 2020 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

Knosys expects a continued expansion of the market and the adoption of knowledge management and business process technology and the Company is again well placed to expand its customer base and add to our offerings through internal developments and acquisition of technologies. The consolidated entity continues to have a significant sales pipeline in the APAC markets. The Company will continue to invest in sales and marketing capability in the year to June 2021 in order to enable the Company’s Melbourne, Sydney and Singapore based sales team to pursue the multiple enterprise and mid-market opportunities in its sales pipeline, with the aim of converting them into subscription based contracts. In addition, the Company will assess any complimentary acquisitions.

Further 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 a consultant to Metro Trains and previously was a consultant to Maddocks Lawyers, a member of the Advisory Board of 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 was 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	1,250,000 ordinary shares
Interests in options	Nil 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 plus years. Peter is a non-executive director of Dubber Corporation Limited (appointed a director on 26 September 2011), VRX Silica Ltd (appointed 12 February 2010) and Novatti Group Limited (appointed 19 June 2015) and he was a non-executive director of Rewardle Holdings Limited (30 May 2017 to 2 January 2019), all ASX-listed companies. Peter holds a Bachelor of Commerce from the University of Western Australia, is a current member of CPA Australia, a Fellow of Governance Institute 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) VRX Silica Limited (ASX:VRX) Novatti Group Limited (ASX:NOV) Rewardle Holdings Limited (ASX:RXH)
Interests in shares	2,231,578 ordinary shares
Interests in options	Nil Options

Information on directors (cont.)

Name:	John Thompson
Title:	Managing Director
Experience and expertise:	John Thompson (BEng Hons, MBA) has held the role of CEO since 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 and a Master of Business Administration from the City University Business School in London. Mr. Thompson has a strong record of driving sales and revenue and has extensive 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. Mr Thompson has been a director since 26 September 2018.
Directorships held in other listed entities in the last 3 years	Nil
Interests in shares	4,092,857 ordinary shares
Interests in options	Nil

Company Secretary and Chief Financial Officer
Stephen Kerr (BCom, CA, CS, FGIA) has held the role of CFO and 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 20 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 2019 to the year ended 30 June 2020, and the number of meetings attended by each director were:

	Full board	
	Attended	Held
Hon. Alan Stockdale	10	10
Peter Pawlowitsch	10	10
John Thompson	10	10

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 2020. 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.

	2020	**2019**	**2018**	**2017**	**2016**
	$	$	$	$	$
Profit / (loss) attributable to owners of the parent entity	(908,391)	(771,912)	(806,067)	(2,085,018)	(1,411,015)
Dividends paid	-	-	-	-	-
Operating revenue growth	7.8%	10.8%	224.7%	9.9%	-
Change in operating result	(17.7%)	4.2%	61.3%	(47.8%)	-
Change in share price	(16%)	25%	(57%)	(40%)	-
Return on capital employed	(30%)	(31%)	(69%)	(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 result is operating profit or loss 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 2020 consisted of the following directors of Knosys Limited:
- Alan Stockdale - Non-Executive Chairman
- Peter Pawlowitsch - Non-Executive Director
- John Thompson – Managing Director

And the following persons:
- Stephen Kerr - Company Secretary and Chief Financial Officer

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2020	Cash salary and fees $	Cash bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
Alan Stockdale	54,795	-	-	5,205	-	14,789	74,789
Peter Pawlowitsch	36,530	-	-	3,470	-	14,789	54,789
Executive Director:							
John Thompson	305,595	30,000	9,428	24,000	6,539	36,974	412,536
Other Key Management Personnel:							
Stephen Kerr	182,410	18,000	24,483	20,773	7,171	14,789	267,625
	579,329	48,000	33,911	53,448	13,710	81,341	809,739

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2019	Cash salary and fees $	Cash bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
Alan Stockdale	54,795	-	-	5,205	-	-	60,000
Peter Pawlowitsch	36,530	-	-	3,470	-	-	40,000
Richard Levy	-	-	-	10,000	-	-	10,000
Executive Director:							
John Thompson	305,595	10,000	9,746	24,000	-	15,250	364,591
Other Key Management Personnel:							
Stephen Kerr	142,150	16,000	10,583	24,921	-	24,483	218,137
	539,070	26,000	20,329	67,596	-	39,733	692,728

For the financial year, the actual proportions of fixed remuneration and of remuneration linked to performance are as follows:

2020	Fixed remuneration	At risk - STI	At risk - LTI
Non-Executive Directors:			
Alan Stockdale (Chairman)	80%	-%	20%
Peter Pawlowitsch	73%	-%	27%
Managing Director:			
John Thompson	84%	7% (21% available)	9%
Other Key Management Personnel:			
Stephen Kerr	88%	7% (24% available)	5%

2019	Fixed remuneration	At risk - STI	At risk - LTI
Non-Executive Directors:			
Alan Stockdale (Chairman)	100%	-%	-%
Peter Pawlowitsch	100%	-%	-%
Richard Levy	100%	-%	-%
Managing Director:			
John Thompson	93%	3% (21% available)	4%
Other Key Management Personnel:			
Stephen Kerr	82%	7% (24% available)	11%

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 2020 of $329,595 including superannuation. Remuneration to be reviewed annually by the Board, 6 month termination notice by either party, STI performance bonus of up to $90,000 (including statutory superannuation) based on financial and non-financial KPI’s, including achievement of budget, over achievement of budget, new sales orders, leadership, customer relations, investor relations, and product development. Non-disclosure, non-solicitation and non-compete clauses apply. An amount of $30,000 relating to performance in the 2020 year was assessed as a bonus entitlement for the 2020 financial year.

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 2020 of $188,340 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. For a six month period during the year ended 30 June 2020, Mr Kerr’s employment was increased to four days per week and his base salary was adjusted accordingly on a pro-rata basis during that period. Remuneration is 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 $18,000 relating to performance in the 2020 year was assessed as a bonus entitlement in the 2020 financial year.

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

Share-based compensation

Issue of shares
The terms and conditions of each issue of loan funded 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 shares	Expiry date	Issue price	Fair value per loan share at issue date
November 2019	5,500,000	November 2024	10.1 cents	2.80 cents

5,500,000 loan shares were granted to directors and key management personnel in November 2019 and were 25% vested at 30 June 2020. 25% of the loan shares did not vest at 30 June 2020 because vesting hurdles were not achieved and these loan shares will be forfeited in the next financial year. 50% of the loan shares remain unvested at 30 June 2020 because vesting hurdles, based on time and on the market price of Knosys shares, are yet to be achieved.

Participants acquire loan funded shares using a loan provided by the consolidated entity. The loan is interest-free and limited recourse in accordance with the loan terms. The loan shares are restricted securities. The loan terms require the loan to be repaid before a participant can receive any proceeds from the sale of their shares.

Refer Note 22 in the notes to the financial statements, for further details and general terms of the loan funded shares.

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
October 2016	500,000	October 2020	25 cents	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 500,000 options issued to Stephen Kerr through the employee share option plan (ESOP), the options are service based and are fully vested. These options vested over time in three equal amounts every 12 months, commencing 1 October 2017 with the final vesting date being 1 October 2019. The Options entitle the holder to subscribe for one Share upon the exercise of each Option. No performance hurdles were attached to these options and these options are not subject to any escrow conditions

Shares issued on the exercise of options
No ordinary shares of Knosys Limited were issued during the year ended 30 June 2020 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 2020 are set out below:

Name	Number of options vesting and exercisable during the year 2020	% of options vesting and exercisable during the year 2020	Number of options expired during the year 2020	% of options expired during the year 2020
Alan Stockdale	-	-	500,000	100%
Peter Pawlowitsch	-	-	500,000	100%
Stephen Kerr	166,667	18%	425,000	46%

2019 Name	Number of options vesting and exercisable during the year 2019	% of options vesting and exercisable during the year 2019	Number of options expired during the year 2019	% of options expired during the year 2019
Stephen Kerr	166,666	18%	-	-

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	Forfeited	Balance at the end of the year
Ordinary shares					
Alan Stockdale	250,000	1,000,000[1]	-	-	1,250,000
Peter Pawlowitsch	1,231,578	1,000,000[1]	-	-	2,231,578
John Thompson	2,342,857	2,500,000[1]	-	(750,000)[1]	4,092,857
Stephen Kerr	1,621,759	1,000,000[1]	-	(375,000)[1]	2,246,759
	5,446,194	5,500,000	-	(1,125,000)	9,821,194

1. Shares issued or forfeited as loan funded shares in the current year.

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	Expired	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	(500,000)	-	-	-
Peter Pawlowitsch	500,000	(500,000)	-	-	-
Stephen Kerr	925,000	(425,000)	500,000	-	500,000
	1,925,000	(1,425,000)	500,000	-	500,000

There were no other transactions with key management personnel and their related parties

This concludes the remuneration report, which has been audited.

Options
At the date of this report, the unissued ordinary shares of Knosys Limited under option are as follows:

Date of expiry		Exercise price	Number under option
1 Oct 2020	unlisted	$0.25	500,000
1 Oct 2020	unlisted	$0.25	750,000
24 Dec 2021	unlisted	$0.12	2,000,000

Each option carries no rights other than the right, once vested, to subscribe for one fully paid ordinary share at the exercise price. No options were exercised during the period.

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 https://knosys.it/investor

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

26 August 2020
Melbourne

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

I declare that, to the best of my knowledge and belief during the year ended 30 June 2020 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

A. A. Finnis
Director
Melbourne, 26 August 2020

ACCOUNTANTS & ADVISORS
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Contents

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

Part Level 8
31 Queen Street
Melbourne VIC 3000

Principal place of business

Part Level 8
31 Queen Street
Melbourne VIC 3000

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

The financial statements were authorised for issue on 26 August 2020, 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 2020

	Note	Consolidated 2020 $	2019 $
Revenue	3	3,137,317	2,909,228
Research and development tax refund		649,313	583,233
Other income		120,621	68,010
Expenses			
Licence fee and support expense		(438,948)	(358,613)
Payments to suppliers for research and development activities		(154,024)	(57,470)
Employee benefits expense	4	(2,990,229)	(2,858,366)
Depreciation and amortisation expense		(189,905)	(45,527)
Legal and accounting expense		(119,672)	(144,405)
Travel and accommodation expense		(172,517)	(120,705)
Finance costs		(19,119)	-
Administration and corporate expense	4	(731,228)	(747,297)
Loss before income tax		(908,391)	(771,912)
Income tax (expense) credit	5	-	-
Loss after income tax expense for the year attributable to owners of the parent		(908,391)	(771,912)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year attributable to owners of the parent		(908,391)	(771,912)
Loss per share for loss attributable to the owners of the parent		**Cents**	**Cents**
Basic and diluted loss per share	24	(0.62)	(0.56)

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 2020

	Note	Consolidated 2020 $	Consolidated 2019 $
Assets			
Current assets			
Cash and cash equivalents		2,335,909	2,911,318
Trade receivables	6	1,711,032	1,729,553
Accrued research and development tax refund receivable		495,958	420,247
Prepayments & sundry debtors		77,452	48,887
Total current assets		4,620,351	5,110,005
Non-current assets			
Buildings – Right-of-use asset	7	295,986	-
Plant and equipment	8	127,040	176,883
Total non-current assets		423,026	176,883
Total assets		5,043,377	5,286,888
Liabilities			
Current liabilities			
Trade and other payables	9	364,809	375,751
Provisions for employee benefits		223,479	167,414
Lease liability	10	132,401	-
Revenue billed in advance	11	1,490,640	1,329,915
Total current liabilities		2,211,329	1,873,080
Non-current liabilities			
Provisions for employee benefits		35,023	-
Lease liability	10	205,845	-
Total non-current liabilities		240,868	-
Total liabilities		2,452,197	1,873,0802
Net assets		2,591,180	3,413,808
Equity			
Issued capital	12	8,312,409	8,312,409
Share based payments reserve	22	556,216	695,229
Accumulated losses		(6,277,445)	(5,593,830)
Total equity		2,591,180	3,413,808

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 2020

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2018	5,901,852	534,615	(4,821,918)	1,614,549
Loss after income tax expense for the year	-	-	(771,912)	(771,912)
Total comprehensive loss for the year	-	-	(771,912)	(771,912)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (Note 12)	2,410,557	-	-	2,410,557
Equity based payments (Note 22)	-	160,614	-	160,614
Balance at 30 June 2019	8,312,409	695,229	(5,593,830)	3,413,808

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2019	8,312,409	695,229	(5,593,830)	3,413,808
Loss after income tax expense for the year	-	-	(908,391)	(908,391)
Total comprehensive loss for the year	-	-	(908,391)	(908,391)
Transactions with owners in their capacity as owners:				
Equity based payments (Note 22)	-	85,763	-	85,763
Transfer from share-based payments reserve to accumulated losses on expiry of share-based remuneration instruments	-	(224,776)	224,776	-
Balance at 30 June 2020	8,312,409	556,216	(6,277,445)	2,591,180

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 2020

	Note	Consolidated 2020 $	2019 $
Cash flows from operating activities			
Receipts from customers		3,580,406	3,332,585
Payments to suppliers and employees		(4,733,645)	(4,362,247)
Research and development tax refund		573,355	524,059
Interest received		35,349	37,780
Interest paid		(19,119)	-
Grant revenue		86,047	26,817
Net cash used in operating activities	21	(477,607)	(441,006)
Cash flows from investing activities			
Payments for plant and equipment		(29,069)	(164,978)
Net cash used in investing activities		(29,069)	(164.978)
Cash flows from financing activities			
Repayment of lease liability		(68,733)	-
Proceeds from issue of shares		-	2,654,857
Share issue transaction costs		-	(202,821)
Net cash from financing activities		(68,733)	2,452,036
Net increase (decrease) in cash and cash equivalents		(575,409)	1,846,052
Cash and cash equivalents at the beginning of the financial year		2,911,318	1,065,266
Cash and cash equivalents at the end of the financial year		2,335,909	2,911.318

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 or amended 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.

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

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

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

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

	1 July 2019 $
Operating lease commitments as at 30 June 2019	450,889
Operating lease commitments discount based on the weighted average incremental borrowing rate of 5.25% (AASB 16)	(43,909)
Accumulated depreciation as at 1 July 2019	-
Right-of-use assets (AASB 16)	406,980
Lease liabilities – current (AASB 16)	(87,283)
Lease liabilities – non-current (AASB 16)	(319,697)
Change in opening accumulated losses as at 1 July 2019	-

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.

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.

Note 1. Significant accounting policies (continued)

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 18.

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.

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

The consolidated entity recognises revenue as follows:

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

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

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

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

Note 1. Significant accounting policies (continued)

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.

Refer to Note 23 segment note for a disaggregation of revenue per geographical location.

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

In relation to the financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. AASB 9 requires the Group to measure the loss allowance at an amount equal to lifetime expected credit loss (“ECL”) if the credit risk on the instrument has increased significantly since initial recognition. If the credit risk on the financial instrument has not increased significantly since initial recognition the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months. The Group has adopted the simplified approach to recognizing an ECL for trade and other receivables. Based on the nature of the Groups’ business there have been no credit losses recorded in the previous financial periods and thus no ECL has been recorded.

The amount of the impairment loss is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income within other expenses.

When a trade receivable, for which an impairment allowance had been recognised, becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Note 1. Significant accounting policies (continued)

Plant and equipment

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

Depreciation
Depreciation is calculated to write off the costs of the items of 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 plant and equipment for current and comparative periods is 3 years.

Right-of-use assets

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

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

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

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 either the Black-Scholes option pricing model or the Binomial Option Valuation model each of which 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)

Revenue billed in advance

Revenue billed in advance represents contract liabilities that the consolidated entity is obliged to transfer services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

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.

Lease Liabilities

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

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

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.

Note 1. Significant accounting policies (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended and that have not been adopted by the consolidated entity for the annual reporting period ended 30 June 2020 are listed below. The consolidated entity has assessed that these new or amended Accounting Standards and Interpretations will not have a material effect on the financial statements of the company for the reporting period commencing 1 July 2020.

Standard	Mandatory date for annual reporting periods beginning on or after	Standard to be adopted by the company for the reporting period beginning
The revised Conceptual Framework for Financial Reporting	1 January 2020	1 July 2020
AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business	1 January 2020	1 July 2020
AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material	1 January 2020	1 July 2020
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of liabilities as Current or Non-Current	1 January 2023	1 July 2023

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:

Estimation of accrued research and development tax refund
As at 30 June 2019 the consolidated entity had accrued $420,247 in accrued research and development tax refund credits in-respect of the 2019 tax return. The directors of the consolidated entity engaged an industry expert to prepare and lodge this return. This amount plus an additional $153,108 was receipted into the bank in April 2020 in regard to the 2019 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 $495,958 for the 2020 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.

Share based payments
As stated in Note 1, the consolidated entity has issued options and loans shares 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.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Determination of lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

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	
	2020	**2019**
	$	**$**
Sales revenue		
Licence and support fees	2,945,267	2,477,848
Rendering of services	192,050	431,380
Revenue	3,137,317	2,909,228

Note 4. Expenses

	Consolidated	
	2020	**2019**
	$	**$**
Loss before income tax includes the following specific expenses:		
Employee benefits expense		
Superannuation expense - Accumulation fund	227,308	206,788
Share based payments expense	85,763	96,614

Note 5. Income tax expense

	Consolidated 2020 $	Consolidated 2019 $
Income tax expense		
Current Tax benefit	(73,674)	(78,668)
Deferred tax - origination and reversal of temporary differences	(25,049)	(6,884)
Deferred tax assets not recognised	98,723	85,552
Aggregate income tax expense	-	-
Unrecognised deferred tax assets		
Unused tax losses for which no deferred tax asset has been recognised	921,461	821,738
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(908,391)	(771,912)
Tax at the statutory tax rate of 27.5%	(249,807)	(212,276)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	2,975	3,877
Research and development costs	303,085	256,667
Share based payments expense	23,585	26,569
Non-assessable R&D refund	(178,561)	(160,389)
	(98,723)	(85,552))
Deferred tax assets not recognised	98,723	85,552
Income tax expense	-	-

Note 6. Current assets - trade and other receivables

	Consolidated 2020 $	Consolidated 2019 $
Trade receivables	1,711,032	1,729,553

As at 30 June 2020, 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	90+ days
	$	$	$	$	$	$
2020	1,711,032	133,390	1,425,644	139,898	-	12,100
2019	1,729,553	138,915	1,556,442	-	34,196	-

As at 30 June 2020 no trade receivables were impaired (2019: Nil).

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

Note 7. Right of use asset

	Consolidated 2020 $	Consolidated 2019 $
Buildings – right-of-use	406,980	-
Accumulated depreciation	(110,994)	-
	295,986	-

As required under the adoption of AASB 16 (refer Note 1), additions to the right-of-use assets during the financial year were $406,978, being the value of the consolidated entity's main office lease. The consolidated entity leases its Melbourne based head office under an agreement of four years duration. The lease has an annual 3.75% escalation clause.

The consolidated entity leased two serviced offices under specific agreements. These agreements had short-term month to month lease arrangements and are of low-value, so have been expensed as incurred and not capitalised as right-of-use assets.

Note 8. Plant and equipment

Reconciliations of the carrying values of each class of property, plant and equipment at the beginning and end of the current and previous financial years, for the consolidated entity, are as follows:

	Furniture & fittings $	Office equipment $	Consolidated Total $
Carrying value at 1 July 2018	2,770	54,662	57,432
Additions	130,496	34,482	164,978
Depreciation	(12,747)	(32,780)	(45,527)
Carrying value at 30 June 2019	120,519	56,364	176,883
Cost as at 30 June 2019	135,178	133,949	269,127
Accumulated depreciation at 30 June 2019	(14,659)	(77,585)	(92,244)
Carrying value at 30 June 2019 / 1 July 2019	120,519	56,364	176,883
Additions	25,835	3,234	29,069
Depreciation	(47,274)	(31,638)	(78,912)
Carrying value at 30 June 2020	99,080	27,960	127,040
Cost as at 30 June 2020	161,013	137,183	298,196
Accumulated depreciation at 30 June 2020	(61,933)	(109,223)	(171,156)
Carrying value at 30 June 2020	99,080	27,960	127,040

Note 9. Current liabilities - trade and other payables

	Consolidated 2020 $	Consolidated 2019 $
Trade payables	84,442	79,933
Other payables	280,367	295,818
	364,809	375,751

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 $
2020	84,442	-	84,442	-
2019	79,933	-	79,933	-

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

Note 10. Lease liabilities

	Consolidated 2020 $	Consolidated 2019 $
Lease Liability - current		
Lease liability – current	132,401	-
Lease Liability – non-current		
Lease liability – non-current	205,845	-

Note 11. Current liabilities – Revenue billed in advance

	Consolidated 2020 $	Consolidated 2019 $
Revenue billed in advance	1,490,640	1,329,915

	2020 $	2019 $
Reconciliation of the values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	1,329,915	65,051
Amounts billed in advance during the year, where the performance obligations were and will be satisfied over the FY20 and FY21 years	1,706,889	3,006,552
Transfer to revenue – performance obligations satisfied	(1,546,164)	(1,741,688)
	1,490,640	1,329,915

Note 12. Equity - issued capital

	Consolidated 2020 $	Consolidated 2019 $
Ordinary shares - fully paid	8,312,409	8,312,409

Movements in ordinary share capital

Details	Date	No. of shares Legal Parent 2020	No. of shares Legal Parent 2019
Legal parent			
Balance start of year		143,235,576	102,936,733
Issue of share capital to shareholders pursuant to rights issue	07 Aug 2018	-	37,923,843
Issue of loan funded shares to executives and staff	24 Dec 2018	-	2,375,000
Issue of loan funded shares to directors, executives and staff	29 Nov 2019	5,600,000	-
Balance at end of year		148,835,576	143,235,576

Note 12. Equity - issued capital (continued)

Details	Date	2020 $	2019 $
Consolidated entity			
As at start of the financial year		8,312,409	5,901,852
Issue of share capital to shareholders pursuant to rights issue	07 Aug 2018	-	2,654,857
Costs of issuing shares		-	(244,300)
Balance as at end of the financial year		8,312,409	8,312,409

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 2020	No. of options Legal Parent 2019
Legal parent			
Balance start of year		9,508,334	7,658,334
Options issued to consultant for lead manager services	24 Dec 2018	-	2,000,000
Options expired / lapsed		(5,958,334)	(150,000)
Balance at end of year		3,550,000	9,508,334

300,000 options (all of which are vested) are exercisable at $0.29 and expire on 1 July 2020.
1,250,000 options (all of which are vested) are exercisable at $0.25 and expire on 1 October 2020.
2,000,000 options (all of which vested) are exercisable at $0.12 and expire 24 December 2021.
All options are unlisted and were subject to a range of vesting conditions.

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 13. 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.

Note 13. Financial instruments (continued)

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 (2019: 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. All liabilities are to be settled within 12 months except for lease liabilities which are to be settled as per the following categories:

	Consolidated	
	2020	**2019**
Lease liabilities	**$**	**$**
Payable at the reporting date:		
Within 6 months	65,383	-
6 to 12 months	67,018	-
1 to 5 years	205,845	-
	338,246	-

Fair value of financial instruments

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

Note 14. Key management personnel disclosures

Compensation

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

	Consolidated	
	2020	**2019**
	$	**$**
Short-term employee benefits	674,950	585,399
Share based payments	81,341	39,733
Post-employment benefits	53,448	67,596
	809,739	692,728

Note 15. 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	
	2020	**2019**
	$	**$**
Assurance services – William Buck		
Audit or review of the financial statements	33,600	31,600

Note 16. Contingent liabilities

At reporting date there is a bank guarantee of $113,712 in place, which relates to the rental of the Melbourne premises.

At reporting date there is a bank guarantee of SGD20,814 in place, which relates to a documentary letter of credit issued by the entity’s banker as a performance guarantee for a customer contract.

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

Note 17. Related party transactions

Legal parent entity
Knosys Limited is the legal parent entity.

Subsidiaries
Interests in subsidiaries are set out in Note 18.

Key management personnel
Disclosures relating to key management personnel are set out in Note 12 and the remuneration report in the directors' report.

Note 18. 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	
	2020	**2019**
	$	**$**
Gain after income tax	364,157	204,776
Total comprehensive income	364,157	204,776

Statement of financial position

	Legal Parent	
	2020	**2019**
	$	**$**
Total current assets	2,450,960	3,131,717
Total assets	9,841,627	9,413,756
Total current liabilities	27,809	49,858
Total liabilities	27,809	49,858
Equity		
Issued capital	15,447,531	15,447,531
Share based payments reserve	556,216	695,229
Accumulated losses	(6,189,929)	(6,778,862)
Total equity	9,813,818	9,363,898

Contingent liabilities
The legal parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Capital commitments - Property, plant and equipment
The legal parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

Note 18. Legal parent entity information (continued)

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 19. 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:

Name	Principal place of business / Country of incorporation	Ownership interest 2020 %	Ownership interest 2019 %
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%
Knosys Asia Pte Ltd (incorporated 7 August 2019) Principal activity – Provider of sales and marketing resources to sell Knosys Platform in Singapore and surrounding regions.	Singapore	100%	-

Note 20. Events after the reporting period

The impact of the Coronavirus (COVID-19) pandemic is ongoing and, while the impact has not been financially negative for the consolidated entity up to 30 June 2020 and has created some potential growth opportunities, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing, lockdowns, quarantine measures, travel restrictions and any economic stimulus that may be provided

No matter or circumstance has arisen since 30 June 2020 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 21. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated 2020 $	Consolidated 2019 $
Loss after income tax expense for the year	(908,391)	(771,912)
Adjustments for:		
Depreciation and amortisation	189,905	45,527
Share based payments expense	85,763	96,614
Change in operating assets and liabilities:		
Decrease/(Increase) in trade receivables	18,521	(1,020,993)
Increase in revenue billed in advance	160,725	1,264,864
(Increase) in accrued research and development tax refund receivable	(75,711)	(59,174)
(Increase) in prepayments and other debtors	(28,565)	(27,207)
(Decrease)/Increase in trade and other payables	(10,942)	6,244
Increase in provision for employee benefits	91,088	25,031
Net cash used in operating activities	(477,607)	(441,006)

Note 22. Share-based payments

Loan funded share plan and loan funded shares

A loan funded share plan (LFSP) has been established by the consolidated entity, whereby the consolidated entity may, at the discretion of the Board, issue loan funded fully paid ordinary shares in the company to personnel of the consolidated entity. Participants acquire loan funded shares using a loan provided by the consolidated entity. The loan is interest-free and limited recourse in accordance with the loan terms and the LFSP rules. The LFSP rules require the loan to be repaid before a participant can receive any proceeds from the sale of their shares. The Board has the discretion to impose such vesting conditions in relation to the loan funded shares as it deems appropriate. These may include conditions relating to continued employment or service, performance (of the participant, the consolidated entity or the share price) and the occurrence of specific events. The consolidated entity has also issued loan funded fully paid ordinary shares in the company to directors and executives on the same terms as the LFSP. The issuing of these loan funded shares 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 2020 the following loan funded shares had been granted:

Grant date	Issue date	Loan Expiry date	Issue price	Balance at 30 June 2019 Number	Issued during the period Number	Sold during the period Number	Forfeited during the period Number	Balance at 30 June 2020 Number	Vested at end of the period Number
28/11/2017	19/02/2018	27/11/2022	$0.06	1,200,000	-	-	-	1,200,000	1,200,000
30/01/2018	19/02/2018	18/02/2023	$0.10	2,050,000	-	-	450,000	1,600,000	1,600,000
26/11/2018	24/12/2018	26/11/2023	$0.08	1,000,000	-	-	750,000	250,000	250,000
24/12/2018	24/12/2018	24/12/2023	$0.08	1,375,000	-	-	825,000	550,000	550,000
27/11/2019	29/11/2019	29/11/2024	$0.101	-	6,500,000	-	-	6,500,000	1,625,000
27/11/2019	29/11/2019	29/11/2024	$0.101	-	1,125,000	-	-	1,125,000	562,500
Total				5,625,000	7,625,000	-	2,025,000	11,225,000	5,785,500
Weighted average issue price				$0.083				$0.095	$0.089

The 7,625,000 loan shares issued to participants during the period were sourced from a new issue of 5,600,000 ordinary shares by the Company and from 2,025,000 of forfeited loan shares, transferred from the relevant participants.

Loan shares issued to Directors and executives

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

Tranche	Number of Loan Shares	Service based vesting date and applicable conditions	Fair value per share at issue date	Total fair value at issue date
Tranche 1	1,625,000	Vested on 30 June 2020.	$0.040	$65,000
Tranche 2	1,625,000	To vest on 30 June 2020, if the 20-day volume weighted average price of Knosys Limited shares is $0.12 or more on that date. Unvested at 30 June 2020 as performance condition not met. Shares to be forfeited.	$0.020	$32,500
Tranche 3	1,625,000	To vest on 30 June 2021, if the 20-day volume weighted average price of Knosys Limited shares is $0.16 or more on that date.	$0.028	$45,500
Tranche 4	1,625,000	To vest on 30 June 2021, if the 20-day volume weighted average price of Knosys Limited shares is $0.20 or more on that date.	$0.024	$39,000
Total	6,500,000			$182,000

The valuation model inputs used by the independent valuer were as follows:

Grant date	Loan Expiry date	Share price at issue date	Issue price	Marketability Discount	Expected volatility	Dividend yield	Risk-free interest rate
27/11/2019	29/11/2024	$0.087	$0.101	0.00%	72%	0.00%	0.76%

Loan Shares issued to employees

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

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

The valuation model inputs used by the independent valuer were as follows:

Grant date	Loan Expiry date	Share price at issue date	Issue price	Marketability Discount	Expected volatility	Dividend yield	Risk-free interest rate
27/11/2019	29/11/2024	$0.087	$0.101	0.00%	72%	0.00%	0.76%

As at 30 June 2019 the following loan funded shares had been granted:

Grant date	Issue date	Loan Expiry date	Issue price	Balance at 30 June 2018 Number	Issued during the period Number	Sold during the period Number	Forfeited during the period Number	Balance at 30 June 2019 Number	Vested at end of the period Number
28/11/2017	19/02/2018	27/11/2022	$0.06	1,200,000	-	-	-	1,200,000	1,200,000
30/01/2018	19/02/2018	18/02/2023	$0.10	2,050,000	-	-	-	2,050,000	2,050,000
26/11/2018	24/12/2018	26/11/2023	$0.08	-	1,000,000	-	-	1,000,000	250,000
24/12/2018	24/12/2018	24/12/2023	$0.08	-	1,375,000	-	-	1,375,000	250,000
	Total			3,250,000	2,375,000	-	-	5,625,000	3,750,000
	Weighted average issue price			$0.085	$0.080			$0.083	$0.084

For the loan funded shares issued during the 2019 financial year, the valuation model inputs used to determine the fair value at each vesting date, were as follows:

Grant date	Loan Expiry date	Share price at issue date	Issue price	Marketability Discount	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at issue date
26/11/2018	26/11/2023	$0.08	$0.08	0.00%	75%	0.00%	2.340%	$0.015
24/12/2018	24/12/2023	$0.07	$0.08	0.00%	75%	0.00%	2.450%	$0.016

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

Note 22. Share-based payments (continued)

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 2020 the following options had been granted under the ESOP:

Option Issue date	Option Expiry date	Exercise price	Balance at 30 June 2019 Number	Issued during the period Number	Exercised during the period Number	Expired or forfeited during the period Number	Balance at 30 June 2020 Number	Vested and exercisable at end of the period Number
25/10/2016	01/10/2020	$0.25	1,250,000	-	-	-	1,250,000	1,250,000
Total			1,250,000	-	-	-	1,250,000	1,250,000
Weighted average exercise price			$0.25				$0.25	$0.25

As at 30 June 2019 the following options had been granted under the ESOP:

Option Issue date	Option Expiry date	Exercise price	Balance at 30 June 2018 Number	Issued during the period Number	Exercised during the period Number	Expired or forfeited during the period Number	Balance at 30 June 2019 Number	Vested and exercisable at end of the period Number
25/10/2016	01/10/2020	$0.25	1,400,000	-	-	150,000	1,250,000	833,333
Total			1,400,000	-	-	150,000	1,250,000	833,333
Weighted average exercise price			$0.25				$0.25	$0.25

Options issued to Directors and senior management

As at 30 June 2020 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:

2020 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	2,000,000	-	(2,000,000)	-	-
29/06/2015	01/07/2019	$0.25	425,000	-	(425,000)	-	-
			2,425,000	-	(2,425,000)	-	-
Weighted average exercise price			$0.25	-	-	-	-

2019 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	2,000,000	-	-	2,000,000	2,000,000
29/06/2015	01/07/2019	$0.25	425,000	-	-	425,000	425,000
			2,425,000	-	-	2,425,000	2,425,000
Weighted average exercise price			$0.25	-	-	$0.25	$0.25

Note 23. Segment information

During the year the consolidated entity operated in one segment, as a developer and licensor of computer software in the APAC region.

The concentration of customers for the 2020 year was as follows:

- A major customer in Australia and New Zealand in the finance sector represented 44.4% of operating revenue
- A major customer in Australia in the Telecommunications sector represented 38.2% of operating revenue
- A major customer in Singapore in the telecommunications sector represented 9.8% of operating revenue

The concentration of customers for the 2019 year was as follows:

- A major customer in Australia in the finance sector represented 41.4% of operating revenue
- A major customer in Australia in the Telecommunications sector represented 35.9% of operating revenue
- A major customer in Singapore in the telecommunications sector represented 16.7% of operating revenue

Note 24. Loss per share

	Consolidated	
	2020	**2019**
	$	**$**
Loss after income tax attributable to the owners the parent	(908,391)	(771,912)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	146,509,893	138,135,628
	Cents	**Cents**
Basic loss per share	(0.62)	(0.56)

The 3,550,000 (2019: 9,508,334) 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.

Knosys Limited
Directors' declaration
30 June 2020

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 2020 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.

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

26 August 2020
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 2020, 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 2020 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 (including Independence Standards)* (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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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.

RECOGNITION OF REVENUE UNDER SERVICE CONTRACTS	
Area of focus **Refer also to notes 1, 3, 11 and 23**	**How our audit addressed it**
The Group has service contracts with several major customers. These service contracts have invoicing and payment milestones included within their terms, which may or may not be directly aligned with the performance of services under the contract in accordance with *AASB 15 Revenue from Contracts with Customers.* In order to accrue revenue appropriately in the correct accounting period, management have developed a model to recognise revenue when the performance obligation is satisfied in each contract. This includes identifying the specific performance obligations within each customer agreement on commencement. There is a requirement for judgement in determining which period to which the revenue should be attributed. In designing the model management has considered: — Compliance with *AASB 15 – Revenue from contracts with customers*; — When the performance obligation is identified and satisfied in respect to each component of each contract; and — The potential for any post-contract servicing work to be performed at the conclusion of the contract and whether an additional performance obligation exists.	Our audit procedures included: — Examining management's revenue recognition model to ensure compliance with *AASB 15;* — Testing of customer invoicing under the contract; and — Tracing through to new service contracts to understand material terms and conditions, including any particular seller warranties or indemnities given and their potential impact upon the revenue recognition model. We have also assessed the adequacy of disclosures in the notes to the financial statements.

SHARE BASED PAYMENTS	
Area of focus **Refer also to notes 1 and 22 and the Remuneration Report**	**How our audit addressed it**
The Group has equity incentive plans for its key management personnel, including share options and employee share loans. Both plans include service-based vesting periods. Each of the arrangements which form part of the plan required significant judgements and estimations by management, including the following: — Determination 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 or binomial model, including the significant judgement 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: — 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 fair values of share-based payment arrangements by agreeing assumptions to third party evidence; — 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 and the binomial model, we assessed the experience of the expert used to advise the value of the arrangements. We also assessed the reasonableness of the assumptions detailed in their report. We have also assessed the adequacy of disclosures in the notes to the financial statements.

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 2020 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.

A further description of our responsibilities for the audit of these financial statements is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our independent auditor's report.

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 2020.

In our opinion, the Remuneration Report of Knosys Limited, for the year ended 30 June 2020, 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

A. A. Finnis
Director

Melbourne, 26 August 2020

1. **Shareholdings as at 25 August 2020**

a. Distribution of Shareholders

Category (size of holding)	Number Holders	Number Ordinary Shares
1 – 1,000	20	4,787
1,001 – 5,000	29	111,113
5,001 – 10,000	71	635,510
10,001 – 100,000	252	10,149,775
Above 100,001	172	137,934,391
	544	148,835,576

b. The number of shareholdings held in less than marketable parcels is 50, with a total of 121,174 ordinary shares, amounting to 0.08% of issued capital.

c. The names of the substantial shareholders listed in the holding Consolidated Group's register as at 25 August 2020 are:

	Shareholder	Number Ordinary shares	%
1	Earthrise Holdings Pty Ltd <Campion Investment A/C>	19,135,000	12.86
2	Moat Investments Pty Ltd <Moat Investment A/C>	7,801,124	5.24

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. **20 Largest Shareholders — Ordinary Shares**

	Name	**Number of Ordinary Fully Paid Shares Held**	**% Held of Issued Ordinary Capital**
1	Earthrise Holdings Pty Ltd <Campion Investment A/C>	19,135,000	12.86%
2	Moat Investments Pty Ltd <Moat Investment A/C>	7,801,124	5.24%
3	Vabake Pty Ltd <Levy Family A/C>	7,066,130	4.75%
4	Mrs Tracey Lee Cunningham <The Avebury Family A/C>	7,000,270	4.70%
5	Jet Invest Pty Ltd <R & L Investment A/C>	5,978,000	4.02%
6	Mrs Denise Jane Campbell	5,181,155	3.48%
7	TDF Properties Pty Ltd <TDF Property A/C>	3,528,070	2.37%
8	Mast Financial Pty Ltd <A To Z Investment A/C>	3,500,000	2.35%
9	John Robert Thompson	2,750,000	1.85%
10	Panchito Services Pty Ltd <Reyes Family A/C>	2,673,000	1.80%
11	Huntingdale Management Pty Ltd <Huntingdale A/C>	2,500,000	1.68%
12	Kyriaco Barber Pty Ltd	2,444,827	1.64%
13	Gale Enterprises (Aust) Pty Ltd <Cavalier Family A/C>	2,250,000	1.51%
14	Shandora One Pty Ltd <Benger Super Fund A/C>	2,125,000	1.43%
15	DMX Capital Partners Limited	2,000,000	1.34%
16	JT Management Co Pty Ltd <The James Super Fund A/C>	2,000,000	1.34%
17	Blue Boat Holdings Pty Ltd <Blue Boat Investment A/C>	1,772,499	1.19%
18	Vonetta Pty Ltd <TRBC S/F A/C>	1,759,116	1.18%
19	Mrs Emma Jane Gracey	1,651,295	1.11%
20	ADC (Investing) Pty Ltd <Al Cook Asset A/C>	1,618,473	1.09%
	Total	84,733,959	56.93%

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

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

Part Level 8, 31 Queen Street
MELBOURNE VIC 3000
Telephone 03 9046 9700

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

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.