

Knosys Limited

ABN 96 604 777 862

Appendix 4D

Half-year report

31 December 2017

Reporting period

Report for the half-year ended 31 December 2017.

Previous corresponding period is the half-year ended 31 December 2016.

Results for announcement to the market

		Increase/(decrease) over previous corresponding period	
	\$	\$	%
Revenue from ordinary activities	562,272	156,057	38%
Profit/(Loss) from ordinary activities after tax attributable to members	(1,119,194)	238,590	18%
Net profit/(loss) for the period attributable to members	(1,119,194)	238,590	18%

Dividends

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

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

Explanation of results

During the half year the consolidated entity has further developed the Knosys Platform and product offering and has progressed its sales and marketing activities, resulting in significant sales success subsequent to the half year end.

Subsequent to period end, in January 2018, Knosys signed a contract with Singtel/Optus worth over \$6m in revenue over 3-5 years and commencing in January 2018. Invoicing under this contract commenced in January 2018.

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

Net tangible asset backing

	Current period	Previous corresponding period
Net tangible assets per ordinary security *	-0.46 cents	1.51 cents

* Includes the impact of the Convertible notes, which are disclosed as a current liability.

Signed:



Stephen Kerr
CFO & Company Secretary

27 February 2018
Melbourne



Knosys Limited

ABN 96 604 777 862

ASX CODE: KNO

Half-Year Report 31 December 2017

The information in this half-year report should be read in conjunction with the annual report of Knosys Limited for the year ended 30 June 2017 and any announcements to the market by Knosys Limited for the half-year ended 31 December 2017

Corporate Information

Directors

Hon. Alan Stockdale – Chairman & Non-Executive Director
Peter Pawlowitsch – Non-Executive Director
Richard Levy – Non-Executive Director

Company Secretary

Stephen Kerr

Registered Office

Suite 9.08, Level 9
2 Queen Street
MELBOURNE VIC 3000

Auditors

William Buck
Level 20, 181 William Street
MELBOURNE VIC 3000

Bankers

National Australia Bank Limited

Stock Exchange

Australian Securities Exchange
525 Collins Street
MELBOURNE VIC 3000

Stock Code

‘KNO’

Share Register

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

Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Knosys Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors

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

Hon. Alan Stockdale
Richard Levy
Peter Pawlowitsch

Principal activities

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

Dividends

No dividends were paid or declared during the financial period.

Review of operations

The loss for the consolidated entity for the half year period after providing for income tax amounted to \$1,119,194 (31 December 2016 loss: \$1,357,784).

The consolidated entity had net liabilities of \$342,419 at 31 December 2017, after including the convertible note liability, (30 June 2017: Net assets of \$726,589) and had cash on hand of \$1,707,843 (30 June 2017: \$2,841,416).

The consolidated entity is the owner of the Knosys software which provides an enterprise-grade, knowledge management solution for organisations, Knowledge/Q.

The Knosys Knowledge/Q platform is an enterprise-grade, knowledge management solution that enables companies through a machine learning approach to discover and deliver personalised information to staff and customers to transform productivity and engagement. Knowledge/Q is curated information using Artificial Intelligence ("AI").

The Consolidated entity's business model is software-as-a-service (**SaaS**), with a recurring subscription fee payable by clients on a per User basis.

Growth in revenue and number of users

Knosys is pleased to report on a successful period of sales growth and expanded use of the Knosys knowledge management solution. Revenue of \$562,272 was a 38% increase on the prior corresponding period and is expected to continue to grow strongly in the second half of the financial year.

The total user licence count at December 2017 was 17,800, representing a 50+% increase compared to December 2016 as ANZ Bank continue to expand the deployment of Knosys throughout its operations. Further significant growth in user numbers will occur as a result of sales efforts in the December 2017 quarter, which led to the signing of SBS Bank in New Zealand as a new customer during the quarter and to significant sales success in January 2018.

Knosys only announces contracts to the market that are based on signed executed agreements with real milestones, upon the achievement of which revenue is then booked. Revenue is allocated to the period in which it is earned.

Singtel and Optus sign \$6million deal with Knosys

During the December half year Knosys entered into negotiations with the Singtel and Optus for their next generation knowledge management platforms following a competitive process against Singaporean and US based software vendors. Ultimately Knosys was considered the superior vendor in terms of technology, delivery capability and value for money culminating in the award of both projects to Knosys in January 2018.

Some of the additional costs in the December half year are directly attributed to the significant ground work that was laid by the Knosys executive and development teams to position Knosys as the preferred tenderer and ensure it could commence implementation in the shortest possible time once contracts were awarded and signed in January.

Knosys will deploy its Software-as-a-Service (SaaS) solution, KnowledgeIQ, to Singtel and Optus during the first half of 2018. The contracts will run for 5 and 3 years respectively with a total expected value exceeding \$6m over the life of the contract. KnowledgeIQ will be deployed as two separate instances in the Microsoft Azure cloud and managed by Knosys on their behalf. Knosys commenced invoicing under the Singtel and Optus contracts in January 2018.

Knosys expanded its development team with additional short-term contractors in the December half year and this expanded team will be retained for the March 2018 quarter as part of the project team to deliver the Knosys solution to Singtel and Optus.

Knosys augments its platform with Artificial Intelligence

On the back of these significant customer contracts, Knosys plans to invest further in its core KnowledgeIQ technology. It has already commenced the process of augmenting its current platform with elements of Artificial Intelligence technologies for its next software release in July 2018. The company's focus is on those technologies that make the Knosys platform anticipate what information may be useful to internal staff or end customers based, not only on their roles, but also their behaviours.

Ultimately KnowledgeIQ will search and continually improve the quality of the information delivered to users by understanding and learning from its usage level and alerting the user-business to opportunities to improve a process or effectiveness of a piece of information.

Knowledge Management Market Predicted to Grow

Knosys also reviewed external research during the quarter and is pleased to note that the market for knowledge management solutions is expected to reach USD\$33 billion in 2022 and is growing at 12% per annum. The most active sectors appear to be Banking & Financial Services, Telecommunications, and Pharmaceuticals.

The largest markets are the United States and Europe, but South East Asia is identified as an emerging market and predicted to have the highest growth rate of 22% over the next 5 years.

Knosys is well placed now to make an impact in South East Asia initially and aspires to grow globally over this period into the larger markets. Our vision is to see KnowledgeIQ as the second most used corporate application outside of the businesses corporate CRM.

Mergers and acquisitions

During the quarter the Company engaged a corporate consultant to assist with the exploration and review of potential acquisition opportunities which could complement the Knosys business offering and expand its market presence. We see this strategy as complimentary to our organic GROWTH initiatives as we look for geographic expansion and positive earnings opportunities. The focus is on businesses which automate business processes, manage information governance, or enhance an end customer's digital engagement to that information.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial period

Subsequent to the end of the financial period, in January 2018, Knosys signed a contract with Singtel/Optus worth over \$6m in revenue over 3-5 years and commencing in January 2018. Invoicing under this contract commenced in January 2018.

Subsequent to the end of the financial period the company issued 2,250,000 fully paid ordinary shares to an executive and other employees under the Company's loan funded share plan (LFSP), the terms of the LFSP were approved at the November 2017 AGM. The company also issued 1,000,000 fully paid ordinary shares as loan funded shares to executives on the same terms as the LFSP. 50% of all shares issued vested immediately with the balance vesting periodically in varying tranches over the 12 months subsequent to issue.

On 6th February 2018, holders of convertible notes in the Company converted 1,000,000 convertible notes into fully paid ordinary shares at an issue price of 12 cents per share and also received 1,000,000 attaching options, which are exercisable at 15 cents per share and expire on 31 May 2018.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration, which forms part of this Directors' Report, is set out on the following page.

This report is made in accordance with a resolution of directors.

On behalf of the directors



Hon. Alan Stockdale
Chairman

27 February 2018
Melbourne

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

I declare that, to the best of my knowledge and belief during the half-year ended 31 December 2017 there have been:

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

William Buck

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

N. S. Benbow

N. S. Benbow
Director

Dated this 27th day of February, 2018

**CHARTERED ACCOUNTANTS
& ADVISORS**

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

Knosys Limited
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31 December 2017

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General information

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

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

Registered office

Suite 9.08, Level 9
2 Queen Street
Melbourne VIC 3000

Principal place of business

Suite 9.08, Level 9
2 Queen Street
Melbourne VIC 3000

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2018. The directors have the power to amend and reissue the financial statements.

Knosys Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2017

	Note	Consolidated December 2017 \$	December 2016 \$
Revenue			
Licence and support fees		529,814	378,670
Rendering of services		7,500	1,250
Other income		24,958	26,295
Expenses			
Third party support costs		(148,393)	(108,559)
Employment costs and directors' fees		(1,005,373)	(1,192,849)
Depreciation and amortisation expense		(13,016)	(5,749)
Legal and accounting fees		(20,012)	(77,434)
Professional advisory fees		(100,600)	(154,500)
Travel and accommodation		(45,957)	(58,444)
Occupancy expenses		(55,741)	(59,893)
Administrative and corporate expenses		(127,895)	(106,571)
Finance costs		(164,479)	-
Loss before income tax		(1,119,194)	(1,357,784)
Income tax (expense) credit		-	-
Loss after income tax expense for the year attributable to owners of the parent		(1,119,194)	(1,357,784)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year attributable to owners of the parent		<u>(1,119,194)</u>	<u>(1,357,784)</u>
Loss per share for loss attributable to the owners of the parent		Cents	Cents
Basic and diluted loss per share		(1.43)	(1.74)
Weighted average number of shares used in determining basic and diluted loss per share		78,099,386	78,099,386

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

Knosys Limited
Statement of financial position
As at 31 December 2017

		Consolidated	
	Note	December	June
		2017	2017
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		1,707,842	2,841,416
Trade and other receivables		14,464	385,152
Accrued research and development tax refund receivable		227,824	228,071
Prepayments		27,385	30,099
Total current assets		<u>1,977,515</u>	<u>3484,738</u>
Non-current assets			
Plant and equipment		65,696	36,928
Total non-current assets		<u>65,696</u>	<u>36,928</u>
Total assets		<u>2,043,211</u>	<u>3,521,666</u>
Liabilities			
Current liabilities			
Trade and other payables		86,684	200,177
Provisions for employee benefits		107,228	93,740
Borrowing – convertible notes		1,658,924	1,494,446
Revenue billed in advance		532,794	1,006,714
Total current liabilities		<u>2,385,630</u>	<u>2,795,077</u>
Total liabilities		<u>2,385,630</u>	<u>2,795,077</u>
Net (deficiency of) assets		<u>(342,419)</u>	<u>726,589</u>
Equity			
Issued capital	5	4,403,765	4,403,765
Reserves		563,819	513,633
Accumulated losses		<u>(5,310,003)</u>	<u>(4,190,809)</u>
Total equity		<u>(342,419)</u>	<u>726,589</u>

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

Knosys Limited
Statement of changes in equity
For the half-year ended 31 December 2017

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016	4,403,765	195,761	(2,105,791)	2,493,735
Loss after income tax expense for the half year	-	-	(1,357,784)	(1,357,784)
Total comprehensive loss for the half year	-	-	(1,357,784)	(1,357,784)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 5)				
Equity based payments (note 6)	-	42,732	-	42,732
Balance at 31 December 2016	<u>4,403,765</u>	<u>238,493</u>	<u>(3,463,575)</u>	<u>1,178,683</u>
Consolidated				
Balance at 1 July 2017	4,403,765	513,633	(4,190,809)	726,589
Loss after income tax expense for the half year	-	-	(1,119,194)	(1,119,194)
Total comprehensive loss for the half year	-	-	(1,119,194)	(1,119,194)
Equity based payments (note 6)	-	50,186	-	50,186
Balance at 31 December 2017	<u>4,403,765</u>	<u>563,819</u>	<u>(5,310,003)</u>	<u>(342,419)</u>

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

Knosys Limited
Statement of cash flows
For the half-year ended 31 December 2017

	Note	Consolidated December 2017 \$	December 2016 \$
Cash flows from operating activities			
Receipts from customers		423,650	78,058
Payments to suppliers and employees		<u>(1,540,398)</u>	<u>(1,725,422)</u>
		(1,116,748)	(1,647,364)
Research & development tax refund		-	249,174
Interest received		<u>24,958</u>	<u>14,979</u>
Net cash used in operating activities		<u>(1,091,790)</u>	<u>(1,383,211)</u>
Cash flows from investing activities			
Payments for plant and equipment		(41,784)	(25,672)
Net cash from investing activities		<u>(41,784)</u>	<u>(25,672)</u>
Cash flows from financing activities			
Proceeds from issue of shares		-	-
Repayment of borrowings		-	-
Share issue transaction costs		<u>-</u>	<u>-</u>
Net cash from financing activities		<u>-</u>	<u>-</u>
Net (decrease) / increase in cash and cash equivalents		(1,133,574)	(1,408,883)
Cash and cash equivalents at the beginning of the half year		<u>2,841,416</u>	<u>2,946,975</u>
Cash and cash equivalents at the end of the half year		<u><u>1,707,842</u></u>	<u><u>1,538,092</u></u>

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

Note 1. Significant accounting policies

Basis of preparation

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

The interim financial statements are intended to provide users with an update on the latest annual financial statements of Knosys Limited. As such, the interim financial statements do not contain information that represents relatively insignificant changes occurring during the half-year of the company. It is therefore recommended that the interim financial statements be read in-conjunction with the annual financial statements of the company for the year ended 30 June 2017, together with any public announcements made during the half-year.

These interim financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2017.

Going concern assumption

For the period ended 31 December 2017 the consolidated entity had an operating net loss of \$1,119,194 (2016: \$1,357,784) and net cash outflows from operating activities of \$1,091,788 (2016: \$1,383,211).

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

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

- Achieving expected increase in sales through both direct sales and the Company's reseller network, noting that subsequent to the end of the financial period the company gained new contracts with Singtel/Optus which will generate over \$6million over the next 3 to 5 years;
- Prudent management of costs as required;
- Previous success on being eligible for the research and development tax incentive refunds in excess of \$300,000
- The likelihood, timing and quantum of convertible notes converting to ordinary shares and attaching options being exercised or being repaid on maturity with accrued interest; and
- If required, being able to raise additional capital.

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

Note 2. Commitments and contingent liabilities

The consolidated entity has no contingent liabilities at the date of this report (June 2017: Nil).

The consolidated entity has the following commitments at 31 December 2017.

	Consolidated December 2017 \$	June 2017 \$
<i>Lease commitments – operating</i>		
Committed at the reporting date, but not recognised as liabilities, payable:		
Within one year	90,468	90,468
One to five years	7,539	52,773
	<u>82,929</u>	<u>143,241</u>

Note 3. Segment Reporting

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

Note 4. Related party transactions

In the statement of profit and loss and other comprehensive income the following related party transaction took place:

	Consolidated December 2017 \$	December 2016 \$
Payment for services from MMG Interactive (a partnership associated with Richard Levy)	<u>2,000</u>	<u>34,509</u>

Note 5. Equity - issued capital

	Legal Parent December 2017 Shares	June 2017 Shares	Consolidated December 2017 \$	June 2017 \$
Ordinary shares - fully paid	<u>78,099,386</u>	<u>78,099,386</u>	<u>4,403,765</u>	<u>4,403,765</u>

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.

Note 6. Equity based payments

Options issued to Directors, senior management, consultants and resellers

As at 31 December 2017 the following options over ordinary shares in Knosys Limited had been issued (Options). These Options were issued separately to the ESOP.

Option Issue date	Option Expiry date	Exercise price	Balance at 30 June 2017 Number	Issued during the period Number	Exercised during the period Number	Expired or forfeited during the period Number	Balance at 31 December 2017 Number	Vested and exercisable at end of the period Number
09/05/2015	01/07/2019	\$0.25	5,333,334	-	-	-	5,333,334	4,999,999
29/06/2015	01/07/2019	\$0.25	425,000	-	-	-	425,000	348,000
05/04/2016	01/07/2019	\$0.29	300,000	-	-	100,000	200,000	200,000
05/04/2016	01/07/2020	\$0.29	300,000	-	-	-	300,000	300,000
Total			6,358,334	-	-	-	6,258,334	5,847,999
Weighted average exercise price			\$0.25				\$0.250	\$0.253

The following share based payment arrangements were in existence at 30 June 2017.

Option Issue date	Option Expiry date	Exercise price	Balance at 30 June 2016 Number	Issued during the period Number	Exercised during the period Number	Expired or forfeited during the period Number	Balance at 30 June 2017 Number	Vested and exercisable at end of the period Number
09/05/2015	01/07/2019	\$0.25	7,400,000	-	-	2,066,666	5,333,334	4,516,666
29/06/2015	01/07/2019	\$0.25	425,000	-	-	-	425,000	271,000
05/04/2016	01/07/2019	\$0.29	500,000	-	-	200,000	300,000	200,000
05/04/2016	01/07/2020	\$0.29	300,000	-	-	-	300,000	300,000
Total			8,625,000	-	-	-	6,358,334	5,287,666
Weighted average exercise price			\$0.254				\$0.250	\$0.253

The weighted average remaining contractual life of options outstanding at the end of the financial period was 3.5 years.

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

	December 2017 Options	June 2017 Options
Options issued under the employee share option plan	1,400,000	1,400,000
Options issued to Directors and Executives	5,758,334	5,758,334
Options issued to product resellers	200,000	300,000
Options issued to external advisors	300,000	300,000
	<u>7,658,334</u>	<u>7,758,334</u>

Expenses arising from share based payment transactions

Net expenses arising from share based payment transactions recognised during the financial period were \$50,187 (\$42,732 for prior comparative period). This was in respect of the vesting charge attributed to the options for the six-month period.

Note 7. Fair value measurement

Due to the nature of the consolidated entity's operating profile, the Directors and management do not consider that the fair values of the consolidated entity's financial assets and liabilities are materially different from their carrying amounts at 31 December 2017.

Note 8. Matters subsequent to the financial period

Subsequent to the end of the financial period, in January 2018, Knosys signed a contract with Singtel/Optus worth over \$6m in revenue over 3-5 years and commencing in January 2018. Invoicing under this contract commenced in January 2018.

Subsequent to the end of the financial period the company issued 2,250,000 fully paid ordinary shares to an executive and other employees under the Company's loan funded share plan (LFSP), the terms of the LFSP were approved at the November 2017 AGM. The company also issued 1,000,000 fully paid ordinary shares as loan funded shares to executives on the same terms as the LFSP. 50% of all shares issued vested immediately with the balance vesting periodically in varying tranches over the 12 months subsequent to issue.

On 6th February 2018, holders of convertible notes in the Company converted 1,000,000 convertible notes into fully paid ordinary shares at an issue price of 12 cents per share and also received 1,000,000 attaching options, which are exercisable at 15 cents per share and expire on 31 May 2018.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years

Knosys Limited
Directors' declaration
31 December 2017

In the directors' opinion:

1. the attached consolidated financial statements and accompanying notes are in accordance with the *Corporations Act 2001* and;
 - (a) comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors.

On behalf of the directors



Hon. Alan Stockdale
Chairman

27 February 2018
Melbourne

Knosys Limited

Independent auditor's review report to members

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Knosys Limited (the company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the half-year financial report, which indicates that the consolidated entity incurred a net loss of \$1,119,194 during the half year ended 31 December 2017 and also incurred net cash outflows from operating activities of \$1,116,748. As stated in Note 1, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of the Directors for the Half-Year Financial Report

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

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

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

- giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and

- complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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

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

Independence

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

William Buck

William Buck Audit (VIC) Pty Ltd

ABN: 59 116 151 136



N. S. Benbow

Director

Melbourne, 27th February 2018