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(ASX: KNO)

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ASX Announcement
29 October 2020

September 2020 Quarterly Activity Report and Appendix 4C

Current highlights

- **$2.1m of customer receipts for the September quarter**
- **Positive net cashflow of $1.1m for the quarter**
- **Strong cash position of $3.4m**
- **Stable recurring revenue - annual run rate at $3 million**
- **Low cost base contributing to positive cashflows**
- **Short listed on multiple large Enterprise tenders**
- **Several large pilots commencing in APAC region**
- **Board expanding skill set in preparation for growth**

Knosys (ASX: KNO), a leader in software as a service (SaaS) knowledge management solutions is pleased to provide its September 2020 quarterly activity report and update on the Company's operations, business and funding in the continuing context of the COVID-19 environment.

Knosys continues to prioritize the safety and wellbeing of its staff and customers through its remote working operating model. The Company is delivering its services to existing and new customers in a seamless manner without disruption, whilst managing the safety of its dedicated team of employees.

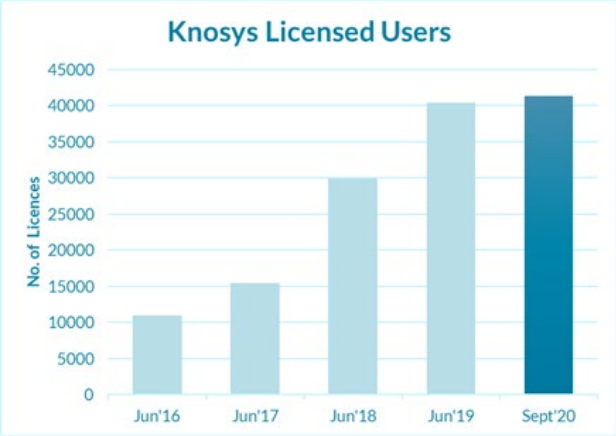
Business performance and market conditions

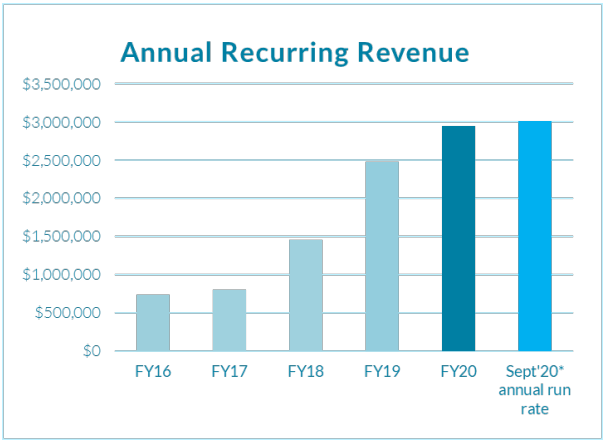
Knosys continued its track record of delivering a stable base of recurring revenue and currently has an annual run rate of $3 million, principally from long term enterprise customers on multi-year contracts.

In the September quarter, Knosys delivered on the previously announced professional services contract with ANZ Bank New Zealand to deploy a standalone KnowledgeIQ system in country. This project commenced in June 2020 and projected revenues of approximately $0.84m are expected to be earned over a 9-month project period (refer to announcement on 10 June 2020).

Throughout the quarter, Knosys has witnessed a general improvement in the enterprise and mid-market sectors, with multiple prospective customers advising they intend to go to market later this year or early next year to procure new knowledge management solutions. These projects were previously placed on hold or deferred due to prevailing market conditions related to COVID. The business remains well insulated from the current unprecedented situation, is trading well and anticipates exiting this period as a stronger and expanded business.

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

Marketing activities

Knosys has engaged an external marketing agency to assist in its re-branding strategy to be more distinctive and dynamic. This activity will define our customer value propositions (CVPs) going forward and drive new sales in a predominately online/remote customer paradigm expected over the next few years. The Company has also identified a number of virtual conferences to attend in the next 6 months designed to replace traditional in-person events that cancelled during the year.

Sales pipeline

The September quarter was active in terms of new business opportunities both in the enterprise segment and mid-market. The Company responded to two major tenders and has been shortlisted for both and remains optimistic of a positive outcome. Reaching this stage is further validation of the KnowledgeIQ technology, particularly as both opportunities have conducted extensive product evaluation from global vendors.

The Company is in initial stage of commencing several large pilots for clients in the APAC region. These pilots will enable these clients to assess the suitability of the KnowledgeIQ technology for their business and potentially for deployment across thousands of employees.

During the quarter in the mid-market, multiple proposals were issued to customers in local council and manufacturing for our KIQ Cloud platform.

Future focus

The Knosys Board is committed to building a leading SaaS information management business and accordingly has commenced the process of expanding its Board with appropriate talent to oversee the next growth phase of the business. Kathrin Mutinelli was appointed a director during the quarter to enhance the Board's strategic and investor relations capabilities. The Board expects further expansion going forward to ensure Knosys has the best mix of skills and experience to maximise shareholder value.

The Company is well positioned to leverage the new COVID paradigms of 'working from home' and 'digital delivery of information to employees and customers'. Accordingly, it 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 into the future. Knosys' goals remain focused therefore on delivering investor value by:

- Growing organic revenue to $5m in next 12 months
- Achieving a break even and cash flow positive position by June 2021
- Potential strategic acquisitions where they make sense
- Re-envisaging our brand as a multi SaaS business

Appendix 4C cashflow report - released with this activity report

Knosys reported a strongly positive cashflow for the September 2020 quarter, due largely to the receipt of annual licence renewals from a major customer. Net cash from operating activities for the quarter was $1.1m. The Company had a strong cash balance at 30 September of $3.4m.

During the quarter Knosys received $2.1m in cash receipts from customers, comprised of $2.0m in licence and support fees and $0.1m in project revenues. These receipts were supplemented slightly by government grants and assistance totalling $0.04m, consisting of the Federal Government cash flow boost.

Gross cash outflows for the quarter included continued spend on research and development and sales and marketing initiatives. Expense levels are below previous comparative quarters as Knosys continues to operate within the current COVID impacted business environment.

Cash outflows relating to the Company's head office lease in Melbourne are accounted for in the Appendix 4C in accordance with AASB16, with the gross payments to the landlord treated as a financing activity. The interest paid component is disclosed in Cash flows used in operating activities and the repayment of liability component is disclosed in Cash flows used in financing activities.

The aggregate amount of payments to related parties, as disclosed in item 6.1 of the Appendix 4C, is comprised of director fees paid to the three non-executive directors and salary payments to the managing director, in accordance with contractual arrangements.

The Company's revenue model has predominantly been based on billing customers annually in advance. This is reflected in the fluctuations in quarterly cash inflows. Higher customer cash receipts are typically received in the September quarter each year, due to large annual licence renewals. The regular monthly invoicing of licence and support fees for some large customers provides some spread of cash inflows across all quarterly cashflow periods. The appropriate portion of revenue from licence fees invoiced annually in advance is recognised each month in the financial accounts as revenue is earned evenly over a 12 month period.

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ABOUT KNOSYS

Knosys is a fast-growing Australian cloud software company that is simplifying enterprise knowledge to improve the productivity of employees and improve customer experience. Our KIQ Cloud service is the knowledge management solution transforming the digital workplace by ensuring all forms of knowledge are accurate, relevant to the user, compliant and easy to find. The KIQ Cloud knowledge management platform is intuitive and does the hard work. It uses the knowledge of real experts and the analytic power of machine learning to organise and share information for greater productivity. It is an organisation-wide solution for all industries, trusted by businesses and enterprises in the banking, telecommunications and government sectors.

For more information please visit: http://www.knosys.it

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

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Name of entity	
Knosys Limited	
ABN	**Quarter ended ("current quarter")**
96 604 777 862	30 September 2020

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	2,065	2,065
1.2	Payments for		
	(a) research and development	(99)	(99)
	(b) product manufacturing and operating costs	(113)	(113)
	(c) advertising and marketing	(67)	(67)
	(d) leased assets	-	-
	(e) staff costs	(555)	(555)
	(f) administration and corporate costs	(132)	(132)
1.3	Dividends received (see note 3)		
1.4	Interest received	5	5
1.5	Interest and other costs of finance paid	(4)	(4)
1.6	Income taxes paid		
1.7	Government grants and tax incentives	38	38
1.8	Other (provide details if material)	-	-
1.9	**Net cash from / (used in) operating activities**	**1,138**	**1,138**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	**Net cash from / (used in) investing activities**	**-**	**-**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings – ROU liability	(28)	(28)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	**Net cash from / (used in) financing activities**	**(28)**	**(28)**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	2,336	2,336
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,138	1,138
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(28)	(28)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**3,445**	**3,445**

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter $A'000	Previous quarter $A'000
5.1	Bank balances	312	220
5.2	Call deposits	1,137	620
5.3	Bank overdrafts	-	-
5.4	Other – term deposits	1,996	1,496
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**3,445**	**2,336**

6.	Payments to related parties of the entity and their associates	Current quarter $A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1 – Director remuneration	145
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

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7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other – ROU lease liability (AASB16)	310	310
7.4	**Total financing facilities**	310	310

7.5	**Unused financing facilities available at quarter end**	-

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

The amount above is disclosed under AASB 16. This is the Right of Use lease liability relating to the company's property lease for its head office in Melbourne.

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	1,138
8.2	Cash and cash equivalents at quarter end (item 4.6)	3,445
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	3,445

8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	N/A

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

29 October 2020

Date: .....

By the Board

Authorised by: .....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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