KNEOMEDIA LIMITED

ABN 41 009 221 783

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2017

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CORPORATE INFORMATION

DIRECTORS

Mr James Kellett	Executive Chairman and Chief Executive Officer
Mr Jeffrey Bennett	Non-Executive Director
Mr Franklin B. Lieberman	Executive Director

COMPANY SECRETARY

Sophie Karzis

REGISTERED OFFICE

Level 1, 61 Spring Street
Melbourne, VIC 3000

AUDITORS

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Sydney NSW 2000

BANKERS

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Melbourne VIC 3000

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Surry Hills NSW 2010

WEBSITE ADDRESS

www.KNeoMedia.com

CHAIRMAN'S LETTER

Dear Shareholders

The Year in Review

The Group recorded gross sales of $389,116 in respect of KNeoWorld Education and Wholesale for the year of which $133,760 was recognised as current year revenue (2016: $64,891) and $255,356 of the KNeoWorld Education revenue will be deferred for recognition in FY2018. While total cash from the KNeoWorld Education sales is available to the company on receipt, under current accounting standards, this licence fee revenue will be recognised on a straight-line basis over the life of the licence contracts, generally 12 monhts.

The Group incurred a loss for the year of $1,285,911 (2016: Loss $1,565,977), with the reduced loss due to receipt of other income $325,080 under the Australian Government's Research and Development Tax Incentive Program, and the containment of employee benefits and other operating costs. The Group's net liabilities reduced to $121,463 (2016: $1,491,798) with net operating cash outflows of $624,988 (2016: outflows $1,340,570) as a result of increased revenue, receipt of the R & D grant, capital raising by issue of new shares and the reduction of convertible note debt.

KNeoWorld's Operations

As a result of heightened market opportunities in the USA, the Company was able to refine its product offering to Software as a Service (SaaS) platforms under a Business-to-School sales model. The (SaaS) Business-to-School model underpins a much more robust and predictable revenue model for the Company compared to what can be achieved through direct-to-consumer marketing which is dependent on high promotional costs.

The year has proven transformational for the Company, underpinned by a significant funding commitment by way of budget allocation from the New York City Department of Education, and the subsequent take up of the KNeoEd and KNeoESP educational and Special Needs intervention products into the New York City Public School education market.

In early May, the Company advised shareholders that it had received direct Education Department funding approval from District 75 for the immediate purchases of its education products from schools in New York City. Of significant benefit is that schools in District 75 and the Boroughs can now overcome funding allocation delays which will subsequently enhance sales of KNeoWorld products.

District 75 provides citywide educational, vocational, and behavioural support programs for 26,000 Special Needs students throughout the five New York City Boroughs and is the largest of its kind in the world.

This was a pivotal development for KNeoMedia and has been the key catalyst for sales and broader market awareness and acceptability of the content.

As a result of this funding support, KNeoMedia's team commenced an active direct-to-school sales program to promote its content to educators and carers in the New York Public School system. Results have been pleasing.

During the quarter, sales and commitments for a total of 7,200 seat licences were received from a large number of New York Public Schools. A seat licence is generally an annual, per student, subscription that schools and other learning and care facilities purchase for US$50.00 per licence. Seat licence duration may vary slightly to align annual renewal dates with the commencement of each scholastic year.

Funding & Capital Structure

During the year, the Company raised additional capital of $520,000 from existing shareholders and new investors. In addition, the existing convertible note holders also converted face value of $775,000 to shares which substantially reduced the Company's debt and future interest expense. With the conversion of convertible notes, the note holders elected to exercise their entitlements to free-attaching options and thus the Company raised another $775,000 in new funds which allowed the Group to fund its business development objectives and drive further revenue growth. As a result of the debt reduction combined with increased revenue and an R & D grant, net liabilities reduced to $121,463 (2016: $1,491,798).

Outlook

The outlook for 2018 is positive with first quarter of FY2018 beginning well.

The June quarter 2017 represented the most active sales period in the Company's history, and KNeoMedia is pleased to confirm that this momentum has continued in the first quarter of 2018. The Company recently reported that seat licence sales and commitments have now topped 10,000 with the KNeoEd and KNeoESP content now being deployed across 39 New York Public Schools. The Company will continue to focus primarily on driving sales of new seat licences from the New York Public School system, including annual licence renewals with an added emphasis on securing further sales in other US states where the Company will look to build scalable sales channels as it is doing in New York.

Yours faithfully

James Kellett
Executive Chairman
Melbourne, 29 September 2017

DIRECTORS' REPORT

The Directors present their report together with the financial report of the consolidated entity consisting of KNeoMedia Limited (KNeoMedia or KNM or the Company) and its controlled entities (the **Group**), for the financial year ended 30 June 2017 and independent auditor's report thereon.

Director details

The following persons were Directors of KNeoMedia Limited during or since the end of the financial year.

Name	Particulars
Mr James Kellett	**Executive Chairman and Chief Executive Officer** Appointed non-Executive Director on 26 August 2010, Chief Executive Officer on 3 December 2010 and Executive Chairman October 2015. Mr Kellett has over 30 years' experience in global corporate finance and business management and has held senior executive positions in the finance and communications industries, including ASX listed companies. Mr Kellett has been the driving force in establishing KNeoWorld Inc. in the American game-based education sector. Mr Kellett has no directorships in other listed companies.
Mr Jeffrey Bennett	**Non-Executive Director** Mr Bennett (B Comm CPA) brings significant experience in corporate finance, capital markets, acquisitions and divestments and risk management to the Company. He has more than 25 years' experience in the resources, transport, IT and service industries having held senior finance positions at Ingena, Simcoco Pacific, BHP and Shell. Mr. Bennett is the chairman of Jameson Resources Limited (ASX: JAL).
Mr Franklin B. Lieberman	**Executive Director** Mr Lieberman has over 45 years' experience in media with multi-national companies including Warner Bros., NBC, CBS, ABC and PBS as well as running the Miracle Factory, a strategic marketing company with clients that included AT&T, IBM, PepsiCo, Pfizer, Johnson & Johnson, Coca Cola and Universal Pictures. He has worked with the United Federation of Teachers and the American Federation of Teachers and was instrumental in developing the educational initiatives for KNeoWorld Inc.
Ms Sophie Karzis	**Company Secretary** Ms Karzis (B Juris., LLB) was Company Secretary of the Group at all times during and since the financial year end to the date of this report. Ms. Karzis is a practicing lawyer with over 20 years' experience in corporate law. She is company secretary and general counsel to a number of public (listed and unlisted) and private companies and is the principal of Corporate Counsel, a business which provides legal and company secretarial services to Australian companies.

Principal activities

The principal activity of the Group during the financial year was the further development of its online education publishing business that delivers world-class education assessment products and games-based learning to global educational markets. The Group publishes and markets from its US-based subsidiary, KNeoWorld Inc., and sells on a seat licence and micro-subscription basis through the KNeoWorld.com games portal and via education departments and distribution agreements.

Review of operations and financial results

The pivotal development of New York City Department of Education funding for KneoMedia products during the year and has been the key catalyst for sales, particularly in the last quarter 2017. The Group recorded gross sales of $389,116 in respect of KNeoWorld Education and Wholesale for the year of which $133,760 was recognised as current year revenue (2016: $64,891) and $255,356 of the KNeoWorld Education revenue will be deferred for recognition in FY2018. While total cash from the KNeoWorld Education sales is available to the company on receipt, under current accounting standards, this licence fee revenue will be recognised on a straight-line basis over the life of the licence contracts, generally 12 months. The Group incurred a loss for the year of $1,285,911 (2016: loss $1,565,977).

Following the receipt of New York City Department of Education funding support, and the subsequent sales directly into the New York Public School system, KNeoMedia took the decision to refine and focus its sales efforts on a Software as a Service (SaaS) direct-to-school sales model with the Company suspending promotional spend and activity of its consumer content and mobile Apps.

The SaaS Business-to-School sales model underpins a much more robust and predictable revenue model for the Company compared to what can be achieved through direct-to-consumer marketing and promotion. This culminated in annual seat licence sales and commitments of 7,200 at year end (increasing to 10,000 in July 2017).

As result of revenue increases, debt reduction and an R & D grant, the Group's net liabilities reduced to $121,463 (2016: $1,491,798) with net operating cash outflows of $624,988 (2016: $1,340,570).

During the year, the Company raised additional capital of $520,000 from the existing shareholders and new investors. In addition, the existing convertible note holders also converted face value of $775,000 to shares which substantially reduced the Company's debt and future interest expense. With the conversion of convertible notes, the note holders elected to exercise their entitlements to free-attaching options and thus the Company raised another $775,000 in new funds which allowed the Group to fund its business development objectives and drive further revenue growth.

The Chairman's report contains further information on the detailed operations of the Group during the year.

The attached financial statements detail the performance and financial position of the consolidated entity for the year ended 30 June 2017. It also contains an independent auditor's report which includes a qualification in respect of the occurrence of revenue and recoverability of trade receivables, as well as an emphasis of matter paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern. For further information, refer to note 1(a) to the financial statements. In respect of the qualification, The Group has Revenue of $84,827, Deferred Revenue of $255,356 and Trade Receivables of $284,897 as at 30 June 2017 relating to KNeoWorld Education, representing invoices raised in respect of licences sold to a number of New York schools however, as a result of school holidays in New York, including schools and central administration, and the confidential nature of New York City Department of Education payment process, the Company's Auditors were unable to obtain sufficient audit confirmation about the revenue or trade receivables. Consequently, they were unable to determine whether any adjustments to these amounts were necessary. Nevertheless, the Company will continue to collect these receivables in the manner it has successfully done in the past.

Operating results

	2017 **$**	2016 $
The consolidated loss of the Group after providing for income tax	**1,285,911**	1,565,977

Dividends paid or recommended

No dividends have been paid or declared since the commencement of the financial year. The Directors do not recommend that a dividend be paid for the year ended 30 June 2017.

Directors' interests in Shares and Options of the Group

The relevant interest of each Director in the shares and quoted options over shares of the Group, as notified by the Directors to the Australian Securities Exchange in accordance with Section 205G (1) of the Corporations Act 2001, at the date of this report are:

	Ordinary Shares		Options	Performance rights
	Direct	Indirect		Unquoted
James Kellett	-	17,665,714	7,142,857	5,255,590
Jeffrey Bennett	-	6,383,614	-	2,627,795
Franklin B. Lieberman	-	166,666	-	2,627,795

Significant changes in the state of affairs

The following significant changes in the state of affairs of the Group occurred during the financial year:

- On 20 September 2016, KNeoMedia received $325,080 R&D Tax Rebate funding.
- On 28 February 2017, KNeoWorld reported strong progress in NY Schools sales program.
- On 14 March 2017, KNeoMedia appointment of US based Senior Advisor.
- On 16 March 2017, KNeoMedia entered Philippines Education Market.
- On 2 May 2017, direct funding approved for KNeo Products in NY Schools.
- On 10 May 2017, KNeoMedia sold 1,000 more licences to NY Public Schools.
- On 16 May 2017, KNeoMedia sold further 700 licences to NY Public Schools.
- On 24 May 2017, KNeoMedia sold further 1,000 licences to NY Public Schools.
- On 15 June 2017, KNeoMedia advised the convertible notes with face value of $700k were converted to fully paid ordinary shares and additional $700k raised from the entitlement shares attached to the convertible notes. In addition, $400k new shares were issued to a number of convertible notes holders at the conversion price and the balance of new shares to the value of $300k will be issued subject to shareholder approval at next AGM.
- On 22 June 2017, KNeoMedia sold further 1,500 licences to NY Public Schools.

Convertible notes

During the year, 25 convertible notes with a total face value of $775,000 were converted (and accrued interest) into fully paid ordinary shares. There are now $175,000 convertible notes remaining as at 30 June 2017. Refer to Note 14.

Significant events after the balance date

Apart from the matters noted below, no matters have arisen in the interval between the end of the financial year and the date of this report in respect of any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

On 25 July 2017, KNeoMedia advised it had to-date acquired total orders for 10,000 licences from New York City Public Schools.

On 2 August 2017, 2 convertible notes with total face value of $50,000 were converted to ordinary shares and attaching options exercised to value of $50,000. This conversion reduced total outstanding convertible note face value to $125,000.

Future developments, prospects and business strategies

Likely developments in the operations of the Group and the expected results of those operations in future financial years have been included in the Chairman's Letter on page 3.

Directors' Meetings

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the financial year were:

Director	Directors' Meetings	
	Number Attended	Number eligible to attend
James Kellett	7	7
Jeffrey Bennett	7	7
Franklin Lieberman	7	7

Given the size of the Company and composition of the Board, the Company does not have separate Audit, Risk, Nomination or Remuneration Committees however these matters are addressed regularly at each Board Meeting.

Shares issued during or since the end of the year as a result of exercise

At 30 June 2017, there were 451,521,629 ordinary shares on issue. During the year, the Company issued in total 176,147,751 ordinary shares, of which 37,142,857 ordinary shares were through share placements and 2,000,000 were issued under the Company's Long Term Incentive Plan. Refer to Note 18.

Options and Performance rights

During the year, 7,142,857 options were issued as free attaching options to the Executive Chairman under the terms of a share placement subscription.

Except the above, no options or rights were granted during the year and no options or rights have been granted since the end of the finance al year. No options were exercised during the financial year. There are currently 78,399,614 options on issue in the Company.

Details of the performance rights granted to key management personnel are included in the Remuneration Report, which forms part of this Directors' Report.

Environmental issues

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory of Australia.

Indemnification and insurance of directors and officers

The Company agreed to indemnify all directors and executive officers for losses which they may become legally obligated to pay on account of any claim first made against them during the policy period for a wrongful act committed before or during the policy.

During the year, the total amount of insurance contract premiums paid was $15,202.

Proceedings on behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or 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.

The Company was not a party to any such proceedings during the year.

Remuneration Report (audited)

The Directors of the Company present the Remuneration Report for Non-Executive Directors, Executive Directors of the Company and other Key Management Personnel of the Group, prepared in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

The Remuneration Report is set out under the following sections:

1. Key Management Personnel (KMP) disclosed in this report
2. Remuneration Governance
3. Directors and Executive remuneration arrangements
4. Details of Key Management Personnel remuneration
5. Additional disclosures relating to options and shares

1. Key Management Personnel (KMP) disclosed in this report

Key management personnel are those persons having authority and responsibility for planning, directing and controlling activities of the Group, including any Director of the Company.

Key Management Personnel during the financial year are as follows:

(i) Non-executive Directors (NEDs)

Jeffrey Bennett	Director (Non-Executive)
(ii) Executive Directors	
James Kellett	Executive Chairman & Chief Executive Officer (CEO)
Franklin B. Lieberman	Executive Director

2. Remuneration Governance

Remuneration Policy

The remuneration policy of the Group has been designed to align Director and executive obligations with shareholder and business objectives by providing a fixed remuneration and options. The Board considers the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and Directors to run and manage the Group.

The Board's policy for determining the nature and amount of remuneration for Board members and other KMP of the economic entity is as follows:

The remuneration structure for KMP is based on a number of factors including length of service, particular experience of the individual concerned, and overall performance of the Group. All executives receive a base salary only. The Board, which performs the function of a remuneration committee, reviews executives' packages annually by reference to the entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries. The Board may exercise its discretion in relation to approving bonuses and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

The Executive Directors and other KMP do not receive any superannuation contribution and any other retirement benefits.

All remuneration paid to Directors and other KMP is valued at the cost to the Group and expensed. Performance rights granted to Directors and KMP are valued using the Black Scholes option pricing model.

The Board's policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting. The maximum aggregate fee cap for fees payable to Non-Executive Directors per annum is $300,000, as approved by shareholders. Fees for Non-Executive Directors are not linked to the performance of the Group. However, to align Directors' interests with shareholder interests, all Directors are encouraged to hold shares in the Company.

Use of remuneration consultants

No remuneration consultants were used during the year.

Voting and comments made at the Company's 2016 Annual General Meeting (AGM)

KNeoMedia shareholders passed a resolution on a unanimous show of hands to adopt the Company's remuneration report for the financial year ended 30 June 2016 at the 2016 AGM. The Company did not receive any specific feedback at the AGM on its remuneration report.

Group Performance, Shareholder Wealth and Directors and other Key Management Personnel Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, Directors and other KMP. One of the main methods to achieve this aim will be the issue of options to executives to encourage the alignment of personal and shareholder interests, which the Board is currently considering. The Group believes this policy will be effective in increasing shareholder wealth in future years**.**

3. Directors and executive remuneration arrangements

Employment Contracts of Directors and Executives

The remuneration structure for KMP is based on a number of factors including length of service, particular experience of the individual concerned, and overall performance of the Company. The contracts for service between the Company and specified Directors and executives are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement, specified Directors and executives are paid employee benefit entitlements accrued to the date of their retirement.

The employment terms and conditions of KMP and Group executives are formalised in contracts of employment.

Termination payments are generally not payable on resignation. In the instance of serious misconduct the Group can terminate employment at any time. Incentive options not exercised within 30 days of the date of termination lapse.

			Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
Group Key Management Personnel	**Position held as at 30 June 2017 and any change during the year**	**Contract details (duration and termination)**	**Non-salary cash-based incentive %**	**Shares / Units %**	**Options / rights %**	**Fixed Salary / Fees %**	**Total %**
James Kellett	Executive Chairman, CEO	Fixed term contract. Termination conditions apply.[(1)]	-	-	-	100	100
Jeffrey Bennett	Non-executive Director	No fixed term. No termination conditions.	-	-	-	100	100
Franklin B. Lieberman	Executive Director	No fixed term. No termination conditions.	-	-	-	100	100

*(1) The term of the Furneaux Management Pty Ltd Services Agreement was extended for rolling six -month periods. Other than expiry of the term, the Services Agreement may be terminated under usual commercial terms including breach of contract, insolvency, misconduct, criminal offence and incapacity***.**

4. Details of Key Management Personnel Remuneration

Details of the nature and amount of each major element of the remuneration of each Director and other Key Management Personnel of the Group are:

		Short-term benefits		Post-employment	Share based payments	Total $
		Salary & fees $	Cash bonus $	Super-annuation $	Performance rights(2) $	
Executive Director						
James Kellett -CEO	2017	168,000	-	-	-	168,000
	2016	168,000	-	-	1,877	169,877
Franklin B. Lieberman	2017	130,884	-	-	-	130,884
	2016	131,824	-	-	939	132,763
Non-executive Director						
Jeffrey Bennett	2017	42,000	-	-	-	42,000
	2016	42,000	-	-	939	42,939
Andrew Plympton *(1)*	2017	-	-	-	-	-
	2016	15,000	-	-	-	15,000
Total KMP	**2017**	**340,884**	**-**	**-**	**-**	**340,884**
Total KMP	**2016**	**356,824**	**-**	**-**	**3,755**	**360,579**

(1) Ceased role 21 October 2015.
(2)The performance rights, on which the non-cash benefit is determined, have not vested and will not vest until the achievement of certain non-market conditions as disclosed in Note 18. No shares or cash benefit will be received until the achievement of these conditions. The directors re-assessed the probability of reaching the performance conditions as being 0% and no performance rights expense was recognised this year.

5. Additional disclosures relating to options and shares

a. Performance rights holdings of key management personnel

The performance rights granted to key management personnel are under the Company's Long-Term Incentive Plan (**LTIP**) to the existing three directors. The performance rights will vest subject to a number of vesting conditions (revenue targets and continued directorship).

The table below discloses the number of performance rights granted to Directors as LTIP remuneration. The performance rights do not carry any voting or dividend rights and can be exercised once the vesting conditions have been met until their expiry date.

The rights to Directors below are conditional upon continuation as a director until the revenue hurdle of A$5mil gross revenue is achieved during any given 12 consecutive months. The performance rights will lapse if the performance hurdles are not achieved by 31 December 2019.

There were no rights issued to other KMP in the Company.

As at the reporting date, the Company did not recognise any performance rights expense to the statement of profit or loss and other comprehensive income in the view that the probability of achieving the performance conditions of the performance rights for exercise are uncertain.

a. Performance rights holdings of key management personnel (continued)

The fair value of the performance rights granted to Directors at the grant date was $0.0096 based on a Black Scholes option pricing model.

	Grant date	No. granted ('000)	Fair value at grant date ($)	Exercise price ($)	Expiry date	Number lapsed	Balance at 30/6/2017 ('000)	Vested ('000)	Unvested ('000)
Executive Director									
James Kellett	15/4/16	5,256	0.0096	-	31/12/19	-	5,256	-	5,256
Franklin B. Lieberman	15/4/16	2,628	0.0096	-	31/12/19	-	2,628	-	2,628
Non-executive Directors									
Jeffrey Bennett	15/4/16	2,628	0.0096	-	31/12/19	-	2,628	-	2,628

b. Unlisted option holdings of key management personnel

During the year, 7,142,857 options were issued as free attaching options to the Executive Chairman under the terms of a share placement subscription.

c. Listed option holdings of key management personnel

No listed options were held by Directors and KMP during the year and at the end of the year.

d. Shareholdings of key management personnel

	Balance at 1 July 2016 No.	Granted as remuneration No.	On exercise of options No.	Net change other No.	Balance at 30 June 2017 No.
Executive Director					
James Kellett	3,380,000	-	-	14,285,714[(1)]	17,665,714
Franklin B. Lieberman	166,666	-	-	-	166,666
Non-executive Directors					
Jeffrey Bennett	3,191,066	-	-	3,192,548[(2)]	6,383,614
Total	**6,737,732**	**-**	**-**	**17,478,262**	**24,215,994**

(1) Subscription by Furneaux Management in a share placement.

(2) Conversion of director fee to shares.

e. Loans to Key Management Personnel and their related parties

There were no loans made to KMP and their related parties during the financial year and none are outstanding as at the date of this report.

f. Other transactions and balances with key management personnel and their related parties

Loans with key management personnel – related entities

There were no loans with KMP or their related entities during the financial year and none are outstanding as at the date of this report.

Payables to key management personnel - related entities

	2017	2016
	$	$
Related party payables		
Fees payable to key management personnel	**269,177**	89,773
Total related party payables	**269,177**	89,773

g. Other transactions with Key Management Personnel-related entities

During the financial year ended 30 June 2017, there were no other transactions with KMP or their related entities (2016: $200,000 loan from a Director).

End of Audited Remuneration Report

Non-audit services

The auditor, Grant Thornton, did not provide any non-audit services to the Group during the financial year ended 30 June 2017.

Auditor's Independence Declaration

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 for the year ended 30 June 2017 has been received and can be found on page 13, which forms part of this report.

Signed in accordance with a resolution of the Directors

James Kellett,
Executive Chairman

29 September 2017

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Auditor's Independence Declaration
To the Directors of KNeoMedia Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of KNeoMedia Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

C F Farley
Partner – Audit & Assurance

Sydney, 29 September 2017

Corporate Governance Statement

The Company's Directors and management are committed to conducting the business of KNeoMedia Limited and its controlled entities (the **Group**) in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Third Edition) (**Recommendations**) to the extent appropriate to the size and nature of the Group's operations.

The Company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations (**Corporate Governance Statement**).

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement will be available for review on KNeoMedia's website (www.KNeoMedia.com) (the **Website**), and will be lodged together with an Appendix 4G with ASX at the same time that this Annual Report is lodged with ASX.

The Appendix 4G will identify each Recommendation that needs to be reported against by KNeoMedia, and will provide shareholders with information as to where relevant governance disclosures can be found.

The Company's corporate governance policies and charters and policies are all available on the Website.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Note	**2017 $**	2016 $
Revenue			
Sales revenue	2	**133,760**	64,891
Other income	2	**325,397**	486,478
		459,157	551,369
Employee benefits expenses		**(341,656)**	(271,033)
Corporate expenses		**(354,353)**	(370,472)
Depreciation and amortisation expenses	10,11	**(210,968)**	(55,427)
Other expenses	3	**(816,923)**	(1,285,729)
Finance costs		**(111,827)**	(124,698)
Performance rights benefit/(expense)		**3,755**	(3,755)
Gain/(Loss) on movement in fair value of embedded derivatives option		**86,904**	(6,232)
Loss before income tax		**(1,285,911)**	(1,565,977)
Income tax expense	4	**-**	-
Loss for the year attributable to members		**(1,285,911)**	(1,565,977)
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations (net of tax)		**(10,875)**	(54,250)
Total comprehensive loss for the year		**(1,296,786)**	(1,620,227)
Loss attributable to:			
Members of the parent entity		**(1,143,038)**	(1,375,105)
Non-controlling interests		**(142,873)**	(190,872)
		(1,285,911)	(1,565,977)
Total comprehensive loss attributable to:			
Members of the parent entity		**(1,151,738)**	(1,424,016)
Non-controlling interests		**(145,048)**	(196,211)
		(1,296,786)	(1,620,227)
Loss per share (cents per share)			
Basic and diluted loss per share	6	**0.33**	0.68

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	2017 $	2016 $
Current Assets			
Cash and cash equivalents	7	**403,242**	100,362
Trade and other receivables	8	**325,643**	80,049
Other assets	9	**14,698**	65,644
Total Current Assets		**743,583**	246,055
Non-current Assets			
Property, plant and equipment	10	**5,045**	5,123
Intangible assets	11	**215,241**	234,721
Total Non-current Assets		**220,286**	239,844
Total Assets		**963,869**	485,899
Current Liabilities			
Trade and other payables	12	**609,027**	591,730
Deferred revenue	13	**255,356**	-
Other financial liabilities	14	**220,949**	1,385,967
Total Current Liabilities		**1,085,332**	1,977,697
Total Liabilities		**1,085,332**	1,977,697
Net Liabilities		**(121,463)**	(1,491,798)
Equity			
Issued capital	15	**73,840,956**	71,167,945
Reserves	16	**(184,762)**	(168,038)
Accumulated losses		**(72,489,297)**	(71,348,393)
Parent Entity Interest		**1,166,897**	(348,486)
Non-controlling interest		**(1,288,360)**	(1,143,312)
Total Equity		**(121,463)**	(1,491,798)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Issued Capital	Accumulated losses	Foreign Currency Translation Reserve	Options Reserves	Convertible Note Equity Reserves	Non-Controlling Interest	Total
	$	$	$	$	$	$	$
Balance at 1 July 2016	**71,167,945**	**(71,348,393)**	**(176,362)**	**4,055**	**4,269**	**(1,143,312)**	**(1,491,798)**
Net loss for the year	-	(1,143,038)	-	-	-	(142,873)	(1,285,911)
Other comprehensive loss	-	-	(8,700)	-	-	(2,175)	(10,875)
Total comprehensive loss	**-**	**(1,143,038)**	**(8,700)**	**-**	**-**	**(145,048)**	**(1,296,786)**
Shares issued	520,000	-	-	-	-	-	520,000
Conversion of loans to shares	200,000	-	-	-	-	-	200,000
Conversion of convertible notes to shares	1,110,181	-	-	-	(2,135)	-	1,108,046
Conversion of director fees to shares	57,800	-	-	-	-	-	57,800
Share issued under Company's LTIP	34,000	-	-	-	-	-	34,000
Transaction costs on shares issued	(23,970)	-	-	-	-	-	(23,970)
Performance rights expense	-	-	-	(3,755)	-	-	(3,755)
Exercise of share options	775,000	-	-	-	-	-	775,000
Transfer to accumulated losses	-	2,134	-	-	(2,134)	-	-
Balance at 30 June 2017	**73,840,956**	**(72,489,297)**	**(185,062)**	**300**	**-**	**(1,288,360)**	**(121,463)**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Issued Capital	Accumulated losses	Foreign Currency Translation Reserve	Options Reserves	Convertible Note Equity Reserves	Non-Controlling Interest	Total
	$	$	$	$	$	$	$
Balance at 1 July 2015	**69,790,759**	**(70,024,330)**	**(127,451)**	**-**	**70,880**	**(938,735)**	**(1,228,877)**
Net loss for the year	-	(1,375,105)	-	-	-	(190,872)	(1,565,977)
Other comprehensive loss	-	-	(48,911)	-	-	(5,339)	(54,250)
Total comprehensive loss	**-**	**(1,375,105)**	**(48,911)**	**-**	**-**	**(196,211)**	**(1,620,227)**
Shares issued	1,362,204	-	-	-	-	-	1,362,204
Conversion of directors fees to shares	50,000	-	-	-	-	-	50,000
Shares issued in lieu of fees for services rendered	70,000	-	-	-	-	-	70,000
Transaction costs on shares issued	(105,018)	-	-	-	-	-	(105,018)
Performance rights expense	-	-	-	3,755	-	-	3,755
Cash consideration for options	-	-	-	300	-	-	300
Equity component of convertible notes	-	-	-	-	(23,935)	-	(23,935)
Transfer to accumulated losses	-	51,042	-	-	(42,676)	(8,366)	-
Balance at 30 June 2016	**71,167,945**	**(71,348,393)**	**(176,362)**	**4,055**	**4,269**	**(1,143,312)**	**(1,491,798)**

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Note	**2017** **$**	2016 $
Cash flows from operating activities			
Receipts from customers		**143,522**	64,891
Net grants from research and development		**292,572**	424,853
Payments to suppliers and employees		**(1,061,082)**	(1,830,314)
Net cash used in operating activities	17	**(624,988)**	(1,340,570)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(5,777)**	(8,741)
Purchase of intangible assets		**(193,033)**	(274,718)
Net cash used in investing activities		**(198,810)**	(283,459)
Cash flows from financing activities			
Proceeds from issue of shares		**520,000**	1,362,205
Payment for share issue costs		**(83,270)**	(105,018)
Proceeds from exercise of options		**775,000**	-
Repayments of convertible notes		**-**	(550,000)
Proceeds from borrowings		**-**	200,000
Cash consideration for options		**-**	300
Interest received		**317**	2,908
Interest paid		**(81,894)**	(104,201)
Net cash provided by financing activities		**1,130,153**	806,194
Net increase/(decrease) in cash and cash equivalents		**306,355**	(817,835)
Cash and cash equivalents at the beginning of the financial year		**100,362**	979,179
Effects of exchange rate changes on cash and cash equivalents		**(3,475)**	(60,982)
Cash and cash equivalents at the end of the financial year	7	**403,242**	100,362

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

This consolidated financial report and notes of KNeoMedia Limited (the **Company**) and controlled entities (the **Group**) for the year ended 30 June 2017 was authorised for issue in accordance with the resolution of the Directors on 29 September 2017.

KNeoMedia Limited is a public listed company limited by shares and is listed in Australia on the ASX. It is incorporated and domiciled in Australia.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated general purpose financial report of the Group has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. For the purposes of preparing the financial report, KNeoMedia Limited is a for profit entity.

This financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report has been prepared in accordance with the historical cost convention and, except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. The financial report is presented in Australia dollars.

a. Going Concern Basis of Accounting

Notwithstanding the loss for the year of $1,285,911 (2016: $1,565,977), net liabilities of $121,463 (2016: $1,491,798) and net cash outflows used in operations of $624,988 (2016: $1,340,570), the financial report has been prepared on a going concern basis. The Directors consider that this is appropriate given a number of factors, including the increase in revenue and that KNeoMedia continues to take steps to contain its corporate overheads in Australia and its operating costs in New York. The non-executive directors additionally continue not to take any payment on their directors' fees in the interim until such time that KNeoMedia has sufficient funds in excess of its working capital requirements. Additionally substantial product development has been completed and the associated costs are not recurring.

Further, the Board is encouraged by the number of revenue channels that have been established, the increasing sales of KNeoWorld seat licences to the New York City Department of Education, and anticipated annual seat licence sales in other USA Cities and States and elsewhere during the 2018. Finally, the Directors are confident that, in accordance with the Company's previous track record of capital-raising, KNeoMedia will be able to continue to raise funds as and when required, in order to finance the ongoing capital requirements of the Group for the foreseeable future.

On the basis of these factors, although there is material uncertainty, the Group's cash flow forecast fully supports the Directors' view that it is appropriate for the accounts to be prepared on a going concern basis and that the Group will be able to meet its debts as and when they become due and payable for a period of at least 12 months from the date of this report**.**

b. Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2017. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

b. Basis of Consolidation (continued)

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

c. Income Tax

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and / or liabilities comprise those obligations to, or claims from, the Australian Taxation Office ('ATO') and other fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Group's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

Tax Consolidation

KNeoMedia Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

d. Revenue and Other Income

Education revenue from Public Schools in United States

These School sales are largely funded from the New York City Department of Education District 75.

Sales for seat licences sold to public schools in New York City, USA on an annual basis are recognised over the term of the seat licence contract, generally 12 months. While the cash from these sales is available to the company on receipt, under current revenue accounting standards, the licence fees will be recognised on a straight-line basis over the life of the seat licence contract, generally 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

d. Revenue and Other Income(continued)

Channel partners revenue

For customer subscriptions generated through the Group's channel partners Mobile Embrace and revenue represents a fixed proportion of the subscription price, and is recognised when subscribers sign up to the educational game in the Apps Store and pay for the subscription. The revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the subscribers and the revenue can be measured reliably.

Grants for research and development are recognised as other income once the Group is certain of both the amount and recoverability of the amounts.

Interest income and expenses are reported on an accrual basis using the effective interest method.

e. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of an item of the expenses or as part of the cost of acquisition of the asset. Receivables and payables in the statement of the financial position are shows inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

f. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

g. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and at bank, short term deposits with an original maturity of three months or less held at call with financial institutions and bank overdraft. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

h. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Plant and Equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

h. Property, Plant and Equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Furniture and Fixtures	20%
Plant and equipment	20-50%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

i. Intangible Assets

Project development costs

The intangible assets recognised by the Group is product development costs. This accounting policy required the specific judgements and estimates made by the Directors in arriving at the net book value of these assets.

An intangible asset arising from development cost is recognised if, and only if, all of the following are demonstrated:

a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;

b. its intention to complete the intangible asset and use or sell it;

c. its ability to use or sell the intangible asset;

d. how the intangible asset will generate probable future economic benefits;

e. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f. its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

The product development cost capitalised are contracted cost attributable to preparing the products for their intended use.

Subsequent measurement

The product development assets are stated at cost less accumulated amortisation and impairment, and are amortised on a straight-line basis over their useful lives, which is up to a maximum of 2 years. Amortisation shall begin when the asset's future economic benefits are expected to be consumed by the Group, i.e. when revenue is generated in the manner intended by management. The amortisation charge shall be recognised in the statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

j. Leases

Operating leases

Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

k. Financial Instruments

Recognition and Initial Measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and Subsequent Measurement financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall in this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Financial assets at fair value through profit & loss (FVTPL)

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. Assets in this category are measured at fair value with gains or losses recognised in profit or loss.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

k. Financial Instruments (continued)

Derivative financial instruments and hedge accounting

Derivative financial instruments are accounted for at FVTPL except for derivatives designated as hedging instruments in cash flow hedge relationships, which requires a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

At each reporting date, the Group reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such indication exits, the recoverable amount of the asset, being the higher of the asset's fair value less cost to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

l. 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.

m. Foreign Currency Transactions and Balances

Functional and Presentation Currency

The consolidated financial statements are presented in Australian dollars ('AU$'), which is also the functional currency of the Parent Company.

Transaction and Balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the AU$ are translated into AU$ upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into AU$ at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into AU$ at the closing rate. Income and expenses have been translated into AU$ at the average rate over the reporting period. Exchange differences are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

n. Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable. All other short-term employee benefit obligations are presented as payables.

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

o. Share Based Payments

The Group provides benefits to the directors and senior executives in the form of share options/performance rights under the KNeoMedia Long Term Incentive Plan. These are equity settled transactions under Australian Accounting Standards.

The cost of these share options/performance rights with directors and senior executives is measured by reference to the fair value of the equity instruments at the date when the grant is made using an appropriate valuation model. The share-based remuneration is recognised as an expense in profit or loss with a corresponding credit to share option reserve in equity over the period in which the performance and /or service conditions are fulfilled (Refer Note 17). If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of equity instruments expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting are conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

p. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

No liability is recognised if an outflow of economic resources as a result of present obligation is not probable. Such situations are disclosed as contingent liabilities, unless the outflow of resources is remote in which case no liability is recognised.

q. Earnings Per Share

Basic earnings per share is calculated as net profit attributable to members of the parent divided by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated as net profit attributable to members of the parent, divided by the weighted average number of ordinary shares outstanding during the financial year, adjusted for the effects of all dilutive potential ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

r. Segment Reporting

Operating segments are reported in the manner consistent with the internal reporting provided to the chief operating decision makers (CODM). The chief operating decision makers, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

The Educational Games Distribution business is the Group's only business segment. Hence no operating segment disclosure is required.

s. Comparative Figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

t. Significant Management Judgement in Applying Accounting Policies

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in determining the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The Group has $1,954,165 (2016: $1,107,540) of tax losses carried forward. Unused revenue and capital losses will be available in future to offset against income to the extent ownership tests as contained in the ITAA 1997 can be met (Refer Note 4).

Estimation uncertainty

Information about estimates and assumptions that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Intangible assets (Note 11)
- Fair value of financial liabilities (Note 14)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

u. New and revised standards that are effective for these financial statements

The Group has adopted all of the new, revised or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations most relevant to the consolidated entity are set out below.

AASB 15: Revenue from Contracts with Customers

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;

- identify the performance obligations in the contract(s);

- determine the transaction price;

- allocate the transaction price to the performance obligations in the contract(s); and

- recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue. AASB 15 is applicable to annual reporting periods beginning on or after 1 January 2018. Management have yet to undertake a detailed assessment of the impact of AASB 15. However, based on the management's preliminary assessment the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

AASB 9: Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous version of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in Other Comprehensive Income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New impairment requirements will be use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The management have yet to undertake a detailed assessment of the impact of AASB 9. However, based on the management's preliminary assessment the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

u. New and revised standards that are effective for these financial statements (continued)

AASB 16: Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classification of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term, The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal of dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expense under AASB117. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financial activities) and interest (either operating or financing activities) component, For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The management will adopt this standard from 1 July 2019 and the actual impact will depend on the operating lease assets held by the Group as at 1 July 2019 and the transition elections made at that time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2: REVENUE	Note	2017 $	2016 $
Sales Revenue			
- KNeoWorld – Wholesale & other		**48,933**	23,696
- KNeoWorld Education *	**2.1**	**84,827**	41,195
		133,760	64,891
Other income			
- Grants for research and development		**325,080**	483,570
- Interest income		**317**	2,908
		325,397	486,478

NOTE 2.1 KNeoWorld Education Revenue			
- Total sale of seat licences		**340,183**	41,195
- Less: *Deferred Revenue*	**13**	**(255,356)**	-
Revenue recognised during the year		**84,827**	41,195

** Total sales of $340,183 were derived from seat licences sold to schools. In accordance with AASB 118: Revenue, the revenue will be recognised on a straight-line basis over the life of the seat licences. Accordingly, total revenue recognised for this financial year is $84,827, with $255,356 deferred to FY 2018.*

NOTE 3: EXPENSES

Other expenses	2017 $	2016 $
- Consulting fees	**266,238**	606,648
- Marketing costs	**253,664**	310,493
- R & D expense	**-**	10,360
- Occupancy costs	**53,067**	48,665
- Capital raising costs	**106,067**	38,611
- Administration costs	**54,278**	82,001
- Other expenses	**83,609**	188,951
	816,923	1,285,729

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017 $	2016 $
NOTE 4: INCOME TAX EXPENSE		
Current and deferred tax expense for the year ended 30 June 2017 was nil (2016: nil)	**-**	-
A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting loss before income tax	**(1,285,911)**	(1,565,977)
At Australia's income tax rate 30%	**(385,773)**	(469,793)
Temporary differences and tax losses not brought to account as deferred tax assets	**385,773**	469,793
Tax losses utilised	**-**	-
Income tax benefit reported in the statement of comprehensive income	**-**	-
Effective tax rate	**0%**	0%
Income tax losses – tax consolidated group		
Unused tax losses for which no deferred tax assets have been recognised	**1,954,165**	1,107,540

KNeoMedia Limited and its wholly owned and 80% owned Australia resident subsidiaries formed a tax consolidated group in 2002. KNeoMedia Limited is the head entity of the tax consolidated group.

The Group incurred an Australian taxable loss of $1,019,984 (2016: taxable loss of $536,865). The Group did not incur capital losses during the year ended 30 June 2017 (2016: $nil).

At 30 June 2017, the group has revenue losses carried forward of $1,954,165 (2016: $1,107,540).

At 30 June 2017, the group has capital losses carried forward of $19,848 (2016: $19,848).

Unused revenue and capital losses will be available in future to offset against income to the extent ownership tests as contained in the ITAA 1997 can be met.

NOTE 5: AUDITORS' REMUNERATION

	2017 $	2016 $
Amounts received or due and receivable by Grant Thornton for:		
- An audit or review of the financial report of the entity and any other entity in the consolidated entity	**68,000**	63,000
	68,000	63,000

Grant Thornton did not provide any non-audit services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 6: LOSS PER SHARE

Basic loss per share is calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share is calculated by dividing the net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

		2017	2016
		$	$
	Basic and diluted loss to profit or loss	**0.33 cents**	0.68 cents
a.	Reconciliation of earnings to profit or loss		
	Loss for the year	**1,285,911**	1,565,977
	Loss attributable to non-controlling interest	**(142,873)**	(190,872)
	Earnings used to calculate basic and dilutive EPS	**1,143,038**	1,375,105
		No.	No.
b.	Weighted average number of ordinary shares outstanding during the year used in calculating basic and dilutive EPS	**346,191,556**	203,114,780

As the Group has made a loss in the current year, the impact of options is anti-dilutive, and as such has not been included in the calculation of diluted EPS. There are 47,185,328 options and 10,511,180 rights not included in the calculation.

NOTE 7: CASH AND CASH EQUIVALENTS

	2017	2016
	$	$
Cash at bank and in hand	**403,242**	100,362
	403,242	100,362

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 8: TRADE AND OTHER RECEIVABLES

	2017 $	2016 $
CURRENT		
Trade receivables	**288,700**	3,279
Accrued revenue	**8,758**	51,770
Less: Allowance for doubtful debt	**-**	-
Other receivables	**9,500**	10,100
	306,958	65,149
GST recoverable	**18,685**	14,900
	325,643	80,049

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

The carrying amount of the receivable is considered a reasonable approximation of fair value as this financial asset (which is measured at amortised cost) is expected to be paid within six (3) months, such that the time value of money is not significant.

All of the Group's trade and other receivables have been reviewed for indicators of impairment. No trade receivables were found to be impaired and no allowance for credit losses (2016: Nil) has been recorded accordingly within other expenses.

NOTE 9: OTHER ASSETS

	2017 $	2016 $
CURRENT		
Prepayments	**11,186**	52,345
Rental Deposit	**3,512**	13,299
	14,698	65,644

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

	Plant & Equipment	Furniture & Fixtures	Total
	$	$	$
Gross carrying amount			
Balance at 1 July 2015	**49,806**	**27,302**	**77,108**
Additions	8,741	-	8,741
Disposals	(21,608)	-	(21,608)
Exchange differences	7,383	-	7,383
Balance at 30 June 2016	**44,322**	**27,302**	**71,624**
Additions	1,360	4,417	5,777
Exchange differences	(1,030)	(1,270)	(2,300)
Balance at 30 June 2017	**44,652**	**30,449**	**75,101**
Accumulated depreciation			
Balance at 1 July 2015	**45,924**	**26,103**	**72,027**
Depreciation expense	7,444	5,520	12,964
Disposals	(20,022)	-	(20,022)
Exchange differences	5,968	(4,436)	1,532
Balance at 30 June 2016	**39,314**	**27,187**	**66,501**
Depreciation expense	4,906	775	5,681
Exchange differences	(929)	(1,197)	(2,126)
Balance at 30 June 2017	**43,291**	**26,765**	**70,056**
Net book value at 30 June 2016	5,008	115	5,123
Net book value at 30 June 2017	**1,361**	**3,684**	**5,045**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017 $	2016 $
NOTE 11: INTANGIBLE ASSETS		
Gross carrying amount		
Balance as at 1 July 2016	**274,718**	-
Additions	**193,033**	274,718
Exchange differences	**(12,426)**	-
Balance at 30 June 2017	**455,325**	274,718
Accumulated amortisation and impairment		
Balance as at 1 July 2016	**39,997**	-
Amortisation expense	**205,288**	40,877
Exchange differences	**(5,201)**	(880)
Balance at 30 June 2017	**240,084**	39,997
Net book value at 30 June 2017	**215,241**	234,721

The intangible assets recognised by the Group is product development costs. This accounting policy required (refer Note 1(i)) the specific judgements and estimates made by the Directors in arriving at the net book value of these assets.

The product development costs capitalised are contracted costs attributable to preparing the products for their intended use. The product development assets are stated at cost less accumulated amortisation and impairment, and are amortised on a straight-line basis over their useful lives of 2 years. The Group commenced the amortisation of intangible assets when the Group started to generate income in March 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	Note	**2017 $**	2016 $
NOTE 12: TRADE AND OTHER PAYABLES			
CURRENT (unsecured)			
Trade payables		**288,850**	238,624
Other creditors and accruals		**51,000**	63,333
Related parties		**269,177**	289,773
		609,027	591,730

	Note	**2017 $**	2016 $
NOTE 13: DEFERRED REVENUE			
CURRENT			
At 1 July 2016		**-**	**-**
Deferred during the year	2	**255,356**	-
Released to the statement of profit or loss		**-**	-
At 30 June 2017		**255,356**	-

The deferred revenue refers to the accrual and release of the seat licence revenue that is recognised on a straight-line basis over the life of the seat licence contracts, generally 12 months. This is the first year the Company is recognising the seat licence revenue over the term of these licence contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 14: OTHER FINANCIAL LIABILITIES (CURRENT)

	2017 $	2016 $
Financial liabilities measure at amortised cost:		
- Convertible notes – loan component	**7,161**	782,927
Financial liabilities designated at FVTPL:		
- Embedded derivatives	**213,788**	603,040
	220,949	1,385,967
Movement of the financial liabilities		
Opening balance: Convertible notes – loan component	**782,927**	1,505,417
Repayment during the year	**-**	(550,000)
Increase in unpaid interest	**29,933**	74,115
Imputed interest charge	**(102,825)**	(246,605)
Conversion to shares	**(702,874)**	-
Closing balance: Convertible notes – loan component	**7,161**	782,927
Opening balance: Embedded derivatives	**603,040**	379,885
Loss on movement in fair value	**(389,252)**	223,155
Closing balance: Embedded derivatives	**213,788**	603,040

During the year, 25 convertible notes with a total face value of $775,000 were converted (and accrued interest) into fully paid ordinary shares. There were $175,000 convertible notes outstanding as at 30 June 2017.
They comprise 1 convertible note with a face value of $25,000 to mature on 28 February 2018, 4 convertible notes with a face value of $25,000 each (total face value of $100,000) to mature on 30 April 2018 and 1 convertible note with a face value of $50,000 to mature on 31 October 2017.
The key terms of these convertible notes are as follows:-

- 10% per annum on the face value of the note if such interest in paid in cash; alternatively, at the note holder's election, the note will bear interest at 15% per annum on the face value of the note if interest is capitalised and paid out in shares. Interest will accrue and will be payable (whether in cash or shares) in arrears upon conversion or redemption;
- Conversion price is 80% of 10 day average VWAP preceding the conversion date, with a maximum conversion price of 2 cents ($0.02) per share;
- Each ordinary share entitlement under the convertible notes issue has one free attaching unlisted option to acquire an ordinary share in the Company exercisable at the conversion price or expiring on the earlier of maturity date or at the conversion date. The granting of the options is subject to the Company having the required availability under ASX Listing Rule 7.1. The Company undertakes to hold a General Meeting at the earliest opportunity if necessary to enable the issue of the options.

In compliance with the financial reporting obligations, the Directors of the Company appointed an external valuation expert to perform a fair value valuation of the convertible notes and the related embedded derivatives as at 30 June 2017. The fair value valuation has involved estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, the best estimate is used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	$	**$**
NOTE 15: ISSUED CAPITAL		
451,521,629 (2016: 275,373,878) fully paid ordinary shares	**73,540,956**	71,167,945
Unissued capital	**300,000**	-
	73,840,956	71,167,945

	$	**No.**	$	No.
a. Ordinary Shares				
At the beginning of reporting period	**71,167,945**	**275,373,878**	69,790,759	171,851,370
Shares issued during the year				
— Conversion of directors fee payable to share	**57,800**	**3,192,548**	50,000	2,222,222
— Conversion of borrowing to share	**200,000**	**14,285,714**	-	-
— Capital raising fee in lieu	**-**	**-**	70,000	4,000,000
— Shares issued (capital raising)	**520,000**	**37,142,857**	1,362,204	97,300,286
— Shares issued for the Company's LTIP	**34,000**	**2,000,000**	-	-
— Conversion of convertible notes	**1,110,181**	**82,047,404**	-	-
— Exercise of options	**475,000**	**37,479,228**	-	-
— Transaction costs on shares issued	**(23,970)**		(105,018)	
At reporting date	**73,540,956**	**451,521,629**	71,167,945	275,373,878

The share capital of KNeoMedia Limited consists only of fully paid ordinary shares. The shares do not have a par value. At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

b. Unissued Capital

The unissued capital consists of the exercise of option entitlements by the note holder in which the issue of shares is subject to the shareholders' approval at the next earliest general meeting.

c. Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

The Group has $220,949 of borrowings as at 30 June 2017 (2016: $1,385,967).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 16: RESERVES

	2017	2016
	$	$
Performance rights granted reserves		
Balance at beginning of financial year	**4,055**	-
Movement for the year	**(3,755)**	4,055
Balance at end of financial year	**300**	4,055
Convertible note equity reserves		
Balance at beginning of financial year	**4,269**	70,880
Movement for the year	**(2,135)**	(23,935)
Transfer to retained earnings	**(2,134)**	(42,676)
Balance at end of financial year	**-**	4,269
Foreign currency translation reserves		
Balance at beginning of financial year	**(176,362)**	(127,451)
Movement for the year	**(8,700)**	(48,911)
Balance at end of financial year	**(185,062)**	(176,362)

Performance Rights or Options Granted Reserves

This reserve is used to record the value of share based payments arising on the grant of performance rights and share options to employees, including key management personnel, as part of their remuneration under the employee share option plan, refer Note 18.

At year end, the Company did not recognise any performance rights expense to the statement of profit or loss and other comprehensive income in the view that the probability of achieving the performance conditions of the performance rights for exercise are uncertain. The movement for the year was the write back of the expense recognised in 2016.

Convertible Note Equity Reserves

The convertible note reserves cover the equity component of the issued convertible notes. The liability component is reflected in financial liabilities.

During the year, a host value of $50,000 fixed convertible notes was extended and the terms and conditions have changed to embedded derivative convertible notes. With the change of terms and conditions, the convertible notes reserve of $2,134, in relation to those fixed convertible notes were no longer required as the convertible notes that gave rise to the equity reserves no longer existed and were not converted into equity shares. Hence, $2,134 of the convertible note reserves were transferred to retained earnings. In addition, $2,135 of the convertible note reserves were expensed to the consolidated statement of profit or loss due to the redemption of the fixed convertible notes.

Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange difference arising on translation of the foreign controlled subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 17: CASH FLOW INFORMATION

	2017 $	2016 $
Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax	**(1,285,911)**	(1,565,977)
Non-cash flows in profit		
Depreciation & amortisation	**210,969**	55,427
Performance rights expense	**(3,755)**	3,755
Share-based payment	**34,000**	-
Share capital raising cost	**-**	19,445
Changes in FV of embedded derivatives	**(86,904)**	6,232
Finance cost	**103,187**	117,603
Changes in assets and liabilities		
Increase in trade and term receivables	**(245,594)**	(48,635)
Decrease in other assets	**50,945**	23,261
Increase in trade payables and accruals	**598,075**	48,319
Net cash flow outflow from operations	**(624,988)**	(1,340,570)

NOTE 18: SHARE-BASED PAYMENTS

Unlisted share options/performance rights – long term incentive plan (LTIP)

There were also 2,000,000 shares issued under the Company's Long-Term Incentive Plan (LTIP).

At year end, the Company also has 10,511,180 performance rights on issue to the existing three Directors under the LTIP. The performance rights are subject to a number of vesting conditions (revenue targets and continued directorship) been met.

The fair value of the performance rights granted were determined using the Black Scholes option pricing model. The fair value of the performance rights are subject to the achievement of revenue hurdle of $5mil gross revenue during any given 12 consecutive months and conditional upon continuation as a Director of the Company. The fair value is allocated to each reporting period evenly from date of grant to the vesting period. The rights will lapse if the vesting conditions are not achieved by 31 December 2019 (expiry date).

As at 30 June 2017, the Company did not recognise any performance rights expense to the statement of profit or loss and other comprehensive income in the view that the probability of achieving the performance conditions of the performance rights for exercise are uncertain.

The table below shows a summary of key assumptions used in the valuation of the performance rights granted:

Grant date	15-4-2016
Number of options granted	10,511,180
Share price at grant date	$0.014
Fair value at grant date	$0.0096
Exercise price	$Nil
Expected volatility	80%
Risk free interest	1.75%
Expiry date	31-12-2019
Estimated vesting probability	0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with the accounting standards.

	2017	2016
	$	$
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current Assets	**433,506**	159,018
Non-current Assets	**2,208**	3,808
TOTAL ASSETS	**435,714**	162,826
LIABILITIES		
Current Liabilities	**(732,817)**	(1,884,965)
TOTAL LIABILITIES	**(732,817)**	(1,884,965)
EQUITY		
Issued Capital	**73,840,957**	71,167,946
Reserves	**300**	8,323
Retained Earnings	**(74,138,360)**	(72,898,408)
TOTAL EQUITY	**(297,103)**	(1,722,139)
STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME		
Total loss	**(1,239,952)**	(1,835,339)
Total comprehensive income	**(1,239,952)**	(1,835,339)

Guarantees

KNeoMedia Limited has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

Contingent Assets and Liabilities

KNeoMedia Limited had no contingent assets and liabilities as at 30 June 2017.

Contractual Commitments

At 30 June 2017 KNeoMedia Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 20: CONTROLLED ENTITIES

Subsidiaries

The consolidated financial statements include the financial statements of KNeoMedia Limited and the subsidiaries listed in the following tables:-

	Country of Incorporation	Percentage Owned	
		2017	2016
Virtual Communications International Pty Ltd	Australia	**100**	100
KNeoWorld Pty Ltd *(1)*	Australia	**80**	80
KNeoWorld Inc.*(2)*	United States	**80**	80

(1). KNeoWorld Pty Ltd was registered in June 2013 to take over the 100% ownership of KNeoWorld Inc, a US company based in New York and incorporated in Delaware. KNeoWorld Pty Ltd is 80% owned by KNeoMedia and 20% owned by unlisted Singapore based company Hotshot Media Limited.

(2). Knowledge Nation Inc changed its name on 29 August 2013 to KNeoWorld Inc. This company was incorporated since 15 March 2011.

Subsidiary with material non-controlling interests

The Group includes one subsidiary, KNeoWorld Pty Ltd and its subsidiary KNeoWorld Inc, with material Non-Controlling Interests ('NCI'):

Name	Proportion of Ownership Interests & Voting Rights Held by the NCI		Loss Allocated to NCI		Accumulated NCI	
	30-Jun-17	30-Jun-16	**30-Jun-17**	30-Jun-16	**30-Jun-17**	30-Jun-16
KNeoWorld Inc	**20%**	20%	**145,048**	196,211	**1,288,360**	1,143,312

No dividends were paid to the NCI during the years 2017 and 2016.

Summarised financial information for KNeoWorld Pty Ltd, before intragroup eliminations, is set out below:

	2017	2016
	$	$
Current assets	310,077	87,038
Non-current assets	219,037	236,835
Total assets	**529,114**	323,873
Current liabilities	(352,515)	(92,733)
Non-current liabilities	(6,618,402)	(5,947,701)
Total liabilities	**(6,970,917)**	(6,040,434)
Equity attributable to owners of the Parent	**5,153,443**	4,573,249
Non-controlling interests	**1,288,360**	1,143,312

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 20: CONTROLLED ENTITIES (CONTINUED)

Subsidiary with material non-controlling interests (continued)

	2017 **$**	2016 $
Revenue	-	**-**
Loss for the year attributable to owners of the Parent	(571,495)	(763,489)
Loss for the year attributable to NCI	(142,873)	(190,872)
Loss for the year	**(714,368)**	(954,361)
Other Comprehensive Income for the year (All attributable to owners of the Parent)	-	-
Total comprehensive loss for the year attributable to owners of the Parent	-	-
Total comprehensive loss for the year attributable to NCI	-	-
Total comprehensive loss for the year	**(714,368)**	(954,361)

NOTE 21: CAPITAL AND LEASING COMMITMENTS

Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable –minimum lease payments		
Not later than 12 months	**17,562**	29,023
	17,562	29,023

The KNeoWorld Inc office lease is a 1-year lease (month to month) from 1/12/2016 at a monthly rent of $3,512 equates to US$2,700 and a service retainer of $3,512 equates to US$2,700 converted at year end rate 1.3009.

NOTE 22: CONTINGENT ASSETS AND LIABILITIES

The Group had no contingent assets and liabilities as at 30 June 2017 (2016: nil).

NOTE 23: RELATED PARTY TRANSACTIONS

a. Transactions with Controlled Entities

Amounts receivable between the parent entity and these entities is set out below:

Loans to		
KNeoWorld Pty Ltd	**6,401,910**	5,731,368
Virtual Communications International Pty Ltd	**298,937**	298,688

b. Transactions with Key Management Personnel (KMP)

Amounts payables to KMP is set out below:

Payables		
Furneaux Management Pty Ltd	**111,783**	211,297
Furneaux Project Marketing	**38,500**	5,500
FBL Holdings Ltd	**72,694**	15,176
Hixon Pty Ltd	**46,200**	57,800
	269,177	289,773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 24: FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and financial liabilities.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies Note 1 (k) to these financial statements, are as below. The carrying amount of the following financial assets and liabilities is considered a reasonable approximation of fair value.

	Note	2017 $	2016 $
Financial Assets			
Cash and cash equivalents	7	**403,242**	100,362
Trade and other receivables	8	**325,643**	80,049
Other assets	9	**14,698**	65,644
		743,583	246,055
Financial Liabilities			
Trade and other payables	12	**609,027**	591,730
Financial liabilities	14	**220,949**	1,385,967
		829,976	1,977,697

The Group is exposed to various risks in relation to financial instruments.

The Group's overall financial risk management plan seeks to minimise potential adverse effects to due to the unpredictability of financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

The main risks the Group is exposed to through its financial instruments are liquidity risk and credit risk and market risk – foreign currency risk.

The risk management policies of KNeoMedia Limited seek to mitigate the above risks and reduce volatility on the financial performance of the Group. Financial risk management is carries out centrally by the Finance Department of KNeoMedia Limited.

a. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

Financial Liability and Financial Asset Maturity Analysis

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

	1-3 months		**3-6 months**		**>9 months**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$	**$**	$
Financial liabilities due for payment								
Trade and other payables	**293,048**	397,719	**130,134**	34,275	**185,845**	159,739	**609,027**	591,730
Financial liabilities	**7,161**	104,684	**51,216**	1,280,283	**162,572**	-	**220,949**	1,385,967
Total expected outflows	**300,209**	502,400	**181,350**	1,314,558	**348,417**	159,739	**829,976**	1,977,697
Financial assets — cash flows realisable								
Cash and cash equivalents	**403,242**	100,362	**-**	-	**-**	-	**403,242**	100,362
Trade and other receivables	**325,643**	70,049	**-**	-	**-**	10,000	**325,643**	80,049
Other assets	**10,610**	10,464	**216**	10,464	**3,872**	44,716	**14,698**	65,644
Total anticipated inflows	**739,495**	180,875	**216**	10,464	**3,872**	54,716	**743,583**	246,055
Net (outflow)/inflow on financial instruments	**439,286**	(321,525)	**(181,134)**	(1,304,094)	**(344,545)**	(105,023)	**(86,393)**	(1,731,642)

b. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counter parties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counter parties), ensuring to the extent possible, that customers and counter parties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment.

Credit Risk Exposures

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

Collateral held by the Group securing receivables are detailed in Note 8: Trade and Other Receivables.

The Group has no significant concentration of credit risk with any single counter party or group of counter parties. Details with respect to credit risk of Trade and Other Receivables are provided in Note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Foreign currency risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial assets and financial liabilities which are other than the AUD functional currency of the Group.

With financial assets and financial liabilities being held by overseas operations, fluctuations in the US dollar may impact on the Group's financial results unless those exposures are appropriately hedged. The Group does not have a hedge policy in place.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations. The foreign currency risk in the books of the parent entity is considered immaterial and is therefore not shown.

2017	**Net Financial Assets/(Liabilities) in AUD**	
Consolidated Group	**AUD**	**Total AUD**
Functional currency of entity:		
US dollar	**153,455**	**153,455**
Statement of financial position exposure	**153,455**	**153,455**
2016		
Consolidated Group		
Functional currency of entity:		
US dollar	(24,752)	(24,752)
Statement of financial position exposure	(24,752)	(24,752)

Sensitivity analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and exchange rates. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

These sensitivities assume that the movement in a particular variable is independent of other variables.

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and AUD exchange rate, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities that is not designated in cash flow hedges. The Group's exposure to foreign currency changes for all other currencies is not material.

At balance date, the Group had the following exposure to US$ foreign currency that is not designated in cash flow hedges:

	2017	2016
	$'USD	$'USD
Financial assets		
Trade, other receivables & other assets	**227,308**	40,380
Financial liabilities		
Trade and other payables	**(73,853)**	(65,132)
Net exposure	**(153,455)**	(24,752)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency sensitivity

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance sheet date:

At 30 June 2017, if Australian Dollar had moved, as illustrated in the table below, with all other variables held constant, post tax profit/(loss) and other comprehensive income would have been affected as follows:

	Post Tax Profit/(Loss) Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2017	2016	**2017**	2016
	$	$	**$**	$
Consolidated				
AUD to US Dollar +15% (2016: +15%)	**(26,039)**	4,338	**-**	-
AUD to US Dollar -15% (2016: -15%)	**35,229**	(5,869)	**-**	-

The exposure to the foreign currency varies during the year depending on the volume of oversea transactions and the analysis above is considered to be representative of the Group's exposure to currency risk at the reporting date.

Interest rate risk

At balance date, the Group had the following financial asset exposed to Australian variable interest rate risk. The Group has no floating interest rate exposure on financial liabilities as the Group has no floating rate debt.

	2017	2016
	$	$
Financial assets		
Cash and cash equivalents	**403,242**	100,362
Net exposure	**403,242**	100,362

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date:

At 30 June 2017, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit/(loss) and other comprehensive income would have been affected as follows:

	Post Tax Profit/(Loss) Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2017	2016	**2017**	2016
	$	$	**$**	$
Consolidated				
+1% (100 basis points)	**4,032**	1,003	**-**	-
-0.5% (50 basis points)	**(2,016)**	(501)	**-**	-

The movements in post-tax profit/(loss) and other comprehensive income are due to higher cash balances on hand as at 30 June 2017. The sensitivity is higher in 2017 than in 2016 because the cash balance in 2017 is higher.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 25: SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Apart from the matters noted below, no matters have arisen in the interval between the end of the financial year and the date of this report in respect of any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

On 25 July 2017, KNeoMedia advised it had to-date acquired total orders for 10,000 licences from New York City Public Schools.

On 2 August 2017, 2 convertible notes with total face value of $50,000 were converted to ordinary shares and attaching options exercised to value of $50,000. This conversion reduced total outstanding convertible note face value to $125,000.

NOTE 26: COMPANY DETAILS

The registered office and principal place of business of the company is:

Level 1, 61 Spring Street

Melbourne VIC 3000

Australia

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The consolidated financial statements and notes, as set out on pages 15 to 48 are in accordance with the Corporations Act 2001 and:

   a) give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the Group; and

   b) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

   c) in the director's opinion, further to the matters included in Note 1(a), there are reasonable grounds to believe that KNeoMedia Limited will be able to pay its debts as and when they become due and payable; and

2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer (or equivalent) for the financial year ended 30 June 2017; and

3. The consolidated financial statements comply with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the Board of Directors.

James Kellett,
Executive Chairman

29 September 2017

Level 17, 383 Kent Street
Sydney NSW 2000

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Independent Auditor's Report
To the Members of KNeoMedia Limited

Report on the audit of the financial report

Qualified Opinion

We have audited the financial report of KNeoMedia Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 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 year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial report of KNeoMedia Limited is in accordance with the *Corporations Act 2001*, including:

a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Qualified Opinion

The Group has Revenue of $84,827, Deferred Revenue of $255,356 and Trade Receivables of $284,897 as at 30 June 2017 relating to KNeoWorld Education, representing invoices raised in respect of licences sold to a number of New York schools. As a result of school holidays in New York, and in the absence of any signed licence agreements or other documentation in relation to these licences, we were unable to obtain sufficient appropriate audit evidence about the occurrence of revenue or recoverability of trade receivables. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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 Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Group incurred a net loss of $1,285,911 and net cash used in operating activities of $624,988 during the year ended 30 June 2017, and as of that date, the Group had net liabilities of $121,463. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Basis for Qualified Opinion section and the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Convertible notes **(Note 14)**	

The Group had convertible notes with a face value of $175,000 outstanding as at 30 June 2017.
 	
AASB 132 *Financial Instruments: Presentation* requires consideration of the characteristics of financial instruments to assess whether they should be treated as debt, an embedded derivative or equity. This classification impacts the initial accounting entries and any potential subsequent accounting entries that may be required depending on the classification of the instrument.
 	
Management engaged an external expert to value the convertible notes.
 	
This area is a key audit matter due to the inherent complexity in the accounting for the convertible notes and embedded derivatives.
	Our procedures included, amongst others:
	
	• Making enquiries of management to obtain and document an understanding of management's processes and controls related to the assessment of compound financial instruments;
	• Reading executed agreements for terms and conditions to ensure the accounting treatment reflects the substance of the agreement;
	• Obtaining the fair value calculations prepared by management's external expert on behalf of the Company and assessing the appropriateness of the methodologies and assumptions applied in determining the fair values;
	• Evaluating the competence, capability and objectivity of management's external expert, and performing a detailed review of their report to understand the scope of their engagement and any limitations in the report;
	• Reading the convertible note agreements to understand if it is a compound financial instrument due to containing elements which are representative of both equity and liability;
	• Testing the calculations prepared by management's external expert to assess:
	  • Compliance with AASB 132;
	  • The assumptions used in determining the debt component and the equity component of the compound financial instrument; and
	  • The mathematical accuracy of the calculations; and
	• Assessing the adequacy of the Group's disclosures within the financial statements.

Information Other than the Financial Report and Auditor's Report Thereon

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

Our opinion on the financial report does not cover the other information and 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 Group's ability 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 have 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 the financial report 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 auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 12 of the directors' report for the year ended 30 June 2017.

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

Responsibilities

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD

Chartered Accountants

C F Farley

Partner - Audit & Assurance

Sydney, 29 September 2017

ADDITIONAL INFORMATION

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 11 September 2017 (**Reporting Date**).

Corporate Governance Statement

The Company's Directors and management are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (Third Edition) (**Recommendations**) to the extent appropriate to the size and nature of the Group's operations.

The Company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations (**Corporate Governance Statement**).

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement will be available for review on KNeoMedia's website, www.kneomedia.com (**Website**), and will be lodged together with an Appendix 4G with ASX at the same time that this Annual Report is lodged with ASX. The Appendix 4G will particularise each Recommendation that needs to be reported against by KNeoMedia and will provide shareholders with information as to where relevant governance disclosures can be found.

The Company's corporate governance policies and charters are all available on KNeoMedia's Website.

Substantial holders

As at the Reporting Date, substantial holders of KNeoMedia shares based on substantial holder notices received by the Company are as follows:

Substantial holders	Number of shares held	% of total issued share capital
Melbourne Capital Limited	44,232,885	9.53
Barrijag Pty Ltd <The Hadley Super Fund A/C>	39,715,431	8.55
Invia Custodian Pty Limited <Andrew William Blackman A/C>	26,077,905	5.62

Distribution of Equity Securities

As at the Reporting Date, the number of holders in each class of equity securities on issue in KNeoMedia is as follows:

Class of Equity Securities	Number of holders
Ordinary Shares	1,346
Options exercisable at $0.025 on or before 3 May 2018	29
Options exercisable at $0.045 on or before 26 June 2018	1
Options exercisable at $0.025 on or before 21 November 2018	6
Convertible Notes	3
Performance Rights	3

Distribution of holders of equity securities

The distribution of holders of equity securities on issue in the Company as at the Reporting Date is as follows:

Distribution of ordinary shareholders

Holdings Ranges	Holders	Total Units	%
1 – 1,000	337	33,091	0.01
1,001 – 5,000	43	120,631	0.03
5,001 – 10,000	59	506,791	0.11
10,001 – 100,000	498	22,134,148	4.77
100,001 and above	409	441,515,588	95.98
Totals	**1,346**	**464,310,249**	**100.00**

Distribution of holders of options exercisable by 3 May 2018 at $0.025 each

Holdings Ranges	Holders	Total Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and above	29	26,014,428	100.00
Totals	**29**	**26,014,428**	**100.00**

Distribution of holders of options exercisable by 26 June 2018 at $0.045 each

Holdings Ranges	Holders	Total Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and above	1	15,185,185	100.00
Totals	**1**	**15,185,185**	**100.00**

Distribution of holders of options exercisable by 21 November 2018 at $0.025 each

Holdings Ranges	Holders	Total Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and above	6	29,489,287	100.00
Totals	**6**	**29,489,287**	**100.00**

Distribution of convertible note holders

Holdings Ranges	Holders	Total Units	%
1 – 1,000	3	5	100.00
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and above	-	-	-
Totals	**3**	**5**	**100.00**

Distribution of performance rights holders

Holdings Ranges	Holders	Total Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and above	3	10,511,180	100.00
Totals	**3**	**10,511,180**	**100.00**

Less than marketable parcels of ordinary shares

The number of holders of less than a marketable parcel of ordinary shares based on the closing market price at the Reporting Date is as follows:

Total Securities	UMP Shares	UMP Holders	% of issued shares held by UMP holders
464,310,249	205,667	388	0.04%

Twenty largest shareholders

The Company only has one class of quoted securities, being ordinary shares. The names of the 20 largest holders of ordinary shares, and the number of ordinary shares and percentage of capital held by each holder is as follows:

Holder Name	Balance as at Reporting Date	% of total shares on issue
MELBOURNE CAPITAL LIMITED	44,232,885	9.53
BARRIJAG PTY LTD <THE HADLEY SUPER FUND A/C>	39,715,431	8.55
INVIA CUSTODIAN PTY LIMITED <ANDREW WILLIAM BLACKMAN A/C>	21,000,000	4.52
FURNEAUX MANAGEMENT PTY LTD/KELLET SUPER PTY LTD <KELLETT SUPERANNUATION F A/C>	17,665,714	3.79
MS LINDA LOUISE HUTCHISON	10,000,000	2.15
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	8,361,566	1.80
SHEAN SFT PTY LTD <SHEAN FAMILY SUPER FUND A/C>	6,606,010	1.42
PARADYCE PTY LTD	6,521,033	1.40
MR BORIS DUKA & MRS ELIZABETH ANN DUKA	6,432,551	1.39
HIXON PTY LTD	6,250,281	1.35
ARMCO BARRIERS PTY LTD	5,398,491	1.16
KABILA INVESTMENTS PTY LIMITED	5,220,238	1.12
MR ANDREW WILLIAM BLACKMAN	5,077,905	1.09
REDHILL CAPITAL PARTNERS (SINGAPORE) PTE LTD	4,793,576	1.03
COVE STREET PTY LIMITED <THE COVE STREET A/C>	4,504,389	0.97
SIXTH ERRA PTY LTD <STAFF SUPER FUND A/C>	4,281,805	0.92
PEBBLE BAY CAPITAL PTE LIMITED	4,000,000	0.86
LIVING 2 PTY LTD <LIVING LIFE SUPER A/C>	3,961,000	0.85
ELYSIAN ISLANDS PTY LTD <ELYSIAN ISLANDS S/F A/C>	3,803,232	0.82
MR ANGELOS KONSTANDOULIAS	3,710,000	0.80
Total number of shares of Top 20 Holders	**210,922,774**	**45.43%**
Total remaining holders balance	**253,387,475**	**54.57%**

Unquoted equity securities

The number of each class of unquoted equity securities on issue, and the number of their holders, are as follows:

Class of Equity Securities	Number of unquoted Equity Securities	Number of holders
Options exercisable at $0.025 each on or before 3 May 2018	26,014,428	29
Options exercisable at $0.045 on or before 26 June 2018	15,185,185	1
Options exercisable at $0.025 on or before 21 November 2018	29,489,287	6
Convertible Notes	5	3
Performance Rights	10,511,180	3

The names of the holders of 20% or more of the equity securities in an unquoted class and the number of equity securities held by each of these holders (other than in the case of securities issued or acquired under an employee incentive scheme) are as follows:

Holder Name	Class of unquoted Equity Securities	Number of unquoted Equity Securities held	% of total unquoted Equity Securities in the relevant class
BELLOC PTY LTD	Options exercisable at $0.045 on or before 26 June 2018	15,185,185	100.00
LINDA HUTCHINSON	Convertible Notes	2	40.00
KEN GLYNN	Convertible Notes	2	40.00
FURNEAUX MANAGEMENT PTY LTD	Options exercisable at $0.025 on or before 21 November 2018	7,142,857	24.22
MAPD NOMINEES PTY LTD	Options exercisable at $0.025 on or before 21 November 2018	11,132,144	37.75

Voting rights of equity securities

The only class of equity securities on issue in the Company which carry voting rights are ordinary shares.

As at the Reporting Date, there were 1,346 holders of a total of 464,310,249 ordinary shares of the Company.

At a general meeting of the Company, every holder of ordinary shares is entitled to vote in person or by proxy or attorney; and on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share he holds.

Voluntary escrow

There are no securities on issue in KNeoMedia that are subject to voluntary escrow.

Stock Exchange Listing

KNeoMedia's ordinary shares are quoted on the Australian Securities Exchange (ASX issuer code: KNM).

On-market buyback

The Company is not currently conducting an on-market buy-back.

Item 7 issues of securities

There are no issues of securities approved for the purposes of item 7 of section 611 of the Corporations Act which have not yet been completed.

On-market purchase of securities under employee incentive scheme

No securities were purchased on-market during the reporting period under or for the purposes of an employee incentive scheme; or to satisfy the entitlements of the holders of options or other rights to acquire securities granted under an employee incentive scheme.

Company Secretary

The Company's secretary is Ms Sophie Karzis.

Registered Office

The address and telephone number of the Company's registered office are:

Level 1, 61 Spring Street
Melbourne, VIC 3000

Telephone: +61 (0)3 9286 7500

Share Registry

The address and telephone number of the Company's share registry, Automic Registry Services, are:

Street Address:
Suite 310, Level 3
50 Holt Street
Surry Hills NSW 2010

Postal Address:
PO Box 2226
Strawberry Hills NSW 2012

Telephone (within Australia): 1300 288 664
Outside Australia: +61 2 9698 5414