KNEOMEDIA LIMITED
(formerly Entellect Limited)
ABN 41 009 221 783

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2015

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CORPORATE INFORMATION

DIRECTORS

Mr Andrew Plympton	Non-Executive Chairman
Mr James Kellett	Executive Director & Chief Executive Officer
Mr Jeffrey Bennett	Non-Executive Director
Mr Franklin B. Lieberman	Executive Director (appointed 9 February 2015)

COMPANY SECRETARY

Sophie Karzis

REGISTERED OFFICE

Level 1, 61 Spring Street
Melbourne, VIC 3000

AUDITORS

Grant Thornton Audit Pty Ltd
Level 17
383 Kent Street
Sydney NSW 2000

BANKERS

Westpac
360 Collins Street
Melbourne VIC 3000

SHARE REGISTRY

Automic Registry Services
Level 1
7 Ventnor Ave
West Perth WA 6005

WEBSITE ADDRESS

www.KNeoMedia.com.au

CHAIRMAN'S LETTER

Dear Shareholders

The Year in Review

The Group's results for the financial year ended 30 June 2015 (**FY15** or the **year**) reflect the continued investment by the Group in developing and commercialising its KNeoWORLD Games Portal and in expanding its sales and marketing activities. During the year, the Group continued to raise funds from existing and new shareholders to fund these activities.

The Group incurred a loss for the year of $1,630,948 (2014: Loss $1,764,265) primarily attributable to the receipt of other income $607,456 under the Australian Government's Research and Development Tax Incentive Program and the containment of employee benefits cost and operating cost. Included in the result was a non-cash loss on movement in the fair value of embedded derivatives option of $221,665.

Whilst the Group did not have any revenue for FY15, during the year, the Company took steps to improve its cash flow position by streamlining corporate costs, raising further equity capital, and successfully applying for Government grants for its research and development activities.

In FY15, KNeoMedia received significant support from existing shareholders and new investors for its capital raising activities, and raised a total of $1,250,000 via a placement of shares and issue of convertible notes which allowed the Group to fund its business development objectives.

During the year, the Company continued as a participant in the Australian Government's Research and Development Tax Incentive Program and as a result a tax refund of $483,000 is expected to be received from ATO by end of September 2015 for the research and development activities undertaken in FY15. This has not been recognised at 30 June 2015.

Operational

During the year, the Company continued to expand its product offering within its KNeoWORLD Games Portal in both broader regions and platforms including web, iOS, Android and direct carrier billing in multiple languages. As a result of the geographical expansion, the Company now has a footprint in China, SE Asia and Australia.

In addition, the Company continues to focus on strengthening its management team with technical resources to better position the Group to achieve its business objectives. In February 2015, Mr Frank Lieberman was appointed an Executive Director of KNeoMedia. Mr Lieberman had been providing consulting services to the Company's US subsidiary, KNeoWORLD Inc., and he and his team are the driving force behind Parent Teacher Association (PTA) fund-raising revenue model as well as the Foundation funded revenue model. The Foundation funded revenue model involves corporate, government and private Foundations providing funds for students of less affluent schools to adopt education programs including KNeoWORLD's Games Based Learning program.

Mr Carlo Spicola was appointed Senior Producer of KNeoWORLD in March 2015. Mr Spicola has had a distinguished career in digital media technologies and application development, and has held roles which include Multi-media manager and content producer for Nickelodeon's Nick Online group. Since his appointment in March 2015, Mr Spicola has, with the benefit of his expertise, furthered KNeoWORLD's development and commercialisation, and continues to actively harness and pursue the potential commercial opportunity available to the Company to achieve revenue across a broad number of sales.

As a result of these New York based senior appointments, and to better position itself to interact with its New York educational marketing initiatives, the Company relocated its US operations from San Francisco to New York in May 2015.

A further major operational initiative undertaken by the Group during the year was the March out-sourcing of web and application product development to Blastoff of Goa, India, a company that specialises in cross-platform mobile applications. Mr Indrajit Chowdhury, the founder of Blastoff, has had many years' experience in web application development, first at Nickelodeon and then in New York and India. He has spent more than 10 years architecting and building software-as-a-service ecommerce and content management systems. Mr Chowdhury has worked with Mr Spicola over a number of years to successfully commercialise web and Apps based products. A Blastoff partner, Mr Rakesh Kamat, will co-ordinate the centralized development activities. Mr Kamat has 15 years' of experience in enterprise software development and has worked with some of the leading information technology companies in devising and delivering IT strategies. Mr Kamat will act as Chief Technology Officer at KNeoWORLD and will drive KNeoWORLD's technology strategy to continue to deliver innovative products.

Marketing

In September 2014 the Company announced it had executed a Distribution Agreement with SmartTrans Holdings Limited (ASX:SMA) for distribution of KNeoWORLD Apps throughout China via SmartTrans direct carrier billing platform. In July 2015 a consumer-based trial of the Company's first Mandarin language product, KNeoJUNIOR was successfully completed. The Edutainment (education + entertainment) product trial was carried out in Guangdong Province and received strong initial uptake with over 14,000 individual downloads occurring over three days. The trial was conducted to determine consumer interest levels and assess acceptable product pricing points prior to the official product launch.

As a result of the strong consumer demand, KNeoMedia has since been working with SmartTrans and leading Chinese telecommunication provider China Mobile and has finalised the pricing structure thereby enabling national product distribution across China in the coming weeks.

In addition, KNeoMedia plans to continue building multiple revenue streams by replicating its Chinese-focused distribution model more extensively throughout South East Asia. Further updates in this regard are expected to be announced shortly.

During FY15 the Company continued working with the New York educational system conducting a number of product trials in New York City schools. This included a pilot program in elementary schools with 120 children aged 7 to 12 years. The program was implemented under the direction of principals and teachers of the second, fourth and sixth grades. The results showed resounding validation that the KNeoWORLD games-based learning platform is a success with both the students and the educators.

The Pilot program's success facilitates access to 500,000 public, private and catholic school students in the greater New York area via the Department of Education, the Parent Teacher Association (PTA) fund-raising revenue model and also the Foundation funded revenue model.

The Company is also working with District 75, the NYC public school district for special needs children, with over 200,000 students. PS 811X in the Bronx, part of District 75, is presently using KNeoWORLD games to enhance learning for its special needs students and the positive games based learning outcomes have been documented by the school providing further validation of KNeoWORLD's games based learning.

As a result of the product validation KNeoWORLD has been granted a New York City Department of Education vendor's licence to facilitate direct purchase of the KNeoWORLD Portal for schools in District 75 and beyond (**Vendor's Licence**).

The Year Ahead

KNeoMedia believes that the joint appointment of Mr Spicola and Blastoff have fortified the Group's resources and will position the Group to accelerate product development. Mr Spicola and Blastoff will work closely with New York based director Frank Lieberman with whom they have previously successfully commercialised online entertainment products.

KNeoMedia is confident that these initiatives spearheaded by CEO James Kellett, will accelerate sales in the USA educational market, a large consumer base; the international direct carrier billing distribution channel in China, Australia and other new international regions; as well as the opening of new market channels.

Subsequent to the financial year in September 2015, KNeoMedia announced that Mobile Embrace Limited (ASX: MBE), had launched the Company's edutainment platform in Australia following the recent execution of a content distribution agreement and co-creation of the HeroWORLD mobile edutainment product. Under the agreement, Mobile Embrace will promote and distribute KNeoMedia's educational games and products to consumers on smartphones and tablets via its embedded telco payments platform under the exclusive branding of HeroWORLD. Following the successful launch of HeroWORLD in Australia, which will look to leverage Mobile Embrace's billing agreements with leading telcos, a strategic expansion into international edutainment markets is anticipated. HeroWORLD is a unique product offering that it has been developed specifically for Mobile Embrace's direct carrier billing platform

KNeoMedia has spent several years and deployed substantial resources to achieve validation of its games based learning products, which have collectively culminated in the completion of pilot programs, and granting of the Vendor's Licence. The Board is cautiously optimistic that these milestones achieved during the year, combined with the forward strategy to be deployed by management in FY16, will position the Group to achieve commercialisation of its products which will in turn pave the way to attainment of revenue in FY16.

Yours faithfully

Andrew Plympton
Chairman
Melbourne, 28 September 2015

DIRECTORS' REPORT

The Directors present their report together with the financial report of the consolidated entity consisting of KNeoMedia Limited (formerly Entellect Limited) (the **Company**) and its controlled entities (the **Group**), for the financial year ended 30 June 2015 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.

<u>Name</u>	<u>Particulars</u>
Mr Andrew Plympton	**Non-Executive Chairman** Mr Plympton joined the Company in August 2010 and brings to the role a wealth of experience in a diverse range of commercial activities. Mr Plympton has spent more than 35 years in the financial services area, as Managing Director and/or Executive Chairman of a number of international insurance brokers and risk managers. In addition he held the role of Chairman in Underwriting Agencies and Captive Insurance Managers. In the public company sector Mr Plympton is Chairman of Shoply Limited (ASX: SHP) (appointed 9 February 2010) and is a director of XPD Soccer Gear Limited (ASX: XPD) (appointed 7 February 2015) and Energy Mad Limited (NZX: MAD). In addition Mr Plympton is an Executive Member of The Australian Olympic Committee and Director of The Australian Olympic Foundation Limited. During the last three years Mr Plympton has also served as a director of the listed companies NewSat Limited (ASX: NWT) from 18 February 2010 to 30 June 2014, Sunbridge Group Limited (ASX: SBB) from 23 July 2013 to 30 December 2014 and was a director of Bluestone Global Limited (ASX: BUE).
Mr James Kellett	**Executive Director, Chief Executive Officer** Mr Kellett has over 30 years' experience in corporate finance and business management and has held senior executive positions in the finance and communications industries, including ASX listed companies. Mr Kellett is founder and Managing Director of Furneaux Equity Limited, is an Associate of the Financial Services Institute of Australasia and brings very substantial business management, direction and governance skills to the Board. 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 UXC, BHP and Shell. Mr Bennett is the non-executive director of Jameson Resources Limited (ASX: JAL).
Mr Franklin B. Lieberman	**Executive Director** Mr Lieberman has been in the media business for 45 years, producing motion pictures and TV programs for Warner Bros., NBC, CBS, ABC, and PBS, and then running Miracle Factory, a strategic marketing company with clients that included AT&T, IBM, PepsiCo, Pfizer, Johnson & Johnson, Coca Cola, and Universal Pictures. He and his team have developed educational initiatives for the KNeoWORLD Games Based Learning platform in the US. Frank sits on the board of Council for Unity, a public school anti-bullying program, and for 10 years has worked with the United Federation of Teachers and American Federation of Teachers on educational initiatives.

Dr Nigel Finch **Non-Executive Director (resigned 13 February 2015)**

Mcom, LLM MBA, PhD, CA, CTA, FCPA, FFin, FTIA, FAICD

Dr Finch holds a variety of professional qualifications and he brings more than 20 years' experience in financial management, international business, higher education and financial markets.

Company Secretary

The Company Secretary of the Group at all times during and since the financial year end to the date of this report was Sophie Karzis. Ms Karzis (B Juris., LLB) 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 activities of the Group during the course of the financial year was the further development Edutainment Games Publishing business through its US-based entity, KNeoWORLD Inc. and sells on a micro-subscription and Apps basis through the KNeoWORLD.com games portal, Apps Stores and via distribution agreements with direct carrier billing telecommunication company providers and education departments.

Review of operations and financial results

The Group incurred a loss for the year of $1,630,948 (2014: Loss $1,764,265), primarily attributable to the receipt of other income $607,456 under the Australian Government's Research and Development Tax Incentive Program and the containment of employee benefits cost and operating cost. Included in the result was a non-cash loss on movement in the fair value of embedded derivatives option of $221,665.

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During the year, the Company received significant support from existing shareholders and new investors for its capital raising activities, and raised a total of $1,250,000 via the issue of shares and convertible notes which allowed the Group to fund its business development objectives.

The Company also continued as a participant in the Australian Government's Research and Development Tax Incentive Program and as a result a tax refund of $483,000 is expected to be received from ATO by end of September 2015 for the research and development activities undertaken in FY2015. This has not been recognised at 30 June 2015.

The attached financial statements detail the performance and financial position of the consolidated entity for the year ended 30 June 2015. It also contains an independent auditor's report which includes 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.

Operating results

	2015 **$**	2014 $
The consolidated loss of the Group after providing for income tax:	**(1,630,948)**	(1,764,265)

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 2015.

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
Andrew Plympton	66,667	833,333	-	666,667
James Kellett	-	3,380,000	-	1,633,333
Jeffrey Bennett	-	968,844	-	666,667
Franklin B. Lieberman	-	166,666	-	-

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 25 September 2014, the Company signed a content distribution agreement with SmartTrans in which SmartTrans will promote and distribute KNeoWORLD interactive educational games Apps and products throughout China market.
- On 13 February 2015, Dr Nigel Finch resigned as a Non-Executive Director of the Company.
- On 9 February 2015, the Company announced the new appointment of Mr Franklin B Lieberman (New York Game Based Advisor) as an Executive Director of the Company.
- On 28 May 2015, the Company held an Extraordinary General Meeting (**EGM**) and the results on all resolutions were passed and announced as below:-
    - Change of Company name from Entellect Limited to KNeoMedia Limited
    - Consolidation of its existing securities on the basis of every 30 securities being consolidated into 1
    - Ratification of issue of December convertible notes and December attaching options
    - Ratification of issue of January convertible notes and January attaching options
    - Ratification of issue of February convertible notes
    - Approval of issue of February attaching options
    - Approval of issue of new convertible notes
    - Approval of issue of shares to Dr Nigel Finch in lieu of Director's fees
    - Approval of issue of Pebble Bay Professional services shares
    - Approval of issue of Consolidated Investments Professional services shares
    - Approval of issue of proposed Placement securities under proposed Placement
- On 15 June 2015, the Company completed $1.25 million capital raising to accelerate growth in Asia and North America.

Convertible notes

During the year, the Company and certain holders of 5 existing convertible notes on issue in the Company (each with a face value of $100,000) entered into an agreement to vary the terms of those convertible notes. The variations were as follows:-

- Each convertible note would be split into two convertible notes, with the result that there would be 10 convertible notes on issue, each having a face value of $50,000;
- The parties agreed to extend the maturity date of 6 (newly split) convertible notes (with a total face value of $300,000) from 31 October 2014 to 31 May 2015;
- The parties agreed to vary the terms of the remaining 4 (newly split) convertible notes (with a total face value of $200,000) to enable the assignment of those notes to other parties; this included a variation to the maturity date from 31 October 2014 to 31 October 2015, a variation to the interest rate payable on those notes, and an adjustment to the calculation basis of the conversion price.

On 22 October 2014, 27 October 2014 and 19 November 2014, the remaining 4 (newly split) convertible notes (with a total face value of $200,000) referred to above were assigned to 4 new holders. The key terms of the notes were as follows:-

- Maturity date of 31 October 2015;
- 10% per annum if is paid in cash or 15% per annum if paid in shares at the election of the convertible loan note holder at the time of payment;
- Interest payment payable on conversion or redemption of the convertible notes;
- Conversion price at $0.002 per share;
- Free attaching options - each conversion share entitlement under each note entitled the holder to receive one free attaching unlisted option to acquire a further ordinary share. The options, which were issued in December 2014, are exercisable at $0.002 each, on or before 31 October 2015.

On 30 January 2015 and 17 February 2015, five convertible notes were issued to five new convertible notes holders with a face value of $50,000 (total face value of $250,000). The key terms of the notes are as follows:-

- Maturity date of 31 March 2016;
- Interest rate – 10% per annum if paid in cash or 15% per annum if paid in shares for 1 convertible note issued on 30 January 2015 and 15% per annum if paid in shares or cash for 4 convertible notes issued on 17 February 2015 at the election of the convertible loan note holder at the time of payment;
- Interest payment payable on conversion or redemption of the convertible notes;
- Conversion price at $0.002 per share;
- Free attaching options - each conversion share entitlement under each note entitled the holder to receive one free attaching unlisted option to acquire a further ordinary share. The options, which were issued in January and February 2015, are exercisable at $0.0012 each on or before 31 March 2016.

On 26 June 2015, four convertible notes were issued to four new convertible notes holders, each with a face value of $25,000 (total face value $100,000). The term of the notes with the key terms being as follows:-

- Maturity date of 31 March 2016;
- Interest rate – 10% per annum if paid in cash or 15% per annum if paid in shares at the election of the convertible loan note holder at the time of payment;
- Interest payment payable on conversion or redemption of the convertible notes;
- Conversion price at $0.001 per share;
- Free attaching options - each conversion share entitlement under each note entitled the holder to receive one free attaching unlisted option to acquire a further ordinary share. The options, which were issued in June 2015, are exercisable at $0.001 per share on or before 31 March 2016.

**NOTE: On 28 May 2015 the Company undertook a consolidation of its existing securities on the basis of every 30 securities being consolidated into 1. The information set out above, including the exercise price of options and conversion price of convertible notes, have been provided on a PRE-consolidation basis.*

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 28 July 2015, the Company announced the completion of a successful trial launch of Mandarin language Edutainment product KNeoJUNIOR into China.

In September 2015 KNeoMedia announced that Mobile Embrace Limited (ASX: MBE), had launched the Company's edutainment platform in Australia following the recent execution of a content distribution agreement and co-creation of the HeroWORLD mobile edutainment product. Under the agreement, Mobile Embrace will promote and distribute KNM's educational games and products to consumers on smartphones and tablets via its embedded telco payments platform under the exclusive branding of HeroWORLD. Following the successful launch of HeroWORLD in Australia, which will look to leverage Mobile Embrace's billing agreements with leading telcos, a strategic expansion into international edutainment markets is anticipated. HeroWORLD is a unique product offering that it has been developed specifically for Mobile Embrace's direct carrier billing platform.

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 2.

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
Andrew Plympton	6	6
James Kellett	6	6
Jeffrey Bennett	4	6
Franklin Lieberman	2	3
Nigel Finch	3	3

Given the size of the Company and compliment 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.

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

At 30 June 2015, there were 171,851,370 ordinary shares (post consolidation) on issue. During the year, the Company issued in total 83,080,606 ordinary shares (post consolidation), and of which 55,555,555 ordinary shares (post consolidation) were through share placements. *Refer to Note 13.*

Unissued shares under option and performance rights

Performance rights granted

During the year, pursuant to shareholder approval received the Company's 2014 AGM, the Company issued 666,667 (post consolidation) performance rights under the LTIP to Dr Nigel Finch. Dr Finch's performance rights have lapsed, following his resignation as Director of the Company in February 2015.

In April 2015, a further 833,333 (post consolidation) performance rights lapsed upon the resignation of a key management personnel.

As at the date of this report, there are 2,966,667 performance rights (post consolidation) on issue.

Except as noted above, no options or rights were granted during the year and no options or rights have been granted since the end of the financial year. No options were exercised during the financial year. There are no unissued shared or interests under option as at the date of this report.

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 $12,760.

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 Group present the Remuneration Report for Non-Executive Directors, Executive Directors and other Key Management Personnel, 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 Group.

Key Management Personnel during the financial year are as follows:

(i) Non-executive directors (NEDs)

Andrew Plympton	Chairman (Non-Executive)
Jeffrey Bennett	Director (Non-Executive)
Nigel Finch	Director (Non-Executive) (resigned 13 February 2015)

(ii) Executive directors

James Kellett	Executive Director & Chief Executive Officer (CEO)
Franklin B. Lieberman	Executive Director (appointed during the year on 9 February 2015)

(iii) Other key management personnel

Marti Miernik	Chief Operating Officer of KNeoWorld Inc (COO) Appointed on 15 January 2014, resigned 20 April 2015

Changes in KMP during the year are as follows:

- Mr Franklin B. Lieberman was appointed as Executive Director on 9 February 2015
- Dr Nigel Finch resigned as Non-Executive Director on 13 February 2015
- Ms Marti Miernik resigned as Chief Operating Officer on 20 April 2015

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. Options granted to Directors and KMP are valued using the Binomial methodology.

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 last approved increase occurred at the Company's 2007 Annual General Meeting where the maximum fees payable to Non-Executive Directors per annum increased from $150,000 pa to $300,000. 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 2014 Annual General Meeting

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 2014 at the 2014 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.

3. Directors and executive remuneration arrangements (continued)

Employment Contracts of Directors and Executive (continued)

			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 2015 and any change during the year**	**Contract details (duration and termination)**	**Non-salary cash-based incentive %**	**Shares / Units %**	**Options / rights %**	**Fixed Salary / Fees %**	**Total %**
Andrew Plympton	Non-executive Chairman	No fixed term. No termination conditions.	-	-	-	100	100
James Kellett	Executive Director, 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) KNeoMedia entered into a Services Agreement with Furneaux Management Pty Ltd (**Consultant**), a related party of James Kellett, on 23 December 2010 (**Services Agreement**) for the provision of CEO consultancy services. The term of the Services Agreement commenced on 1 December 2010 and was extended for a number of further terms to 31 December 2011 and thereafter 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(5) $	
Executive Director						
James Kellett -CEO	2015	168,000	-	-	(5,717)	162,283
	2014	168,000	-	-	5,717	173,717
Franklin B. Lieberman*(1)*	2015	16,342	-	-	-	16,342
	2014	-	-	-	-	-
Non-executive Director						
Andrew Plympton	2015	48,000	-	-	(2,333)	45,667
	2014	48,000	-	-	2,333	50,333
Jeffrey Bennett	2015	42,000	-	-	(2,333)	39,667
	2014	42,000	-	-	2,333	44,333
Nigel Finch *(2)*	2015	26,250	-	-	-	26,250
	2014	6,548	-	-	-	6,548
Other Key Management Personnel						
Franklin B. Lieberman*(1)*	2015	99,010	-	-	-	99,010
	2014	-	-	-	-	-
Marti Miernik *(3)*	2015	138,159	-	-	-	138,159
	2014	61,159	-	-	6,750	67,909
Matt Seeney *(4)*	2015	-	-	-	-	-
	2014	137,847	-	-	-	137,847
Total KMP	**2015**	**537,761**	**-**	**-**	**(10,383)**	**527,378**
Total KMP	**2014**	**463,554**	**-**	**-**	**17,133**	**480,687**

(1) Appointed 9 February 2015 as Executive Director and appointed 1 July 2014 as New York Game based learning advisor to KNeoW Inc.
(2) Resigned 13 February 2015.
(3) Resigned 20 April 2015.
(4) Resigned 31 May 2014.
(5)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 16. No shares or cash benefit have been received until the achievement of these conditions. In 2015, the directors re-assessed the probability of reaching the attached conditions as being 0% and consequently the previous expense recorded in 2014 has been reversed in order that the cumulative expense recorded is $nil.

5. Additional disclosures relating to options and shares

a. Performance rights holdings of key management personnel

The Company's shareholders approved a Long Term Incentive Plan (**LTIP**) at KNeoMedia's AGM in November 2013. At the 2013 AGM, shareholders approved an issue of performance rights under the LTIP to Directors James Kellett, Andrew Plympton and Jeffrey Bennett.

The table below discloses the number of performance rights granted to Directors as LTIP remuneration during the year as well as the number of performance rights that vested or lapsed during the year. 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 2016.

The rights to other KMP below is conditional up the attainment of the US$5mil gross revenue accumulated over any 12 consecutive months. There is no expiry date to the rights.

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

During the year, pursuant to shareholder approval received the Company's 2014 AGM, the Company issued 666,667 (post consolidation) performance rights under the LTIP to Dr Nigel Finch. Dr Finch's performance rights have lapsed, following his resignation as Director of the Company in February 2015.

During the year in April 2015, a further 833,333 (post consolidation) performance rights lapsed upon the resignation of a key management personnel and the previous performance rights in reserve of $6,750 were reversed to accumulated losses.

As at the reporting date, the Company did not recognise any performance rights expense but to write back the previous expense of $10,383 (2014: $17,133) to 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 fair value of the performance rights granted to Directors at grant date was $0.022 based on a Black Scholes option pricing model.

	Grant date	No. granted ('000) (post consolidation)	Fair value at grant date	Exercise price ($)	Expiry date	Number lapsed	Balance at 30/6/2015 ('000) (post consolidation)	Vested ('000)	Unvested ('000) (post consolidation)
Executive Director									
James Kellett	23/12/13	1,633	0.022(post consol.)	-	31/12/16	-	1,633	-	1,633
Franklin B. Lieberman	-	-	-	-	-	-	-	-	-
Non-executive Directors									
Andrew Plympton	23/12/13	667	0.022 (post consol.)	-	31/12/16	-	667	-	667
Jeffrey Bennett	23/12/13	667	0.022 (post consol.)	-	31/12/16	-	667	-	667
Other KMP									
Marti Miermik	15/1/14	833	0.09 (post consol.)	-	nil	(833)	-	-	-

b. Unlisted option holdings of key management personnel

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

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 2014 No. (pre-consolidation)	Granted as remuneration No.	On exercise of options No.	Net change other No.	Balance at 30 June 2015 No. (post consolidation)
Executive Director					
James Kellett	101,400,000	-	-	(98,020,000)	3,380,000
Franklin B. Lieberman	-	-	-	166,666	166,666
Non-executive Directors					
Andrew Plympton	2,000,000	-	-	(1,100,000)	900,000
Jeffrey Bennett	4,065,317	-	-	(3,096,473)	968,844
Total	**107,465,317**	**-**	**-**	**(102,049,807)**	**5,415,510**

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

	2015 **$**	2014 $
Related party payables		
Fees payable to key management personnel	**161,323**	176,603
Total related party payables	**161,323**	176,603

g. Other transactions with Key Management Personnel-related entities

During the financial year ended 30 June 2015 there were no other transactions with KMP or their related entities (2014: nil)

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 2015.

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 2015 has been received and can be found on page 18, which forms part of this report.

Signed in accordance with a resolution of the Directors

Andrew Plympton,
Chairman

28 September 2015

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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 2015, 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 AUDIT PTY LTD
Chartered Accountants

C F Farley
Partner - Audit & Assurance

Sydney, 28 September 2015

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 2015

	Note	2015 $	2014 $
Revenue			
Sales revenue		**-**	5,547
Other income	2	**611,147**	242,940
		611,147	248,487
Employee benefits expenses		**(491,508)**	(481,762)
Corporate expenses		**(451,345)**	(507,585)
Depreciation and amortisation expenses		**(16,533)**	(20,798)
Other expenses	3	**(961,882)**	(756,716)
Finance costs		**(109,545)**	(251,568)
Performance rights benefit/(expense)		**10,383**	(17,133)
(Loss)/gain on movement in fair value of embedded derivatives option		**(221,665)**	22,810
Loss before income tax		**(1,630,948)**	(1,764,265)
Income tax benefit	4	**-**	-
Loss for the year attributable to members		**(1,630,948)**	(1,764,265)
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations (net of tax)		**(14,133)**	(22,915)
Total comprehensive loss for the year		**(1,645,081)**	(1,787,180)
Loss attributable to:			
Members of the parent entity		**(1,437,033)**	(1,606,966)
Non-controlling interests		**(193,915)**	(157,299)
		(1,630,948)	(1,764,265)
Total comprehensive loss attributable to:			
Members of the parent entity		**(1,451,089)**	(1,625,298)
Non-controlling interests		**(193,992)**	(161,882)
		(1,645,081)	(1,787,180)
Earnings/(loss) per share (cents per share)			
Basic and diluted earnings/(loss) per share	6	**(1.23)**	(0.08)

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 2015

	Note	**2015** **$**	2014 $
Current Assets			
Cash and cash equivalents	7	**979,179**	312,553
Trade and other receivables	8	**31,413**	29,598
Other assets	9	**38,349**	76,596
Total Current Assets		**1,048,941**	418,747
Non-current Assets			
Property, plant and equipment	10	**5,081**	20,534
Total Non-current Assets		**5,081**	20,534
Total Assets		**1,054,022**	439,281
Current Liabilities			
Trade and other payables	11	**397,597**	380,100
Other financial liabilities	12	**1,885,302**	1,472,049
Total Current Liabilities		**2,282,899**	1,852,149
Total Liabilities		**2,282,899**	1,852,149
Net Liabilities		**(1,228,877)**	(1,412,868)
Equity			
Issued capital	13	**69,790,759**	67,986,375
Reserves	14	**(56,571)**	(60,453)
Accumulated losses		**(70,024,330)**	(68,594,047)
Parent Entity Interest		**(290,142)**	(668,125)
Non-controlling interest		**(938,735)**	(744,743)
Total Equity		**(1,228,877)**	(1,412,868)

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 2015

	Issued Capital	Accumulated losses	Foreign Currency Translation Reserve	Options Reserves	Convertible Note Equity Reserves	Non-Controlling Interest	Total
	$	$	$	$	$	$	$
Balance at 1 July 2014	**67,986,375**	**(68,594,047)**	**(113,395)**	**17,133**	**35,809**	**(744,743)**	**(1,412,868)**
Net loss for the year	-	(1,437,033)	-	-	-	(193,915)	(1,630,948)
Other comprehensive income	-	-	(14,056)	-	-	(77)	(14,133)
Total comprehensive income	-	(1,437,033)	(14,056)	-	-	(193,992)	(1,645,081)
Share issued	1,250,000	-	-	-	-	-	1,250,000
Conversion of directors fees to shares	136,078	-	-	-	-	-	136,078
Conversion of convertible notes to shares	408,637	-	-	-	-	-	408,637
Shares issued in lieu of fees for services rendered	216,900	-	-	-	-	-	216,900
Transaction costs on shares issued	(207,231)	-	-	-	-	-	(207,231)
Equity component of convertible notes	-	-	-	-	35,071	-	35,071
Transfer to retained earnings	-	6,750	-	(17,133)	-	-	(10,383)
Balance at 30 June 2015	**69,790,759**	**(70,024,330)**	**(127,451)**	**-**	70,880	**(938,735)**	**(1,228,877)**

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 2015

	Issued Capital	Accumulated losses	Foreign Currency Translation Reserve	Options Reserves	Convertible Note Equity Reserves	Non-Controlling Interest	Total
	$	$	$	$	$	$	$
Balance at 1 July 2013	66,563,756	(66,987,081)	(95,063)	-	-	(582,861)	(1,101,249)
Net loss for the year	-	(1,606,966)	-	-	-	(157,299)	(1,764,265)
Other comprehensive income	-	-	(18,332)	-	-	(4,583)	(22,915)
Total comprehensive income	-	(1,606,966)	(18,332)	-	-	(161,882)	(1,787,180)
Share issued	854,000	-	-	-	-	-	854,000
Exercise of options	375,000	-	-	-	-	-	375,000
Conversion of convertible notes to shares	250,000	-	-	-	-	-	250,000
Transaction costs on shares issued	(56,381)	-	-	-	-	-	(56,381)
Performance rights expense	-	-	-	17,133	-	-	17,133
Equity component of convertible notes	-	-	-	-	35,809	-	35,809
Balance at 30 June 2014	**67,986,375**	**(68,594,047)**	**(113,395)**	**17,133**	**35,809**	**(744,743)**	**(1,412,868)**

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 2015

	Note	2015 $	2014 $
Cash flows from operating activities			
Receipts from customers		**642**	6,102
Grants from research and development		**531,007**	222,564
Payments to suppliers and employees		**(1,531,736)**	(1,783,260)
Net cash used in operating activities	15	**(1,000,087)**	(1,554,594)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,526)**	(4,833)
Net cash used in investing activities		**(1,526)**	(4,833)
Cash flows from financing activities			
Proceeds from issue of shares		**1,250,000**	880,381
Exercise of options		**-**	375,000
Payment for share issue costs		**(72,514)**	(41,381)
Proceeds from convertible notes		**750,000**	600,000
Repayments of convertible notes		**(200,000)**	-
Interest received		**3,691**	4,904
Interest paid		**(49,249)**	(40,928)
Net cash provided by financing activities		**1,681,928**	1,777,976
Net increase in cash and cash equivalents		**680,315**	218,549
Cash and cash equivalents at the beginning of the financial year		**312,553**	117,037
Effects of exchange rate changes on cash and cash equivalents		**(13,689)**	(23,033)
Cash and cash equivalents at the end of the financial year	7	**979,179**	312,553

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 2015

This consolidated financial report and notes of KNeoMedia Limited ("the **Company** ") and controlled entities ("The **Group**") for the year ended 30 June 2015 was authorised for issue in accordance with the resolution of the directors on 28 September 2015.

The Company changed its name from Entellect Limited to KNeoMedia Limited on 28 May 2015.

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 have 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 $1,630,948 (2014: $1,764,265), net deficit of assets of $1,228,877 (2014: $1,412,868) and net cash outflows used in operations of $1,000,087 (2014: $1,554,594), the financial report has been prepared on a going concern basis. The Directors consider that this is appropriate given a number of factors, including that KNeoMedia continues to take steps to contain and reduce 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. Further, the Board is encouraged by the number of revenue channels that have been established the likely ramping up of sales to both the USA PTA shared revenue and the foundation funded revenue models, the large consumer base and the international direct carrier billing distribution in China and other new international regions. Further, the Company also anticipates receipt of other income for the 2015 year not dissimilar to that of the 2014 year under the Australian Government's Research and Development Tax Incentive Program. 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 2015. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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

Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes, rebates and trade discounts.

Revenue from the rendering of service is recognised upon the delivery of service to the customers.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

i. 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.

j. 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 2015

j. 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 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 comprehensive income.

k. Intangibles

Intellectual Property

Acquired intellectual property is recorded at fair value as at the effective date of the relevant acquisition and then amortised on a straight line basis over their useful life of three years to the Consolidated Group commencing from the time the asset is held ready for use.

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 ('$AUD'), 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

m. Foreign Currency Transactions and Balances (continued)

Transaction and Balances

Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the $AUD are translated into $AUD 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 $AUD 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 $AUD at the closing rate. Income and expenses have been translated into $AUD 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.

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 16). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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.

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.

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.

Significant management judgement

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 $690,675 (2014: $1,473,587) of tax losses carried forward. The tax losses pre 2011 may not be used to offset future taxable income because they may not meet the continuity of ownership or same business tests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

t. Significant management judgement in applying accounting policies (continued)

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Share-based payment

The Group measures the cost of equity-settled transactions with employees and key management personnel by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 16.

Fair value of financial liabilities

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 2015. 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. Refer to Note12.

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

A number of new and revised standards and an interpretation became effective for the first time to annual periods beginning on or after 1 July 2014. Information on these new standards is presented below.

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

AASB 2012-3 is applicable to annual reporting periods beginning on or after 1 January 2014.

The Group reviewed these amendments and concluded it does not have any effect on the accounts as the amendments merely clarify the existing requirements in AASB 132.

AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 Impairment if Assets to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

AASB 2013-3 makes the equivalent amendments to AASB 136 Impairment of Assets and is applicable to annual reporting periods beginning on or after 1 January 2014.

The Group reviewed these amendments and concluded that it does not have any effect on the accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

v. Accounting Standards issued but not yet effective and not been adopted early by the Group

Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective have not been applied to the financial statements.

The following amendments by the AASB to Australian Accounting Standards are not expected to have a material impact on the Group's financial position and performance when it is first adopted, however increased disclosures will be required in the Group's financial statements.

The Group will continue to assess these new standards and amendments in the 30 June 2016 year to confirm the impact on the Group.

AASB Reference	Nature of change	Application date for Group
AASB 9 Financial Instruments (December 2014)	*AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB139. The main changes are:* *a. Financial assets that are debt instruments will be classified based on: (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows.* *b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.* *c. Introduces a "fair value through other comprehensive income" measurement category for particular simple debt instruments.* *d. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains or losses on them, on different bases.* *e. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:-* *- The change attributable to changes in credit risk are presented in Other Comprehensive Income ('OCI')* *- The remaining change is presented in profit or loss* *If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.* *Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:* *- Classification and measurement of financial liabilities; and* *- Derecognition requirements for financial assets and liabilities.*	*1 January 2018*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

AASB Reference	Nature of change	Application date for Group
AASB 9 Financial Instruments (December 2014) continued	*AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.* *Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.*	
AASB 15 *Revenue from Contracts with Customers*	*AASB 15:* *- replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations:* *- establishes a new revenue recognition model* *- changes the basis for deciding whether revenue is to be recognised over time or at a point in time* *- provides new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing)* *- expands and improves disclosures about revenue* *In May 2015, the AASB issued ED 260 Income of Not-for-Profit Entities, proposing to replace the income recognition requirements of AASB 1004 Contributions and provide guidance to assist not-for-profit entities to apply the principles of AASB 15.* *The ED is open for comment until 14 August 2015.*	*1 January 2017 (however note that both the IASB & AASB have recently issued Exposure Drafts, proposing to defer the effective date to 1 January 2018)*
AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation	*The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.* *The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e., a revenue-based amortisation method might be appropriate) only in two (2) limited circumstances:* *i The intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or* *ii When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.*	*1 January 2016*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

AASB Reference	Nature of change	Application date for Group
AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	*The amendments:* *- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information* *- clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated* *- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position* *- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order* *- remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy.*	*1 January 2016*

NOTE 2: REVENUE

	2015 $	2014 $
Other income		
- Grants for research and development	**607,456**	238,036
- Interest income	**3,691**	4,904
	611,147	242,940

NOTE 3: EXPENSES

	2015 $	2014 $
Other expenses		
- Consulting fees	**449,936**	314,357
- Marketing costs	**130,232**	49,483
- Occupancy costs	**77,253**	107,193
- Capital raising costs	**157,000**	34,833
- Administration costs	**82,292**	76,627
- Other expenses	**65,169**	174,223
	961,882	756,716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 $	2014 $
NOTE 4: INCOME TAX EXPENSE		
Current and deferred tax expense for the year ended 30 June 2015 were nil (2014: nil)	-	-
A reconciliation between tax expense and the product of accounting profit/(loss) before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit/(loss) before income tax	**(1,630,948)**	(1,764,265)
At Australia's income tax rate 30%	**(489,284)**	(529,279)
Temporary differences and tax losses not brought to account as deferred tax assets	**482,895**	520,178
Tax losses utilised	**6,389**	9,101
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	**690,675**	1,473,587

KNeoMedia Limited and its 100% Australia resident subsidiaries formed a tax consolidated group in 2002. KNeoMedia Limited is the head entity of the tax consolidated group. The Group had Australian tax losses amounting to $32,561,803 in 2011. As it is unlikely the Group will satisfy the tests required by ITAA 97 in relation to the losses, the brought forward losses of $32,561,803 have been disregarded.

The Group derived Australian taxable income of $21,297 (2014: $30,337). The Group did not incur any capital loss during the year ended 30 June 2015 (2014: $nil). Unused revenue and capital losses should be available in future to offset against income as long as the tests in the ITAA 97 are met.

NOTE 5: AUDITORS' REMUNERATION

	2015 $	2014 $
Amounts received or due and receivable by Grant Thornton Australia for:		
- An audit or review of the financial report of the entity and any other entity in the consolidated entity	**52,000**	52,000
	52,000	52,000

Grant Thornton Australia did not provide any non-audit services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

		2015	2014
		$	$

NOTE 6: EARNINGS PER SHARE

Basic earnings/(loss) per share is calculated by dividing net profit/(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 earnings/(loss) per share is calculated by dividing the net profit/(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:

	Basic and diluted earnings to profit or loss	**(1.23) cents**	(0.08) cents
a.	Reconciliation of earnings to profit or loss		
	Loss for the year	**1,630,948**	1,764,265
	Loss attributable to non-controlling interest	**193,915**	157,299
	Earnings used to calculate basic and dilutive EPS	**1,437,033**	1,606,966
		No.	No.
b.	Weighted average number of ordinary shares outstanding during the year used in calculating basic and dilutive EPS	**116,568,338**	71,631,769

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 41,021,850 options and 2,966,667 rights not included in the calculation.

NOTE 7: CASH AND CASH EQUIVALENTS

Cash at bank and in hand	**979,179**	312,553
	979,179	312,553

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

NOTE 8: TRADE AND OTHER RECEIVABLES

	2015 $	2014 $
CURRENT		
Accrued revenue	**4,096**	3,889
Less: Allowance for doubtful debt	**(4,096)**	-
	-	3,889
GST recoverable	**31,413**	25,709
	31,413	29,598

(a) Provision For Impairment of Receivables

The Group trade and other receivables have been reviewed for indicators of impairment. The accrued revenue was found to be impaired and an allowance for doubtful debt of $4,096 has been recorded accordingly within other expenses in the income statement in the current financial year (2014: Nil).

(b) Fair value and credit risk

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

NOTE 9: OTHER ASSETS

	2015 $	2014 $
CURRENT		
Prepayments	**16,057**	57,020
Rental Deposit	**22,292**	19,576
	38,349	76,596

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

	Plant & Equipment	Furniture & Fixtures	Total
	$	$	$
Gross carrying amount			
Balance at 1 July 2013	43,206	27,302	70,508
Additions	4,833	-	4,833
Exchange differences	(105)	-	(105)
Balance at 30 June 2014	**47,934**	**27,302**	**75,236**
Additions	1,526	-	1,526
Exchange differences	346	-	346
Balance at 30 June 2015	**49,806**	**27,302**	**77,108**
Accumulated depreciation			
Balance at 1 July 2013	28,249	12,971	41,220
Depreciation expense	7,656	6,049	13,705
Exchange differences	(55)	(168)	(223)
Balance at 30 June 2014	**35,850**	**18,852**	**54,702**
Depreciation expense	9,861	6,672	16,533
Exchange differences	213	579	792
Balance at 30 June 2015	**45,924**	**26,103**	**72,027**
Net book value at 30 June 2014	12,084	8,450	20,534
Net book value at 30 June 2015	**3,882**	**1,199**	**5,081**

NOTE 11: TRADE AND OTHER PAYABLES

	2015 $	2014 $
CURRENT (unsecured)		
Trade payables	**169,274**	136,542
Other creditors and accruals	**67,000**	66,955
Related parties	**161,323**	176,603
	397,597	380,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

NOTE 12: OTHER FINANCIAL LIABILITIES (CURRENT)

	2015 $	2014 $
Financial liabilities measure at amortised cost:		
- Convertible notes – loan component	**1,505,417**	1,308,580
Financial liabilities designated at FVTPL:		
- Embedded derivatives	**379,885**	163,469
	1,885,302	1,472,049
Movement of the financial liabilities		
Opening balance: Convertible notes – loan component	**1,308,580**	829,369
Additions during the period	**750,000**	600,000
Repayment during the year	**(200,000)**	-
Increase in unpaid interest	**147,858**	103,152
Equity component transfer to reserve	**(35,071)**	(35,809)
Imputed interest charge	**(121,199)**	61,868
Conversion to share	**(344,751)**	(250,000)
Closing balance: Convertible notes – loan component	**1,505,417**	1,308,580
Opening balance: Embedded derivatives	**163,469**	186,279
Additions during the period	**-**	-
(Gain)/Loss on movement in fair value	**216,416**	(22,810)
Closing balance: Embedded derivatives	**379,885**	163,469

During the year, the Company and certain holders of 5 existing convertible notes on issue in the Company (each with a face value of $100,000) entered into an agreement to vary the terms of those convertible notes. The variations were as follows:-

- Each convertible note would be split into two convertible notes, with the result that there would be 10 convertible notes on issue, each having a face value of $50,000;
- The parties agreed to extend the maturity date of 6 (newly split) convertible notes (with a total face value of $300,000) from 31 October 2014 to 31 May 2015;
- The parties agreed to vary the terms of the remaining 4 (newly split) convertible notes (with a total face value of $200,000) to enable the assignment of those notes to other parties; this included a variation to the maturity date from 31 October 2014 to 31 October 2015, a variation to the interest rate payable on those notes, and an adjustment to the calculation basis of the conversion price.

On 22 October 2014, 27 October 2014 and 19 November 2014, the remaining 4 (newly split) convertible notes (with a total face value of $200,000) referred to above were assigned to 4 new holders. The key terms of the notes were as follows:-

- Maturity date of 31 October 2015;
- Interest rate – 10% per annum if is paid in cash or 15% per annum if paid in shares at the election of the convertible loan note holder at the time of payment;
- Interest payment payable on conversion or redemption of the convertible notes;
- Conversion price at $0.002 per share;
- Free attaching options - each conversion share entitlement under each note entitled the holder to receive one free attaching unlisted option to acquire a further ordinary share. The options, which were issued in December 2014, are exercisable at $0.002 each, on or before 31 October 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

NOTE 12: OTHER FINANCIAL LIABILITIES (CURRENT) (CONTINUED)

On 30 January 2015 and 17 February 2015, five convertible notes were issued to five new convertible notes holders with a face value of $50,000 (total face value of $250,000). The key terms of the notes are as follows:-

- Maturity date of 31 March 2016;
- Interest rate – 10% per annum if paid in cash or 15% per annum if paid in shares for 1 convertible note issued on 30 January 2015 and 15% per annum if paid in shares or cash for 4 convertible notes issued on 17 February 2015 at the election of the convertible loan note holder at the time of payment;
- Interest payment payable on conversion or redemption of the convertible notes;
- Conversion price at $0.002 per share;
- Free attaching options - each conversion share entitlement under each note entitled the holder to receive one free attaching unlisted option to acquire a further ordinary share. The options, which were issued in January and February 2015, are exercisable at $0.0012 each on or before 31 March 2016.

On 26 June 2015, four convertible notes were issued to four new convertible notes holders, each with a face value of $25,000 (total face value $100,000). The term of the notes with the key terms being as follows:-

- Maturity date of 31 March 2016;
- Interest rate – 10% per annum if paid in cash or 15% per annum if paid in shares at the election of the convertible loan note holder at the time of payment;
- Interest payment payable on conversion or redemption of the convertible notes;
- Conversion price at $0.001 per share;
- Free attaching options - each conversion share entitlement under each note entitled the holder to receive one free attaching unlisted option to acquire a further ordinary share. The options, which were issued in June 2015, are exercisable at $0.001 per share on or before 31 March 2016.

**NOTE: On 28 May 2015 the Company undertook a consolidation of its existing securities on the basis of every 30 securities being consolidated into 1. The information set out above, including the exercise price of options and conversion price of convertible notes, have been provided on a PRE-consolidation basis.*

	2015	2014
	$	$
NOTE 13: ISSUED CAPITAL		
171,851,370 (2014: 88,770,764) fully paid ordinary shares	**69,790,759**	67,986,375

		$	**No.**	$	No.
a.	**Ordinary Shares**				
At the beginning of reporting period		**67,986,375**	**88,770,764**	66,563,756	47,537,431
Shares issued during the year					
—	Conversion of directors fee payable to share	**136,078**	**2,558,142**	-	-
—	Conversion of borrowing to share	**225,000**	**12,268,519**	-	-
—	Capital raising fee in lieu	**216,900**	**7,012,271**	-	-
—	Shares issued	**1,250,000**	**55,555,555**	854,000	20,400,000
—	Exercise of options	**-**	**-**	375,000	12,500,000
—	Conversion of convertible notes	**183,637**	**5,686,119**	250,000	8,333,333
—	Transaction costs on shares issued	**(207,231)**	**-**	(56,381)	-
At reporting date		**69,790,759**	**171,851,370**	67,986,375	88,770,764

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

NOTE 13: ISSUED CAPITAL (CONTINUED)

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.

**NOTE:* On 28 May 2015 the Company undertook a consolidation of its existing securities on the basis of every 30 securities being consolidated into 1. The information set out above, including the number of shares on issue during FY2014, have been provided on a POST-consolidation basis.*

b. **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 $1,885,302 of borrowings as at 30 June 2015 (2014: $1,472,049).

	2015	2014
	$	$
NOTE 14: RESERVES		
Performance rights granted reserves		
Balance at beginning of financial year	**17,133**	-
Movement for the year	**(17,133)**	17,133
Balance at end of financial year	**-**	17,133

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 16.

In April 2015, 833,333 (post consolidation) performance rights were cancelled upon the resignation of a key management personnel and thus the movement for the year number was an adjustment of this cancellation to retained earnings.

At year end, the Board decided to write back the previous performance rights expense of $10,383 to 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.

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.

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 2015

NOTE 15: CASH FLOW INFORMATION

	2015 $	2014 $
Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax	**(1,630,948)**	(1,764,265)
Non-cash flows in profit		
Depreciation & amortisation	**16,533**	20,798
Performance rights expense	**(10,383)**	17,133
Finance cost	**325,767**	187,830
Changes in assets and liabilities		
(Increase)/decrease in trade and term receivables	**(1,814)**	(12,433)
(Increase)/decrease in other assets	**38,248**	(35,469)
Increase/(decrease) in trade payables and accruals	**262,510**	31,812
Net cash flow outflow from operations	**(1,000,087)**	(1,554,594)

NOTE 16: SHARE-BASED PAYMENTS

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

The Company's shareholders approved a Long Term Incentive Plan (**LTIP**) at KNeoMedia's AGM in November 2013. At the 2013 AGM, shareholders approved an issue of performance rights under the LTIP to Directors James Kellett, Andrew Plympton and Jeffrey Bennett.

During the year, pursuant to shareholder approval received the Company's 2014 AGM, the Company issued 666,667 (post consolidation) performance rights under the LTIP to Dr Nigel Finch. Dr Finch's performance rights have lapsed, following his resignation as Director of the Company in February 2015.

During the year in April 2015, a further 833,333 (post consolidation) performance rights lapsed upon the resignation of a key management personnel and the previous performance rights in reserve of $6,750 were reversed to accumulated losses.

The fair value of the performance rights granted to Directors at grant date was $0.022 based on a 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.

During the year, the Company did not recognise any performance rights expense but to write back the previous expense of $10,383 (2014: $17,133) to 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.

As at the date of this report, there are 2,966,667 performance rights (post consolidation) on issue.

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

Grant date	29-11-2013
Number of options granted (Post consolidation)	2,966,667
Share price at grant date (Post consolidation)	$0.030
Fair value at grant date (Post consolidation)	$0.022
Exercise price	$Nil
Expected volatility	253%
Risk free interest	2.0%
Expiry date	31-12-2016
Estimated vesting probability	0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015	2014
	$	$
NOTE 17: 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.		
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current Assets	**1,016,843**	375,509
Non-current Assets	**4,463**	8,478
TOTAL ASSETS	**1,021,306**	383,987
LIABILITIES		
Current Liabilities	**(2,222,735)**	(1,811,940)
TOTAL LIABILITIES	**(2,222,735)**	(1,811,940)
EQUITY		
Issued Capital	**69,790,760**	67,986,375
Reserves	**70,880**	52,942
Retained Earnings	**(71,063,069)**	(69,467,270)
TOTAL EQUITY	**(1,201,429)**	(1,427,953)
STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME		-
Total loss	**(1,595,799)**	(4,787,334)
Total comprehensive income	**(1,595,799)**	(4,787,334)

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 Liabilities

Refer to Note 20 for details of contingent liabilities.

Contractual Commitments

At 30 June 2015 KNeoMedia Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2014: none).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

NOTE 18: CONTROLLED ENTITIES

Subsidiaries

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

	Country of Incorporation	Percentage Owned	
		2015	2014
Virtual Communications International Pty Ltd	Australia	**100**	100
KneoWorld Pty Ltd *(1)*	Australia	**80**	80
Knowledge Nation Pte Ltd *(2)*	Singapore	**-**	-
KneoWorld Inc.*(3)*	United Stated	**80**	80

(1). KNeoWorld Pty Ltd was registered in June 2013 to take over the 100% ownership of KNeoWorld Inc (previously known as Knowledge Nation Inc), a US company based in San Francisco and incorporated in Delaware from Knowledge Nation Pte Ltd (Singapore) on 1 July 2014. KNeoWorld Pty Ltd was 80% owned by KNeoMedia and 20% owned by unlisted Singapore based company Hotshot Media Limited.

(2). Knowledge Nation Pty Ltd was deregistered in June 2013 and the ownership in KNeoWorld Inc was transferred to KNeoWorld Pty Ltd Australia with effect from 1 July 2014 in which 80% owned by KNeoMedia and 20% owned by unlisted Singapore based company Hotshot Media Limited.

(3). 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-15	30-Jun-14	**30-Jun-15**	30-Jun-14	**30-Jun-15**	30-Jun-14
KNeoWorld Inc	20	20	193,992	161,882	938,735	744,743

No dividends were paid to the NCI during the years 2015 and 2014.

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

	2015	2014
	$	$
Current assets	31,298	43,237
Non-current assets	1,418	9,474
Total assets	**32,716**	52,711
Current liabilities	(60,165)	(40,209)
Non-current liabilities	(4,680,501)	(3,735,785)
Total liabilities	**(4,680,501)**	(3,775,994)
Equity attributable to owners of the Parent	**3,718,228**	2,978,626
Non-controlling interests	**929,557**	744,657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

NOTE 18: CONTROLLED ENTITIES (CONTINUED)

Subsidiary with material non-controlling interests (continued)

	2015 **$**	2014 $
Revenue	-	6,102
Loss for the year attributable to owners of the Parent	(775,661)	(629,198)
Loss for the year attributable to NCI	(193,915)	(157,299)
Profit for the year	**(969,576)**	(786,497)
Other Comprehensive Income for the year (All attributable to owners of the Parent)	-	-
Total comprehensive income for the year attributable to owners of the Parent	-	-
Total comprehensive income for the year attributable to NCI	-	-
Total comprehensive income for the year	**(969,576)**	(786,497)

NOTE 19: CAPITAL AND LEASING COMMITMENTS

	2015 **$**	2014 $
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	**7,490**	23,274
	7,490	23,274

The KneoWorld Inc office lease is on a 3 monthly short lease basis at monthly rent of $1,196 equates to US$888 and a service retainer of $3,902 equates to US$2,898.

NOTE 20: CONTINGENT ASSETS AND LIABILITIES

The Group had no contingent assets as at 30 June 2015 (2014: nil).

The Group’s contingent liability as at 30 June 2015 and 2014 was the consideration to be paid to Mooter Media Limited for the 20% stake in KNeoWorld Pty Ltd which they disposed in May 2013 to be the 10 percent of the KNeoWorld Pty Ltd net profit before tax and other offsets for the two financial years ending 30 June 2014 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

NOTE 21: OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Markers (CODM)) in assessing the performance of the Group, and determining investment requirements. The operating segments are based on the manner in which services are provided to the market.

The Group in the past had two operating segments being the Educational Games Distribution business and the vPublisher eBook Content Delivery Software business though neither business has achieved revenue. The vPublisher eBook Content Delivery Software business has been dormant for FY 2013 and FY 2014. During this financial year, The Group decided to cease vPublisher eBook Content Delivery Software business segment, leaving the Group with the Educational Games Distribution business as its only business segment.

Accordingly, no operating segment disclosure is required for this financial year.

	2015 **$**	2014 $
NOTE 22: RELATED PARTY TRANSACTIONS		
Transactions with Controlled Entities		
Amounts receivable between the parent entity and these entities is set out below		
Loans to/(from)		
KNeoWorld Pty Ltd	**4,464,169**	3,520,410
Virtual Communications International Pty Ltd	**298,442**	298,199

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

NOTE 23: 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 (j) 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	2015 $	2014 $
Financial Assets			
Cash and cash equivalents	7	**979,179**	312,553
Trade and other receivables	8	**31,413**	29,598
Other assets	9	**38,349**	76,596
		1,048,941	418,747
Financial Liabilities			
Trade and other payables	11	**397,597**	380,100
Financial liabilities	12	**1,885,302**	1,472,049
		2,282,899	1,852,149

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 2015

NOTE 23: FINANCIAL RISK MANAGEMENT (CONTINUED)

	1-3		3-6		>9 month		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	$	$	**$**	$	**$**	$	**$**	$
Financial liabilities due for payment								
Trade and other payables	**397,597**	154,546	**-**	42,210	**-**	183,344	**397,597**	380,100
Financial liabilities	**-**	-	**203,208**	-	**1,682,094**	1,472,049	**1,885,302**	1,472,049
Total expected outflows	**397,597**	154,546	**203,208**	42,210	**1,682,094**	1,655,393	**2,282,899**	1,852,149
Financial assets — cash flows realisable								
Cash and cash equivalents	**979,179**	312,553	**-**	-	**-**	-	**979,179**	312,553
Trade and other receivables	**31,413**	29,598	**-**	-	**-**	-	**31,413**	29,598
Other assets	**33,452**	34,096	**4,897**	42,500	**-**	-	**38,349**	76,596
Total anticipated inflows	**1,044,044**	376,247	**4,897**	42,500	**-**	-	**1,048,941**	418,747
Net (outflow)/inflow on financial instruments	**646,447**	221,701	**(198,311)**	290	**(1,682,094)**	(1,655,393)	**(1,233,958)**	(1,433,402)

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 2015

NOTE 23: 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.

2015	**Net Financial Assets/(Liabilities) in AUD**	
Consolidated Group	**AUD**	**Total AUD**
Functional currency of entity:		
US dollar	**(21,685)**	**(21,685)**
Statement of financial position exposure	**(21,685)**	**(21,685)**
2014		
Consolidated Group		
Functional currency of entity:		
US dollar	(16,392)	(16,392)
Statement of financial position exposure	(16,392)	(16,392)

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:

	2015	2014
	$'USD	$'USD
Financial assets		
Trade, other receivables & other assets	**20,765**	23,818
Financial liabilities		
Trade and other payables	**(42,450)**	(40,210)
Net exposure	**(21,685)**	(16,392)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

NOTE 23: 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 2015, 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)		**Other Comprehensive Income**	
	Higher/	(Lower)	**Higher/**	(Lower)
	2015	2014	**2015**	2014
	$	$	**$**	$
Consolidated				
AUD to US Dollar +15% (2014: +15%)	**4,228**	2,265	**-**	-
AUD to US Dollar -15% (2014: -15%)	**(5,720)**	(3,065)	**-**	-

The movements in post-tax profit/(loss) and other comprehensive income are due to lower net exposure balance as at 30 June 2015. The sensitivity is higher in 2015 than in 2014 because net exposure balance for 2015 is higher.

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.

	2015	2014
	$	$
Financial assets		
Cash and cash equivalents	**979,179**	312,553
Net exposure	**979,179**	312,553

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 2015, 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)		**Other Comprehensive Income**	
	Higher/	(Lower)	**Higher/**	(Lower)
	2015	2014	**2015**	2014
	$	$	**$**	$
Consolidated				
+1% (100 basis points)	**9,792**	3,125	**-**	-
-0.5% (50 basis points)	**(4,896)**	(1,562)	**-**	-

The movements in post-tax profit/(loss) and other comprehensive income are due to higher cash balances on hand as at 30 June 2015. The sensitivity is higher in 2015 than in 2014 because the cash balance in 2015 is higher.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

NOTE 24: 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 28 July 2015, the Company announced the completion of a successful trial launch of Mandarin language Edutainment product KNeoJUNIOR into China.

In September 2015, KNeoMedia announced that Mobile Embrace Limited (ASX: MBE), had launched the Company's edutainment platform in Australia following the recent execution of a content distribution agreement and co-creation of the HeroWORLD mobile edutainment product. Under the agreement, Mobile Embrace will promote and distribute KNeoMedia's educational games and products to consumers on smartphones and tablets via its embedded telco payments platform under the exclusive branding of HeroWORLD. Following the successful launch of HeroWORLD in Australia, which will look to leverage Mobile Embrace's billing agreements with leading telcos, a strategic expansion into international edutainment markets is anticipated. HeroWORLD is a unique product offering that it has been developed specifically for Mobile Embrace's direct carrier billing platform.

NOTE 25: 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 20 to 52 are in accordance with the Corporations Act 2001 and:

   a) give a true and fair view of the financial position as at 30 June 2015 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 2015; 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.

Andrew Plympton,
Chairman

28 September 2015

Grant Thornton

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Independent Auditor's Report
To the Members of KNeoMedia Limited

Report on the financial report

We have audited the accompanying financial report of KNeoMedia Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2015, 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, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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. The Directors' responsibility also includes 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. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

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

Auditor's opinion
In our opinion:

a the financial report of KNeoMedia Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

  ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Emphasis of matter – going concern
Without qualification to the audit opinion expressed above, we draw attention to Note 1(a) in the financial report which indicates that the consolidated entity incurred a net loss of $1,630,948 and net cash outflows used in operations of $1,000,087 during the year ended 30 June 2015 and has net deficit of assets of $1,228,877 at 30 June 2015. These conditions, along with other matters as set forth in Note 1(a), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in pages 11 to 16 of the directors' report for the year ended 30 June 2015. 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.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of KNeoMedia Limited for the year ended 30 June 2015, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

C F Farley
Partner - Audit & Assurance

Sydney, 28 September 2015

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 17 September 2015 (**Reporting Date**).

Corporate Governance Statement

The Company has prepared a Corporate Governance Statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company. In accordance with ASX Listing Rule 4.10.3, the Corporate Governance Statement will be available for review on KNeoMedia's website (www.KNeoMedia.com.au), and will be lodged with ASX at the same time that this Annual Report is lodged with ASX.

Substantial holders

As at the Reporting Date, there was one substantial holder of KneoMedia shares, Suburban Holdings Pty Limited <Suburban Super Fund A/C>. Based on notices lodged with the Company, there are no other substantial holders of KNeoMedia shares.

Number of holders

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	873
Options exercisable at $0.03 (post-consolidation) on or before 28 February 2016	5
Options exercisable at $0.06 (post-consolidation) on or before 3 October 2015	18
Options exercisable at $0.06 (post-consolidation) on or before 31 October 2015	4
Options exercisable at $0.06 (post-consolidation) on or before 31 March 2016	2
Options exercisable at $0.03 (post-consolidation) on or before 31 March 2016	4
Options exercisable at $0.045 (post-consolidation) on or before 26 June 2018	1
Convertible Notes	15
Performance Rights	3

**the Performance Rights issued under the Company's LTIP have varying performance vesting conditions*

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 873 holders of a total of 171,851,370 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.

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	273	31,893	0.02
1,001 – 5,000	49	141,210	0.08
5,001 – 10,000	48	407,861	0.24
10,001 – 100,000	337	12,935,872	7.53
100,001 and above	166	158,334,534	92.13
Totals	**873**	**171,851,370**	**100.00**

Distribution of holders of options exercisable by 28 February 2015 at $0.03 each (post-consolidation)

Holdings Ranges	Holders	Total Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 – ,999,999,999	5	6,666,667	100
Totals	**5**	**6,666,667**	**100.000**

Distribution of holders of options exercisable by 3 October 2015 at $0.06 each (post-consolidation)

Holdings Ranges	Holders	Total Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	2	108,333	-
100,001 – ,999,999,999	16	4,561,667	100
Totals	**18**	**4,670,000**	**100.000**

Distribution of holders of options exercisable by 31 October 2015 at $0.06 each (post-consolidation)

Holdings Ranges	Holders	Total Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 – ,999,999,999	4	3,333,332	100
Totals	**4**	**3,333,332**	**100.000**

Distribution of holders of options exercisable by 31 March 2016 at $0.06 each (post-consolidation)

Holdings Ranges	Holders	Total Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 – ,999,999,999	2	1,166,666	100
Totals	**2**	**1,166,666**	**100.000**

Distribution of holders of options exercisable by 31 March 2016 at $0.03 each (post-consolidation)

Holdings Ranges	Holders	Total Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 – ,999,999,999	4	9,999,999	100
Totals	**4**	**9,999,999**	**100.000**

Distribution of holders of options exercisable by 26 June 2018 March 2016 at $0.045 each (post-consolidation)

Holdings Ranges	Holders	Total Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 – ,999,999,999	1	15,185,185	100
Totals	**1**	**15,185,185**	**100.000**

Distribution of convertible note holders

Holdings Ranges	Holders	Total Units	%
1 – 1,000	15	39	100
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 – ,999,999,999	-	-	-
Totals	**15**	**39**	**100.000**

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 – ,999,999,999	3	2,966,667	100
Totals	**3**	**2,966,667**	**100.000**

Less than marketable parcels of ordinary shares

The number of holders of less than a marketable parcel of ordinary shares as at the Reporting Date is as follows:

Total Securities	UMP Securities	UMP Holders	UMP %
171,851,370	17,857	252	0.01

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 30 June 2015	%
SUBURBAN HOLDINGS PTY LIMITED <SUBURBAN SUPER FUND A/C>	11,481,482	6.68
MS LINDA LOUISE HUTCHISON	7,566,671	4.40
CHIFLEY PORTFOLIOS PTY LTD <DAVID HANNON RETIREMENT A/C>	6,573,007	3.82
WEINBERG BROS PTY LTD <DANIEL WEINBERG A/C>	6,555,556	3.81
MRS TERRI WOLPERT	6,296,296	3.66
BELLOC PTY LTD	5,381,482	3.13
CITICORP NOMINEES PTY LIMITED	5,123,360	2.98
MR JASON WILLIAM PETERSON	5,000,000	2.91
PEBBLE BAY CAPITAL PTE LIMITED	4,837,568	2.81
MR ANDREW WILLIAM BLACKMAN	4,166,667	2.42
LEO BARRY PTY LTD	3,890,026	2.26
PARADYCE PTY LTD	3,888,889	2.26
BARRIJAG PTY LTD <THE HADLEY SUPER FUND A/C>	3,666,667	2.13
MR ERROL BOME & MRS MELANIE BOME <THE BOME SUPER FUND A/C>	3,555,556	2.07
FURNEAUX MANAGEMENT PTY LTD / KELLETT SUPER PTY LTD <KELLETT SUPERANNUATION F A/C>	3,380,000	1.97
MR JINESH KIRAN PATEL	3,333,333	1.94
DENTOST PTY LTD	3,331,888	1.94
STILLMORE HOLIDAYS PTY LTD <THE NOOSA UNIT FUND A/C>	2,613,261	1.52
ERIC GOLF PTY LTD <RUSSEL J E WRIGHT S/F A/C>	2,222,222	1.29
BRUNTON NOMINEES PTY LTD <BRUNTON SUPER FUND A/C>	1,937,876	1.13
Total number of shares of Top 20 Holders	94,188,474	54.81
Total remaining holders balance	77,662,896	45.19

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:
Level 1
7 Ventnor Ave
WEST PERTH WA 6005

Postal Address:
PO Box 223
WEST PERTH WA 6872

Telephone: 1300 288 664

Stock Exchange Listing

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

Voluntary escrow

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

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 by 28 February 2015 for $0.03 each (post-consolidation)	6,666,667	5
Options exercisable by 3 October 2015 for $0.06 each (post-consolidation)	4,670,000	18
Options exercisable by 31 October 2015 for $0.06 each (post-consolidation)	3,333,332	4
Options exercisable by 31 March 2016 for $0.06 each (post-consolidation)	1,166,666	2
Options exercisable by 31 March 2016 for $0.03 each (post-consolidation)	9,999,999	4
Options exercisable by 28 June 2018 for $0.045 each (post-consolidation)	15,185,185	1
Convertible Notes	39	15
Performance Rights	2,966,667	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
JINESH KIRAN PATEL	Options exercisable by 3 October 2015 for $0.06 each (post-consolidation)	1,666,667	25.00
PEBBLE BAY CAPITAL PTE LTD	Options exercisable by 3 October 2015 for $0.06 each (post-consolidation)	2,500,000	37.50
PERSHING AUSTRALIA NOMINEES	Options exercisable by 3 October 2015 for $0.06 each (post-consolidation)	1,083,333	23.20
LINDA HUTCHISON	Options exercisable by 31 October 2015 for $0.06 each (post-consolidation)	833,333	25.00
SHEAN SFT PTY LTD	Options exercisable by 31 October 2015 for $0.06 each (post-consolidation)	833,333	25.00
TRIFERN PTY LTD	Options exercisable by 31 October 2015 for $0.06 each (post-consolidation)	833,333	25.00
HEREFORD SECURITIES MANAGEMENT S.A.	Options exercisable by 31 October 2015 for $0.06 each (post-consolidation)	833,333	25.00
TACTANT PTY LTD	Options exercisable by 31 March 2016 for $0.06 each (post-consolidation)	833,333	71.43
CONSOLIDATED INVESTMENTS	Options exercisable by 31 March 2016 for $0.06 each (post-consolidation)	333,333	28.57
MATTHEW HAYNE	Options exercisable by 31 March 2016 for $0.03 each (post-consolidation)	4,999,999	50.00
BELLOC PTY LTD	Options exercisable by 26 June 2018 for $0.045 each (post-consolidation)	15,185,185	100.00
BARRIJAG PTY LTD <THE HADLEY SUPER FUND A/C>	Convertible Notes	12	30.77

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.