KNEOMEDIA LIMITED

ABN 41 009 221 783

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2016

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CORPORATE INFORMATION

DIRECTORS

Mr James Kellett	Executive Chairman and Chief Executive Officer
Mr Jeffrey Bennett	Non-Executive Director
Mr Franklin B. Lieberman	Executive Director
Mr Andrew Plympton	Non-Executive Chairman (resigned on 21 October 2015)

COMPANY SECRETARY

Sophie Karzis

REGISTERED OFFICE

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Melbourne, VIC 3000

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SHARE REGISTRY

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50 Holt Street
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WEBSITE ADDRESS

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CHAIRMAN'S LETTER

Dear Shareholders

The Year in Review

The Group's results for the financial year ended 30 June 2016 reflect the first revenue to be achieved from the continued investment by the Group in developing and commercialising its KNeoWORLD Educational Games Portal. While maiden revenue of $64,891 for FY2016 was modest, it was recorded in the last quarter and is encouraging for the Company entering FY2017 as its focus shifts from product development to sales and marketing activities.

The Group incurred a loss for the year of $1,565,977 (FY2015: Loss $1,630,948), primarily attributable to the receipt of other income $483,570 under the Australian Government's Research and Development Tax Incentive Program, and the containment of employee benefits cost and operating costs. The Group also continued as a participant in the Australian Government's Research and Development Tax Incentive Program during FY2016, and as a result anticipates receiving a tax refund of approximately $325,000 from the ATO imminently. This has not been recognised at 30 June 2016.

KNeoWorld's Operations

During the year, the Company continued to make excellent progress with the ongoing product development and planned rollout of its edutainment products in multiple regions in conjunction with its established distribution partners. This included the continued development of its flagship Games Based Learning Edutainment portal KneoWorld.com in English, Spanish and Mandarin together with Apple and Android Apps, KNeoESP for special needs students, KNeoEd for classroom participation and HeroWorld for exclusive distribution by Mobile Embrace (ASX: MBE).

Australia, UK, Norway & Switzerland

In conjunction with its marketing and distribution partner Mobile Embrace, KNeoMedia is achieving encouraging take up rates of the HeroWORLD product in Australia. Having refined and improved the sign up and download process, KNM and MBE have subsequently launched HeroWorld in the UK, Norway and Switzerland. The HeroWORLD edutainment (education and entertainment) product has been specifically designed for consumers on smartphones and tablets, and may easily be purchased via Mobile Embrace's embedded direct carrier billing platform through major telecommunication provers. The Company is encouraged by the increasing number of downloads MBE is now achieving with refined and targeted marketing campaigns for HeroWORLD, and expects revenue to increase with the ongoing ramp up of these, and as previously communicated, rollout into additional countries with substantial market size.

United States

KNeoMedia continues to pursue opportunities in the US, with a particular focus on the primary school sector, initially in the greater New York area. The testing, trialling and validation process of its edutainment offerings has been extensive in terms of both time and cost. However, as previously announced, after successful trials of KNeoWORLD in a number of public schools, the Company has secured its first sign ups and begun to generate revenue on an annual per seat licence sale basis. Having now established these initial school sales and sites, the Company believes these will provide momentum to drive further sales, particularly with the commencement of the new US scholastic year in September.

The Company has also continued its collaboration with the US National Parent Teacher Association (PTA) by providing KNeoWorld as a fundraising initiative. Under this model, schools on-sell the edutainment product to their communities with KNM's assistance and receive half of subscription sales back to support their fundraising efforts. This collaboration includes approximately 50,000 elementary schools across the US. KNeoMedia has carried out extensive testing and trialling of KNeoWORLD with PTAs, and has also presented at various PTA conferences, receiving extremely positive feedback. The Company believes the addition of both Apple and Android Apps in the new school year will be the catalyst for an increasing level of take up through this distribution channel.

China

The Company continues to work with SmartTrans (ASX: SMA) to establish a satisfactory distribution mode for KNeoWorld in China. As previously announced, comprehensive product testing and regional distribution trialling has now been undertaken with SmartTrans. KNeoMedia is confident that the addition of the Android Mandarin version of KNeoWorld will leverage this development work in what is a very large and complex market, but one that offers a significant opportunity for the Company.

Funding & Capital Structure

During the year, the Company received significant support from existing shareholders and new sophisticated investors for its capital raising activities, raising a total of $1,362,205 via the issue of 97,300,286 new ordinary shares at $0.014 per share, which allowed the Group to fund its business development objectives. Proceeds were also applied to the redemption of $550,000 convertible notes and accrued interest.

Further, a number of convertible notes are maturing in the coming year as detailed in this Report. After discussions with key convertible note holders, the Board believes that the Company has ability to manage the maturation of the convertible notes by a combination of: redemption; maturity date extension; and conversion.

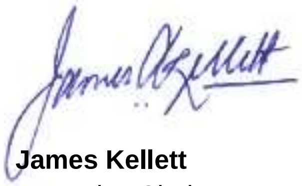
The Board is aware that the Company's cash reserves are limited relative to the Group's current operating expenses. However, as well as accruing receivables for the first time, the Company continues to receive funding proposals from existing and new sophisticated investors, and subsequently the Board believes this support will provide an adequate buffer against any shortfall in anticipated revenue attainment, and for such time as will be required to generate positive cash flow.

Outlook

Having now established footholds in these major markets, KNeoMedia is focused on increasing market penetration and improving uptake of all its products through targeted marketing programs, partnerships with major distributors as well as continuous refinement in order to meet consumer needs.

The Company is also currently assessing a number of strategic partnerships which would potentially allow wider distribution of its edutainment products into additional geographies, and looks forward to updating shareholders in this regard over the coming months.

Yours faithfully



James Kellett
Executive Chairman
Melbourne, 23 September 2016

DIRECTORS' REPORT

The Directors present their report together with the financial report of the consolidated entity consisting of KNeoMedia Limited (KNeoMedia or KNM or the Company) and its controlled entities (the **Group**), for the financial year ended 30 June 2016 and independent auditor's report thereon.

Director details

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

Name	Particulars
Mr James Kellett	**Executive Chairman and Chief Executive Officer** 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 a 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.
Mr Andrew Plympton	**Non-Executive Chairman (resigned on 21 October 2015)** Mr Plympton joined the Company in August 2010 and brought 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 Harris Technology Group Limited (ASX: HT8) (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).

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 (education and entertainment) 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 is an online games publishing company that delivers world-class edutainment games to global educational and consumer markets. The Group publishes and markets from its US based subsidiary, KNeoWorld Inc. and sells on a micro-subscription and apps basis through the KNeoWorld.com games portal, apps stores and via distribution agreements and education departments.

In April 2016, the Group started to generate a modest income and was greatly encouraged by the fact that the revenue trend will continue to grow its edutainment products in the key regions, due to a combination of ongoing refinement and a sustained and strategic channel marketing program.

The Group incurred a loss for the year of $1,565,977 (2015: Loss $1,630,948), primarily attributable to the receipt of other income $483,570 under the Australian Government's Research and Development Tax Incentive Program and the containment of employee benefits cost and operating cost.

While maiden revenue of $64,891 for FY2016 was modest, it was recorded in the last quarter and is encouraging for the Company entering FY2017 as its focus shifts from product development to sales and marketing activities. The Company continued to take 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.

During the year, additional capital raising activities were undertaken during the year from existing shareholders and new investors which raised $1,362,205 and this allowed the Group to fund its business development objectives and drive further revenue growth.

The Group also continued as a participant in the Australian Government's Research and Development Tax Incentive Program during FY2016, and as a result anticipates receiving a tax refund of approximately $325,000 from the ATO imminently. This has not been recognised at 30 June 2016.

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

The attached financial statements detail the performance and financial position of the consolidated entity for the year ended 30 June 2016. 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

	2016 **$**	2015 $
The consolidated loss of the Group after providing for income tax:	**(1,565,977)**	(1,630,948)

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 2016.

Directors' interests in Shares and Options of the Group

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

	Ordinary Shares		Options	Performance rights
	Direct	Indirect		Unquoted
James Kellett	-	3,380,000	-	5,255,590
Jeffrey Bennett	-	3,191,066	-	2,627,795
Franklin B. Lieberman	-	166,666	-	2,627,795

Significant changes in the state of affairs

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

- On 9 September 2015, Mobile Embrace launched KNeoMedia's edutainment platform as HeroWORLD in Australia.
- On 21 October 2015, KNM updated shareholders on the roll out of its range of edutainment products in Australia, Asia and the United States.
- On 21 October 2015, Mr Andrew Plympton resigned as Non-Executive Chairman of the Company.
- On 15 December 2015, the Company raised $552,000 through a share placement (Placement) to a number of sophisticated investors in Australia and overseas. The Company issued 39,300,000 new ordinary shares at $0.014 per share.
- On 2 March 2016, the Company announced that it entered into an agreement with Clever Goats Media, under which it will have exclusive distribution rights for the popular Clever Goats children's mobile learning app.
- On 15 March 2016, the Company announced that its HeroWORLD educational games and content has launched in the United Kingdom (UK) market, following its successful trial in Australia.
- On 15 March 2016, the Company held an Extraordinary General Meeting (**EGM**) and the results on all resolutions were passed and announced as below:-
    - Ratification of issue of 7.1 Placement Shares
    - Ratification of issue of 7.1A Placement Shares
    - Approval of issue of Proposed Placement Securities
    - Approval of the Long Term Incentive Plan (LTIP)
    - Approval of the issue of Performance Rights to Mr James Kellett pursuant to the LTIP
    - Approval of the issue of Performance Rights to Mr Jeffrey Bennett pursuant to the LTIP
    - Approval of the issue of Performance Rights to Mr Frank Lieberman pursuant to the LTIP
    - Approval of the issue of Service Provider
- On 6 April 2016, the Company announced that it has broadened its revenue streams with the launch of a special education version of its KNeoWorld Games Based Learning Portal to an initial 200 students at a New York public school.
- On 27 April 2016, the Company announced that it had successfully completed a capital raising to raise funds of $812,000 through the issue of 58,000,000 new shares (**Placement**). The capital raising Placement was well supported and oversubscribed, with oversubscriptions being scaled back by the Company. The Placement was conducted within the Company's capacities to issue securities under Listing Rules 7.1 and 7.1A and a proposed placement facility approved by shareholders at the EGM. The Placement shares were issued on 3 May 2016.
- On 28 June 2016, the Company announced that it has launched the latest KNeoWorld Android App on the Google Play Store. The App will become visible in Google Play global App stores during the course of the day. A fully integrated digital marketing campaign is being launched concurrently to support of the App launch.

Convertible notes

During the year, 31 convertible notes with a total face value of $950,000 were due to expire at the end of February and March 2016 (with 23 convertible notes with a total face value of $650,000 due to expire at the end of February and 8 convertible notes with a total face value of $300,000 due to expire at the end of March 2016). The Company negotiated extensions to the terms of these convertible notes, with $850,000 worth of the convertible notes having their terms extended by 12 months and $100,000 worth of the convertible notes having their terms extended by 6 months. *Refer to Note 13.*

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 4 July 2016, the Company announced it will benefit from a $3mil grant provide by the Verizon Company Foundation in support of its partnership with Digital Promise to provide innovative learning opportunities for US middle school students.

On 15 July 2016, the Company announced that it has now launched the second phase of expansion into the United Kingdom for its HeroWORLD educational games and content in conjunction with marketing and distribution partner Mobile Embrace.

On 28 July 2016, the Company announced that it has launched its HeroWORLD educational games and content in Norway in conjunction with its marketing and distribution partner Mobile Embrace.

On 1 August 2016, the Company announced that it has launched its HeroWORLD educational games and content in Switzerland in conjunction with its marketing and distribution partner Mobile Embrace.

Future developments, prospects and business strategies

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

Directors' Meetings

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

Director	Directors' Meetings	
	Number Attended	Number eligible to attend
James Kellett	8	8
Jeffrey Bennett	8	8
Franklin Lieberman	6	8
Andrew Plympton	2	2

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

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

At 30 June 2016, there were 275,373,878 ordinary shares on issue. During the year, the Company issued in total 103,522,508 ordinary shares, of which 97,300,286 ordinary shares were through share placements. *Refer to Note 14.*

Options and Performance rights

Performance rights granted

During the year, the existing performance rights of 2,300,000 issued on 29 November 2013 under the Company's Long Term Incentive Plan (**LTIP**) were cancelled at the Company's EGM held on the 15 March 2016.

At the EGM, the Company proposed to issue new performance rights pursuant to the Company's LTIP to the existing three directors. There were a total of 10,511,180 new performance rights approved for issue, of which 5,255,590 were issued to James Kellett, the Company's executive chairman and CEO; 2,627,795 were issued to Jeffrey Bennett, a non-executive director; and 2,627,795 were issued to Frank Lieberman, an executive director. These performance rights were issued on 15 April 2016 following shareholder approvals obtained at the EGM. The performance rights are subject to a number of vesting conditions (revenue targets and continued directorship) as described in the Company's notice of EGM.

As at the date of this report, there are 10,511,180 performance rights on issue.

32,000,143 options (exercisable at $0.025 on or before 3 May 2018) were granted on 3 May 2016, including 29,000,143 options issued as free attaching options (on a 1-for-2 basis) to shares issued under a capital raising placement and 3,000,000 options issued to the nominee of the broker who facilitated that placement, as part consideration for the broker's services.

Except the above, no options or rights were granted during the year and no options or rights have been granted since the end of the finance al year. No options were exercised during the financial year. There are currently 47,185,328 options on issue in the Company.

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

Environmental issues

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

Indemnification and insurance of directors and officers

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

During the year, the total amount of insurance contract premiums paid was $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 Company present the Remuneration Report for Non-Executive Directors, Executive Directors of the Company and other Key Management Personnel of the Group, prepared in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

The Remuneration Report is set out under the following sections:

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

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

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

Key Management Personnel during the financial year are as follows:

(i) Non-executive directors (NEDs)

Andrew Plympton	Chairman (Non-Executive) (until 21 October 2015)
Jeffrey Bennett	Director (Non-Executive)

(ii) Executive directors

James Kellett	Executive Chairman & Chief Executive Officer (CEO)
Franklin B. Lieberman	Executive Director

Changes in KMP during the year are as follows:

- Mr Andrew Plympton resigned his role as Non-Executive Director on 21 October 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. Performance rights granted to Directors and KMP are valued using the Black Scholes option pricing model.

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

Use of remuneration consultants

No remuneration consultants were used during the year.

Voting and comments made at the Company's 2015 Annual General Meeting (AGM)

KNeoMedia shareholders passed a resolution on a unanimous show of hands to adopt the Company's remuneration report for the financial year ended 30 June 2015 at the 2015 AGM. The Company did not receive any specific feedback at the AGM on its remuneration report.

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

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

3. Directors and executive remuneration arrangements

Employment Contracts of Directors and Executives

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

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

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

			Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
Group Key Management Personnel	**Position held as at 30 June 2016 and any change during the year**	**Contract details (duration and termination)**	**Non-salary cash-based incentive %**	**Shares / Units %**	**Options / rights %**	**Fixed Salary / Fees %**	**Total %**
James Kellett	Executive Chairman, CEO	Fixed term contract. Termination conditions apply.(1)	-	-	-	100	100
Jeffrey Bennett	Non-executive Director	No fixed term. No termination conditions.	-	-	-	100	100
Franklin B. Lieberman	Executive Director	No fixed term. No termination conditions.	-	-	-	100	100

*(1) 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[(4)] $	
Executive Director						
James Kellett -CEO	2016	168,000	-	-	1,877	169,877
	2015	168,000	-	-	(5,717)	162,283
Franklin B. Lieberman	2016	42,000	-	-	939	42,939
	2015	16,342	-	-	-	16,342
Non-executive Director						
Jeffrey Bennett	2016	42,000	-	-	939	42,939
	2015	42,000	-	-	(2,333)	39,667
Andrew Plympton *(1)*	2016	15,000	-	-	-	15,000
	2015	48,000	-	-	(2,333)	45,667
Nigel Finch *(2)*	2016	-	-	-	-	-
	2015	26,250	-	-	-	26,250
Other Key Management Personnel						
Franklin B. Lieberman	2016	89,824	-	-	-	89,824
	2015	99,010	-	-	-	99,010
Marti Miernik *(3)*	2016	-	-	-	-	-
	2015	138,159	-	-	-	138,159
Total KMP	**2016**	**356,824**	**-**	**-**	**3,755**	**360,579**
Total KMP	**2015**	**537,761**	**-**	**-**	**(10,383)**	**527,378**

(1) Ceased role 21 October 2015.
(2) Ceased role 13 February 2015.
(3) Ceased role 20 April 2015.
(4)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 will be received until the achievement of these conditions. In 2016, the previous performance rights all lapsed and new performance rights were issued to the directors. The directors re-assessed the probability of reaching the performance conditions as being 70% and prorate performance rights expense being recognised this year.

5. Additional disclosures relating to options and shares

a. Performance rights holdings of key management personnel

At the EGM on 15 March 2016, the Company proposed to issue new performance rights pursuant to the Company's Long Term Incentive Plan (**LTIP**) to the existing three directors. There were a total of 10,511,180 new performance rights issued on 15 April 2016 following shareholder approvals obtained at the EGM. The performance rights are subject to a number of vesting conditions (revenue targets and continued directorship) as described in the Company's notice of EGM. Since then, the existing 2,300,000 which had been issued to previously were cancelled/lapsed.

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 2019.

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

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

As at the reporting date, the Company recognised a prorate $3,755 performance rights expense to the statement of profit or loss and other comprehensive income in view of the estimated 70% probability of achieving the performance conditions.

The fair value of the performance rights granted to Directors at the grant date was $0.0066 based on a Black Scholes option pricing model.

	Grant date	No. granted ('000)	Fair value at grant date	Exercise price ($)	Expiry date	Number lapsed	Balance at 30/6/2016 ('000)	Vested ('000)	Unvested ('000)
Executive Director									
James Kellett	15/4/16	5,256	0.0066	-	31/12/19	-	5,256	-	5,256
Franklin B. Lieberman	15/4/16	2,628	0.0066	-	31/12/19	-	2,628	-	2,628
Non-executive Directors									
Jeffrey Bennett	15/4/16	2,628	0.0066	-	31/12/19	-	2,628	-	2,628

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 2015 No.	Granted as remuneration No.	On exercise of options No.	Net change other No.	Balance at 30 June 2016 No.
Executive Director					
James Kellett	3,380,000	-	-	-	3,380,000
Franklin B. Lieberman	166,666	-	-	-	166,666
Non-executive Directors					
Jeffrey Bennett	968,844	-	-	2,222,222	3,191,066
Total	**4,515,510**	**-**	**-**	**2,222,222**	**6,737,732**

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

	2016 $	2015 $
Related party payables		
Fees payable to key management personnel	**89,773**	161,323
Total related party payables	**89,773**	161,323

g. Other transactions with Key Management Personnel-related entities

During the financial year ended 30 June 2016, Furneaux Management Pty Ltd which is a company controlled by James Kellett, provided an unsecured loan of $200,000 to the Company at zero interest rate. The loan will be converted (subject to shareholder approval at the next general meeting) to shares at 1.4 cents per share and acquire fee-attaching 3 years options exercisable at 2.5 cents at the ratio of 1 option for 2 converted shares. The conversion price is that of the share placement undertaken at the same time the loan was made available (2015: 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 2016.

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 2016 has been received and can be found on page 14, which forms part of this report.

Signed in accordance with a resolution of the Directors

James Kellett,
Executive Chairman

23 September 2016

Grant Thornton

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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 2016, 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, 23 September 2016

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 2016

	Note	**2016** $	2015 $
Revenue			
Sales revenue		**64,891**	-
Other income	2	**486,478**	611,147
		551,369	611,147
Employee benefits expenses		**(271,033)**	(491,508)
Corporate expenses		**(370,472)**	(451,345)
Depreciation and amortisation expenses	10,11	**(55,427)**	(16,533)
Other expenses	3	**(1,285,729)**	(961,882)
Finance costs		**(124,698)**	(109,545)
Performance rights (expense)/benefit		**(3,755)**	10,383
Loss on movement in fair value of embedded derivatives option		**(6,232)**	(221,665)
Loss before income tax		**(1,565,977)**	(1,630,948)
Income tax expense	4	**-**	-
Loss for the year attributable to members		**(1,565,977)**	(1,630,948)
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations (net of tax)		**(54,250)**	(14,133)
Total comprehensive loss for the year		**(1,620,227)**	(1,645,081)
Loss attributable to:			
Members of the parent entity		**(1,375,105)**	(1,437,033)
Non-controlling interests		**(190,872)**	(193,915)
		(1,565,977)	(1,630,948)
Total comprehensive loss attributable to:			
Members of the parent entity		**(1,424,016)**	(1,451,089)
Non-controlling interests		**(196,211)**	(193,992)
		(1,620,227)	(1,645,081)
Earnings/(loss) per share (cents per share)			
Basic and diluted earnings/(loss) per share	6	**(0.68)**	(1.23)

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 2016

	Note	2016 $	2015 $
Current Assets			
Cash and cash equivalents	7	**100,362**	979,179
Trade and other receivables	8	**80,049**	31,413
Other assets	9	**65,644**	38,349
Total Current Assets		**246,055**	1,048,941
Non-current Assets			
Property, plant and equipment	10	**5,123**	5,081
Other intangible assets	11	**234,721**	-
Total Non-current Assets		**239,844**	5,081
Total Assets		**485,899**	1,054,022
Current Liabilities			
Trade and other payables	12	**591,730**	397,597
Other financial liabilities	13	**1,385,967**	1,885,302
Total Current Liabilities		**1,977,697**	2,282,899
Total Liabilities		**1,977,697**	2,282,899
Net Liabilities		**(1,491,798)**	(1,228,877)
Equity			
Issued capital	14	**71,167,945**	69,790,759
Reserves	15	**(168,038)**	(56,571)
Accumulated losses		**(71,348,393)**	(70,024,330)
Parent Entity Interest		**(348,486)**	(290,142)
Non-controlling interest		**(1,143,312)**	(938,735)
Total Equity		**(1,491,798)**	(1,228,877)

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 2016

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR the YEAR ENDED 30 JUNE 2016

	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 loss	-	-	(14,056)	-	-	(77)	(14,133)
Total comprehensive loss	-	(1,437,033)	(14,056)	-	-	(193,992)	(1,645,081)
Shares 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 accumulated losses	-	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 CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 $	2015 $
Cash flows from operating activities			
Receipts from customers		**64,891**	642
Net grants from research and development		**424,853**	531,007
Payments to suppliers and employees		**(1,830,314)**	(1,531,736)
Net cash used in operating activities	16	**(1,340,570)**	(1,000,087)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(8,741)**	(1,526)
Purchase of intangible assets		**(274,718)**	-
Net cash used in investing activities		**(283,459)**	(1,526)
Cash flows from financing activities			
Proceeds from issue of shares		**1,362,205**	1,250,000
Payment for share issue costs		**(105,018)**	(72,514)
Proceeds from convertible notes		**-**	750,000
Repayments of convertible notes		**(550,000)**	(200,000)
Proceeds from borrowings		**200,000**	-
Cash consideration for options		**300**	
Interest received		**2,908**	3,691
Interest paid		**(104,201)**	(49,249)
Net cash provided by financing activities		**806,194**	1,681,928
Net (decrease)/increase in cash and cash equivalents		**(817,835)**	680,315
Cash and cash equivalents at the beginning of the financial year		**979,179**	312,553
Effects of exchange rate changes on cash and cash equivalents		**(60,982)**	(13,689)
Cash and cash equivalents at the end of the financial year	7	**100,362**	979,179

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 2016

This consolidated financial report and notes of KNeoMedia Limited (the **Company**) and controlled entities (the **Group**) for the year ended 30 June 2016 was authorised for issue on 23 September 2016 in accordance with the resolution of the directors.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

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

a. Going Concern basis of accounting

Notwithstanding the loss for the year of $1,565,977 (2015: $1,630,948), net deficit of assets of $1,491,798 (2015: $1,228,877) and net cash outflows used in operations of $1,340,570 (2015: $1,000,087), 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. Additionally substantial product development has been completed and the associated costs are not recurring.

Further, the Board is encouraged by the number of revenue channels that have been established, and the likely ramping up of sales via the USA PTA,, New York City Board of Education,and foundation funded revenue model, the large consumer base and international direct carrier billing distribution in Australia, UK, Norway, Switzerland, China and other new international regions. Further, the Company also anticipates receipt of other income for the 2016 year not dissimilar to that of the 2015 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 2016. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

b. Basis of Consolidation(continued)

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

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

c. Income Tax

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

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

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

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

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

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

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

Tax Consolidation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

d. Revenue and Other Income

Direct consumers revenue

Revenue is recognised when subscribers sign up to the educational game in the Apps Store and pay for the subscription. The revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the subscribers and the revenue can be measured reliably.

Channel partners revenue

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

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

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

e. Goods and services tax (GST)

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

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

f. Borrowing Costs

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

g. Cash and Cash Equivalents

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

h. Property, Plant and Equipment

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

Plant and Equipment

Plant and equipment are measured on the cost basis.

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

h. Property, Plant and Equipment (continued)

Depreciation

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

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

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

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

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

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

i. Other Intangible Assets

Project development costs

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

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

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

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

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

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

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

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

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

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

Subsequent measurement

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

j. Leases

Operating leases

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

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

k. Financial Instruments

Recognition and Initial Measurement

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

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

Classification and Subsequent Measurement financial assets

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

Loans and receivables

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

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

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

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

Classification and subsequent measurement of financial liabilities

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

k. Financial Instruments (continued)

Derivative financial instruments and hedge accounting

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

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

Impairment

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

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

n. Employee Benefits

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

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

o. Share based payments

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

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

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

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

p. Provisions

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

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

q. Earnings per share

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

r. Segment Reporting

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

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

s. Comparative Figures

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

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

t. Significant management judgement in applying accounting policies

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

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 $1,107,540 (2015: $690,675) of tax losses carried forward. Unused revenue and capital losses will be available in future to offset against income to the extent ownership tests as contained in the ITAA 1997 can be met (Refer note 4).

Estimation uncertainty

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

- Other intangible assets (Note 11)
- Fair value of financial liabilities (Note13)
- Share-based payment (Note 17)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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

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

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

AASB 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 AASB 139. The main changes are:

(a) Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) 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 and 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

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018. Management have yet to undertake a detailed assessment of the impact of AASB 9. However, based on management's preliminary assessment the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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

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

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

AASB 16 Leases

AASB 16 replaces AASB 117 Leases and some lease-related Interpretations, and:

- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases
- provides new guidance on the application of the definition of lease and on sale and lease back accounting
- largely retains the existing lessor accounting requirements in AASB 117
- equires new and different disclosures about leases

AASB 16 is applicable to annual reporting periods beginning on or after 1 January 2019. Management have yet to undertake a detailed assessment of the impact of AASB 16. However, based on management's preliminary assessment the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 $	2015 $
NOTE 2: REVENUE		
Sales Revenue		
- Kneo revenue - online	5,624	-
- Kneo revenue - MBE	18,072	-
- Kneo revenue - KNeoEd& KNeoESP	41,195	-
	64,891	-
Other income		
- Grants for research and development	**483,570**	607,456
- Interest income	**2,908**	3,691
	486,478	611,147

	2016 $	2015 $
NOTE 3: EXPENSES		
Other expenses		
- Consulting fees	**606,648**	449,936
- Marketing costs	**310,493**	130,232
- R & D expense	**10,360**	-
- Occupancy costs	**48,665**	77,253
- Capital raising costs	**38,611**	157,000
- Administration costs	**82,001**	82,292
- Other expenses	**188,951**	65,169
	1,285,729	961,882

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 $	2015 $
NOTE 4: INCOME TAX EXPENSE		
Current and deferred tax expense for the year ended 30 June 2016 were nil (2015: 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	**(1,565,977)**	(1,630,948)
At Australia's income tax rate 30%	**(469,793)**	(489,284)
Temporary differences and tax losses not brought to account as deferred tax assets	**469,793**	482,895
Tax losses utilised	**-**	6,389
Income tax benefit reported in the statement of comprehensive income	**-**	-
Effective tax rate	**0%**	0%
Income tax losses – tax consolidated group		
Unused tax losses for which no deferred tax assets have been recognised	**1,107,540**	690,675

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 incurred an Australian taxable loss of $536,865 (2015: taxable profit of $21,297). The Group did not incur capital losses during the year ended 30 June 2016 (2015: $nil).

At 30 June 2016, the group has revenue losses carried forward of $1,107,540 (2015: 690,675).

At 30 June 2016, the group has capital losses carried forward of $19,848 (2015: $19,848).

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

NOTE 5: AUDITORS' REMUNERATION

Amounts received or due and receivable by Grant Thornton Australia for:

	2016	2015
- An audit or review of the financial report of the entity and any other entity in the consolidated entity	**63,000**	52,000
	63,000	52,000

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	$	$

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:

		2016	2015
	Basic and diluted earnings to profit or loss	**(0.68) cents**	(1.23) cents
a.	Reconciliation of earnings to profit or loss		
	Loss for the year	**1,565,977**	1,630,948
	Loss attributable to non-controlling interest	**190,872**	193,915
	Earnings used to calculate basic and dilutive EPS	**1,375,105**	1,437,033
		No.	No.
b.	Weighted average number of ordinary shares outstanding during the year used in calculating basic and dilutive EPS	**203,114,780**	116,568,338

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

NOTE 7: CASH AND CASH EQUIVALENTS

	2016	2015
Cash at bank and in hand	**100,362**	979,179
	100,362	979,179

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 8: TRADE AND OTHER RECEIVABLES

	2016 **$**	2015 $
CURRENT		
Trade receivables	**3,279**	-
Accrued revenue	**51,770**	4,096
Less: Allowance for doubtful debt	**-**	(4,096)
Other receivables	**10,100**	-
	65,149	-
GST recoverable	**14,900**	31,413
	80,049	31,413

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

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

All of the Group's trade and other receivables have been reviewed for indicators of impairment. No trade receivables were found to be impaired and no allowance for credit losses (2015: $4,096) has been recorded accordingly within other expenses.

NOTE 9: OTHER ASSETS

CURRENT		
Prepayments	**52,345**	16,057
Rental Deposit	**13,299**	22,292
	65,644	38,349

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

	Plant & Equipment	Furniture & Fixtures	Total
	$	$	$
Gross carrying amount			
Balance at 1 July 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**
Additions	8,741	-	8,741
Disposals	(21,608)	-	(21,608)
Exchange differences	7,383	-	7,383
Balance at 30 June 2016	**44,322**	**27,302**	**71,624**
Accumulated depreciation			
Balance at 1 July 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**
Depreciation expense	7,444	5,520	12,964
Disposals	(20,022)	-	(20,022)
Exchange differences	5,968	(4,436)	1,532
Balance at 30 June 2016	**39,314**	**27,187**	**66,501**
Net book value at 30 June 2015	3,882	1,199	5,081
Net book value at 30 June 2016	**5,008**	**115**	**5,123**

NOTE 11: OTHER INTANGIBLE ASSETS

	2016	2015
	$	$
Gross carrying amount		
Balance as at 1 July 2015	-	-
Additions	**274,718**	-
Balance at 30 June 2016	**274,718**	-
Accumulated amortisation and impairment		
Balance as at 1 July 2015	**-**	-
Amortisation expense	**40,877**	-
Exchange differences	**(880)**	
Balance at 30 June 2016	**39,997**	-
Net book value at 30 June 2016	**234,721**	-

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	$	$
NOTE 12: TRADE AND OTHER PAYABLES		
CURRENT (unsecured)		
Trade payables	238,624	169,274
Other creditors and accruals	63,333	67,000
Related parties	289,773	161,323
	591,730	397,597

NOTE 13: OTHER FINANCIAL LIABILITIES (CURRENT)

	2016	2015
Financial liabilities measure at amortised cost:		
- Convertible notes – loan component	**782,927**	1,505,417
Financial liabilities designated at FVTPL:		
- Embedded derivatives	**603,040**	379,885
	1,385,967	1,885,302
Movement of the financial liabilities		
Opening balance: Convertible notes – loan component	**1,505,417**	1,308,580
Additions during the period	**-**	750,000
Repayment during the year	**(550,000)**	(200,000)
Increase in unpaid interest	**74,115**	147,858
Equity component transfer to reserve	**-**	(35,071)
Imputed interest charge	**(246,605)**	(121,199)
Conversion to shares	**-**	(344,751)
Closing balance: Convertible notes – loan component	**782,927**	1,505,417
Opening balance: Embedded derivatives	**379,885**	163,469
Additions during the period	**-**	-
Loss on movement in fair value	**223,155**	216,416
Closing balance: Embedded derivatives	**603,040**	379,885

During the year, 31 convertible notes with a total face value of $950,000 were due to expire at the end of February and March 2016 (with 23 convertible notes with a total face value of $650,000 due to expire at the end of February and 8 convertible notes with a total face value of $300,000 due to expire at the end of March 2016). The Company negotiated extensions to the terms of these convertible notes, with $850,000 worth of the convertible notes having their terms extended by 12 months and $100,000 worth of the convertible notes having their terms extended by 6 months.

A detailed summary is provided below.

1 convertible note with a face value of $25,000 (total face value of $25,000) was due to expire on 28 February 2016, and had its maturity date extended to 28 February 2017. The key terms of this convertible note are as follows:-

- Maturity date of 28 February 2017;
- 15% per annum interest rate;
- Interest is payable monthly in arrears from the issue date. Interest payments will be deposited into nominated bank accounts on the first business day of the following month;
- Conversion price at $0.018 per share or at the lowest of 80% of the average adjusted volume weighted average price (VWAP);
- Each ordinary share issued by conversion of convertible notes will have one free attaching unlisted option to acquire an ordinary share in the Company exercisable 90 days after issue at the price of the share converted from the convertible note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 13: OTHER FINANCIAL LIABILITIES (CURRENT) (CONTINUED)

14 convertible notes with a face value of $25,000 each (total face value of $350,000) were due to expire on 28 February 2016, and had their maturity dates extended to 28 February 2017. The key terms of these convertible notes are as follows:-

- Maturity date of 28 February 2017;
- 15% per annum interest rate;
- Interest is payable monthly in arrears from the issue date. Interest payments will be deposited into nominated bank accounts on the first business day of the following month;
- Conversion price at $0.015 per share or at the lowest of 80% of the average adjusted volume weighted average price (VWAP);
- Each ordinary share issued by conversion of convertible notes will have one free attaching unlisted option to acquire an ordinary share in the Company exercisable 90 days after issue at the price of the share converted from the convertible note.

5 convertible notes with a face value of $25,000 each (total face value of $125,000) were due to expire on 28 February 2016 and had their maturity dates extended to 28 February 2017. The key terms of these convertible notes are as follows:-

- Maturity date of 28 February 2017;
- 10% per annum on the face value of the note if such interest in paid in cash; alternatively and at the note holder's election, the note will bear interest at 15% per annum on the face value of the note if interest is capitalised and paid out in shares. Interest will accrue and will be payable (whether in cash or shares) in arrears upon conversion or redemption;
- $0.02 for 6 months from 28 February 2016, then 20% discount to VWAP thereafter;
- Attaching options to be re-issued with identical expiry and exercise terms as these convertible notes upon shareholder approval being obtained at a general meeting.

1 convertible note with a face value of $50,000 was due to expire on 28 February 2016 and had its maturity date extended to 28 February 2017. The key terms of this convertible note are as follows:-

- Maturity date of 28 February 2017;
- 10% per annum on the face value of the note if such interest in paid in cash; alternatively and at the note holder's election, the note will bear interest at 15% per annum on the face value of the note if interest is capitalised and paid out in shares. Interest will accrue and will be payable (whether in cash or shares) in arrears upon conversion or redemption;
- $0.02 for 6 months from 28 February 2016, then 20% discount to VWAP thereafter;
- Attaching options to be re-issued with identical expiry and exercise terms as this convertible note upon shareholder approval being obtained at a general meeting.

2 convertible notes with a face value of $50,000 each (total face value of $100,000) were due to expire on 28 February 2016 and had their maturity dates extended to 28 August 2016. The key terms of these convertible notes are as follows:-

- Maturity date of 28 August 2016;
- 10% per annum on the face value of the note if such interest in paid in cash; alternatively and at the note holder's election, the note will bear interest at 15% per annum on the face value of the note if interest is capitalised and paid out in shares. Interest will accrue and will be payable (whether in cash or shares) in arrears upon conversion or redemption;
- $0.02 for 6 months from 28 February 2016;
- Attaching options to be re-issued with identical expiry and exercise terms as this convertible note upon shareholder approval being obtained at a general meeting.

8 convertible notes (including 4 convertible notes with a face value of $50,000 each and 4 convertible notes with a face value of $25,000 each, giving a total face value of $300,000) were due to expire on 31 March 2016 and had their maturity dates extended to 31 March 2017. The key terms of these convertible notes are as follows:-

- Maturity date of 31 March 2017;
- 10% per annum on the face value of the note if such interest in paid in cash; alternatively and at the note holder's election, the note will bear interest at 15% per annum on the face value of the note if interest is capitalised and paid out in shares. Interest will accrue and will be payable (whether in cash or shares) in arrears upon conversion or redemption;
- $0.02 for 6 months from 31 March 2016, then 20% discount to VWAP thereafter;
- Attaching options to be re-issued with identical expiry and exercise terms as these convertible notes upon shareholder approval being obtained at a general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 13: OTHER FINANCIAL LIABILITIES (CURRENT) (CONTINUED)

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 2016. 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.

	2016	2015
	$	$
NOTE 14: ISSUED CAPITAL		
275,373,878 (2015: 171,851,370) fully paid ordinary shares	**71,167,945**	69,790,759

		$	**No.**	$	No.
a.	**Ordinary Shares**				
At the beginning of reporting period		**69,790,759**	**171,851,370**	67,986,375	88,770,764
Shares issued during the year					
—	Conversion of directors fee payable to share	**50,000**	**2,222,222**	136,078	2,558,142
—	Conversion of borrowing to share	**-**	**-**	225,000	12,268,519
—	Capital raising fee in lieu	**70,000**	**4,000,000**	216,900	7,012,271
—	Shares issued (capital raising)	**1,362,204**	**97,300,286**	1,250,000	55,555,555
—	Conversion of convertible notes	**-**	**-**	183,637	5,686,119
—	Transaction costs on shares issued	**(105,018)**		(207,231)	-
At reporting date		**71,167,945**	**275,373,878**	69,790,759	171,851,370

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

b. **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 $1,385,967 of borrowings as at 30 June 2016 (2015: $1,885,302).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 15: RESERVES

	2016 $	2015 $
Performance rights granted reserves		
Balance at beginning of financial year	**-**	17,133
Movement for the year	**3,755**	(17,133)
Balance at end of financial year	**3,755**	-
Convertible Note Equity Reserves		
Balance at beginning of financial year	**70,880**	35,809
Movement for the year	**(23,935)**	35,071
Transfer to retained earnings	**(42,676)**	-
Balance at end of financial year	**4,269**	70,880

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 17.

On 15 March 2016, the existing performance rights of 2,300,000 on issue were cancelled at the date of the notice of extraordinary general meeting (EGM).

At the EGM, the Company proposed to issue new performance rights pursuant to the Company's Long Term Incentive Plan (LTIP) to the existing three directors. There were a total of 10,511,180 new performance rights approved for issue, of which 5,255,590 were issued to James Kellett, the Company's executive chairman and CEO; 2,627,795 were issued to Jeffrey Bennett, a non-executive director; and 2,627,795 were issued to Frank Lieberman, an executive director. The performance rights were issued on 15 April 2016 following shareholder approval obtained at the EGM. The performance rights are subject to a number of vesting conditions (revenue targets and continued directorship) as described in the Company's notice of EGM.

At year end, the Company recognised a pro-rated $3,755 performance rights expense to statement of profit or loss and other comprehensive income in view of 70% probability of achieving the performance conditions be achieved.

Convertible Note Equity Reserves

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

During the year, a host value of $475,000 fixed convertible notes have been extended and the terms and conditions have changed to an embedded derivative convertible notes. With the change of terms and conditions, the convertible notes reserve of $42,676 in relation to those fixed convertible notes were no longer required as the convertible notes that gave rise to the equity reserves no longer existed and were not converted into equity shares. Hence, $42,676 of the convertible note reserves were transferred to retained earnings. In addition, $23,935 of the convertible note reserves were expensed to the consolidated statement of profit or loss due to the redemption of the fixed convertible notes.

Foreign Currency Translation Reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 16: CASH FLOW INFORMATION

	2016 $	2015 $
Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax	**(1,565,977)**	(1,630,948)
Non-cash flows in profit		
Depreciation & amortisation	**55,427**	16,533
Performance rights expense	**3,755**	(10,383)
Share capital raising cost	**19,445**	-
Changes in FV of embedded derivatives	**6,232**	221,665
Finance cost	**117,603**	104,102
Changes in assets and liabilities		
(Increase)/decrease in trade and term receivables	**(48,635)**	(1,814)
(Increase)/decrease in other assets	**23,261**	38,248
Increase/(decrease) in trade payables and accruals	**48,319**	262,510
Net cash flow outflow from operations	**(1,340,570)**	(1,000,087)

NOTE 17: SHARE-BASED PAYMENTS

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

On 15 March 2016, the existing performance rights of 2,300,000 on issue were cancelled at the date of the notice of extraordinary general meeting (EGM).

At the EGM, the Company proposed to issue new performance rights pursuant to the Company's Long Term Incentive Plan (LTIP) to the existing three directors. There were a total of 10,511,180 new performance rights approved for issue, of which 5,255,590 were issued to James Kellett, the Company's executive chairman and CEO; 2,627,795 were issued to Jeffrey Bennett, a non-executive director; and 2,627,795 were issued to Frank Lieberman, an executive director. The performance rights were issued on 15 April 2016 following shareholder approval obtained at the EGM. The performance rights are subject to a number of vesting conditions (revenue targets and continued directorship) as described in the Company's notice of EGM.

The fair value of the performance rights granted to Directors at grant date was $0.0066 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. The rights will lapse if the vesting conditions are not achieved by 31 December 2019 (expiry date).

As at the reporting date, the Company recognised a prorate $3,755 performance rights expense to statement of profit or loss and other comprehensive income in view of 70% probability of achieving the performance conditions be achieved.

As at the date of this report, there are 10,511,180 performance rights on issue.

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

Grant date	15-4-2016
Number of options granted	10,511,180
Share price at grant date	$0.014
Fair value at grant date	$0.0066
Exercise price	$Nil
Expected volatility	46.35%
Risk free interest	1.75%
Expiry date	31-12-2019
Estimated vesting probability	70%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 18: 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.

	2016 $	2015 $
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current Assets	**159,018**	1,016,843
Non-current Assets	**3,808**	4,463
TOTAL ASSETS	**162,826**	1,021,306
LIABILITIES		
Current Liabilities	**(1,884,965)**	(2,222,735)
TOTAL LIABILITIES	**(1,884,965)**	(2,222,735)
EQUITY		
Issued Capital	**71,167,946**	69,790,760
Reserves	**8,323**	70,880
Retained Earnings	**(72,898,408)**	(71,063,069)
TOTAL EQUITY	**(1,722,139)**	(1,201,429)
STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME		-
Total loss	**(1,835,339)**	(1,595,799)
Total comprehensive income	**(1,835,339)**	(1,595,799)

Guarantees

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

Contingent Assets and Liabilities

KNeoMedia Limited had no contingent assets and liabilities as at 30 June 2016.

Contractual Commitments

At 30 June 2016 KNeoMedia Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2015: none).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 19: 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	
		2016	2015
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-16	30-Jun-15	**30-Jun-16**	30-Jun-14	**30-Jun-16**	30-Jun-15
KNeoWorld Inc	20%	20%	196,211	193,992	1,143,312	938,735

No dividends were paid to the NCI during the years 2016 and 2015.

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

	2016	2015
	$	$
Current assets	87,038	31,298
Non-current assets	236,835	1,418
Total assets	**323,873**	32,716
Current liabilities	(92,733)	(60,165)
Non-current liabilities	(5,947,701)	(4,680,501)
Total liabilities	**(6,040,434)**	(4,740,666)
Equity attributable to owners of the Parent	**4,573,249**	3,766,360
Non-controlling interests	**1,143,312**	938,735

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 19: CONTROLLED ENTITIES (CONTINUED)

Subsidiary with material non-controlling interests (continued)

	2016 $	2015 $
Revenue	-	-
Loss for the year attributable to owners of the Parent	(763,489)	(775,661)
Loss for the year attributable to NCI	(190,872)	(193,915)
Profit for the year	**(954,361)**	(969,576)
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	**(954,361)**	(969,576)

NOTE 20: CAPITAL AND LEASING COMMITMENTS

Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable –minimum lease payments

Not later than 12 months	**29,023**	7,490
	29,023	7,490

The KneoWorld Inc office lease is on a 6 monthly short lease basis at monthly rent of $3,628 equates to US$2,700 and a service retainer of $7,255 equates to US$5,400 converted at year end rate 1.3436.

NOTE 21: CONTINGENT ASSETS AND LIABILITIES

The Group had no contingent assets and liabilities as at 30 June 2016 (2015: nil).

NOTE 22: RELATED PARTY TRANSACTIONS

a. Transactions with Controlled Entities

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

Loans to		
KNeoWorld Pty Ltd	**5,731,368**	4,464,169
Virtual Communications International Pty Ltd	**298,688**	298,442

b. Transactions with Key Management Personnel(KMP)

Amounts payables to KMP is set out below

Payables		
Furneaux Management Pty Ltd	**211,297**	-
Furneaux Project Marketing Pty Ltd	**5,500**	-
FBL Holdings Ltd	**15,176**	12,223
Hixon Pty Ltd	**57,800**	61,600
	289,773	73,823

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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 (k) to these financial statements, are as below. The carrying amount of the following financial assets and liabilities is considered a reasonable approximation of fair value.

	Note	2016 $	2015 $
Financial Assets			
Cash and cash equivalents	7	**100,362**	979,179
Trade and other receivables	8	**80,049**	31,413
Other assets	9	**65,644**	38,349
		246,055	1,048,941
Financial Liabilities			
Trade and other payables	11	**591,730**	397,597
Financial liabilities	12	**1,385,967**	1,885,302
		1,977,697	2,282,899

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 2016

NOTE 23: FINANCIAL RISK MANAGEMENT (CONTINUED)

	1-3		3-6		>9 month		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	$	$	**$**	$	**$**	$	**$**	$
Financial liabilities due for payment								
Trade and other payables	**397,716**	397,597	**34,275**	-	**159,739**	-	**591,730**	397,597
Financial liabilities	**104,684**	-	**1,280,283**	203,208	**-**	1,682,094	**1,385,967**	1,885,302
Total expected outflows	**502,400**	397,597	**1,314,558**	203,208	**159,739**	1,682,094	**1,977,697**	2,282,899
Financial assets — cash flows realisable								
Cash and cash equivalents	**100,362**	979,179	**-**	-	**-**	-	**100,362**	979,179
Trade and other receivables	**70,049**	31,413	**-**	-	**10,000**	-	**80,049**	31,413
Other assets	**10,464**	33,452	**10,464**	4,897	**44,716**	-	**65,644**	38,349
Total anticipated inflows	**180,875**	1,044,044	**10,464**	4,897	**54,716**	-	**246,055**	1,048,941
Net (outflow)/inflow on financial instruments	**(321,525)**	646,447	**(1,304,094)**	(198,311)	**(105,023)**	(1,682,094)	**(1,731,642)**	(1,233,958)

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 2016

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.

2016	**Net Financial Assets/(Liabilities) in AUD**	
Consolidated Group	**AUD**	**Total AUD**
Functional currency of entity:		
US dollar	**(24,752)**	**(24,752)**
Statement of financial position exposure	**(24,752)**	**(24,752)**
2015		
Consolidated Group		
Functional currency of entity:		
US dollar	(21,685)	(21,685)
Statement of financial position exposure	(21,685)	(21,685)

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:

	2016	2015
	$'USD	$'USD
Financial assets		
Trade, other receivables & other assets	**40,380**	20,765
Financial liabilities		
Trade and other payables	**(65,132)**	(42,450)
Net exposure	**(24,752)**	(21,685)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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 2016, 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/ 2016 $	(Lower) 2015 $	**Higher/ 2016 $**	(Lower) 2015 $
Consolidated				
AUD to US Dollar +15% (2015: +15%)	**4,338**	4,228	**-**	-
AUD to US Dollar -15% (2015: -15%)	**(5,869)**	(5,720)	**-**	-

The movements in post-tax profit/(loss) and other comprehensive income are due to higher net exposure balance as at 30 June 2016. The sensitivity is higher in 2016 than in 2015 because net exposure balance for 2016 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.

	2016 $	2015 $
Financial assets		
Cash and cash equivalents	**100,362**	979,179
Net exposure	**100,362**	979,179

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 2016, 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/ 2016 $	(Lower) 2015 $	**Higher/ 2016 $**	(Lower) 2015 $
Consolidated				
+1% (100 basis points)	**1,003**	9,792	**-**	-
-0.5% (50 basis points)	**(501)**	(4,896)	**-**	-

The movements in post-tax profit/(loss) and other comprehensive income are due to lower cash balances on hand as at 30 June 2016. The sensitivity is lower in 2016 than in 2015 because the cash balance in 2016 is lower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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 4 July 2016, the Company announced it will benefit from a $3mil grant provide by the Verizon Company Foundation in support of its partnership with Digital Promise to provide innovative learning opportunities for US middle school students.

On 15 July 2016, the Company announced that it has now launched the second phase of expansion into the United Kingdom for its HeroWORLD educational games and content in conjunction with marketing and distribution partner Mobile Embrace.

On 28 July 2016, the Company announced that it has launched its HeroWORLD educational games and content in Norway in conjunction with its marketing and distribution partner Mobile Embrace.

On 1 August 2016, the Company announced that it has launched its HeroWORLD educational games and content in Switzerland in conjunction with its marketing and distribution partner Mobile Embrace.

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 16 to 48 are in accordance with the Corporations Act 2001 and:

   a) give a true and fair view of the financial position as at 30 June 2016 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 2016; and

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

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

James Kellett,
Executive Chairman

23 September 2016

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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 2016, 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 2016 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 $1,565,977 and net cash outflows used in operations of $1,340,570 during the year ended 30 June 2016 and has net deficit of assets of $1,491,798 at 30 June 2016. 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 8 to 13 of the directors' report for the year ended 30 June 2016. 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 2016 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, 23 September 2016

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 19 September 2016 (**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, substantial holders of KNeoMedia shares based on substantial holder notices received by the Company are as follows:

Substantial holders	Number of shares held	% of total issued share capital
Mungala Investments Pty Ltd	35,100,000	12.75%

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	1071
Options exercisable at $0.025 on or before 3 May 2018	16
Options exercisable at $0.045 on or before 26 June 2018	1
Convertible Notes	10
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 1,071 holders of a total of 275,373,878 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	326	32,309	0.01%
1,001 – 5,000	47	133,637	0.05%
5,001 – 10,000	45	380,673	0.14%
10,001 – 100,000	347	15,386,001	5.59%
100,001 and above	270	259,441,258	94.21%
Totals	**1,035**	**275,373,878**	**100.00**

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

Holdings Ranges	Holders	Total Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and above	16	32,000,143	100
Totals	**16**	**32,000,143**	**100.000**

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

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

Distribution of convertible note holders

Holdings Ranges	Holders	Total Units	%
1 – 1,000	10	31	100
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and above	-	-	-
Totals	**10**	**31**	**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	10,511,180	100
Totals	**3**	**10,511,180**	**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 %
275,373,878	7,466,023	662	2.71

Twenty largest shareholders

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

Holder Name	Balance as at Reporting Date	%
MUNGALA INVESTMENTS PTY LIMITED	25,900,000	9.41%
MR ANDREW WILLIAM BLACKMAN	11,666,667	4.24%
MS LINDA LOUISE HUTCHISON	10,500,000	3.81%
MUNGALA INVESTMENTS PTY LTD	9,200,000	3.34%
WEINBERG BROS PTY LTD <DANIEL WEINBERG A/C>	8,555,556	3.11%
PEBBLE BAY CAPITAL PTE LIMITED	7,550,000	2.74%
PARADYCE PTY LTD	6,860,318	2.49%
COVE STREET PTY LIMITED <THE COVE STREET A/C>	4,504,389	1.64%
LIVING 2 PTY LTD <LIVING LIFE SUPER A/C>	4,371,000	1.59%
ARMCO BARRIERS PTY LTD	4,320,000	1.57%
MIKADO CORPORATION PTY LTD <JFC SUPERANNUATION A/C>	4,000,000	1.45%
REDHILL CAPITAL PARTNERS (SINGAPORE) PTE LTD	4,000,000	1.45%
CITICORP NOMINEES PTY LIMITED	3,791,580	1.38%
BARRIJAG PTY LTD <THE HADLEY SUPER FUND A/C>	3,666,667	1.33%
FURNEAUX MANAGEMENT PTY LTD / KELLETT SUPER PTY LTD <KELLETT SUPERANNUATION F A/C>	3,380,000	1.23%
MR JINESH KIRAN PATEL	3,333,333	1.21%
DENTOST PTY LTD	3,331,888	1.21%
HIXON PTY LTD	3,057,733	1.11%
JCKL PTY LTD <STAFF SUPER FUND A/C>	2,858,875	1.04%
CHUA & KIANG PTY LIMITED	2,850,000	1.04%
HARLEY N PTY LIMITED <HARLEY SUPER FUND ACCOUNT>	2,710,000	0.98%
Total number of shares of Top 20 Holders	**130,408,006**	**47.36%**
Total remaining holders balance	**144,965,872**	**52.64%**

Company Secretary

The Company's secretary is Ms Sophie Karzis.

Registered Office

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

Level 1, 61 Spring Street
Melbourne, VIC 3000

Telephone: +61 (0)3 9286 7500

Share Registry

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

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

Postal Address:
PO Box 2226
Strawberry Hills NSW 2012

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

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 at $0.025 each on or before 3 May 2018	32,000,143	16
Options exercisable at $0.045 on or before 26 June 2018	15,185,185	1
Convertible Notes	31	10
Performance Rights	10,511,180	3

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

Holder Name	Class of unquoted Equity Securities	Number of unquoted Equity Securities held	% of total unquoted Equity Securities in the relevant class
BELLOC PTY LTD	Options exercisable at $0.045 on or before 26 June 2018	15,185,185	100.00
BARRIJAG PTY LTD <THE HADLEY SUPER FUND A/C>	Convertible Notes	12	38.71

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.