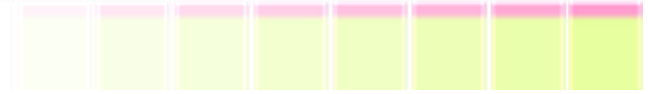


entellect



ENTELLECT LIMITED
(formerly Entellect Solutions Limited)
AND CONTROLLED ENTITIES
ABN 41 009 221 783

**Annual Financial
Report for the year
ended 30 June 2011**

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CORPORATE INFORMATION

ENTELLECT LIMITED (formerly Entellect Solutions Limited) AND CONTROLLED ENTITIES
ABN 41 009 221 783

DIRECTORS

Mr. Andrew Plympton	Non-Executive Chairman (Appointed 26 August 2010)
Mr. James Kellett	Executive Director (Appointed 26 August 2010) & Chief Executive Officer (Appointed 3 December 2010)
Mr Jeffrey Bennett	Non-Executive Director
Mr Conrad Crisafulli	Non-Executive Director (Resigned 19 January 2011)
Mr Paul Devine	Non-Executive Director (Resigned 19 August 2010)
Mr Paul Lowry	Non-Executive Director (Resigned 19 August 2010)

COMPANY SECRETARY

Ms. Sophie Karzis (Appointed 26 August 2010)
Mr Conrad Crisafulli (Resigned 26 August 2010)

REGISTERED OFFICE

Level 3, 1 Collins Street
Melbourne, Victoria 3000

AUDITORS

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

BANKERS

Westpac
360 Collins Street
Melbourne Victoria 3000

SOLICITORS

HWL Ebsworth
Level 26, 530 Collins Street
Melbourne Victoria 3000

SHARE REGISTRY

BoardRoom Pty Limited
Level 7, 207 Kent Street
SYDNEY NSW 2000

EXCHANGE LISTING

Entellect Limited's ordinary shares are quoted on the Australian Securities Exchange Limited (ASX).
(ASX Code: ESN)

WEBSITE ADDRESS

www.entellect.com.au

CHAIRMAN'S REPORT

Dear Shareholders

The Year in Review

I am pleased to provide shareholders with the Group's Annual Report for 2011.

Shareholders will now be aware that much has been done by the Board of Directors to ensure the path forward is positive and focused on delivering returns to shareholders.

As previously stated, it was the Board's highest priority to seek re-quotations of the Company's shares on the ASX and to provide working capital to the Group in order to ensure its ability to participate in, and commercialise, a number of opportunities. I am pleased to report that the Company's shares were re-quoted on the ASX on 25 July 2011.

During the year, and prior to the re-quotations of its shares on the ASX, the Company also undertook a number of corporate actions in order to recapitalise and restructure the Company. A share consolidation on a 20 to 1 basis was approved by shareholders and implemented in March 2011, as was the change of name to Entellect Limited.

In June 2011, the Company sought and obtained shareholder approval for the undertaking of a pro-rata rights issue and share placement and a prospectus was prepared and lodged for this purpose. The Company was advised by the ASX at this time that a number of conditions were required to be fulfilled prior to the re-quotations of its shares and pleasingly this was achieved by the Company and the Rights Issue and the Placement was successfully completed in July 2011. As a result, 865,498,692 new shares were issued and the Company's securities recommenced trading on the ASX on Monday 25 July 2011.

Prior to that, in January 2011 the Company also successfully entered into a collaboration with Mooter Media Limited and HotShot Media Ltd to bring together the expertise of these three parties to develop, market, and implement educational games and related games and learning strategies. As a result, the Company's 60% owned subsidiary, Knowledge Nation Pte Limited, was incorporated.

In addition, the Company was fortunate to be able to finalise arrangements with the liquidator of a former ESN subsidiary to recover key assets of its vPublisher business and the Company relaunched this business in July 2011.

By developing its own initiatives within the vPublisher and Knowledge Nation businesses and alongside experienced and expert partners and affiliates, the Company is now well positioned to continue to implement its strategic business plan.

Results

The Group's results for the year ended 30 June 2011 reflect that the Group did not have revenue during the 2011 financial year but during the period entered into its 60% owned venture Knowledge Nation and re-established its vPublisher products. Following its recapitalisation, the Group is now well placed to execute its business development objectives.

Outlook

The Directors are optimistic that the Group will be able to develop and commercialise its two key businesses, vPublisher and Knowledge Nation, throughout the current financial year.

Entellect's excitement and belief in its games-based educational concepts and strategies continues to rapidly grow. As the world moves exponentially forward in the use of mobile platforms to deliver ever-expanding communication and vast amounts of content to the world, the use of these devices to gain

knowledge becomes more and more obvious and essential. Knowledge Nation is convinced that there will be dynamic, sustained growth in the games-based learning market over the coming years. Advancements in mobile device functionality and connectivity will make the delivery of product more rapid, more flexible and more affordable. The Knowledge Nation concept has worldwide application, including in countries or areas that may not previously have been viable for a technology-driven approach to education.

By connecting learning with fun and with play, the Knowledge Nation platform and strategies will place Entellect in an extraordinarily advantageous position and on a steep revenue growth path.

vPublisher is a market ready internationally deployable product, capable of working in all languages, including Asian languages and is deployable on all standard operating systems. Entellect exclusively holds the intellectual property in vPublisher.

With the rapid adoption of eReaders, and new tablet computing devices, including the Apple iPad™, Blackberry Playbook™ and Samsung Galaxy™, Entellect believes there is now a mature market and increasing demand for e-book content capable of being delivered by its vPublisher product. Wholesale market opportunities also exist that would enable larger application providers to incorporate the product by way of licence within their offering. vPublisher is also used as an online procurement tool embedded in online e-catalogues with interactive e-commerce features allowing customers to readily order from large product ranges online.

Other revenue opportunities include the creation of derivative applications, such as:

- Student assignment assembly and presentation
- Self-publishing of books
- Online video gaming

Management

I would like to take the opportunity to thank the Company's CEO, Mr James Kellett, for the enormous effort and expertise he has given to the Company during the year, particularly as previously stated, when the Company has achieved the following key objectives:

- Re-quotations of Company's shares on ASX completed
- Knowledge Nation Underway
- vPublisher products re-launched
- Company well positioned to pursue future growth opportunities

I also take the opportunity to welcome returning employee Mr Craig Sinclair, Head of Product and principal author of the vPublisher software; we look forward to Craig's contribution to the vPublisher business and anticipate drawing upon his very extensive market and product knowledge.

The Board is also extremely pleased Professor Paul Fullwood continues to lead the Knowledge Nation project. Professor Fullwood is the foremost authority on global interactive educational games. He is the former Vice President of Product Development for Lightspan and the strategist behind the development of over 100 successfully deployed titles across the entire United States. Lightspan remains, to this day, the most commercially successful NASDAQ educational games IPO.

The Board looks forward to keeping shareholders informed of advancements in achieving the Company's business plan as they occur over the current financial year.

Yours faithfully



Andrew Plympton
Non- Executive Chairman

Melbourne, 30 September 2011

CORPORATE GOVERNANCE STATEMENT

This statement sets out the corporate governance practices that were in operation throughout the financial year for Entellect Limited and its controlled entities (the Group). The Group's Directors and management are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance.

The Group has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations Second Edition August 2007 to the extent appropriate to the size and nature of the Group's operations.

A summary of how the Group complies with the revised ASX Corporate Governance Principles and Recommendations is included below. The various charters and policies are all available on the ESN web site: www.entellect.com.au.

ASX Principle	Status	Reference / Comment
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Principle 1: Lay solid foundation for management oversight

Formalise and disclose the functions reserved to the board and those delegated to management.

Complying

The Board has adopted a charter which establishes the role of the Board and its relationship with management. The primary role of the Board is the protection and enhancement of long term shareholder value. Its responsibilities include the overall strategic direction of the Group, establishing goals for management and monitoring the achievement of these goals. The functions and responsibilities of the Board and management are consistent with ASX Principle 1. A copy of the Board Charter is posted on the Group's website.

Each Director is given a letter upon his or her appointment which outlines the Director's duties. The Group has in place systems designed to fairly review and actively encourage enhanced Board and management effectiveness. The Nomination and Remuneration Committee takes responsibility for evaluating the Board's performance and the Group's key executives annually.

Principle 2: Structure the Board to add value

A majority of the board members should be independent.

Complying

Two of the three Directors of the Board are independent. The test to determine independence which is used by the Company is whether a Director is independent of management and any business or other relationship with the Group that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement. The Directors considered to be independent are Mr Andrew Plympton and Mr Jeffrey Bennett.

The chairman should be an independent director.

Complying

The Chairman, Mr A. Plympton has been Chairman of the Company since 26 August 2010 and was, at the date of his appointment and continues to be, independent. The Chairman leads the Board and is responsible for the efficient organisation and conduct of the Board's functions.

The roles of the chairman and the chief executive officer should not be exercised by the same individual.

Complying

The positions of Chairman and Chief Executive Officer are held by separate persons.

ASX Principle	Status	Reference / Comment
The board should establish a nomination committee.	Complying	The Board has a formal Nomination Committee comprising of the non-executive Directors. The Nomination Committee's functions and powers are formalised in a Charter.
Provide the information indicated in the Guide to reporting on Principle 2.	Complying	The following information is set out in the Group's annual report: <ul style="list-style-type: none"> The skills and experience of Directors. The Directors considered by the Board to constitute independent Directors and the Company's materiality thresholds. A statement regarding Directors' ability to take independent professional advice at the expense of the Group. The term of office held by each Director in office at the date of the report. The names of members of the Group's committees and their attendance at committee meetings.

Principle 3: Promote ethical and responsible decision-making

<p>Establish a code of conduct and disclose the code as to:</p> <ul style="list-style-type: none"> The practices necessary to maintain confidence in the company's integrity. The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders. The responsibility and accountability of individuals for reporting and investigating reports of unethical practices. <p>Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy. Companies should provide the information indicated in the Guide to reporting on Principle 3.</p>	Complying	<p>The Group has formulated a Code of Conduct which can be viewed on its website.</p> <p>The Group has adopted a Share Trading Policy which can be viewed on its website.</p>
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NEW RECOMMENDATIONS 3.2-3.4 ON DIVERSITY

The Board notes the recent changes to the ASX Corporate Governance Principles and Recommendations, which seek to incorporate three new recommendations in relation to diversity, and in particular gender diversity.

Whilst the Company notes that disclosure in relation to the recently introduced changes will only be required to be made in and from its 2012 Annual Report, the Board has taken the opportunity to consider the changes at an early stage in its commitment to maintaining good corporate governance standards.

<p>New 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.</p>	Anticipated Non-Compliance	<p>The Board has contemplated the necessity of implementing a diversity policy. Noting the relatively small size of the Company and the fact that the Company has a small number of employees, the Board has resolved to depart from the new recommendations by not implementing a gender diversity policy.</p> <p>The departure from recommendation 3.2 will subsequently be explained in the Company's annual report for the financial year ending 30 June 2012, by indicating that the recommendation is inappropriate to the Company's particular circumstances.</p>
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ASX Principle	Status	Reference / Comment
New 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Anticipated Non-Compliance	The Board's departure from recommendation 3.3 will be explained in the Company's annual report for the financial year ending 30 June 2012, by indicating that the recommendation is inappropriate to the Company's particular circumstances.
New 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Anticipated Compliance	The Company intends to disclose in each future annual report the proportion of women employees in the whole organisation (if applicable), women in senior executive positions and women on the board.

Principle 4: Safeguard integrity in financial reporting

<p>Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.</p> <p>The board should establish an audit committee.</p> <p>The audit committee should be structured so that it:</p> <ul style="list-style-type: none"> • Consists only of non executive directors ; Consists of a majority of independent directors; Is chaired by an independent chair, who is not chair of the board; Has at least three members. • The audit committee should have a formal charter. Companies should provide the information indicated in the Guide. 	Part-Complying	<p>The Directors are committed to the preparation of financial statements that present a balanced and clear assessment of the Group's financial position and prospects. The Board reviews the Group's half yearly and annual financial statements. The Board requires the Chief Executive Officer and the Chief Financial Officer (or equivalent) to state in writing to the Board that the Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with relevant accounting standards.</p> <p>Whilst the Board has established an Audit Committee, this is currently suspended until such time as the Board appoints a further Non-Executive and independent director. In the meantime, the Board as a whole carries out the functions of the Audit Committee in accordance with the Group's Audit Committee Charter.</p> <p>The Board has adopted an Audit Committee Charter which sets out the Audit Committee's role and responsibilities, composition, structure and membership requirements.</p>
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Principle 5: Make timely and balanced disclosure

<p>Companies should promote timely and balanced disclosure of all material matters concerning the company.</p> <p>Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. Companies should provide the information indicated in the Guide.</p>	Complying	<p>The Group has a documented policy which has established procedures designed to ensure compliance with Australian Securities Exchange Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. The Chief Executive Officer and the Company Secretary are responsible for interpreting the Group's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the Australian Securities Exchange. The purpose of the procedures for identifying information for disclosure is to ensure timely and accurate information is provided equally to all shareholders and market participants.</p>
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Principle 6: Respect the rights of shareholders

<p>Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.</p> <p>Companies should design a communications policy for promoting effective communication with shareholders and encouraging their</p>	Complying	<p>The Board informs shareholders of all major developments affecting the Group's state of affairs as follows:</p> <ol style="list-style-type: none"> 1. The annual report is distributed to all shareholders, including relevant information about the operations of the consolidated entity during the year and changes in the state of affairs. 2. The half-yearly report to the Australian Securities Exchange contains summarised financial information and a review of the operations of
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ASX Principle	Status	Reference / Comment
participation at general meetings and disclose their policy or a summary of that policy. Companies should provide the information indicated in the Guide to reporting on Principle 6.		<p>the consolidated entity during the period.</p> <ol style="list-style-type: none"> 3. All major announcements are lodged with the Australian Securities Exchange, and posted on the Group's website. 4. Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders. 5. The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. 6. The Group's auditor attends the Annual General Meeting.

Principle 7: Recognise and manage risk

Companies should establish a sound system of risk oversight and management and internal control.	Complying	The Board has responsibility for monitoring risk oversight and ensures that the Chief Executive Officer reports on the status of business risks through risk management programs aimed at ensuring risks are identified, assessed and appropriately managed. In addition the Board is responsible for reviewing the risk management framework and policies of the Group.
Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Complying	The Board reviews the Group's major business units, organisational structure and accounting controls and processes on a continuing basis. A description of the Group's risk management policy and internal compliance and control systems will be available on the Group's website shortly.
The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. Companies should provide the information indicated in the Guide to reporting on Principle 7.	Complying	The Chief Executive Officer and the Chief Financial Officer (or equivalent) are required to state to the Board in writing that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control and that the Group's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Principle 8: Remunerate fairly and responsibly

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.	Complying	The Group has established systems designed to fairly review and actively encourage enhanced Board and management effectiveness.
The board should establish a remuneration committee.	Complying	The Board has established a Remuneration Committee which is governed by a charter.
Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior	Complying	Details of the Directors and key senior executives remuneration are set out in the Remuneration Report of the Annual Report. The structure of non-executive Directors' remuneration is distinct from that of executives and is further detailed in the Remuneration Report of the Annual Report. Equity-based executive remuneration is made in accordance with thresholds set in

ASX Principle	Status	Reference / Comment
<p>executives.</p> <p>Companies should provide the information indicated in the Guide to reporting on Principle 8.</p>	Complying	<p>plans approved by shareholders. In addition, the Group has issued equity based remuneration to both executive and non-executive directors which has been approved by shareholders at a general meeting</p> <p>A charter setting out the responsibilities of the Nomination Committee has been adopted and a copy of this charter is posted on the Group's website.</p>

DIRECTORS' REPORT

The Directors present their report together with the financial report of the consolidated entity consisting of Entellect Limited and its controlled entities ("The Group"), for the financial year ended 30 June 2011 and independent auditor's report thereon.

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

The qualifications, experience and special responsibilities of each person who has been a Director of Entellect Limited, together with details of the Company Secretary, during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

CURRENT DIRECTORS

Names, qualifications, experience and special responsibilities

<u>Name</u>	<u>Particulars</u>
Mr. Andrew Plympton	<p>Non-Executive Chairman, Chairman of the Nominations Committee, Chair of the Audit and Remuneration Committees Appointed 26 August 2010</p> <p>Mr Plympton joined the Company in August 2010 and brings to the role a wealth of experience in a diverse range of commercial and sporting activities.</p> <p>In the financial services sector, Mr Plympton has been either the managing director and/or executive chairman of a number of International insurance brokers, underwriting agencies and captive insurance managers. In addition, Mr Plympton has served as chairman of a specialist aviation underwriting company and chairman of a high profile captive insurance operation. In the public company sector, Andrew is the chairman of Beyond Sportswear International Limited (ASX: BSI), Entellect Limited and is a director of Newsat Limited (ASX: NWT). In the private company arena, he is also director of the New Zealand company Energy Mad Limited. He is also a Commissioner of the Australian Sports Commission and is a director of The Australian Olympic Foundation. During the last three years Mr Plympton has not served as a director of any other listed companies, other than those listed above.</p>
Mr James Kellett	<p>Executive Director, Chief Executive Officer Appointed non-Executive Director on 26 August 2010 and appointed Chief Executive Officer on 3 December 2010</p> <p>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.</p> <p>Mr Kellett has no directorships in other listed companies.</p>
Mr. Jeffrey Bennett	<p>Non-Executive Director, Member of the Audit, Remuneration and Nominations Committees</p> <p>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 Professional Solutions, Intermoco Limited, BHP and Shell.</p> <p>Mr Bennett is the chairman of Jameson Resources Limited (ASX: JAL).</p>

Ms Sophie Karzis**Company Secretary****Appointed on 26 August 2010**

Ms. Karzis (B.Juris., LLB.) is a practising lawyer with over 10 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 corporate and company secretarial services to Australian companies.

PREVIOUS DIRECTORS**Paul Devine****Non-Executive Director****Appointed 1 May 2008; Resigned 19 August 2010**

Mr Devine has significant experience in the successful conceptualisation, commercialisation and management of a number of businesses over more than 20 years. He has specialised in assisting companies, through his business illuminate Capital Pty Ltd, by providing business mentoring, planning and management support, market access and strategic relationships, and private equity capital raising services. He has an in-depth knowledge of and experience in the IT industry that will assist the Company in achieving its short and long term goals.

Mr Devine has no directorships in other listed companies.

Paul Lowry**Non-Executive Director****Appointed 14 October 2008; Resigned 19 August 2010**

Mr Lowry has almost thirty years' experience in engineering, marketing, leadership and advisory roles. He has led and transacted business globally – operating within a wide range of industries, technologies and business cultures. He brings to the Company particular skills in strategic planning, financial analysis, restructuring, growth and value creation.

Mr Lowry has no directorships in other listed companies.

Conrad Crisafulli**Non-Executive Director****Appointed 6 August 2008; Resigned 19 January 2011**

Mr Crisafulli (BE (1st Class Hons), FAIM, MAICD) has extensive experience in all aspects of technology commercialisation and has helped many technology companies to successfully enter and exploit new markets. He has held senior management positions in the energy, telecommunications and IT&T industries and remains a director of several private technology ventures. His skills and expertise will provide the Company with an exceptional depth of knowledge and experience in achieving its goals.

Mr Crisafulli is a director of Ipernica Limited (ASX: IPR).

INFORMATION ON THE COMPANY SECRETARIES

The Company Secretaries of the Group at any time during and since the financial year end to the date of this report were –

Conrad Crisafulli

Appointed 23 March 2010; Resigned 26 August 2010

Sophie Karzis

Appointed 26 August 2010

PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial year were the Educational Games Development business and the vPublisher eBook Content Delivery Software business.

OPERATING RESULTS

	2011 \$	2010 \$
The consolidated loss of the Group after providing for income tax:	(1,268,627)	(4,338,409)

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 2011.

REVIEW OF OPERATIONS AND FINANCIAL POSITION

The Group incurred a loss for the year of \$1,268,627 primarily attributable to ongoing corporate costs and the execution of its new business development objectives.

The Group's results for the year ended 30 June 2011 reflect that the Group did not have revenue during the 2011 financial year but during the period entered into its 60% owned venture Knowledge Nation and re-established its vPublisher products. Following its recapitalisation, the Group is now well placed to execute its business development objectives.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

- In 12 August 2010, the Company proposed an off-market takeover offer for 100% of Yilgarn Infrastructure Ltd and a pre bid agreement relating to the Proposed Takeover Offer was entered into. A condition precedent in the Pre Bid Agreement was that the Company had to complete a placement of 50 million fully paid ordinary shares in ESN to Yilgarn at an issue price of \$0.001 per Takeover Placement Share by 31 July 2010.
- After the execution of the pre bid agreement but prior to the announcement of the proposed takeover offer, Mooter Media Limited announced an unsolicited proposed takeover offer for ESN. As a result of the Mooter takeover offer, ESN was no longer able to issue the placement shares without shareholder approval.
- The Directors considered that obtaining shareholder approval would result in a delay in the Company's receipts of funds and would potentially entail a material adverse effect on the Company's financial position and capacity to remain solvent. On the basis this Condition Precedent was not satisfied, the Pre Bid Agreement was mutually terminated by the Company and Yilgarn.
- Under the terms of the Mooter Takeover Offer, Mooter offered, for every 40 shares owned by an ESN shareholder, 2 Mooter shares, 1 option to acquire 1 Mooter share at an exercise price of \$0.015, and 1 option to acquire 1 Mooter share at an exercise price of \$0.05.
- In October 2010 the Directors recommended Shareholders accept the Mooter Takeover Offer for a number of reasons, including the fact that ESN's shares would remain suspended until the Company was able to comply with Chapters 1 and 2 of the ASX Listing Rules. The Directors anticipated that a successful Mooter Takeover Offer would enable the Company to obtain assistance from Mooter to seek reinstatement of ESN shares on the ASX. In addition, the Directors noted that the Company was unable at the time to raise capital or debt funding and that, ESN shareholders faced the risk of their shares in the Company having no residual value should the Company become insolvent. The Directors also noted that there were no competing offers, and that the Mooter Takeover Offer would enable ESN shareholders to realise value

from their ESN shares, which were otherwise illiquid assets and would assist ESN in the further development of its novel and proprietary software and applications for education.

- On 18 October 2010, the Company entered into a loan agreement with Furneaux Equity Limited under which the Company is provided with a 180 day loan facility of \$4,150,000 subject to mutual agreement by the parties.
- The Mooter Takeover Offer closed on 30 November 2010, with 70.08% acceptance, and Mooter has allotted the shares and options to ESN shareholders who accepted the offer and an application for listing of the shares on the ASX was made by Mooter on 3 December 2010.
- Subsequent to the distribution of the ESN shares on 10 February 2011 and the shareholder approval at the Company's Annual General Meeting held on 28 February 2011, the Company undertook a consolidation of its capital on the basis of every 20 fully paid ordinary shares being consolidated into 1 fully paid ordinary share. The share consolidation was effected on 16 March 2011.
- In January 2011, the Company announced collaboration with Mooter and Hot Shot Media (Singapore) Ltd (Hot Shot). The collaboration was administered through a Singapore registered entity, Knowledge Nation Joint Venture Pte Ltd (KNJV). The equity holders in KNJV are Entellect: 60%, Mooter: 20% and Hot Shot: 20%. KNJV will develop, market, and implement the co-venturers' unique suite of interactive educational games, learning initiatives and educational derivatives. KNJV acquired 100% of Knowledge Nation Inc, a US incorporated and San Franciscan based educational games and learning initiator (KNI). KNI will be the major development arm of the joint venture.
- On 20 April 2011, the Company acquired all of the assets of Virtual Communications International Pty Ltd ACN 110 675 691 (in liquidation) ("VCI") necessary to conduct the business that was previously operated by this company prior to it being placed in liquidation. The key assets of the VCI business were acquired from the liquidator for the total purchase price of \$28,200. As a result of the acquisition, VCI changed its name and the Company renamed an existing subsidiary to "Virtual Communications International Pty Ltd" and is now operating the VCI business through this wholly owned subsidiary.
- On 10 June 2011, the Company announced the approval of resolutions from shareholders at the Extraordinary General Meeting for the Company to proceed to raise capital via a pro rata fully underwritten rights issue with a public component (through the issue of a prospectus) and the application for re-quotations of its shares.
- On 17 June 2011, the Company issued its replacement Prospectus for the non-renounceable Rights Issue (with a public offer component) in conjunction with a placement (collectively the Offer).

AFTER BALANCE DATE EVENTS

Other than 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.

- The Company was able to finalise arrangements with the liquidator of a former ESN subsidiary to recover key assets of its vPublisher business and the Company relaunched this business in July 2011.
- On 15 July 2011, Entellect Limited has successfully completed its recapitalisation pursuant to its non-renounceable Rights Issue (with a public offer component) in conjunction with a placement (collectively the Offer), in accordance with the terms set out in the Company's Replacement Prospectus dated 17 June 2011.
- The Company applied to the Australian Securities Exchange (ASX) to have its shares requoted on the official list of the ASX and this was approved; consequently, the Company's shares were re-quoted and resumed trading on the ASX on 25 July 2011.

- As a result of the Offer, the Company as at 20 July 2011 has raised \$4,327,493 and has 952,737,932 fully paid ordinary shares and 9,712,500 options on issue.

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 not been included in this report, except to the extent noted in the Chairman's Report on page 2, as the inclusion of such further information is likely to result in unreasonable prejudice to the Group.

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.

REMUNERATION REPORT (Audited)

This report details the nature and amount of remuneration for each director of the Group and other key management personnel. The information which follows through to the end of the section titled *'Employment Contracts of Directors and other Key Management Personnel'* is subject to audit by the external auditors.

Directors' Interests

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 Unquoted
	Direct	Indirect	
Andrew Plympton	2,000,000	-	-
James Kellett	-	18,400,000	-
Jeffrey Bennett	-	65,317	250,000

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 of the Group believes 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 key management personnel of the economic entity is as follows:

The remuneration structure for key management personnel 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 and superannuation. The 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 and can recommend changes to the committee's recommendations. 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 key management personnel do not receive any superannuation contribution and any other retirement benefits.

All remuneration paid to directors and other key management personnel is valued at the cost to the Group and expensed. Options given to directors and key management personnel are valued using the Binomial methodology.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. The last approved increase occurred at the 2007 Annual General Meeting where the maximum fees payable to directors increased from \$150,000 pa to \$300,000 pa. Fees for non-executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Group.

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

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and other key management personnel. One of the main methods to achieve this aim has been the issue of options to a majority of executives to encourage the alignment of personal and shareholder interests. The Group believes this policy will be effective in increasing shareholder wealth in future years.

Details of Remuneration for Year ended 30 June 2011

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			Post Employment		Share Based Payment	Total	
	Salary, Fees & Commissions	Super-annuation Contribution	Cash Bonus/ Other	Non-cash Benefits	Super-annuation	Equity Settled Options	Performance related	
	\$	\$	\$	\$	\$	\$	\$	%
2011 - Directors								
Andrew Plympton	35,000	-	-	-	-	-	35,000	-
James Kellett	98,000	-	-	-	-	-	98,000	-
Jeffrey Bennett	57,499	-	-	-	-	-	57,499	-
Conrad Crisafulli ⁽¹⁾	34,682	-	-	-	-	-	34,682	-
Paul Devine ⁽²⁾	18,871	-	-	-	-	-	18,871	-
Paul Lowry ⁽³⁾	18,871	-	-	-	-	-	18,871	-
	262,923	-	-	-	-	-	262,923	-
2010 - Directors								
Jeffrey Bennett	56,004	-	-	-	-	-	56,004	-
Conrad Crisafulli ⁽¹⁾	40,050	2,477	-	-	-	-	42,527	-
Paul Devine ⁽²⁾	45,000	-	-	-	-	-	45,000	-
Paul Lowry ⁽³⁾	50,000	-	-	-	-	-	50,000	-
	191,054	2,477	-	-	-	-	193,531	-
2010 – Other Key Management Personnel								
Joseph Younane ⁽⁴⁾	137,615	12,385	-	-	-	-	150,000	-
	137,615	12,385	-	-	-	-	150,000	-

⁽¹⁾ Resigned on 19 January 2011

⁽²⁾ Resigned on 19 August 2010

⁽³⁾ Resigned on 19 August 2010

⁽⁴⁾ Resigned on 23 March 2010

Options Granted

No options were granted to Directors or other key management personnel during the year ended 30 June 2011.

Changes in Directors and Key Management Personnel

Paul Devine and Paul Lowry ceased their roles as Directors of the Company on 19 August 2010. Conrad Crisafulli ceased his role as Director on 19 January 2011 and as Company Secretary on 16 August 2010.

Employment Contracts of Directors and other Key Management Personnel

The Company's policy for determining the nature and amount of emoluments of directors and other key management personnel is as follows:

The remuneration structure for key management personnel 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 key management personnel and Group executives are formalised in contracts of employment.

Termination payments are generally not payable on resignation or in a case of serious misconduct. In the instance of serious misconduct the Group can terminate employment at any time. 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 2011 and any change during the year	Contract details (duration and termination)	Non-salary cash-based incentive	Shares / Units	Options / rights	Fixed Salary / Fees	Total
			%	%	%	%	%
Andrew Plympton	Non-executive Chairman	No fixed term. No termination conditions.	-	-	-	100	100
James Kellett	Executive Director, CEO	Fixed term contract. Termination conditions apply.*	-	-	-	100	100
Jeffery Bennett	Non-executive Director	No fixed term. No termination conditions.	-	-	-	100	100

*Entellect 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 initially ran for a term of 4 months with an option to extend for one further month. Entellect exercised the one month option. On 20 April 2011, the parties subsequently agreed to extend the term until 30 June 2011, and on 1 June 2011 the parties agreed to further extend the term to 31 December 2011. Under the Services Agreement, the Consultant must provide the services through its key person, being James Kellett. Other than expiry of the term, the Services Agreement may be terminated as follows:

- (a) by the Company on 5 Business Days written notice if the Consultant no longer retains the Key Person to provide the services to the Company on behalf of the Consultant;
- (b) immediately by the Company without prior notice if the Consultant or the Key Person (as applicable) shall at any time:
 - (i) commits a material breach of any of the provisions of the Services Agreement and such material breach is not remedied within 7 days of written notice by the Company;
 - (ii) be guilty of gross misconduct or wilful neglect in the discharge of its duties under the Services Agreement;

- (iii) becomes under the control of any committee or officer under any law relating to mental health;
 - (iv) be convicted of any criminal offence other than an offence which in the opinion of the Company does not affect the Consultant or the Key Person's ability to discharge their obligations under the Services Agreement;
 - (v) suffers any event of permanent incapacity which prevents the Key Person from performing his duties under the Services Agreement, and for the purposes of this clause incapacity in excess of 120 consecutive days or for an aggregate period of 6 months in any period of 12 months will be deemed to be permanent incapacity;
- (c) immediately by the Company without prior notice if the Key Person ceases to be a director of the Company for any reason.

DIRECTORS' MEETINGS

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

Director	Directors' Meetings	
	Number Attended	Number eligible to attend
Andrew Plympton	8	8
James Kellett	8	8
Jeffery Bennett	8	8
Conrad Crisafulli *	4	4

* Resigned during the year.

The Company's Audit Committee was suspended during the 2011 financial year and did not have any separate meetings. The Company's Nomination Committee did not meet during the 2011 financial year.

INDEMNIFYING OFFICERS OR AUDITOR

The Company has not entered into an indemnification agreement with the directors, executive officers or auditors.

Since the end of the previous financial year the Company has paid insurance premiums in respect of Directors' & Officers' liability insurance and legal expenses, for Directors and Officers, including executive officers of the Company and Directors, executive officers and secretaries of its controlled entities. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

OPTIONS

At the date of this report, the unissued ordinary shares of Entellect Limited under option are as follows:

Expiry Date	Exercise Price	Number under Option
31 December 2011	1 cent	1,000,000
21 May 2012	1 cent	500,000
30 September 2012	1 cent	5,000,000
30 September 2012	1 cent	3,212,500
TOTAL		9,712,500

During the year ended 30 June 2011, there were no ordinary shares (2010: 52,606,693) of Entellect Limited issued on exercise of options granted under the Entellect Limited Employee Share Option Plan. No amounts are unpaid on any of the shares.

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.

NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to Grant Thornton for non-audit services provided during the year ended 30 June 2011.

	\$
Investigating Accountant Report in connection with the prospectus	12,500

GOING CONCERN BASIS

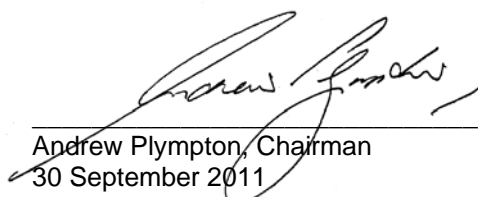
Notwithstanding the loss for the 2011 financial year of \$1,268,627 (2010: loss \$4,338,409) and net liabilities of \$1,647,995 (2010: \$347,012), and the net cash used in operating activities of \$1,704,849, this financial report has been prepared on a going concern basis. With the successful rights issue and placement of \$4,327,493 on 20 July 2011 of which \$2,127,017 will be used to repay the Furneaux loan facility, the directors are confident that the combination of careful management of overheads, the continuation of its business in the development of software and applications for education and educational games, its software development collaboration with Mooter Media Limited will provide sufficient funds to meet the ongoing capital requirements of the Group for the foreseeable future.

On the basis of these factors, the directors consider it appropriate to prepare the accounts on a going concern basis as they are satisfied that, based on the cash flow forecasts prepared including receipts from future fundraisings, 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.

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 2010 has been received and can be found on page 20, which forms part of this report.

Signed in accordance with a resolution of the Directors



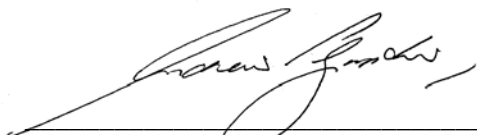
Andrew Plympton, Chairman
30 September 2011

DIRECTORS' DECLARATION

The Directors of the Group declare that:

1. The consolidated financial statements and notes, as set out on pages 21 to 52 are in accordance with the Corporations Act 2001 and:
 - a) comply with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b) give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the Consolidated Group;
2. The Chief Executive Officer and the Chief Financial Officer (or equivalent) have each declared as required by Section 295A of the Corporations Act 2001 that:
 - a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b) the financial statements, and the notes for the financial year comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial year give a true and fair view;
3. In the directors' opinion, further to the matters included in Note 1(a), there are reasonable grounds to believe that Entellect Limited will be able to pay its debts as and when they become due and payable; and
4. The consolidated financial statements comply with International Financial Reporting Standards.

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



Andrew Plympton, Chairman
30 September 2011

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**Auditor's Independence Declaration
To the Directors of Entellect Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Entellect Limited for the year ended 30 June 2011, 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
Director – Audit & Assurance

Sydney, 30 September 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$	2010 \$
Revenue		-	-
Other income		70	-
		<u>70</u>	<u>-</u>
Employee benefits expense		(245,902)	-
Corporate/professional expenses		(610,128)	(270,930)
Depreciation and amortisation expense		(34,509)	-
Impairment of intangible assets		-	(1,758,142)
Other expenses	2	(308,152)	(541,328)
Finance costs		(70,006)	-
Loss before income tax		<u>(1,268,627)</u>	<u>(2,570,400)</u>
Income tax expense	3	-	-
Loss from continuing operations		<u>(1,268,627)</u>	<u>(2,570,400)</u>
Loss from discontinued operations after tax	2	-	(1,768,009)
Loss for the year		<u>(1,268,627)</u>	<u>(4,338,409)</u>
Other comprehensive loss:			
Exchange differences on translating foreign controlled entities, net of tax		(19,597)	-
Total comprehensive loss for the year		<u>(1,288,224)</u>	<u>(4,338,409)</u>
Loss attributable to:			
Members of the parent entity		(1,133,359)	(4,344,542)
Non-controlling interests		(135,268)	6,133
		<u>(1,268,627)</u>	<u>(4,338,409)</u>
Total comprehensive loss attributable to:			
Members of the parent entity		(1,152,956)	(4,344,542)
Non-controlling interests		(135,268)	6,133
		<u>(1,288,224)</u>	<u>(4,338,409)</u>
Earnings per share			
From continuing and discontinued operations:			
Basic and diluted earnings per share (cents)	6	(1.30)	(5.26)
From continuing operations:			
Basic and diluted earnings per share (cents)	6	(1.30)	(3.12)
From discontinued operations:			
Basic and diluted earnings per share (cents)	6	-	(2.14)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	2011 \$	2010 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	275,122	45,051
Trade and other receivables	8	135,220	-
Other assets	9	344,674	-
TOTAL CURRENT ASSETS		<u>755,016</u>	<u>45,051</u>
NON-CURRENT ASSETS			
Property, plant and equipment	10	119,085	-
Intangible assets	11	33,187	-
TOTAL NON-CURRENT ASSETS		<u>152,272</u>	<u>-</u>
TOTAL ASSETS		<u><u>907,288</u></u>	<u><u>45,051</u></u>
CURRENT LIABILITIES			
Trade and other payables	12	228,266	192,063
Short-term borrowings	13	2,327,017	200,000
TOTAL CURRENT LIABILITIES		<u>2,555,283</u>	<u>392,063</u>
TOTAL LIABILITIES		<u>2,555,283</u>	<u>392,063</u>
NET LIABILITIES		<u><u>(1,647,995)</u></u>	<u><u>(347,012)</u></u>
EQUITY			
Issued capital	15	61,872,013	61,872,013
Reserves	14	826,682	970,966
Accumulated losses		<u>(64,198,663)</u>	<u>(63,011,864)</u>
Parent interest		<u>(1,499,968)</u>	<u>(168,885)</u>
Non-controlling interest		<u>(148,027)</u>	<u>(178,127)</u>
TOTAL SHAREHOLDERS (DEFICIENCY)		<u><u>(1,647,995)</u></u>	<u><u>(347,012)</u></u>

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Issued Capital	Retained Earnings	Foreign Currency Translation Reserve	Options Reserves	Non- Controlling Interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2010	61,872,013	(63,011,864)	(14,294)	985,260	(178,127)	(347,012)
Net loss for the year	-	(1,133,359)	-	-	(135,268)	(1,268,627)
Other comprehensive income	-	-	(19,597)	-	-	(19,597)
Non-controlling interest on initial investment	-	-	-	-	(12,759)	(12,759)
Transfer to retained earnings	-	(53,440)	14,294	(138,981)	178,127	-
Balance at 30 June 2011	61,872,013	(64,198,663)	(19,597)	846,279	(148,027)	(1,647,995)
Balance at 1 July 2009	60,573,447	(58,765,967)	(14,294)	688,868	(184,260)	2,297,794
Net loss for the year	-	(4,344,542)	-	-	6,133	(4,338,409)
Other comprehensive income	-	-	-	-	-	-
Shares issued during the period	1,366,606	-	-	-	-	1,366,606
Transaction costs on shares issued	(68,040)	-	-	-	-	(68,040)
Recognition of options expense	-	-	-	395,037	-	395,037
Transfer to retained earnings	-	98,645	-	(98,645)	-	-
Balance at 30 June 2010	61,872,013	(63,011,864)	(14,294)	985,260	(178,127)	(347,012)

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$	2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		-	2,913,474
Payments to suppliers and employees		(1,634,913)	(5,085,928)
Interest received		70	11,497
Finance costs		(70,006)	(10,389)
Net cash used in operating activities	20	(1,704,849)	(2,171,346)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(151,261)	-
Purchase of acquired software		(35,520)	-
Net cash used in investing activities		(186,781)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	1,366,607
Cost of issue of shares		-	(68,040)
Proceeds from borrowings		2,127,017	-
Net cash provided by financing activities		2,127,017	1,298,567
Net (decrease)/increase in cash held		235,387	(872,779)
Cash at beginning of financial year		45,051	917,830
Effects of exchange rate changes on cash and cash equivalents		(5,316)	-
Cash at end of financial year	7	275,122	45,051

The accompanying notes form part of these financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

This financial report includes the consolidated financial statements and notes of Entellect Limited and controlled entities ("The Group"). The separate financial statements of the parent entity, Entellect Limited, have not been presented within this financial report as permitted by amendments made to the Corporations Act 2001 effective as at 28 June 2010.

Entellect Limited is a publically 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 financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

a. Going Concern

Notwithstanding the loss for the 2011 financial year of \$1,268,627 (2010: loss \$4,338,409) and net liabilities of \$1,647,995 (2010: \$347,012), and the net cash used in operating activities of \$1,704,849, this financial report has been prepared on a going concern basis. With the successful rights issue and placement of \$4,327,493 on 20 July 2011 of which \$2,127,017 will be used to repay the Furneaux loan facility, the directors are confident that the combination of careful management of overheads, the continuation of its business in the development of software and applications for education and educational games, its software development collaboration with Mooter Media Limited will provide sufficient funds to meet the ongoing capital requirements of the Group for the foreseeable future.

On the basis of these factors, the directors consider it appropriate to prepare the accounts on a going concern basis as they are satisfied that, based on the cash flow forecasts prepared including receipts from future fundraisings, 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. Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Entellect Limited at the end of the reporting period. A controlled entity is any entity over which Entellect Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 17 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

c. Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (ie parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill (refer to Note 1(h)) or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

d. Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax Consolidation

Entellect Solutions Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The Group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 1 July 2004. The tax consolidated group has entered a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

e. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated 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 the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

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

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

Class of Fixed Asset	Depreciation Rate
Leasehold improvements	20%
Leased assets	17%
Plant and equipment	20-40%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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 the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

f. **Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are 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.

g. **Financial Instruments**

Recognition and Initial Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through Statement of Comprehensive income', in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- d. less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

i. *Financial assets at fair value through profit or loss*

Financial assets are classified at 'fair value through Statement of Comprehensive Income' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

ii. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

iii. *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At the end of each reporting period, 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 an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

Financial Guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

h. Impairment of Non- Financial Assets

At each the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, 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.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the statement of comprehensive income immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase. There are no reversals of previous impairment losses on goodwill.

i. Intangibles**Intellectual Property**

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

j. Foreign Currency Transactions and Balances**Functional and Presentation Currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

Group Companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

k. Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within 1 year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than 1 year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Defined Superannuation Schemes

In respect of defined contribution superannuation plans, contributions are expensed when incurred.

Equity-settled Compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Binomial option pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

l. 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.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provisions is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability.

m. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

n. Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

All revenue is stated net of the amount of goods and services tax (GST)

o. 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.

p. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

q. 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 Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown 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.

r. 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.

s. Critical Accounting Estimate and Judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates**(i) Impairment**

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Where an impairment trigger exists, the recoverable amount of the asset is determined. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

t. New Accounting Standards for Application in Future Periods

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. A discussion of those future requirements and their impact on the Group follows:

- AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

This standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and de-recognition requirements for financial instruments. The Group has not yet determined the potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing 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. 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;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

- Requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.
- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.
- AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.
- AASB 2010-4: Further amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011)

This standard details numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. Key changes include:-

 - clarifying the application of AASB 108 prior to an entity's first Australian Accounting Standards financial statements;
 - adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
 - amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
 - adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
 - making sundry editorial amendments to various Standards and Interpretations.

This standard is not expected to impact the Group.
- AASB 2010-5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

- AASB 2010-6: Amendments to Australian Accounting Standards - Disclosure on Transfers of Financial Assets [AASB 1 & 7] (applicable for annual reporting periods beginning on or after 1 July 2011).

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfer of financial assets.

This Standard is not expected to impact the Group.
- AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable to periods beginning on or after 1 January 2013).

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.
- Consolidated Financial Statements: Superseded pronouncement IAS 27.

IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation –Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group.

This Standard is not expected to impact the Group.
- Fair Value Measurement.

IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets.

IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

The Group has not yet determined any potential impact on the financial statements from adopting the fair value measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: LOSS FOR THE YEAR

	Consolidated Group	
	2011	2010
	\$	\$
a. Expenses		
Other expenses		
- Share expense costs	-	395,036
- Other expenses	308,152	146,202
	<u>308,152</u>	<u>541,238</u>
b. Significant Revenue and Expenses		
The following significant revenue and expense items are relevant in explaining the financial performance:		
Loss from discontinued operations	-	1,768,009
	<u>-</u>	<u>1,768,009</u>

NOTE 3: INCOME TAX EXPENSE

	2011	2010
	\$	\$
Current and deferred tax expense for the year ended 30 June 2011 were nil (2010: 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	(1,268,627)	(4,338,409)
At Group's income tax rate 30%	(380,588)	(1,301,523)
Temporary differences and tax losses not brought to account as deferred tax assets	380,588	1,301,523
Income tax benefit reported in the statement of comprehensive income	-	-
Effective tax rate	0%	0%
Income tax losses		
Unused tax losses for which no deferred tax assets have been recognised	31,597,025	21,196,120

There are unrecognised deferred tax assets arising from income tax losses. However, the benefit of losses is not brought to account as realisation is not probable due to significant change in ownership and also change in the business operations in 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 4: DISCONTINUED OPERATIONS

	2011 \$	2010 \$
The following entities were discontinued as at 30 June 2010		
MXL Consolidation Pty Ltd		
MXL Holdings Pty Ltd		
MXL Group Pty Ltd		
21 AD Network Services Pty Ltd		
Fundamental Golf Co. (Sales) Pty Ltd		
Fundamental Golf Co. (Manufacturing) Pty Ltd		
Schoolmate.Net Pty Ltd		
MXL New Zealand Ltd		
Virtual Communications International Pty Ltd		

MXL Consolidated Pty Ltd was placed into administration on 9 April 2010. Fundamental Golf Co. (Sales) Pty Ltd, Fundamental Golf Co. (Manufacturing) Pty Ltd, Schoolmate.Net Pty Ltd, MXL New Zealand Ltd and Virtual Communications International Pty Ltd are subsidiaries of MXL Consolidated Pty Ltd. The administrator subsequently sold all of MXL trading assets.

	2011 \$	2010 \$
The financial performance of the discontinued entities for the year ended 30 June 2011 which is included in the loss from discontinued operations per the statement of comprehensive income is as follows:		
Revenue	-	2,319,865
Expenses	-	(4,287,874)
Loss before income tax	-	(1,768,009)
Income tax expense	-	-
Loss for the year	-	(1,768,009)

The net cash flows of the discontinuing division which have been incorporated into the statement of cash flows are as follows:

Net cash outflow from operating activities	-	(1,808,299)
Net cash outflow from investing activities	-	-
Net cash inflow from financing activities	-	-
Net cash increase in cash generated by the discontinued entities	-	(1,808,299)

NOTE 5: AUDITORS' REMUNERATION

	2011 \$	2010 \$
Remuneration of the auditor of the Group for:		
— auditing or reviewing the financial report	47,000	32,000
— investigating accountant report	12,500	-
	59,500	32,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 6: EARNINGS PER SHARE

	2011	2010
	\$	\$
a. Reconciliation of earnings to profit or loss		
Loss	(1,268,627)	(4,338,409)
Loss/(profit) attributable to non-controlling interest	135,268	(6,133)
Earnings used to calculate basic and dilutive EPS	<u>(1,133,359)</u>	<u>(4,344,542)</u>
b. Reconciliation of earnings to profit from continuing operations		
Loss from continuing operations	(1,268,627)	(2,570,400)
Loss/(profit) attributable to non-controlling interest	135,268	(6,133)
Earnings used to calculate basic EPS from continuing operations	<u>(1,133,359)</u>	<u>(2,576,533)</u>
c. Reconciliation of earnings to profit or loss from discontinuing operations		
Loss from discontinuing operations	-	(1,768,009)
Loss attributable to non-controlling interest	-	-
Earnings used to calculate basic EPS from discontinuing operations	<u>-</u>	<u>(1,768,009)</u>
	No.	No.
d. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	87,239,240	82,577,378

*Weighted average number of shares on issue for prior period has been adjusted to reflect share consolidation for comparative purpose.

NOTE 7: CASH AND CASH EQUIVALENTS

	2011	2010
	\$	\$
Cash at bank and in hand	275,122	45,051
	<u>275,122</u>	<u>45,051</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 8: TRADE AND OTHER RECEIVABLES

	2011 \$	2010 \$
CURRENT		
Other receivables	135,220	-
Provision for impairment	-	-
	135,220	-

(a) Provision For Impairment of Receivables

Current trade and other receivables are non-interest bearing loans and generally on 30-day terms. A provision for impairment is recognised when there is objective evidence that an individual trade or other receivable is impaired. These amounts have been included in the other expenses item.

There is no provision for impairment of receivables recognised by the Group during the year (2010: Nil).

There are no balances within other receivables that contain assets that are impaired and are past due. It is expected these balances will be received when due. Impaired assets are provided for in full.

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

(b) Related party receivables

For terms and conditions of related party receivables refer to note 23.

(c) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value has been assessed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

Note 9: OTHER ASSETS

	2011 \$	2010 \$
CURRENT		
Prepayments	335,033	-
Rental Deposit	9,641	-
	344,674	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

	Plant & Equipment	Leased plant and equipment	Leasehold improvements	Total
	\$	\$	\$	\$
Gross carrying amount				
Balance at 1 July 2009	64,407	29,512	-	93,919
Disposals	(64,407)	(29,512)	-	(93,919)
Balance at 30 June 2010	-	-	-	-
Additions	52,842	-	98,453	151,295
Balance at 30 June 2011	52,842	-	98,453	151,295
Accumulated depreciation				
Balance at 1 July 2009	40,827	21,766	-	62,593
Disposals	(40,827)	(21,766)	-	(62,593)
Balance at 30 June 2010	-	-	-	-
Depreciation expense	12,519	-	19,691	32,210
Balance at 30 June 2011	12,519	-	19,691	32,210
Net book value at 30 June 2010	-	-	-	-
Net book value at 30 June 2011	40,233	-	78,762	119,085

NOTE 11: INTANGIBLE ASSETS

	Software Acquired at Cost	Intellectual Property	Total
	\$	\$	\$
Gross carrying amount			
Balance at 1 July 2009	356,467	1,758,142	2,114,609
Disposals	(356,467)	-	(356,467)
Balance at 30 June 2010	-	1,758,142	1,758,142
Additions	-	35,520	35,520
Balance at 30 June 2011	-	1,793,662	1,793,662
Accumulated amortisation and impairment			
Balance at 1 July 2009	217,888	-	217,888
Elimination of amortisation on disposal	(217,888)	-	(217,888)
Impairment losses charged to statement of comprehensive income	-	1,758,142	1,758,142
Balance at 30 June 2010	-	1,758,142	1,758,142
Amortisation expense	-	2,333	2,333
Impairment losses charged to statement of comprehensive income	-	-	-
Balance at 30 June 2011	-	1,760,475	1,760,475
Net book value at 30 June 2010	-	-	-
Net book value at 30 June 2011	-	33,187	33,187

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 11: INTANGIBLE ASSETS (Continued)

The addition of the intellectual property for 2011 relates to business name, domain name and trademarks of Virtual Communications International business. This is being amortised on a straight line basis over 3 years.

NOTE 12: TRADE AND OTHER PAYABLES

	2011 \$	2010 \$
CURRENT (unsecured)		
Trade payables	192,060	192,063
Other creditors and accruals	36,206	-
	<u>228,266</u>	<u>192,063</u>

NOTE 13: BORROWINGS

	2011 \$	2010 \$
CURRENT (unsecured)		
Loan from Furneaux Equity Limited*	2,127,017	-
Other loans	200,000	200,000
	<u>2,327,017</u>	<u>200,000</u>

*The terms and conditions relating to the loan provided to the Company by Furneaux Equity Limited (an entity associated with Chief Executive Officer, James Kellett) are as follows:

- The loan facility limit was \$4.15 million at revised agreement dated 11 January 2011;
- Interest is accrued on the drawn down amount from day to day and is calculated on a daily basis;
- Interest accrued is calculated at 10% per annum and is payable on the termination date, being 180 days after the date of the loan agreement;

NOTE 14: RESERVES

a) Foreign Currency Translation Reserve

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

b) Option Reserve

The option reserve records items recognised as expenses on valuation of share based payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 15: ISSUED CAPITAL

	2011 \$	2010 \$
87,239,240 (2010: 1,744,778,615) fully paid ordinary shares	61,872,013	61,872,013
	2011 No.	2010 No.
a. Ordinary Shares		
At the beginning of reporting period	1,744,778,615	1,362,671,922
Shares issued during the year		
— 23 July 2009	-	34,500,000
— 13 August 2009	-	115,000,000
— 28 October 2009	-	180,000,000
— 2 November 2009	-	52,606,693
Shares consolidation during the year		
— 11 March 2011	(1,657,539,375)	-
At reporting date	87,239,240	1,744,778,615

The share capital of Entellect 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. Options

- i. For information relating to the Entellect Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 22 Share-based Payments.
- ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 24 Key Management Personnel.

c. Capital Management

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

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

There are no externally imposed capital requirements.

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

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

The Group has a borrowing from Furneaux Management of \$2,127,017 as at 30 June 2011 (2010: \$nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 16: PARENT INFORMATION

	2011	2010
	\$	\$
The following information has been extracted from the books and records of the parent and has been prepared in accordance with the accounting standards.		
BALANCE SHEET		
ASSETS		
Current Assets	1,271,260	45,051
Non-current Assets	14,077	-
TOTAL ASSETS	<u>1,285,337</u>	<u>45,051</u>
LIABILITIES		
Current Liabilities	2,543,246	392,063
TOTAL LIABILITIES	<u>2,543,246</u>	<u>392,063</u>
EQUITY		
Issued Capital	61,872,013	61,872,013
Options Reserve	846,279	970,966
Retained Earnings	(63,976,201)	(63,189,991)
TOTAL EQUITY	<u>(1,257,909)</u>	<u>(347,012)</u>
STATEMENT OF COMPREHENSIVE INCOME		
Total loss	<u>(910,894)</u>	<u>(2,570,400)</u>
Total comprehensive income	<u>(910,894)</u>	<u>(2,570,400)</u>

Guarantees

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

Contingent Liabilities

Refer to Note 19 for details of contingent liabilities.

Contractual Commitments

At 30 June 2011 Entellect Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2010: none).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 17: CONTROLLED ENTITIES

a. Subsidiaries

The consolidated financial statements include the financial statements of Entellect Limited and the subsidiaries listed in the following table.

	Country of Incorporation	Percentage Owned	
		2011	2010
Virtual Communications International Pty Ltd (1)	Australia	100	-
Knowledge Nation Pte Ltd (2)	Singapore	60	-
MXL Holdings Pty Ltd (3)	Australia	-	100
MXL Group Pty Ltd (3)	Australia	-	100
21 AD Network Services Pty Ltd (3)	Australia	-	100

(1). Virtual Communications International Pty Ltd is an Australian company incorporated on 20 May 2011 from a discontinued entity called Fundamental Golf Co. (Sales) Pty Ltd.

(2). Knowledge Nation Pte Ltd is a Singapore company in which Entellect holds a 60% controlling interest, with Australian ASX listed company Mooter Media Limited and unlisted Singapore based Hotshot Media Limited each holding 20%. The Company was incorporated on 15 March 2011. Knowledge Nation Pte Ltd owns 100% of Knowledge Nation Inc., a US company based in San Francisco and incorporated in Delaware.

(3). These entities were placed into administration and discontinued as at 30 June 2010 and all the assets were subsequently sold by the administrator.

NOTE 18: CAPITAL AND LEASING COMMITMENTS

	2011	2010
	\$	\$
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	132,481	-
Between 12 months and 5 years	499,146	-
	<u>631,627</u>	<u>-</u>

The property lease is for a 5 year term with an option to exit at year 3, with rent payable monthly in advance. There is no option to extend the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 19: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

	2011	2010
	\$	\$
Estimates of the potential financial effect of contingent liabilities that may become payable:		
Contingent Liabilities	-	-
Employee disputes	-	38,000

The employee dispute was settled and resolved at year ended 2011 and there is no outstanding contingent liability that the Group may be liable for.

NOTE 20: OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group's has two operating segments being the Educational Game Development business and the vPublisher eBook Content Delivery Software business. While the Board acknowledges that there was no significant activity in the vPublisher business during the first eleven months of the reporting period, segment reporting is maintained for continuity and the basis for future reporting as the vPublisher business resumes activity.

The Group is managed primarily on the basis of product category and service offerings since the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- The products sold and /or services provided by the segment; and
- The type or class of customer for the products or services.

Basis of accounting for purposes of reporting by operating segmentsa. **Accounting policies adopted**

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief operating decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

b. **Segment assets**

Where an asset is used across multiple segments, the asset is allocated to that segment that receives majority economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

c. **Segment liabilities**

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011			2010	
	vPublisher	Educational Games	Consolidated	Educational Software	Consolidated
	\$	\$	\$	\$	\$
Segment Revenue					
From continuing operations	-	-	-	-	-
External Sales	-	-	-	-	-
Total segment revenue	-	-	-	-	-
Segment net loss before tax	(19,563)	(338,170)	(357,733)	(1,768,009)	(1,768,009)
Impairment of Intellectual Property	-	-	-	-	(1,758,142)
Reconciliation of segment result to group net profit					
Unallocated items	-	-	-	-	-
Corporate costs	-	-	(910,894)	-	(812,258)
Group net loss before tax	-	-	(1,268,627)	-	(4,338,409)
Assets					
Segment assets	50,095	280,362	330,457	-	-
Corporate asset	-	-	576,831	-	-
Unallocated	-	-	-	-	45,501
Total Group Assets	-	-	907,288	-	45,501
Liabilities					
Segment liabilities	(5,206)	(6,831)	(12,037)	-	-
Corporate liability	-	-	(2,543,246)	-	-
Unallocated	-	-	-	-	(392,063)
Total Group Liabilities	-	-	(2,555,283)	-	(392,063)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 21: CASH FLOW INFORMATION

	2011 \$	2010 \$
a. Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Profit after income tax	(1,268,627)	(4,338,409)
Loss of control of cash due to discontinued operations	-	170,377
Non-cash flows in profit		
Depreciation & amortisation	34,509	-
Share options expensed	-	395,036
Impairment loss	-	1,758,142
Changes in assets and liabilities		
(Increase)/decrease in trade and term receivables	(135,223)	496,593
(Increase)/decrease in other assets	(344,674)	-
Increase/(decrease) in trade payables and accruals	9,166	(360,479)
Increase/(decrease) in unearned revenue	-	(102,984)
Increase/(decrease) in provisions	-	(189,622)
Net cash flow outflow from operations	<u>(1,704,849)</u>	<u>(2,171,346)</u>

NOTE 22: SHARE-BASED PAYMENTS

Options outstanding at 30 June 2011 had a weighted average exercise price of \$0.001 cents and a weighted average remaining contractual life of 1.25 years. Exercise prices range from \$0.01 to \$0.20 in respect of options outstanding at 30 June 2011.

The weighted average fair value of the options granted during the year was \$0.01.

This price was calculated by using a Binomial option pricing model applying the following inputs:

Weighted average exercise price	\$0.02
Weighted average life of the option	3.7 years
Underlying share price	\$0.004
Expected share price volatility	111%
Risk free interest rate	4%

Employee Share Option Plan

On 18 April 2000 the Company, with shareholders' approval, established the employee share option plan. As at the date of this report no options had been granted under this plan. The options have an exercise price range of \$0.01 to \$0.20 with an expiry date of 5 years after the date of vesting.

No ordinary shares have been issued under this plan during the financial year and all options lapsed during the financial year due to their expiration and cessation of employment of option holders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 23: RELATED PARTY TRANSACTIONS

Directors and Key Management Personnel Transactions with the Group

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

On 29 October 2010, the Company entered into a loan agreement with Furneaux Equity Limited (Furneaux). Furneaux Equity Limited is an entity associated with James Kellett. The loan agreement was paid in full by the Company in July 2011. The balance outstanding at 30 June 2011 was \$2,127,017.

There were no other related party transactions made in the financial year ended 30 June 2011 (2010: nil).

Directors and Key Management Personnel Holdings of Shares and Share Options

The relevant interest of directors and their related entities in shares and share options of the Company at the year ended are set out in Note 24 – Key Management Personnel.

Transactions with Controlled Entities

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

	2011 \$	2010 \$
Loans to/(from)		
Knowledge Nations Pte Ltd	(458)	-
Knowledge Nations Inc.	644,056	-
Virtual Communications International Pty Ltd	64,452	-
	<hr/>	

NOTE 24: KEY MANAGEMENT PERSONNEL

Names and positions held of the group's key management personnel in office at any time during the year are:

Directors

Andrew Plympton	Chairman - non-executive
James Kellett	Director - executive
Jeffrey Bennett	Director - non-executive
Conrad Crisafulli	Director - non-executive (resigned 19 January 2011)
Paul Devine	Director - non-executive (resigned 19 August 2010)
Paul Lowry	Director - non-executive (resigned 19 August 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2011.

The totals of remuneration paid to key management personnel of the Group during the year are as follows:

	2011 \$	2010 \$
Short-term employee benefits	262,923	343,531
Post-employment benefits	-	-
Share-based payments	-	-
	262,923	343,531

KMP Options and Rights Holdings

The number of options over ordinary shares held by each key management personnel of the Group during the financial year is as follows:

	Balance at beginning of year '000	Granted as remuner- ation during the year '000	Exercised during the year '000	Other changes during the year '000	Balance at end of year '000	Vested during the year '000	Vested and exer- ciseable '000	Vested and unexer- cisable '000
30 June 2011								
Andrew Plympton	-	-	-	-	-	-	-	-
James Kellett	-	-	-	-	-	-	-	-
Jeffry Bennett	5,000	-	-	(4,750)*	250	-	-	-
Paul Devine	5,000	-	-	(4,750)*	250	-	-	-
Paul Lowry	5,000	-	-	(4,750)*	250	-	-	-
Conrad Crisafulli	5,000	-	-	(4,750)*	250	-	-	-

* Share consolidation of 20 to 1 fully paid ordinary share basis on 16 March 2011.

	Balance at beginning of year '000	Granted as remuner- ation during the year '000	Exercised during the year '000	Other changes during the year '000	Balance at end of year '000	Vested during the year '000	Vested and exer- ciseable '000	Vested and unexer- cisable '000
30 June 2010								
Jeffry Bennett	5,000	-	-	-	5,000	-	-	-
Paul Devine	5,000	-	-	-	5,000	-	-	-
Paul Lowry	5,000	-	-	-	5,000	-	-	-
Conrad Crisafulli	5,000	-	-	-	5,000	-	-	-
Joseph Younane	15,000	-	-	-	15,000	-	-	-
David Michel	8,000	-	-	-	8,000	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

KMP Shareholdings

The number of ordinary shares in Entellect Limited held by each key management personnel of the Group during the financial year is as follows:

	Balance at beginning of year '000	Granted as remuneration during the year '000	Issued on exercise of options during the year '000	Other changes during the year* '000	Balance at end of year '000
30 June 2011					
Andrew Plympton	-	-	-	-	-
James Kellett	-	-	-	-	-
Jeffry Bennett	-	-	-	-	-
Paul Devine	400	-	-	-	400
Paul Lowry	5,250	-	-	-	5,250
Total	5,650	-	-	-	5,650

	Balance at beginning of year '000	Granted as remuneration during the year '000	Issued on exercise of options during the year '000	Other changes during the year* '000	Balance at end of year '000
30 June 2010					
Jeffry Bennett	-	-	-	-	-
Paul Devine	400	-	-	-	400
Paul Lowry	5,250	-	-	-	5,250
Conrad Crisafulli	-	-	-	-	-
Joseph Younane	1,400	-	-	-	1,400
David Michel	2,000	-	-	-	2,000
Total	9,050	-	-	-	9,050

* Other changes during the year refer to shares purchased or sold during the financial year.

Other KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above.

For details of other transactions with key management personnel, refer to Note 23: Related Party Transactions.

For details of loans from KMP, refer to Note 13: Borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 25: FINANCIAL RISK MANAGEMENT

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

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	2011 \$	2010 \$
Financial Assets			
Cash and cash equivalents	7	275,122	45,051
Trade and other receivables	8	135,220	-
		410,342	45,051
Financial Liabilities			
Financial liabilities at amortised cost			
— Trade and other payables	12	228,266	192,063
— Borrowings	13	2,327,017	200,000
		2,555,283	392,063

Specific Financial Risk Exposures and Management

The Group is exposed to a variety of financial risks through its use of 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.

The risk management policies of Entellect Limited seek to mitigate the above risks and reduce volatility on the financial performance of the Group. Financial risk management is carried out centrally by the Finance Department of Entellect 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 2011

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment								
Trade and other payables	228,266	192,063	-	-	-	-	228,266	192,063
Loans	2,327,017	200,000	-	-	-	-	2,327,017	200,000
Total expected outflows	2,555,283	392,063	-	-	-	-	2,555,283	392,063
Financial assets — cash flows realisable								
Cash and cash equivalents	275,122	45,051	-	-	-	-	275,122	45,051
Trade and other receivables	135,220	-	-	-	-	-	135,220	-
Total anticipated inflows	410,342	45,051	-	-	-	-	410,342	45,051
Net (outflow)/inflow on financial instruments	(2,144,941)	(347,012)	-	-	-	-	(2,144,941)	(347,012)

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 7.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 26: POST BALANCE DATE EVENTS

Other than 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.

The Company was able to finalise arrangements with the liquidator of a former ESN subsidiary to recover key assets of its vPublisher business and the Company relaunched this business in July 2011.

On 15 July 2011, Entellect Limited has successfully completed its recapitalisation pursuant to its non-renounceable Rights Issue (with a public offer component) in conjunction with a placement (collectively the Offer), in accordance with the terms set out in the Company's Replacement Prospectus dated 17 June 2011.

The Company applied to the Australian Securities Exchange (ASX) to have its shares requoted on the official list of the ASX and this was approved; consequently, the Company's shares were re-quoted and resumed trading on the ASX on 25 July 2011.

As a result of the Offer, the Company as at 20 July 2011 has raised \$4,327,493 and has 952,737,932 fully paid ordinary shares and 9,712,500 options on issue.

NOTE 27: COMPANY DETAILS

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

Level 3, 1 Collins Street
Melbourne VIC 3000
Australia

Grant Thornton Audit Pty Ltd
ACN 130 913 594

Level 17, 383 Kent Street
Sydney NSW 2000
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Report To the Members of Entellect Limited

Report on the financial report

We have audited the accompanying financial report of Entellect Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of 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 of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be 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, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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 which 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 and fair presentation of the financial report 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 modified audit opinion.

Independence

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

Basis for qualified auditor's opinion

As disclosed in Note 4 of the financial report, during the prior year the main trading subsidiaries of the company, being the MXL Consolidated Pty Limited group of companies ("MXL Consolidated"), were placed into voluntary administration on 9 April 2010. Consequently, the Company did not maintain control of MXL Consolidated as at 30 June 2010 and accordingly derecognised the assets, liabilities and financial performance of these operations. As a result of the administration, the key management and financial personnel responsible for the financial and accounting matters were not available to discuss the financial affairs of MXL Consolidated and it was not possible to obtain all information necessary to permit the application of appropriate alternative audit procedures on the \$1,768,009 loss from discontinued operations after tax for the year ended 30 June 2010 comparative figure disclosed in the 30 June 2011 financial report.

Had we been able to complete our audit of MXL Consolidated, matters might have come to our attention indicating that adjustments might be necessary to the 30 June 2010 comparative figures disclosed in the 30 June 2011 financial report.

Qualified Auditor's opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to matter giving rise to the qualification:

- a the financial report of Entellect 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 2011 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.

Report on the remuneration report

We have audited the remuneration report included in pages 14 to 17 of the directors' report for the year ended 30 June 2011. 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.

Basis for Qualified Auditor's Opinion on the remuneration report

As disclosed in Note 4 of the financial report, during the prior year the main trading subsidiaries of the company, being the MXL Consolidated group of companies, were placed into voluntary administration on 9 April 2010. As a result of the administration, the key management and financial personnel responsible for the financial and accounting matters were not available to discuss the financial affairs of MXL Consolidated and it was not possible to obtain all information necessary to support the 30 June 2010 comparative disclosures contained in the remuneration report for the year ended 30 June 2011.

Had we been able to complete our audit of MXL Consolidated, matters might have come to our attention indicating that adjustments might be necessary to the 30 June 2010 comparative figures in the 30 June 2011 remuneration report.

Qualified Auditor's opinion on the remuneration report

In our opinion, except for the effects of the adjustments to the remuneration report relating to the voluntary administration of MXL Consolidated, if any, as might have been determined to be necessary had it not been for the situation described in the qualification paragraph above, the remuneration report of Entellect Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



C F Farley
Director - Audit & Assurance

Sydney, 30 September 2011

ASX ADDITIONAL INFORMATION

Shareholdings

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report.

Substantial Shareholders

The name of the substantial shareholders listed in the Company's register at 20 September 2011 were

Shareholders	Ordinary Shares	% OF TOTAL ISSUED SHARE CAPITAL
DENTOST PTY LTD	82,174,934	8.34
CITICORP NOMINEES PTY LTD	72,692,998	7.37

Class of Shares and Voting Rights

As at 20 September 2011, there were 4400 holders of a total of 985,337,932 ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in Article 54 of the Company's Articles of Association are:

"Subject to any rights or restrictions for the time being attached to any class or classes of shares:

- a) at meetings of members or classes of members each member is entitled to vote in person or by proxy or attorney; and
- b) 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 Shareholders

Holdings Ranges	Holders	Total Units	%
1-1,000	2,177	580,576	0.059
1,001-5,000	1,003	2,641,661	0.268
5,001-10,000	346	2,636,066	0.268
10,001-100,000	576	18,067,845	1.834
100,001-9,999,999,999	308	961,411,784	97.572
Totals	4,410	985,337,932	100.000

Unmarketable Parcels

The number of holders of less than a marketable parcel at 15 September 2011 was:

Total Securities	UMP Securities	UMP Holders	UMP %
985,337,932	36,935,536	4,212	3.74851

ASX ADDITIONAL INFORMATION

Twenty Largest Shareholders

Holder Name	Balance at 20-09-2011	%
DENTOST PTY LTD	82,174,934	8.340
CITICORP NOMINEES PTY LIMITED	72,692,998	7.377
SUBURBAN HOLDINGS PTY LTD <THE SUBURBAN SUPER FUND A/C>	36,500,000	3.704
LOTUS ENG PTY LTD <BAE INV SUPER FUND A/C>	34,000,000	3.451
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	31,398,298	3.187
MR ANTANAS GUOGA	30,000,000	3.045
SPHINX HOLDINGS LTD	25,666,068	2.605
LANDPATH PTY LTD	24,000,000	2.436
MR JOSEPH ANTHONY DE PLEDGE & MRS JANE MARGARET DE PLEDGE <THE J & J DE PLEDGE S/F A/C>	20,563,697	2.087
PRALS PTY LTD	20,425,085	2.073
MR ADRIAN DONALD LEE	20,393,691	2.070
MR MARK KERR & MRS LINDA KERR <LINDMARK INV STAFF S/F A/C>	20,048,317	2.035
BENBALLEY PTY LTD <STEWART CRANSWICK FAMILY A/C>	20,000,000	2.030
MR JAN GUNNINK & MRS MARIE CAROLINE GUNNINK <CAROJAN RETIREMENT FUND A/C>	20,000,000	2.030
MR MARCO LONGO	20,000,000	2.030
NLS PTY LTD <NLS A/C>	20,000,000	2.030
NOTEZY PTY LTD <SUPER FUND ACCOUNT>	20,000,000	2.030
PITT STREET ABSOLUTE RETURN FUND PTY LIMITED	20,000,000	2.030
MOOTER MEDIA LIMITED	17,447,785	1.771
MINING INVESTMENTS LIMITED	16,342,127	1.659
Total number of shares of top 20 holders	571,653,000	58.016
Total Issued Capital	985,337,932	

Unquoted Equity Securities

There are no holders of unquoted options greater than 20% of a class of options at 15 September 2011.