KNEOMEDIA LIMITED

ABN 41 009 221 783

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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CORPORATE INFORMATION

DIRECTORS

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

COMPANY SECRETARY

Sophie Karzis

REGISTERED OFFICE

Level 7, 333 Collins Street
Melbourne, VIC 3000

AUDITORS

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

BANKERS

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WEBSITE ADDRESS

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CHAIRMAN'S LETTER

Dear Shareholders

The Year in Review

The Group has continued to build sales over the year of $533,404 (2017: $133,760), of which $217,049 represented revenue that had previously been deferred at 30 June 2017 and was released during the year through monthly revenue recognition, and the balance was all in relation to seat licences sold in FY2018 with revenue recognised on a monthly basis. The net loss for the year was $2,349,082 (2017: Loss $1,285,911) with the increase primarily due to the non-cash share-based payment expenses of $660,833 from the issue of shares under the Company's Long-Term Incentive Plan (LTIP) for nil cash consideration (as reported in the December 31st 2017 accounts) and funds deployed for planned expansion of the Company into new markets.

The Group's net assets increased to $3,706,185 (30 June 2017: net liabilities $121,463) due to increased sales and revenue recognition, recent placements of $3,895,000, and the further reduction of convertible note debt to zero.

KNeoWorld's Operations

The Company continues to broaden its market opportunities in the United States of America and elsewhere since refining its product offering to Software as a Service (SaaS) platform under a Business-to-School sales model during 2018. The (SaaS) Business-to-School model underpins a much more robust and predictable revenue model for the Company compared to what is much harder to achieve through direct-to-consumer marketing which is dependent on high promotional costs.

This year was a transformational year for the Company, underpinned by a significant funding commitment by way of budget allocation from the New York City Department of Education (DOE), and the subsequent take up of the KNeoEd and KNeoESP educational and Special Needs intervention products into the New York City Public School education market. Further budget allocation from a number of sources is anticipated very shortly, thereby enabling revenue recognition of substantial sales commitments at hand in the near term.

The Company's primary focus during the year was the refinement of its operating platform to deliver sustainable sales through four key pillars:

- **Partnerships** that deliver access to multiple funding channels from government and private enterprise;
- **Leading technology** to ensure we maintain a commanding position in Special Needs education;
- **Validated content** by globally recognised and credible health and education bodies;
- **Recruitment of top talent in Special Needs** learning and development to deliver scale in the markets where we deploy content.

Based on these four key pillars the Company continues to broaden its market since refining its product offering to Software as a Service (SaaS) platform under a Business-to-School sales model during 2018. The (SaaS) Business-to-School model, while initially creating a longer sales cycle, will deliver a much more robust and predictable revenue model compared to direct-to-consumer marketing which is dependent on high promotional costs.

To this end, the Company has worked with UK production house Dubit to ensure reliable global distribution and adherence to education curriculum standards in each of the operating jurisdictions. The curriculum standards compliance and analytical reporting across six subject categories provides further differentiation and leadership to other single subject products generally available in education, let alone special education.

Funding & Capital Structure

During the year, the Company raised $3,895,000 through the placement of new shares, predominantly to institutional and sophisticated investors. As well, existing convertible note holders converted $175,000 of notes to shares thus extinguishing all Company debt. Furthermore, existing option holders elected to exercise options which raised a further $548,704.

This culminated in a substantial strengthening of the Group's balance to net assets of $3,706,185 at 30 June 2018 from net liabilities of $121,463 at 30 June 2017.

The Company remains focused on collection of outstanding debtors and will be doing so in conjunction with commencement of the school year in New York City. Given the past delay in debtor collections, the Company has been ensuring all sales are only recognised in conjunction with satisfactory payment identification. Further commentary is provided under "United States". As a result of the ageing of the outstanding debtors, the Company acknowledges that its Auditors have not been able to obtain sufficient appropriate audit evidence in relation to the occurrence of revenue or recoverability of trade receivables as a result of the confidential nature of the New York City Department of education payment process, and in consequence qualification of the audit in this regard has been included.

The year in review by geography

United States

As reported in July, KNeoMedia's US team has been establishing broader sales channels in New York and other US markets with the most important development being an Alliance Partnership ("the Alliance") with the USA's oldest, largest and most widely recognised not-for-profit lobby organisations, the National Association for the Advancement of Colored People (NAACP) secured in June.

The Alliance Partnership gives KNeoMedia an established and wide-reaching infrastructure across the United States via the NAACP 2,200 chapters, and the not-for-profit accreditation, to fast-track sales and roll-out KNeoWorld content across the US. The Alliance Partnership can deliver diversified funding sources and ensure the Company is not impacted by DOE budget allocation delays that have occurred in the past.

Following on from the June collaboration agreement Company representatives attended and presented at the NAACP National Convention in San Antonio in July 14th to 18th just prior to the commencement of the annual summer Northern Hemisphere vacation.

After the upcoming September 2018 commencement of the school year, it is expected that the first schools will be deployed in NYC under NAACP instruction and guidance including controlled research data collection for further validation. These will be the foundation for the larger NAACP roll out collaboration thereafter. Further; the collaboration with the NAACP and their internal education resources, the resulting research, the inclusion in the platform of alignment with curriculum standards by highly qualified curriculum experts and the Monash research that will have global standing negates the need to expedite other white papers in the US thus avoiding unnecessary and substantial expense.

As advised in July and consistent with the roll out strategy appropriately skilled and trained business development personnel continue to be recruited. The Company is pleased to advise Mr Louis Diggs has joined the Company as a senior business development executive. Louis has a proven track record in national sales of online products in both the Special Needs and general education sectors. Louis brings with him, on a consulting basis, Mr Dikran Husseindjian whose experience includes 22 years with Apple Education including the position of National Sales Manager EDU Canada.

Asia

As reported in July, following successful trials in six Special Needs schools, the Superintendent of the regional Department of Education in the Philippines has approved deployment of the content into Vizcaya Province and an application has been made to the Governor for Seat Licence funding.

Subsequently a submission has been made to a further province and the Company awaits the outcome of those submissions. The Company continues to meet government officials to establish a sound business network.

Also, previously announced, the Company has retained Singapore based Wee Woon Wong, the past President of global publishing and education company Pearson Asia, who has joined the KNeoMedia

Advisory Board and is currently implementing a growth strategy for the initial target market of Malaysia. This follows successful trialling in the small but key benchmark market of Singapore. Of further assistance will be the delivery of the university study being headed in Melbourne but inclusive of a Singaporean school.

Australia

The Company continues to work with Monash University which is undertaking an in-depth study of KNeoWorld across several schools and remain on target for completion November. This research study, together with trials to date will be the key catalyst for expansion in Australia and other markets. The Company did obtain National Disability Insurance Scheme (NDIS) registration during the year however after extensive consideration the Board is of the view that the cost of undertaking a consumer model and delivering individual consumer support, solely for Australia, is currently not viable and its focus will remain SaaS business to schools. Any change to these circumstances will be advised.

United Kingdom

Similar to the US, the UK school year begins early September after a 6-week close down and the Company will then be able to continue with the identification and recruitment of appropriately skilled and trained business development personnel to undertake school trial deployment.

Outlook

Using its four key pillars strategy of partnerships, leading technology, product validation and the continued recruitment of key sales personal, the Company will continue to remain fully focused on its **Software as a Service (SaaS) platform under a Business-to-School sales model** in its now defined markets.

The Company recognises the education markets have a lengthy sales lead time, much of which has been deployed and together with the investment to date in both the SaaS strategy and the opening of those markets at the earliest opportunity and the extensive work of curriculum alignment within those markets, will, the Company believes, provide long term sustainable income.

Yours faithfully

James Kellett
Executive Chairman
Melbourne, 25 September 2018

DIRECTORS' REPORT

The Directors present their report together with the financial report of the consolidated entity consisting of KNeoMedia Limited (KNeoMedia or KNM or the Company) and its controlled entities (the **Group**), for the financial year ended 30 June 2018 and independent auditor's report thereon.

Director details

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

Name	Particulars
Mr James Kellett	**Executive Chairman and Chief Executive Officer** Appointed non-Executive Director on 26 August 2010, Chief Executive Officer on 3 December 2010 and Executive Chairman October 2015. Mr Kellett has over 30 years' experience in global corporate finance and business management and has held senior executive positions in the finance and communications industries, including ASX listed companies. Mr Kellett has been the driving force in establishing KNeoWorld Inc. in the game-based education sector in America and other global markets. Mr Kellett has no directorships in other listed companies.
Mr Jeffrey Bennett	**Non-Executive Director** Mr Bennett is a highly experienced finance executive with extensive experience in all facets of finance and business within IT. Mr Bennett has spent the last 10 years at DXC Technology, Computer Sciences Corporation, UXC Limited and Ingena Limited in senior finance roles. Mr Bennett has experience as Chairman of the Board of a publicly listed company and is currently CFO and company secretary of publicly listed company PS&C Ltd. In addition, he has a thorough understanding of the complexities involved with multinationals and companies listed on the ASX. Mr Bennett holds a Bachelor of Commerce and is a Fellow of CPA Australia.
Mr Franklin B. Lieberman	**Executive Director** Mr Lieberman is an American citizen and has over 45 years' experience in media with multi-national companies including Warner Bros., NBC, CBS, ABC and PBS as well as running the Miracle Factory, a strategic marketing company with clients that included AT&T, IBM, PepsiCo, Pfizer, Johnson & Johnson, Coca Cola and Universal Pictures. He has worked with the United Federation of Teachers and the American Federation of Teachers and was instrumental in developing the educational initiatives for KNeoWorld Inc.
Ms Sophie Karzis	**Company Secretary** Ms Karzis (B Juris., LLB) was Company Secretary of the Group at all times during and since the financial year end to the date of this report. Ms. Karzis is a practising lawyer with over 15 years' experience as a corporate and commercial lawyer, company secretary and general counsel for a number of private and public companies. Ms Karzis is the General Manager of Corporate Counsel, a corporate law practice with a focus on equity capital markets, mergers and acquisitions, corporate governance for ASX-listed entities, as well as the more general aspects of corporate and commercial law. Ms Karzis is currently the company secretary of a number of ASX-listed and unlisted entities, and is a member of the Law Institute of Victoria and Governance Institute of Australia.

Principal activities

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

Review of operations and financial results

The Group has continued to build sales over the year of $533,404 (2017: $133,760), of which $217,049 represented revenue that had previously been deferred at 30 June 2017 and was released during the year through monthly revenue recognition, and the balance was all in relation to seat licences sold in FY2018 with revenue recognised on a monthly basis. The net loss for the year was $2,349,082 (2017: Loss $1,285,911) with the increase primarily due to the non-cash share-based payment expenses of $660,833 from the issue of shares under the Company's Long-Term Incentive Plan (LTIP) for nil cash consideration (as reported in the December 31st 2017 accounts) and funds deployed for planned expansion of the Company into new markets.

The Group's net assets increased to $3,706,185 (30 June 2017: net liabilities $121,463) due to increased sales and revenue recognition, recent placements of $3,895,000, and the further reduction of convertible note debt to zero.

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

The attached financial statements detail the performance and financial position of the consolidated entity for the year ended 30 June 2018. It also contains an independent auditor's report which includes a qualification in respect of the occurrence of revenue and recoverability of trade receivables. In respect of the qualification, the Group has Revenue of $520,452, Deferred Revenue of $57,815 and Trade Receivables of $506,180 as at 30 June 2018 relating to KNeoWorld Education, representing invoices raised in respect of licences sold to a number of New York schools. The Directors' acknowledge that, in the absence of any signed licence agreements or other documentation in relation to these licences, and in the absence of any significant payments received during the year, the Company's Auditors were unable to obtain sufficient appropriate audit evidence about the occurrence of revenue or recoverability of trade receivables. Consequently, they were unable to determine whether any adjustments to these amounts were necessary. Nevertheless, the Company will continue to collect these receivables in the manner it has successfully done in the past.

Operating results

	2018 **$**	2017 $
The consolidated loss of the Group after providing for income tax	**2,349,082**	1,285,911

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 2018.

Directors' interests in Shares and Options of the Group

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

	Ordinary Shares		Options	Performance rights
	Direct	Indirect		Unquoted
James Kellett	-	17,665,714	7,142,857	5,255,590
Jeffrey Bennett	-	7,089,416	-	2,627,795
Franklin B. Lieberman	2,000,000	166,666	-	2,627,795

Significant changes in the state of affairs

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

- On 26 October 2017, KNeoMedia issued 49,951,804 shares under Tranche 1 of the Company's capital raising placement announcement on 20 October 2017.
- On 20 November 2017, KNeoMedia issued 35,603,752 shares under Tranche 2 of the Company's capital raising placement announcement on 20 October 2017.
- On 20 November 2017, KNeoMedia issued 23,478,043 shares to a convertible note holder at $0.01277 per share, following the holder's exercised of its entitlement under the term of the note to subscribe for new shares at the note conversion price.
- On 20 November 2017, KNeoMedia issued 9,000,000 shares under the Company's Long Term Incentive Plan (LTIP) for nil consideration.
- On 20 November 2017, KNeoMedia issued 1,756,867 shares to a non-executive director and a former non-executive director of the Company in lieu of outstanding director fees owed to them, at a deemed issue price of $0.0655 per share.
- On 20 November 2017, KNeoMedia issued 951,535 shares to option holders upon exercised of their options at an exercise price of $0.025 per share.
- On 20 November 2017, KNeoMedia issued 10,000,000 options for zero cash consideration to brokers who facilitated the capital raising placements as part of the consideration for services rendered.
- On 21 November 2017, KNeoMedia appointed Dr Mary McInerney to Advisory Board.
- On 23 November 2017, KNeoMedia confirmed the roll-out of its Special Needs Educational content into new territories in the United States.
- On 9 April 2018, KNeoMedia reached an agreement with Philippines partner to form a joint venture.
- On 1 May 2018, KNeoMedia advised the change of registered office and principal place of business addresses and telephone number.
- On 4 May 2018, KNeoMedia advised the underwriting agreement with Foster Stockbroking Pty Ltd to act as an underwriter for the exercise of the Company's class of options exercisable at $0.025 expired on 3 May 2018. At the expiry date, 5,514,285 options unexercised were underwritten by Foster and as a result of that the Company raised a total of $137,857.
- On 12 June 2018, KNeoMedia secured a major US content sales catalyst with the US's oldest and largest not-for-profit lobby organisation, the National Association for the Advancement of Colored People (NAACP).
- On 19 June 2018, KNeoMedia established its United Kingdom (UK) operations under a wholly-owned incorporated subsidiary, KNeoWorld UK Limited.

Convertible notes

During the year, six remaining convertible notes with a total face value of $175,000 were converted into fully paid ordinary shares. No outstanding convertible notes as at 30 June 2018. Refer to Note 17.

Significant events after the balance date

There are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either:

- the entity's operations in future financial years;
- the results of those operations in future financial years; or
- the entity's state of affairs in future financial years

Future developments, prospects and business strategies

Likely developments in the operations of the Group and the expected results of those operations in future financial years have been included in the Chairman's Letter on page 2.

Directors' Meetings

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

Director	Directors' Meetings	
	Number Attended	Number eligible to attend
James Kellett	7	7
Jeffrey Bennett	7	7
Franklin Lieberman	3	7

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

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

At 30 June 2018, there were 638,987,847 ordinary shares on issue. During the year, the Company issued in total 187,466,219 ordinary shares, of which 86,555,556 ordinary shares were through share placements and 5,500,000 were issued under the Company's Long Term Incentive Plan. Refer to Note 21.

Options and Performance rights

No options or rights were granted during the year and no options or rights have been granted to Key Management Personnel (KMP) since the end of the financial year. No options to KMP were exercised during the financial year. There are currently 22,035,714 options on issue in the Company.

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

Environmental issues

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

Indemnification and insurance of directors and officers

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

During the year, the total amount of insurance contract premiums paid was $16,020.

Proceedings on behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

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

Remuneration Report (audited)

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

The Remuneration Report is set out under the following sections:

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

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

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

Key Management Personnel during the financial year are as follows:

(i) Non-executive Directors (NEDs)

Jeffrey Bennett	Director (Non-Executive)
(ii) Executive Directors	
James Kellett	Executive Chairman & Chief Executive Officer (CEO)
Franklin B. Lieberman	Executive Director
(iii) Senior Executive	
Damian O'Sullivan	Chief Operating Officer (COO) appointed 1 April 2018

2. Remuneration Governance

Remuneration Policy

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

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

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

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

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

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

Use of remuneration consultants

No remuneration consultants were used during the year.

Voting and comments made at the Company's 2017 Annual General Meeting (AGM)

KNeoMedia shareholders passed a resolution on a unanimous show of hands to adopt the Company's remuneration report for the financial year ended 30 June 2017 at the 2017 AGM. The Company did not receive any specific feedback at the AGM on its remuneration report.

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

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

3. Directors and executive remuneration arrangements

Employment Contracts of Directors and Executives

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

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

Directors/Executive	Term of agreement	Notice Period
James Kellett	Unspecified	Six months
Jeffrey Bennett	Unspecified	Unspecified
Franklin B. Lieberman	Unspecified	Unspecified
Damian O'Sullivan	Unspecified	12 weeks

4. Details of Key Management Personnel Remuneration

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

		Short-term benefits		Post-employment	Share based payments	Total $
Executive Director		**Salary & fees $**	**Cash bonus $**	**Superannuation $**	**Performance rights $**	
James Kellett -CEO (1)	2018	168,000	-	-	-	168,000
	2017	168,000	-	-	-	168,000
Franklin B. Lieberman	2018	142,083	-	-	-	142,083
	2017	130,884	-	-	-	130,884
Non-executive Director						
Jeffrey Bennett	2018	42,000	-	-	-	42,000
	2017	42,000	-	-	-	42,000
Other Key Management Personnel						
Damian O'Sullivan	2018	47,555	-	4,196	-	51,751
	2017	-	-	-	-	-
Total KMP	**2018**	**399,638**	**-**	**4,196**	**-**	**403,834**
Total KMP	**2017**	**340,884**	**-**	**-**	**-**	**340,884**

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

5. Additional disclosures relating to options and shares

a. Performance rights holdings of key management personnel

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

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

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

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

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

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

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

	Grant date	No. granted ('000)	Fair value at grant date ($)	Exercise price ($)	Expiry date	Number lapsed	Balance at 30/6/2018 ('000)	Vested ('000)	Unvested ('000)
Executive Director									
James Kellett	15/4/16	5,256	0.0096	-	31/12/19	-	5,256	-	5,256
Franklin B. Lieberman	15/4/16	2,628	0.0096	-	31/12/19	-	2,628	-	2,628
Non-executive Directors									
Jeffrey Bennett	15/4/16	2,628	0.0096	-	31/12/19	-	2,628	-	2,628

b. Unlisted option holdings of key management personnel

As at 30 June 2018, there were 7,142,857 options on issue as free attaching options to the Executive Chairman under the terms of a share placement subscription.

c. Listed option holdings of key management personnel

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

d. Shareholdings of key management personnel

	Balance at 1 July 2017 No.	Granted as remuneration No.	On exercise of options No.	Net change other No.	Balance at 30 June 2018 No.
Executive Director					
James Kellett	17,665,714	-	-	-	17,665,714
Franklin B. Lieberman	166,666	2,000,000	-	-	2,166,666
Non-executive Directors					
Jeffrey Bennett	6,383,614	-	-	(1)705,802	7,089,416
Total	**24,215,994**	**2,000,000**	**-**	**705,802**	**26,921,796**

(1) Conversion of director fee to shares.

e. Loans to Key Management Personnel and their related parties

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

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

Loans with key management personnel – related entities

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

Payables to key management personnel - related entities

	2018	2017
	$	$
Related party payables		
Fees payable to key management personnel	**46,200**	269,177
Total related party payables	**46,200**	269,177

g. Other transactions with Key Management Personnel-related entities

During the financial year ended 30 June 2018, there were no other transactions with KMP or their related entities (2017: Nil).

End of Audited Remuneration Report

Non-audit services

The auditor, Grant Thornton, did not provide any non-audit services to the Group during the financial year ended 30 June 2018.

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 2018 has been received and can be found on page 14, which forms part of this report.

Signed in accordance with a resolution of the Directors

James Kellett,
Executive Chairman

25 September 2018

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Auditor's Independence Declaration

To the Directors of KNeoMedia Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of KNeoMedia Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Thornton Audit Pty Ltd
Chartered Accountants

C F Farley
Partner – Audit & Assurance

Sydney, 25 September 2018

Corporate Governance Statement

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

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

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

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $	2017 $
Revenue			
Sales revenue	2	**533,404**	133,760
Other income	2	**27,555**	325,397
		560,959	459,157
Employee benefits expenses and Directors' fees		**(409,203)**	(341,656)
Share-based payments expense		**(660,833)**	-
Corporate expenses		**(477,699)**	(354,353)
Depreciation and amortisation expenses	10,11	**(266,285)**	(210,968)
Marketing expenses		**(314,372)**	(253,664)
Other expenses	3	**(802,166)**	(563,259)
Finance costs		**(18,271)**	(111,827)
Performance rights benefit		**-**	3,755
Gain on movement in fair value of embedded derivatives option		**38,788**	86,904
Loss before income tax		**(2,349,082)**	(1,285,911)
Income tax expense	4	**-**	-
Loss for the year attributable to members		**(2,349,082)**	(1,285,911)
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations (net of tax)		**4,524**	(10,875)
Total comprehensive loss for the year		**(2,344,558)**	(1,296,786)
Loss attributable to:			
Members of the parent entity		**(2,228,001)**	(1,143,038)
Non-controlling interests		**(121,081)**	(142,873)
		(2,349,082)	(1,285,911)
Total comprehensive loss attributable to:			
Members of the parent entity		**(2,224,382)**	(1,151,738)
Non-controlling interests		**(120,176)**	(145,048)
		(2,344,558)	(1,296,786)
Loss per share (cents per share)			
Basic and diluted loss per share	6	**0.39**	0.33

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	2018 $	2017 $
Current Assets			
Cash and cash equivalents	7	**2,713,642**	403,242
Trade and other receivables	8	**769,699**	325,643
Other assets	9	**187,566**	14,698
Total Current Assets		**3,670,907**	743,583
Non-current Assets			
Property, plant and equipment	10	**17,486**	5,045
Intangible assets	11	**389,207**	215,241
Investment accounted for using the equity method	12	**3,381**	-
Non-current financial asset	13	**17,841**	-
Total Non-current Assets		**427,915**	220,286
Total Assets		**4,098,822**	963,869
Current Liabilities			
Trade and other payables	14	**313,087**	609,027
Deferred revenue	15	**57,815**	255,356
Other financial liabilities	17	**-**	220,949
Employee benefits	16	**21,735**	-
Total Current Liabilities		**392,637**	1,085,332
Total Liabilities		**392,637**	1,085,332
Net Assets / (Liabilities)		**3,706,185**	(121,463)
Equity			
Issued capital	18	**80,013,462**	73,840,956
Reserves	19	**(181,443)**	(184,762)
Accumulated losses		**(74,717,298)**	(72,489,297)
Parent Entity Interest		**5,114,721**	1,166,897
Non-controlling interest		**(1,408,536)**	(1,288,360)
Total Equity		**3,706,185**	(121,463)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

	Issued Capital	Accumulated losses	Foreign Currency Translation Reserve	Options Reserves	Convertible Note Equity Reserves	Non-Controlling Interest	Total
	$	$	$	$	$	$	$
Balance at 1 July 2017	**73,840,956**	**(72,489,297)**	**(185,062)**	**300**	**-**	**(1,288,360)**	**(121,463)**
Net loss for the year	-	(2,228,001)	-	-	-	(121,081)	(2,349,082)
Other comprehensive loss	-	-	3,619	-	-	905	4,524
Total comprehensive loss	**-**	**(2,228,001)**	**3,619**	**-**	**-**	**(120,176)**	**(2,344,558)**
Shares issued	3,895,000	-	-	-	-	-	3,895,000
Conversion of convertible notes to shares	191,825	-	-	-	-	-	191,825
Conversion of director fees to shares	115,000	-	-	-	-	-	115,000
Share issued under Company's LTIP	827,500	-	-	-	-	-	827,500
Transaction costs on shares issued	(286,587)	-	-	-	-	-	(286,587)
Exercise of share options	1,429,768	-	-	(300)	-	-	1,429,468
Balance at 30 June 2018	**80,013,462**	**(74,717,298)**	**(181,443)**	**-**	**-**	**(1,408,536)**	**3,706,185**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $	2017 $
Cash flows from operating activities			
Receipts from customers		**125,972**	143,522
Net grants from research and development		**-**	292,572
Payments to suppliers and employees		**(2,197,842)**	(1,061,082)
Net cash used in operating activities	20	**(2,071,870)**	(624,988)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(19,648)**	(5,777)
Purchase of intangible assets		**(455,821)**	(193,033)
Investment in joint venture		**(3,381)**	-
Loan to joint venture		**(17,841)**	-
Net cash used in investing activities		**(496,691)**	(198,810)
Cash flows from financing activities			
Proceeds from issue of shares		**3,895,000**	520,000
Payment for share issue costs		**(286,587)**	(83,270)
Proceeds from exercise of options		**1,229,468**	775,000
Interest received		**22,388**	317
Interest paid		**(8,608)**	(81,894)
Net cash provided by financing activities		**4,851,661**	1,130,153
Net increase in cash and cash equivalents		**2,283,100**	306,355
Cash and cash equivalents at the beginning of the financial year		**403,242**	100,362
Effects of exchange rate changes on cash and cash equivalents		**27,300**	(3,475)
Cash and cash equivalents at the end of the financial year	7	**2,713,642**	403,242

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

This consolidated financial report and notes of KNeoMedia Limited (the **Company**) and controlled entities (the **Group**) for the year ended 30 June 2018 was authorised for issue in accordance with the resolution of the Directors on 25 September 2018.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated general purpose financial report of the Group has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). KNeoMedia Limited is a for-profit entity for the purpose of preparing the financial report.

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

a. Going Concern Basis of Accounting

Notwithstanding the loss for the year of $2,349,082 (2017: $1,285,911) and net cash outflows used in operations of $2,071,870 (2017: $624,988), based on its current commitments, and with a cash balance at 30 June 2018 of $2,713,642, KNeoMedia has sufficient funds to meet its debts as and when they fall due. Accordingly, the financial report has been prepared on a going concern basis.

The Directors determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. The assessment of going concern is based on cash flow projections. The preparation of these projections incorporates a number of assumptions and judgements, and the Directors have concluded that the range of possible outcomes considered in arriving at this adjustment does not give rise to a material uncertainty casting significant doubt on the Group’s ability to continue as a going concern.

b. Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2018. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

c. Investments in associates and joint arrangements

Joint arrangements are those entities over which the Group is able to exert significant influence but which are not subsidiaries.

A joint venture is an arrangement that the Group controls jointly with one or more other investors, and over which the Group has rights to share of the arrangement's net assets rather than direct rights to underlying assets and obligations for underlying liabilities. A joint arrangement in which the Group has direct rights to underlying assets and obligations for underlying liabilities is classified as a joint operation. The classification depends on each investor's contractual rights and obligations, rather than the legal structure of the joint arrangement.

The Group has investment in joint venture, which are accounted for in the consolidated financial statements using the equity method. Under the equity method, they are initially recognised at cost by the parent entity as investment.

The carrying amount of the investment in associates and joint ventures is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate and joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

d. Income Tax

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

d. Income Tax (continued)

Tax Consolidation

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

e. Revenue and Other Income

Education revenue from Public Schools in United States

These school sales are largely funded from the New York City Department of Education District 75. In FY 2019, it will be in partnership with the National Association for the Advancement of Coloured People (NAACP) a not-for-profit organisation in US to expedite the existing funding for seat licence sales from NYC Department of Education and further to act as recipient of substantial philanthropic funds arranged by KNW which previously, as KNW is not a not-for-profit, went to the DOE and thus beyond the control of and direction of KNW. NAACP represents 40% of the US population and is making strong representation to the NYC DOE to expedite past payments and provide additional budget for KNW deployment. They are doing this jointly with KNW staff on the basis KNW is now their lead educational tool and the target schools and students are largely of that 40% of the US population.

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

Channel partners revenue

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

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

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

f. Goods and Services Tax (GST)

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

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

g. Borrowing Costs

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

h. Cash and Cash Equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

i. Property, Plant and Equipment

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

Plant and Equipment

Plant and equipment are measured on the cost basis.

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

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

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

Depreciation

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

j. Intangible Assets

Project development costs

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

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

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

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

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

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

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

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

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

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

Subsequent measurement

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

k. Leases

Operating leases

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

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

l. Financial Instruments

Recognition and Initial Measurement

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

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

Classification and Subsequent Measurement financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

l. Financial Instruments (continued)

Loans and receivables

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

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

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

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

Classification and subsequent measurement of financial liabilities

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

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

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

Derivative financial instruments and hedge accounting

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

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

Impairment

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

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

m. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

n. Foreign Currency Transactions and Balances

Functional and Presentation Currency

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

Transaction and Balances

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

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

Foreign operations

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

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

o. Employee Benefits

Short-term employee benefits

Short-term employee benefits are benefits, other than termination benefits, that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. Examples of such benefits include wages and salaries, non-monetary benefits and accumulating sick leave. Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled.

Post-employment benefit plans

The Group provides post-employment benefits through various defined contribution plans

Defined contribution plans

The Group pays fixed contributions into independent entities in relation to several state plans and insurance for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that relevant employee services are received.

p. Share Based Payments

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

The cost of these share options/performance rights with directors and senior executives is measured by reference to the fair value of the equity instruments at the date when the grant is made using an appropriate valuation model. The share-based remuneration is recognised as an expense in profit or loss with a corresponding credit to share option reserve in equity over the period in which the performance and /or service conditions are fulfilled (Refer Note 21). If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of equity instruments expected to vest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

p. Share Based Payments (continued)

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

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

q. Provisions

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

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

r. Earnings Per Share

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

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

s. Segment Reporting

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

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

t. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

u. Significant Management Judgement in Applying Accounting Policies

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

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

Recognition of deferred tax assets

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

The Group has $3,386,277 (2017: $1,954,165) of tax losses carried forward. Unused revenue and capital losses will be available in future to offset against income to the extent ownership tests as contained in the ITAA 1997 can be met (Refer Note 4).

Estimation uncertainty

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

- Intangible assets (Note 11)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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

The Group has adopted all of the new, revised or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. However, the Group has not applied the following new or amended standards in preparing these financial statements.

AASB 15: Revenue from Contracts with Customers

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations. It establishes a new revenue recognition model, changes the basis for deciding whether revenue is to be recognised over time or at a point in time, provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing) and expands and improves disclosures about revenue. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group's revenue is derived from selling of seat licences sold to public schools on annual basis and are recognised over the term of the seat licence contract. This revenue meets the criteria set out in AASB 15 for performance obligation satisfied over time. As such the Group does not expect any material adjustments to profit or loss on adoption of AASB 15.

AASB 9: Financial Instruments

AASB 9 replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting. It also carries forward the guidance on recognition and derecognition of financial assets and liabilities from AASB 139. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has undertaken a detailed assessment of the classification and measurement impacts of AASB 9 and it has estimated that the Group does not expect the new standard to have a material impact on the classification of its financial assets and liabilities.

AASB 16: Leases

AASB 16 replaces AASB 117 Leases and for lessees will eliminate the classifications of operating leases and finance leases. This standard requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases. This standard requires the calculation and recognition of a right-of-use asset and corresponding liability based on the discounted value of committed lease payments. These payments, currently expensed to profit or loss as incurred will be replaced by the straight-line amortisation of the right-of-use asset and reduce the lease liability. In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The application date of this standard is 1 January 2019, with early adoption permitted.

The Group will adopt this standard from 1 July 2019. Information on the undiscounted amount of the consolidated entities' operating lease commitments under AASB 117, the current leasing standard, is disclosed in Note 24. The Group is considering the available options for transition. To date, work has focused on the identification of the provisions of the standard which will most impact the consolidated entity. In the next financial year, work on the detailed review of contracts and financial reporting impacts will commence.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 2: REVENUE	Note	2018 $	2017 $
Sales Revenue			
- KNeoWorld – Wholesale & other		**12,952**	48,933
- KNeoWorld Education *	15	**520,452**	84,827
		533,404	133,760
Other income			
- Grants for research and development		**-**	325,080
- Interest income		**27,555**	317
		27,555	325,397

** Total sales of $315,578 were derived from seat licences sold to schools for FY 2018. In accordance with AASB 118: Revenue, the revenue will be recognised on a straight-line basis over the life of the seat licences. Accordingly, total revenue recognised for this financial year was $520,452 which comprised part of previous year sales that recognised in this year, with $57,815 deferred to FY 2019.*

NOTE 3: EXPENSES

Other expenses		
- Consulting fees	**176,187**	266,238
- R & D expense	**30,000**	-
- Occupancy costs	**61,474**	53,067
- Capital raising costs	**73.389**	106,067
- Administration costs	**89,898**	54,278
- Other expenses	**371,218**	83,609
	802,166	563,259

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018 $	2017 $
NOTE 4: INCOME TAX EXPENSE		
Current and deferred tax expense for the year ended 30 June 2018 was nil (2017: nil)	**-**	-
A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting loss before income tax	**(2,349,082)**	(1,285,911)
At Australia's income tax rate 30%	**(704,725)**	(385,773)
Temporary differences and tax losses not brought to account as deferred tax assets	**704,725**	385,773
Tax losses utilised	**-**	-
Income tax benefit reported in the statement of comprehensive income	**-**	-
Effective tax rate	**0%**	0%
Income tax losses – tax consolidated group		
Unused tax losses for which no deferred tax assets have been recognised	**3,386,277**	1,954,165

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

The Group incurred an Australian taxable loss of $1,432,112 (2017: taxable loss of $1,019,984). The Group did not incur capital losses during the year ended 30 June 2018 (2017: $nil).

At 30 June 2018, the group has revenue losses carried forward of $3,386,277 (2017: $1,954,165).

At 30 June 2018, the group has capital losses carried forward of $19,848 (2017: $19,848).

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

NOTE 5: AUDITORS' REMUNERATION

	2018 $	2017 $
Amounts received or due and receivable by Grant Thornton for:		
- An audit or review of the financial report of the entity and any other entity in the consolidated entity	**74,000**	68,000
	74,000	68,000

Grant Thornton did not provide any non-audit services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 6: LOSS PER SHARE

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

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

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

		2018 $	2017 $
	Basic and diluted loss to profit or loss	**0.39 cents**	0.33 cents
a.	Reconciliation of earnings to profit or loss		
	Loss for the year	**2,349,082**	1,285,911
	Loss attributable to non-controlling interest	**(121,081)**	(142,873)
	Earnings used to calculate basic and dilutive EPS	**2,228,001**	1,143,038
		No.	No.
b.	Weighted average number of ordinary shares outstanding during the year used in calculating basic and dilutive EPS	**562,729,690**	346,191,556

As the Group has made a loss in the current year, the impact of options is anti-dilutive, and as such has not been included in the calculation of diluted EPS. There are 22,035,714 options and 10,511,180 rights not included in the calculation.

NOTE 7: CASH AND CASH EQUIVALENTS

	2018 $	2017 $
Cash at bank and in hand	**713,642**	403,242
Short term deposits	**2,000,000**	-
	2,713,642	403,242

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 8: TRADE AND OTHER RECEIVABLES

	2018 $	2017 $
CURRENT		
Trade receivables	**506,180**	288,700
Accrued revenue	**1,169**	8,758
Less: Allowance for doubtful debt	**-**	-
Other receivables	**239,167**	9,500
	746,516	306,958
GST recoverable	**23,183**	18,685
	769,699	325,643

Ageing analysis

Customers with balances past due but without provision for impairment of receivables amount to $506,180 as at 30 June 2018 (30 June 2017: S$288,700).

	2018 $	2017 $
Zero to three months overdue	**-**	288,700
Three to six months overdue	**18,655**	-
Over six months overdue	**487,525**	-
	506,180	288,700

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

The carrying amount of the receivable is considered a reasonable approximation of fair value as this financial asset (which is measured at amortised cost) is expected to be paid within six (6) months, such that the time value of money is not significant.

All of the Group’s trade and other receivables have been reviewed for indicators of impairment. No trade receivables were found to be impaired and no allowance for credit losses (2017: Nil) has been recorded accordingly within other expenses.

NOTE 9: OTHER ASSETS

	2018 $	2017 $
CURRENT		
Prepayments	**166,817**	11,186
Rental Deposit	**20,749**	3,512
	187,566	14,698

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

	Plant & Equipment	Furniture & Fixtures	Total
	$	$	$
Gross carrying amount			
Balance at 1 July 2016	**44,322**	**27,302**	**71,624**
Additions	1,360	4,417	5,777
Exchange differences	(1,030)	(1,270)	(2,300)
Balance at 30 June 2017	**44,652**	**30,449**	**75,101**
Additions	16 ,532	-	16,532
Exchange differences	1,608	1,508	3,116
Balance at 30 June 2018	**62,792**	**31,957**	**94,749**
Accumulated depreciation			
Balance at 1 July 2016	**39,314**	**27,187**	**66,501**
Depreciation expense	4,906	775	5,681
Exchange differences	(929)	(1,197)	(2,126)
Balance at 30 June 2017	**43,291**	**26,765**	**70,056**
Depreciation expense	3,631	861	4,492
Exchange differences	1,303	1,412	2,715
Balance at 30 June 2018	**48,225**	**29,038**	**77,263**
Net book value at 30 June 2017	**1,361**	**3,684**	**5,045**
Net book value at 30 June 2018	**14,567**	**2,919**	**17,486**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018 $	2017 $
NOTE 11: INTANGIBLE ASSETS		
Gross carrying amount		
Balance as at 1 July	**455,325**	274,718
Additions	**429,417**	193,033
Exchange differences	**26,403**	(12,426)
Balance at 30 June	**911,145**	455,325
Accumulated amortisation and impairment		
Balance as at 1 July	**240,084**	39,997
Amortisation expense	**261,793**	205,288
Exchange differences	**20,061**	(5,201)
Balance at 30 June	**521,938**	240,084
Net book value at 30 June	**389,207**	215,241

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

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

NOTE 12: INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	2018 **$**	**2017** **$**
Investment in Joint Venture	**3,381**	-

On 15 May 2018, the Group invested 40% interest in KNeoWorld Philippines, a joint venture involved to deploy the intellectual property of KNeoWorld in Philippines to sale, marketing and distribute KNeoWorld software and related products.

The investment in KNeoWorld Philippines is accounted for using the equity method in accordance with AASB 128: Investment in Associates and Joint Ventures.

No financial information is available as at 30 June 2018 as the business is just in the setup mode and no trading activity at this financial year end.

NOTE 13: NON-CURRENT FINANCIAL ASSET

	2018 **$**	**2017** **$**
Long term loan to joint venture	**17,841**	-

The loan is an on-going funding to KNeoWorld Philippines to meet the establishment and operating expenses until such time the joint venture company is cash flow positive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $	2017 $
NOTE 14: TRADE AND OTHER PAYABLES			
CURRENT (unsecured)			
Trade payables		**225,387**	288,850
Other creditors and accruals		**41,500**	51,000
Related parties		**46,200**	269,177
		313,087	609,027

	Note	2018 $	2017 $
NOTE 15: DEFERRED REVENUE			
CURRENT			
At 1 July		**255,356**	**-**
Deferred during the year		**322,911**	255,356
Released to the statement of profit or loss	**2**	**(520,452)**	-
At 30 June		**57,815**	255,356

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

	Note	2018 $	2017 $
NOTE 16: EMPLOYEE BENEFITS			
CURRENT			
Carrying amount at 1 July		**-**	**-**
Additional provisions		**21,735**	-
Amount utilised		**-**	
Carrying amount at 30 June		**21,735**	-

The employee benefits provisions are mainly annual leave, superannuation payables and pay-as-you-go payables to employee. All provisions are considered current. The carrying amounts and movements in the provision account are as shown above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018	**2017**
	$	**$**
NOTE 17: OTHER FINANCIAL LIABILITIES (CURRENT)		
Financial liabilities measure at amortised cost:		
- Convertible notes – loan component	**-**	7,161
Financial liabilities designated at FVTPL:		
- Embedded derivatives	**-**	213,788
	-	220,949
Movement of the financial liabilities		
Opening balance: Convertible notes – loan component	**7,161**	782,927
Repayment during the year	**-**	-
Increase in unpaid interest	**14,046**	29,933
Imputed interest charge	**(4,382)**	(102,825)
Conversion to shares	**(16,825)**	(702,874)
Closing balance: Convertible notes – loan component	**-**	7,161
Opening balance: Embedded derivatives	**213,788**	603,040
Loss on movement in fair value	**(213,788)**	(389,252)
Closing balance: Embedded derivatives	**-**	213,788

During the year, the remaining six convertible notes with a total face value of $175,000 were converted into fully paid ordinary shares. There were no convertible notes outstanding as at 30 June 2018.

	2018		2017	
	$		$	
NOTE 18: ISSUED CAPITAL				
638,987,847 (2017: 451,521,629) fully paid ordinary shares	**80,013,462**		73,540,956	
Unissued capital	**-**		300,000	
	80,013,462		73,840,956	
	$	**No.**	$	No.
a. Ordinary Shares				
At the beginning of reporting period	**73,840,956**	**451,521,629**	71,167,945	275,373,878
Shares issued during the year				
— Conversion of director fees payable to share	**115,000**	**1,756,867**	57,800	3,192,548
— Conversion of borrowing to share	**-**	**-**	200,000	14,285,714
— Capital raising fee in lieu	**250,000**	**2,500,000**	-	-
— Shares issued (capital raising)	**3,895,000**	**86,555,556**	520,000	37,142,857
— Shares issued for the Company's LTIP	**577,500**	**5,500,000**	34,000	2,000,000
— Conversion of convertible notes	**191,825**	**8,988,036**	1,110,181	82,047,404
— Exercise of options	**1,429,768**	**82,165,759**	475,000	37,479,228
— Transaction costs on shares issued	**(286,587)**		(23,970)	
At reporting date	**80,013,462**	**638,987,847**	73,540,956	451,521,629

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 18: ISSUED CAPITAL (continued)

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

b. Unissued Capital

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

c. Capital Management

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

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

There are no externally imposed capital requirements.

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

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

The Group has no borrowings as at 30 June 2018 (2017: $220,949).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018	2017
	$	$
NOTE 19: RESERVES		
Performance rights granted reserves		
Balance at beginning of financial year	**300**	4,055
Movement for the year	**(300)**	(3,755)
Balance at end of financial year	**-**	300
Convertible note equity reserves		
Balance at beginning of financial year	**-**	4,269
Movement for the year	**-**	(2,135)
Transfer to retained earnings	**-**	(2,134)
Balance at end of financial year	**-**	-
Foreign currency translation reserves		
Balance at beginning of financial year	**(185,062)**	(176,362)
Movement for the year	**3,619**	(8,700)
Balance at end of financial year	**(181,443)**	(185,062)

Performance Rights or Options Granted Reserves

This reserve is used to record the value of share based payments arising on the grant of performance rights and share options to employees, including key management personnel, as part of their remuneration under the employee share option plan, refer Note 21.

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

Convertible Note Equity Reserves

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

No fixed convertible notes are outstanding in the accounts as at 30 June 2018.

Foreign Currency Translation Reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 20: CASH FLOW INFORMATION

	2018 **$**	2017 $
Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax	**(2,349,082)**	(1,285,911)
Non-cash flows in profit		
Depreciation & amortisation	**266,285**	210,969
Performance rights expense	**-**	(3,755)
Share-based payment	**660,833**	34,000
Changes in FV of embedded derivatives	**(38,788)**	(86,904)
Finance cost	**14,046**	103,187
Changes in assets and liabilities		
Increase in trade and term receivables	**(463,984)**	(245,594)
(Increase)/decrease in other assets	**(6,203)**	50,945
(Increase)/decrease in trade payables and accruals	**(176,712)**	598,075
Decrease in employee benefits	**21,735**	-
Net cash flow outflow from operations	**(2,071,870)**	(624,988)

NOTE 21: SHARE-BASED PAYMENTS

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

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

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

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

As at 30 June 2018, the Company did not recognise any performance rights expense to the statement of profit or loss and other comprehensive income in the view that the probability of achieving the performance conditions of the performance rights for exercise are uncertain.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 22: PARENT INFORMATION

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

	2018	2017
	$	$
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current Assets	**3,085,312**	433,506
Non-current Assets	**212,906**	2,208
TOTAL ASSETS	**3,298,218**	435,714
LIABILITIES		
Current Liabilities	**(247,799)**	(732,817)
TOTAL LIABILITIES	**(247,799)**	(732,817)
EQUITY		
Issued Capital	**80,013,462**	73,840,957
Reserves	**-**	300
Retained Earnings	**(76,963,043)**	(74,138,360)
TOTAL EQUITY	**3,050,419**	(297,103)
STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME		
Total loss	**(2,824,683)**	(1,239,952)
Total comprehensive income	**(2,824,683)**	(1,239,952)

Guarantees

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

Contingent Assets and Liabilities

KNeoMedia Limited had no contingent assets and liabilities as at 30 June 2018.

Contractual Commitments

At 30 June 2018 KNeoMedia Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2017: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 23: CONTROLLED ENTITIES

Subsidiaries

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

	Country of Incorporation	Percentage Owned	
		2018	2017
		%	%
Virtual Communications International Pty Ltd	Australia	**100**	100
KNeoWorld Pty Ltd *(1)*	Australia	**80**	80
KNeoWorld Inc.*(2)*	United States	**80**	80
KNeoWorld UK Limited	United Kingdom	**100**	-

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

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

(3) KNeoWorld UK Limited was registered on 12th June 2018 and is 100% owned by KNeoWorld Pty Ltd.

Subsidiary with material non-controlling interests

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

Name	Proportion of Ownership Interests & Voting Rights Held by the NCI		Loss Allocated to NCI		Accumulated NCI	
	30-Jun-18	30-Jun-17	**30-Jun-18**	30-Jun-17	**30-Jun-18**	30-Jun-17
KNeoWorld Inc	**20%**	20%	**120,176**	145,048	**1,408,536**	1,288,360

No dividends were paid to the NCI during the years 2018 and 2017.

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

	2018	2017
	$	$
Current assets	585,596	310,077
Non-current assets	194,747	219,037
Total assets	**780,343**	529,114
Current liabilities	(123,103)	(352,515)
Non-current liabilities	(7,703,303)	(6,618,402)
Total liabilities	**(7,826,406)**	(6,970,917)
Equity attributable to owners of the Parent	**5,637,527**	5,153,443
Non-controlling interests	**1,408,536**	1,288,360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 23: CONTROLLED ENTITIES (CONTINUED)

Subsidiary with material non-controlling interests (continued)

	2018 $	2017 $
Revenue	-	-
Loss for the year attributable to owners of the Parent	(484,322)	(571,495)
Loss for the year attributable to NCI	(121,081)	(142,873)
Loss for the year	**(605,403)**	(714,368)
Other Comprehensive Income for the year (All attributable to owners of the Parent)	-	-
Total comprehensive loss for the year attributable to owners of the Parent	-	-
Total comprehensive loss for the year attributable to NCI	-	-
Total comprehensive loss for the year	**(605,403)**	(714,368)

NOTE 24: LEASES

Operating Leases as lessee

The Group leases two offices under operating leases. The future minimum leases payments are as follows:-

Within 1 year	**100,896**	17,562

The New York office lease is a 1-year lease from 1/12/2017 at a monthly rent of $4,858 equates to US$3,600 and a service retainer of $4,858 equates to US$3,600 converted at year end rate 1.3494. The Melbourne office lease is also a 1-year lease from 1/7/2018 at a monthly rent of $3,550 per month and a service retainer of $7,100.

NOTE 25: CONTINGENT ASSETS AND LIABILITIES

The Group had no contingent assets and liabilities as at 30 June 2018 (2017: nil).

NOTE 26: RELATED PARTY TRANSACTIONS

a. Transactions with Controlled Entities

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

Loans to		
KNeoWorld Pty Ltd	**7,486,811**	6,401,910
Virtual Communications International Pty Ltd	**299,191**	298,937
KNeoWorld Philippines JV	**17,841**	-

b. Transactions with Key Management Personnel (KMP)

Amounts payables to KMP is set out below:

Payables		
Furneaux Management Pty Ltd	**-**	111,783
Furneaux Project Marketing	**-**	38,500
FBL Holdings Ltd	**-**	72,694
Hixon Pty Ltd	**46,200**	46,200
	46,200	269,177

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 27: FINANCIAL RISK MANAGEMENT

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

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

	Note	2018 $	2017 $
Financial Assets			
Cash and cash equivalents	7	**2,713,642**	403,242
Trade and other receivables	8	**769,699**	325,643
Other assets	9	**187,566**	14,698
		3,670,907	743,583
Financial Liabilities			
Trade and other payables	14	**313,087**	609,027
Financial liabilities	17	**-**	220,949
		313,087	829,976

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

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

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

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

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

a. Liquidity risk

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

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

Financial Liability and Financial Asset Maturity Analysis

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 27: FINANCIAL RISK MANAGEMENT (CONTINUED)

	1-3 months		**3-6 months**		**>9 months**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	$	$	**$**	$	**$**	$	**$**	$
Financial liabilities due for payment								
Trade and other payables	**215,130**	293,048	**66,573**	130,134	**31,384**	185,845	**313,087**	609,027
Financial liabilities	**-**	7,161	**-**	51,216	**-**	162,572	**-**	220,949
Total expected outflows	**215,130**	300,209	**66,573**	181,350	**31,384**	348,417	**313,087**	829,976
Financial assets — cash flows realisable								
Cash and cash equivalents	**2,713,642**	403,242	-	-	**-**	-	**2,713,642**	403,242
Trade and other receivables	**-**	325,643	**769,699**	-	**-**	-	**769,699**	325,643
Other assets	**32,854**	10,610	**32,854**	216	**121,858**	3,872	**187,566**	14,698
Total anticipated inflows	**2,746,496**	739,495	**802,553**	216	**121,858**	3,872	**3,670,907**	743,583
Net (outflow)/inflow on financial instruments	**2,531,366**	439,286	**735,980**	(181,134)	**90,474**	(344,545)	**3,357,820**	(86,393)

b. Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group is exposed to credit risk from its operating activities primarily trade receivables and from its financing activities, including deposits with bank and foreign exchange transactions.

Trade receivables

The Group continuously monitors customer credit risk through the maintenance of policy and procedures and control relating to customer credit risk management. The customers that the Group deals with mainly the special needs schools which are funded by the government school funding scheme.

The Group's management considers that its trade receivables are not impaired or past due for each of the 30 June reporting dates under review are of good credit quality.

At 30 June, the Group has certain trade receivables that have not been settled by the contractual dual date but are not considered to be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 27: FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relate primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investment in foreign subsidiary.

With financial assets and financial liabilities being held by overseas operations, the exposure to currency exchange are primarily in $US-Dollars ($USD) and Pound Sterling ($GBP) which may impact on the Group's financial results unless those exposures are appropriately hedged. The Group does not have a hedge policy in place.

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

2018	**Net Financial Assets/(Liabilities) in AUD**	
Consolidated Group	**AUD**	**Total AUD**
Functional currency of entity:		
US dollar	**456,727**	**456,727**
British pounds	**(85,740)**	**(85,740)**
Statement of financial position exposure	**370,987**	**370,987**
2017		
Consolidated Group		
Functional currency of entity:		
US dollar	199,629	199,629
Statement of financial position exposure	199,629	199,629

Sensitivity analysis

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

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

Foreign currency sensitivity

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

At balance date, the Group had the following exposure to USD and GBP foreign currencies that are not designated in cash flow hedges:

	2018		2017	
	$USD	**$GBP**	$USD	$GBP
Financial assets				
Trade, other receivables & other assets	**385,413**	**-**	227,308	-
Financial liabilities				
Trade and other payables	**(47,283)**	**(48,128)**	(73,853)	-
Net exposure	**338,130**	**(48,128)**	(153,455)	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 27: FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency sensitivity

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

At 30 June 2018, if Australian Dollar had moved, as illustrated in the table below, with all other variables held constant, post tax profit/(loss) and other comprehensive income would have been affected as follows:

	Post Tax Profit/(Loss) Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2018	2017	**2018**	2017
	$	$	**$**	$
Consolidated				
AUD to USD +10% (2017: +15%)	**(41,479)**	(26,039)	**-**	-
AUD to USD -10% (2017: -15%)	**50,697**	35,229	**-**	-
AUD to GBP +10% (2017: +15%)	**7,795**	-	**-**	-
AUD to GBP -10% (2017: -15%)	**(9,527)**	-	**-**	-

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

Interest rate risk

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

	2018	2017
	$	$
Financial assets		
Cash and cash equivalents	**2,713,642**	403,242
Net exposure	**2,713,642**	403,242

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

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

At 30 June 2018, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit/(loss) and other comprehensive income would have been affected as follows:

	Post Tax Profit/(Loss) Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2018	2017	**2018**	2017
	$	$	**$**	$
Consolidated				
+1% (100 basis points)	**27,136**	4,032	**-**	-
-0.5% (50 basis points)	**(13,568)**	(2,016)	**-**	-

The movements in post-tax profit/(loss) and other comprehensive income are due to higher cash balances on hand as at 30 June 2018. The sensitivity is higher in 2018 than in 2017 because the cash balance in 2018 is higher.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 28: SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either:

- the entity's operations in future financial years;
- the results of those operations in future financial years; or
- the entity's state of affairs in future financial years

NOTE 29: COMPANY DETAILS

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

Level 7, 333 Collins Street
Melbourne VIC 3000
Australia

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The consolidated financial statements and notes, as set out on pages 16 to 49 are in accordance with the Corporations Act 2001 and:

   a) give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the Group; and

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

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

2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer (or equivalent) for the financial year ended 30 June 2018; and

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

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

James Kellett
Executive Chairman

25 September 2018

Grant Thornton

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Sydney NSW 2000

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Independent Auditor's Report

To the Members of KNeoMedia Limited

Report on the audit of the financial report

Qualified Opinion

We have audited the financial report of KNeoMedia Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

a giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for qualified opinion

The Group has Revenue of $520,452, Deferred Revenue of $57,815 and Trade Receivables of $506,180 as at 30 June 2018 relating to KNeoWorld Education, representing invoices raised in respect of licences sold to a number of New York schools. In the absence of any signed licence agreements or other documentation in relation to these licences, and in the absence of any significant payments received during the year, we were unable to obtain sufficient appropriate audit evidence about the occurrence of revenue or recoverability of trade receivables. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Grant Thornton

Key audit matters

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

In addition to the matter described in the *Basis for Qualified Opinion*, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Going concern (Note 1)	
The Group made a loss of $2,349,082 for the year ended 30 June 2018 and has accumulated losses of $74,717,298 as at 30 June 2018. The Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgment required in evaluating the Group's assessment of going concern. The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated a number of assumptions and judgments, and the Directors have concluded that the range of possible outcomes considered in arriving at this judgment does not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern.	Our procedures included, amongst others: • Obtaining and reviewing management's cash flow forecast to assess whether current cash levels can sustain operations for a period of at least 12 months from the date of signing the financial statements; • Agreeing year end cash balances to third party independent confirmations received to gain comfort around the opening balances used in the cash flow forecast; • Assessing the Group's current level of income and expenditure against management's forecast for consistency of relationships and trends to the historical results, and results since year end; • Performing sensitivity analysis on the significant inputs and assumptions made by management in preparing its cash flow forecast; and • Assessing the adequacy of the related disclosures within the financial report.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors' for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 9 to 13 of the Directors' report for the year ended 30 June2018.

In our opinion, the Remuneration Report of KNeoMedia Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

C F Farley
Partner – Audit & Assurance

Sydney, 25 September 2018

ADDITIONAL INFORMATION

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 10 September 2018 (**Reporting Date**).

Corporate Governance Statement

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

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

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

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

Substantial holders

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

Substantial holders	Number of shares held	% of total issued share capital
Barrijag Pty Ltd	63,202,474	9.89%
Melbourne Capital Limited	54,732,885	8.57%

Distribution of Equity Securities

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

Class of Equity Securities	Number of holders
Ordinary Shares	1,699
Options exercisable at $0.025 on or before 21 November 2018	4
Options exercisable at $0.0585 on or before 20 November 2020	1
Performance Rights	3

Distribution of holders of equity securities

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

Distribution of ordinary shareholders

Holdings Ranges	Holders	Total Units	%
1 – 1,000	340	31,427	0.00
1,001 – 5,000	67	239,417	0.04
5,001 – 10,000	130	1,077,966	0.17
10,001 – 100,000	610	27,717,649	4.37
100,001 and above	552	609,921,388	95.45
Totals	**1,699**	**638,987,847**	**100.00**

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

Holdings Ranges	Holders	Total Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and above	4	17,035,714	100.00
Totals	**4**	**17,035,714**	**100.00**

Distribution of holders of options exercisable by 20 November 2020 at $0.0585

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

Distribution of performance rights holders

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

Less than marketable parcels of ordinary shares

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

Total Securities	UMP Shares	UMP Holders	% of issued shares held by UMP holders
638,987,847	3,294,401	671	0.0052

Twenty largest shareholders

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

Holder Name	Balance as at Reporting Date	% of total shares on issue
BARRIJAG PTY LTD <THE HADLEY SUPER FUND A/C>	63,202,474	9.89
MELBOURNE CAPITAL LIMITED	43,804,829	6.86
INVIA CUSTODIAN PTY LIMITED <ANDREW WILLIAM BLACKMAN A/C>	22,922,095	3.59
FURNEAUX MANAGEMENT PTY LTD	17,052,381	2.67
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	11,500,928	1.80
MS LINDA LOUISE HUTCHISON	10,000,000	1.57
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	9,879,182	1.55
ARMCO BARRIERS PTY LTD	9,180,000	1.44
MR BORIS DUKA & MRS ELIZABETH ANN DUKA	8,880,000	1.39
KABILA INVESTMENTS PTY LIMITED	8,117,301	1.27
MR ANDREW WILLIAM BLACKMAN	7,077,905	1.11
COVE STREET PTY LTD <THE COVE STREET A/C>	7,004,389	1.10
HIXON PTY LTD	6,956,083	1.09
SIXTH ERRA PTY LTD <STAFF SUPER FUND A/C>	6,116,188	0.96
BNP PARIBAS NOMS PTY LTD <DRP>	5,865,000	0.92
SHEAN SFT PTY LTD <SHEAN FAMILY SUPER FUND A/C>	5,750,000	0.90
MUNGALA INVESTMENTS PTY LIMITED	5,000,000	0.78
MISS KIMBERLEY CHANEL WONG	5,000,000	0.78
MR DOMINIC SEBASTIAN CONNELLY	4,936,386	0.77
REDHILL CAPITAL PARTNERS (SINGAPORE) PTE LTD	4,793,576	0.75
SPO EQUITIES PTY LIMITED <MARCH STREET EQUITY A/C>	4,103,334	0.64
Total number of shares of Top 20 Holders	**267,142,051**	**41.81**
Total remaining holders balance	**371,845,796**	**58.19**

Unquoted equity securities

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

Class of Equity Securities	Number of unquoted Equity Securities	Number of holders
Options exercisable at $0.025 on or before 21 November 2018	17,035,714	4
Options exercisable at $0.0585 on or before 20 November 2020	5,000,000	1
Performance Rights	10,511,180	3

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

Holder Name	Class of unquoted Equity Securities	Number of unquoted Equity Securities held	% of total unquoted Equity Securities in the relevant class
FURNEAUX MANAGEMENT PTY LTD	Options exercisable at $0.025 on or before 21 November 2018	7,142,857	41.93
MUNGALA INVESTMENTS PTY LIMITED	Options exercisable at $0.025 on or before 21 November 2018	4,642,857	27.25
CLAYMORE VENTURES LIMITED	Options exercisable at $0.025 on or before 21 November 2018	3,571,429	20.96
FOSTER STOCKBROKING NOMINEES PTY LTD <NO 1 ACCOUNT>	Options exercisable at $0.0585 on or before 20 November 2020	5,000,000	100.00

Voting rights of equity securities

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

As at the Reporting Date, there were 1,699 holders of a total of 638,987,847 ordinary shares of the Company.

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

Voluntary escrow

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

Stock Exchange Listing

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

On-market buyback

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

Item 7 issues of securities

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

On-market purchase of securities under employee incentive scheme

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

Company Secretary

The Company's secretary is Ms Sophie Karzis.

Registered Office

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

Level 7, 333 Collins Street
Melbourne, VIC 3000

Telephone: +61 (0)3 8622 3354

Share Registry

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

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

Postal Address:
PO Box 2226
Strawberry Hills NSW 2012

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