



ENTELECT LIMITED
ASX: ESN

Level 1
61 Spring Street
Melbourne Vic 3000 Australia

T: +61 (0)3 9286 7500
F: +61 (0)3 9662 1472
info@entellec.com.au
www.entellec.com.au
ABN 41 009 221 783

**ENTELECT LIMITED
AND CONTROLLED ENTITIES**
ABN 41 009 221 783

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2013**



CORPORATE INFORMATION

DIRECTORS

Andrew Plympton	Non-Executive Chairman
James Kellett	Executive Director & Chief Executive Officer
Jeffrey Bennett	Non-Executive Director

COMPANY SECRETARY

Sophie Karzis

REGISTERED OFFICE

Level 1, 61 Spring Street
Melbourne, Victoria 3000

AUDITORS

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

BANKERS

Westpac
360 Collins Street
Melbourne Victoria 3000

SOLICITORS

HWL Ebsworth
Level 26, 530 Collins Street
Melbourne Victoria 3000

SHARE REGISTRY

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

EXCHANGE LISTING

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

WEBSITE ADDRESS

www.entellect.com.au

CHAIRMAN'S LETTER

Dear Shareholders

The Year in Review

The Directors of Entellect Limited (**ESN** or the **Company**) present ESN's Annual Report for the financial year ended 30 June 2013.

During the year ended 30 June 2013, the Group continued to raise funds from existing and new shareholders to fund the development of its KNeoWORLD Games Portal at its San Francisco offices as well as to meet the corporate costs of ESN, and the Group's results for the year reflect this. The Directors are satisfied that expenditure to date to develop KNeoWORLD represents a sound investment in a major asset from which the Company expects it will achieve solid revenue in North America in the coming months and in other major geographic regions in time to come.

In December 2012 the Company successfully completed its partially underwritten share purchase plan (**SPP**) under which a total of 144,785,000 shares were issued and allotted to shareholders who participated in the SPP. In November 2012, \$450,000 was raised through the issue of convertible notes.

In May 2013, the Group acquired 20% interest in the KNeoWORLD Joint Venture (previously named Knowledge Nation) from Mooter Media taking its interest in KNeoWORLD to 80%.

During the second half year, the Company also undertook placements to sophisticated investors to raise \$296,000 for ongoing working capital by issuing 296,000,000 fully paid ordinary shares at \$0.001 per share; in addition \$500,000 was raised through the issue of a convertible note in May 2013.

During the year, the Company focussed on strengthening and expanding its KNeoWorld Games Portal including the development of Android and iPad Apps which are shortly to be released on Google Play Store, Amazon and iTunes.

Sales and marketing development emanated in the establishment of the Group's USA Parent Teacher Association (**PTA**) fund raising sales initiative, PTA.KNeoWORLD.com. The initiative is collaboration with the USA National PTA organisation which we expect will assist our access to at least 50,000 elementary and middle schools and 23 million students in our target market. The program is being run as a PTA fund raising initiative with a royalty paid to the individual school PTA for each subscription taken out by parents for substantial net revenue will be earned. The Group believes PTA registrations since commencement of the initiative in late August 2013 confirm the likelihood of commencement of solid revenue stream over the coming months.

Outlook

KNeoWORLD

The Directors believe KNeoWORLD represents a significant opportunity to participate in the rapidly expanding mobile and educational games industry. The latest version of **KNeoWORLD** recently released has been developed for rapid conversion to Android and iPad Apps to meet demand for mobile 'edugames' which are now outselling non-mobile (PC/web/console) 'edugames'. Revenue achieved from mobile 'edugames' reached \$163.3 million in 2011. The compound annual growth rate (CAGR) of the mobile 'edugames' sector is 16.9%, and based on this CAGR, North American revenues from 'edugames' will reach \$359.3 million by 2016. In comparison, the CAGR for non-mobile 'edugames' is 4.9% and based on this rate revenues will reach \$155.5 million by 2016¹.

The Directors also believe the Group's PTA sale initiative has substantial commercial advantage and is a sound market response to the growing resentment toward the in-games advertising revenue model and

¹ Ambient Insight August 2012

continual in-game purchase ad-ons. Further, the PTA KNeoWORLD, which is marketed to parents of 5 to 15 year old children, meets the July 1st 2013 announced US Children's Online Privacy Protection Act (COPPA) regulations which restrict content and protect the identity of children under 13 years.

vPublisher

Entellect's vPublisher product remains a market ready internationally deployable mobile device e-book content delivery software, capable of working in all languages, including Asian languages and deployable on all standard operating systems. The Company exclusively holds the intellectual property in vPublisher, and continues pursue revenue opportunities with joint venture parties who can offer product distribution to potentially wide customer bases. The Directors have refrained from engaging in high product development costs in a rapidly changing market until such time as those costs can be amortised against appropriate levels of revenue and profit.

Yours faithfully



Andrew Plympton
Chairman

Melbourne, 30 September 2013

DIRECTORS' REPORT

The Directors present their report together with the financial report of the consolidated entity consisting of Entellect Limited and its controlled entities ("The **Group**"), for the financial year ended 30 June 2013 and independent auditor's report thereon.

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

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

CURRENT DIRECTORS

Names, qualifications, experience and special responsibilities

<u>Name</u>	<u>Particulars</u>
Mr Andrew Plympton	<p>Non-Executive Chairman, Chairman of the Nominations Committee, Chair of the Audit and Remuneration Committees</p> <p>Mr Plympton joined the Company in August 2010 and brings to the role a wealth of experience in a diverse range of commercial activities.</p> <p>In the financial services sector, Mr Plympton has been either the managing director and/or executive chairman of a number of International insurance brokers, underwriting agencies and captive insurance managers. In the public company sector, Andrew is the chairman of AdEffective Limited (ASX: ABN) and is a director of Newsat Limited (ASX: NWT), Bluestone Global Limited (ASX: BUE) and Energy Mad Limited (NZX: MAD). Andrew is also a Commissioner of The Australian Sports Commission, Executive Member and Director of The Australian Olympic Committee and Australian Olympic Foundation Limited. During the last three years Mr Plympton has served as a director of the following listed companies, Beyond Sportswear International (ASX: BSI), Intermoto Limited (ASX: INT).</p>
Mr James Kellett	<p>Executive Director, Chief Executive Officer</p> <p>Mr Kellett has over 30 years' experience in corporate finance and business management and has held senior executive positions in the finance and communications industries, including ASX listed companies. Mr Kellett is founder and Managing Director of Furneaux Equity Limited, is an Associate of the Financial Services Institute of Australasia and brings very substantial business management, direction and governance skills to the Board.</p> <p>Mr Kellett has no directorships in other listed companies.</p>
Mr Jeffrey Bennett	<p>Non-Executive Director, Member of the Audit, Remuneration and Nominations Committees</p> <p>Mr Bennett (B Comm CPA) brings significant experience in corporate finance, capital markets, acquisitions and divestments and risk management to the Company. He has more than 25 years' experience in the resources, transport, IT and service industries having held senior finance positions at UXC, BHP and Shell.</p> <p>Mr Bennett is the non-executive director of Jameson Resources Limited (ASX: JAL).</p>

INFORMATION ON THE COMPANY SECRETARY

The Company Secretary of the Group at any time during and since the financial year end to the date of this report was Sophie Karzis. Ms Karzis (B Juris., LLB) is a practicing lawyer with over 20 years' experience in corporate law. She is company secretary and general counsel to a number of public (listed and unlisted) and private companies and is the principal of Corporate Counsel, a business which provides corporate and company secretarial services to Australian companies.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial year were the Educational Games Development business.

OPERATING RESULTS

	2013 \$	2012 \$
The consolidated loss of the Group after providing for income tax:	(2,071,446)	(1,995,816)

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 2013.

REVIEW OF OPERATIONS AND FINANCIAL POSITION

The Group incurred a loss for the year of \$2,071,446 (2012: Loss \$1,995,816) primarily attributable to ongoing corporate costs and the execution of its new business development objectives.

The Group's results for the year ended 30 June 2013 reflect that the Group did not have any significant revenue during the year.

The attached financial statements detail the performance and financial position of the consolidated entity for the year ended 30 June 2013. It also contains an independent auditor's report which includes an emphasis of matter paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern. For further information, refer to note 1(a) to the financial statements.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

- On 19 November 2012, the Company issued \$450,000 Convertible Notes. Each note has a face value of \$25,000. The notes bear interest at a rate of 15% per annum on the face value of the notes. The notes have a term of 18 months from the issue date until maturity on 28 February 2014. The notes have the option to convert into fully paid ordinary share during that period at the conversion price stated. The notes that have not been converted must be redeemed by the Company at the issue price by the maturity date.
- On 28 November 2012, the Company raised \$289,570 under the Company's partially underwritten Share Purchase Plan for the ongoing working capital and issued 144,785,000 shares.
- On 11 March 2013, the Company issued under a placement to sophisticated investors \$171,000 of 171,000,000 shares for the ongoing working capital of the Company.
- On 19 April 2013, the Company acquired a further 20% interest in Knowledge Nation Joint Venture from its minority partner Mooter Media.
- On 1 May 2013, the Company issued another placement to sophisticated investors \$100,000 of 100,000,000 shares for the ongoing working capital of the Company.
- On 9 May 2013, the Company issued \$500,000 Convertible Notes. Each note has a face value of \$100,000. The notes bear interest at a rate of 15% per annum on the face value of the notes. The notes have a term of 18 months from the issue date until maturity on 30 October 2014. The notes

have the option to convert into fully paid ordinary share during that period at the conversion price stated. The notes that have not been converted must be redeemed by the Company at the issue price by the maturity date.

- On 11 June 2012, the Company issued 25,000,000 shares at \$0.001 per share in lieu of brokerage fee.

AFTER BALANCE DATE EVENTS

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

On 29 July 2013, the Company raised \$200,000 from 200,000,000 shares at \$0.001 under a placement to a sophisticated investor in accordance with shareholder approval obtained on 29 April 2013.

On 5 August 2013, the Company raised another \$35,000 from 35,000,000 shares at \$0.01 under a placement to a sophisticated investor and \$30,000 from 30,000,000 shares at \$0.01 in lieu of fees for professional fee provided to the Company.

On 12 September 2013, the Company issued a \$25,000 Convertible Note at a face value of \$25,000. The note bears interest at a rate of 15% per annum on the face value of the note. The Convertible Note will have a term of 90 days from the issue date. The note has the option to convert into fully paid ordinary share during that period at the conversion price stated. The note that has not been converted must be redeemed by the Company at the issue price by the maturity date.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report, except to the extent noted in the Chairman's Letter on page 2, as the inclusion of such further information is likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL ISSUES

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

REMUNERATION REPORT (Audited)

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

Directors' Interests

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

	Ordinary Shares		Options Unquoted
	Direct	Indirect	
Andrew Plympton	2,000,000	-	-
James Kellett	-	18,400,000	-
Jeffrey Bennett	-	4,065,317	-

Remuneration Policy

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

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

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

The executive directors and other key management personnel do not receive any superannuation contribution and any other retirement benefits.

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

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

Use of remuneration consultants

No remuneration consultants were used during the year

Voting and comments made at the company's 2012 Annual General Meeting

Entellect shareholders passed a resolution on a unanimous show of hands to adopt the Company's remuneration report for the financial year ended 30 June 2012 at the 2012 annual general meeting. 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 and directors and other key management personnel. 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.

Details of Remuneration for Year ended 30 June 2013

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

	Short-term		Post Employment		Share Based Payment	Total	Performance related
	Salary, Fees & Commissions	Super-annuation Contribution	Cash Bonus/ Other	Non-cash Benefits	Super-annuation	Equity Settled Options	
	\$	\$	\$	\$	\$	\$	%
2013 – Directors & executives							
Andrew Plympton	59,000	-	-	-	-	59,000	-
James Kellett	168,000	-	-	-	-	168,000	-
Jeffrey Bennett	42,000	-	-	-	-	42,000	-
Robin Matthews ⁽¹⁾	107,063	-	-	-	-	107,063	-
	<u>376,063</u>	-	-	-	-	<u>376,063</u>	-
⁽¹⁾ Resigned 28 January 2013							
2012 – Directors & executives							
Andrew Plympton	60,000	-	-	-	-	60,000	-
James Kellett	168,000	-	-	-	-	168,000	-
Jeffrey Bennett	42,000	-	-	-	-	42,000	-
Robin Matthews	175,430	-	-	-	-	175,430	-
	<u>445,430</u>	-	-	-	-	<u>445,430</u>	-

Options Granted

No options were granted to Directors or other key management personnel during the year ended 30 June 2013.

Changes in Directors and Key Management Personnel

No changes in Directors and Key Management Personnel during the year ended 30 June 2013 other than the resignation of Mr Robin Matthews as CEO of Knowledge Nation Inc., from 28 January 2013.

Employment Contracts of Directors and other Key Management Personnel

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

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

The employment terms and conditions of key management personnel and Group executives are formalised in contracts of employment.

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

			Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
Group Key Management Personnel	Position held as at 30 June 2013 and any change during the year	Contract details (duration and termination)	Non-salary cash-based incentive %	Shares / Units %	Options / rights %	Fixed Salary / Fees %	Total %
Andrew Plympton	Non-executive Chairman	No fixed term. No termination conditions.	-	-	-	100	100
James Kellett	Executive Director, CEO	Fixed term contract. Termination conditions apply. ⁽¹⁾	-	-	-	100	100
Jeffery Bennett	Non-executive Director	No fixed term. No termination conditions.	-	-	-	100	100

(1) Entellect entered into a Services Agreement with Furneaux Management Pty Ltd (**Consultant**), a related party of James Kellett, on 23 December 2010 (**Services Agreement**) for the provision of CEO consultancy services. The term of the Services Agreement commenced on 1 December 2010 and was extended for a number of further terms to 31 December 2011 and thereafter for rolling six month periods. Under the Services Agreement, the Consultant must provide the services through its key person, being James Kellett. Other than expiry of the term, the Services Agreement may be terminated under usual commercial terms including breach of contract, insolvency, misconduct, criminal offence and incapacity.

End of Audited Remuneration Report

DIRECTORS' MEETINGS

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

Director	Directors' Meetings	
	Number Attended	Number eligible to attend
Andrew Plympton	6	7
James Kellett	7	7
Jeffrey Bennett	5	7

The Company's Audit Committee was suspended during the 2013 financial year and did not have any separate meetings. The Company's Remuneration and Nomination Committees did not meet during the 2013 financial year.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the year, the Company had agreed to indemnify all the directors and executive officers all loss 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.

Total amount of insurance contract premium paid was \$9,800.

OPTIONS

No outstanding options over unissued shares as at the date of this report (2012: 8,212,500).

During the year ended 30 June 2013, there were no ordinary shares (2012: nil) of Entellect Limited issued on exercise of options granted under the Entellect Limited Employee Share Option Plan. All the outstanding options expired on 30 September 2012. No amounts are unpaid on any of the shares.

PROCEEDINGS ON BEHALF OF COMPANY

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

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

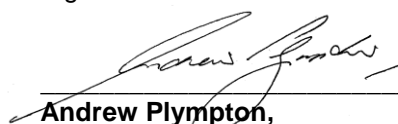
NON-AUDIT SERVICES

The auditor, Grant Thornton, did not provide any non-audit services to the Group during the financial year ended 30 June 2013.

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 2013 has been received and can be found on page 13, which forms part of this report.

Signed in accordance with a resolution of the Directors



Andrew Plympton,
Chairman

30 September 2013

DIRECTORS' DECLARATION

The Directors of the Group declare that:

1. The consolidated financial statements and notes, as set out on pages 19 to 53 are in accordance with the Corporations Act 2001 and:
 - a) comply with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b) give a true and fair view of the financial position as at 30 June 2013 and of the performance for the year ended on that date of the Consolidated Group;
2. The Chief Executive Officer and the Chief Financial Officer (or equivalent) have each declared as required by Section 295A of the Corporations Act 2001 that:
 - a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b) the financial statements, and the notes for the financial year comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial year give a true and fair view;
3. In the directors' opinion, further to the matters included in Note 1(a), there are reasonable grounds to believe that Entellect Limited will be able to pay its debts as and when they become due and payable; and
4. The consolidated financial statements comply with International Financial Reporting Standards.

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



Andrew Plympton,
Chairman

30 September 2013

Grant Thornton Audit Pty Ltd
ACN 130 913 594

Level 19, 2 Market Street
Sydney NSW 2000
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

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

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Entellect Limited for the year ended 30 June 2013, 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



A G Rigele
Partner - Audit & Assurance

Sydney, 30 September 2013

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Corporate Governance Statement

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

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

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

ASX Principle	Status	Reference / Comment
Principle 1: Lay solid foundation for management oversight		
<i>Companies should establish and disclose the respective roles and responsibilities of board and management.</i>		
1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions	Complying	<p>The Board has adopted a charter which establishes the role of the Board and its relationship with management. The primary role of the Board is the protection and enhancement of long term shareholder value. Its responsibilities include the overall strategic direction of the Group, establishing goals for management and monitoring the achievement of these goals. The functions and responsibilities of the Board and management are consistent with ASX Principle 1. A copy of the Board Charter is posted on the Group's website.</p> <p>Each Director is given a letter upon his or her appointment which outlines the Director's duties. The Group has in place systems designed to fairly review and actively encourage enhanced Board and management effectiveness.</p>
1.2 Companies should disclose the process for evaluating the performance of senior executives.	Complying	The Board and the Chief Executive Officer monitor the performance of senior management, including measuring actual performance against planned performance. The Board also reviews the Chief Executive Officer's performance annually.
1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.	Complying	A copy of the Company's Board Charter is available on the Company's website in a clearly marked Corporate Governance section. A performance evaluation for senior executives has taken place in the reporting period.
Principle 2: Structure the Board to add value		
<i>Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.</i>		
2.1 A majority of the board members should be independent.	Complying	Two of the three Directors of the Board are independent. The test to determine independence which is used by the Company is whether a Director is independent of management and any business or other relationship with the Group that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement. The Directors considered to be independent are Mr Andrew Plympton and Mr Jeffrey Bennett.
2.2 The chairman should be an independent director.	Complying	The Chairman, Mr Andrew Plympton has been Chairman of the Company since 26 August 2010 and was, at the date of his appointment and continues to be, independent. The Chairman leads the Board and is responsible for the efficient organisation and conduct of the Board's functions.

ASX Principle	Status	Reference / Comment
2.3 The roles of the chairman and the chief executive officer should not be exercised by the same individual.	Complying	The positions of Chairman and Chief Executive Officer are held by separate persons.
2.4 The board should establish a nomination committee.	N.A	<p>The Board has not established a formal nomination committee, having regard to the size of the Company. The Board acknowledges that when the size and nature of the Company warrants the necessity of a formal nomination committee, such a committee will operate under a nomination committee charter which will be approved by the Board.</p> <p>Presently, the Board, as a whole, serves as a nomination committee to the Company. Where necessary, the Board seeks advice of external advisers in connection with the suitability of applicants for Board membership.</p>
2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Complying	The Board conducts an informal annual performance review of itself that compares the performance of the Board with the requirements of the Board Charter, critically reviews the mix of the Board and suggests and amendments to the Board Charter as are deemed necessary or appropriate.
2.6 Provide the information indicated in the Guide to reporting on Principle 2.	Complying	<p>The following information is set out in the Company's annual report:</p> <ul style="list-style-type: none"> the skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report; the directors considered by the Board to constitute independent directors and the Company's materiality threshold; the existence of any of the relationships which may affect independence and an explanation of why the board considers a director to be independent notwithstanding the existence of these relationships; a statement regarding directors' ability to take independent professional advice at the expense of the Company; a statement as to the mix of skills and diversity for which the board of directors is looking to achieve in membership of the Board; The term of office held by each director in office at the date of the report. The names of members of the Company's committees and their attendance at committee meetings. whether a performance evaluation for the board, its committees and directors has taken place in the reporting period and whether it was in accordance with the process disclosed; an explanation of any departures from Recommendations 2.1, 2.2, 2.3, 2.4, 2.5 or 2.6. <p>The following material is publicly available on the Company's website in a clearly marked Corporate Governance section:</p> <ul style="list-style-type: none"> a description of the procedure for the selection and appointment of new directors and the re-election of incumbent directors; the Board's policy for the nomination and appointment of directors.

Principle 3: Promote ethical and responsible decision-making

Companies should actively promote ethical and responsible decision-making

3.1 Companies should establish a code of conduct and disclose the code as to:	Complying	<p>The Group has formulated a Code of Conduct which can be viewed on its website.</p> <p>The Group has adopted a Share Trading Policy which can be viewed on its website.</p>
<ul style="list-style-type: none"> The practices necessary to maintain confidence in the company's integrity. The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders. 		

ASX Principle	Status	Reference / Comment
The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.		
3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	Non-Complying	<p>The Board has contemplated the necessity of implementing a diversity policy. Noting the relatively small size of the Company and the fact that the Group employed two employees as at 30 June 2013 (2012: Nil), the Board has resolved to depart from the recommendations by not implementing a gender diversity policy.</p> <p>Nonetheless, at such time that the Company seeks to establish and expand its workforce, the Company will be committed to the principles of employing people with a broad range of experiences, skills and views.</p>
3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Non-Complying	<p>The Board has not implemented a diversity policy and is of the view that the recommendation is inappropriate to the Company's particular circumstances as the Group employed two employees as at 30 June 2013 (2012: Nil). Accordingly, the Board has resolved to depart from the new recommendations by not implementing a gender diversity policy.</p> <p>Whilst the Company has not set formal measurable objectives for achieving gender diversity, at such time that the Company seeks to establish and expand its workforce, the Company will commit to recruiting employees from a diverse pool of qualified candidates.</p>
3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Complying	The Company employed one female and one male employees and Chief Executive Officer, who is a male. In addition, the Company has two female contractors in senior positions being the Company Secretary and the Chief Financial Officer.
Principle 4: Safeguard integrity in financial reporting		
<i>Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.</i>		
4.1 The board should establish an audit committee.	Non-Complying	<p>The Board has not established a formal audit committee, having regard to the size of the Company. The Board acknowledges that when the size and nature of the Company warrants the necessity of an audit committee, such a committee will operate under the audit and risk committee charter which has been approved by the Board. The audit and risk committee charter may be viewed on the Company's website.</p> <p>Presently, the Board, as a whole, serves as an audit committee to the Company and accordingly operates under the audit and risk committee charter, and will continue to do so until a formal audit committee has been established.</p>
4.2 The audit committee should be structured so that it: <ul style="list-style-type: none"> Consists only of non-executive directors; Consists of a majority of independent directors; Is chaired by an independent chair, who is not chair of the board; Has at least three members. 	Non-Complying	Whilst the Board has not established a formal audit committee, the Board has adopted an audit and risk committee charter which complies with recommendation 4.2. At such time that an audit and risk committee is established, that committee will operate under the audit and risk committee charter which has been approved by the Board
4.3 The audit committee should have a formal charter. Companies should provide the information indicated in the Guide.	Non-Complying	An audit and risk committee charter has been established and approved by the Board. When the size and nature of the Company warrants the necessity of an audit committee, such a committee will operate under the audit and risk committee charter.
4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4.	Complying	The Company will continue to explain any departures from Principle 4 in its future annual reports.

Principle 5: Make timely and balanced disclosure

Companies should promote timely and balanced disclosure of all material matters concerning the company.

5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies.	Complying	The Group has a documented policy which has established procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. The Chief Executive Officer and the Company Secretary are responsible for interpreting the Group's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX.
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5.2 Companies should provide the information indicated in the Guide.	Complying	The Company's Market Disclosure & Shareholder Communication Policy is posted on the Company's website in a clearly marked Corporate Governance section.
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Principle 6: Respect the rights of shareholders

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Complying	<p>The Board informs shareholders of all major developments affecting the Group's state of affairs as follows:</p> <ol style="list-style-type: none"> 1. The annual report is distributed to all shareholders, including relevant information about the operations of the consolidated entity during the year and changes in the state of affairs. 2. The half-yearly report to the Australian Securities Exchange contains summarised financial information and a review of the operations of the consolidated entity during the period. 3. All major announcements are lodged with the Australian Securities Exchange, and posted on the Group's website. 4. Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders. 5. The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. 6. The Group's auditor attends the Annual General Meeting.
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6.2 Companies should provide the information indicated in the Guide to reporting on Principle 6.	Complying	The Company explains any departures from Principle 6 in its annual reports. The Company's Market Disclosure & Shareholder Communication Policy is posted on the Company's website in a clearly marked Corporate Governance section.
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Principle 7: Recognise and manage risk

Companies should establish a sound system of risk oversight and management and internal control.

7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Complying	The Board has responsibility for monitoring risk oversight and ensures that the Chief Executive Officer reports on the status of business risks through risk management programs aimed at ensuring risks are identified, assessed and appropriately managed. In addition the Board is responsible for reviewing the risk management framework and policies of the Group.
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7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Complying	The Board reviews the Group's major business units, organisational structure and accounting controls and processes on a continuing basis. A description of the Group's risk management policy and internal compliance and control systems will be available on the Group's website shortly.
7.3 The board should disclose whether it has received assurance from the chief executive officer and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Complying	The Chief Executive Officer and the Chief Financial Officer (or equivalent) are required to state to the Board in writing that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control and that the Group's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.
7.4 Companies should provide the information indicated in the Guide to reporting on Principle 7.	Complying	<p>The following material is included in the corporate governance statement in the Company's Annual Reports:</p> <ul style="list-style-type: none"> • explanation of any departures from Recommendations 7.1, 7.2, 7.3 or 7.4. • whether the Board has received the report from management under Recommendation 7.2 • whether the Board has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) under Recommendation 7.3. <p>A summary of the Company's policies on risk oversight and management of material business risks is either currently, or will shortly be, publicly available on the Company's website in a clearly marked corporate governance section.</p>

Principle 8: Remunerate fairly and responsibly

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

8.1 The board should establish a remuneration committee.	Complying	The Board has established a Remuneration Committee which is governed by a charter.
8.2 The remuneration committee should be structured so that it consists of a majority of independent directors, is chaired by an independent chair and has at least three members.	Part-complying	The Board's Remuneration Committee consists of the two independent Directors, and is chaired by the Company's non-executive independent chairman.
8.3 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Complying	Details of the Directors and key senior executives remuneration are set out in the Remuneration Report of the Annual Report. The structure of non-executive Directors' remuneration is distinct from that of executives and is further detailed in the Remuneration Report of the Annual Report. Equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders. In addition, the Group has issued equity based remuneration to both executive and non-executive directors which has been approved by shareholders at a general meeting

8.4 Companies should provide the information indicated in the Guide to reporting on Principle 8.

Complying

Details of the Directors and key management personnel remuneration are set out in the Remuneration Report of the Annual Report.

The Company does not have a Remuneration Committee although the Board as a whole carries out this function in accordance with a Charter.

There are no schemes for retirement benefits, other than superannuation, for non-executive directors.

A copy of the Company's Remuneration Committee charter is posted on the Company's website in a clearly marked corporate governance section, together with a summary of the Company's policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 \$	2012 \$
Revenue			
Sales revenue		1,283	-
Other income		16,642	76,867
		<u>17,925</u>	<u>76,867</u>
Employee benefits expenses		(705,079)	(1,162,966)
Corporate/professional expenses		(501,214)	(398,215)
Depreciation and amortisation expenses		(25,677)	(33,283)
Other expenses	2	(687,943)	(457,389)
Finance costs		(100,629)	(20,830)
Impairment of leasehold improvement cost		(76,532)	-
Gain on movement in fair value of embedded derivatives option		7,703	-
		<u>(2,071,446)</u>	<u>(1,995,816)</u>
Loss before income tax			
Income tax benefit	3	-	-
Loss for the year attributable to members		<u>(2,071,446)</u>	<u>(1,995,816)</u>
Other comprehensive loss:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translation of foreign operations (net of tax)		(44,545)	(33,190)
Total comprehensive loss for the year		<u>(2,115,991)</u>	<u>2,029,006</u>
Loss attributable to:			
Members of the parent entity		(1,629,615)	(1,570,969)
Non-controlling interests		(441,831)	(424,847)
		<u>(2,071,446)</u>	<u>(1,995,816)</u>
Total comprehensive loss attributable to:			
Members of the parent entity		(1,619,984)	(1,601,425)
Non-controlling interests		(496,007)	(427,581)
		<u>(2,115,991)</u>	<u>(2,029,006)</u>
Earnings/(loss) per share (cents per share)			
Basic and diluted earnings/(loss) per share	5	(0.14)	(0.17)

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 2013

	Note	2013 \$	2012 \$
Current Assets			
Cash and cash equivalents	6	117,037	419,255
Trade and other receivables	7	17,166	13,870
Other assets	8	41,127	28,591
Total Current Assets		175,330	461,716
Non-current Assets			
Property, plant and equipment	9	29,288	122,815
Intangible assets	10	7,093	16,467
Total Non-current Assets		36,381	139,282
Total Assets		211,711	600,998
Current Liabilities			
Trade and other payables	11	297,312	123,413
Financial liabilities	12	1,015,648	-
Total Current Liabilities		1,312,960	123,413
Total Liabilities		1,312,960	123,413
Net (Liabilities)/Assets		(1,101,249)	477,585
Equity			
Issued capital	14	66,563,756	66,026,599
Reserves	13	(95,063)	327,722
Accumulated losses		(66,987,081)	(65,301,128)
Parent Entity Interest		(518,388)	1,053,193
Non-controlling interest		(582,861)	(575,608)
Total Equity		(1,101,249)	477,585

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 2013

	Issued Capital	Accumulated losses	Foreign Currency Translation Reserve	Options Reserves	Non- Controlling Interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2012	66,026,599	(65,301,128)	(50,053)	377,775	(575,608)	477,585
Net loss for the year	-	(1,629,615)	-	-	(441,831)	(2,071,446)
Other comprehensive income	-	-	(45,010)	-	465	(44,545)
Total comprehensive income	-	(1,629,615)	(45,010)	-	(441,366)	(2,115,991)
Share issued	585,570	-	-	-	-	585,570
Transaction costs on share issued	(48,413)	-	-	-	-	(48,413)
Acquisition of 20% NCI in subsidiary	-	(434,113)	-	-	434,113	-
Transfer to retained earnings	-	377,775	-	(377,775)	-	-
Balance at 30 June 2013	66,563,756	(66,987,081)	(95,063)	-	(582,861)	(1,101,249)
Balance at 1 July 2011	61,872,013	(64,198,663)	(19,597)	846,279	(148,027)	(1,647,995)
Net loss for the year	-	(1,570,969)	-	-	(424,847)	(1,995,816)
Other comprehensive income	-	-	(30,456)	-	(2,734)	(33,190)
Total comprehensive income	-	(1,570,969)	(30,456)	-	(427,581)	(2,029,006)
Share issued	4,490,490	-	-	-	-	4,490,490
Transaction costs on share issued	(335,904)	-	-	-	-	(335,904)
Transfer to retained earnings	-	468,504	-	(468,504)	-	-
Balance at 30 June 2012	66,026,599	(65,301,128)	(50,053)	377,775	(575,608)	477,585

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 2013

	Note	2013 \$	2012 \$
Cash flows from operating activities			
Receipts from customers		17,559	-
Payments to suppliers and employees		(1,705,317)	(1,685,990)
Interest received		1,963	76,867
Finance costs		(59,727)	(20,830)
Net cash used in operating activities	20	<u>(1,745,522)</u>	<u>(1,629,953)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,397)	(20,293)
Net cash used in investing activities		<u>(2,397)</u>	<u>(20,293)</u>
Cash flows from financing activities			
Proceeds from issue of shares		585,570	4,490,490
Payment for share issue costs		(48,413)	(335,904)
Proceeds from borrowings		950,000	-
Repayment of borrowings		-	(2,327,017)
Net cash provided by financing activities		<u>1,487,157</u>	<u>1,827,569</u>
Net (decrease)/increase in cash and cash equivalents		(260,762)	177,323
Cash and cash equivalents at the beginning of the financial year		419,255	275,122
Effects of exchange rate changes on cash and cash equivalents		(41,456)	(33,190)
Cash and cash equivalents at the end of the financial year	6	<u><u>117,037</u></u>	<u><u>419,255</u></u>

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 2013

This financial report includes the consolidated financial statements and notes of Entellect Limited and controlled entities ("The Group").

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**BASIS OF PREPARATION**

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. 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).

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

Comparatives have been restated where appropriate to ensure consistency and comparability with the current year.

a. Going Concern

Notwithstanding the loss for the year of \$2,071,446 (2012: \$1,995,816) and net cash outflows used in operations of \$1,745,522 (2012: \$1,629,953), the financial report has been prepared on a going concern basis. The Directors are confident that the combination of careful management of overheads and the successful development of the KNeoWORLD games portal, as well as potential capital raisings (should the need arise), will provide sufficient funds to meet the ongoing capital requirements of the Group for the foreseeable future.

In addition, the non-executive directors have agreed not to take any payment on their directors fees until such time as funds permit.

On the basis of these factors, although there is significant uncertainty, the Group's cash flow forecast fully supports the Directors' view that it is appropriate for the accounts to be prepared on a going concern basis and that the Group will be able to meet its debts as and when they become due and payable for a period of at least 12 months from the date of this report, including the convertible notes repayable upon expiry on 28 February 2014 if not redeemed prior to that time.

b. Principles of Consolidation

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

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 16 to the financial statements.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**c. Business Combinations**

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

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

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

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

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

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

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

d. Income Tax

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**d. Income Tax (continued)**

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

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

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

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

Tax Consolidation

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

e. Property, Plant and Equipment

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

Plant and Equipment

Plant and equipment are measured on the cost basis.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**e. Property, Plant and Equipment (continued)****Depreciation**

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

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

Class of Fixed Asset	Depreciation Rate
Leasehold improvements	20%
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 the statement of profit or loss and other comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

f. Leases

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

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

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

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

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

g. Financial Instruments**Recognition and Initial Measurement**

Financial assets and financial liabilities are recognised when the 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 2013**g. 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 the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**h. Intangibles****Intellectual Property**

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

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

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

Transaction and Balances

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

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

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

Group Companies

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

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

j. Employee Benefits

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

Defined Superannuation Schemes

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**j. Employee Benefits (continued)****Equity-settled Compensation**

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

k. Provisions

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

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

l. Cash and Cash Equivalents

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

m. Revenue and Other Income

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

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

n. 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.

o. Borrowing Costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**p. Goods and Services Tax (GST)**

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

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

q. 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.

r. Critical Accounting Estimate and Judgements

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

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key estimates**Impairment**

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

Fair value of financial liabilities

In compliance with the financial reporting obligations, the Directors of the Company had appointed Pitcher Partners to perform a fair value valuation of the convertible notes and the related embedded derivatives as at 30 June 2013. The fair value valuation has involved estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, the best estimate is used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**s. New Accounting Standards and interpretations****(i) Changes in accounting policy and disclosures**

The accounting policies adopted are consistent with those of the previous financial year. Since 1 July 2012 the Group has adopted the following new and amended Australian Accounting Standards and AASB. The adoption of the standards and interpretations did not have any effect on the financial position or performance of the Group.

AASB 2011-9 requires entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently, and changes the title of 'statement of comprehensive income' to 'statement of profit or loss and other comprehensive income'.

The adoption of the new and revised Australian Accounting Standards and Interpretations has had no significant impact on the Group's accounting policies or the amounts reported during the current financial year. This change has been reflected in the financial statements.

(ii) Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2013, outlined in the table below:

	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 10	Consolidated Financial Statements	<p>AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities.</p> <p>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.</p> <p>Consequential amendments were also made to other standards via AASB 2011-7.</p>	1 January 2013	No impact expected	1 July 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**s. New Accounting Standards and interpretations (continued)****(ii) Accounting Standards and Interpretations issued but not yet effective**

	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 12	Disclosure of interests in other entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests.	1 January 2013	No impact expected	1 July 2013
AASB 13	Fair value measurement	AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	No impact expected	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove individual Key Management Personnel Disclosure Requirements (AASB 124)	This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.	1 July 2013	The impact has yet to be determined	1 July 2013
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of the effect or potential effect of netting arrangements. This includes rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities, on the entity's financial position, when the offsetting criteria of AASB 132 are not all met.	1 January 2013	The impact has yet to be determined	1 July 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**s. New Accounting Standards and interpretations (continued)****(ii) Accounting Standards and Interpretations issued but not yet effective**

AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	The impact has yet to be determined	1 July 2014
AASB 119	Employee benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	No impact expected	1 July 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**s. New Accounting Standards and interpretations (continued)****(ii) Accounting Standards and Interpretations issued but not yet effective**

AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classifications and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendment to the accounting for financial liabilities.</p> <p>These requirements improve and simplify the approach for classification AASB 139. The main changes are described below.</p> <p>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial asset; (2) the characteristics of the contractual cash flows.</p> <p>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income, Dividends in respect of these investments that are a return on investment can be recognized in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases.</p> <p>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>(i) Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.</p>	1 January 2015	The impact has yet to be determined	1 July 2015
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 2: LOSS FOR THE YEAR**

	Consolidated Group	
	2013	2012
	\$	\$
a. Other expenses		
- Product development costs	278,594	109,861
- Media and communications costs	69,358	13,840
- Occupancy costs	92,779	169,799
- Office administrative costs	82,712	46,047
- Capital raising costs	90,000	-
- Other expenses	74,500	117,842
	687,943	457,389

NOTE 3: INCOME TAX EXPENSE

	2013	2012
	\$	\$
Current and deferred tax expense for the year ended 30 June 2013 were nil (2012: nil)	-	-

A reconciliation between tax expense and the product of accounting profit/(loss) before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit/(loss) before income tax	(2,071,446)	(1,995,816)
At Australia's income tax rate 30%	(621,434)	(598,745)
Temporary differences and tax losses not brought to account as deferred tax assets	621,434	598,745
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	2,032,894	1,099,139

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

The Group incurred Australian revenue losses of 933,755 (2012: \$1,099,139). The Group did not incur any capital loss during the year ended 30 June 2013 (2012: \$19,848). Both losses should be available in future to offset against income as long as the tests in the ITAA 97 are met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 4: AUDITORS' REMUNERATION**

	2013 \$	2012 \$
Amounts received or due and receivable by Grant Thornton Australia for:		
— An audit or review of the financial report of the entity and any other entity in the consolidated entity	50,000	49,500
— investigating accountant report	-	-
	<u>50,000</u>	<u>49,500</u>

Amounts received or due and receivable by Foo Kon Tan Grant Thornton LLP (Singapore) for:

— An audit or review of the financial report of the subsidiary entity	-	16,151
	<u>-</u>	<u>16,151</u>

NOTE 5: EARNINGS PER SHARE

	2013 \$	2012 \$
a. Reconciliation of earnings to profit or loss		
Loss for the year	2,071,446	1,995,816
Loss attributable to non-controlling interest	441,831	424,847
Earnings used to calculate basic and dilutive EPS	<u>1,629,615</u>	<u>1,570,969</u>
	No.	No.
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic and dilutive EPS	1,129,672,206	958,884,689

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.

NOTE 6: CASH AND CASH EQUIVALENTS

	2013 \$	2012 \$
Cash at bank and in hand	117,037	216,957
Short term deposit (1)	-	202,298
	<u>117,037</u>	<u>419,255</u>

(1) No short term deposit placed as at 30 June 2013 (2012: 5.3% p.a.).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 7: TRADE AND OTHER RECEIVABLES**

	2013	2012
	\$	\$
CURRENT		
GST recoverable	17,166	13,870
	17,166	13,870

(a) Provision For Impairment of Receivables

Provision for impairment is recognised when there is objective evidence that an individual trade or other receivable is impaired.

Given that sole receivable balance as at 30 June 2013 is from the Australian Taxation Office, there is no provision for impairment of receivables recognised by the Group (2012: Nil).

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

(b) Fair value and credit risk

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

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

Note 8: OTHER ASSETS

	2013	2012
	\$	\$
CURRENT		
Prepayments	20,923	24,064
Rental Deposit	20,204	4,527
	41,127	28,591

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	Plant & Equipment	Furniture & Fixtures	Leasehold improvements	Total
	\$	\$	\$	\$
Gross carrying amount				
Balance at 1 July 2011	32,406	20,436	98,453	151,295
Additions	9,167	6,102	5,024	20,293
Balance at 30 June 2012	41,573	26,538	103,477	171,588
Additions	1,633	764	-	2,397
Impairment	-	-	(102,194)	(102,194)
Exchange differences	-	-	(1,283)	(1,283)
Balance at 30 June 2013	43,206	27,302	-	70,508
Accumulated depreciation				
Balance at 1 July 2011	8,432	4,087	19,691	32,210
Depreciation expense	6,597	2,711	7,255	16,563
Balance at 30 June 2012	15,029	6,798	26,946	48,773
Depreciation expense	12,358	5,501	-	17,859
Write back of impaired assets	-	-	(27,218)	(27,218)
Exchange differences	862	672	272	1,806
Balance at 30 June 2013	28,249	12,971	-	41,220
Net book value at 30 June 2012	26,544	19,740	76,531	122,815
Net book value at 30 June 2013	14,957	14,331	-	29,288

NOTE 10: INTANGIBLE ASSETS

	Intellectual Property	Total
	\$	\$
Gross carrying amount		
Balance at 1 July 2011	1,793,662	1,793,662
Additions	-	-
Balance at 30 June 2012	1,793,662	1,793,662
Addition	-	-
Balance at 30 June 2013	1,793,662	1,793,662
Accumulated amortisation and impairment		
Balance at 1 July 2011	1,760,475	1,760,475
Amortisation expense	16,720	16,720
Balance at 30 June 2012	1,777,195	1,777,195
Amortisation expense	9,374	9,374
Balance at 30 June 2013	1,786,569	1,786,569
Net book value at 30 June 2012	16,467	16,467
Net book value at 30 June 2013	7,093	7,093

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 11: TRADE AND OTHER PAYABLES**

	2013	2012
	\$	\$
CURRENT (unsecured)		
Trade payables	238,826	50,965
Other creditors and accruals	58,486	72,448
	<u>297,312</u>	<u>123,413</u>

NOTE 12: FINANCIAL LIABILITIES (CURRENT)

	2013	2012
	\$	\$
<i>Financial liabilities measure at amortised cost:</i>		
- Convertible notes – loan component	829,369	-
<i>Financial liabilities designated at FVTPL:</i>		
- Embedded derivatives	186,279	-
	<u>1,015,648</u>	<u>-</u>

During the year, \$950,000 convertible notes were issued in two separate issues to fund and expand the continued development of the online educational games portal, www.KNeoWORLD.com. The first issue of \$450,000 was on 19 November 2012 and the second issue of \$500,000 was on 9 May 2013. Each note bears interest at a rate of 15% per annum on the face value of the notes. The convertible notes have a term of 18 months from the issue date until maturity on 28 February 2014 and 30 October 2014 respectively. The convertible notes are repayable upon expiry if not redeemed prior to that time.

The \$450,00 convertible notes have the conversion option to convert at the lowest of 80% of the average adjusted Volume Weighted Average Price (VWAP) for 10 business days prior to the conversion date; or \$0.005 per share.

The \$500,000 convertible notes have the conversion option to convert at 80% of the average adjusted Volume Weighted Average Price (VWAP) for 10 business days prior to conversion date but not less than \$0.005 per share.

In compliance with the financial reporting obligations, the Directors of the Company had appointed Pitcher Partners to perform a valuation of the convertible notes and the embedded derivatives as at the respective announcement dates above and to value the embedded derivatives as at 30 June 2013.

The loan component is measured at amortised cost and the embedded derivatives (including the free attached options and right to convert) are revalued at reporting period end.

NOTE 13: RESERVES**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 2013**NOTE 14: ISSUED CAPITAL**

	2013	2012
	\$	\$
1,426,122,932 (2012: 985,337,932) fully paid ordinary shares	66,612,169	66,362,502
Share issue costs	(48,413)	(335,904)
	66,563,756	66,026,599
	2013	2012
	No.	No.
a. Ordinary Shares		
At the beginning of reporting period	985,337,932	87,239,240
Shares issued during the year		
— 27 December 2012	144,785,000	-
— 11 March 2013	171,000,000	-
— 1 May 2013	100,000,000	-
— 11 June 2013	25,000,000	-
— 20 July 2011	-	865,498,692
— 1 August 2011	-	32,600,000
At reporting date	1,426,122,932	985,337,932

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

b. Options

- i. For information relating to the Entellect Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 21 Share-based Payments.
- ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 23 Key Management Personnel.

c. Capital Management

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

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

There are no externally imposed capital requirements.

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

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

The Group has \$1,015,648 of borrowings as at 30 June 2013 (2012: \$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 15: PARENT INFORMATION**

	2013	2012
	\$	\$

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

BALANCE SHEET**ASSETS**

Current Assets	3,112,256	2,272,878
Non-current Assets	9,791	12,249
TOTAL ASSETS	3,122,047	2,285,157

LIABILITIES

Current Liabilities	(1,238,226)	(67,292)
TOTAL LIABILITIES	(1,238,226)	(67,292)

EQUITY

Issued Capital	66,563,757	66,026,599
Options Reserve	-	377,775
Retained Earnings	(64,679,936)	(64,186,539)
TOTAL EQUITY	(1,883,821)	2,217,835

STATEMENT OF COMPREHENSIVE INCOME

Total loss	(871,172)	(678,845)
Total comprehensive income	(871,172)	(678,845)

Guarantees

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

Contingent Liabilities

Refer to Note 18 for details of contingent liabilities.

Contractual Commitments

At 30 June 2013 Entellect Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2012: none).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 16: CONTROLLED ENTITIES****a. Subsidiaries**

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

	Country of Incorporation	Percentage Owned	
		2013	2012
Virtual Communications International Pty Ltd	Australia	100	100
Knowledge Nation Pte Ltd (1)	Singapore	80	60
Knowledge Nation Inc. (1)	United States	60	60

(1). Knowledge Nation Pte Ltd is a Singapore company in which Entellect holds a 80% controlling interest with effect from May 2013 with an additional 20% from Australian ASX listed company Mooter Media Limited and 20 % from unlisted Singapore based Hotshot Media Limited. The Company was incorporated on 15 March 2011. Knowledge Nation Pte Ltd owns 100% of Knowledge Nation Inc., a US company based in San Francisco and incorporated in Delaware.

NOTE 17: CAPITAL AND LEASING COMMITMENTS

	2013	2012
	\$	\$
Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable –minimum lease payments		
Not later than 12 months	22,740	144,087
Between 12 months and 5 years	-	387,443
	22,740	531,530

The property lease of 5 year term was cancelled in year 2 on the 1 July 2013 and the Company moved into another short term lease on 2 July 2013. The new lease is on a 3 monthly short lease basis.

NOTE 18: CONTINGENT ASSETS AND LIABILITIES

The Group had no contingent assets as at 30 June 2013 (2012: nil).

The Group's contingent liability as at 30 June 2013 (2012: nil) is the consideration to be paid to Mooter Media Limited for the 20% stake in Knowledge Nation Pte Ltd which they disposed in May 2013 to be the 10 percent of the Knowledge Nation net profit before tax and other offsets for the two financial years ending Jun 2014 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 19: OPERATING SEGMENTS****Identification of reportable segments**

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

The Group has two operating segments being the Educational Games Distribution business and the vPublisher eBook Content Delivery Software business. While the Board acknowledges neither business achieved revenue during the period, segment reporting is maintained for continuity and the basis for future reporting.

The Group is managed primarily on the basis of product category and service offerings since the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis. Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

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

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

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

b. Segment assets

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

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

c. Segment liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 19: OPERATING SEGMENTS (CONTINUED)

	2013			2012		
	vPublisher \$	Educational Games \$	Consolidated \$	vPublisher \$	Educational Games \$	Consolidated \$
Segment Revenue						
External Sales	-	-	-	-	-	-
Total segment revenue	-	-	-	-	-	-
Segment net loss before tax	(11,360)	(1,188,915)	(1,200,275)	(254,853)	(1,062,118)	(1,316,971)
Reconciliation of segment result to group net profit						
Unallocated items	-	-	-	-	-	-
Corporate costs	-	-	(871,171)	-	-	(678,845)
Group net loss before tax	-	-	(2,071,446)	-	-	(1,995,816)
Assets						
Segment assets	12,180	66,120	78,300	35,957	262,972	298,929
Corporate asset	-	-	133,411	-	-	302,069
Unallocated	-	-	-	-	-	-
Total Group Assets	-	-	211,711	-	-	600,998
Liabilities						
Segment liabilities	-	(74,734)	(74,734)	(12,420)	(43,698)	(56,118)
Corporate liability	-	-	(1,238,226)	-	-	(67,295)
Unallocated	-	-	-	-	-	-
Total Group Liabilities	-	-	(1,312,960)	-	-	(123,413)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 20: CASH FLOW INFORMATION**

	2013 \$	2012 \$
a. Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Profit after income tax	(2,071,446)	(1,995,816)
Non-cash flows in profit		
Depreciation & amortisation	25,677	33,283
Impairment of leasehold improvement cost	76,532	-
Finance cost	33,199	-
Changes in assets and liabilities		
(Increase)/decrease in trade and term receivables	(3,296)	(121,350)
(Increase)/decrease in other assets	(12,536)	316,081
Increase/(decrease) in trade payables and accruals	206,348	(104,851)
Net cash flow outflow from operations	<u>(1,745,522)</u>	<u>(1,629,953)</u>

NOTE 21: SHARE-BASED PAYMENTS

8,212,500 (2012:1,500,000) options lapsed during the year and there are no outstanding options at 30 June 2013 (2012: 8,212,500). No options were granted during the year.

NOTE 22: RELATED PARTY TRANSACTIONS**Directors and Key Management Personnel Transactions with the Group**

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

There were no other related party transactions made in the financial year ended 30 June 2013 other than (2012: nil).

Directors and Key Management Personnel Holdings of Shares and Share Options

The relevant interest of directors and their related entities in shares and share options of the Company at the year ended are set out in Note 23 – Key Management Personnel.

Transactions with Controlled Entities

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

	2013 \$	2012 \$
Loans to/(from)		
Knowledge Nations Pte Ltd	2,690,223	1,684,649
Virtual Communications International Pty Ltd	297,955	297,952

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 23: KEY MANAGEMENT PERSONNEL**

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

Directors

Andrew Plympton	Chairman - Non-executive
James Kellett	Director - Executive & Chief Executive Officer of Entellect Limited
Jeffrey Bennett	Director - Non-executive

Other Key Management

Robin Matthews (resigned on 28 January 2013)	Chief Executive Officer of Knowledge Nation Inc
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 23: KEY MANAGEMENT PERSONNEL (CONTINUED)**

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2013.

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

	2013	2012
	\$	\$
Short-term employee benefits	376,063	445,430
Post-employment benefits	-	-
Share-based payments	-	-
	376,063	445,430

KMP Options and Rights Holdings

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

	Balance at beginning of year	Granted as remuneration during the year	Exercised during the year	Other changes during the year	Balance at end of year	Vested during the year	Vested and exercisable	Vested and unexercisable
	'000	'000	'000	'000	'000	'000	'000	'000
30 June 2013								
Andrew Plympton	-	-	-	-	-	-	-	-
James Kellett	-	-	-	-	-	-	-	-
Jeffrey Bennett	-	-	-	-	-	-	-	-
Robin Matthews	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
30 June 2012								
Andrew Plympton	-	-	-	-	-	-	-	-
James Kellett	-	-	-	-	-	-	-	-
Jeffrey Bennett	250	-	-	(250)	-	-	-	-
Robin Matthews	-	-	-	-	-	-	-	-
	250	-	-	(250)	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 23: KEY MANAGEMENT PERSONNEL(CONTINUED)****KMP Shareholdings**

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

	Balance at beginning of year '000	Granted as remuneration during the year '000	Issued on exercise of options during the year '000	Other changes during the year* '000	Balance at end of year '000
30 June 2013					
Andrew Plympton	2,000	-	-	-	2,000
James Kellett	18,400	-	-	-	18,400
Jeffrey Bennett	65	-	4,000	-	4,065
Robin Matthews	-	-	-	-	-
Total	20,465	-	4,000	-	24,065

	Balance at beginning of year '000	Granted as remuneration during the year '000	Issued on exercise of options during the year '000	Other changes during the year* '000	Balance at end of year '000
30 June 2012					
Andrew Plympton	-	-	-	2,000	2,000
James Kellett	18,400	-	-	-	18,400
Jeffrey Bennett	65	-	-	-	65
Robin Matthews	-	-	-	-	-
Total	18,465	-	-	2,000	20,465

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

Other KMP Transactions

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

For details of other transactions with key management personnel, refer to Note 22: Related Party Transactions.

For details of loans from KMP, refer to Note 12: Borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 24: FINANCIAL RISK MANAGEMENT**

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

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

	Note	2013 \$	2012 \$
Financial Assets			
Cash and cash equivalents	6	117,037	419,255
Trade and other receivables	7	17,166	13,870
Other assets	8	41,127	28,591
		175,330	461,716
Financial Liabilities			
— Trade and other payables	11	297,312	123,413
— Financial liabilities	12	1,015,648	-
		1,312,960	123,413

Specific Financial Risk Exposures and Management

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

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

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

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

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

a. Liquidity risk

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

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

Financial Liability and Financial Asset Maturity Analysis

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment								
Trade and other payables	297,312	123,413	-	-	-	-	297,312	123,413
Financial liabilities	1,015,648	-	-	-	-	-	1,015,648	-
Total expected outflows	1,312,960	123,413	-	-	-	-	1,312,960	123,413
Financial assets — cash flows realisable								
Cash and cash equivalents	117,037	419,255	-	-	-	-	117,037	419,255
Trade and other receivables	17,166	13,870	-	-	-	-	17,166	13,870
Other assets	41,127	28,591	-	-	-	-	41,127	28,591
Total anticipated inflows	175,330	461,716	-	-	-	-	175,330	461,716
Net (outflow)/inflow on financial instruments	(1,137,630)	338,303	-	-	-	-	(1,137,630)	338,303

b. Credit risk

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

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

Credit Risk Exposures

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

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

The Group has no significant concentration of credit risk with any single counter party or group of counter parties. Details with respect to credit risk of Trade and Other Receivables are provided in Note 7.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 7.

c. Foreign currency risk

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

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

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

2013	Net Financial Assets/(Liabilities) in AUD	
	AUD	Total AUD
Consolidated Group		
Functional currency of entity:		
US dollar	(12,368)	(12,386)
SG dollar	(21,240)	(21,240)
Statement of financial position exposure	(33,608)	(33,608)

2012	Net Financial Assets/(Liabilities) in AUD	
	AUD	Total AUD
Consolidated Group		
Functional currency of entity:		
US dollar	17,392	17,392
SG dollar	(16,250)	(16,250)
Statement of financial position exposure	1,142	1,142

d. 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.

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.

	Consolidated 2013	Consolidated 2012
	\$	\$
Financial assets		
Cash and cash equivalents	<u>117,037</u>	419,255
Net exposure	<u>117,037</u>	419,255

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)****Interest rate risk (continued)**

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

At 30 June 2013, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit/(loss) and other comprehensive income would have been affected as follows:

	Post Tax Profit/(Loss)		Other Comprehensive Income	
	Higher/ 2013 \$	(Lower) 2012 \$	Higher/ 2013 \$	(Lower) 2012 \$
Consolidated				
+1% (100 basis points)	1,170	4,192	-	-
-0.5% (50 basis points)	(585)	(2,096)	-	-

The movements in post-tax profit/(loss) and other comprehensive income are due to higher cash balances on hand as at 30 June 2013. The sensitivity is higher in 2013 than in 2012 because the cash balance in 2013 is higher.

Foreign currency sensitivity

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

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

	Consolidated 2013		Consolidated 2012	
	\$(SUD)	\$(SGD)	\$(USD)	\$(SGD)
Financial assets				
Trade, other receivables & other assets	41,127	-	28,591	-
Financial liabilities				
Trade and other payables	(53,495)	(21,240)	(11,199)	(16,250)
Net exposure	(12,368)	(21,240)	17,392	(16,250)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)****Foreign currency sensitivity (continued)**

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

At 30 June 2013, if Australian Dollar had moved, as illustrated in the table below, with all other variables held constant, post tax profit/(loss) and other comprehensive income would have been affected as follows:

	Post Tax Profit/(Loss)		Other Comprehensive Income	
	Higher/ 2013 \$	(Lower) 2012 \$	Higher/ 2013 \$	(Lower) 2012 \$
Consolidated				
AUD to US Dollar +15% (2012: +15%)	1,613	(2,269)	-	-
AUD to US Dollar -15% (2012: -15%)	(2,183)	3,069	-	-
AUD to SGD Dollar +15% (2012: +15%)	3,186	(2,438)	-	-
AUD to SGD Dollar +15% (2012: +15%)	(3,186)	2,438	-	-

The movements in post-tax profit/(loss) and other comprehensive income are due to lower net exposure balance as at 30 June 2013. The sensitivity is lower in 2013 than in 2012 because net exposure balance for 2012 is higher.

NOTE 25: POST BALANCE DATE EVENTS

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

On 29 July 2013, the Company raised \$200,000 from 200,000,000 shares at \$0.001 under a placement to a sophisticated investor in accordance with shareholder approval obtained on 29 April 2013.

On 5 August 2013, the Company raised another \$35,000 from 35,000,000 shares at \$0.01 under a placement to a sophisticated investor and \$30,000 from \$30,000,000 shares at \$0.01 in lieu of fees for professional fee provided to the Company.

On 12 September 2013, the Company issued a \$25,000 Convertible Note at a face value of \$25,000. The note bears interest at a rate of 15% per annum on the face value of the note. The Convertible Note will have a term of 90 days from the issue date. The note has the option to convert into fully paid ordinary share during that period at the conversion price stated. The note that has not been converted must be redeemed by the Company at the issue price by the maturity date.

NOTE 26: COMPANY DETAILS

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

Level 1, 61 Spring Street
Melbourne VIC 3000
Australia

Grant Thornton Audit Pty Ltd
ACN 130 913 594

Level 19, 2 Market Street
Sydney NSW 2000
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

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

Independent Auditor's Report To the Members of Entellect Limited

Report on the financial report

We have audited the accompanying financial report of Entellect Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's

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judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

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

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

Independence

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

Auditor's opinion

In our opinion:

- a the financial report of Entellect Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 1(a) in the financial report which indicates that the consolidated entity incurred a net loss of \$2,071,446 during the year ended 30 June 2013, and had net cash outflows used in operations of \$1,745,522. These conditions, along with other matters as set forth in Note 1(a), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in pages 6 to 9 of the directors' report for the year ended 30 June 2013. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Entellect Limited for the year ended 30 June 2013, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



A G Rigele
Partner - Audit & Assurance

Sydney, 30 September 2013

ASX ADDITIONAL INFORMATION

Shareholdings

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

Substantial Shareholders

The name of the substantial shareholders listed in the Company's register at 9 September 2013 were:

Shareholders	Ordinary Shares	% of total Issued Share Capital
Citicorp Nominees Pty Limited	139,105,048	8.226%
Barrijag Pty Ltd <The Hadley Super Fund>	150,000,000	8.870%

Class of Shares and Voting Rights

As at 9 September 2013, there were 4,174 holders of a total of 1,691,122,932 ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in Article 54 of the Company's Articles of Association are:

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

- at meetings of members or classes of members each member is entitled to vote in person or by proxy or attorney; and
- on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share he holds."

Distribution of Shareholders

Holdings Ranges	Holders	Total Units	%
1 – 1,000	2,064	545,155	0.032
1,001 – 5,000	930	2,427,807	0.144
5,001 – 10,000	313	2,389,409	0.141
10,001 – 100,000	482	14,696,154	0.869
100,001 – 9,999,999,999	385	1,671,064,407	98.814
Totals	4,174	1,691,122,932	100.000

Unmarketable Parcels

The number of holders of less than a marketable parcel at 9 September 2013 was:

Total Securities	UMP Securities	UMP Holders	UMP %
1,691,122,932	55,299,630	3,956	3.26999

ASX ADDITIONAL INFORMATION

Twenty Largest Shareholders

Holder Name	Balance as at 9 September 2013	%
MR PETER ARMSTRONG	200,000,000	11.826
BARRIJAG PTY LTD <THE HADLEY SUPER FUND A/C>	150,000,000	8.870
CITICORP NOMINEES PTY LIMITED	139,105,048	8.226
DENTOST PTY LTD	82,174,934	4.859
MINING INVESTMENTS LIMITED	40,368,507	2.387
MR ANTANAS GUOGA	35,000,000	2.070
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	34,275,667	2.027
BAEDIS PTY LTD	34,000,000	2.010
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	30,510,512	1.804
MR GEORGE KARANTZIAS & MRS HELEN KARANTZIAS <KARANTZIAS SUPER FUND A/C>	30,000,000	1.774
HAWTHORN GROVE INVESTMENTS PTY LTD	25,710,121	1.520
SPHINX HOLDINGS LTD	25,522,808	1.509
AUSEPEN PTY LTD	25,200,000	1.490
KARANTZIAS INVESTMENTS PTY LTD <KARANTZIAS FAMILY A/C>	25,000,000	1.478
MR JOSEPH ANTHONY DE PLEDGE & MRS JANE MARGARET DE PLEDGE <THE J & J DE PLEDGE S/F A/C>	20,563,697	1.216
MR ADRIAN DONALD LEE	20,393,691	1.206
MR MARK KERR & MRS LINDA KERR <LINDMARK INV STAFF S/F A/C>	20,048,317	1.186
BAYRIB PTY LTD	20,008,948	1.183
STILLMORE HOLIDAYS PTY LTD <THE NOOSA UNIT FUND A/C>	20,006,442	1.183
BENBALLEY PTY LTD <STEWART CRANSWICK FAMILY A/C>	20,000,000	1.183
Total number of shares of Top 20 Holders	1,117,888,692	66.103
Total Issued Capital	1,691,122,932	

Unquoted Equity Securities

There are no holders of unquoted options greater than 20% of a class of options at 9 September 2013.