

KNEOMEDIA LIMITED

(ASX:KNM)

ASX and Media Release

26 August 2016

Appendix 4E – Preliminary Final Results

KNeoMedia Limited (KNeoMedia or the Company) (ASX: KNM) is pleased to advise shareholders of its preliminary final results for the Company and its controlled entities (the **Group**) for the financial year ended 30 June 2016 (**FY2016** or the **year**), and to provide a review of its operations and the outlook for the Company as outlined below.

Preliminary FY2016 results

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

The Group incurred a loss for the year of \$1,565,977 (FY2015: Loss \$1,630,948), primarily attributable to the receipt of other income \$483,570 under the Australian Government's Research and Development Tax Incentive Program, and the containment of employee benefits cost and operating costs. The Group also continued as a participant in the Australian Government's Research and Development Tax Incentive Program during FY2016, and as a result anticipates receiving a tax refund of approximately \$325,000 from the ATO imminently.

Year in review

KNeoWorld's Operations

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

Australia, UK, Norway & Switzerland

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

United States

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

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

China

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

Funding & Capital Structure

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

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

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

Outlook

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

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

For any other queries please contact:

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**KNEOMEDIA LIMITED
and Controlled Entities
ABN 41 009 221 783**

**ASX APPENDIX 4E – PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016**

Lodged with ASX under Listing Rule 4.3A

ASX Announcement - Appendix 4E

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

Name of Entity	KNeoMedia Limited
Australian Business Number	41 009 221 783
Current reporting period:	1 July 2015 to 30 June 2016
Previous corresponding reporting period:	1 July 2014 to 30 June 2015

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Results from operations		% Change		\$
Revenues from ordinary activities	Up	>100	to	64,891
Loss from ordinary activities after tax attributable to members	down	-3.9	to	1,565,977
Net loss for the year attributable to members of parent (after non-controlling interest)	down	-4.3	to	1,375,105
Dividends (distributions)		Amount per share		Franked amount per share
Final dividend Interim dividend		Nil ¢		Nil ¢
Previous corresponding period		Nil ¢		Nil ¢
Record date for determining entitlements to the dividends		N/A		
Net Tangible Assets per security				
As at 30 June 2016		(0.627)		
As at 30 June 2015		(0.715)		

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES

APPENDIX 4E PRELIMINARY FINAL REPORT FOR YEAR ENDED 30 JUNE 2016

Review of operations and financial results

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

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

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

While maiden revenue of \$64,891 for FY2016 was modest, it was recorded in the last quarter and is encouraging for the Company entering FY2017 as its focus shifts from product development to sales and marketing activities. The Company continued to take steps to improve its cash flow position by streamlining corporate costs, raising further equity capital, and successfully applying for Government grants for its research and development activities.

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

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

	30 June 2016	30 June 2015
Earnings/(loss) per share		
Basic and diluted (loss)/earnings per share (cents)	(0.65)	(1.23)

Financial position

The Group had net liabilities of \$1,491,798 as at 30 June 2016 (2015: net liabilities \$1,228,877).

Cash flows

During the year, the Group incurred net operating cash outflows of \$1,340,570 (2015: outflows \$1,000,087). The Group had cash of \$100,362 at 30 June 2016 (2015: \$979,179).

Net tangible asset per share

	30 June 2016	30 June 2015
Net tangible (liability)/asset backing per share	<u>(0.63) cents</u>	<u>(0.71) cents</u>

KNEOMEDIA LIMITED & CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$	2015 \$
Revenue			
Sales revenue		64,891	-
Other income	3	486,478	611,147
		<u>551,369</u>	611,147
Employee benefits expenses		(271,033)	(491,508)
Corporate expenses		(370,472)	(451,345)
Depreciation and amortisation expenses		(55,427)	(16,533)
Other expenses		(1,285,729)	(961,882)
Finance costs		(124,698)	(109,545)
Performance rights (expense)/benefit	6	(3,755)	10,383
(Loss)/gain on movement in fair value of embedded derivatives option		(6,232)	(221,665)
		<u>(1,565,977)</u>	(1,630,948)
Income tax benefit		-	-
Loss for the year attributable to members		<u>(1,565,977)</u>	(1,630,948)
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)		(54,250)	(14,133)
Total comprehensive loss for the year		<u>(1,620,227)</u>	(1,645,081)
Loss attributable to:			
Members of the parent entity		(1,375,105)	(1,437,033)
Non-controlling interests		(190,872)	(193,915)
		<u>(1,565,977)</u>	(1,630,948)
Total comprehensive loss attributable to:			
Members of the parent entity		(1,424,016)	(1,451,089)
Non-controlling interests		(196,211)	(193,992)
		<u>(1,620,227)</u>	(1,645,081)
Earnings/(loss) per share (cents per share)			
Basic and diluted earnings/(loss) per share	8	(0.65)	(1.23)

The accompanying notes form part of this preliminary final report

KNEOMEDIA LIMITED & CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Note	2016 \$	2015 \$
Current Assets			
Cash and cash equivalents		100,362	979,179
Trade and other receivables		80,049	31,413
Other assets		65,644	38,349
Total Current Assets		246,055	1,048,941
Non-current Assets			
Property, plant and equipment		5,123	5,081
Other intangible assets	4	234,721	-
Total Non-current Assets		239,844	5,081
Total Assets		485,899	1,054,022
Current Liabilities			
Trade and other payables		591,730	397,597
Other financial liabilities	5	1,385,967	1,885,302
Total Current Liabilities		1,977,697	2,282,899
Total Liabilities		1,977,697	2,282,899
Net Liabilities		(1,491,798)	(1,228,877)
Equity			
Issued capital	7	71,167,945	69,790,759
Reserves		(168,038)	(56,571)
Accumulated losses		(71,348,393)	(70,024,330)
Parent Entity Interest		(348,486)	(290,142)
Non-controlling interest		(1,143,312)	(938,735)
Total Equity		(1,491,798)	(1,228,877)

The accompanying notes form part of this preliminary final report

KNEOMEDIA LIMITED & CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

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

The accompanying notes form part of this preliminary final report

KNEOMEDIA LIMITED & CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Issued Capital	Accumulated losses	Foreign Currency Translation Reserve	Options Reserves	Convertible note equity Reserves	Non- controlling Interests	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2014	67,986,375	(68,594,047)	(113,395)	17,133	35,809	(744,743)	(1,412,868)
Net loss for the year	-	(1,437,033)	-	-	-	(193,915)	(1,630,948)
Other comprehensive loss	-	-	(14,056)	-	-	(77)	(14,133)
Total comprehensive loss	-	(1,407,033)	(14,056)	-	-	(193,992)	(1,645,081)
Shares issued	1,250,000	-	-	-	-	-	1,250,000
Conversion of directors fees to share	136,078	-	-	-	-	-	136,078
Conversion of Convertible notes to shares	408,637	-	-	-	-	-	408,637
Shares issued in lieu of fees for services rendered	216,900	-	-	-	-	-	216,900
Transaction costs on shares issued	(207,231)	-	-	-	-	-	(207,231)
Equity component of convertible notes	-	-	-	-	35,071	-	35,071
Transfer to accumulated losses	-	6,750	-	(17,133)	-	-	(10,383)
Balance at 30 June 2015	69,790,759	(70,024,330)	(127,451)	-	70,880	(938,735)	(1,228,877)

The accompanying notes form part of this preliminary final report

**KNEOMEDIA LIMITED & CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016**

	2016 \$	2015 \$
Cash flows from operating activities		
Receipts from customers	64,891	642
Net grants from research and development	424,853	531,007
Payments to suppliers and employees	(1,830,314)	(1,531,736)
Net cash used in operating activities	(1,340,570)	(1,000,087)
 Cash flows from investing activities		
Purchase of property, plant and equipment	(8,741)	(1,526)
Purchase of intangible assets	4 (274,718)	-
Net cash used in investing activities	(283,459)	(1,526)
 Cash flows from financing activities		
Proceeds from issue of shares	1,362,205	1,250,000
Payment for share issue costs	(105,018)	(72,514)
Proceeds from convertible notes	-	750,000
Repayments of convertible notes	(550,000)	(200,000)
Proceeds from borrowings	200,000	-
Cash consideration for options	300	
Interest received	2,908	3,691
Interest paid	(104,201)	(49,249)
Net cash provided by financing activities	806,194	1,681,928
 Net (decrease)/increase in cash and cash equivalents	(817,835)	680,315
Cash and cash equivalents at the beginning of the financial year	979,179	312,553
Effects of exchange rate changes on cash and cash equivalents	(60,982)	(13,689)
Cash and cash equivalents at the end of the financial year	100,362	979,179

The accompanying notes form part of this preliminary final report

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES

NOTES TO THE (UNAUDITED) PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

This report is based on accounts that are in the process of being audited.

1. Dividends

The Group does not intend to pay a dividend in respect of the year ended 30 June 2016 (2015: nil). The Group does not have any dividend or distribution reinvestment plans in operation.

2. Net Tangible Assets Per Share

Net tangible (liability)/asset backing per ordinary share at 30 June 2016 was (0.63) cents (2015: (0.71) cents).

3. Other income

	2016	2015
	\$	\$
Grants for research and development	483,570	607,456
Interest income	2,908	3,691
	486,478	611,147

4. Other intangible assets

Gross carrying amount

Balance as at 1 July 2015	-	-
Additions	274,718	-
Balance at 30 June 2016	274,718	-

Accumulated amortisation and impairment

Balance as at 1 July 2015	-	-
Amortisation expense	40,877	-
Exchange differences	(880)	-
Balance at 30 June 2016	39,997	-
Net book value at 30 June 2016	234,721	-

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

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

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES
NOTES TO THE (UNAUDITED) PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

5. Other Financial Liabilities (Current)

	2016	2015
	\$	\$
<i>Financial liabilities measure at amortised cost:</i>		
- Convertible notes – loan component	782,927	1,505,417
<i>Financial liabilities designated at FVTPL:</i>		
- Embedded derivatives	603,040	379,885
	1,385,967	1,885,302
<i>Movement of the financial liabilities</i>		
<i>Opening balance: Convertible notes – loan component</i>	1,505,417	1,308,580
<i>Additions during the year</i>	-	750,000
<i>Repayment during the year</i>	(550,00)	(200,000)
<i>Increase in unpaid interest</i>	74,115	147,858
<i>Equity component transfer to reserve</i>	-	(35,071)
<i>Imputed interest charge</i>	(246,605)	(121,199)
<i>Conversion to shares</i>	-	(344,751)
<i>Closing balance: Convertible notes – loan component</i>	782,927	1,505,417
<i>Opening balance: Embedded derivatives</i>	379,885	163,469
<i>Additions during the year</i>	-	-
<i>Loss on movement in fair value</i>	223,155	216,416
<i>Closing balance: Embedded derivatives</i>	603,040	379,885

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

A detailed summary is provided below.

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

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

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES

NOTES TO THE (UNAUDITED) PRELIMINARY FINAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

5. Other Financial Liabilities (Current) (continued)

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

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

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

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

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

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

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

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

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES

NOTES TO THE (UNAUDITED) PRELIMINARY FINAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

5. Other Financial Liabilities (Current) (continued)

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

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

In compliance with the financial reporting obligations, the Directors of the Company appointed an external valuation expert to perform a fair value valuation of the convertible notes and the related embedded derivatives as at 30 June 2016. The fair value valuation has involved estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, the best estimate is used.

6. Performance rights issued to Directors (KMPs) for the Long Term Incentive Plan (LTIP)

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

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

The fair value of the performance rights granted to Directors at grant date was \$0.0066 based on a Black Scholes option pricing model. The fair value of the performance rights are subject to the achievement of revenue hurdle of \$5mil gross revenue during any given 12 consecutive months and conditional upon continuation as a director of the Company. The fair value is allocated to each reporting period evenly from date of grant to the vesting period. The rights will lapse if the vesting conditions are not achieved by 31 December 2019 (expiry date).

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

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

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES
NOTES TO THE (UNAUDITED) PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

7. Issued Capital

	2016	2015
	\$	\$
275,373,878 (2015: 171,851,370) fully paid ordinary shares	71,167,945	69,790,759
	No.	No.
a. Ordinary Shares		
At the beginning of reporting period	171,851,370	88,770,764
Shares issued during the year		
— Conversion of directors fee payable to share	2,222,222	2,558,142
— Conversion of borrowing to share	-	12,268,519
— Capital raising fee in lieu	4,000,000	7,012,271
— Share issued (capital raising)	97,300,286	55,555,555
— Conversion of convertible notes	-	5,686,119
At reporting date	275,373,878	171,851,370

8. Earnings Per Share

	2016	2015
Basic and diluted earnings to profit or loss	(0.65) cents	(1.23) cents
	No.	No.
Weighted Average Number of Shares		
Weighted average number of ordinary shares outstanding during the year used in calculating basic and dilutive EPS	211,797,422	116,568,338
	\$	\$
Reconciliation of earnings to profit or loss		
Loss for the year	1,565,977	1,630,948
Loss attributable to non-controlling interest	190,872	193,915
Loss used to calculate basic and dilutive EPS	1,375,105	1,437,033

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

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES NOTES TO THE (UNAUDITED) PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

9. Contingent assets and liabilities

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

10. Details of entities over which control has been gained or lost during the year

Control gained over entities

The Group did not acquire any subsidiary entities in the year ended 30 June 2016.

Loss of control of entities

There was no disposal of subsidiary entities in the year ended 30 June 2016.

11. Company announcements

Refer to the ASX website (ASX: KNM) for details of Company announcements made during the year.

12. Subsequent events

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

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

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

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

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

13. Status of the audit

This Preliminary Financial Report is based on the Group's 2016 annual financial report, the accounts of which are in the process of being audited. No matters have arisen thus far which would results in a dispute or qualification in the current year.

On behalf of the board



James Kellett
Executive Chairman

Melbourne, 26 August 2016