



31 January 2018: ASX/Media Release (ASX: KNM)

QUARTERLY UPDATE AND APPENDIX 4C PERIOD ENDED 31 DECEMBER 2017

Highlights:

- KNM reports continued sales growth with 4,500 seat licenses sold to New York Public schools, bringing the total to 14,500, an increase of 45% on the June 2017 quarter.
- KNM confirms expansion into new schools outside of New York City with successful trials underway in Buffalo (New York State) and Newark (State of New Jersey).
- Cash collections from NYC Department of Education for 2017 Seat Licence sales are now materialising in January 2018.
- Newly appointed Australian Business Development Manager secures multiple pilot sites in Victoria and commences work on new opportunities in Singapore and the Philippines.
- Foundations are in place for a large-scale, multi-State roll-out in the United States in 2018.
- Completion of a heavily oversubscribed \$3.85 million Institutional Placement.
- Strong balance sheet with \$3.4 million cash as at 31 December 2017 and growing cash receipts.

Online education publisher KNeoMedia Limited (“KNeoMedia” or the “Company”) (ASX: KNM) is pleased to provide this update for shareholders and Appendix 4C for the quarter ended 31 December 2017.

Material sales of new Seat Licenses and Cash Collections

The New York based team continued the material increase in Seat License sales in New York City during the quarter with a further 4,500 Seat Licences sold to New York Public Schools administered by District 75. This is an increase of 45% on the total number of seat licenses as at the end of the June 2017 quarter.



The Company is pleased to report that further sales are imminent in New York City and will occur after receipt of further budget allocation from the New York City Department of Education which has already been earmarked. In the interim, given the financial capacity of the Company’s key debtor, being a respected US government department, KNeoMedia will provide Seat Licences to New York schools that wish to implement the technology ahead of budget allocation. As previously announced, the Company has identified a captive market for our product within the city of New York and believe the addressable market opportunity remains at circa 20,000 special needs students in the District 75 controlled schools and circa 200,000 special needs students in the New York City public schools.



While the rates of sales is in line with our expectations of adoption by the schools within District 75, there was a lag in receivable collections in the December quarter. Pleasingly, this has now been rectified with approximately A\$100,000 of outstanding receivables collected in January 2018 and further outstanding receivables now being processed for payment. The Company confirms that the temporary lag in collections is unique to administrative bottlenecks within the New York Department of Education, combined with the holiday season and heavy snow storms, is not reflective of the broader US education market.

Of the 14,500 Seat Licences sold to date, the Company has now been paid a total of approximately A\$200,000, and given the timing of payment cycles, substantial receipts of the total outstanding receivables are expected to be booked in the March 2018 quarter.

Expansion ramps up into the broader US Market and continued scale up in New York

Trials of the Company's KNeoESP educational content are continuing at a number of schools in Buffalo and Newark, cities previously announced. There has been a delay in the commencement of many of these trials due to limited access to schools as a result of holiday season and extreme weather conditions in the United States during the period and into the third quarter.

Further trials in additional cities and states in the United States will commence shortly and the Company is very confident these will lead to an increase in Seat Licence sales given almost a 100% conversion rate of trials to seat license sale within District 75.

The broader United States market remains KNeoMedia's primary focus and it is where the Company sees the greatest immediate opportunity for a large-scale roll out, particularly in special needs education environments. The Company estimates that the population defined as special needs represents 8% of the 23 million elementary students.

To support an increase in content trials the Company has also commissioned an independent White Paper study of the efficacy of KNeoWorld and that paper will also provide further impetus to sales activities at a Federal level in Washington. The White Paper is being overseen by KNeoMedia's Advisory Board member, Dr Mary McInerney, who has advised that the independent academics authoring the White Paper are progressing well.

The Company is also pleased to report that part of the proceeds of funds from the October 2017 capital raising is being put towards an expansion of the New York based sales and management team, with progress being made on specialist business development and sales support personnel.

Progress in Australia and Asia

A second trial commenced at a Melbourne Special Needs learning facility just before the Christmas vacation period and a further three trials will now commence in Victoria coinciding with the start the of the school year. The Company is very encouraged by the progress being made in the Australian market.

Also of significance is a new trial at a benchmark Special Needs Singapore school which the Company will use as a reference point for broader Asian markets. In recent weeks, the Company has also been able to progress the previously announced Philippines opportunity and we look forward to reporting on all of these new market opportunities shortly.



Balance sheet strengthened

During the quarter the Company successfully completed a \$3.85 million capital raising. Funds raised will be used to expedite the roll-out of products and a scaled-up implementation throughout schools, predominantly in the United States, but also in Australia and Asia. The Company has been prudent with the deployment of funds with new educational staff being recruited to assist with lesson plan instruction, teacher training and general classroom assistance. As expected operating costs have risen marginally, with the balance of the cost increases related to capital raising expenses. In line with our accompanying Appendix 4C we do not envisage material growth on our forecast quarterly spend.

Outlook and current quarter objectives

Key objectives for the current quarter are:

- **The conversion of US trials in new States into revenue generating deployments.**
- **The roll-out and scale-up of KNeoESP and KNeoWorld content deployment into more States in the US.**
- **Further Seat Licence sales in the five New York Boroughs.**
- **Progress trials in Australia and key Asian markets.**
- **Increased cash receipts from all outstanding seat licenses sold in 2017.**

KNeoMedia's Board is very encouraged by the progress made in the second quarter, particularly with respect to the expansion outside of New York City. Growing visibility and acceptance of the technology across a number of US States is providing the impetus for a very substantial scale-up throughout America. The ability to secure Federal Government support, underpinned by the publishing of the proposed White Paper, also represents a major opportunity for the Company and should not be underestimated.

The Company's solid balance sheet, very low cash burn rate, and now growing customer receipts gives KNeoMedia the necessary financial flexibility to fund a major US 'land grab'. Opportunities in Australia, Singapore and the Philippines will augment this major US growth focus.

– ENDS –

About KNeoMedia Limited:

KNeoMedia Limited is an online education publishing company that delivers world-class education assessment products and games-based learning to global educational markets.

KNeoMedia publishes and markets from its US-based subsidiary, KNeoWorld Inc., and sells on an annual seat licence basis through its KNeoWorld.com portal via education departments and distribution agreements.

Games Based Learning is an integral part of childhood education. Growth in educational markets, combined with advances in mobile devices and connectivity, will continue to accelerate innovation, adoption, and affordability of our products around the world.

KNeoWorld is an education games portal where young and also special needs students play their way through a futuristic and epic world. They do this by playing compelling games that are subtly infused with validated educational content including numeracy, literacy, science, arts, reasoning and memory. KNeoWorld products provide extensive analytical performance data to educators and comply with child online privacy protection. Our SaaS model provides KNeoWorld with a global education market opportunity addressing both regular and special needs students.

For further information, please contact:

James Kellett
Chief Executive Officer
T: (03) 9286 7500 M: +61 439 805 070
E: jkellett@kneomedia.com

Sophie Karzis
Company Secretary
T: +61 3 9286 7500
E: sk@ccounsel.com.au

Released through: Ben Jarvis, Six Degrees Investor Relations: +61 413 150 448



Follow KNeoMedia on Twitter: <http://twitter.com/KNeoMedia>

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

KNeoMedia Limited

ABN

41 009 221 783

Quarter ended ("current quarter")

31 December 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	8	16
1.2 Payments for		
(a) research and development	-	(74)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(56)	(121)
(d) leased assets	-	-
(e) staff costs	(63)	(126)
(f) administration and corporate costs	(470)	(717)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	3
1.5 Interest and other costs of finance paid	(2)	(5)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(580)	(1,024)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(d) intellectual property	(71)	(109)
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(71)	(109)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	3,895	3,895
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	228	548
3.4 Transaction costs related to issues of shares, convertible notes or options	(272)	(272)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	3,851	4,171

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	233	403
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(580)	(1,024)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(71)	(109)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	3,851	4,171

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(4)	(12)
4.6	Cash and cash equivalents at end of quarter	3,429	3,429

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	3,429	233
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,429	233

6. Payments to directors of the entity and their associates

- | | Current quarter
\$A'000 |
|-----|------------------------------------|
| 6.1 | 63 |
| 6.2 | - |

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

7. Payments to related entities of the entity and their associates

- | | Current quarter
\$A'000 |
|-----|------------------------------------|
| 7.1 | - |
| 7.2 | - |

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Placement	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (Exercise of Options)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

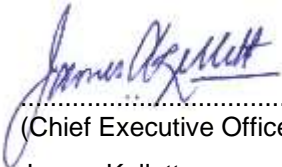
On 26 October 2017 a placement of \$2.099M was settled net of 6% fees to predominantly institutional and sophisticated investors. It is anticipated that Tranche 2 of the placement for \$1.506M will be completed after the Company's 2017 Annual General Meeting, bringing the total placement funds raised to \$3.62M net of placement fees.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	50
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	125
9.4 Leased assets	-
9.5 Staff costs	75
9.6 Administration and corporate costs	200
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	450

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: .....
(Chief Executive Officer)

Date: 31 January 2018

Print name: James Kellett

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.