



28 April 2017

ASX/Media Release
(ASX:KNM)

KNeoMedia operations update and Appendix 4C for March 2017

Online education publisher **KNeoMedia Limited** ("**KNeoMedia**" or the "**Company**") (ASX: KNM) is pleased to provide shareholders with this operations update for the period ended 31 March 2017, along with the attached Appendix 4C - Quarterly Report.

KNeoWorld Education

On 24 January 2017 the company advised that it has built a pipeline of 50 advanced sales inquiries together with interest from some US Federal education groups and that to date, over 2,000 seat licences have been sold, valued at US\$50.00 per licence. The sales team in New York is focused on converting these inquiries into firm sales. While cash receipts for the quarter was less than the previous quarter, the Company continues to accumulate firm order requests, payment for which are subject to available expenditure budget in the schools which is generally lacking and thereby delaying cash receipts.

To address the issue of lack of school funding which has led to delays in cash receipts, the Company announced on 28 February 2017 that it had negotiated the support from New York City Department of Education District 75, which provides citywide educational, vocational, and behaviour support programs for special needs students, provides the catalysts for funding the potential roll-out of KNeoESP focusing on the 20,000 special needs students that are educated in schools and learning sites throughout the New York City Boroughs.

At the time CEO James Kellett commented: "*Whilst cash flow from the broader distribution will not be substantial until after 1 July, sign-ups of individual schools and small groups of schools will continue to materialise prior to July.*" This has occurred with a further 400 seat licences sold to three schools in late February.

As a result of the support of District 75, representatives from three New York Boroughs – Brooklyn, the Bronx and Queens – agreed to facilitate the funding via their internal and related political budgets for the purchase of KNeoESP for schools throughout their respective Boroughs. This was a major development for KNM that means, come 1 July 2017, schools can overcome the delays experienced in funding allocation, as well as enabling a broader deployment into schools in each Borough. Whilst KNM cannot quantify the total number of licences to be issued, KNM is encouraged by the eagerness of the Boroughs to facilitate widespread distribution.

Both developments mark significant progress for KNeoMedia, and they represent the first step in the Company penetrating the greater New York City School system which is made up of approximately 2,300 elementary schools teaching more than 1.25 million students, including 220,000 special needs students.

The Company expects to advise in the coming days the approval of further direct funding for immediate purchases of its education products by schools in New York City.

On 16 March 2017 the Company announced it had executed a Letter of Intent (LOI) with Vizcaya Bank ("**Vizcaya**" or "**the Bank**"), where a subsidiary of the Bank would sell two of KNeoMedia's highly-regarded education software products, KNeoEd and KNeoESP, to education departments in the Philippines on an equal-revenue sharing basis.

On 12 April 2017 the Company further announced that after further due diligence and negotiations with Vizcaya's representatives, KNeoMedia determined that a more lucrative strategy is the coordinated roll-out of KNeoWorld content into the Philippines school market directly through the Philippines' Department of Education, the Commission on Higher Education (CHED) and the Technical Education and Skills Development Authority (TESDA).

The new strategy, which will deliver a greater proportion of future revenue to KNeoMedia, is currently being formalised, and the Company will shortly announce details on the individual that will lead the Company's Philippines market entry and ongoing management.

KNeoMedia advised that it believes that there will be no delay in the rollout of KNeoEd and KNeoESP into Philippines given this direct-to-market approach.

New encouraging opportunities continue to emerge for the KNeoWorld **Education** division and accordingly the Company is concentrating the majority of its resources on these opportunities.

KNeoWorld Mobile

On 11 January 2017 the Company announced the launch of its iOS Apple App. Since then, and in response to live market testing, several updates have been implemented including a further update today, to ensure this app delivers a great user experience for everyone. Live testing and updating continues under the guidance of the specialist Advisor appointed during the quarter. When complete, the App will be the catalyst to increase of strategic marketing activities that will now be ramped up, including via the Company's collaboration with the US Parent Teacher Association.

Operations Summary

Direct operating costs again decreased from the previous quarter. While cash receipts from customers were less than the December quarter, current receivables continued to increase during the quarter as a direct reflection of increased sales activity in the New York City school education market. **Whilst delayed in the March quarter, the receipt of sales revenue from the schools via the NYC Department of Education and others, together with anticipated additional sales from education and other channels, will support the Company's cash flow in the current quarter and beyond.**

The Company received a Convertible Note conversion notice and a request from a Convertible Note holder to subscribe for additional shares to the value of \$25,000 pursuant to the terms of the Convertible Note, as advised by the Appendix 3B lodged on the 24 March 2017. The Company has also received a further request for conversion of a Convertible Note, and subscription for additional shares to the value of \$50,000 pursuant to the terms of that Convertible Note, in the last 24 hours. The details of the conversion and additional share issue will also be advised via Appendix 3B once the shares are allotted. While modest, it reflects the progressive conversion of debt into equity.

KNeoMedia's Board is very encouraged by the progress made in the current quarter, particularly with the support received from District 75 which underpins a key component of the Company's anticipated revenue streams from July onwards. The Board has significant confidence in this revenue channel and the potential for the Company in the New York and wider United States education market.

– ENDS –

About KNeoMedia Limited:

KNeoMedia Limited is an online games publishing company that delivers world-class education assessment products and edutainment games to global educational and consumer markets (education + entertainment = edutainment).

KNeoMedia publishes and markets from its US-based subsidiary, KNeoWORLD Inc., and sells on a seat licence and micro-subscription and Apps basis through the KNeoWORLD.com games portal, Apps Stores and via distribution agreements and education departments.

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 protection and the parent approved simple subscription model provides KNeoWORLD with a global opportunity to quickly deploy in a product vacuum and become a market leader.



KNeoMedia Limited
ASX:KNM

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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 March 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	13	161
1.2 Payments for		
(a) research and development	(2)	(120)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(34)	(160)
(d) leased assets	-	-
(e) staff costs	(20)	(146)
(f) administration and corporate costs	(19)	(371)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(7)	(12)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	292
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(69)	(356)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	(6)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(d) intellectual property	(3)	(190)
(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	(3)	(196)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	25	545
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	(24)
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	25	521

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	116	100
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(69)	(356)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(3)	(196)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	25	521

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(1)	(1)
4.6	Cash and cash equivalents at end of quarter	68	68

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	68	116
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)	68	116

6. Payments to directors of the entity and their associates

Current quarter \$A'000
-
-

6.1 Aggregate amount of payments to these parties included in item 1.2

6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

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

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

Current quarter \$A'000
-
-

7.1 Aggregate amount of payments to these parties included in item 1.2

7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

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

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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 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (Private Placement Commitments)	350	-
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.		

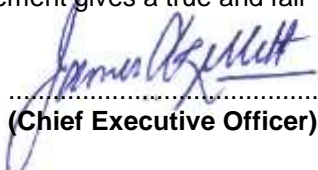
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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	20
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	50
9.4 Leased assets	-
9.5 Staff costs	65
9.6 Administration and corporate costs	100
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	235

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: 28 April 2017

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.