

**HALF YEAR REPORT
APPENDIX 4D**

FOR THE PERIOD ENDED 31 DECEMBER 2021



25 February 2022

ASX/Media Release (ASX: KNM)

APPENDIX 4D AND HALF-YEAR REPORT

KneoMedia Limited (“KneoMedia” or “the Company”) (ASX: KNM) is pleased to report its results for the Company and its controlled entities (the Group) for the half-year ended 31 December 2021. KneoMedia is well-placed for the remainder of the year and into FY2023 with uptake of the proprietary KneoWorld technology offering being successfully delivered in-class and online primarily in the New York public school system. The Company wishes to thank shareholders for their continued support.

About KneoMedia Limited:

KneoMedia Limited is a SaaS publishing company that delivers world-class education and assessment products to global markets in both special and general education classrooms via its KneoWorld portal. The KneoWorld platform is a story and game-based assessment learning program that provides engaging and effective ways for students to process and apply academic skills and concepts. Researched and evidence based, KneoWorld’s easy Assign & Go format empowers students to be innovative and self-confident. The unique combination of standards-aligned lessons blends language with math instruction and social-emotional learning while embedded analytics measure academic growth. As an approved Google Education Partner, KneoWorld is an effortless education program to use at school, remotely or both.

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KNEOMEDIA LIMITED (ASX:KNM)

APPENDIX 4D

HALF YEAR REPORT

Entity: KneoMedia Limited
 ABN: 41 009 221 783
 Reporting period: For the period ended 31 December 2021
 Previous period: For the period ended 31 December 2020

RESULTS FOR ANNOUNCEMENT TO THE MARKET

| | | Change % | | 31 Dec 2021 \$ |
|--|-----------|----------|----|----------------|
| Revenues from ordinary activities | Increased | 26 | to | 168,931 |
| Deferred revenue (future period recognition) | Increased | 37 | to | 654,029 |
| Loss from ordinary activities after tax attributable to members | Increased | 2 | to | (1,670,486) |
| Net loss for the period attributable to members of parent (after non-controlling interest) | Decreased | 2 | to | (1,439,057) |

Net Tangible Assets

| | Reporting period Cents | Previous period Cents |
|--|---------------------------|--------------------------|
| Net Tangible Assets per ordinary share | (0.002) | 0.002 |

Control gained over entities

During the half-year ended 31 December 2021, the Company did not acquire any subsidiary entities.

Loss of control over entities

There was no disposal of subsidiary entities in the half-year ended 31 December 2021.

Dividends

There were no dividends paid, recommended or declared during the current reporting period.

There were no dividends paid, recommended or declared during the previous reporting period.

Dividend reinvestment plans

Not applicable.

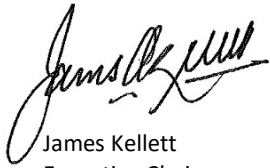
Additional disclosures

Additional Appendix 4D disclosures can be found in the attached Directors' Report and the 31 December 2021 half-year financial statements.

This report is based on the consolidated 2022 half-year financial statements which have been reviewed by the Company's auditor with the Independent Auditor's Review Report included in the 31 December 2021 half-year financial statements.

This half-year report is to be read in conjunction with the financial report for the year ended 30 June 2021 and public announcements of the Company made on the ASX for the six months ended 31 December 2021.

Signed

A handwritten signature in black ink, appearing to read "James Kellett".

James Kellett
Executive Chairman

Date: 25 February 2022

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KNEOMEDIA LIMITED

ABN 41 009 221 783

HALF YEAR FINANCIAL STATEMENTS - 31 DECEMBER 2021

TABLE OF CONTENTS

| | |
|--|-----------|
| DIRECTORS' REPORT | 5 |
| CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME | 9 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | 10 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 11 |
| CONSOLIDATED STATEMENT OF CASH FLOWS | 12 |
| CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | 13 |
| DIRECTORS' DECLARATION | 17 |
| INDEPENDENT AUDITOR'S REVIEW REPORT | 18 |

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES DIRECTORS' REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2021

The Directors present their report together with the financial statements of the consolidated entity consisting of KneoMedia Limited (**KneoMedia** or **KNM** or **the Company**) and its controlled entities (the **Group**), for the half-year ended 31 December 2021.

DIRECTORS

The following persons were Directors who held office during or since the end of the half-year:

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

Directors were in office from the start of the period to the date of this report.

PRINCIPAL ACTIVITIES

During the financial half-year, the principal activity of the Group was the development and marketing of the Company's online education publishing business across international markets that delivers world-class education assessment products and games-based learning to global educational markets. The Group publishes and markets from its US-based subsidiary, KneoWorld Inc., and sells on a seat licence basis through the KneoWorld games portal and regionally via education departments and distribution agreements.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

Recognised revenue from ordinary activities increased 26% to \$168,931 (2020 \$134,129). Revenue is recognised over the term of each seat licence which is typically 36 months. During the period deferred revenue increased 37% to \$654,029.

The Group incurred a loss for the period of \$1,670,486 (2020: \$1,636,091). The result is aligned with the continuation of well controlled costs.

The statement of financial position reports a deficiency of net assets of \$1,249,513 (30 June 2021: deficiency \$344,007). Contributing to the reduction in net assets is the inclusion of the deferred revenue liability of \$654,029 and the issue of 52 convertible notes on 24 November 2021 with a face value of \$1,300,000. The convertible notes are recognised as a current liability until such time as the notes are converted. At 31 December 2021, one convertible note with a face value of \$25,000 had been converted into fully paid ordinary shares.

During the six months to 31 December 2021, the Group incurred net operating cash outflows of \$1,178,051 (2020: \$823,205). Receipts from customers totalled \$331,966 (2020: 357,856). The *Connect ALL Kids* program has provided the majority of the Group's sales for the half year. The *Connect ALL Kids* contracts are for a period of three years. The revenue is recognised on a straight-line basis over the term of the contract.

Payments to suppliers and employees totalled \$1,510,017 (2020: \$1,181,061). The increase in outflows can be attributed to the payment of outstanding payables. On 12 July 2021 the Company completed a capital raise of \$650,600, considerably improving the cash balance to maintain ongoing business activities and allow the Company to reduce the trade and other payables balance.

Cash outflows from investing activities totalled \$388,768 (2020: \$324,869), expenditure has increased from the previous period. A continued focus on product content development is integral to the successful rollout of the Company's KneoWorld education platform and the successful attainment of larger sales contracts.

KNEOWORLD'S OPERATIONS

During the half year the Company continued to focus on the *Connect ALL Kids* education initiative in the public school system across the boroughs of New York City. Another deployment was announced on 11 May 2021 where New York City Councillors committed a further US\$3,000,000 to the initiative into New York City public schools. KNM's share of this third deployment is US\$780,000, or US\$260,000 per year over three years, with two instalments remaining.

This further deployment reflects the growing commitment from the New York City Department of Education ('NYC DOE') to the *Connect ALL Kids* initiative, and as referenced at the Company's Annual General Meeting in late November 2021, deployments of significant greater value than those already secured as being pursued in New York City in the first instance, and more widely in New York State.

The KneoWorld software is now available in 80 public schools throughout New York City and New York State. While relatively modest, the growing deployment of the technology is becoming an excellent reference point and further validation for other schools in New York City, New York State and other States across the US that are seeking to deploy the platform.

With the growing number of schools across the New York City public school system now currently deploying the KneoWorld platform, significant resources were allocated to ensure the maximum number of schools have been onboarded with the KneoWorld software. While concerns from teachers and parents regarding increasing cases of COVID continue to diminish, New York public schools continue to make their content available for in-class teaching and through online formats for home schooling with the KneoWorld content included in this.

KNM continues to invest in the KneoWorld platform and is actively working with NYC DOE on a continual basis to ensure content aligns with the requirements of the DOE and the local environment, a unique feature of the KneoWorld platform.

In addition, the *Connect ALL Kids* initiative was further enhanced and validated by the Queens College City University of New York GLOBE NY Metro Partnership agreeing to participate in the program. This provides opportunities to connect with educationally disadvantaged children across the five Boroughs in New York City. More specifically, this participation will change the landscape of teaching and learning in the NYC DOE. In this collaboration with KneoWorld and Dell Technologies, and fully supported by *Connect ALL Kids* participant, The National Association for the Advancement of Colored People (NAACP), the goal of accelerating competencies in areas of Science, Technology Engineering, and Mathematics (STEM) is obtainable through the broad adoption of these innovative programs, processes, and strategies. This ambitious goal is attainable with the collaboration of all partners in this initiative through bold enhancement and innovation in the design of the *Connect All Kids* initiative and by spanning the education pipeline from early learning to college.

These combined efforts will help students, teachers and families realise their potential by incorporating the GLOBE programs' authentic hands-on research pedagogy now used throughout the United States and 124 other nations. In addition, GLOBE NY Metro brings a +20-year record of providing high-quality professional development to more than 2,000 New York City teachers from more than 800 schools. It has worked closely not only with those teachers, but also with NYC DOE administrators, superintendents and principals who can report on the difference that its training has made for thousands of their students.

In anticipation of substantial growth in platform enrolments, the Company also undertook a cyber-security audit and appointed independent experts to ensure the KneoWorld platform nor the Company could be subjected to cyber-attacks and that its digital assets were secure.

During the period, the Company initiated deployment of a sale to NY State capital Albany School District and advanced further development of opportunities in the large and well-funded Florida Early Learning Centres market.

New York City Change of Leadership and Department of Education Changes

On 1 January 2022, Eric Adams was sworn in New York City Mayor and his commitment to education equality in New York was a centrepiece of his campaign for Mayor. This bodes well for the Company's *Connect All Kids* education initiative given the NAACP have had active and regular engagement with Mayor Adams and the newly appointed NYC DOE Chancellor David Banks. Feedback from the NAACP and from existing NYC DOE contacts suggests support for the broader deployment of *Connect All Kids* into more New York City public schools is very strong.

These appointments, and the changes to a range of leadership roles within the NY DOE that are now occurring as a result of Chancellor Banks' appointment, is likely the most positive development for the Company since it commenced operations in New York and it provides the foundation for much greater support and funding for the initiative.

KneoWorld's team in New York City, together with leaders of the New York Chapter of the NAACP are in active dialogue now with the NYC DOE regarding new *Connect All Kids* deployments.

International Markets

The Company is focused on advanced sales opportunities in the United States first and foremost, and while other markets have been placed in a no cost holding status for future sales opportunities, our JV partner in the Philippines did deploy KneoWorld content into opportunities that had been paused for nearly 12 months with each Seat Licence there continuing to be sold to Government schools by our joint venture partner for US\$100. Further indication that activities are resuming in the region after a total school shutdown due to COVID.

OUTLOOK

KneoMedia's primary focus for the second half of FY2022 is on growing sales in New York City where the KneoWorld technology is gaining most uptake and acceptance from teachers, parents and students.

Given leadership changes with New York City and the NY DOE referenced above, the Company is intent on capitalising on this opportunity first and foremost. Given the unpredictability of the global pandemic and the emergence of new variants, the Company is well prepared for these events given it has built a robust technology offering that can be delivered in-class and online.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

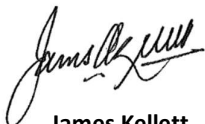
There were no significant changes in the state of affairs of the consolidated entity during the financial half-year, other than the impact of COVID previously outlined.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



James Kellett
Executive Chairman
25 February 2022

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AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF KNEOMEDIA LIMITED

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2021 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

William Buck

William Buck Audit (VIC) Pty Ltd
ABN 59 116 151 136



N. S. Benbow
Director

Dated this 25th day of February 2022

ACCOUNTANTS & ADVISORS

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KNEOMEDIA LIMITED & CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

| | 31-Dec-21 | 31-Dec-20 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Revenue | | |
| Sales revenue | 168,931 | 134,129 |
| Other income | 19 | 37,649 |
| | 168,950 | 171,778 |
| Employee benefits expense including director fees | (487,046) | (531,563) |
| Sales and marketing expenses | (422,042) | (284,492) |
| Professional services expenses | (440,408) | (290,005) |
| Share based payments in lieu of professional services fees | - | (240,958) |
| Corporate expenses | (127,983) | (81,881) |
| Depreciation and amortisation expense | (348,322) | (333,442) |
| Other expenses | (51,793) | (43,617) |
| Finance costs | (5,005) | (1,911) |
| Impairment of assets | (176,316) | - |
| Accrued interest convertible notes | 2 (85,188) | - |
| Gain on fair value movement of embedded derivative in convertible notes | 2 304,667 | - |
| Total expenses | (1,839,436) | (1,807,869) |
| Loss before income tax | (1,670,486) | (1,636,091) |
| Income tax expense | - | - |
| Loss for the period attributable to members | (1,670,486) | (1,636,091) |
| Other comprehensive loss | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | |
| Exchange difference on translation of foreign operations | (24,096) | 18,494 |
| Total comprehensive loss for the period | (1,694,582) | (1,617,597) |
| Loss attributable to: | | |
| Members of the parent entity | (1,439,057) | (1,471,569) |
| Non-controlling interests | (231,429) | (164,522) |
| | (1,670,486) | (1,636,091) |
| Total comprehensive loss attributable to: | | |
| Members of the parent entity | (1,458,334) | (1,456,774) |
| Non-controlling interests | (236,248) | (160,823) |
| | (1,694,582) | (1,617,597) |
| Loss per share (cents per share) | | |
| Basic and diluted loss per share | 0.14 | 0.16 |
| Weighted average no of shares | 1,087,334,878 | 918,512,493 |

The interim financial statements should be read in conjunction with the accompanying notes.

KNEOMEDIA LIMITED & CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

| | Note | 31-Dec-21 \$ | 30-Jun-21 \$ |
|--|------|--------------------|------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | | 328,915 | 6,579 |
| Trade and other receivables | | 45,673 | 24,251 |
| Prepayments and other current assets | | 31,066 | 75,677 |
| Total Current Assets | | 405,654 | 106,507 |
| Non-current Assets | | | |
| Property, plant and equipment | | 7,153 | 9,919 |
| Intangible assets | | 699,568 | 656,107 |
| Non-refundable deposit to acquire non-controlling interest | | - | 50,000 |
| Other non-current assets | | 3,381 | 129,697 |
| Total Non-current Assets | | 710,102 | 845,723 |
| Total Assets | | 1,115,756 | 952,230 |
| Liabilities | | | |
| Current Liabilities | | | |
| Trade and other payables | | 563,510 | 744,646 |
| Deferred revenue | | 654,029 | 476,187 |
| Employee benefits | | 74,652 | 61,663 |
| Convertible Notes | 2 | 1,055,521 | - |
| Total Current Liabilities | | 2,347,712 | 1,282,496 |
| Non-current Liabilities | | | |
| Employee Benefits | | 17,557 | 13,741 |
| Total non-current Liabilities | | 17,557 | 13,741 |
| Total Liabilities | | 2,365,269 | 1,296,237 |
| Net Assets / (Deficiency of Net Assets) | | (1,249,513) | (344,007) |
| Equity | | | |
| Issued capital | 3 | 24,863,766 | 24,074,690 |
| Reserves | | (68,926) | (49,649) |
| Accumulated losses | | (23,020,510) | (21,581,453) |
| Parent Entity Interest | | 1,774,330 | 2,443,588 |
| Non-controlling Interest | | (3,023,843) | (2,787,595) |
| Total Equity / (Net Deficiency of Equity) | | (1,249,513) | (344,007) |

The interim financial statements should be read in conjunction with the accompanying notes.

KNEOMEDIA LIMITED & CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2021



| | Issued Capital | Accumulated Losses | Foreign Currency Translation Reserve | Options Reserve | Non-Controlling Interest | Total |
|---|-------------------|---------------------|--------------------------------------|-----------------|--------------------------|--------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July 2021 | 24,074,690 | (21,581,453) | (313,923) | 264,274 | (2,787,595) | (344,007) |
| Net loss for the period | - | (1,439,057) | - | - | (231,429) | (1,670,486) |
| Other comprehensive income | - | - | (19,277) | - | (4,819) | (24,096) |
| Total comprehensive loss | - | (1,439,057) | (19,277) | - | (236,248) | (1,694,582) |
| Shares issued | 650,600 | - | - | - | - | 650,600 |
| Conversion of director fees to shares | 113,476 | - | - | - | - | 113,476 |
| Conversion of convertible notes to shares | 25,000 | - | - | - | - | 25,000 |
| Balance at 31 December 2021 | 24,863,766 | (23,020,510) | (333,200) | 264,274 | (3,023,843) | (1,249,513) |
| | Issued Capital | Accumulated Losses | Foreign Currency Translation Reserve | Options Reserve | Non-Controlling Interest | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July 2020 | 22,710,648 | (18,780,156) | (319,317) | 160,000 | (2,436,054) | 1,335,121 |
| Net loss for the period | - | (1,471,569) | - | - | (164,522) | (1,636,091) |
| Other comprehensive income | - | - | 14,857 | - | 3,637 | 18,494 |
| Total comprehensive loss | - | (1,471,569) | 14,857 | - | (160,885) | (1,617,597) |
| Shares issued | 1,000,000 | - | - | - | - | 1,000,000 |
| Conversion of director fees to shares | 159,016 | - | - | - | - | 159,016 |
| Vesting of share-based payments | 205,026 | - | - | 104,274 | - | 309,300 |
| Balance at 31 December 2020 | 24,074,690 | (20,251,725) | (304,460) | 264,274 | (2,596,939) | 1,185,840 |

The interim financial statements should be read in conjunction with the accompanying notes.

**KNEOMEDIA LIMITED & CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021**

| | 31-Dec-21 | 31-Dec-20 |
|---|--------------------|------------------|
| | \$ | \$ |
| Cash flows from operating activities | | |
| Receipts from customers | 331,966 | 357,856 |
| Payments to suppliers and employees | (1,510,017) | (1,181,061) |
| Net cash used in operating activities | (1,178,051) | (823,205) |
| Cash flows from investing activities | | |
| Payment for property, plant and equipment | - | (738) |
| Payment for capitalised product development costs | (388,768) | (324,131) |
| Net cash used in investing activities | (388,768) | (324,869) |
| Cash flows from financing activities | | |
| Proceeds from issue of shares | 650,600 | 1,000,000 |
| Proceeds from the issue of convertible notes | 1,250,000 | - |
| Interest received | 19 | 150 |
| Finance costs | (1,926) | (1,911) |
| Net cash provided by financing activities | 1,898,693 | 998,239 |
| Net (decrease)/increase in cash held | 331,874 | (149,835) |
| Cash at the beginning of the period | 6,579 | 1,114,130 |
| Effects of exchange rate changes on cash and cash equivalents | (9,538) | 4,561 |
| Cash at the end of the period | 328,915 | 968,856 |

The interim financial statements should be read in conjunction with the accompanying notes.

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2021

1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL STATEMENTS

(a) BASIS OF PREPARATION

The interim consolidated financial report of the Group is for the six months ended 31 December 2021 and is presented in Australian dollars (\$), which is the functional currency of the Parent Company. These general purpose interim financial statements have been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 Interim Financial Reporting. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 June 2021 and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the Corporations Act 2001.

The interim financial statements have been approved and authorised for issue by the Board of Directors on the date of signing the attached Directors' declaration.

(b) CHANGES IN ACCOUNTING POLICIES

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, with the exception of the matter described below under estimates.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted and if adopted, there was, and is expected to be, no material impact on these financial statements.

(c) ESTIMATES

When preparing the interim consolidated financial statements, management has made a number of judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. The actual results may differ from these estimates.

With the exception of the following, the judgements, estimates and assumptions applied in the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied in the Group's last annual financial statements for the year ended 30 June 2021.

Valuation of the variable conversion option included in convertible notes

As disclosed in note 2, the Company issued convertible notes with variable equity conversion features. Upon initial recognition, this variable conversion feature met the accounting definition of an embedded derivative; this was measured at its fair value using a Monte-Carlo simulation valuation model, with subsequent changes in fair value of this derivative taken to the profit or loss. The remaining underlying host contract at initial recognition was accordingly measured at amortised cost and will amortise back to its face value over the expected term of the loan applying the effective interest method. The key judgments applied in the valuation of the embedded derivative, aside from those inputs arising directly from the conversion clause entitlement and the Company's spot price applied at each remeasurement date included the following:

- a) an expected expiry date being the date of the maturity of the convertible note at 31 May 2022;
- b) an expected volatility of 100%; and
- c) a risk-free rate of 0.54%.

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

(d) GOING CONCERN BASIS OF ACCOUNTING

For the half-year ended 31 December 2021 the Group incurred a loss of \$1,670,486 and net cash used in operating activities totaled \$1,178,051. However, based on its current commitments future cash flow forecasts and completed capital raising (further details outlined in Note 5) KneoMedia has sufficient funds to meet its debts as and when they fall due for the foreseeable future. Accordingly, the financial report has been prepared on a going concern basis.

The Directors determination that the use of the going concern basis of accounting is appropriate in preparing the financial report was based on the following:

- The preparation of the cash flow projections incorporates a number of assumptions and judgements, and the Directors have concluded that the range of possible outcomes considered does not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern.
- Deriving revenues from delivering its global education services.
- The company continues to receive shareholder support in further capital raisings, as a result the Group can continue normal business activities and meet its commitments as and when they fall due, and the realisation of assets and liabilities in the ordinary course of business
- Convertible notes with a face value of \$1,275,000 are all expected to be converted into shares on or before maturity. Please refer to note 2 and 5 for further details.

2. CONVERTIBLE NOTES

| | 31-Dec-21 | 30-Jun-21 |
|--|------------------|-----------|
| | \$ | \$ |
| Current Liability | | |
| Convertible note – fair value of embedded derivative | 510,000 | - |
| Convertible note – host liability at amortised cost | 545,521 | - |
| | <u>1,055,521</u> | <u>-</u> |

52 convertible notes with a face value of \$1,300,000 were issued on 24 November 2021, after receiving shareholder approval at the Annual General Meeting.

The convertible note has a mechanism for the note holder to convert the loan into a varying number of shares in the Company at a 20% discount to the preceding 15-day VWAP, but not greater than \$0.015 per share. The maturity date of the notes is 31 May 2022. It is expected that the note holder will convert their notes into shares on or before maturity.

For every two conversion share entitlements (assuming conversion occurs) under the convertible loan will entitle the lender to receive one free attaching unlisted option to acquire a further ordinary share in the Company. The options have an expiry date of 31 December 2023.

At 31 December 2021, convertible notes with a face value of \$25,000 were converted into fully paid ordinary shares.

Excluding the potential for any early conversions by note holders, as at the maturity date of 31 May 2022, the face value of the notes in the table above is \$1,275,000. The reconciliation below demonstrates the movement in the convertible note liability since inception.

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KNEOMEDIA LIMITED AND CONTROLLED ENTITIES
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

| | 31-Dec-21 | 30-Jun-21 |
|---|------------------|-----------|
| | \$ | \$ |
| Reconciliation | | |
| Opening fair value | - | - |
| Addition of convertible notes at face value | 1,300,000 | - |
| Less: discount for embedded derivative at initial recognition | (304,667) | - |
| Add back: accrued interest convertible notes | 85,188 | - |
| Conversion of convertible notes to shares | (25,000) | - |
| Value at 31 December 2021 | 1,055,521 | - |

The Directors of the Company appointed an external valuation expert to perform a fair value valuation on the convertible notes and the related embedded derivatives as at inception and 31 December 2021.

The fair value of the convertible notes is valued using the Black Scholes option pricing model. Significant unobservable inputs in applying this technique include the Company's share price used to calculate the 15-day VWAP. It was noted that there was a 22.7% decrease in the spot price since inception to 31 December 2021, so if the share price moved by 22.7%, it would impact the gain/(loss) on derivative by \$304,667.

3. ISSUED CAPITAL

| | 31-Dec-21 | 30-Jun-21 |
|--|-------------------|-------------------|
| | \$ | \$ |
| 1,107,671,342 (30 June 2021: 988,246,660) fully paid ordinary shares | 24,863,766 | 24,074,690 |
| Ordinary Shares | | |
| At the beginning of reporting period | 24,074,690 | 22,710,648 |
| Shares issued during the year | | |
| Conversion of accrued fees to shares | 113,476 | 159,016 |
| Shares issued (capital raising) | 650,600 | 1,000,000 |
| Exercise of notes | 25,000 | - |
| Shares issued to corporate advisor | - | 205,026 |
| At reporting date | 24,863,766 | 24,074,690 |

4. CONTINGENT LIABILITIES

There are no outstanding contingent liabilities as at 31 December 2021 (30 June 2021: Nil).

5. SUBSEQUENT EVENTS

On 22 February 2022 the Company completed a capital raise of \$2,075,000 through a placement of 166,000,000 fully paid ordinary shares at \$0.0125 per share to new and existing investors. The placement was done at ~16% discount to five-day Volume Weighted Average Price (VWAP).

The new funds raised will be used to underpin the anticipated deployment of new US sales contracts in the United States, primarily in New York

Since 31 December 2021 an additional 10 convertible notes with a face value of \$250,000 have been converted into fully paid ordinary shares.

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

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

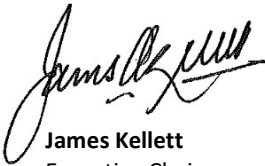
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**KNEOMEDIA LIMITED AND CONTROLLED ENTITIES
DIRECTORS' DECLARATION
FOR THE HALF YEAR ENDED 31 DECEMBER 2021**

In the opinion of the Directors of KneoMedia Limited:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.



James Kellett
Executive Chairman

25 February 2022

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Independent auditor's review report

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Kneo Media Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half year (together, the consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2021, 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 half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Kneo Media Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of Management for the Financial Report

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

ACCOUNTANTS & ADVISORS

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Auditor's Responsibilities for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

William Buck

William Buck Audit (Vic) Pty Ltd

ABN: 59 116 151 136



N. S. Benbow

Director

Melbourne, 25th February 2022

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