KNEOMEDIA

Publishers of KNEOWORLD
Google Education Partner

HALF YEAR REPORT
APPENDIX 4D

FOR THE YEAR ENDED 31 DECEMBER 2022

ENGAGE EDUCATE ASSESS

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 2022
Previous period:	For the period ended 31 December 2021

RESULTS FOR ANNOUNCEMENT TO THE MARKET

		Change %		31 Dec 2022 $
Revenues from ordinary activities	Increased	47	to	248,791
Deferred revenue (future period recognition)	Increased	3	to	671,146
Loss from ordinary activities after tax attributable to members	Decreased	19	to	(1,345,590)
Net loss for the period attributable to members of parent (after non-controlling interest)	Decreased	27	to	(1,043,816)

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 2022, 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 2022.

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 2022 half-year financial statements.

This report is based on the consolidated 2023 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 2022 half-year financial statements.

This half-year report is to be read in conjunction with the financial report for the year ended 30 June 2022 and public announcements of the Company made on the ASX for the six months ended 31 December 2022.

Signed

James Kellett
Executive Chairman

Date: 24 February 2023

KNEOMEDIA LIMITED

ABN 41 009 221 783

HALF YEAR FINANCIAL STATEMENTS - 31 DECEMBER 2022

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KNEOMEDIA LIMITED AND CONTROLLED ENTITIES
DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2022

The Directors present their report together with the financial statements of the consolidated entity consisting of KneoMedia Limited ("**KneoMedia**", "**KNM**" or "**the Company**") and its controlled entities ("**Group**"), for the half-year ended 31 December 2022 ("**H1 FY23**").

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 for H1 FY23 increased 47% to $248,791 (H1 FY22: $168,931).

The New York City (NYC) *'Connect All Kids'* program again generated the Group's sales for the period. The contracts for this program are for a period of three years. The revenue is recognised on a straight-line basis over the term of the contract resulting in a deferred revenue balance of $671,146 to be recognised over the contract life, and accordingly, booked as a liability until the contract term and related performance obligations have been fulfilled.

The statement of financial position reports a deficiency of net assets as at 31 December 2022 of $1,241,954 (30 June 2022: deficiency $549,520). Contributing to the reduction in net assets is the recognition of external loan borrowings of $593,034 after accounting for attributable transactions costs, and deferred revenue liability of $671,146.

During H1 FY23, the Group incurred net operating cash outflows of $911,219 (H1 FY22: $1,178,051 outflows). Receipts from customers totalled $352,335 (H1 FY22: $331,966). Payments to suppliers and employees totalled $1,263,554 (H1 FY22: $1,510,017). The reduction in outflows of operating activities is aligned with the continuation of well controlled costs. On 30 September 2022, the Company completed and drew down on a $1.0 million loan option funding agreement with New York-based Lind Global Fund II, LP to advance the Company's KneoWorld Deployment, considerably improving the cash balance to maintain ongoing business activities and allow the Company to reduce trade and other payables.

Cash outflows from investing activities totalled $462,238 (H1 FY22: $388,768), increasing 18% versus 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.

Subsequent events

On 6 February 2023 and as disclosed in note 9, the Company announced that a $1.6 million placement was successfully completed following the strong support of new and existing investors, to underpin the anticipated deployment of pending sales contracts in the United States. Following receipt of the funding, the Group settled $150,000 of its existing loan facility in accordance with the terms and conditions of its lender agreement and a further $150,000 was applied to the placement, thereby reducing the loan by $300,000 in total.

KNEOWORLD'S OPERATIONS

During the half, the Company continued to focus on the '*Connect ALL Kids*' education initiative in the public school system across the boroughs of NYC. In November 2022, the Company reported the largest deployment of the '*Connect All Kids'* education initiative to-date, with 40,000 Dell Chromebooks being deployed into 9 New York school districts located in the Boroughs of Manhattan (Harlem), Queens, Brooklyn and The Bronx.

The total deployment is valued at US$24 million based on 40,000 Chromebooks already delivered by the NYC Department of Education (NYC DOE). These devices, provided specifically for the *'Connect All Kids'* initiative, are now being distributed to classrooms throughout New York, and once installed, will facilitate connection to the KneoWorld Platform, valued at US$6 million (~A$9 million) to the Company.

The Company anticipates it will receive payment for its share of the deployment subject to completion of contract documentation, in line with previously deployed contracts. KneoMedia is a registered NYC supplier and it is fully engaged with the NYC DOE and the National Association for the Advancement of Colored People ("NAACP') finalising documentation in order to facilitate payment.

This further deployment reflects the growing commitment from the NYC Council and NYC DOE to the '*Connect ALL Kids* initiative, which enhances the education of students particularly in maths, literacy and Science, Technology, Engineering & Maths (STEM). This major deployment comes after an extended period of collaboration and cooperation between the Company, Dell Technologies and the NAACP to build a software solution providing broader access to technology and world class education products in NYC and other US markets.

The KneoWorld software is now available in 9 Districts of the 32 Districts throughout NYC and as anticipated a further 6 Districts have requested participation to date. The growing deployment of the technology is becoming an excellent reference point and further validation for other schools in NYC, New York State and other States across the US seeking to deploy the platform.

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

Over a number of years, KneoMedia has invested significantly in the development of the KneoWorld platform, enhancing the underlying technology to the highest capability in terms of student engagement, education and assessment. The curriculum is incredibly extensive and rich in content, a defining characteristic in its successful uptake to-date. The platform's adaptability to varying education jurisdictions and standards underpins deployments into other US education markets and alternate geographies globally.

As an example, during the half, the Company initiated deployment of the KneoWorld platform in the well-funded Florida Early Learning Centre (ELC) market, with engagement also commencing with Florida's public school Counties. The expectation is for substantial growth in Florida as the Company utilises its NYC style co-design approach with relevant education institutions.

International Markets

First and foremost, the Company continues to focus on advanced sales opportunities within the United States. To enable this focus other markets were placed in a no-cost holding status during and post COVID however they are preserved for future sales opportunities including our JV partner in the Philippines who is however again gathering momentum.

OUTLOOK

KneoMedia's primary focus for the second half of FY23 is completing the existing major deployment referenced above , building on the success of the *'Connect All Kids'* initiative. KneoWorld's team in New York continues to pursue new sales channels, and scaling existing ones. Adding new content and classes for these markets will also remain a focus for the development team, as additional sales are being pursued in New York State, the private and public educators in Florida and now Chicago.

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.

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
24 February 2023

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 2022 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

Melbourne, 24th February 2023

KNEOMEDIA

KNEOMEDIA LIMITED & CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2022

	Note	31-Dec-22 $	31-Dec-21 $
Revenue			
Sales revenue		248,791	168,931
Other income		570	19
		249,361	**168,950**
Employee benefits expense including director fees		(484,931)	(487,046)
Depreciation and amortisation expense		(433,679)	(348,322)
Marketing expenses		(351,474)	(422,042)
Other expenses	2	(489,274)	(620,184)
Finance costs	4	(136,673)	(90,193)
Gain on fair value movement of embedded derivative in convertible notes	3	301,080	304,667
Impairment of assets		-	(176,316)
Total expenses		**(1,345,590)**	**(1,839,436)**
Loss before income tax		**(1,345,590)**	**(1,670,486)**
Income tax expense		-	-
Loss for the period attributable to members		**(1,345,590)**	**(1,670,486)**
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of foreign operations		(19,265)	(24,096)
Total comprehensive loss for the period		**(1,364,855)**	**(1,694,582)**
Loss attributable to:			
Members of the parent entity		(1,043,816)	(1,439,057)
Non-controlling interests		(301,774)	(231,429)
		(1,345,590)	**(1,670,486)**
Total comprehensive loss attributable to:			
Members of the parent entity		(1,059,228)	(1,458,334)
Non-controlling interests		(305,627)	(236,248)
		(1,364,855)	**(1,694,582)**
Loss per share (cents per share)			
Basic and diluted loss per share		(0.08)	(0.14)
Weighted average no of shares		1,347,252,916	1,087,334,878

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

KNEOMEDIA

KNEOMEDIA LIMITED & CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	31-Dec-22 $	30-Jun-22 $
Assets			
Current Assets			
Cash and cash equivalents		169,658	552,997
Trade and other receivables		26,961	23,435
Prepayments and other current assets		92,215	20,261
Total Current Assets		**288,834**	**596,693**
Non-current Assets			
Property, plant and equipment		4,102	7,298
Intangible assets		888,158	856,323
Other non-current assets		3,381	3,381
Total Non-current Assets		**895,641**	**867,002**
Total Assets		**1,184,475**	**1,463,695**
Liabilities			
Current Liabilities			
Trade and other payables		563,395	588,168
Interest bearing loans and borrowings	4	593,034	-
Deferred revenue		410,540	557,290
Employee benefits		91,464	69,798
Convertible Notes	3	478,920	780,000
Total Current Liabilities		**2,137,353**	**1,995,256**
Non-current Liabilities			
Deferred revenue		260,606	-
Employee Benefits		28,472	17,959
Total non-current Liabilities		**289,078**	**17,959**
Total Liabilities		**2,426,431**	**2,013,215**
Deficiency of Net Assets		**(1,241,956)**	**(549,520)**
Equity			
Issued capital	5	27,466,755	27,675,653
Reserves	4	704,242	(161,662)
Accumulated losses		(25,634,217)	(24,590,401)
Parent Entity Interest		**2,536,780**	**2,923,590**
Non-controlling Interest		(3,778,736)	(3,473,110)
Net Deficiency of Equity		**(1,241,956)**	**(549,520)**

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 2022

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Options Reserve	Non-Controlling Interest	Total
	$	$	$	$	$	$
Balance at 1 July 2022	**27,675,653**	**(24,590,401)**	**(354,050)**	**192,387**	**(3,473,109)**	**(549,520)**
Net loss for the period	-	(1,043,816)	-	-	(301,774)	(1,345,590)
Other comprehensive income	-	-	(15,412)	-	(3,853)	(19,265)
Total comprehensive loss	**-**	**(1,043,816)**	**(15,412)**	**-**	**(305,627)**	**(1,364,855)**
Conversion of director fees to shares	133,344	-	-	-	-	133,344
Vesting of share based payments (Note 6)	-	-	-	881,317	-	881,317
Transaction costs on shares issued	(342,242)	-	-	-	-	(342,242)
Balance at 31 December 2022	**27,466,755**	**(25,634,217)**	**(369,462)**	**1,073,704**	**(3,778,736)**	**(1,241,956)**

	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)**

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

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KNEOMEDIA LIMITED & CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2022

	Note	31-Dec-22 $	31-Dec-21 $
Cash flows from operating activities			
Receipts from customers		352,335	331,966
Payments to suppliers and employees		(1,263,554)	(1,510,017)
Net cash used in operating activities		**(911,219)**	**(1,178,051)**
Cash flows from investing activities			
Payments for capitalised product development costs		(462,238)	(388,768)
Net cash used in investing activities		**(462,238)**	**(388,768)**
Cash flows from financing activities			
Proceeds from issue of shares		-	650,600
Proceeds from loans	4	1,000,000	-
Proceeds from loans from related party	4	265,000	-
Repayment of loans to related party	4	(215,000)	-
Proceeds from the issue of convertible notes		-	1,250,000
Interest received		570	19
Transaction costs related to loans		(45,000)	-
Finance costs		(6,418)	(1,926)
Net cash provided by financing activities		**999,152**	**1,898,693**
Net (decrease)/increase in cash held		(374,305)	331,874
Cash at the beginning of the period		552,997	6,579
Effects of exchange rate changes on cash and cash equivalents		(9,034)	(9,538)
Cash at the end of the period		**169,658**	**328,915**

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

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 2022 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 2022 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.

Measurement of share based payments
The group's accounting policies applies the provision of AASB 2 Share Based Payments as disclosed as at 30 June 2022. The group's policy has been consistently applied during the period, with subsequent application of AASB 2 considered with respect to the cancellation of a share based payment. Where the group has an unvested share based payment which is cancelled and includes non-market conditions for vesting, the group applies its best estimate of the share based payment at the date of cancellation based on the expected number of options which would vest as. The best estimate value is subsequently expensed.

(c) SEGMENT REPORTING

No operating segment disclosure is required as there is only one operating segment. The reporting is consistent with the internal reporting provided to the chief operating decision makers (CODM). The chief operating decision makers, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

(d) 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 2022.

Treatment on Performance Rights

In accordance with approval from shareholders obtained at the 2022 AGM, total of 26,022,360 performance rights were issued to Directors and a Senior Executive and total of 13,011,180 existing performance rights were cancelled as at 30 November 2022.

In respect of the newly issued performance rights, the rights are conditional upon continuation as a Director or Senior Executive until the revenue hurdle of AUD$6m gross revenue is achieved during any given 12 consecutive months. The performance rights will lapse if the performance hurdles are not achieved by 30 November 2025.

As at cancellation date of the original performance rights, the current estimate of $nil for performance rights was assessed as the best estimate and no option expense was recorded in the statement of profit or loss and other comprehensive income.

Valuation of the variable conversion option included in convertible notes

As disclosed in note 3 and consistent with the arrangement executed as at 30 June 2022 except for an extension of the repayment date from 31 December 2022 to 31 March 2023, the Company had issued convertible notes with variable equity conversion features to Directors. 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 March 2023;

b) an expected volatility of 100%; and

c) a risk-free rate of 3.41%.

(e) GOING CONCERN BASIS OF ACCOUNTING

For the period ending 31 Dec 2022, KneoMedia incurred a loss of $1,364,855, has a net asset deficiency of $1,241,956, net cash outflows used in operations totaled $911,219, and had a cash balance as at 31 Dec 2022 of $169,658. The Directors have assessed there is a material uncertainty related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern, and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the above, the Directors determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. The assessment of the going concern assumption is based on the group's cash flow projections and application of a number of judgements and estimates, resulting in the conclusion of a range of reasonably possible scenarios.

Based on its current commitments, future cash flow forecasts including the $1,600,000 capital investment raised on 6 February 2023 as disclosed in note 9, and the ~$A9m of revenue materializing from 40,000 unit 'Connect All Kids' new deployment, the Director's consider that 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.

Accordingly, the financial report has been prepared on the basis that 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.

2. CORPORATE & ADMINISTRATION EXPENSES

	31-Dec-22 $	31-Dec-21 $
Corporate costs	(235,166)	(127,983)
Consulting fees	(102,334)	(275,366)
Occupancy costs	(50,382)	(46,916)
Administration costs	(61,652)	(165,042)
Other expenses	(39,740)	(4,877)
	(489,274)	**(620,184)**

3. CONVERTIBLE NOTES

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 was initially 31 May 2022.

For every two conversion share entitlements 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 the maturity date of 31 May 2022, 34 convertible notes with a face value of $850,000 were converted into fully paid ordinary shares. During the period to 31 December 2022, the maturity date for the remaining 18 convertible notes with a face value of $450,000 was extended to 31 March 2023 while all other terms remained the same.

The table below demonstrates the movement in the convertible note liability since inception.

	31-Dec-22 $	30-Jun-22 $
Reconciliation		
Opening convertible notes at face value:	450,000	-
Addition of convertible notes at face value:	-	1,300,000
Add: Change in FV of embedded derivative	(197,534)	48,000
Add: Amortisation of convertible notes fair value	226,454	282,000
Conversion of convertible notes to shares	-	(850,000)
Value at the end of the period	**478,920**	**780,000**

The Directors of the Group appointed an external valuation expert to perform a fair value valuation on the convertible notes and the related embedded derivatives at inception and 31 December 2022. The table below demonstrates the value of the embedded derivative and host liability.

	31-Dec-22	30-Jun-22
	$	$
Current Liability		
Convertible note – host liability at amortised cost	346,454	450,000
Convertible note – fair value of embedded derivative	132,466	330,000
Balance at the end of the period	**478,920**	**780,000**
Face value of notes	**450,000**	**450,000**

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.

The convertible notes are unsecured, non-interest bearing and no related parties participated.

The convertible notes are unsecured, non-interest bearing and no related parties participated.

As at 31 December 2022, the group has $nil financial assets or liabilities where the fair value measurement is based on quoted prices in active markets (Level 1 hierarchy) or significant unobservable inputs (Level 3 hierarchy). This is consistent with 30 June 2022. As at 31 December 2022 fair values of the embedded derivative is measured using significant observable inputs (Level 2 hierarchy). There has been no change in the Group's valuation process, valuation techniques and types of inputs used in the fair value measurement at the end of the reporting period and in comparison to prior period. There have been no transfers between levels of fair value hierarchy at the end of the period.

The group also has a number of financial instruments which are not measured at fair value in the balance sheet. For the majority of these instruments, the fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short-term in nature.

4. FINANCIAL LIABILITIES INCUDING INTEREST BEARING LOANS AND BORROWINGS

	31-Dec-22	30-Jun-22
	$	$
Current Liability		
Related party loan, at amortised cost	51,103	-
Loan bridging facility at amortised cost, net of borrowing costs	541,931	-
Total	**593,034**	**-**

During the half-year, the Group obtained the following short-term loans:

1) On 12 September 2022, the group executed a loan bridging financing facility to the amount of $1,000,000 (December 2021: $nil) with a repayment of the loan by November 2023. The loan bears interest at 15%, with a repayment amount due and payable of $1,150,000 at term. The loan amount of $1,000,000 was fully drawn as at 31 December 2022 with the proceeds from the loan having been used to meet short-term expenditure needs.

   The loan is carried at its amortised cost as at 31 December 2022 and the loan ranks senior and is not secured over assets of the group.

Should the group receive $1,000,000 (or more) of proceeds from new equity, 20% of the proceeds will be applied to repay the funding. If the Group has not repaid a minimum of $200,000 from proceeds within the first 180 days from a capital raise during the loan period, it will make a balloon payment of such that minimum of $200,000 of the $1,150,000 is repaid. As at 31 December 2022, no capital raise was completed with no repayment of the outstanding loan liability. Subsequent to the period end and as disclosed in note 8, the group successfully raised $1,600,000, of which $150,000 has been used to settle the loan liability.

In exercising the loan arrangement, the Group issued to the lender 40,000,000 options exercisable for 48 months with an exercise price of $0.04. See note 6 for valuation of the options.

At inception of the loan, the arrangement was considered as a compound financial instrument following consideration of the terms of the arrangement including the options issued to the lender and other transaction costs incurred. Accordingly, the group measured an initial equity component related to the fair value of the options of $539,075, and an initial financial liability of $415,925, with the contractual cash repayment of $1,150,000 due in November 2023. Other transaction costs of $45,000 have been allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds received.

Loan interest expense of $133,850 was recognised in the period, and a current loan liability of $549,775 as at 31 December 2022, reflecting the loan amortisation profile and an effective interest rate applied of 87%, which reflects the short term nature of the loan.

2) On 22 August 2022, the group executed a loan arrangement for up to $265,000 with a related party of the group. See related party note 8 for disclosure. The loan is unsecured and the proceeds have been used to meet short-term expenditure needs. Loan amounts up to the facility amount can be redrawn during the loan period.

The loan is to be repaid following the Group's receipt of any advanced funding from National Association for the Advancement of Coloured People or any capital raising proceeds subsequent to the loan date. The loan carries interest at 5.0% per annum, calculated on any outstanding balance payable. The group consider the loan amount to be short term in nature and repayable within 12 months of initial draw down.

There were no loan costs incurred in executing the loan. The loan is carried at amortised cost with the financial liability of $50,000 recognised as at 31 December 2022. Loan interest expense incurred in the period was $1,103.

5. ISSUED CAPITAL

	31-Dec-22 $	Shares issued $
1,353,785,318 (30 June 2022: 1,345,877,673) fully paid ordinary shares	27,466,755	1,353,785,318
Ordinary Shares		
At the beginning of reporting period	27,675,653	1,345,877,673
Shares issued during the year		
Conversion of director fees to shares	133,344	7,907,645
Vesting charge for options issued to brokers and advisors for capital raising activities	(342,242)	-
At reporting date	**27,466,755**	**1,353,785,318**

6. SHARE BASED PAYMENTS

(A) Performance rights

The following movements in performance rights were recorded in the period:

Date	Tranche	Detail	Number	Fair value at grant date ($)	Amount recognised in P&L ($)
1 July 2022		Opening balance	13,011,000	-	-
30 November 2022	2019	Cancellation of 2019 performance rights	(13,011,000)	-	-
30 November 2022	2023	Issuance of 2023 performance rights	26,022,360	520,447	-
31 December 2022		Closing balance	26,022,360	520,447	**-**

As at 30 November 2022, the group executed a cancellation of performance rights issued in 2019 based on the expectation that the vesting conditions would not be met as at the expiry date of 31 December 2022. In accordance with the group's accounting policy and AASB 2 Share Based Payments, the fair value of the performance rights was estimated at $nil. Accordingly, there was no current period expense incurred following the cancellation of the awards.

As at 30 November 2022, the group issued 26,022,360 performance rights at $nil strike price to key management personnel and senior executives. The vesting conditions require gross revenues of $6,000,000 to be achieved in any given 12-month consecutive period as well as continued employment, with the performance rights expiring on 30 November 2025. In assessing the fair value recognition of the award as at 31 December 2022, the probability of achieving the vesting conditions was assessed as 0%, resulting in $nil expense incurred in the period.

During the period to 31 December 2022, no performance rights were exercised and issued.

(B) Loan option valuation

During the period, the group issued 40,000,000 options to the lender of the group's $1,000,000 loan facility. The options were issued at $0.04 and expire on 27 September 2026. The fair value of the share options was valued using the Black Scholes option pricing model. The fair value determined at the grant date of the options was $564,476.
To value the options, the group engaged an independent specialist. The valuation model inputs used by the independent valuer were as follows:

Grant Date	Option Expiry Date	Share price at grant date ($ cents)	Exercise price ($ cents)	Dividend yield	Marketability discount	Expected Volatility	Risk-free interest rate
27/09/2022	27/09/2026	0.023	0.04	0%	-	100.0%	3.41%

As disclosed in note 4, the loan arrangement was considered to be a compound financial instrument, with the initial equity fair value component of $539,075 being measured and recognised within Other Reserves.

(C) Issue of share options

As disclosed as at 30 June 2022, the group completed a capital raise which resulted in the issuance of share options for services to a corporate advisor.

During the current period, a corporate advisor was issued share options (being Tranche 3 and 4) related to 30 June 2022 capital raising completed. The group recognised an expense of $342,242 related to the fair value of the equity settled share options.

The input assumptions applied to measure the fair value of the share options using a Black-Scholes model are per below:

Grant Date	Option Expiry Date	Share price at grant date ($ cents)	Exercise price ($ cents)	Dividend yield	Marketability discount	Expected Volatility	Risk-free interest rate
11/03/2022	30/11/2026	0.019	0.025	0%	-	100.0%	3.41%
11/03/2022	30/11/2026	0.019	0.05	0%	-	100.0%	3.41%

7. CONTINGENT LIABILITIES

There are no outstanding contingent liabilities as at 31 December 2022 (30 June 2022: Nil).

8. RELATED PARTY DISCLOSURES

During the period, loan proceeds from a related party received were $265,000, offset by loan repayments settled to the related party of $215,000. As at 31 December 2022, the loan owed was $50,000 (30 June 2022: $nil). As at 31 December 2022, loan interest payable of $220 (30 June 2022: $nil) was accrued, offset by $883 of interest paid.

No other transactions have been entered into with related parties.

9. SUBSEQUENT EVENTS

On 6 February 2023, the Company announced completion of a $1,600,000 placement successfully completed following the strong support of new and existing investors to underpin the anticipated deployment of pending sales contracts in the United States. In accordance with the group's existing loan agreement and as disclosed in note 4, following completion of the placement, 20% of the group's existing $1,600,000 (being $150,000) has been utilised to repay the group's existing loan facility.

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

KNEOMEDIA LIMITED AND CONTROLLED ENTITIES
DIRECTORS' DECLARATION
FOR THE HALF YEAR ENDED 31 DECEMBER 2022

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 2022 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

24 February 2023

KneoMedia Limited
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 KneoMedia Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half year (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, 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 KneoMedia Limited is not in accordance with the *Corporations Act 2001* including:

a. giving a true and fair view of the Group's financial position as at 31 December 2022 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 Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial report, which indicates that the Group incurred a net loss of $1,364,855, has a net asset deficiency of $1,241,956 and net cash outflows from operating activities of $911,219 for the half-year ended 31 December 2022. As stated in Note 1, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

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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.

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 Group's financial position as at 31 December 2022 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, 24th February 2023