

## QUARTERLY REPORT – 31 MARCH 2017

### HIGHLIGHTS

- *Commercialisation plan finalised and released*
- *Formal launch of Linus' Video Virtualization Engine™ (Linus VVE at South-by-South West (SXSW))*
- *Appointment of new director & key advisors*
- *Expansion of patent portfolio*
- *Cash balance of \$1.95 million*

**Linus Technologies Limited (ASX: LNU)** ("Linus" or "Company") is pleased to present its March 2017 Quarterly Report and business update.

### CORPORATE

#### Change in Board of directors

During the quarter the Company was pleased to announce the appointment of Gerard Bongiorno to the Linus Board of Directors, as a Non-Executive Director. This appointment had the dual benefits of broadening the mix of business and commercial skills on the Board and also improving the balance of the Board from a governance perspective. Concurrent with the appointment, Stephen Kerr resigned from the Board as an Executive Director. In addition, Stephen McGovern will hand over the role of Chairman of the Board to Gerard Bongiorno as from 1 May 2017.

This change in composition of the board will enable Stephen McGovern to continue his valued role as a non-executive director and allow him to apply himself further to his external executive duties. The change also enables Stephen Kerr to extend his operational influence as CFO and Company Secretary as the Company progresses the commercialisation of its technology.

### OPERATIONS

#### Commercialisation Plans

During the March 2017 quarter the Company provided its investors and the market with a summary of its near term Commercialisation Plan.

Linus is targeting four key market sectors:

- **Personalised Advertising**
- **Piracy / Media Security**
- **Video Search**
- **Security and Defence**

### Capital Structure

Shares quoted on ASX – 224.0m  
Total shares on Issue – 679.2m  
Market Cap @ 4.0c – 27.2m  
Unlisted Options – 73.0m

### Corporate Directory

**Christopher Richardson**  
Executive Director, CEO

**Stephen McGovern**  
Non-Executive Director

**Gerard Bongiorno**  
Non-Executive Director

**Stephen Kerr**  
Company Secretary, CFO

### Key Definitions

**Video Virtualization Engine™** is Linus' patented software that turns existing Internet videos into virtual video files, enabling next generation TV.

**Showcase Partners** are Linus channel to market partners, and assist with product development and market validation.

**Digital Video Value Chain** is the suite of technologies that enable getting a "video" from the camera to the screen.

**Transcoding** is the process by which video files are converted to different formats. The process helps to support low bandwidth connections and lets video conform to the unique constraints of various mobile devices.

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By targeting these four Key Sectors, the **four** markets Linius aims to transform are as follows:

### **1. Personalised advertising on Cable TV & Internet streaming video**

Linius developed this capability with commercialisation partner Digisoft in 2016.

The TV advertising market was worth over US\$70 billion in 2016, in the US alone.<sup>1</sup>

Linius could transform this market by allowing every cable TV ad to be personalised to the individual viewer.

Linius demonstrated the capability to shareholders on 23 November 2016, and a recording of the demonstration can be seen at: <http://www.linius.com/webcast/>

### **2. Piracy and Media Security**

The Piracy and Media Security division is focussed on reducing global piracy and securing revenues for content owners.

The global box office market was worth over US\$38 billion per annum in 2016.<sup>2</sup>

Box office sales alone are reduced by 15% from piracy<sup>3</sup> — a US\$6.7 billion loss, just on ticket sales, but the video industry loses much more beyond the box office revenues.

Linius VVE provides multiple ways of reducing piracy and offers content owners revolutionary control of their content, measurement methods, plus new revenue generating methodologies.

### **3. Search**

The Search division utilises Linius VVE to enhance search returns, stitching video together on the fly to provide much better search results and therefore much greater monetisation opportunities for search engine providers.

There are approximately 30 search engine providers across hundreds of thousands of video websites, ranging from Google to specific search engines designed for niche interest websites.

Additionally, the search division has opportunity beyond pure search businesses. All major social networks now support video, and provide search functionality. As such they are potential targets for this division.

Similarly, there are large enterprises with extensive catalogues of video content which are under-monetised, and have the potential to benefit from Linius' technology.

### **4. Security Service Applications**

The Security and Defence division provides capability that dramatically increases response times for Government agencies and corporations tasked with surveillance and threat management.

The video surveillance market is projected to grow at a compound annual rate of 15.4% between 2017 to 2022 and is expected to reach US\$75.6 billion by 2022.<sup>4</sup>

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<sup>1</sup> <http://www.marketingcharts.com/traditional/us-online-and-traditional-media-advertising-outlook-2016-2020-68214/advertising-outlook-2016-2020-68214/>

<sup>2</sup> <http://variety.com/2017/film/box-office/2016-global-box-office-1201968877/>

<sup>3</sup> [https://papers.ssrn.com/sol3/papers2.cfm?abstract\\_id=2736946](https://papers.ssrn.com/sol3/papers2.cfm?abstract_id=2736946)

<sup>4</sup> <http://www.marketsandmarkets.com/Market-Reports/video-surveillance-market-645.html>



Linus VVE facilitates the immediate distribution of relevant video surveillance content into designated workflows, for example, to security and government agencies.

Linus has identified multiple lines of revenue from each of the 4 business divisions including software licenses, usage fees and revenue share, all of which are in line with existing revenue generation methods in each market segment.

During the March 2017 quarter the Company has advanced a number of commercial opportunities in the above market segments with film studios, copyright owners, cable television networks and search companies. The company expects a number of these opportunities to be crystalised in the June 2017 quarter.

The Company has experienced significant commercial opportunities as a result of the success of VVE Play, our global demonstration of virtualized video, launched in February of this year. These opportunities exist across each of the targeted four key sectors.

The Company is also in talks with global technology providers. These discussions centre around the provision of a global virtual video backbone and the provision of solutions across our targeted four key sectors and others beyond.

#### **Marketing & IR**

In support of the operational plans of the business the Company expanded its marketing and PR spend. Key advisors and consultants have been hired and marketing activities have increased to raise the profile of the Company and the capabilities of the Linus technology to key players the targeted four key sectors and also to existing and new investors locally and internationally.

These activities included:

- Appointment of global investor relations firm Taylor Rafferty
- Formal launch of Linus VVE at South-by-South West in Austin, Texas (SXSW), further increasing the profile of the Company and its technology and providing valuable industry contacts and leads.
- Launching VVE Play with a dramatic demonstration of its capabilities through the virtualization of millions of public videos on Instagram
- Appointment of leading New York-based corporate advisory firm, EAS Advisors LLC

#### **Software Development and Patents**

This quarter saw significant activity and development spend as the Company refined its product offering and tailored its software towards the target markets identified in its Commercialisation Plan. Development activities have produced key releases to support marketing activities and product demonstrations, as well as enhanced the Company's intellectual property and expansion of the Company's patent portfolio and geographical reach.

#### **Appendix 4C Quarterly Report and statement of cash flows**

The ASX Appendix 4C Quarterly Report for the March 2017 quarter is attached to and lodged with this report. The Quarterly Report covers the 3 month period to 31 March 2017 and reflects the net cash outflows of the Company while pursuing its technology development, showcases, marketing activities and its stated business plan and objectives.

The Company is currently considering potential launch timelines for each of the targeted 4 key sectors in line with budgetary capacity. The cash balance at 31 March 2017 was \$1.95 million, following March 2017 quarter operational cash burn of \$0.8 million.



### **About Linius Technologies Limited**

Linius Technologies Limited (ASX: LNU) is set to revolutionise the world of video. Linius' patented Video Virtualization Engine has cracked the code of content intelligence and created the next evolution of video streaming. Video Virtualization Engine™ cuts costs and boosts revenues across the multi-billion dollar video industry.

Linius transforms cumbersome, static video files into agile, dynamic files that can be easily manipulated on the fly in order to deliver an enhanced, custom experience for both broadcasters and end-users in any way imaginable, and some as yet to be imagined.

Linius has the potential to transform many market sectors and is initially focused on:

1. Delivering personalised advertising solutions for broadcasters;
2. Video piracy reduction;
3. Enhancing search engine monetisation; and
4. Security-service applications.

### **For more information, please contact:**

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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**

Linius Technologies Limited

**ABN**

84 149 796 332

**Quarter ended ("current quarter")**

31 March 2017

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) research and development	(255)	(636)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(179)	(376)
(d) leased assets	-	-
(e) staff and consultant costs	(201)	(501)
(f) administration, travel and corporate costs	(137)	(338)
1.3 Dividends received (see note 3)		
1.4 Interest received	9	36
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other – legal & patent costs	(40)	(245)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(803)</b>	<b>(2,060)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment		
(b) businesses (see item 10)		
(c) investments		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(d) intellectual property		
(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)		
<b>2.6 Net cash from / (used in) investing activities</b>	-	-

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	12	761
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	(25)	(25)
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)		
<b>3.10 Net cash from / (used in) financing activities</b>	<b>(13)</b>	<b>736</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	2,767	3,275
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(803)	(2,060)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(13)	736

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>1,951</b>	<b>1,951</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	183	258
5.2	Call deposits	243	984
5.3	Bank overdrafts	-	-
5.4	Other – term deposits	1,525	1,525
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,951</b>	<b>2,767</b>

**6. Payments to directors of the entity and their associates**

- 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

<b>Current quarter \$A'000</b>
83
-

Amounts in item 6.1 relate to remuneration of directors.

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

- 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

<b>Current quarter \$A'000</b>
-
-

**8. Financing facilities available**

*Add notes as necessary for an understanding of the position*

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 (please specify)

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	315
9.2	Product manufacturing and operating costs	-
9.3	Advertising and marketing	285
9.4	Leased assets	-
9.5	Staff and consultant costs	265
9.6	Administration, travel and corporate costs	105
9.7	Other – legal & patent costs	45
<b>9.8</b>	<b>Total estimated cash outflows</b>	<b>1,015</b>

<b>10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	<b>Acquisitions</b>	<b>Disposals</b>
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:



(Company secretary)

Date: 28 April 2017

Print name: Stephen Kerr

### **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.