

ASX Announcement

30 April 2018

Linus Quarterly Activities Report – Period ending 31 March 2018

Overview

Linus Technologies Limited (ASX: LNU) is pleased to lodge its Quarterly Activities Report and Appendix 4C with the ASX for the quarter ending 31 March 2018.

During the March 2018 quarter the Company has continued its strategic focus, summarised as:

- Vision:** To make all of the world's video accessible as data
- Mission:** To become the *de facto* standard for the management and broadcast of video
- Commercialisation:** Linus patented VVE Technology to deliver to mass markets in 3 ways:
 - Industry specific divisions and solution sets built around VVE
 - Mass distribution through partners, such as IBM
 - Self-service to global markets through a SaaS model

In the September 2017 quarter the Company published a list of near term goals (NTGs) to deliver:

- Commercial validation of the technology
- Repeatable technology sets
- A path to revenue and scale
- Moving toward our vision of all the world's video being accessible as data

Summary of activities during March 2018 quarter:

- Engaged with Warner Bros. to develop a mass content distribution Proof of Value (POV)
- Entered beta test of Self Serve SaaS version of VVE
- Engaged in Proofs of Concept in the education vertical with Oklahoma State University and MediaAMP
- Raised \$10.3 million through a private placement to professional and sophisticated investors

Linus continues to execute against its plan of scaling the adoption of virtual video, and leveraging the investment that the major cloud providers are making in cloud-based video production and artificial intelligence. Of the original 11 NTGs outlined in September 2017, 7 were completed by the end of the March 2018 quarter, and 2 more are tied to agreements and projects announced in the quarter.

- ✓ Deliver the integration of VVE into IBM's Cloud (Oct. 2017)
- ✓ Deliver the integration of VVE with at least one world leading Over The Top (OTT¹) platform (Oct. 2017)
- ✓ Engage with a global movie studio to develop Proof of Value (POV) in anti-piracy (Oct. 2017)
- ✓ Deliver the integration of VVE into Microsoft Azure (Dec. 2017)
- ✓ Deliver blockchain strategy and solution design (Dec. 2017)
- ✓ Deliver the integration of VVE with at least one cognitive AI provider (Dec. 2017)
- ✓ Engage with a global movie studio to develop a mass content distribution POV (Feb. 2018)
- Deliver an end-to-end piracy solution with a movie studio
- Deliver POC (proof of concept) of Search in a global cloud environment
- Convert initial deal flow with IBM
- Deliver the integration of VVE with Major OTT ad servers

¹ OTT — "Over The Top", a term of art for television delivered over the public Internet (e.g. by Netflix)

As previously announced, of the remaining four goals, delivery of an end-to-end piracy solution and a POC of search in a global cloud environment delivery is well underway with already announced POCs with Warner Bros., Oklahoma State University, and MediaAMP. The final NTG, integration with major OTT ad servers, has been replaced by the launch of a SaaS platform for the Linius' Video Virtualization Engine. Integration with ad servers remains a priority for the business, but a SaaS offering provides more immediate opportunity to scale the business quickly, in line with Linius' broader strategy of riding the wave of cloud investment by major SaaS providers.

With the imminent completion of the Company's previously announced NTGs, Linius released an amended set of NTGs in order to continue to provide investors with clear insight into the Company's tactical execution goals. These are described below, after the quarterly report and statement of cash flows.

Appendix 4C Quarterly Report and statement of cash flows

The ASX Appendix 4C Quarterly Report for March 2018 is attached to and lodged with this report. The Appendix 4C Quarterly Report covers the 3-month period and 9-months YTD to 31 March 2018 reflecting the net cash outflows incurred by the Company while pursuing its technology development, marketing and commercialization activities.

The cash balance at 31 March 2018 was \$10.7 million, following the March 2018 quarter operational cash burn of \$2.6m (outflow for the 9 months was \$6.0 million). The Company raised \$10.3million of capital in the March quarter (before costs), through a private placement to sophisticated investors and through the exercise of options by option holders.

As required in section 9 of the Appendix 4C, estimated operational cash outflows for the June 2018 quarter are disclosed at \$2.6m. This includes estimates for the recruitment and commencement of new staff covering marketing, sales, product management and delivery of product and solutions to customers. This estimated cash outflow will be offset by additional capital of \$2.75m which will be received from the placement of shares, to Linius Executive Chairman Gerard Bongiorno (or his nominees) and institutional Linius supporter Technical Investing Pty Ltd (or its nominees), which were subject to shareholder approval on 26 April 2018 and were approved on that date.

Near Term Goals

Previous NTGs were based on scaling the penetration of virtual video, and moving the company towards revenue. With this updated set of goals, Linius expects to continue with its business scaling efforts, but also to start generating revenue. The following updated NTGs were announced to the market post the close of the March quarter:

- Deliver an end to end piracy solution with a movie studio
- Deliver POC (proof of concept) of Search in a global cloud environment
- Convert initial deal flow with IBM
- Sign an education-sector reseller
- Close 2 revenue-generating deals in the education sector
- Close 2 revenue-generating deals in the news or sports sector
- Sign a second (beyond IBM) global "name" partner
- Close 2 revenue-generating deals (other than the two named above)
- Integrate IBM search capability

Over the next three to six months, Linius expects to achieve the above goals (including those existing NTGs announced in September 2017 as updated), which are intended to both drive revenue and the long-term goal of increasing the penetration of virtual video.

Outlook

Going forward, the Company intends to complete its near term goals as well as other commercial initiatives, including the commercial release of the recently announced SaaS product.

As the Company completes its currently announced strategic POCs and POVs, it expects those to turn into replicable, commercial solutions that can be resold either by Linius directly or by resellers into the relevant verticals.

Finally, while the Company expects there will continue to be POCs and trials, it expects the vast majority of these to be commercial in nature (that is to say, revenue generating and/or converting to commercial license agreements).

About Linius Technologies Limited:

Linius Technologies Limited (ASX:LNU) has developed and patented the **Video Virtualization Engine™ (VVE)**, which is available on Amazon Web Services, Microsoft Azure and IBM BlueMix.

Amazon, Microsoft and IBM are investing billions in virtualizing video services (technologies) and artificial intelligence in the cloud. It is arguably the biggest battle on the internet, given that video accounts for nearly 80 percent of internet traffic.

Only Linius can expose the data that makes up the video file, making cumbersome video as flexible as all other forms of data. Accessing the data within the video file is the missing link for video cloud service providers, creating unparalleled value across the internet video industry.

Linius has the potential to transform many multi-billion dollar markets, and is initially focused on:

- **Anti-Piracy:** Applying proven data protection methods to video to solve piracy
- **Search:** Search within videos and compile new videos on the fly
- **Security and Defense:** Intelligent search and immediate distribution of security footage
- **Personalized Advertising:** Hyper personalized to individuals, timeslots and content

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 2018

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (9 months) \$A'000 |
|---|------------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | - | - |
| 1.2 Payments for | | |
| (a) research and development | (701) | (1,479) |
| (b) operating costs | (1,038) | (2,025) |
| (c) advertising and marketing | (170) | (607) |
| (d) leased assets | - | - |
| (e) staff and consultant costs | (409) | (1,108) |
| (f) administration, travel and corporate costs | (252) | (694) |
| 1.3 Dividends received (see note 3) | | |
| 1.4 Interest received | 5 | 7 |
| 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 | (31) | (124) |
| 1.9 Net cash from / (used in) operating activities | (2,596) | (6,030) |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | - | (7) |
| (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) | | |
| 2.6 Net cash from / (used in) investing activities | - | (7) |

| | | |
|---|--------------|---------------|
| 3. Cash flows from financing activities | | |
| 3.1 Proceeds from issues of shares | 10,330 | 16,592 |
| 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 | (610) | (857) |
| 3.5 Proceeds from borrowings | | |
| 3.6 Repayment of borrowings | | |
| 3.7 Transaction costs related to loans and borrowings | | |
| 3.8 Dividends paid | | |
| 3.9 Other (provide details if material) | | |
| 3.10 Net cash from / (used in) financing activities | 9,720 | 15,735 |

| | | |
|---|---------|---------|
| 4. Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 Cash and cash equivalents at beginning of quarter/year to date | 3,533 | 959 |
| 4.2 Net cash from / (used in) operating activities (item 1.9 above) | (2,596) | (6,030) |
| 4.3 Net cash from / (used in) investing activities (item 2.6 above) | - | (7) |
| 4.4 Net cash from / (used in) financing activities (item 3.10 above) | 9,720 | 15,735 |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (9 months) \$A'000 |
|---|--|------------------------------------|--|
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of quarter | 10,657 | 10,657 |

| 5. | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$A'000 | Previous quarter \$A'000 |
|------------|---|------------------------------------|-------------------------------------|
| 5.1 | Bank balances | 1,384 | 665 |
| 5.2 | Call deposits | 9,222 | 2,818 |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other – term deposits | 51 | 50 |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 10,657 | 3,533 |

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

| Current quarter \$A'000 |
|------------------------------------|
| 129 |
| - |

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

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

| 8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i> | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|--|--|---|
| 8.1 Loan facilities | - | - |
| 8.2 Credit standby arrangements | - | - |
| 8.3 Other (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 | 980 |
| 9.2 Operating costs | 660 |
| 9.3 Advertising and marketing | 180 |
| 9.4 Leased assets | - |
| 9.5 Staff and consultant costs | 560 |
| 9.6 Administration, travel and corporate costs | 170 |
| 9.7 Other – legal & patent costs | 20 |
| 9.8 Total estimated cash outflows | 2,570 |

NOTE: This estimated operating cash outflow will be offset by additional capital of \$2.75m which will be received from the placement of shares, to Linus Executive Chairman Gerard Bongiorno (or his nominees) and Technical Investing Pty Ltd (or its nominees), which were subject to shareholder approval on 26 April 2018 and were approved on that date.

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

Compliance statement

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

Sign here:



(Company secretary)

Date: 30 April 2018

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.