

Linus Technologies Limited

ABN 84 149 796 332

Appendix 4D

Half-year report

31 December 2017

Reporting period

Report for the half-year ended 31 December 2017.

Previous corresponding period is the half-year ended 31 December 2016.

Results for announcement to the market

	Increase/(decrease) over previous corresponding period		
	\$	\$	%
Revenue from ordinary activities	2,860	41,749	(94%)
Profit/(Loss) from ordinary activities after tax attributable to members	(4,078,911)	(2,470,388)	(154%)
Net profit/(loss) for the period attributable to members	(4,078,911)	(2,470,388)	(154%)

Dividends

No dividends were paid or declared during the financial period and it is not proposed to pay dividends.

No dividends have previously been declared or paid in prior financial periods and there are no dividend reinvestment plans in place.

Explanation of results

Results for the 6 months to December 2017

The principal activities during this six months have been the continued development and commercialisation of the patented Linus Video Virtualization Engine™. During the period the entity has expanded its operations and increased its marketing activities in pursuing the commercialisation of the software.

Further information and brief explanation of the above figures is contained in the half year consolidated financial report, which has been subject to independent audit review and which is lodged with this Appendix 4D.

Net tangible asset backing

	Current period	Previous corresponding period
Net tangible assets per ordinary security	0.37 cents	0.39 cents

Signed:



Stephen Kerr
CFO & Company Secretary

27 February 2018
Melbourne

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Linius Technologies Limited

ABN 84 149 796 332

ASX CODE: LNU

**Half-Year Report
31 December 2017**

Corporate Information

Directors

Gerard Bongiorno – Executive Chairman
Christopher Richardson – CEO and Executive Director
Stephen McGovern – Non-Executive Director

Company Secretary

Stephen Kerr

Registered office and principal place of business

Level 18, 101 Collins Street
MELBOURNE VIC 3000
Telephone: (03) 8680 2317
Facsimile: (03) 8680 2380

Website

www.linius.com

Auditors

KPMG
727 Collins Street
MELBOURNE VIC 3008

Bankers

Australia and NewZealand Banking Group Limited

Stock Exchange

Australian Securities Exchange
Level 40, Central Park
152-158 St Georges Tce
PERTH WA 6000

ASX Code

LNU

Share Register

Advanced Share Registry Ltd
110 Stirling Highway
NEDLANDS WA 6009
Telephone: (08) 9389 8033
Facsimile: (08) 9262 3723

Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Linius Technologies Limited (referred to hereafter as the 'Company' or 'parent entity' or 'Linius') and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors

The following persons were directors of Linius Technologies Limited during the reporting period and to the date of this report, unless otherwise stated:

Gerard Bongiorno
Christopher Richardson
Stephen McGovern

Principal activities

During the financial period the principal continuing activities of the consolidated entity were video technology and computer software development.

Dividends

No dividends were paid or declared during the financial period.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$4,078,912 (31 December 2016 loss: \$1,608,523). The consolidated entity had net assets of \$7,355,949 at 31 December 2017 (30 June 2017: \$5,043,444) and cash on hand of \$3,534,401 (30 June 2017: \$959,270).

The principal activities of the entity during this six months have been the continued development and commercialisation of the Linius Video Virtualization Engine™. The entity is an Australian company that has designed and patented the world's first video virtualisation technology. The technology transforms large inflexible video files into small highly flexible data structures. The patented process applies two techniques to video – data indexing and virtualisation, which means that video can be indexed, spliced and edited in real time.

During the half year to December 2017 the Company has continued its strategic focus, summarised as:

Vision:	To make all of the worlds video accessible as data
Mission:	To become the <i>de facto</i> standard for the management and broadcast of video
Commercialisation:	Linius patented VVE Technology to deliver to mass markets in 3 ways: <ul style="list-style-type: none">- 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 which will deliver:

- Commercial validation of the technology
- Commercially deployed and repeatable technology sets
- Commercial agreements with clear paths to revenue

Linius is setting up the business to scale rapidly and globally. The Company is making key investments in easily replicable solution sets, providing the technology globally as a SaaS platform in major infrastructure providers such as IBM Cloud, Amazon AWS, and Microsoft Azure, while delivering commercial validation in each of its divisions.

Near Term Goals

Linus has launched its commercialization strategy, hired the commercial leaders and has an active new business pipeline. In September 2017 the Company published a list of near term goals. These goals reflect a mixture of near term commercial success and the Company's strategy of building out the organisational and technical infrastructure in line with our ambition to scale virtual video quickly around the world.

- ✓ Deliver the integration of VVE into IBM Cloud
- ✓ Engage with a global movie studio to develop POC in anti-piracy
- ✓ Deliver the integration of VVE with at least one world leading OTT platform
- ✓ Deliver the integration of VVE into Microsoft Azure
- ✓ Deliver the integration of VVE with at least one cognitive AI provider
- ✓ Deliver blockchain strategy and solution design
- Deliver POC of Search in a global cloud environment
- Engage with a global movie studio to develop a mass content distribution POC
- Convert initial deal flow with IBM
- Deliver an end-to-end piracy solution with a movie studio
- Deliver the integration of VVE with Major OTT ad servers

As of the end of December Linus had completed 6 of these 11 goals. In addition the engagement with a global movie studio to develop a mass content distribution POC was completed subsequent to the half year in February, with the announcement of a collaboration agreement with Warner Bros. in the USA .

Anti-piracy POV

The company announced its first commercial deal with Roadshow Films, a division of Village Roadshow Ltd, to use Linus' anti-piracy solution for a high value 6-part TV mini-series to confirm Proof of Value (POV). The anti-piracy solution was deployed in partnership with IBM and the solution will be replicable for immediate commercial roll out with other potential customers.

VVE integration to IBM Cloud

Linus, in conjunction with strategic integrator MyPlanet, a Canadian strategic integrator with offices in Toronto, Vancouver, Chicago, and Ukraine, made the Linus VVE available on IBM's cloud infrastructure — Bluemix. This enables the company to capitalize on its collaboration agreement with IBM and also extend its sales and distribution capabilities.

Over-The-Top (OTT) Integration

OTT — advertising video-on-demand (AVOD), subscription video-on-demand (SVOD), and transactional video-on-demand (TVOD) — accounted for \$46.5 billion US in 2017, expected to grow to \$83.4 billion US by 2022.¹ There are over 200 OTT providers in the US alone.²

Comcast Cable launched a new division in October 2016 — Comcast Technology Solutions — which united three of Comcast's media and technology businesses and in doing so created a globally dominant player at the nexus of broadcast and IP convergence. By integrating with Comcast's technology, Linus puts itself in a position to quickly deploy virtual video into the numerous clients of one of the world's largest OTT platforms, accelerating both deals and revenue.

Any Cloud, Any Time, Anywhere

According to Forbes, the three dominant cloud providers are IBM, Amazon, and Microsoft.³ Linus currently develops natively on Amazon AWS. Linus Video Virtualization Engine™ became available on IBM Cloud in the September 2017 quarter and with the announcement of Microsoft Azure integration on 4 December 2017, has completed its near-term goal of being available on key cloud providers.

The integration with all three cloud providers is key to the Company's mission to scale rapidly and the vision of making the world's video available as data. These three major cloud providers are very focused on virtualizing the video management tools in the cloud, but only Linus can virtualize the actual video file. The Company feels strongly that it is the missing link in these providers' video services.

Linus Technologies Limited
Directors' report
31 December 2017

Artificial Intelligence

In line with Linus' strategy of integrating with Microsoft Azure, Amazon AWS, and IBM Cloud. Linus is fast tracking its integration with global leaders in artificial intelligence (AI).

Linus owns video virtualization and is the missing link to the monetization of AI. By integrating Linus VVE, AIs for the first time become capable of both analyzing segments of video, and creating new content — cognitive video creation. For example, by integrating with AI providers, Linus transforms video search. For the first time users can search within video and extract only the parts of the video relevant to the search criteria. The technology is applicable across many multi-billion dollar markets including sports, entertainment, education and corporate communications.

Blockchain

Linus aims to fulfill the promise of blockchain to move beyond cryptocurrencies. The Linus blockchain will be used to protect, distribute and monetize the video itself. When a virtual file is transferred, the Linus VVE will send the actual video data to be played out only after the content owners' rules have been satisfied.

With current methodologies, a video blockchain is generally considered challenging due to the size of the video files. The Internet standard video format of MP4 does not work in a blockchain. Virtual videos are fractions of a percent of the size of current videos. They're ideally suited as digital assets, which can be recorded, transferred and managed by a blockchain.

Outlook

Going forward, the Company intends to complete its near term goals as well as other commercial initiatives, including the recently announced SaaS self-serve product, and build upon them with relationships that scale the business and drive commercial activity.

Subsequent to the close of the December 2017 half year, the Company has announced that its core technology, VVE, is available to select partners and engineers under a SaaS model. This is consistent with Linus' announced commercialization plans, and the Company expects to make the SaaS product widely available in the near future, in order to encourage development of technologies and new businesses based upon VVE.

The commercial function is actively deploying POVs (proofs of value) across our target sectors. POVs allow products to be tested and provide commercial case studies for roll out in direct sales and across channel partners.

Finally, the Company expects to begin reporting on its core metric — number of virtual videos created — in the near future.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial period, except for the additional shares issued via placement as set-out in note 5 of the half-year financial statements.

Going concern

For the half year ended 31 December 2017, the Group had an operating net loss of \$4,078,911 (2016: \$1,068,523) and net cash outflows from operating activities of \$3,467,263 (2016: \$1,256,798).

The ability of the Group to continue as a going concern is dependent upon a number of factors, one being the continuation and availability of funds. The financial statements have been prepared on the basis that the Group is a going concern, which contemplates the continuity of its business, realisation of assets and the settlement of liabilities in the normal course of business. Further details on the going concern basis of preparation used to prepare the annual financial statements are set out in note 1 to the annual financial statements.

¹ <https://www.rapidtvnews.com/2017120549962/global-ott-pay-tv-markets-to-grow-by-nearly-20-over-next-five-years.html#axzz55a6PH0mq>

² <https://www.parksassociates.com/blog/article/pr-11092017>

³ <https://www.forbes.com/sites/bobevans1/2017/10/20/amazon-or-ibm-whos-the-king-of-cloud-revenue/#306439081691>

Linius Technologies Limited
Directors' Report
31 December 2017

Matters subsequent to the end of the financial period

On 23 February 2018 the Company announced that it had completed a \$10,000,000 capital raising through the issue of 83,333,334 fully paid ordinary shares, at 12 cents per share, in a private placement to sophisticated investors. The company will also issue one new option for every 2 shares issued to placees. Each option is exercisable at 16 cents per share and expires on 31 December 2019.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration, which forms part of this Directors' Report, is set out on page 21.

This report is made in accordance with a resolution of directors.

On behalf of the directors



Gerard Bongiorno
Executive Chairman

27 February 2018
Melbourne

Linus Technologies Limited

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31 December 2017

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General information

The financial statements cover Linus Technologies Limited as a consolidated entity consisting of Linus Technologies Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Linus Technologies Limited's functional and presentation currency.

Linus Technologies Limited is an ASX listed public company limited by shares. Its registered office and principal place of business are:

Registered office

Level 18
101 Collins Street
Melbourne VIC 3000

Principal place of business

Level 18
101 Collins Street
Melbourne VIC 3000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2018.

Linius Technologies Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2017

	Note	Consolidated December 2017 \$	December 2016 \$
Revenue			
Interest income		2,860	44,609
Expenses			
Administrative expenses		(220,697)	(103,809)
Amortisation expenses		(270,000)	(270,000)
Depreciation expenses		(2,838)	-
Employee expenses		(171,240)	-
Consultant expenses		(1,105,690)	(183,924)
Director remuneration expenses		(213,635)	(156,163)
Share based payments expenses		(342,756)	(198,172)
Financial and compliance expenses		(104,627)	(62,106)
Marketing and promotional expenses		(278,982)	(116,373)
Software development expenses		(930,847)	(332,631)
Patent expenses		(48,126)	(62,792)
Legal expenses		(68,329)	(51,936)
Travel and accommodation expenses		(324,004)	(115,226)
Loss before income tax		(4,078,911)	(1,608,523)
Income tax (expense) credit		-	-
Loss after income tax expense for the year attributable to owners of the parent		(4,078,911)	(1,608,523)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year attributable to owners of the parent		<u>(4,078,911)</u>	<u>(1,608,523)</u>
Loss per share for loss attributable to the owners of the parent			
Basic and diluted loss per share		Cents (0.55)	Cents (0.27)
Weighted average number of shares used in determining basic loss per share		736,313,163	590,899,010

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Linius Technologies Limited
Consolidated statement of financial position
As at 31 December 2017

	Note	Consolidated December 2017 \$	Consolidated June 2017 \$
Assets			
Current assets			
Cash and cash equivalents		3,534,401	959,270
Other receivables		249,638	77,475
Total current assets		<u>3,784,039</u>	<u>1,036,745</u>
Non-current assets			
Intellectual property	4	4,275,000	4,545,000
Property, plant and equipment		17,552	14,124
Total non-current assets		<u>4,292,552</u>	<u>4,559,124</u>
Total assets		<u>8,076,591</u>	<u>5,595,869</u>
Liabilities			
Current liabilities			
Trade and other payables		707,297	550,320
Employee provisions		13,345	2,105
Total current liabilities		<u>720,642</u>	<u>552,425</u>
Total liabilities		<u>720,642</u>	<u>552,425</u>
Net assets		<u>7,355,949</u>	<u>5,043,444</u>
Equity			
Issued capital	5	18,624,070	12,575,410
Reserves		2,405,461	2,062,705
Accumulated losses		<u>(13,673,582)</u>	<u>(9,594,671)</u>
Total equity		<u>7,355,949</u>	<u>5,043,444</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Linus Technologies Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2017

Consolidated	Issued capital \$	Equity settled benefits reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016	11,809,470	1,708,135	(5,364,619)	8,152,986
Loss after income tax expense for the half year	-	-	(1,608,523)	(1,608,523)
Total comprehensive loss for the half year	-	-	(1,608,523)	(1,608,523)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	753,600	-	-	753,600
Equity-settled share based payments	-	198,172	-	198,172
Total transactions with owners of the Company	753,600	198,172	-	951,772
Balance at 31 December 2016	<u>12,563,070</u>	<u>1,906,307</u>	<u>(6,973,142)</u>	<u>7,496,235</u>
Consolidated	Issued capital \$	Equity settled benefits reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2017	12,575,410	2,062,705	(9,594,671)	5,043,444
Loss after income tax expense for the half year	-	-	(4,078,911)	(4,078,911)
Total comprehensive loss for the half year	-	-	(4,078,911)	(4,078,911)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	6,048,660	-	-	6,048,660
Equity-settled share based payments	-	342,756	-	342,756
Total transactions with owners of the Company	6,048,660	342,756	-	6,391,416
Balance at 31 December 2017	<u>18,624,070</u>	<u>2,405,461</u>	<u>(13,673,582)</u>	<u>7,355,949</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Linius Technologies Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2017

	Note	Consolidated December 2017 \$	December 2016 \$
Cash flows from operating activities			
Payments to suppliers		(3,470,123)	(1,283,756)
Interest received		2,860	26,958
Net cash used in operating activities		<u>(3,467,263)</u>	<u>(1,256,798)</u>
Cash flows from investing activities			
Payments for property plant & equipment		(6,266)	-
Net cash used in investing activities		<u>(6,266)</u>	<u>-</u>
Cash flows from financing activities			
Proceeds from issue of shares	5	6,262,500	748,600
Capital raising costs		(213,840)	-
Net cash from financing activities		<u>6,048,660</u>	<u>748,600</u>
Net (decrease) / increase in cash and cash equivalents		2,575,131	(508,198)
Cash and cash equivalents at the beginning of the half year		<u>959,270</u>	<u>3,275,258</u>
Cash and cash equivalents at the end of the half year		<u><u>3,534,401</u></u>	<u><u>2,767,060</u></u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Linus Technologies Limited
Notes to the consolidated financial statements
31 December 2017

Note 1. Significant accounting policies

Reporting entity

Linus Technologies Limited (the "Company") is a company domiciled in Australia. These condensed consolidated interim financial statements ("half year financial statements") as at and for the six months ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is a for-profit entity primarily involved in technology, including research and development of technology products, software development and the commercialisation and licencing of computer software.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, and IAS 34 *Interim Financial Reporting*.

The interim financial statements are intended to provide users with an update on the latest annual financial statements of Linus Technologies Limited. As such, the interim financial statements do not contain information that represents relatively insignificant changes occurring during the half-year of the company. It is therefore recommended that the interim financial statements be read in-conjunction with the annual financial statements of the company for the year ended 30 June 2017.

Going concern

For the half year ended 31 December 2017, the Group incurred an operating net loss of \$4,078,911 (2016: \$1,068,523) and net cash outflows from operating activities of \$3,467,263 (2016: \$1,256,798).

The ability of the Group to continue as a going concern is dependent upon a number of factors, one being the continuation and availability of funds. The financial statements have been prepared on the basis that the Group is a going concern, which contemplates the continuity of its business, realisation of assets and the settlement of liabilities in the normal course of business for a period of at least twelve months from the date of approval of these annual financial statements.

In determining that the going concern assumption is appropriate, the directors have had regard to:

- projected cash outflows, which are expected to continue for a period of at least twelve months from the date of approval of these financial statements;
- confidence in achieving expected sales through its commercialisation activities;
- prudent management of costs as required including the ability to control expenditures in line with cash resources available;
- being able to raise additional capital funds through conducting a capital raising to enable the continuation of the development and commercialisation activities as planned (refer to subsequent events note 10); and
- the Directors have prepared cash flow projections for the period from 1 January 2018 until 31 March 2019 that support the Group's ability to continue as a going concern. These cashflow projections assume the Group obtains sufficient additional capital funds from shareholders or other parties. If such funding is not achieved, as stated above, the Group will reduce expenditure to the level of funding available.

The Directors are confident the Group will be able to secure sufficient capital funds and the Group has a demonstrated track record of raising capital as required.

These interim financial statements were authorised for issue by the Company's Board of Directors on 27 February 2017.

These interim financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2017, which are available at the Company's registered office located at Level 18, 101 Collins Street, Melbourne, Victoria and on the website www.Linius.com.

Linius Technologies Limited
Notes to the financial statements
31 December 2017

Note 2. Commitments and contingent liabilities

The consolidated entity has no contingent liabilities at the date of this report (June 2017: Nil).

The consolidated entity has the following commitments at 31 December 2017.

	Consolidated	
	December	June
	2017	2017
	\$	\$
<i>Lease commitments – operating</i>		
Committed at the reporting date, but not recognised as liabilities, payable:		
Within one year	8,809	-
	<hr/>	<hr/>
	<u>8,809</u>	<u>-</u>

Note 3. Segment Reporting

During the half-year the consolidated entity operated as a developer of computer software in the Australasian region.

Note 4. Intellectual property

The Group acquired the intellectual property associated with the Linius technology from an unrelated party in November 2015. The intellectual property includes patents, copyright, confidential information and trademarks. In accordance with accounting standards and the Group accounting policies this asset is treated as having a finite life and is being amortised over 10 years:

	Consolidated	
	December	June
	2017	2017
	\$	\$
Intellectual property at cost	5,400,000	5,400,000
Accumulated amortisation	(1,125,000)	(855,000)
	<hr/>	<hr/>
	<u>4,275,000</u>	<u>4,545,000</u>

The directors have assessed the value and useful life of the intellectual property at balance date.

The cost of the intellectual property was established upon the purchase of the intellectual property through a third party transaction in November 2015. The value of the intellectual property was further validated through the reverse takeover process and capital raising undertaken by Linius Technologies Limited (Linius) in April/May 2016. During this process an independent report was commissioned, which gave the directors comfort that the intellectual property purchased was covered by valid patents, trademarks and copyright.

The directors note that the intellectual property is at an early stage in its commercial life, with the associated technology approaching commercialisation. The value and lifespan of the owned intellectual property continues to be enhanced by further patent registrations in new jurisdictions across the world and through continued development of the technology associated with the intellectual property.

The directors have currently assessed the useful life of the intellectual property as being 10 years. The directors consider that a 10 year useful life is reasonable and appropriate and have amortised the value of intellectual property at balance date on that basis.

Linius Technologies Limited
Notes to the consolidated financial statements
31 December 2017

Impairment testing

As a result of the operating loss incurred, impairment analysis of the intellectual property has been performed using the following alternative methods:

(i) Market capitalisation approach

Since listing on ASX, the shares of Linius have traded in a ready market, supporting the value of the intellectual property asset. The assets of the Group at 31 December 2017 consist principally of cash of \$3,534,401 and intellectual property, after amortisation, of \$4,275,000. Net assets are \$7,355,949.

Linius shares closed at a price of 17 cents per share on 31 December 2017. Total fully paid ordinary shares on issue at 31 December 2017 are 822,690,880. This gives a market capitalisation of Linius of \$139.8 million. Given the development nature of the Group's operations, the directors believe that the recoverable amount of the intellectual property on the balance sheet at 30 June 2017 is supported by the market value of Linius.

(ii) Discounted cashflow approach

The recoverable amount of the CGU (being the Group as a whole at this stage of the Group's lifecycle) was estimated based on the value in use of the Group, determined by discounting the future cash flows to be generated from the continuing use of the Group's intellectual property. The following were key assumptions in the value in use analysis:

- Cash flows were forecast for a five year period. The terminal value of the Group was based on the fifth year cash flow and a long-term growth rate of 3%, which is consistent with market assumptions of the long term growth target for Australia of between 2% and 3%.
- Revenue was based on a staged pipeline of licence income being earned, which is anticipated to grow at a monthly linear rate up until 2019 financial year and at set step up percentages from 2020 – 2023. Expenses are set based on the 2019 budget, increasing by anticipated growth required to support the increase in revenue forecast.
- An after tax discount rate of 16% was applied in determining the recoverable amount of the Group. The discount rate was estimated based on an industry average weighted-average cost of capital and applying a premium to the industry average due to the Group being in its growth phase and the risks inherent in the cash flow forecast.

The recoverable amount of the CGU was determined to be higher than its carrying amount, indicating that no impairment was necessary. In addition, reasonably possible changes in key assumptions were considered, such as changes in revenue and expenses; sufficient headroom exists.

Note 5. Equity - issued capital

	Legal Parent		Consolidated	
	December 2017	June 2017	December 2017	June 2017
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>822,690,880</u>	<u>679,190,880</u>	<u>18,624,070</u>	<u>12,575,410</u>

Movements in ordinary share capital

Details	Date	No. of shares Legal Parent
Legal parent		
Balance as at 30 June 2017		679,190,880
Issue of shares via placement	July 2017	30,000,000
Issue of shares via placement	Oct 2017	85,000,000
Issue of shares via placement	Dec 2017	5,000,000
Issue of loan funded shares	Dec 2017	20,000,000
Issue of shares on exercise of options	Dec 2017	<u>3,500,000</u>
Balance as at 31 December 2017		<u>822,690,880</u>

Linius Technologies Limited
Notes to the consolidated financial statements
31 December 2017

Movements in ordinary share capital (continued)

Details	Date	\$
Consolidated entity		
Balance as at 30 June 2017		12,575,410
Issue of shares via placement	July 2017	1,500,000
Issue of shares via placement (net of costs)	Oct 2017	4,036,160
Issue of shares via placement	Dec 2017	250,000
Issue of shares on exercise of options	Dec 2017	<u>262,500</u>
Balance as at 31 December 2017		<u><u>18,624,070</u></u>

Issue of shares via placement

During the period the company issued 120,000,000 fully paid ordinary shares at \$0.05 per share via a private placement.

Issue of loan funded shares

During the period 20,000,000 loan funded ordinary shares were issued as approved at the company's November 2017 Annual General Meeting (refer Note 6).

Options

During the period the company issued 75,000,000 options exercisable at 7.5 cents per share and expiring on 30 May 2019 as part of the placement (55,000,000) and as part of an issuance to sophisticated investors (20,000,000).

3,500,000 of these options were exercised during the period at the exercise price of \$0.075 per share and converted to fully paid ordinary shares (refer Note 6).

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 6. Equity based payments

Employee share option plan

An employee share option plan (ESOP) has been established by the consolidated entity, whereby the consolidated entity may, at the discretion of the Board, grant options over ordinary shares in the company to personnel of the consolidated entity. The options are issued for nil consideration and are granted in accordance with time based and/or performance targets established by the Board.

As at 31 December 2017 no options had been granted under the ESOP.

As at 30 June 2017 no options had been granted under the ESOP.

Options issued to Directors, executives and consultants

As at 31 December 2017 the following options over ordinary shares in Linius Technologies Limited had been issued (Options). These Options were issued separately to the ESOP.

The following share based payment arrangements were in existence at 31 December 2017:

Option Issue date	Option Expiry date	Exercise price	Balance at 30 June 2017 Number	Issued during the period Number	Exercised during the period Number	Expired or forfeited during the period Number	Balance at 31 December 2017 Number	Vested and exercisable at end of the period Number
29/04/2016	31/03/2019	\$0.05	61,500,000	-	-	-	61,500,000	61,500,000
30/11/2016	30/11/2019	\$0.045	11,500,000	-	-	-	11,500,000	2,300,000
Total			73,000,000	-	-	-	73,000,000	63,800,000
Weighted average exercise price			\$0.049				\$0.049	\$0.05

Linius Technologies Limited
Notes to the consolidated financial statements
31 December 2017

The following share based payment arrangements were in existence at 30 June 2017.

Option Issue date	Option Expiry date	Exercise price	Balance at 30 June 2016 Number	Issued during the period Number	Exercised during the period Number	Expired or forfeited during the period Number	Balance at 30 June 2017 Number	Vested and exercisable at end of the period Number
29/04/2016	31/03/2019	\$0.05	61,500,000	-	-	-	61,500,000	61,500,000
30/11/2016	30/11/2019	\$0.045	-	11,500,000	-	-	11,500,000	1,150,000
Total			61,500,000	-	-	-	73,000,000	62,650,000
Weighted average exercise price			\$0.05				\$0.049	\$0.05

Loan Funded Share Plan

A loan funded share plan (LFSP) has been established by the consolidated entity, whereby the consolidated entity may, at the discretion of the Board, issue ordinary shares in the company to personnel of the consolidated entity. The shares are issued for consideration, which is funded through an interest free non-recourse loan from the company. The shares vest in accordance with time based and/or performance targets established by the Board.

As at 31 December 2017 no shares had been issued under the LFSP.

As at 30 June 2017 no shares had been issued under the LFSP.

Loan funded shares issued to Directors, executives and consultants

During the period 20,000,000 loan funded shares were granted to a Director pursuant to a shareholder resolution passed at the Company's Annual General Meeting on 28 November 2017.

Name	Position	Vesting Condition	Options
Gerard Bongiorno	Executive Chairman	Vesting immediately	10,000,000
		Vesting 1 year after issue	5,000,000
		Vesting 2 years after issue	5,000,000
Total			20,000,000

The fair value of the equity-settled loan funded shares granted in the current period is estimated as at the date of grant using an independent valuation, which is based on the binomial model provided by Hoadley and incorporates the Hull-White adjustment, which considers the terms and conditions upon which the shares were issued.

	20,000,000
31 December 2017	<u>Loan Funded Shares</u>
Dividend yield (%)	Nil
Expected volatility (%)	72.75%
Risk-free interest rate (%)	2.13%
Expected life of option (years)	5.0 yrs
Share price (cents)	\$0.05
Grant date share price	\$0.049
Grant date fair value – Tranche 1	\$0.023
Grant date fair value – Tranche 2	\$0.026
Grant date fair value – Tranche 3	\$0.030
Grant date	28 November 2017

Linius Technologies Limited
Notes to the consolidated financial statements
31 December 2017

The total number of options outstanding at period end is as follows:

	December 2017 Options	June 2017 Options
Opening balance	73,000,000	76,027,554
Unlisted options issued to Directors, executives and consultants	-	11,500,000
Listed options exercised during the period	-	(6,523,506)
Listed options – expired on 31 December 2016	-	(8,004,048)
Unlisted options issued to sophisticated investors pursuant to placement	45,000,000	-
Unlisted options issued to corporate advisor pursuant to placement	10,000,000	-
Unlisted options issued to sophisticated investors	20,000,000	-
Unlisted options exercised during the period	(3,500,000)	-
Balance at reporting date	<u>144,500,000</u>	<u>73,000,000</u>

The exercise prices of the unissued options are 61,500,000 options at 5 cents, 11,500,000 options at 4.5 cents and 71,500,000 options at 7.5 cents.

Expenses arising from share based payment transactions

Net expenses arising from share based payment transactions recognised during the financial period were \$342,756 (\$198,172 for prior comparative period). This was in respect of the vesting charge attributed to options and loan funded shares for the six-month period.

Note 7. Fair value measurement

Due to the nature of the consolidated entity's operating profile, the Directors and management do not consider that the fair values of the consolidated entity's financial assets and liabilities are materially different from their carrying amounts at 31 December 2017.

Note 8. Related party transactions

	Consolidated December 2017 \$	December 2016 \$
Transactions with key management personnel:		
Entity related to Gerard Bongiorno	69,272	-
Entity related to Stephen McGovern	49,163	49,163
Entity related to Christopher Richardson	95,200	65,000
Entity related to Stephen Kerr	56,000	42,000

Transactions relate to payment of director and executive remuneration and consulting fees.

	Consolidated December 2017 \$	June 2017 \$
Amounts owing to key management personnel (included in trade and other payables):		
Entity related to Gerard Bongiorno	-	-
Entity related to Stephen McGovern	9,013	8,193
Entity related to Christopher Richardson	29,236	31,655
Entity related to Stephen Kerr	8,800	7,700

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Note 9. Tax expense

The consolidated entity's effective tax rate in respect of its continuing operations for the six months ended 31 December 2017 was nil percent due to the non-recognition of tax benefits arising from the operating loss incurred before tax. Management does not yet consider it probable that future taxable profits will be available against which unrecognised tax losses and temporary differences will be utilised and therefore these items have not been brought to account at balance date.

Note 10. Matters subsequent to the end of the financial period

On 23 February 2018 the Company announced that it had completed a \$10,000,000 capital raising through the issue of 83,333,334 fully paid ordinary shares, at 12 cents per share, in a private placement to sophisticated investors. The company will also issue one new option for every 2 shares issued to placees. Each option is exercisable at 16 cents per share and expires on 31 December 2019.

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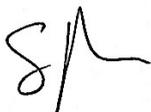
Linius Technologies Limited
Directors' declaration
31 December 2017

In the directors' opinion:

1. the attached consolidated financial statements and accompanying notes are in accordance with the *Corporations Act 2001* and;
 - (a) comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and
2. 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.

On behalf of the directors



Gerard Bongiorno
Executive Chairman

27 February 2018
Melbourne



Independent Auditor's Review Report

To the shareholders of Linius Technologies Limited

Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Linius Technologies Limited.

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 Linius Technologies Limited 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 2017 and of its performance for the **Half-year** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2017.
- 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.
- Notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information.
- The Directors' Declaration.

The **Group** comprises Linius Technologies Limited (the Company) and the entities it controlled at the Half-year's end or from time to time during the Half-year.

The **Interim Period** is the 6 months ended on 31 December 2017.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Group 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 is free from material misstatement, whether due to fraud or error.

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Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Linus Technologies Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



KPMG



Tony Batsakis

Partner

Melbourne

27 February 2018



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Linius Technologies Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Linius Technologies Limited for the half-year ended 31 December 2017 there have been:

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

KPMG

KPMG

Tony Batsakis

Partner

Melbourne

27 February 2018

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