LINIUS TECHNOLOGIES LIMITED

ACN 149 796 332

ANNUAL REPORT

2017

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## CORPORATE DIRECTORY

This annual report covers Linius Technologies Limited and its controlled entities (the “Group” or “Group”) during the year ended 30 June 2017. The functional and presentation currency of the Group is Australian dollars.

| | | |
|---|---|---|
| OFFICERS | Gerard Bongiorno<br>Stephen McGovern<br>Christopher Richardson<br>Stephen Kerr | (Non-Executive Chairman)<br>(Non-Executive Director)<br>(Director and CEO)<br>(Company Secretary and CFO) |
| REGISTERED OFFICE | Level 18, 101 Collins Street<br>MELBOURNE VIC 3000 | |
| SOLICITORS | Milcor Legal<br>Lawyers<br>Level 1, 6 Thelma Street<br>WEST PERTH WA 6872 | |
| AUDITORS | KPMG<br>Tower 2, Collins Square<br>727 Collins Street<br>MELBOURNE VIC 3000 | |
| SHARE REGISTRY | Advanced Share Registry Ltd<br>110 Stirling Highway<br>NEDLANDS WA 6009<br>Telephone: (08) 9389 8033<br>Facsimile: (08) 9262 3723 | |
| PRINCIPAL PLACE OF BUSINESS | Level 18, 101 Collins Street<br>MELBOURNE VIC 3000<br>Telephone: (03) 8680 2317<br>Facsimile: (03) 8680 2380<br>Email: info@linius.com | |
| WEBSITE | www.linius.com | |
| ASX CODE | LNU | |

## CHAIRMAN’S LETTER TO SHAREHOLDERS

Dear Shareholders,

*On behalf of your board of directors, I am pleased to enclose the Annual Report of Linius Technologies Limited for the financial year ended 30 June 2017.*

During the year the Company has built on the foundations laid in the 2016 financial period, when the Company was transformed into a technology company and relisted on the ASX as Linius Technologies Limited. The directors, executives, staff and consultants engaged by the Company have continued to develop and enhance our patented technology and your board is delighted that the business is now moving into its commercialisation phase.

In the first half of the 2017 financial year the company completed the final two milestones of the four milestones it set itself in the Prospectus dated 3 March 2016. In addition to achievement of these key management objectives, the Company received substantial, public 3rd-party validation; continued to invest in R&D and was granted 2 additional patents.

As the Company completed development of its core product, the company laid out its central commercialization strategy, which included a divisional approach to tackling global markets. Consistent with this, the Company is now pursuing its commercialisation goals with an expanded management team and a wider geographical footprint. Your directors are pleased with the progress to date and look forward to providing further business updates as we move towards execution of our commercial objectives and generating positive returns for shareholders.

During the year and subsequent to year end we were pleased to receive investment support from Village Roadshow Ltd and Kirby family interests, leaders in the Australian film and video industry, raising $500,000 in additional capital in September 2016 and $1,500,000 in July 2017 through private placements at 5 cents per share. In addition to this, the company raised a further $260,000 at 4 cents per share from investors exercising their listed options prior to the expiry date of 31 December 2016.

### Thank you

On behalf of your Directors I would like to sincerely thank all shareholders that have supported us through this exciting stage of the Company’s development. I hope you will continue to support us as we move into the full commercialisation of our patented technology and pursue our business plans.

I present to you the report on the Company and its controlled entities for the financial year ended 30 June 2017.

Gerard Bongiorno
CHAIRMAN
28 September 2017

## CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS

### HIGHLIGHTS

#### Completion of Prospectus Milestones

The Company's 2016 prospectus outlined four milestones, the achievement of which would underpin the value of the Linius' technology in the marketplace and the Company as a whole. These milestones were Showcase Deployments that were critical to demonstrating the capability and value of the Linius software as the company developed its products in-line with its core patent.

- Milestone 1: Enter into a Showcase Agreement with the objective of demonstrating personalization of video stream
- Milestone 2: Complete an Alpha release of the Linius technology
- Milestone 3: Enter into a Showcase Agreement with the objective of demonstrating removal of requirements for transcoding and reduction in storage
- Milestone 4: Complete a Showcase, and have the 3rd party issue a public report that the Linius' technology reduces the need for transcoding and storage

The first two milestones were completed in 2016, and represented significant technical progress and validation for the Company and its technology. An alpha release is a major milestone in any software company's development, and in the case of Linius provided the first public validation that the claims of the core patent were actually achievable.

The other three milestones — the Showcase Agreements — culminated with the completion of the fourth and final milestone when Village Roadshow released the results of their testing. This represented not only the completion of the Company's initial goals, but also one of three very public validations of the technology that occurred in 2017.

#### Public and 3rd-Party Validation

Linius understands that whenever there's a new technological breakthrough, customers need to "see and feel" the technology and to have it validated through more than just the company's say-so. To that end, Linius undertook three significant, public demonstrations and validations of its software in fiscal 2017.

<u>Live Personalized Advertising Demo</u>

The Linius and Digisoft partnership which began with our first milestone continued to be a success well into 2017. In conjunction with the beta release of Linius' Video Virtualization Engine™ software, Linius and Digisoft showed the world for the first time, at IBC 2016 — the world's largest international broadcasting conference — that the kind of personalized advertising which the Internet has known for years is available for cable TV companies and MSOs (multi-service operators).

Linius went on to publicly demonstrate this joint solution to a live audience in Melbourne and through a global webinar, which is still available online at http://www.linius.com/advertising-solutions/

The live demonstration and webcast covered:

- Different individuals watching the same show on TV from a cable set-top-box, and receiving different ads;
- A high-level overview of setting business rules around who sees which ad; and
- A discussion of the state of advertising in cable TV, and the global market opportunity.

## CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS CONTINUED

### VVE Play and Virtualizing Instagram

Linius launched VVE Play — a public website to demonstrate the Video Virtualization Engine™ (VVE) and raise awareness of virtual video. On VVE Play anyone can use, play and interact with virtual videos.

In order both to jump-start the content on VVE Play and to demonstrate the scalability of Linius' VVE, the Company indexed and virtualised the entire library of TED talks and over 5 million public Instagram videos — using a single server, in less than a day. These virtual videos are available to the world where users can search and edit the video content on the fly. The users can then broadcast their new 'virtual' videos.

Anyone who wants to play with virtual video can do so at http://vveplay.com

### Village Roadshow Technical Validation

Arguably the most important of the major public validation exercises that Linius completed in 2017 was to have a credible 3rd party undertake the technical due-diligence to complete the Company's fourth goal for the year. Village Roadshow took a high-definition trailer for the Roadshow movie *The Fourth Phase*, saved as an MPEG-4 video file for HTML5 play-out on a 16:9 aspect ratio device. Utilizing Linius' VVE™, that same file, without editing or transcoding, was streamed on the fly to a QuickTime 7 player in 4:3 aspect ratio.

That description may come as obtuse and overly technical to the layman, but for those in the industry this sort of technical exercise is where the rubber meets the road. The Village Roadshow Showcase was the ultimate validation that Linius technology delivers as promised.

### Expansion of Patent Portfolio

A part of Linius' strategy from day one has been to extend the Company's intellectual property protection through the pursuit of additional patents, copyrights, and trademarks. As the Company develops new applications for its technology we will continue to assess opportunities for additional patents.

In 2017, Linius was granted two additional US patents to further protect its intellectual property and reinforce the already existing core patent. These patents are continuations of Linius' core patent, which was granted on 18 November 2014 and provides extra protection for the client-side (Patent No 9,516,392) and server-side (Patent No 9,544,657) functions of the core invention.

Client-side functions include playing a virtual video file, and in particular the ability to play out a single stream from multiple original sources. Server-side functions include indexing, creation of the virtual video file and inclusion in the virtual video file support for extended features such as billing, customer feedback, interactivity, or digital rights management (DRM).

Continuation Patents are unique to the US and are for extending useful applications or claiming different embodiments of the original invention. In this particular case, the patents extend the Linius core invention, which covers both server-side and client-side functionality, to cover each of those individually.

For the full text of the patents please go to:

Core Patent 8,893,203: https://www.google.com/patents/US8893203

Client-Side Continuation Patent 9,516,392: https://www.google.com/patents/US9516392

Server-Side Continuation Patent 9,544,657: https://www.google.com/patents/US9544657

## CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS CONTINUED

### The Team

The key to the success of any company is its people. In 2017 Linius was delighted to add some outstanding commercial staff to support its already strong technical team adding two global division heads, inline with its commercialization strategy (described below).

| | |
|---|---|
| <br>Kevin Kyer<br>EVP, Search | With 10 years' experience in various roles at Yahoo — including Director, Stream Ads Solutions, EMEA, and Director, Search Operations, EMEA — Kevin joined Linius from ListGlobally, where he was COO for the software start-up that took its product to market in over 60 countries around the world with over 120 local partners |
| <br>Ken Ruck<br>EVP, Personalized Advertising | Ken joined Linius from Kodak where he served as Chief Innovation Officer working on new digital products with a focus on advanced development of video image recognition and artificial intelligence systems. Prior to Kodak, Ken worked at scaling both start-up and large media company products and held positions of VP of Video Monetization for Flash Networks, Co-Founder of Hemisphere Interactive, as well as executive roles with Turner Broadcasting, MTV, Virgin Mobile, and ACNielsen. |

While new business operations are focussed in the US and larger international markets, the local pipeline is buoyant. In support of the Company's growing pipeline in this region Linius has appointed a commercial Country Manager for Australia and New Zealand.

Supporting the division heads and ANZ country manager are two Chief Solution Architects, whose core responsibility is to help clients understand how technology can transform their business, provide guidance on third party products that can provide additional value and to deliver a technical architecture that enables clients to implement a technology, including the integration of the Linius' technology with the client's existing infrastructure and workflow practices.

### Looking Ahead

Linius' over-riding business objective is to scale the commercial business quickly, focussed on both large clients and use-cases of virtual video.

Looking towards 2018, Linius has set some ambitious commercial goals for the near term.

- Engage with a global movie studio to develop proof of value (POV) in anti-piracy
- Engage with a global movie studio to develop a mass content distribution POV
- Deliver POV of Search in a global Cloud environment
- Deliver the integration of VVE with at least one world leading OTT platform

## CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS CONTINUED

- Deliver the integration of VVE with a major ad server
- Generate first commercial outcome resulting from its IBM collaboration
- Have a 3rd Party System Integrator make VVE available in IBM Bluemix
- Deliver the integration of VVE into one additional cloud platform
- Deliver the integration of VVE with at least one cognitive Artificial Intelligence (AI) provider
- Deliver blockchain strategy and solution design

In addition to these tangible commercialization points, Linius expects to begin reporting on key commercial metrics in 2018, particularly against the Company's SaaS strategy (see below).

## PRODUCT AND STRATEGY

### Product

Linius' core product is its Video Virtualization Engine™. In 2017 the VVE™ went through beta testing and extensive public, 3rd party validation as already described. Going into 2018, it is ready for commercialization. The base product is designed with state-of-the-art engineering standards, practices and toolsets, resulting in a high-scalable, enterprise grade software product.

The Video Virtualization Engine™ cracks open the code of traditionally sealed and static video files to create a virtual video file. Within that new lighter and more agile file, you can access the video DNA data to index, tag, parse, splice, manage and manipulate any video stream on the fly, in transit between source and screen — transforming static video into what we call intelligent content.

Our APIs integrates seamlessly into existing software and workflows, adding the innovation anyone needs to redefine and disrupt any industry based upon, or leveraging video streaming.

No matter the industry or how our Video Virtualization Engine is applied, the underlying process revolves around 3 relatively simple steps.

| | |
|---|---|
| | Step 1: Automatically unlock, reveal and index the data within a legacy video file, and create a virtual video |
| | Step 2: Programmatically extract, splice, merge and manipulate video content in transit to its destination |
| | Step 3: Reassemble the new video file instantaneously at the device |

The resulting virtual "ghost file" is a tiny fraction of the original size, making it a faster, more agile and more flexible reflection of the original source file. Most importantly it's malleable – giving you the unparalleled ability to manipulate its content in numerous ways to disrupt your industry and achieve your business goals.

## CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS CONTINUED

Video virtualization allows for:

- The application of Big Data principles of analysis and manipulation to digital video
- The transformation of passive and static digital video into dynamic, smart video experiences
- Lighter, more agile and flexible video files that are easily manipulated to deliver enhanced custom experiences to end users
- The insertion of business rules and IT tools to create intelligent content

### Commercialization Strategy

In 2017, Linius announced its commercialization strategy. The Company aims to target four multi-billion-dollar industry segments which it believes the VVE can transform. Each segment will be operated as a division — a distinct business unit with its own commercial head. The divisional approach allows the Company to hire specific expertise for each while providing focus and accountability to operations.

The four markets Linius aims to transform are as follows:

1. Personalised advertising on Cable TV and Internet streaming video.
   - The TV advertising market was worth over $70 billion US in 2016, in the US alone.
   - Linius transforms this market by allowing every cable TV ad to be personalised to the individual viewer. Linius demonstrated the capability as described above in Public and 3rd-Party Validation.
2. Anti-Piracy
   - The best current research indicates that losses to piracy exceed $21 billion.
   - 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 the VVE to enhance search returns, stitching video together on the fly to provide enhanced 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.
4. Security and Defense
   - This division provides capability that dramatically increases response times for government agencies and corporations tasked with surveillance and threat management.
   - The video surveillance market is growing at 16.56% and is expected to reach $71 billion US by 2022.

Each division will go to market slightly differently, but broadly speaking Linius intends to commercialize in each division with B2B software sales on a recurring, per-unit model, either through direct deployment on customer premises (enterprise software), or through deployment in the cloud (SaaS). The primary sales channel is expected to be resellers and partners in each division, supported by Linius account and technical management.

## CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS CONTINUED

### Partners

Linius expects to deliver its products both as enterprise software through channel partners and as Software-as-a-Service from the cloud. In 2017 the Company was pleased to sign IBM as its first commercial partner, with a collaboration agreement to promote and sell the Linius Video Virtualization Engine™ to IBM's extensive network of corporate clients and beyond in Linius' target market sectors as well as building VVE onto the IBM Bluemix platform.

This collaboration project, between Linius and IBM, provides for the joint promotion and marketing of the Linius VVE (including presales support) and submission of proposals for selling the Linius VVE to targeted customers as a stand- alone or integrated offering with IBM products.

Linius will build and offer the Linius VVE on IBM Bluemix, IBM's cloud platform. IBM Bluemix weaves together services, infrastructure and data to help businesses bring their ideas into production quickly.

Christopher Richardson
CHIEF EXECUTIVE OFFICER
28 September 2017

# DIRECTORS' REPORT

Your directors present this report on the Linius Technologies Limited (the "Company") and its controlled entities (the "Group" or "Group") for the year ended 30 June 2017.

## Directors

The Directors in office during the year were:

Gerard Bongiorno (Non-Executive Chairman) – appointed 21 February 2017
Stephen McGovern (Non-Executive Chairman)
Christopher Richardson (Executive Director & CEO)
Stephen Kerr (Executive Director & CFO) – resigned as a director on 21 February 2017

All Directors have been in office since the start of the financial year to the date of this report, unless stated otherwise.

### Company Secretary

Stephen Kerr

## Principal Activities

The principal activities of the entity are those of a technology business, including development of technology products, software development and the commercialisation and licencing of its computer software, the Linius Video Virtualization EngineTM, the world's first video virtualisation engine. The technology transforms large inflexible video files into small highly flexible data structures.

## Operating Results and Review of Operations

The loss for the year ended 30 June 2017 after income tax expense amounted to $4,230,052 (for the period 10 September 2015 to 30 June 2016 loss: $5,564,619). This loss includes non-cash share based payments expense of $354,570 and non-cash amortisation charges of $540,000. During the year the Company completed development of its core product and commenced pursuing its commercialisation goals with an expanded management team and a divisional approach to tackling global markets. For more information on the years activities please refer to the above Chief Executive's Review of Operations on pages 4 to 9.

## Dividends Paid or Recommended

No dividends were paid or declared for payment.

## Financial Position

The net assets of the Group at 30 June 2017 are $5,043,444 ($8,152,986).

## Going Concern

For the year ended 30 June 2017, the Group had an operating net loss of $4,230,052 (for the period 10 September 2015 to 30 June 2016: $5,364,619) and net cash outflows from operating activities of $3,037,565 (for the period 10 September 2015 to 30 June 2016: $692,934).

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.

## DIRECTORS' REPORT CONTINUED

### After Balance Date Events

On 18 July 2017, the Company announced that it had raised $1,500,000 through the issue of 30,000,000 fully paid ordinary shares, at 5 cents per share, in a private placement to sophisticated investors.

There has not been any other matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial periods.

### Environmental Issues

There are no environmental regulations or requirements that the Company is subject to.

### Information on Directors

| | | |
|---|---|---|
| Gerard Bongiorno | — | Non-Executive Chairman (appointed 21 February 2017) |
| Experience | — | Mr Bongiorno is Principal and Co-CEO of Sapient Capital Partners, a merchant banking operation and has over 30 years of professional experience in capital raisings and corporate advisory. Prior to forming Sapient (formerly Otway Capital), Gerard was Head of Property Funds Management at Challenger Financial Services Group (CFG) and was Group Special Projects Manager at Village Roadshow. Earlier in his career he worked at KPMG in insolvency and corporate finance. Gerard received his Bachelor's Degree in Economics and Accounting from Monash University and the Program for Management development at Harvard Business School PMD75. |
| Interest in Shares and Options | — | 1,000,000 Ordinary shares |
| Directorships held in other listed entities in the last 3 years | — | In the 3 years immediately before the end of the financial year, Gerard Bongiorno served as a director of the following listed companies:<br>Dubber Corporation Limited (ASX:DUB) |

## DIRECTORS' REPORT CONTINUED

| | | |
|---|---|---|
| Stephen McGovern | — | Non-Executive Director |
| Experience | — | Mr McGovern has over 25 years' experience in the fields of telecommunications, media sales, pay TV and regulatory. Steve has been a senior executive of several established companies, both domestically and internationally, which have been primarily associated with new and emerging markets and have required a strong sales and solutions focus. These include pay TV, telecommunications de-regulation, internet service providers and media licensing, all of which maintain a strong sales and solutions focus, both domestically and internationally.<br>Mr McGovern is formerly a Sales Director of Sky Subscriber Services managing subscriber acquisition for Sky TV (now BSkyB). Between 1995 and 1998 Steve was an executive involved in the launch of the pay TV industry in Australia within the Galaxy/Austar/Foxtel network.<br>From 1998 Mr McGovern was General Manager of Hotkey Internet Services, an ISP which was sold to Primus Telecommunications in 2000. From 2000 Steve was a director of the Australian subsidiary of Affinity Internet Holdings, Europe's second largest ISP at the time and listed on the FTSE, having vended in an Australian based ISP business.<br>For 11 years Mr McGovern was Chief Executive of the my1300 group of companies until the sale of the business earlier in 2014. This group comprised businesses which involved media licensing, telecommunications service providers and partner networks for Australian telecom companies such as Primus, AAPT, Telstra, Optus and Vodafone. Mr McGovern is currently the CEO and Managing Director of Dubber Corporation, an ASX listed provider of a Cloud recording and data capture Platform as a Service aimed at the telecommunications service provider sector. |
| Interest in Shares and Options | — | 40,000,000 Ordinary shares<br>6,000,000 Options (unlisted) |
| Directorships held in other listed entities in the last 3 years | — | In the 3 years immediately before the end of the financial year, Stephen McGovern served as a director of the following listed companies:<br>Dubber Corporation Limited (ASX:DUB) |
| Christopher Richardson | — | Director and CEO |
| Experience | — | Mr Richardson is a global executive in the internet space who with global technology sector experience. He has over 20 years experience building organisations and products that succeed in their markets and provide exceptional shareholder value.<br>Currently, Mr Richardson sits on the board of directors of:<br>• Mirovoy Sales, a sales software automation company based in Prague, CZ; and<br>• The Ibis Network Limited, a content marketing agency based in Hong Kong, CN. |

## DIRECTORS' REPORT CONTINUED

| | | |
|---|---|---|
| | | Previously, Mr Richardson served as global General Manager of KIT digital's network-operator division, and CEO of KIT Germany, where he oversaw growth of video platform sales to network operators from $12 million US annually to over $100 million US, prior to KIT's acquisition by Piksel, Inc. Before KIT digital, Mr Richardson served in executive roles in marketing and product-management for several Silicon Valley start-ups, including:<br>• U4EA Wireless (the world's first SMB focused Wi-Fi manufacturer, and provider of embedded wireless software; acquired by GoS Networks); and<br>• NextHop Technologies (an embedded routing software company; acquired by Greenhills software), which he co-founded and raised Series A funding from tier-1 Silicon Valley VCs, led by New Enterprise Associates.<br>Prior to founding NextHop technologies, Mr Richardson was a software engineer at MERIT Networks, where he helped build the early internet, developing routing protocols, and consulting with developing countries around the world on deploying the Internet; lecturing multiple times at ISOC's Developing Countries workshops in Geneva, Switzerland, and being the first non-native speaker at Russia's All Russia Telematiks conference. Mr Richardson was Visiting Professor of Internet Routing at St. Petersburg State Technical University in St. Petersburg, Russia. He studied mathematics and philosophy at the University of Michigan, where he won the William S. Branstrom Prize for academic excellence and Evelyn O. Bychinsky Award for excellence in mathematics. |
| Interest in Shares and options | — | 20,000,000 Options |
| Directorships held in other listed entities in the last 3 years | — | Nil |
| | | |
| <u>Stephen Kerr</u> | — | Company Secretary and CFO (resigned as a director on 21 February 2017) |
| Experience | — | Mr Kerr is a qualified chartered accountant and chartered company secretary. He is an experienced CFO and governance professional, having held senior finance positions in private and publicly listed company environments across Australia and New Zealand for over 20 years. He has had exposure to a wide range of markets and industries including IT, business services, logistics, transport and life-sciences and brings strong financial, commercial and governance skills to the group. Stephen holds a Bachelor of Commerce from the University of Melbourne and is a current member of the Institute of Chartered Accountants in Australia and a Fellow of the Governance institute of Australia. |
| Interest in Shares and Options | — | 3,000,000 Options |
| Directorships held in other listed entities in the last 3 years | — | Nil |

## DIRECTORS' REPORT CONTINUED

### REMUNERATION REPORT - AUDITED

The information provided in the audited remuneration report includes remuneration disclosures that are required under the Corporations Act 2001 and other relevant requirements. These disclosures have been audited.

Key management personnel

Names and positions held of Group key management personnel (KMP) in office at any time during the year are:

| Key Management Person | Position |
|---|---|
| Gerard Bongiorno | Non-Executive Chairman (appointed 21 February 2017) |
| Stephen McGovern | Non-Executive Director |
| Christopher Richardson | Director and CEO |
| Stephen Kerr | Director (resigned 21 February 2017), CFO and Company Secretary |

Principles used to determine the nature and amount of remuneration

The Board determines the appropriate nature and amount of remuneration. The board may receive advice from independent remuneration consultants to ensure remuneration levels are appropriate and in line with the market. No such advice was sought for the year ended 30 June 2017. The Board ensures that the executive reward satisfies the following criteria for good reward governance practice:

- competitiveness and reasonableness;
- acceptability to shareholders;
- alignment of executive remuneration to performance;
- transparency; and
- capital management.

The framework provides for a mix of fixed and variable remuneration. There was no target mix of fixed or variable remuneration set in the current year. The variable remuneration comprises share-based payment compensation and any discretionary performance bonus payment benefits.

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the directors have regard to the following indices in respect of the current financial year and prior financial period.

| | 2017 | 2016* |
|---|---|---|
| (Loss) attributable to owners of the company | $(4,230,052) | $(5,364,619) |
| Change in share price | $(0.022) | $0.052 |

*10 September 2015 until 30 June 2016.

Profit/(loss) amounts have been calculated in accordance with the Australian Accounting Standards (AASBs).

Non-executive Directors and executive Director

Fees and payments to non-executive Directors and the executive Directors reflect the demands, which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board.

## DIRECTORS' REPORT CONTINUED

Directors' fees

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum pool limit currently stands at $300,000 per annum.

Key Management Personnel Remuneration Policy

The Board's policy for determining the nature and amount of remuneration of key management for the Group is as follows:

The remuneration structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Group. There is currently no remuneration related to Group performance. The contracts for service between the Group and key management personnel are on a continuing basis, the terms of which are detailed below and are not expected to change in the immediate future.

## DIRECTORS' REPORT CONTINUED

*Service agreements*

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements as at 30 June 2017 are as follows:

| | |
|---|---|
| Name: | Gerard Bongiorno |
| Title: | Non-Executive Chairman |
| Agreement commenced: | 21 February 2017 |
| Term of agreement: | No fixed term |
| Details: | An annual director fee of $90,000 plus superannuation. The fee paid to Mr Bongiorn is subject to annual review by the Board. The Company will reimburse Mr Bongiorno f all reasonable expenses incurred in performing his duties. The agreement includes non-competition clause. |

| | |
|---|---|
| Name: | Stephen McGovern |
| Title: | Non-Executive Director |
| Agreement commenced: | 18 April 2016 |
| Term of agreement: | No fixed term |
| Details: | An annual director fee of $90,000 plus superannuation. The fee paid to Mr McGove is subject to annual review by the Board. Under the terms of his agreement, tl Company issued Mr McGovern's nominee with 6,000,000 Options in April 2016. Tl Company will reimburse Mr McGovern for all reasonable expenses incurred performing his duties. The agreement includes a non-competition clause. |

| | |
|---|---|
| Name: | Christopher Richardson |
| Title: | Director and CEO |
| Agreement commenced: | 1 December 2015 |
| Term of agreement: | No fixed term |
| Details: | An annual consultancy fee of $150,000, payable at the rate of $12,500 per mon (exclusive of any GST or withholding taxes). The Consultancy Fee will be reviewe annually by the Board. Under the terms of the agreement, the Company issued M Richardson's nominee with 10,000,000 Options in April 2016 and 10,000,000 optio in November 2016. The agreement can be terminated by the company on one month notice or by Mr Richardson on three month's written notice. The Company will reimbur Mr Richardson for all reasonable expenses incurred in performing his duties. Tl agreement includes a non-competition clause. |

| | |
|---|---|
| Name: | Stephen Kerr |
| Title: | Chief Financial Officer and Company Secretary |
| Agreement commenced: | 21 January 2016 (Resigned as a director on 21 February 2017) |
| Term of agreement: | No fixed term |
| Details: | An annual consultancy fee of $84,000, payable at the rate of $7,000 per month (exclusive of any GST or withholding taxes). The Consultancy Fee will be reviewed annually by the Board. Under the terms of the agreement, the Company issued Mr Kerr's nominee with 1,500,000 Options in April 2016 and 1,500,000 options in November 2016. The agreement can be terminated by either party on three month's written notice. The Company will reimburse Mr Kerr for all reasonable expenses incurred in performing his duties. The agreement includes a non-competition clause. |

## DIRECTORS' REPORT CONTINUED

**Key Management Personnel Remuneration**

Details of the nature and amounts of each major element of remuneration of each director of the Company and other key management personnel of the Group are:

2017

| | Directors' fees & consultancy fees | Super-annuation payments | Share-based payment options[9] | Total | Performance Related | Share-based |
|---|---|---|---|---|---|---|
| | $ | | $ | $ | % | % |
| *Non-executive directors:* | | | | | | |
| Gerard Bongiorno | 30,000[8] | 2,850 | - | 32,850 | - | - |
| Stephen McGovern | 90,000[4] | 8,325 | - | 98,325 | - | - |
| *Executive directors:* | | | | | | |
| Christopher Richardson | 150,000[5] | - | 310,360 | 460,360 | - | 67.4 |
| *Executives:* | | | | | | |
| Stephen Kerr | 84,000[6] | - | 44,210 | 128,210 | - | 34.5 |
| | 354,000 | 11,175 | 354,570 | 719,745 | - | 49.3 |

2016*

| | Directors' fees & consultancy fees | Super-annuation payments | Share-based payments[9] | Total | Performance Related | Performance Related |
|---|---|---|---|---|---|---|
| | $ | | $ | $ | % | % |
| *Non-executive directors:* | | | | | | |
| Stephen McGovern | 19,938[4] | - | 187,450 | 207,388 | - | 90.4 |
| *Executive directors:* | | | | | | |
| Christopher Richardson | 75,000[5] | - | 124,966 | 199,966 | - | 62.5 |
| Stephen Kerr | 32,655[6] | - | 21,087 | 53,742 | - | 39.2 |
| Roger Steinepreis | 19,000[1] | - | - | 19,000 | - | - |
| David Holden | 19,000[2] | - | - | 19,000 | - | - |
| Paul Lloyd | 123,300[3] | - | - | 123,300 | - | - |
| *Executives:* | | | | | | |
| Gavin Campion | 15,365[7] | - | 1,280,907 | 1,296,272 | - | 98.8 |
| | 304,258 | - | 1,614,410 | 1,918,668 | - | 84.1 |

* 10 September 2015 until 30 June 2016.

## DIRECTORS' REPORT CONTINUED

1. Consultancy fees were paid to Steinepreis Paganin, a related party of Roger Steinepreis, up until 18 April 2016.
2. Consultancy fees were paid to Shackleton Capital Pty Ltd, a related party of David Holden up until 18 April 2016.
3. Consultancy fees were paid to Coral Brook Pty Ltd, a related party of Paul Lloyd up until 18 April 2016.
4. Consultancy fees were paid to SMG Nominees Pty Ltd, a related party of Stephen McGovern, appointed 18 April 2016.
5. Consultancy fees were paid to Mirovoy Sales, s.r.o. , a related party of Christopher Richardson, appointed 1 December 2015.
6. Consultancy fees were paid to SC Kerr & Co, a related party of Stephen Kerr, appointed 21 January 2016.

Stephen Kerr ceased as a director on the 21 February 2017, however remained an executive officer and Company Secretary of the Group.

7. Consultancy fees were paid to Hydria Plenus Pty Ltd, a related party of Gavin Campion, from 10 September 2015 until 30 March 2016; Gavin Campion continues as a non-KMP consultant with the Group.
8. Consultancy fees were paid to Otway Capital Consulting, a related party of Gerard Bongiorno, appointed 21 February 2017.
9. The fair value of the options is calculated at the date of grant using the binomial option pricing model and allocated to each reporting period based on forecast estimated vesting dates. The value disclosed is the portion of the fair value of the options recognised as an expense in each reporting period.

<u>Performance income as a proportion of total remuneration</u>

Executive directors and executives were not paid performance based bonuses.

<u>Options over equity instruments granted as compensation - audited</u>

Details on options over ordinary shares of Linius Technologies Limited that were granted as compensation to each key management person during the reporting period and details on options vested during the period are as follows:

| Options | Number of options granted 2016-17 | Grant date | Fair value per option at grant date $ | Exercise price per option $ | Expiry date | Number of options vested during 2016-17 |
|---|---|---|---|---|---|---|
| Christopher Richardson | 10,000,000 | 30 Nov 2016 | 0.022 | 0.045 | 30 Nov 2019 | 1,000,000 |
| Stephen Kerr | 1,500,000 | 30 Nov 2016 | 0.022 | 0.045 | 30 Nov 2019 | 150,000 |

The options granted are subject to vesting conditions and attached milestones being satisfied which include performance milestones; these are set out in Note 19 and 22 to the annual financial statements. The options granted are the amounts approved by way of shareholder resolution at the Company's Annual General Meeting on 30 November 2016, no further options were approved.

## DIRECTORS' REPORT CONTINUED

All options expire on the earlier of their expiry date or termination of the individual's employment.

Exercise of options granted as compensation

During the period, no options were exercised.

Details of equity incentives affecting current and future remuneration – audited

Details of the vesting profiles of the options held by each key management person of the Group are detailed below.

| | Instrument | Number of options | Grant date | % vested during the year | % forfeited in year | Financial years in which grant vests |
|---|---|---|---|---|---|---|
| Christopher Richardson | Options | 10,000,000 | 30 Nov 2016 | 10% | - | 2017-19 |
| Christopher Richardson | Options | 10,000,000 | 28 April 2016 | 60% | - | 2017 |
| Stephen Kerr | Options | 1,500,000 | 30 Nov 2016 | 10% | - | 2017-19 |
| Stephen Kerr | Options | 1,500,000 | 28 April 2016 | 55% | - | 2017 |

Analysis of movements in equity instruments – audited

The value of options over ordinary shares in the Company granted and exercised by each key management person during the reporting period is detailed below:

| | Granted in year $ | Value of options exercised in year |
|---|---|---|
| Christopher Richardson | 220,000 | - |
| Stephen Kerr | 33,000 | - |

The value of options granted in the year is the fair value of the options calculated at grant date. The total value of the options is included in the table above. There are four tranches and amounts are allocated to remuneration over the vesting period for each tranche (i.e 1 December 2016 to 30 June 2018).

Options over equity instruments – audited

The movement during the reporting period, by number of options over ordinary shares in Linius Technologies Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| | Balance 1.7.2016 | Granted during the period to 30.6.2017 | Total lapsed or exercised 30.6.2017 | Held at 30.6.2017 | Total Vested and Exercisable 30.6.2017 | Total Unexercisable 30.6.2017 |
|---|---|---|---|---|---|---|
| Stephen McGovern | 6,000,000 | - | - | 6,000,000 | 6,000,000 | - |
| Christopher Richardson | 10,000,000 | 10,000,000 | - | 20,000,000 | 11,000,000 | 9,000,000 |
| Stephen Kerr | 1,500,000 | 1,500,000 | - | 3,000,000 | 1,650,000 | 1,350,000 |
| Total | 17,500,000 | 11,500,000 | - | 29,000,000 | 18,650,000 | 10,350,000 |

For details on the valuation of options granted during the period refer Note 19.

## DIRECTORS' REPORT CONTINUED

Movements in shares - audited

The movement during the reporting period in the number of ordinary and performance shares in Linius Technology Limited, held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| | Balance 1.7.2016 | Received as Compensation | Options Exercised | Acquired during the year | Balance 30.6.2017 |
|---|---|---|---|---|---|
| Gerard Bongiorno | - | - | - | 1,000,000 | 1,000,000 |
| Stephen McGovern | 20,000,000 | - | - | 20,000,000 | 40,000,000 |
| Total | 20,000,000 | - | - | 21,000,000 | 41,000,000 |

Number of Performance Shares held by Key Management Personnel

| | Balance 1.7.2016 | Received as Compensation | Converted to ordinary shares | Acquired during the year | Balance 30.6.2017 |
|---|---|---|---|---|---|
| Stephen McGovern | 20,000,000 | - | (20,000,000) | - | - |
| Total | 20,000,000 | - | (20,000,000) | - | - |

| Key management personnel transactions - audited | Group | |
|---|---|---|
| | 2017 | 2016* |
| | $ | $ |
| *Transactions with related parties:* | | |
| Legal fees paid to Steinepreis Paganin, a legal firm in which Roger Steinepreis has an interest | - | 159,633 |
| *Amounts owing to related parties (included in trade and other payables)* | | |
| Entity related to Stephen McGovern | 8,193 | 8,193 |
| Entity related to Christopher Richardson | 31,655 | 37,131 |
| Entity related to Stephen Kerr | 7,700 | 7,700 |

* 10 September 2015 until 30 June 2016.

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

END OF REMUNERATION REPORT

## DIRECTORS' REPORT CONTINUED

### Meetings of Directors

During the financial year, ten meetings of Directors were held. Attendance by each director was as follows:

| | Directors' Meetings | |
|---|---|---|
| | Number eligible to attend | Number attended |
| Gerard Bongiorno | 5 | 5 |
| Stephen McGovern | 10 | 10 |
| Christopher Richardson | 10 | 10 |
| Stephen Kerr | 5 | 5 |

### Indemnification and insurance of Directors and Officers

The Company has agreed to indemnify all the directors of the Company for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company, and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

The Company has paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the Company, other than conduct involving a wilful breach of duty in relation to the Group.

### Options

At the date of this report, the unissued ordinary shares of Linius Technologies Limited under option are as follows;

| Date of Expiry | | Exercise Price | Number Under Option |
|---|---|---|---|
| 31/03/2019 | unlisted | 5 cents | 61,500,000 |
| 30/11/2019 | unlisted | 4.5 cents | 11,500,000 |

During the year ended 30 June 2017, no ordinary shares of Linius Technologies Limited were issued on the exercise of options granted under any Employee Option Plan.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

### Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the period.

## DIRECTORS' REPORT CONTINUED

### Future Developments

Other than as referred to in this report, further information as to likely developments in the operations of the Group and expected results of those operations would, in the opinion of the Directors, be speculative and prejudicial to the interests of the Group and its shareholders.

### Corporate Governance statement

The Company's Corporate Governance Statement has been lodged with ASX and is available from Company's website at www.linius.com/corporate-governance/.

### Auditor's Independence Declaration

The Lead auditor's independence declaration is set out on page 23 and forms part of the directors' report for the financial year ended 30 June 2017.

### Non-Audit Services

Other than audit and review of the financial statements, KPMG has not performed any other services.

Signed in accordance with a resolution of the Board of Directors.

Gerard Bongiorno
Director

28 September 2017
Melbourne

# 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 audit of Linius Technologies Limited for the financial year ended 30 June 2017. There have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. No contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Tony Batsakis
*Partner*

Melbourne

28 September 2017

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
## FOR YEAR ENDED 30 JUNE 2017

| | Note | Group | |
|---|---|---|---|
| | | 2017 | 2016* |
| | | $ | $ |
| Revenue | 2 | 41,492 | 12,027 |
| Administrative expenses | | (331,850) | (141,159) |
| Employee benefit expenses | | (34,462) | - |
| Amortisation expense | | (540,000) | (315,000) |
| Consultant expenses | | (692,055) | (241,959) |
| Depreciation expense | | (239) | - |
| Share-based payments expense | 19 | (384,570) | (2,498,135) |
| Financial and compliance expenses | | (142,897) | (32,442) |
| Software development expenses | | (895,440) | (272,068) |
| Marketing and promotional expenses | | (761,368) | - |
| Patent costs | | (73,793) | (38,166) |
| Legal expenses | | (140,561) | (184,015) |
| Travel and accommodation expenses | | (274,309) | (46,277) |
| Loss before transaction costs and income tax | | (4,230,052) | (3,757,194) |
| Transaction costs relating to the reverse acquisition by the accounting acquirer Linius (Aust) Pty Ltd of Linius Technologies Limited | 22 | - | (1,607,425) |
| Loss before income tax | | (4,230,052) | (5,364,619) |
| Income tax expense | 4 | - | - |
| Loss for the year | | (4,230,052) | (5,364,619) |
| Other comprehensive loss | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| Exchange differences on translation of foreign operations | | - | - |
| Total comprehensive loss for the year | | (4,230,052) | (5,364,619) |
| Basic loss per share (cents per share) | 7 | (0.7) | (3.7) |
| Diluted loss per share (cents per share) | 7 | (0.7) | (3.7) |

* 10 September 2015 until 30 June 2016.

The accompanying notes form part of the financial report.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

| | Note | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | $ | $ |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 8 | 959,270 | 3,275,258 |
| Other receivables | 9 | 77,475 | 75,506 |
| TOTAL CURRENT ASSETS | | 1,036,745 | 3,350,764 |
| NON-CURRENT ASSETS | | | |
| Intellectual property | 10 | 4,545,000 | 5,085,000 |
| Property, plant and equipment | | 14,124 | - |
| TOTAL NON-CURRENT ASSETS | | 4,559,124 | 5,085,000 |
| TOTAL ASSETS | | 5,595,869 | 8,435,764 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | 550,320 | 282,778 |
| Employee Provisions | | 2,105 | - |
| TOTAL CURRENT LIABILITIES | | 552,425 | 282,778 |
| TOTAL LIABILITIES | | 552,425 | 282,778 |
| NET ASSETS | | 5,043,444 | 8,152,986 |
| EQUITY | | | |
| Issued capital | 12 | 12,575,410 | 11,809,470 |
| Share based payments reserve | 19 | 2,062,705 | 1,708,135 |
| Accumulated losses | | (9,594,671) | (5,364,619) |
| TOTAL EQUITY | | 5,043,444 | 8,152,986 |

The accompanying notes form part of the financial report

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

| Group | Issued Capital | Share Based Payments Reserve | Accumulated Losses | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Balance at incorporation | - | - | - | - |
| **Total comprehensive loss** | | | | |
| Loss for the period* | - | - | (5,364,619) | (5,364,619) |
| Other comprehensive loss | - | - | - | - |
| Total comprehensive loss | - | - | (5,364,619) | (5,364,619) |
| **Transactions with owners of the Company** | | | | |
| Shares issued on incorporation | 200 | - | - | 200 |
| Shares issued during the year (net of capital raising costs) | 5,000,000 | - | - | 5,000,000 |
| Reverse acquisition of Linius Technologies | 5,684,270 | - | - | 5,684,270 |
| Conversion Offer | 875,000 | - | - | 875,000 |
| CPS Offer | 250,000 | - | - | 250,000 |
| Share-based payments* | - | 1,708,135 | - | 1,708,135 |
| Total transactions with owners of the Company | 11,809,470 | 1,708,135 | - | 13,517,605 |
| Balance at 30 June 2016 | 11,809,470 | 1,708,135 | (5,364,619) | 8,152,986 |
| | | | | |
| Balance 1 July 2016 | 11,809,470 | 1,708,135 | (5,364,619) | 8,152,986 |
| **Total comprehensive loss** | | | | |
| Loss for the year | - | - | (4,230,052) | (4,230,052) |
| Other comprehensive loss | - | - | - | - |
| Total comprehensive loss | - | - | (4,230,052) | (4,230,052) |
| **Transactions with owners of the Company** | | | | |
| Shares and options issued during the year (net of capital raising costs) | 765,940 | - | - | 765,940 |
| Share-based payments | - | 354,570 | - | 354,570 |
| Total transactions with owners of the Company | 765,940 | 354,570 | - | 1,120,510 |
| Balance at 30 June 2017 | 12,575,410 | 2,062,705 | (9,594,671) | 5,043,444 |

* 10 September 2015 until 30 June 2016.

The accompanying notes form part of the financial report

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

| | Note | Group | |
|---|---|---|---|
| | | 2017 | 2016* |
| | | $ | $ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Payments to suppliers | | (3,084,744) | (699,093) |
| Interest received | | 47,179 | 6,159 |
| Net cash used in operating activities | 13 | (3,037,565) | (692,934) |
| | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of intellectual property | | - | (400,000) |
| Cash acquired through reverse acquisition | 22 | - | 4,017,992 |
| Purchase of property, plant & equipment | | (14,363) | - |
| Net cash provided by /(used in) investing activities | | (14,363) | 3,617,992 |
| | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of convertible notes | | - | 350,000 |
| Proceeds from issue of shares | | 760,940 | 200 |
| Capital raising costs paid | | (25,000) | - |
| Net cash inflows from financing activities | | 735,940 | 350,200 |
| | | | |
| Net increase/(decrease) in cash held | | (2,315,988) | 3,275,258 |
| Cash at beginning of financial year | | 3,275,258 | - |
| Cash at end of financial year | 8 | 959,270 | 3,275,258 |

* 10 September 2015 until 30 June 2016.

The accompanying notes form part of the financial report

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These general purpose financial statements comprise the financial report and notes of Linius Technologies Limited (the "Company") and its controlled entities (the " Group" or "Group"), a listed Australian company incorporated in Australia.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements comprise the consolidated financial statements for the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity, involved in the development of technology products, software development and the commercialisation and licencing of computer software.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. The financial report and notes also comply with International Financial Reporting Standards adopted by the International Accounting Standards Board. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report was authorised for issue by the Board of Directors on 28 September 2017.

Reverse Acquisition Accounting

The acquisition of Linius (Aust) Pty Ltd by the Company, in the prior period to 30 June 2016, is considered to be a reverse acquisition under Australian Accounting Standards, notwithstanding the Company being the legal parent of the Group. Consequently, the financial information presented in this Report is the financial information of Linius (Aust) Pty Ltd. Linius (Aust) Pty Ltd was incorporated on 10 September 2015, hence the prior reporting period is from this date up to 30 June 2016.

The legal structure of the Group subsequent to the acquisition of Linius (Aust) Pty Ltd is that the Company will remain as the legal parent entity. However, the principles of reverse acquisition accounting are applicable where the owners of the acquired entity (in this case, Linius (Aust) Pty Ltd) obtain control of the acquiring entity (in this case, the Company) as a result of the business combination.

Under reverse acquisition accounting, the consolidated financial statements are issued under the name of the legal parent (the Company) but are a continuation of the financial statements of the legal subsidiary (Linius (Aust) Pty Ltd), with the assets and liabilities of the legal subsidiary being recognised and measured at their pre-combination carrying amounts rather than their fair values at the date of the business combination.

*Historical cost convention*

The financial statements have been prepared under the historical cost convention.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Going Concern*

For the year ended 30 June 2017, the Group incurred an operating net loss of $4,230,052 (2016: $5,364,619) and net cash outflows from operating activities of $3,037,565 (2016: $692,934).

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 21); and
- the Directors have prepared cash flow projections for the period from 1 July 2017 until 31 December 2018 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.

The Group's ability to continue to operate as a going concern is dependent upon the items listed above, where additional funds and/or alternative financing have yet to be secured. The conditions give rise to a material uncertainty as to whether the Group will be able to continue as a going concern and therefore should the Group be unable to continue as a going concern it may be required to realise assets at an amount different to that recorded in the statement of financial position, settle liabilities other than in the ordinary course of business and make provisions for other costs which may arise.

a. Income Tax

The income tax expense/(benefit) for the year comprises current income tax expense/(benefit) and deferred tax expense/(benefit).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities/(assets) are therefore measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the period as well as unused tax losses.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current and deferred income tax expense/(benefit) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial report. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

b. Financial Instruments

*Recognition and Initial Measurement*

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Group becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

*Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Classification and Subsequent Measurement*

i. Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

iii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments and are subsequently measured at fair value and changes there in, other than impairment losses, are recognised in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

v. Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

*Impairment of financial assets*

The Group assesses at each balance date whether a financial asset or Group of financial assets is impaired.

i. Financial assets measured at amortised costs

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a Group of financial assets with similar credit risk characteristics and that Group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

ii. Available-for-sale financial assets

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the statement of comprehensive income. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

c. Impairment testing of Tangible and Intangible Assets

At each reporting date, the Directors review the carrying values of the Group’s tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset’s fair value less costs to sell and value in use, is compared to the asset’s carrying value. Any excess of the asset’s carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives and for any assets when impairment triggers exist.

d. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### e. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the statement of financial position.

### f. Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST).

### g. Trade and Other Payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period, which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

### h. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

### i. Comparative Figures

The acquisition of Linius (Aust) Pty Ltd by the Company, in the prior period to 30 June 2016, is considered to be a reverse acquisition under Australian Accounting Standards, notwithstanding the Company being the legal parent of the Group. Consequently, the financial information presented in this Report is the financial information of Linius (Aust) Pty Ltd. Linius (Aust) Pty Ltd was incorporated on 10 September 2015, hence the prior reporting period is from this date up to 30 June 2016.

Where required by Accounting standards, comparative figures have been adjusted to conform to changes in the presentation for the current financial year.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

*Impairment*

The Directors assess impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

*Income tax*

Balances disclosed in the financial report and the notes thereto related to taxation are based on the best estimates of Directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the Directors' understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that Directors' best estimate, pending an assessment by the Australian Taxation Office.

*Deferred taxation*

Potential deferred income tax benefits have not been brought to account at reporting date because the Directors do not believe that it is appropriate to regard realisations of deferred income tax benefits as probable.

*Share based payment transactions*

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a binomial option pricing model.

k. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Linius Technologies Limited.

l. Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of profit or loss and other comprehensive income. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss and other comprehensive income.

m. Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

n. Employee leave benefits

*Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

*Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the balance date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

o. Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. Earnings per share

Basic earnings per share is calculated as net profit/loss attributable to members of the Company, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit/loss attributable to members of the Company, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

q. Adoption of new and revised standards

*Standards issued but not yet effective*

In the year ended 30 June 2017, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current annual reporting period and earlier adoptions is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements:

- AAS15 Revenue from Contracts with Customers;
- AASB 9 Financial Instruments;
- AASB16 Leases.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Group and, therefore, no material change is necessary to Group accounting policies.

r. Foreign currency translation

Both the functional and presentation currency of Linius Technologies Limited is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

As at the balance date the assets and liabilities of any foreign subsidiary is translated into the presentation currency of Linius Technologies Limited at the rate of exchange ruling at the balance date and income and expense items are translated at the average exchange rate for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

The exchange differences arising on the translation are taken directly to a separate component of equity, being recognised in the foreign currency translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

In addition, in relation to the partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

s. Share-based payments

The Company has issued options to directors as part of their remuneration arrangements and has issued options and shares to third parties in consideration for acquisitions, settlement of loans, acquisition fees and for consultancy services received. The cost of these equity-settled transactions has been measured by reference to the fair value of the equity instruments granted, namely the market value of the Company's shares on the dates when agreements were reached to issue those shares. The grant-date fair value of equity settled share-based payments arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

t. Parent entity financial information

The financial information for the parent entity, Linius Technologies Limited, disclosed in Note 23 has been prepared on the same basis as the consolidated financial statements, except as set out below.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*(i) Investments in subsidiaries, associates and joint venture entities*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the parent entity's financial statements. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

*(ii) Share-based payments*

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

u. Plant and equipment

*(i) Recognition and measurement*

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of property, plant and equipment have different useful lives, then they are accounted for as separate items of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

*(ii) Depreciation*

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lovers unless it is reasonably certain that the group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful loves of the property, plant and equipment for current and comparative periods are as follows:

- IT equipment 3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v. Basis of consolidation

*(i) Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

*(ii) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### NOTE 2: REVENUE

| | Group | |
|---|---|---|
| | 2017 | 2016* |
| | $ | $ |
| Other revenue: | | |
| Interest received | 41,492 | 12,027 |
| Total revenue | 41,492 | 12,027 |

### NOTE 3: LOSS FOR THE YEAR

| | Group | |
|---|---|---|
| | 2017 | 2016* |
| | $ | $ |
| Other expenses: | | |
| Occupancy costs | 31,741 | 28,807 |

* 10 September 2015 until 30 June 2016.

## NOTE 4: INCOME TAX EXPENSE

| | Group | |
|---|---|---|
| | 2017 | 2016* |
| | $ | $ |
| (a) Income tax expense | | |
| Current tax | - | - |
| Deferred tax | - | - |
| (b) Reconciliation of income tax expense to prima facie tax payable | | |
| The prima facie tax payable on profit/loss from ordinary activities before income tax is reconciled to the income tax expense as follows: | | |
| Prima facie tax on operating loss at 27.5% (28.5% prior year) | (1,163,264) | (1,528,916) |
| Add / (Less) | | |
| Tax effect of: | | |
| Reverse acquisition expenses | - | 458,116 |
| Share based payments | 97,507 | 711,969 |
| Other non-allowable items | 15,242 | 2,270 |
| Unused tax losses not recognised as deferred assets | 1,050,515 | 356,561 |
| Income tax attributable to operating loss | - | - |

Prior year comparatives were stated using a tax rate of 28%. This has been restated to 28.5% to reflect the appropriate tax rate.

| | | |
|---|---|---|
| (c) Unrecognised deferred tax assets | | |
| Unused Australian tax losses for which no deferred tax asset has been recognised | 1,223,673 | 179,453 |

The comparative unrecognised deferred tax asset has been restated from $350,305 to $179,453 to reflect assessed balances using the applicable tax rates. Temporary differences for which no deferred tax asset has been recognised are insignificant.

Potential deferred tax assets attributable to tax losses carried forward have not been brought to account at 30 June 2017 because the Directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this current point in time. These benefits will only be obtained if:

i. The Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;

ii. The Group continues to comply with conditions for deductibility imposed by law; and

iii. No changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

* 10 September 2015 until 30 June 2016.

## NOTE 5 : KEY MANAGEMENT PERSONNEL

The total of remuneration paid to KMP of the Group during the period are as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016* |
| | $ | $ |
| Short-term employee benefits | 365,175 | 304,258 |
| Share-based payments | 354,570 | 1,614,410 |
| | 719,745 | 1,918,668 |

## NOTE 6: AUDITOR'S REMUNERATION

| | Group | |
|---|---|---|
| | 2017 | 2016* |
| | $ | $ |
| Remuneration of the auditor for services provide to the Group and the Parent during the year: | | |
| — auditing and reviewing of financial statements: | | |
| KPMG | 69,000 | - |
| HLB Mann Judd | - | 30,500 |
| — other services: | | |
| HLB Mann Judd – | | |
| Prospectus and Investigating Accountant's Report | | |
| compilation and other assurance services | - | 25,000 |
| | 69,000 | 55,500 |

## NOTE 7: EARNINGS/LOSS PER SHARE

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016* |
| | | $ | $ |
| a. | Reconciliation of earnings to profit or loss | | |
| | Loss used to calculate basic and diluted EPS | (4,230,052) | (5,364,619) |
| | | No. | No. |
| b. | Weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS | 632,821,305 | 144,515,330 |

Potential ordinary shares comprising 73,000,000 options (2016: 76,027,554) were excluded in the calculation of diluted EPS given they are antidilutive.

* 10 September 2015 until 30 June 2016.

## NOTE 8: CASH AND CASH EQUIVALENTS

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Cash at bank and in hand | 959,270 | 3,275,258 |

The effective interest rate on short-term bank deposits was varying between 2.05% to 3.28%.

*Reconciliation of cash*

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | 959,270 | 3,275,258 |

## NOTE 9: OTHER RECEIVABLES

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| CURRENT | | |
| GST receivable | 39,033 | 53,007 |
| Prepaid expenses and other receivables | 38,442 | 22,499 |
| | 77,475 | 75,506 |

## NOTE 10: INTELLECTUAL PROPERTY

During the prior period, the Group acquired the intellectual property associated with the Linius technology from an unrelated party. 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.

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Intellectual property at cost | 5,400,000 | 5,400,000 |
| Accumulated amortisation | (855,000) | (315,000) |
| | 4,545,000 | 5,085,000 |

## NOTE 10: INTELLECTUAL PROPERTY (CONTINUED)

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 during the prior financial period. 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.

*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 30 June 2017 consist principally of cash of $959,270 and intellectual property, after amortisation, of $4,545,000. Net assets are $5,043,444.

Linius shares closed at a price of 5.2 cents per share on 30 June 2017. Total fully paid ordinary shares on issue at 30 June 2017 are 679,190,880. This gives a market capitalisation of Linius of $35,317,926. 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 – 2022. Expenses are set based on the 2018 budget, increasing by anticipated growth required to the 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.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 11: TRADE AND OTHER PAYABLES

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Trade payables* | 280,455 | 144,463 |
| Sundry payables and accrued expenses | 269,865 | 138,315 |
| | 550,320 | 282,778 |

*Terms of trade are in line with normal commercial terms (usually 30 to 60 days)

## NOTE 12: ISSUED CAPITAL AND RESERVES

| | | Group | |
|---|---|---|---|
| | Note | $ (Legal subsidiary) | Number (Legal parent) |
| Issued Capital | | | |
| 2017 | | | |
| Opening balance 1 July 2016 | | 11,809,470 | 562,238,580 |
| Issue of shares through private placement (net of costs) | | 475,000 | 10,000,000 |
| Issue of shares as share based payment to corporate advisor | | 30,000 | 428,794 |
| Conversion of performance shares | | - | 100,000,000 |
| Issue of shares on conversion of listed options | | 260,940 | 6,523,506 |
| At reporting date | | 12,575,410 | 679,190,880 |

The Company has issued share capital amounting to 679,190,880 ordinary shares of no par value.

| | | | |
|---|---|---|---|
| 2016 | | | |
| Opening balance | | - | - |
| Issue of shares on incorporation of Linius (Aust) Pty Ltd | | 200 | 20,000 |
| Issue of shares to acquire Linius intellectual property | | 5,000,000 | 50,000 |
| Shares eliminated in legal subsidiary on acquisition | | - | (70,000) |
| Shares acquired on acquisition of legal parent | | - | 189,738,580 |
| Consideration shares | | - | 300,000,000 |
| Deemed consideration of reverse acquisition | 22 | 5,684,270 | - |
| Conversion Offer | | 875,000 | 17,500,000 |
| CPS Offer | | 250,000 | 5,000,000 |
| Conversion of performance shares | | - | 50,000,000 |
| At 30 June 2016 | | 11,809,470 | 562,238,580 |

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 12: ISSUED CAPITAL AND RESERVES (CONTINUED)

| | Legal parent entity | |
|---|---|---|
| Ordinary shares | 2017<br>No. | 2016*<br>No. |
| Opening balance | 562,238,580 | 90,499,985 |
| Fully paid shares issued during the year | | |
| — November 2015 (conversion of listed options) | | 3,134,246 |
| — December 2015 (Rights issue) | | 25,536,608 |
| — December 2015 (conversion of listed options) | | 113,200 |
| — February 2016 (conversion of listed options) | | 25,000 |
| — February 2016 (share-based payment of consulting fees) | | 202,269 |
| — April 2016 (Issue of Linius (Aust) Pty Ltd vendor shares) | | 250,000,000 |
| — April 2016 (conversion of performance shares) | | 50,000,000 |
| — April 2016 (share issue pursuant to public offer) | | 70,000,000 |
| — April 2016 (conversion of Linius (Aust) Pty Ltd convertible note) | | 17,500,000 |
| — April 2016 (share-based payment of Linius (Aust) Pty Ltd acquisition fees) | | 5,000,000 |
| — May 2016 (conversion of performance shares) | | 50,000,000 |
| — May 2016 (share based payment of consulting fees) | | 227,272 |
| — September 2016 (issue of shares via private placement) | 10,000,000 | |
| — September 2016 (share based payment of consulting fees) | 197,511 | |
| — November 2016 (share based payment of consulting fees) | 231,283 | |
| — November 2016 (conversion of performance shares) | 50,000,000 | |
| — December 2016 (conversion of performance shares) | 50,000,000 | |
| — December 2016 (conversion of listed options) | 6,523,506 | |
| At reporting date | 679,190,880 | 562,238,580 |

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. All ordinary shares rank equally with regard to the Company's residual assets.

* 10 September 2015 until 30 June 2016.

## NOTE 12: ISSUED CAPITAL AND RESERVES (CONTINUED)

| | Legal parent entity | |
|---|---|---|
| Performance shares on issue | 2017 | 2016* |
| | No. | No. |
| Opening balance | 100,000,000 | - |
| Performance shares issued during the year | - | 200,000,000 |
| Number converted to ordinary shares during the period | (100,000,000) | (100,000,000) |
| At reporting date | - | 100,000,000 |

The performance shares were unlisted. The terms of these performance shares are detailed in Note: 22.
* 10 September 2015 until 30 June 2016.

### NATURE AND PURPOSE OF RESERVES

Share-Based Payments Reserve

This reserve is used to record the equity value of share based payment expenses incurred as consideration for employee and consultant services.

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being an early stage technology company, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet research and development of software, early stage business commercialisation initiatives and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group at 30 June 2017 is as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Cash and cash equivalents | 959,270 | 3,275,258 |
| Trade and other receivables | 77,475 | 75,506 |
| Trade and other payables and other liabilities | (552,425) | (282,778) |
| Working capital position | 484,320 | 3,067,986 |

Subsequent to year end the Company raised $1,500,000 through the issue of new capital through a private placement. Refer to Note 21 – Events occurring after reporting date

## NOTE 13: CASH FLOW INFORMATION

| | Group | |
|---|---|---|
| | 2017 | 2016* |
| | $ | $ |
| Loss after income tax | (4,230,052) | (5,364,619) |
| Cash flows excluded from loss attributable to operating activities | | |
| Non cash items | | |
| - Depreciation | 239 | - |
| - Amortisation | 540,000 | 315,000 |
| - Share-based payments expense | 384,570 | 2,498,135 |
| - Transaction costs relating to reverse acquisition | - | 1,607,425 |
| Changes in assets and liabilities | | |
| - Increase/(decrease) in provisions | 2,105 | - |
| - Increase/(decrease) in trade payables and accruals | 267,542 | 35,223 |
| - (Increase)/decrease in trade receivables and prepayments | (1,969) | 215,902 |
| Cash flows used in operating activities | (3,037,565) | (692,934) |

* 10 September 2015 until 30 June 2016.

## NOTE 14: RELATED PARTY TRANSACTIONS

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| *(i) Transactions with key management personnel:* | | |
| Legal fees paid to Steinepreis Paganin, a legal firm in which Roger Steinepreis has an interest | - | 159,633 |
| *(ii) Amounts owing to key management personnel (included in trade and other payables):* | | |
| Entity related to Stephen McGovern | 8,193 | 8,193 |
| Entity related to Christopher Richardson | 31,655 | 37,131 |
| Entity related to Stephen Kerr | 7,700 | 7,700 |

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

## NOTE 15: INTERESTS IN CONTROLLED ENTITIES

The parent company had the following controlled entities:

| | | | % Held | |
|---|---|---|---|---|
| Name of the subsidiary | Place of incorporation | Class of shares | 2017 | 2016 |
| Firestrike Resources Incorporated (a) | USA | Ordinary | 100% | 100% |
| Linius (Aust) Pty Ltd | Australia | Ordinary | 100% | 100% |
| Linius Solutions Pty Ltd (b) | Australia | Ordinary | 100% | - |

(a) Inactive dormant company.
(b) Incorporated in 2017 with a nominal share capital of $1.

Balances and transactions between the parent and its subsidiaries, which are related parties of the parent, have been eliminated on consolidation and not disclosed in this note.

## NOTE 16: OPERATING SEGMENTS

Segment Information

AASB 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group's operating segments have been determined with reference to the monthly management accounts used by the Chief Operating Decision Maker to make decisions regarding the Group's operations and allocation of working capital. Due to the size and nature of the Group, the Board as a whole has been determined as the Chief Operating Decision Maker.

Based on the quantitative thresholds included in AASB 8, there is only one reportable segment, being the Development of computer software in the Australasian region.

The revenues and results of this segment are those of the Group as a whole and are set out in the consolidated statement of profit or loss and other comprehensive income. The segment assets and liabilities of this segment are those of the Group and are set out in the consolidated statement of financial position.

## NOTE 17: COMMITMENTS

There are no material lease or other commitments as at balance date. The entity operates from premises which are leased on a short-term tenancy.

## NOTE 18: CONTINGENCIES

There are no contingent assets or liabilities as at balance date.

## NOTE 19: SHARE-BASED PAYMENTS

*Employee share option plan*

An employee share option plan (ESOP) has been established by the Group, whereby the Group may, at the discretion of the Board, grant options over ordinary shares in the company to personnel of the Group. 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 30 June 2017 no options had been granted under the ESOP.

As at 30 June 2016 no options had been granted under the ESOP.

NOTE 19: SHARE-BASED PAYMENTS (CONTINUED)

*Share options (equity settled)*

The key terms and conditions of share options on issue are as follows; all options are to be settled by the physical delivery of shares.

| Grant date | Number of instruments | Vesting conditions | Contractual life of options |
|---|---|---|---|
| *Options granted to key management personnel* | | | |
| On 30 November 2016 | 11,500,000 | Refer to Note A below | 3 years |
| On 29 April 2016 | 58,500,000 | Refer to Note B Below | 3 years |
| *Options granted to external advisors* | | | |
| On 29 April 2016 | 3,000,000 | Refer to Note B Below | 3 years |

*Note A*

During the year 11,500,000 options were granted to Directors and Executives pursuant to a shareholder resolution passed at the Company's Annual General Meeting on 30 November 2016:

| Name | Position | Vesting Condition | Options |
|---|---|---|---|
| Christopher Richardson | Managing Director and Chief Executive Officer | Vesting Condition 1 | 2,000,000* |
| | | Vesting Condition 2 | 2,000,000 |
| | | Vesting Condition 3 | 2,000,000 |
| | | Vesting Condition 4 | 2,000,000 |
| | | Vesting Condition 5 | 2,000,000 |
| Stephen Kerr | Chief Financial Officer and Company Secretary | Vesting Condition 1 | 300,000* |
| | | Vesting Condition 2 | 300,000 |
| | | Vesting Condition 3 | 300,000 |
| | | Vesting Condition 4 | 300,000 |
| | | Vesting Condition 5 | 300,000 |
| Total | | | 11,500,000 |

* These Options shall vest in four equal instalments at the end of each calendar quarter

The options are subject to the following vesting conditions:

The Options will not vest and become exercisable into Shares until such time as the conditions to their vesting (Vesting Conditions) set out below have been satisfied:

- Vesting Condition 1 means the date on which all existing and outstanding Performance Shares have been converted by the Company into Shares;
- Vesting Condition 2 means, subject to Vesting Condition 1 having been satisfied, the date at which the VWAP over 20 consecutive trading days exceeds $0.15;

NOTE 19: SHARE-BASED PAYMENTS (CONTINUED)

- Vesting Condition 3 means, subject to Vesting Condition 2 having been satisfied, the date on which the Company announces that a first release of the Linius technology in the form of software (Linius Software) is available for commercial distribution to the market (which succeeds alpha and beta versions of the software);
- Vesting Condition 4 means the date on which the Company (or a subsidiary) first enters into an arm's length agreement with a third party for the commercial use of the Linius Software, whether by way of indirect means (eg via a reseller arrangement) or direct means (eg via a licence to use); and
- Vesting Condition 5 means the date on which the Company's and its subsidiaries' forecast gross operational revenue from third party agreements for the following 12-month period is at least $1,000,000.

If the relevant Vesting Condition is not satisfied within the respective time for satisfaction, the relevant number of Options attached to such Vesting Condition will lapse.

*Note B*

In the prior year, on 29 April 2016 at a general meeting of shareholders of the Company, and conditional on completion of the reverse acquisition transaction ("Completion"), it was resolved to issue 10,000,000 options to Mr Christopher Richardson or his nominees, 6,000,000 options to Mr Stephen McGovern or his nominees, 1,500,000 options to Mr Stephen Kerr or his nominees and 41,000,000 options to Mr Gavin Campion or his nominees.

During 2016, 3,000,000 options were issued to external advisors for corporate consulting services.

The options issued to Mr Richardson and Mr Kerr were subject to the following vesting conditions. Milestone references refer to those milestones detailed in Note: 22.

| Name | No. New Options | Vesting date |
|---|---|---|
| Christopher Richardson | 4,000,000 | Vesting in equal instalments of 1,000,000 each at the end of each calendar quarter after Completion |
| | 1,500,000 | Vesting on the date of satisfaction of Milestone 1 |
| | 1,500,000 | Vesting on the date of satisfaction of Milestone 2 |
| | 1,500,000 | Vesting on the date of satisfaction of Milestone 3 |
| | 1,500,000 | Vesting on the date of satisfaction of Milestone 4 |
| Stephen Kerr | 300,000 | Vesting in equal instalments of 75,000 each at the end of each calendar quarter after Completion |
| | 300,000 | Vesting on the date of satisfaction of Milestone 1 |
| | 300,000 | Vesting on the date of satisfaction of Milestone 2 |
| | 300,000 | Vesting on the date of satisfaction of Milestone 3 |
| | 300,000 | Vesting on the date of satisfaction of Milestone 4 |

Milestones 1 and 2 had been achieved as at 30 June 2016 and all Milestones had been achieved by 30 June 2017.

NOTE 19: SHARE-BASED PAYMENTS (CONTINUED)

*Share based payments (equity settled) expense recognised in profit or loss*

| Options | 2017 $ | 2016* $ |
|---|---|---|
| Christopher Richardson | 310,360 | 124,966 |
| Stephen Kerr | 44,210 | 21,087 |
| Stephen McGovern | - | 187,450 |
| Gavin Campion | - | 1,280,907 |
| External consultants | - | 93,725 |
| | 354,570 | 1,708,135 |
| Shares | | |
| *Settlement of consulting fees via share issues shares* | | |
| Consulting fees | 30,000 | 265,000 |
| Convertible note fees | - | 525,000 |
| | 384,570 | 2,498,135 |

* 10 September 2015 until 30 June 2016.

*Reconciliation of outstanding share options – equity settled*

The number and weighted-average exercise prices of share options under the share option programmes were as follows:

| *Options on issue* | *Number of options 2017* | *Weighted average exercise price 2017* | *Number of options 2016* | *Weighted average exercise price 2016* |
|---|---|---|---|---|
| Outstanding at 1 July | 76,027,554 | 4.8 cents | 17,800,000 | 4 cents |
| Listed options over ordinary shares exercised during the year | (6,523,506) | 4 cents | (3,272,446) | 4 cents |
| Listed options – expired during the year | (8,004,048) | 4 cents | - | |
| Granted during the year | 11,500,000 | 4.5 cents | 61,500,000 | 5 cents |
| Outstanding at 30 June | 73,000,000 | 4.9 cents | 76,027,554 | 4.8 cents |
| Exercisable at 30 June | 62,650,000 | 5 cents | 69,202,554 | 4.8 cents |

## NOTE 19: SHARE-BASED PAYMENTS (CONTINUED)

The fair value of the equity-settled share options granted in the current period is estimated as at the date of grant using an independent valuation, which is based on the binomial model, which considers the terms and conditions upon which the options were granted:

| 30 June 2017 | 11,500,000 Unlisted options 30 June 2017 | 61,500,000 Unlisted options 30 June 2016 |
|---|---|---|
| Dividend yield (%) | Nil | Nil |
| Expected volatility (%) | 86% | 100% |
| Risk-free interest rate (%) | 1.895% | 2.00% |
| Expected life of option (years) | 3.0 yrs | 2.9 yrs |
| Exercise price (cents) | $0.045 | $0.05 |
| Grant date share price | $0.042 | $0.05 |
| Grant date fair value | $0.022 | $0.03 |
| Grant date | 30 November 2016 | 28 April 2016 |

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term. The expected term of the instruments has been based on historical experience and general option holder behaviour.

## NOTE 20: FINANCIAL RISK MANAGEMENT

a. Financial Risk Management Policies

The Group's financial instruments consist mainly of deposits with banks. The main purpose of non-derivative financial instruments is to raise finance for Group operations. The Group does not speculate in the trading of derivative instruments.

i. Treasury Risk Management

The Board meets on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The Board's overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Risk management policies are approved and reviewed by the Board on a regular basis.

ii. Financial Risk Exposures and Management

Interest rate risk

The Group's exposure to financial risk is limited to interest rate risk arising from assets and liabilities bearing variable interest rates. The weighted average interest rate on cash holdings is 0.6% at 30 June 2017. All other assets and liabilities are non interest bearing.

The Group holds cash deposits with Australian banking financial institutions, namely the ANZ Bank. The ANZ Bank has an AA rating with Standard & Poors.

Interest rate sensitivity

Had the interest rate moved by 10 basis points with all other variables held constant, the post tax loss and equity would have decreased / increased by $959 (2016: $3,275)

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitors the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required. The financial liabilities of the Group are confined to trade and other payables which have a contractual due date of less than two months. The Board manages liquidity risk by monitoring forecast cash flows against actual liquidity level on a regular basis.

There are no unused borrowing facilities from any financial institution.

NOTE 20: FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk

There are no material amounts of collateral held as security at balance date. Credit risk is reviewed regularly by the Board. It arises through deposits with financial institutions. The Board monitors credit risk by actively assessing the rating quality and liquidity of counter parties. Only banks and financial institutions with an 'A' rating are utilised.

The Group only invests in listed available-for-sale financial assets that have a minimum 'A' credit rating. Unlisted available-for-sale financial assets are not rated by external credit agencies. These are reviewed regularly by the Group to ensure that credit exposure is minimised.

The credit risk for counterparties included in trade and other receivables at balance date is nil.

The Group holds cash deposits with Australian banking financial institutions, namely the ANZ Bank. The ANZ Bank has an AA rating with Standard & Poors.

Price risk

The Group is not exposed to commodity price risk.

b. Financial Instruments

i. Derivative Financial Instruments

Derivative financial instruments are not used by the Group.

ii. Financial instrument composition and maturity analysis:

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity. The financial instruments are all classified as current.

| | Weighted Average Effective Interest Rate | | Floating Interest Rate | |
|---|---|---|---|---|
| Financial Assets: | 2017 | 2016 | 2017 | 2016 |
| | % | % | $ | $ |
| Cash and cash equivalents | 0.45 | 2.80 | 959,270 | 3,725,258 |
| Total Financial Assets | | | 959,270 | 3,725,258 |
| Financial Liabilities: | | | | |
| Trade payables | - | - | 550,320 | 282,778 |
| Total Financial Liabilities | | | 550,320 | 282,778 |

iii. Net Fair Values

The net fair values of all financial assets (cash and other receivables) and financial liabilities (trade and other receivables) are carried at costs which approximates their carrying value.

## NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

### NOTE 21: EVENTS AFTER THE REPORTING PERIOD

On 18 July 2017, the Company announced that it had raised $1,500,000 through the issue of 30,000,000 fully paid ordinary shares, at 5 cents per share, in a private placement to sophisticated investors.
There has not been any other matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial periods.

### NOTE 22: REVERSE ACQUISTION ACCOUNTING

In the prior financial period, on 18 April 2016, Linius Technologies Limited issued 300,000,000 fully paid ordinary shares to Linius (Aust) Pty Ltd as consideration of 100% of all the rights and title to Linius (Aust) Pty Ltd. As a result the shareholders of Linius (Aust) Pty Ltd held at the date of acquisition 61.29% of the issued capital of Linius Technologies Limited. Refer to note 1 for the further information on the reverse acquisition.

The reverse acquisition is treated as an acquisition of assets and liabilities of Linius Technologies Limited as at 18 April 2016.

| | |
|---|---|
| Net assets acquired | $ |
| Cash and cash equivalents | 4,017,992 |
| Trade and other receivables | 41,408 |
| Loan receivable | 250,000 |
| Trade and other payables | (232,555) |
| Value of asset acquisition as at 18 April 2016 | 4,076,845 |
| Loss on acquisition of Linius (Aust) Pty Ltd | |
| Deemed acquisition consideration | 5,684,270 |
| Less: net assets acquired | (4,076,845) |
| Transaction costs of reverse acquisition on 18 April 2016 | 1,607,425 |

The consideration for the acquisition took the form of the issue of 250,000,000 ordinary shares to the vendors, plus a further amount of deferred consideration in the form of the issue of 200,000,000 performance shares to the Vendors. The performance shares have the following rights and are subject to the achievement of four milestones as listed below.

*Rights attaching to the Performance Shares*
(i) Each performance share is a share in the capital of Linius Technologies Limited (Linius).
(ii) Each performance share confers on the holder (Holder) the right to receive notices of general meetings and financial reports and accounts of Linius that are circulated to the holders of fully paid ordinary shares in the capital of Linius Technologies Limited (Shareholders). Holders have the right to attend general meetings of Shareholders.
(iii) A performance share does not entitle the Holder to vote on any resolutions proposed by Linius except as otherwise required by law.
(iv) A performance share does not entitle the Holder to any dividends.
(v) A performance share does not entitle the Holder to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.

NOTE 22: REVERSE ACQUISTION ACCOUNTING (CONTINUED)

(vi) A performance share does not entitle the Holder to participate in the surplus profits or assets of the company winding up.
(vii) A performance share is not transferable.
(viii) If at any time the issued capital of the company is reconstructed (including a consolidation, subdivision, reduction, cancellation or return of issued share capital), all rights of a Holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules at the time of reorganisation.
(ix) The performance shares will not be quoted on ASX. However, at the time of conversion of the performance shares into fully paid ordinary shares (Shares), the company must within 10 Business Days apply for the official quotation of the Shares arising from the conversion on ASX.
(x) A performance share does not entitle a Holder (in their capacity as a holder of a Performance Share) to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.
(xi) The terms of the performance shares may be amended as necessary by the directors in order to comply with the ASX Listing Rules, or any directions of ASX regarding the terms provided that, subject to compliance with the ASX Listing Rules, following such amendment, the economic and other rights of the Holder are not diminished or terminated.
(xii) A performance share gives the Holder no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

The performance shares are divided into 4 classes (A,B,C and D) of 50,000,000 performance shares per class. A performance share in the relevant class will convert into one ordinary share upon achievement of:

(A) Class A – Linius (Aust) Pty Ltd enters into an agreement with Digisoft, Cork, Ireland for a limited deployment of its technology, being the installation and activation by a third party of the Linius technology (Limited Deployment), with the objective of demonstrating personalisation of video streams, by that date which is 12 months from the issue date (Milestone 1);

(B) Class B – Linius (Aust) Pty Ltd completes an alpha release of the Linius technology (which means, in line with the industry standard definition of that term, a first-stage completed version of a program or application, which may be unstable but is nevertheless useful to show what the program or application can do) that demonstrates publicly that the Linius technology achieves the Linius core patent claims, namely that the technology is able to (1) take a URL link to a piece of video content in an unknown location, and (2) play and display the video content on multiple devices with different video format requirements (and without the need for transcoding), by that date which is 18 months from the issue date (Milestone 2);

(C) Class C - Linius (Aust) Pty Ltd enters into an agreement with a third party (unrelated to the party under Milestone 1) for a Limited Deployment of its technology with the objective of demonstrating removal of the requirement for transcoding of video and reduction of storage. This deployment will be in partnership with a an organisation that is able to take a standard video and transcode it into all standards-based formats and store it at broadcast quality, likely to be a content delivery network by that date which is 24 months from the issue date (Milestone 3); and

(D) Class D – Completion of a Limited Deployment with a third party (which may or may not be one of the parties under Milestones 1 and 3) which demonstrates that the Linius technology removes the requirement for transcoding of an original MPEG-4 video file to play out on devices traditionally requiring differing formats and in doing so reduces storage requirements, and the issue of a report, either prepared by or verified by the third party, confirming this (Milestone 4),

At 30 June 2016 Milestone 1 and Milestone 2 had been achieved and 100,000,000 performance shares had converted to ordinary shares. At 30 June 2017 all Milestones had been achieved and the balance of 100,000,000 performance shares had been converted to ordinary shares.

## NOTE 23: PARENT ENTITY DISCLOSURES

The following information is related to the legal parent entity Linius Technologies Limited as at 30 June 2017:

| Financial position | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Assets | | |
| Current assets | 806,996 | 3,254,775 |
| Non-current assets | 20,972,465 | 18,650,000 |
| Total assets | 21,779,461 | 21,904,775 |
| | | |
| Liabilities | | |
| Current liabilities | 294,244 | 16,805 |
| Total liabilities | 294,244 | 16,805 |

| | | |
|---|---|---|
| Equity | | |
| Issued Capital | 28,216,364 | 27,450,424 |
| Option premium reserve | 36,462 | 36,461 |
| Share based payments reserve | 2,062,705 | 1,708,135 |
| Accumulated losses | (8,830,314) | (7,307,050) |
| Total equity | 21,485,217 | 21,887,970 |

| Financial performance | 2017<br>$ | 2016*<br>$ |
|---|---|---|
| Loss for the year | 1,523,264 | 3,006,405 |
| Total comprehensive loss | 1,523,264 | 3,006,405 |

* 10 September 2015 until 30 June 2016.

For details on commitments, see Note 17.

## DIRECTORS' DECLARATION

1. In the opinion of the directors of Linius Technologies Limited ("the Company"):

(a) the consolidated financial statements and notes that are set out on pages 24 to 58 and the Remuneration report on pages 14 to 20 in the Directors' report, are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance, for the financial year ended on that date; and

   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2017.

3. The directors draw attention to Note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of directors.

Gerard Bongiorno
Director
28 September 2017

KPMG

# Independent Auditor's Report

## To the shareholders of Linius Technologies Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the ***Financial Report*** of Linius Technologies Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 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 year then ended.
- Notes including a summary of significant accounting policies.
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *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* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

## Material Uncertainty Related to Going Concern

We draw attention to Note 1, "Going Concern" in the financial report. The conditions disclosed in Note 1 indicate a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

In concluding there is a material uncertainty related to going concern we evaluated the extent of uncertainty regarding events or conditions casting significant doubt in the Group's assessment of going concern. This included:

- Analysing the cash flow projections by:
  - evaluating the underlying data used to generate the projections for consistency with other information tested by us, our understanding of the Group's intentions, and past practices; and
  - assessing the planned levels of operating and capital expenditures for consistency of relationships and trends to the Group's current stage of its product commercialisation, historical results, results since year end including the $1,500,000 capital raising subsequent to balance date and our understanding of the business, industry and economic conditions of the Group.
- Assessing significant forecast cash inflows and outflows for feasibility, quantum and timing. This is particularly challenging given the early start up status of the Group and further steps required to be undertaken to prepare the Group for sales readiness and growth, such as, organisational support structure. We used our knowledge of the Group, its industry and financial position to assess the level of associated uncertainty.
- Evaluating the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements. We specifically focused on the principal matters giving rise to the material uncertainty.

## Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be the Key Audit Matter.

KPMG

| Recoverable amount of intangible asset ($4,545,000) | |
|---|---|
| Refer to Note 10 to the Financial Report | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| Recoverable amount of the intangible asset is a Key Audit Matter due to:<br>• the size of the balance (being 81% of total assets); and<br>• the level of judgement required by us in evaluating the Group's assessment of recoverability as contained in their value in use model.<br><br>The judgements included forecast cash flows, discount rate applied, forecast growth and terminal growth rates as incorporated in the value in use model.<br><br>The model uses forward looking estimations which can be inherently difficult to determine with precision and to audit. This is particularly challenging given the early start up status of the Group and further steps, such as organisational support structure, required to be undertaken to prepare the Group for sales readiness and growth.<br><br>In assessing this Key Audit Matter, we involved senior audit team members, including valuation specialists, who collectively understand the Group's business and the market it operates in. | Our procedures included:<br>• We compared forecast cash flows, growth rates and terminal growth rates used in the value in use model, for consistency with the Group's board approved plans. We challenged these, including the feasibility of their commercialisation activities, plans for the form of sales model to be implemented, the organisational support structure and nature of costs to facilitate the forecast growth. We used our knowledge of the Group's past performance, business and our industry experience. We compared these to published studies of industry trends and expectations.<br>• We assessed the Group's estimate of the remaining useful life of the intangible asset by reference to the independent report on intellectual property ownership previously obtained by the Group considering changes to the Group since the date of the report.<br>• Working with our valuation specialists we used our knowledge of the Group and market to assess the key assumptions used in the Group's value in use model. To do this we:<br>- assessed the integrity of the value in use model used, including the accuracy of the underlying calculation formulas;<br>- considered the sensitivity of the model by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures; and<br>- analysed the Group's discount rate against publicly available data of a group of comparable entities. We independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in.<br>• We compared the Group's alternative recoverability testing analysis, which included the market capitalisation approach based on the recent quoted share price on the ASX and the share price for capital raised during and subsequent to year end, to the value in use model prepared by the Group.<br>• We assessed the adequacy of financial report disclosures in respect of the carrying value of the intangible assets and impairment testing. |

## Other Information

Other Information is financial and non-financial information in Linius Technologies Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's and Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

KPMG

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Linius Technologies Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

### Our responsibilities

We have audited the Remuneration Report included on pages 14 to 20 of the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Tony Batsakis
*Partner*

Melbourne

28 September 2017

## ADDITIONAL INFORMATION FOR LISTED COMPANIES

1. Shareholdings as at 20 September 2017

a. Distribution of Shareholders

| Category (size of holding) | Number Holders | Number Ordinary |
|---|---|---|
| 1 – 1,000 | 14 | 3,414 |
| 1,001 – 5,000 | 6 | 16,946 |
| 5,001 – 10,000 | 68 | 624,576 |
| 10,001 – 100,000 | 442 | 20,592,105 |
| Above 100,001 | 330 | 687,953,839 |
| | 860 | 709,190,880 |

b. The number of shareholdings held in less than marketable parcels is 88.

c. The names of the substantial shareholders listed in the holding Group's register as at 20 September 2017 are:

| | Shareholder | Number Ordinary | % |
|---|---|---|---|
| 1 | Phoenix Myrrh Technology Pty Ltd | 250,000,000 | 35.25 |
| 2 | Earthrise Holdings Pty Ltd <Campion Investment A/C> | 90,000,000 | 12.69 |
| 3 | Naley Pty Ltd | 40,800,000 | 5.75 |
| 4 | Steve McGovern Nominees Pty Ltd | 40,000,000 | 5.64 |

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

— Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

## ADDITIONAL INFORMATION FOR LISTED COMPANIES (CONTINUED)

e. 20 Largest Shareholders — Ordinary Shares

| | Name | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|---|---|
| 1 | Phoenix Myrrh Technology Pty Ltd | 250,000,000 | 35.25 |
| 2 | Earthrise Holdings Pty Ltd <Campion Investment A/C> | 90,000,000 | 12.69 |
| 3 | Steve Mcgovern Nominees Pty Ltd | 40,000,000 | 5.64 |
| 4 | Naley Pty Ltd | 40,000,000 | 5.64 |
| 5 | Parlin Investments Pty Ltd | 30,000,000 | 4.23 |
| 6 | Vr Corporate Services Pty Ltd | 20,000,000 | 2.82 |
| 7 | One Managed Investment Funds Limited <Technical Investing Absolute Return A/C> | 8,840,000 | 1.25 |
| 8 | Clarkirb Nominees Pty Ltd <Clark Kirby Family A/C> | 7,500,000 | 1.06 |
| 9 | One Managed Investment Funds Limited <Ti Growth A/C> | 7,179,500 | 1.01 |
| 10 | Coral Brook Pty Ltd <Lloyd Super Fund A/C> | 6,193,182 | 0.87 |
| 11 | Sunshore Holdings Pty Ltd | 6,063,637 | 0.86 |
| 12 | Sunshore Holdings Pty Ltd | 5,650,000 | 0.80 |
| 13 | Fastgroup Pty Ltd <The Fastgroup A/C> | 5,200,000 | 0.73 |
| 14 | Robert Kirby Investments Pty Ltd <Kirby Family Investment A/C> | 5,000,000 | 0.71 |
| 15 | Ninkirb Nominees Pty Ltd <Nina Kirby Family A/C> | 5,000,000 | 0.71 |
| 16 | Sunset Capital Management Pty Ltd <Sunset Superfund A/C> | 4,000,000 | 0.56 |
| 17 | Viminale Pty Ltd <D A Paganin Family No 2 A/C> | 3,874,873 | 0.55 |
| 18 | David Peter Valentino | 3,500,000 | 0.49 |
| 19 | Fencourt Enterprises Pty Ltd <P & Y Greenwood S/F A/C> | 3,275,000 | 0.46 |
| 20 | Juneday Pty Ltd | 3,000,000 | 0.42 |
| | | 544,276,192 | 76.75 |

f. Largest holders of shares held on escrow until 9 May 2018

| | Name | Number of Shares Held |
|---|---|---|
| 1 | Phoenix Myrrh Technology Pty Ltd | 250,000,000 |
| 2 | Earthrise Holdings Pty Ltd <Campion Investment A/C> | 90,000,000 |
| 3 | Steve Mcgovern Nominees Pty Ltd | 40,000,000 |
| 4 | David Peter Valentino | 3,500,000 |
| 5 | CPS Capital Group Pty Ltd | 1,702,269 |
| | | 385,202,269 |

## ADDITIONAL INFORMATION FOR LISTED COMPANIES (CONTINUED)

2. The name of the Company Secretary is Mr Stephen Kerr.

3. The address of the principal registered office in Australia is:

   Level 18, 101 Collins Street
   MELBOURNE VIC 3000
   Telephone 03 8680 2317

4. Registers of securities are held at the following addresses:

   Advance Share Registry

   110 Stirling Hwy

   NEDLANDS
   WA 6009
   Australia

5. Securities Exchange Listing

   Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited.

6. In accordance with ASX Listing Rule 4.10.19, the Group advises that, since re-listing on 9 May 2016, it has used its cash in a way consistent with its business objectives.