LINIUS TECHNOLOGIES LIMITED

ACN 149 796 332

ANNUAL REPORT

2018

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LINIUS TECHNOLOGIES LIMITED

ANNUAL REPORT 2018

CORPORATE DIRECTORY

This annual report covers Linius Technologies Limited and its controlled entities (the "Group" or "Group") during the year ended 30 June 2018. The functional and presentation currency of the Group is Australian dollars.

OFFICERS	Gerard Bongiorno Stephen McGovern Christopher Richardson Stephen Kerr	(Executive Chairman) (Non-Executive Director) (Director and CEO) (Company Secretary and CFO)
REGISTERED OFFICE	Level 18, 101 Collins Street MELBOURNE VIC 3000	
SOLICITORS	Milcor Legal Lawyers Level 1, 6 Thelma Street WEST PERTH WA 6872	
AUDITORS	KPMG Tower 2, Collins Square 727 Collins Street MELBOURNE VIC 3000	
SHARE REGISTRY	Advanced Share Registry Ltd 110 Stirling Highway NEDLANDS WA 6009 Telephone: (08) 9389 8033 Facsimile: (08) 9262 3723	
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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 2018.

During the year the Company pursued its commercialisation plans with an expanded management team and a wider geographical footprint. We have brought on experienced resources with expertise in the video and film industry, hiring senior personnel with strong marketing, sales and technical skills.

The team is now highly focussed on converting our commercialisation activities into a strong pipeline of opportunities and creating sustainable business revenue streams. Subsequent to the end of the 2018 financial year we were very pleased to announce a commercial deal with Newstag. Your directors are pleased with the progress to date and encouraged by the opportunities that exist with a growing deal pipeline with tier one global companies and sports organisations. The key now is execution and our team is very focused to this end.

The Company has continued to develop, enhance and adapt its patented technology to meet the identified needs of the market. During the year the team has been refining the product offering, completing proof of concepts and providing relevant use cases for its target markets. Linius Video Virtualization Engine™ technology is now designed to be available as a SaaS platform as well as being deployed directly into customers' systems and video workflows.

During the year we were pleased to receive investment support from existing and new investors. The Company raised $1.5 million in July 2017 through a private placement at 5 cents per share to Village Roadshow Ltd and Kirby family interests, leaders in the Australian film and video industry. The company raised a further $4.25 million at 5 cents per share through a private placement in October 2017, $0.25 million at 5 cents per share through a private placement in December 2017, $9.75 million at 12 cents per share through a private placement in February 2018 and $2.75 million at 12 cents per share through private placements in May and June 2018. The Company also received additional capital of $0.8m during the year from option holders exercising their right to acquire shares at 7.5cents per share. We were very pleased that the wider investment community has recognised the opportunity and invested in the Company to fund our commercialisation phase.

Thank you

On behalf of your Directors I would like to thank all shareholders who have supported us through this ongoing commercialisation phase. I look forward to seeing success from our commercialisation efforts and I hope you will continue to support us as we pursue our business plans.

I present to you the report on the Company and its controlled entities for the June 2018 financial year.

Gerard Bongiorno
CHAIRMAN
26 September 2018

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS

Highlights

- Leveraging global investments in cloud infrastructure to scale the Company rapidly
- Linius on track to deliver global solutions in key market sectors
- The Company is well capitalised to fulfil its business objectives
- Commercial deal signed with Newstag
- Successful Proof of Concepts (POCs) across core Education and Media & Entertainment industries
- Channel expansion: New resource investments and advanced partner discussions
- Building scalable processes and capability within sales, marketing and product teams

The Company's patented technology affords it opportunities in multiple high value markets on a global scale and, during FY2018, the Company has been able to establish a position from which it can exploit these opportunities. **The Company continues to pursue its vision of making all the world's video accessible as data**.

The company's mission is to become the *de facto* standard for the management and broadcast of video.

Commercialization: to deliver Linius' vision and mission, the Company seeks to take its patented Video Virtualization Engine™ (VVE) to mass markets in 3 ways:

- Industry specific divisions and solution sets built around VVE
- Mass distribution through partners, such as IBM
- Self-service to global markets through a SaaS model

Mass Distribution through Partners

Linius is setting up the business to scale rapidly and globally. Microsoft, Amazon, and IBM are all investing heavily in artificial intelligence and micro-services. Currently, these rely on data being wrapped around the video file as the video file itself is an impenetrable object. With Linius the video file data is exposed, making video as flexible as all other forms of data. In FY2018 the Company invested in leveraging the investment these cloud providers are making in order to facilitate rapid scale. Linius' products are now available on IBM Cloud, Amazon AWS, and Microsoft Azure.

Industry specific divisions and solution sets built around VVE

VVE is an engine — it can power many solutions across the video space. In order to scale the business, in FY2018 the Company decided to invest in developing industry-specific, complete solutions built on top of its core VVE technology. These solutions help to scale the business, because they are easily replicated and sold by system-integration and managed service channel partners. The Company explicitly decided to focus on solutions based in its Search Division, targeting education, news, sports, and corporate communication.

In FY2018 the Company announced Proofs of Concept with Oklahoma State University and MediaAmp in the U.S. Upon successful completion, these POCs will serve as an education-based solution which can be taken to the nearly 5,000 higher-education institutions, in the U.S. alone. Subsequent to the close of the year, MediaAmp signed an agreement to become a reseller of this solution in the U.S. education market.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS CONTINUED

Also subsequent to the close of the year, the Company announced a commercial agreement with Stockholm-based video news service, Newstag, which will deliver hyper-personalized news content for both consumers and broadcasters. According to Deloitte Global, by the end of 2018, at least 50 per cent of adults in developed countries will have at least two online-only media subscriptions. This is expected to double by the end of 2020.[1]

The Company continues to develop specific solutions targeting sports and corporate communication, and intends for all four of these solutions to be delivered globally by the Company's growing network of channel partners.

Achievement of Near Term Goals (NTGs)

In FY18 the Company moved to a communication methodology of outlining Near Term Goals (NTGs) to the market, which would be indicative of scaling the business opportunity and moving towards revenue generation. An initial set of NTGs was issued in September, 2017, and a follow-on update to that was issued in April, 2018.

Initial NTGs:

Early in the FY18 fiscal year (in September, 2017), the Company announced a series of NTGs. Of the original 11 NTGs outlined, eight have been achieved and one replaced with a new NTG to better align with the Company's evolving strategy:

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

Note - Linius deprioritised the OTT ad-server integration, as previously communicated and focused on the AI driven search capability.

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[1]https://www2.deloitte.com/content/dam/Deloitte/global/Images/infographics/technologymediatelecommunications/gx-deloitte-tmt-2018-digital-media-report.pdf

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS CONTINUED

NTG Highlights:

Warner Bros. and Linius sign collaboration agreement: In February 2018, Linius announced the signing of a collaboration agreement in the U.S. with Warner Bros. Entertainment Inc. to conduct a technical pilot test in Australia of the Linius VVE in a transactional video on demand ("TVOD") streaming and content platform, which provides content protection through distribution to an end-user. This agreement met the Company's NTG to engage with a global movie studio to develop POV in anti-piracy.

Linius integrates with Microsoft AI: In December 2017, Linius successfully integrated with Microsoft's suite of Cognitive AI Services for video with its core VVE offering. In line with Linius' strategy of integrating with Microsoft, AWS and IBM cloud providers, the Company is fast-tracking its integration with global leaders in AI.

Expanded NTGs:

To accelerate the commercialization process, Linius augmented the Company's initial set of NTGs in April 2018. This second set of NTGs were designed to further Linius' rapid business-scaling efforts, lay crucial foundations for generating revenue and support the long-term goals of increasing the penetration of virtual video globally.

- Launch VVE as a SaaS platform (strong current developer, partner and channel-use SaaS environment)
- Sign an education-sector reseller
- Close two revenue-generating deals in the education sector
- Close two revenue-generating deals in the news or sports sector
- Close two revenue-generating deals in addition to those cited directly above
- Sign a second agreement with a globally significant cloud services platform (beyond IBM)
- Deliver an end-to-end piracy solution with a movie studio
- Deliver POC for Linius' Video Search Solution in a global cloud environment
- Convert initial deal flow with IBM
- Integrate IBM search capability

NTG achievements:

Linius signs commercial deal with Newstag, deploying Linius Video Search technology: Linius and innovative Stockholm-based video news service, Newstag, signed a commercial agreement, which will deliver hyper-personalized news content for both consumers and broadcasters. The signed agreement means Newstag will be a direct user of Linius' software at a price point of US$1 per video virtualized and US$40 per thousand videos assembled (discounted to US$10 per thousand until future commercial deals are signed). This represents one of the two revenue-generating deals in the news or sports sector. Looking forward, the Company anticipates that Newstag will become a reseller of Linius' software into the global news market.

Newstag is currently deploying the Linius Search Solution across the Newstag site, allowing users to search news archives and generate their own personalized news experience. Linius and Newstag are finalizing a joint go-to-market strategy to sell the capability to the thousands of news broadcasters and news content providers around the world, including but not limited to existing Newstag clients. Newstag is an award-winning news platform that aggregates content for more than 20 broadcasters and agencies around the world, including leading news producers such as AP, AFP, CNN and Bloomberg. Newstag is a world leader in the use of data to learn and tailor content experiences for users in more than 150 countries.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS CONTINUED

Chairperson of Newstag, Ph.D Camilla Dahlin-Andersson, commented: "Newstag is excited about working with Linius to rapidly scale our personalised video news content offering helping users to find relevant content more efficiently. Linius' technology will allow us to gain market share in this rapidly evolving market."

The commercial deal with Newstag was featured on Sky News Business show, Coincast TV, Friday 10 August. Coincast, the world's first Blockchain TV news program on mainstream television, is broadcast to a global audience of over 170 million people.

MediaAMP partners with Linius to deliver Cognitive Video Search to US education market: The recently announced execution of the MediaAMP Partnership Agreement met the NTG of an agreement with a reseller in the education sector. Under the agreement, MediaAMP will integrate Linius' patented Video Virtualization Engine™ (VVE) with its video-first digital media asset management platform. MediaAMP will provide Linius' video virtualization technology to its current and future education clients throughout the US. MediaAMP's customers include the University of Washington, the University of California and Arizona State University.

NTG progress update:

Delivery of a piracy solution with a movie studio: The Warner Bros. POC is nearing completion of deployment, with the focus on a technical trial to demonstrate the analytics and KPI capabilities of virtual video.

VVE as a SaaS platform: The company's technology is available on Amazon AWS, Microsoft Azure, and IBM Cloud. In January 2018 the Company entered closed beta trial with a software-as-a-service (SaaS) version of its core Video Virtualization Engine™ — Linius Video Services (LVS). During the year, this beta was made available to developers, and select partners and channels. LVS serves as the foundation for the OK State POC and the Newstag solution. The commercial launch of LVS is expected shortly, in-line with the Company's strategy to scale the availability of Linius' VVE rapidly and drive pervasive usage of video virtualization worldwide. As the solution rolls out, users will be able to log-on and pay to virtualize their videos themselves, and build new products and businesses on top of VVE, through a suite of API's built for global scale, without the requirement for Linius resources. The global SaaS market grew from US$5bn in 2005 to US$105bn in 2017[2].

Converting initial deal flow with IBM: Linius is now in final proposal stage with IBM technology partners and managed service providers.

Oklahoma State University (OK State) to satisfy multiple NTGs: As the OK State POC rapidly approaches a successful close, it is expected to imminently achieve multiple NTGs, including: Search in a global cloud environment, revenue-generating deals in the education sector and a reseller agreement in the education sector (completed September 2018).

In addition to the April 2018 NTGs already stated, the Company is confident of signing additional global and regional distribution agreements with reseller partners and Managed Service Providers, to support rapid commercialization moving into the 2018 December quarter and beyond.

New NTGs will be announced in the December 2018 quarter for the December 2018 to March 19 quarters.

[2] https://www.statista.com/statistics/510333/worldwide-public-cloud-software-as-a-service/

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS CONTINUED

Outlook

During FY18, the Company focused on completing key activities to directly support its NTGs, including executing high-profile POCs to support its future direct sales pipeline, investing in channel development, as well as hiring world-class talent across its sales, marketing, product and management functions. The execution of these measures is intended to both drive revenue and increase the penetration of virtual video within the Company's chosen markets.

As the Company began to grow its direct sales force in FY2018, a strong pipeline began to fill. Based on the size and strength of the pipeline, and the reaction by prospects to the Company's technology, we believe more than ever that we have the key that unlocks the massive value of the video market.

Moving forward, the Company intends to complete its NTGs as well as other commercial initiatives. To accomplish this, the Company's strategy remains to complete announced POCs, deliver direct sales, and drive those results through channels as solutions..

Whilst proving use cases in the market for Linius' Security and Defence, Personalized Ads and Anti-Piracy solutions remain priorities for the business, the Company has decided that the fastest way to progress with commercialization in order to achieve revenue-generating deals is to continuing aggressively pursuing POCs for its Search solutions in sports, news, education, and corporate communications. In accordance with this focus, the Company is already working with Newstag and MediaAMP to rapidly pursue the news and education markets respectively with Linius' Video Search Solution.

Actively working on first video blockchain: Linius plans to launch the world's first video blockchain, and is actively working to deliver on that strategy in conjunction with its global partners. The Company continues to believe that virtual video remains the only mechanism by which blockchain can be used to fulfil its purpose of protecting ownership rights of video as a digital asset.

Bolstering channel network and capabilities: As the Company completes its previously announced strategic POCs and POVs, it anticipates these to be repurposed as replicable, commercial solutions that can be sold either by the Company directly or by resellers in the relevant verticals. The Company is working with multiple channel partners around the world and continues to leverage the investments being made by the leading cloud providers in cloud infrastructure and artificial intelligence.

Building scalable processes and capability within sales, marketing and product teams:

- Key hires: Expansion of the Company's sales, marketing and product development teams continues
- Linius has focused on building its internal delivery resources; which will be crucial for execution as Linius anticipates rapid progress through the Company's commercialization milestones

Christopher Richardson
CHIEF EXECUTIVE OFFICER
26 September 2018

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 2018.

Directors

The Directors in office during the year were:

Gerard Bongiorno (Executive Chairman)
Stephen McGovern (Non-Executive Director)
Christopher Richardson (Executive Director & CEO)

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

Company Secretary

Stephen Kerr B.Com, CA, FGIA

Mr Kerr provides company secretarial and CFO services to the Company, through his consultancy business. 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. Appointed as company secretary on 1 February 2016.

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 2018 after income tax expense amounted to $10,714,098 (30 June 2017 loss: $4,230,052). This loss includes non-cash share based payments expense of $1,358,869 and non-cash amortisation charges of $540,000. During the year the Company proceeded with its commercialisation activities, expanded its management and operational teams to tackle global market opportunities and continued to develop and refine its core technology and product offerings. For more information on the years activities please refer to the above Chief Executive's Review of Operations on pages 4 to 8.

Dividends Paid or Recommended

No dividends were paid or declared for payment.

Financial Position

The net assets of the Group at 30 June 2018 are $14,101,948 ($5,043,444).

Going Concern

For the year ended 30 June 2018, the Group had an operating net loss of $10,714,098 (30 June 2017: $4,230,052) and net cash outflows from operating activities of $8,544,365 (30 June 2017: $3,037,565).

DIRECTORS' REPORT CONTINUED

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.

After Balance Date Events

There has not been any 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	—	Executive Chairman
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 completed the Program for Management Development at Harvard Business School PMD75. Director since 21 February 2018.
Interest in Shares and Options	—	28,083,334 Ordinary shares 3,541,667 Options
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: 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. 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. 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. 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. Director since 18 April 2016.
Interest in Shares and Options	—	40,000,000 Ordinary shares 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: 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. Currently, Mr Richardson sits on the board of directors of: • Mirovoy Sales, a sales software automation company based in Prague, CZ; and • 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:

- U4EA Wireless (the world's first SMB focused Wi-Fi manufacturer, and provider of embedded wireless software; acquired by GoS Networks); and
- 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.

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. Director since 18 April 2016.

Interest in Shares and options	—	20,000,000 Options
Directorships held in other listed entities in the last 3 years	—	Nil

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	Executive Chairman
Stephen McGovern	Non-Executive Director
Christopher Richardson	Director and CEO
Stephen Kerr	CFO and Company Secretary

DIRECTORS' REPORT CONTINUED

REMUNERATION REPORT - AUDITED

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 2018. 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.

	2018	2017
(Loss) attributable to owners of the company	$(10,714,098)	$(4,230,052)
Change in share price	$0.024	$(0.022)

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' 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 2018 are as follows:

Name:	Gerard Bongiorno
Title:	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 Bongiorno is subject to annual review by the Board. Under the terms of his agreement and as approved by shareholders at general meeting, the Company issued Mr Bongiorno with 20,000,000 loan shares in November 2017. The Company will reimburse Mr Bongiorno for all reasonable expenses incurred in performing his duties and will pay Mr Bongiorno additional fees where he is required to perform additional consulting tasks related to the commercialisation of the Linius technology. The agreement includes a 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 McGovern is subject to annual review by the Board. Under the terms of his agreement, the Company issued Mr McGovern's nominee with 6,000,000 Options in April 2016. The Company will reimburse Mr McGovern for all reasonable expenses incurred in 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 $271,200, payable at the rate of $22,600 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 Richardson's nominee with 10,000,000 Options in April 2016 and 10,000,000 options in November 2016. The agreement can be terminated by the company on one months' notice or by Mr Richardson on three month's written notice. The Company will reimburse Mr Richardson for all reasonable expenses incurred in performing his duties. The agreement includes a non-competition clause.

Name:	Stephen Kerr
Title:	Chief Financial Officer and Company Secretary
Agreement commenced:	21 January 2016
Term of agreement:	No fixed term
Details:	An annual consultancy fee of $120,000, payable at the rate of $10,000 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:

2018

	Directors' fees & consultancy fees	Super-annuation payments	Share-based payments[5]	Total	Performance Related	Share-based
	$		$	$	%	%
Non-executive directors:						
Stephen McGovern	90,000[2]	8,325	-	98,325	-	-
Executive directors:						
Christopher Richardson	230,800[3]	-	97,089	327,889	-	29.6
Gerard Bongiorno	90,000[1]	8,544	349,583	448,127	-	78.0
Executives:						
Stephen Kerr	114,000[4]	-	14,563	128,563	-	11.3
	524,800	16,869	461,235	1,002,904	-	46.0

2017

	Directors' fees & consultancy fees	Super-annuation payments	Share-based payments[5]	Total	Performance Related	Performance Related
	$		$	$	%	%
Non-executive directors:						
Gerard Bongiorno	30,000[1]	2,850	-	32,850	-	-
Stephen McGovern	90,000[2]	8,325	-	98,325	-	-
Executive directors:						
Christopher Richardson	150,000[3]	-	310,360	460,360	-	67.4
Executives:						
Stephen Kerr	84,000[4]	-	44,210	128,210	-	34.5
	354,000	11,175	354,570	719,745	-	49.3

DIRECTORS' REPORT CONTINUED

1. Consultancy fees were paid to Otway Capital Consulting, a related party of Gerard Bongiorno.
2. Consultancy fees were paid to SMG Nominees Pty Ltd, a related party of Stephen McGovern.
3. Consultancy fees were paid to Mirovoy Sales, s.r.o. , a related party of Christopher Richardson.
4. Consultancy fees were paid to SC Kerr & Co, a related party of Stephen Kerr.
5. The fair value of the share based payments is calculated at the date of grant of the option or loan share using the binomial pricing model and allocated to each reporting period based on forecast estimated vesting dates. The value disclosed is the portion of the fair value recognised as an expense in each reporting period.

Performance income as a proportion of total remuneration

Executive directors and executives were not paid performance based bonuses.

Equity instruments granted as compensation - audited

Details on equity instruments that were granted as compensation to each key management person during the year and details on equity instruments vested during the year are as follows:

2018 Options	Number of loan shares granted 2018	Grant date	Fair value per loan share at grant date $	Exercise price $	Value of loan granted under the loan share terms	Loan expiry date	Number of options vested during 2018
Gerard Bongiorno	20,000,000	28 Nov 2017	0.026	0.05	$1,000,000	30 Nov 2022	10,000,000

The loan shares granted are the amounts approved by way of shareholder resolution at the Company's Annual General Meeting on 28 November 2017, no further loan shares were approved or issued.

DIRECTORS' REPORT CONTINUED

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 shares or options	Grant date	% vested during the year	% forfeited in year	Financial years in which grant vests
Gerard Bongiorno	Loan shares	20,000,000	28 Nov 2017	50%	-	2018-20
Christopher Richardson	Options	10,000,000	30 Nov 2016	30%	-	2017-19
Stephen Kerr	Options	1,500,000	30 Nov 2016	30%	-	2017-19

Analysis of movements in equity instruments – audited

The value of options and loan shares in the Company granted to and exercised by each key management person during the year is detailed below:

	Granted in year $	Value exercised in year
Gerard Bongiorno	510,000	-

The loan shares are accounted for as options. The value of loan shares granted in the year is the fair value of the loan shares calculated at grant date. The total value of the loan shares is included in the table above. There are three tranches and amounts are allocated to remuneration over the vesting period for each tranche (i.e. November 2017 to November 2019).

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 1.7.2017	Granted during the year	Lapsed or exercised during the year	Held at 30.6.2018	Vested during the year	Total Vested and Exercisable 30.6.2018
Stephen McGovern	6,000,000	-	-	6,000,000	-	6,000,000
Christopher Richardson	20,000,000	-	-	20,000,000	3,000,000	14,000,000
Stephen Kerr	3,000,000	-	-	3,000,000	450,000	2,100,000
Total	29,000,000	-	-	29,000,000	3,450,000	22,100,000

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

DIRECTORS' REPORT CONTINUED

Exercise of options granted as compensation

During the period, no options were exercised.

Movements in shares - audited

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

	Balance 1.7.2017	Received as Compensation	Acquired during the year	Balance 30.6.2018
Gerard Bongiorno	1,000,000	-	7,083,334	8,083,334
Stephen McGovern	40,000,000	-	-	40,000,000
Total	41,000,000	-	7,083,334	48,083,334

Number of Loan Shares held by Key Management Personnel

	Balance 1.7.2017	Received as Compensation	Balance at 30.6.2018	Vested at 30.6.2018	Not vested at 30.6.2018
Gerard Bongiorno	-	20,000,000	20,000,000	10,000,000	10,000,000
Total	-	20,000,000	20,000,000	10,000,000	10,000,000

Key management personnel transactions - audited	Group	
	2018	2017
	$	$
Transactions with related parties:		
Advisory fees paid to Otway Capital Consulting a consulting firm in which Gerard Bongiorno has an interest.	62,000	-
Amounts owing to related parties (included in trade and other payables)		
Entity related to Gerard Bongiorno	11,000	
Entity related to Stephen McGovern	9,013	8,193
Entity related to Christopher Richardson	30,379	31,655
Entity related to Stephen Kerr	11,000	7,700

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

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	9	9
Stephen McGovern	9	7
Christopher Richardson	9	9

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
30/5/2019	unlisted	7.5 cents	63,760,000
31/12/2019	unlisted	7 cents	3,375,000
31/12/2019	unlisted	7.5 cents	3,375,000
31/12/2019	unlisted	8 cents	3,375,000
31/12/2019	unlisted	8.5 cents	3,375,000
30/09/2019	listed	16 cents	62,083,350
30/09/2019	unlisted	22 cents	10,000,000
30/06/2021	unlisted	4.5 cents	3,750,000
30/06/2021	unlisted	5 cents	2,000,000
08/02/2020	unlisted	17 cents	1,000,000
			229,093,350

During the year ended 30 June 2018, 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.

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/.

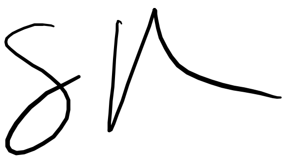
Auditor's Independence Declaration

The Lead auditor's independence declaration is set out on page 21 and forms part of the directors' report for the financial year ended 30 June 2018.

Non-Audit Services

KPMG provided taxation advisory services during the year.

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



Gerard Bongiorno
Director

26 September 2018
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 2018. 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

26 September 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR YEAR ENDED 30 JUNE 2018

	Note	Group	
		2018	2017
		$	$
Revenue	2	91,142	41,492
Administrative expenses		(557,157)	(331,850)
Employee benefit expenses		(342,936)	(34,462)
Amortisation expense		(540,000)	(540,000)
Consultant expenses		(3,239,727)	(692,055)
Depreciation expense		(7,021)	(239)
Share-based payments expense	19	(1,358,869)	(384,570)
Financial and compliance expenses		(310,154)	(142,897)
Software development expenses		(2,991,301)	(895,440)
Marketing and promotional expenses		(713,903)	(761,368)
Patent costs		(60,535)	(73,793)
Legal expenses		(108,701)	(140,561)
Travel and accommodation expenses		(574,936)	(274,309)
Loss before income tax		(10,714,098)	(4,230,052)
Income tax expense	4	-	-
Loss for the year		(10,714,098)	(4,230,052)
Other comprehensive loss		-	-
Total comprehensive loss for the year		(10,714,098)	(4,230,052)
Basic loss per share (cents per share)	7	(1.3)	(0.7)
Diluted loss per share (cents per share)	7	(1.3)	(0.7)

The accompanying notes form part of the financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	Group	
		2018	2017
		$	$
CURRENT ASSETS			
Cash and cash equivalents	8	10,766,028	959,270
Other receivables	9	265,192	77,475
TOTAL CURRENT ASSETS		11,031,220	1,036,745
NON-CURRENT ASSETS			
Intellectual property	10	4,005,000	4,545,000
Property, plant and equipment		19,713	14,124
TOTAL NON-CURRENT ASSETS		4,024,713	4,559,124
TOTAL ASSETS		15,055,933	5,595,869
CURRENT LIABILITIES			
Trade and other payables	11	928,944	550,320
Employee Provisions		25,041	2,105
TOTAL CURRENT LIABILITIES		953,985	552,425
TOTAL LIABILITIES		953,985	552,425
NET ASSETS		14,101,948	5,043,444
EQUITY			
Issued capital	12	30,047,557	12,575,410
Share based payments reserve	19	4,363,160	2,062,705
Accumulated losses		(20,308,769)	(9,594,671)
TOTAL EQUITY		14,101,948	5,043,444

The accompanying notes form part of the financial report

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

Group	Issued Capital	Share Based Payments Reserve	Accumulated Losses	Total
	$	$	$	$
Balance at 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
Balance 1 July 2017	12,575,410	2,062,705	(9,594,671)	5,043,444
Total comprehensive loss				
Loss for the year	-	-	(10,714,098)	(10,714,098)
Other comprehensive loss	-	-	-	-
Total comprehensive loss	-	-	(10,714,098)	(10,714,098)
Transactions with owners of the Company				
Shares and options issued during the year (net of capital raising costs)	17,472,147	-	-	17,472,147
Share-based payments	-	2,300,455	-	2,300,455
Total transactions with owners of the Company	17,472,147	2,300,455	-	19,772,602
Balance at 30 June 2018	30,047,557	4,363,160	(20,308,769)	14,101,948

The accompanying notes form part of the financial report

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Note	Group	
		2018	2017
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers		(8,620,815)	(3,084,744)
Other income received		56,789	-
Interest received		19,661	47,179
Net cash used in operating activities	13	(8,544,365)	(3,037,565)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment		(12,610)	(14,363)
Net cash provided by /(used in) investing activities		(12,610)	(14,363)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		19,343,000	760,940
Capital raising costs paid		(979,267)	(25,000)
Net cash inflows from financing activities		18,363,733	735,940
Net increase/(decrease) in cash held		9,806,758	(2,315,988)
Cash at beginning of financial year		959,270	3,275,258
Cash at end of financial year	8	10,766,028	959,270

The accompanying notes form part of the financial report

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"), 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 26 September 2018.

Reverse Acquisition Accounting

The acquisition of Linius (Aust) Pty Ltd by the Company, in the period ended 30 June 2016, is considered to be a reverse acquisition under Australian Accounting Standards, notwithstanding Linius Technologies Limited ("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.

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 businesses' 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.

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 2018, the Group incurred an operating net loss of $10,714,098 (2017: $4,230,052) and net cash outflows from operating activities of $8,544,365 (2017: $3,037,565).

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; and
- the Directors have prepared cash flow projections for the period from 1 July 2018 until 30 September 2019 that support the Group's ability to continue as a going concern. These cashflow projections assume the Group's ability to control expenditures 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.

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.

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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 cost

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.

Government grant revenue is recognised on receipt.

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

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 2018, 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's financial statements.

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 and shares to directors and employees 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 22 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.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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	
	2018	2017
	$	$
Other revenue:		
Government grants – Export market development grant	56,789	-
Interest received	34,353	41,492
Total revenue	91,142	41,492

NOTE 3: LOSS FOR THE YEAR

	Group	
	2018	2017
	$	$
Other expenses:		
Occupancy costs	98,570	31,741

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

NOTE 4: INCOME TAX EXPENSE

	Group	
	2018	2017
	$	$
(a) Income tax expense		
Current tax benefit	(2,556,599)	(1,050,515)
Deferred tax – origination and reversal of temporary differences	(6,307)	-
Deferred tax assets not recognised	2,562,906	1,050,515
	-	-
(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%	(2,946,377)	(1,163,264)
Add / (Less)		
Tax effect of:		
Share based payments	373,689	97,507
Other non-allowable items	9,782	15,242
Unused tax losses not recognised as deferred assets	2,562,906	1,050,515
Income tax attributable to operating loss	-	-
(c) Unrecognised deferred tax assets		
Unused Australian tax losses for which no deferred tax asset has been recognised	3,786,579	1,223,673
Temporary differences not recognised	6,886	579
Total	3,793,465	1,224,252

Potential deferred tax assets attributable to tax losses carried forward have not been brought to account at 30 June 2018 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.

NOTE 5 : KEY MANAGEMENT PERSONNEL

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

	Group	
	2018	2017
	$	$
Short-term employee benefits	541,669	365,175
Share-based payments	461,235	354,570
	1,002,904	719,745

NOTE 6: AUDITOR'S REMUNERATION

	Group	
	2018	2017
	$	$
Remuneration of the auditor for services provide to the Group and the Parent during the year:		
— auditing and reviewing of financial statements:		
KPMG	82,000	69,000
- taxation advisory		
KPMG	4,410	-
	86,410	69,000

NOTE 7: EARNINGS/LOSS PER SHARE

		Group	
		2018	2017
		$	$
a.	Reconciliation of earnings to profit or loss		
	Loss used to calculate basic and diluted EPS	(10,714,098)	(4,230,052)
		No.	No.
b.	Weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS	811,545,392	632,821,305

Potential ordinary shares comprising 229,093,350 options (2017: 73,000,000) were excluded in the calculation of diluted EPS given they are antidilutive.

NOTE 8: CASH AND CASH EQUIVALENTS

	Group	
	2018	2017
	$	$
Cash at bank and in hand	10,766,028	959,270

The effective interest rate on short-term bank deposits was varying between 2.15% to 2.57%.

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	10,766,028	959,270

NOTE 9: OTHER RECEIVABLES

	Group	
	2018	2017
	$	$
CURRENT		
GST receivable	84,861	39,033
Prepaid expenses and other receivables	180,331	38,442
	265,192	77,475

NOTE 10: INTELLECTUAL PROPERTY

The Group acquired the intellectual property associated with the Linius technology from an unrelated party in the financial period ended 30 June 2016. 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	
	2018	2017
	$	$
Intellectual property at cost	5,400,000	5,400,000
Accumulated amortisation	(1,395,000)	(855,000)
	4,005,000	4,545,000

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 financial period ended 30 June 2016. 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 recently commencing 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 2018 consist principally of cash of $10,766,028 and intellectual property, after amortisation, of $4,005,000. Net assets are $14,101,948.

Linius shares closed at a price of 7.6 cents per share on 30 June 2018. Total fully paid ordinary shares on issue at 30 June 2018 are 935,597,548. This gives a market capitalisation of Linius of $71,105,413. 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 2018 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 in FY19 and FY20 based on the number of customer take-on of the Linius technology. From 2021 to 2023 it is based on a compounded growth. Expenses are set based on the 2019 budget, increasing by anticipated growth required to the support the increase in revenue forecast.
- An after tax discount rate of 15% 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 2018

NOTE 11: TRADE AND OTHER PAYABLES

	Group	
	2018	2017
	$	$
Trade payables*	702,224	280,455
Sundry payables and accrued expenses	226,720	269,865
	928,944	550,320

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

NOTE 12: ISSUED CAPITAL AND RESERVES

	Note	$ Group	Number (Legal parent)
Issued Capital			
2018			
Opening balance 1 July 2017		12,575,410	679,190,880
Issue of shares through private placement (net of costs)*		16,579,147	224,166,668
Issue of shares as share based payment to consultant		50,000	1,000,000
Issue of loan funded shares		-	20,000,000
Issue of shares on conversion of unlisted options		843,000	11,240,000
At reporting date		30,047,557	935,597,548

The Company has issued share capital amounting to 935,597,548 ordinary shares of no par value.

* Net of $941,586 of share based payment transaction costs and $979,267 in cash incurred transaction costs.

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 30 June 2017		12,575,410	679,190,880

NOTE 12: ISSUED CAPITAL AND RESERVES (CONTINUED)

	Legal parent entity	
Ordinary shares	2018 No.	2017 No.
Opening balance	679,190,880	562,238,580
Fully paid shares issued during the year		
— 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 (issue of shares on exercise of unlisted options)		6,523,506
— July 2017 (issue of shares by private placement)	30,000,000	
— October 2017 (issue of shares by private placement)	85,000,000	
— December 2017 (issue of shares by private placement)	5,000,000	
— December 2017 (share based payment to director)	20,000,000	
— December 2017 (issue of shares on exercise of unlisted options)	3,500,000	
— January 2018 (issue of shares on exercise of unlisted options)	6,340,000	
— February 2018 (issue of shares on exercise of unlisted options)	500,000	
— February 2018 (issue of shares by private placement)	81,250,000	
— March 2018 (issue of shares on exercise of unlisted options)	900,000	
— March 2018 (share based payment of consulting fees)	1,000,000	
— May 2018 (issue of shares by private placement)	2,083,334	
— June 2018 issue of shares by private placement)	20,833,334	
At reporting date	935,597,548	679,190,880

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.

NOTE 12: ISSUED CAPITAL AND RESERVES (CONTINUED)

	Legal parent entity	
Performance shares on issue	2018	2017
	No.	No.
Opening balance	-	100,000,000
Performance shares issued during the year	-	-
Number converted to ordinary shares during the period	-	(100,000,000)
At reporting date	-	-

The performance shares were unlisted and were divided into 4 classes (A, B, C and D) of 50,000,000 performance shares per class where performance shares in the relevant class converted into ordinary shares upon achievement of certain milestones. 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.

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 2018 is as follows:

	Group	
	2018	2017
	$	$
Cash and cash equivalents	10,766,028	959,270
Trade and other receivables	265,192	77,475
Trade and other payables and other liabilities	(953,985)	(552,425)
Working capital position	10,077,235	484,320

NOTE 13: CASH FLOW INFORMATION

	Group	
	2018	2017
	$	$
Loss after income tax	(10,714,098)	(4,230,052)
Cash flows excluded from loss attributable to operating activities		
Non cash items		
- Depreciation	7,021	239
- Amortisation	540,000	540,000
- Share-based payments expense	1,358,869	384,570
- Shares issued for payment of trade payable	50,000	-
Changes in assets and liabilities		
- Increase/(decrease) in provisions	22,936	2,105
- Increase/(decrease) in trade payables and accruals	378,624	267,542
- (Increase)/decrease in trade receivables and prepayments	(187,717)	(1,969)
Cash flows used in operating activities	(8,544,365)	(3,037,565)

Changes in liabilities arising from financing activities

There were no changes in liabilities arising from financing activities (2017: nil).

NOTE 14: RELATED PARTY TRANSACTIONS

	Group	
	2018 $	2017 $
(i) Transactions with key management personnel:		
Advisory fees paid to Otway Capital Consulting, a consulting firm in which Gerard Bongiorno has an interest	62,000	-
(ii) Amounts owing to key management personnel (included in trade and other payables):		
Entity related to Gerard Bongiorno	11,000	-
Entity related to Stephen McGovern	9,013	8,193
Entity related to Christopher Richardson	30,379	31,655
Entity related to Stephen Kerr	11,000	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	2018	2017
Firestrike Resources Incorporated (a)	USA	Ordinary	-	100%
Linius (Aust) Pty Ltd	Australia	Ordinary	100%	100%
Linius Solutions Pty Ltd	Australia	Ordinary	100%	100%

(a) Deregistered in 2018.

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

Share option and loan share schemes

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.

Loan funded share plan

A loan funded share plan (LFSP) has been established by the Group, pursuant to which, at the discretion of the Board, fully paid ordinary shares in the Company may be acquired by certain key personnel and Directors using financial assistance given by the Company. Participants will acquire or be issued loan funded shares at market value as at the grant date using a loan provided by the Company. The loan is interest-free and limited recourse in accordance with the loan terms and the LFSP rules. The LFSP rules require the loan to be repaid before a participant can sell their shares. The shares are granted in accordance with time based and/or performance targets established by the Board.

NOTE 19: SHARE-BASED PAYMENTS (CONTINUED)

Share options and loan shares (equity settled)

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

Grant date	Number of instruments	Exercise price	Vesting conditions	Contractual life of options
Options granted to key management personnel and employees:				
Employees				
On 11/15 January 2018	3,750,000	4.5 cents	33% vesting on each of 1st, 2nd and 3rd anniversary of employment date	3.3 years
Key Management Personnel				
On 30 November 2016	11,500,000	4.5 cents	Refer to Note A below	3 years
On 29 April 2016*	58,500,000	5 cents	Vested	3 years
Loan shares granted to key management personnel:				
On 28 November 2017	20,000,000	5.0 cents	50% vesting on issue, 25% vesting in 12 months, 25% vesting in 24 months	5 years
Options granted to consultants:				
On 28 May 2018	1,000,000	17 cents	Vested on issue	21 months
On 22 February 2018	2,000,000	5.0 cents	33% vesting on each of 1st, 2nd and 3rd anniversary of engagement date	3.3 years
On 28 February 2018	10,000,000	22 cents	Vested on issue	19 months
On 28 February 2018	10,000,000	16 cents	Vested on issue	19 months
On 15 February 2018	3,375,000	7 cents	Vested on issue	22 months
On 15 February 2018	3,375,000	7.5 cents	Vested on issue	22 months
On 15 February 2018	3,375,000	8 cents	Vested on issue	22 months
On 15 February 2018	3,375,000	8.5 cents	Vested on issue	22 months
On 28 November 2017	10,000,000	7.5 cents	Vested on issue	18 months
On 29 April 2016	3,000,000	5 cents	Vested	3 years

*Include options issued to former employees.

NOTE 19: SHARE-BASED PAYMENTS (CONTINUED)

Note A

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 Vesting Condition 2 Vesting Condition 3 Vesting Condition 4 Vesting Condition 5	2,000,000* 2,000,000 2,000,000 2,000,000 2,000,000
Stephen Kerr	Chief Financial Officer and Company Secretary	Vesting Condition 1 Vesting Condition 2 Vesting Condition 3 Vesting Condition 4 Vesting Condition 5	300,000* 300,000 300,000 300,000 300,000
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;
- 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 (e.g. 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 19: SHARE-BASED PAYMENTS (CONTINUED)

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

Options	2018 $	2017 $
Christopher Richardson	97,089	310,360
Stephen Kerr	14,563	44,210
Options issued under the ESOP	360,361	-
Options issued to consultants	1,478,546	-
Cost of options issued to consultants for capital raising services, applied against equity	(941,273)	-
	1,009,286	354,570
Shares		
Consulting fees settled via share issue	-	30,000
Gerard Bongiorno – Loan funded shares	349,583	-
	1,358,869	384,570

Reconciliation of outstanding share options and loan shares – 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 2018*	*Weighted average exercise price 2018*	*Number of options 2017*	*Weighted average exercise price 2017*
Outstanding at 1 July	73,000,000	4.9 cents	76,027,554	4.8 cents
Listed options over ordinary shares exercised during the year			(6,523,506)	4 cents
Listed options – expired during the year			(8,004,048)	4 cents
Options issued during the year	75,000,000	7.5 cents	11,500,000	4.5 cents
Options exercised during the year	(11,240,000)	7.5 cents		
Listed options issued during the year	62,083,350	16.0 cents		
Options issued during the year	13,500,000	7.75 cents		
Options issued during the year	10,000,000	22.0 cents		
ESOP options granted during the year	5,750,000	4.7 cents		
Options issued during the year	1,000,000	17.0 cents		
Outstanding at 30 June	229,093,350	9.6 cents	73,000,000	4.9 cents
Exercisable at 30 June	218,360,017	9.8 cents	62,650,000	5.0 cents

NOTE 19: SHARE-BASED PAYMENTS (CONTINUED)

*Loan shares on issue**	*Number of loan shares 2018*	*Weighted average price 2018*	*Number of loan shares 2017*	*Weighted average price 2017*
Outstanding at 1 July	-	-	-	-
Loan shares granted during the year	20,000,000	5.0 cents		
Outstanding at 30 June	20,000,000	5.0 cents	-	-
Vested at 30 June	10,000,000	5.0 cents	-	-

* Loan shares are accounted for as options in the financial accounts.

The fair value of the equity-settled share options and loan shares granted in the current year 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 2018	2,000,000 Unlisted ESOP options	1,875,000 Unlisted ESOP options	1,875,000 Unlisted ESOP options	20,000,000 Loan shares	13,500,000 Unlisted options
Dividend yield (%)	Nil	Nil	Nil	Nil	Nil
Expected volatility (%)	90%	90%	90%	90%	95%
Risk-free interest rate (%)	2.15%	2.18%	2.19%	2.13%	1.83%
Expected life of option (years)	3	3	3	5	2
Exercise price (cents)	$0.05	$0.045	$0.045	$0.050	$0.0775
Grant date share price	$0.122	$0.179	$0.189	$0.049	$0.055
Grant date fair value	$0.082	$0.143	$0.152	$0.0255	$0.082
Grant date	22 Feb 2018	11 Jan 2018	15 Jan 2018	28 Nov 2017	15 Feb 2018

	10,000,000 Unlisted options	1,000,000 Unlisted options	10,000,000 Listed options	10,000,000 Unlisted options
Dividend yield (%)	Nil	Nil	Nil	Nil
Expected volatility (%)	90%	90%	90%	90%
Risk-free interest rate (%)	1.68%	2.005%	1.87%	1.87%
Expected life of option (years)	1.5	2	1.5	1.5
Exercise price (cents)	$0.075	$0.170	$0.160	$0.220
Grant date share price	$0.049	$0.110	$0.130	$0.130
Grant date fair value	$0.014	$0.050	$0.045	$0.035
Grant date	28 Nov 2017	28 May 2018	28 Feb 2018	28 Feb 2018

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

<u>Interest rate risk</u>

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 1.96% at 30 June 2018. All other assets and liabilities are non-interest bearing.

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 $5,863 (2017: $959)

<u>Liquidity risk</u>

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 National Australia Bank (NAB) and ANZ Bank. The NAB and ANZ Bank have 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:	2018	2017	2018	2017
	%	%	$	$
Cash and cash equivalents	1.96	0.45	10,766,028	959,270
Total Financial Assets			10,766,028	959,270
Financial Liabilities:				
Trade and other payables	-	-	928,944	550,320
Total Financial Liabilities			928,944	550,320

iii. Net Fair Values

Financial assets (cash and other receivables) and financial liabilities (trade and other receivables) are carried at amortised cost which approximates their fair values.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

NOTE 21: EVENTS AFTER THE REPORTING PERIOD

There has not been any 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: PARENT ENTITY DISCLOSURES

The following information is related to the legal parent entity Linius Technologies Limited as at 30 June 2018:

Financial position	2018 $	2017 $
Assets		
Current assets	10,522,465	806,996
Non-current assets	28,081,250	20,972,465
Total assets	38,603,715	21,779,461
Liabilities		
Current liabilities	144,223	294,244
Total liabilities	144,223	294,244
Equity		
Issued Capital	45,688,511	28,216,364
Option premium reserve	36,462	36,462
Share based payments reserve	4,363,160	2,062,705
Accumulated losses	(11,628,641)	(8,830,314)
Total equity	38,459,492	21,485,217

Financial performance	2018 $	2017 $
Loss for the year	2,798,327	1,523,264
Total comprehensive loss	2,798,327	1,523,264

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 22 to 54 and the Remuneration report on pages 13 to 18 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 2018 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 2018.

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
26 September 2018

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 2018 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 2018.
- 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.

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Recoverable amount of intangible asset
- Going concern basis of accounting

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.

Recoverable amount of intangible asset ($4,005,000)

Refer to Note 10 to the Financial Report

The key audit matter	How the matter was addressed in our audit
Recoverable amount of intangible asset is a Key Audit Matter due to: • the size of the balance (being 26.6% of total assets); • the Group has a history of operating losses. This increases the possibility of the intangible asset being impaired; and • the level of judgement required by us in evaluating the Group's assessment of recoverability as contained in their value in use model. The judgements included forecast cash flows, discount rates applied, forecast growth rates and terminal growth rates applied as incorporated in the value in use model. 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 product commercialisation stage of the Group and further steps, such as organisational support structure, required to be undertaken to prepare	Our procedures included: • We compared forecast cash flows, forecast 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 the nature of costs to facilitate the forecast growth. We used our knowledge of the Group's past performance, business and our industry experience. • We assessed the Group's estimate of the remaining useful life of the intangible asset by reference to the external report on intellectual property ownership previously obtained by the Group considering changes to the Group since the date of the report. • 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: - assessed the appropriateness of the value in use model used against the requirements of the accounting standards. We assessed the accuracy of the underlying calculation formulas; - considered the sensitivity of the model by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application and to focus

the Group for sales readiness and growth. 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 further procedures; and - 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 data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in. • 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 the year, to the value in use model prepared. • Assessed the adequacy of financial report disclosures in respect of the carrying value of intangible asset against the requirements of the accounting standards.

Going concern basis of accounting	
Refer to Note 1 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required by us in evaluating the Group's assessment of going concern and the events or conditions that may cast significant doubt on their ability to continue as a going concern. These are outlined in Note 1. The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated a number of assumptions and significant judgements, and the Directors have concluded that the range of possible outcomes considered in arriving at this judgement does not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern.	Our procedures included: • We analysed the cash flow projections by: - Evaluating the underlying data used to generate the projections. We specifically looked for their consistency with those used by the Directors, and tested by us, as set out in the recoverable amount of intangible asset key audit matter, their consistency with the Group's intentions, and their comparability to past practices; - Analysing the impact of reasonably possible changes in projected cash flows and their timing, to the projected periodic cash positions. The specific areas we focused on were informed from our test results of the accuracy of previous Group cash flow projections, sensitivity analysis on key cash flow projection assumptions and an analysis of the contracted and discretionary nature of planned expenditures. - Assessing the planned levels of operating expenditures for consistency of relationships and trends to the Group's historical results, particularly in light of the loss making operations, results since year end, and our understanding of the business,

We critically assessed the levels of uncertainty, as it related to the Group's ability to continue as a going concern, within these assumptions and judgements, focusing on the following: • the impact of not achieving estimated levels of revenue on forecast cash positions; • the Group's planned levels of operational expenditures, and the ability of the Group to manage cash outflows within available funding particularly in light of loss making operations; and • the Group's ability to raise additional funds from shareholders. In assessing this key audit matter, we involved senior audit team members who understand the Group's business and the economic environment it operates in.	supplier relationships, industry and economic conditions of the Group; • We read Directors' minutes and assessed the Group's ability to raise additional shareholder funds based on historical success rate of raising such funds. • We evaluated 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.

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;*

KPMG

- 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 and Company's ability to continue as a going concern and whether the use of the going concern assumption is appropriate. 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 the 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_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Linius Technologies Limited for the year ended 30 June 2018, 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 13 to 18 of the Directors' report for the year ended 30 June 2018.

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

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Tony Batsakis
Partner

Melbourne

26 September 2018

ADDITIONAL INFORMATION FOR LISTED COMPANIES

1. Shareholdings as at 31 August 2018

a. Distribution of Shareholders

Category (size of holding)	Number Holders	Number Ordinary
1 – 1,000	36	5,539
1,001 – 5,000	140	548,587
5,001 – 10,000	272	2,219,451
10,001 – 100,000	1,200	52,736,905
Above 100,001	783	882,587,066
	2,431	938,097,548

b. The number of shareholdings held in less than marketable parcels is 252.

c. The names of the substantial shareholders listed in the holding Group's register as at 31 August 2018 are:

	Shareholder	Number Ordinary	%
1	Phoenix Myrrh Technology Pty Ltd / Anthony Finbar O'Hanlon	91,305,054	9.76
2	Earthrise Holdings Pty Ltd <Campion Investment A/C>	90,000,000	9.59
3	Technical Investing Pty Ltd	50,602,833	5.39

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	Earthrise Holdings Pty Ltd <Campion Investment A/C>	90,000,000	9.59
2	Steve McGovern Nominees Pty Ltd	40,000,000	4.26
3	Phoenix Myrrh Technology Pty Ltd	36,532,768	3.89
4	Naley Pty Ltd	32,500,000	3.46
5	Parlin Investments Pty Ltd	30,000,000	3.20
6	One Managed Investment Funds Limited <TI High Conviction A/C>	27,833,334	2.97
7	Anbaume Pty Ltd <GF Family A/C>	22,083,334	2.35
8	Mr Anthony Finbar O'Hanlon	20,605,375	2.20
9	HSBC Custody Nominees (Australia) Limited	20,229,515	2.16
10	VR Corporate Services Pty Ltd	20,000,000	2.13
11	Stephen Wayne Velik	15,865,005	1.69
12	Mr Anthony Finbar O'Hanlon	13,800,000	1.47
13	One Managed Investment Funds Limited <Technical Investing Absolute Return A/C>	10,640,000	1.13
14	Clarkirb Nominees Pty Ltd <Clark Kirby Family A/C>	10,000,000	1.07
15	Boscombe Holdings Limited	9,759,584	1.04
16	Unrandom Pty Ltd <Unrandom A/C>	8,533,674	0.91
17	One Managed Investment Funds Limited <TI Growth A/C>	8,379,500	0.89
18	Riversdale Capital Funding Pty Ltd <The RCF A/C>	7,783,740	0.83
19	Ninkirb Nominees Pty Ltd <Nina Kirby Family A/C>	7,500,000	0.80
20	Caerlaverock Investments Pty Ltd <McCreadie Family A/C>	6,831,465	0.73
		438,877,294	46.77

ADDITIONAL INFORMATION FOR LISTED COMPANIES (CONTINUED)

f. 20 Largest holders – Listed Options (ASX:LNUOA)

	Name	Number of Options Held	% Held
1	One Managed Investment Funds Limited <TI High Conviction A/C>	10,416,667	16.78
2	Celtic Capital Pty Ltd <The Celtic Capital A/C>	3,500,000	5.64
3	Mr David Peter Valentino	3,500,000	5.64
4	CPS Capital Investments Pty Ltd	3,000,000	4.83
5	HSBC Custody Nominees (Australia) Limited	2,500,000	4.03
6	Morgan Stanley Australia Securities (Nominee) Pty Limited <No 1 Account>	1,666,666	2.68
7	Mr Anthony Julian Bongiorno	1,500,000	2.42
8	Sunshore Holdings Pty Ltd	1,250,000	2.01
9	Riversdale Capital Funding Pty Ltd <The RCF A/C>	1,041,667	1.68
10	Anbaume Pty Ltd <GF Family A/C>	1,041,667	1.68
11	Sunset Capital Management Pty Ltd <Sunset Superfund A/C>	1,000,000	1.61
12	Gazump Resources Pty Ltd	984,548	1.59
13	Beck Corporation Pty Ltd	833,333	1.34
14	Ninkirb Nominees Pty Ltd <Nina Kirby Family A/C>	833,333	1.34
15	Seven Bob Investments Pty Ltd <R F Cameron Super Fund A/C>	720,484	1.16
16	EMBR Capital LLC	625,000	1.01
17	Jurrah Investments Pty Ltd <RM Davis Fam Settlement A/C>	625,000	1.01
18	Wilberforce Pty Ltd	550,000	0.89
19	Robert Kirby Investments Pty Ltd <Kirby Family Investment A/C>	520,834	0.84
20	GW Burke Investments Pty Ltd <Burke Investment A/C>	520,834	0.84
		36,630,033	59.04

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.