

Linus Technologies Limited

ABN 84 149 796 332

Appendix 4D

Half-year report

31 December 2016

Reporting period

Report for the half-year ended 31 December 2016.

Previous corresponding period is the half-year ended 31 December 2015.

Results for announcement to the market

		Increase/(decrease) over previous corresponding period	
	\$	\$	%
Revenue from ordinary activities	44,609	-	n/a
Profit/(Loss) from ordinary activities after tax attributable to members	(1,608,523)	(1,419,326)	(750%)
Net profit/(loss) for the period attributable to members	(1,608,523)	(1,419,326)	(750%)

Dividends

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

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

Explanation of results

In April 2016 the Company completed an agreement with Linus (Aust) Pty Ltd (ACN 608 170 190) (**Linus (Aust)**) pursuant to which the Company acquired 100% of the issued shares of Linus (Aust) from the shareholders of Linus (Aust) following the satisfaction or waiver of various conditions precedent. The Company changed its name to Linus Technologies Limited as part of this process (the former name being Firestrike Resources Limited).

As a result of the Linus (Aust) transaction, the entity changed its operations to that of a technology company in April 2016.

Reverse Acquisition

The financial information presented for the Company and its controlled entities in its 30 June 2016 Annual Report and in this Report is presented under the principals of reverse acquisition accounting in accordance with the Australian Accounting Standards.

On 29 March 2016 shareholders approved the acquisition of Linus (Aust) Pty Ltd, the Public Offer, the Consideration Offer, the Conversion Offer, the CPS Offer (per the Prospectus issued on 3 March 2016) and a change in the nature and scale of the Company's activities from a gold and base metal exploration company to a technology company.

The acquisition of Linus (Aust) Pty Ltd by the Company is considered to be a reverse acquisition under Australian Accounting Standards, notwithstanding the Company being the legal parent of the Group. Consequently, the financial information presented in this Report is the financial information of Linus (Aust) Pty Ltd. Linus (Aust) Pty Ltd was incorporated on 10 September 2015, hence the prior corresponding period comparative information in this Report is that of Linus (Aust) Pty Ltd for the period from its incorporation to 31 December 2015.

The legal structure of the Group subsequent to the acquisition of Linus (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, Linus (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 (Linus (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.

Results for the 6 months to December 2016

The results for the period to 31 December 2016 cover the entities first full six months as a listed technology company. The principal activities during this six months have been the continued development of the patented Linus Video Virtualization Engine™. During the period the entity has expanded its operations and increased its marketing activities in preparation for the commercialisation of the software.

As mentioned above, the previous corresponding period results to 31 December 2015 cover the initial activities of Linus Aust as a private company, incorporated on 10 September 2015.

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

Net tangible asset backing

	Current period	Previous corresponding period
Net tangible assets per ordinary security	0.39 cents	(777.14) cents ¹ .

1. Previous corresponding period represents the net tangible assets backing of Linus (Aust) Pty Ltd at 31 December 2015, refer above.

Signed:



Stephen Kerr
CFO & Company Secretary

27 February 2017
Melbourne

Linius Technologies Limited

ABN 84 149 796 332

ASX CODE: LNU

Half-Year Report 31 December 2016

The information in this half-year report should be read in conjunction with the annual report of Linius Technologies Limited for the year ended 30 June 2016

Corporate Information

Directors

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

Company Secretary

Stephen Kerr

Registered office and principal place of business

Level 40, 140 William Street
MELBOURNE VIC 3000
Telephone: (03) 9607 8234
Facsimile: (03) 9607 8298

Website

www.linius.com

Auditors

KPMG
727 Collins Street
MELBOURNE VIC 3008

Bankers

Australia and NewZealand Banking Group Limited

Stock Exchange

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

ASX Code

LNU

Share Register

Advanced Share Registry Ltd
110 Stirling Highway
NEDLANDS WA 6009
Telephone: (08) 9389 8033
Facsimile: (08) 9389 7871

Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Linus Technologies Limited (referred to hereafter as the 'Company' or 'parent entity' or 'Linus') and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

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

Stephen McGovern
Christopher Richardson
Gerard Bongiorno (appointed as a director on 21 February 2017)
Stephen Kerr (resigned as a director on 21 February 2017. Continuing as CFO and Company Secretary)

Principal activities

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

Reverse acquisition accounting

The financial information presented for the Company and its controlled entities in its 30 June 2016 Annual Report and in this Report is presented under the principals of reverse acquisition accounting in accordance with the Australian Accounting Standards.

On 29 March 2016 shareholders approved the acquisition of Linus (Aust) Pty Ltd, the Public Offer, the Consideration Offer, the Conversion Offer, the CPS Offer (per the Prospectus issued on 3 March 2016) and a change in the nature and scale of the Company's activities from a gold and base metal exploration company to a technology company.

The acquisition of Linus (Aust) Pty Ltd by the Company is considered to be a reverse acquisition under Australian Accounting Standards, notwithstanding the Company being the legal parent of the Group. Consequently, the financial information presented in this Report is the financial information of Linus (Aust) Pty Ltd. Linus (Aust) Pty Ltd was incorporated on 10 September 2015, hence the prior corresponding period comparative information in this Report is that of Linus (Aust) Pty Ltd for the period from its incorporation to 31 December 2015.

The legal structure of the Group subsequent to the acquisition of Linus (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, Linus (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 (Linus (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.

Dividends

No dividends were paid or declared during the financial period.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$1,608,523 (31 December 2015 loss: \$189,197).

The consolidated entity had net assets of \$7,496,235 at 31 December 2016 (30 June 2016: \$8,152,986) and cash on hand of \$2,767,060 (30 June 2016: \$3,275,258).

The results for the period to 31 December 2016 cover the entity's first full six months as a listed technology business. This follows completion of the successful reverse takeover transaction in April 2016 and the change of operations as detailed in the entity's 30 June 2016 Annual Report.

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

During the period the entity successfully achieved the remaining operational milestones as set out in the Prospectus (issued 3 March 2016) and completed showcases which demonstrated personalised advertisement insertion into video and which also demonstrated the capability that the Linus Video Virtualization Engine™ has to remove the requirement for transcoding.

The Linus executive and development team showcased Linus' disruptive technology through live demonstrations at the IBC 2016 conference in September 2016 and in November 2016 demonstrated, via live webcast, how the Linus transformative video software can personalise TV advertising across cable TV networks. The business has expanded its operations and increased its marketing activities in preparation for the commercialisation of the software in the March 2017 quarter.

At the date of this report, Linus has now announced its commercialization plan, which includes the creation of four divisions specifically targeting four markets: personalized advertising, search, anti-piracy, and security and defence. As a launch of commercial activity, Linus has also released VVE Play, an environment where the public can engage with the concept of virtual videos, and which will be used to catalyse inbound leads.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial period

Matters subsequent to the end of the financial period

No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration, which forms part of this Directors' Report, is set out on page 19.

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

On behalf of the directors



Stephen McGovern
Chairman

27 February 2017
Melbourne

Linius Technologies Limited

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31 December 2016

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General information

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

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

Registered office

Level 40
140 William Street
Melbourne VIC 3000

Principal place of business

Level 40
140 William Street
Melbourne VIC 3000

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2017.

Linus Technologies Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2016

	Note	Consolidated December 2016 \$	December 2015 \$
Revenue			
Interest income		44,609	-
Expenses			
Administrative expenses		(103,809)	(44)
Amortisation expenses		(270,000)	(45,000)
Consultant costs		(183,924)	(26,000)
Director remuneration expenses		(156,163)	-
Share based payments expenses		(198,172)	-
Financial and compliance expenses		(62,106)	-
Marketing and promotional expenses		(116,373)	-
Software development expenses		(332,631)	-
Patent costs		(62,792)	-
Legal expenses		(51,936)	(110,853)
Travel and accommodation expenses		(115,226)	(7,300)
Loss before income tax		(1,608,523)	(189,197)
Income tax (expense) credit		-	-
Loss after income tax expense for the year attributable to owners of the parent		(1,608,523)	(189,197)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year attributable to owners of the parent		<u>(1,608,523)</u>	<u>(189,197)</u>
Loss per share for loss attributable to the owners of the parent		Cents	Cents
Basic and diluted loss per share		(0.27)	(270.28) ¹
Weighted average number of shares used in determining basic loss per share		590,899,010	70,000 ¹
1. Represents the basic and diluted loss per share of Linus (Aust) Pty Ltd, refer to note 1.			

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

Linius Technologies Limited
Consolidated statement of financial position
As at 31 December 2016

		Consolidated	
	Note	December	June
		2016	2016
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		2,767,060	3,275,258
Other receivables		76,804	75,506
Total current assets		<u>2,843,864</u>	<u>3,350,764</u>
Non-current assets			
Intellectual property	4	<u>4,815,000</u>	<u>5,085,000</u>
Total non-current assets		<u>4,815,000</u>	<u>5,085,000</u>
Total assets		<u>7,658,864</u>	<u>8,435,764</u>
Liabilities			
Current liabilities			
Trade and other payables		162,629	282,778
Total current liabilities		<u>162,629</u>	<u>282,778</u>
Total liabilities		<u>162,629</u>	<u>282,778</u>
Net assets		<u>7,496,235</u>	<u>8,152,986</u>
Equity			
Issued capital	5	12,563,070	11,809,470
Reserves		1,906,307	1,708,135
Accumulated losses		<u>(6,973,142)</u>	<u>(5,364,619)</u>
Total equity		<u>7,496,235</u>	<u>8,152,986</u>

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

Linius Technologies Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2016

Consolidated	Issued capital \$	Equity settled benefits reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2015	-	-	-	-
Loss after income tax expense for the half year	-	-	(189,197)	(189,197)
Total comprehensive loss for the half year	-	-	(189,197)	(189,197)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	5,000,200	-	-	5,000,200
Equity-settled share based payments	-	-	-	-
Total transactions with owners of the Company	5,000,200	-	-	5,000,200
Balance at 31 December 2015	<u>5,000,200</u>	<u>-</u>	<u>(189,197)</u>	<u>4,811,003</u>
Consolidated	Issued capital \$	Equity settled benefits reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016	11,809,470	1,708,135	(5,364,619)	8,152,986
Loss after income tax expense for the half year	-	-	(1,608,523)	(1,608,523)
Total comprehensive loss for the half year	-	-	(1,608,523)	(1,608,523)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	753,600	-	-	753,600
Equity-settled share based payments	-	198,172	-	198,172
Total transactions with owners of the Company	753,600	198,172	-	951,772
Balance at 31 December 2016	<u>12,563,070</u>	<u>1,906,307</u>	<u>(6,973,142)</u>	<u>7,496,235</u>

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

Linius Technologies Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2016

		Consolidated	
	Note	December	December
		2016	2015
		\$	\$
Cash flows from operating activities			
Payments to suppliers		(1,283,756)	(42,854)
Interest received		26,958	-
		<u>(1,256,798)</u>	<u>(42,854)</u>
Net cash used in operating activities			
Cash flows from investing activities			
Payments for intellectual property		-	(400,000)
		<u>-</u>	<u>(400,000)</u>
Net cash from investing activities			
Cash flows from financing activities			
Proceeds from issue of shares	5	748,600	200
Proceeds from borrowings		-	600,000
		<u>748,600</u>	<u>600,200</u>
Net cash from financing activities			
Net (decrease) / increase in cash and cash equivalents		(508,198)	157,346
Cash and cash equivalents at the beginning of the half year		<u>3,275,258</u>	<u>-</u>
Cash and cash equivalents at the end of the half year		<u><u>2,767,060</u></u>	<u><u>157,346</u></u>

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

Linus Technologies Limited
Notes to the consolidated financial statements
31 December 2016

Note 1. Significant accounting policies

Reporting entity

Linus Technologies Limited (the "Company") is a company domiciled in Australia. These condensed consolidated interim financial statements ("half year financial statements") as at and for the six months ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in technology, including research and development of technology products, software development and the commercialisation and licencing of computer software.

Basis of preparation

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

The interim financial statements are intended to provide users with an update on the latest annual financial statements of Linus Technologies Limited. As such, the interim financial statements do not contain information that represents relatively insignificant changes occurring during the half-year of the company. It is therefore recommended that the interim financial statements be read in-conjunction with the annual financial statements of the company for the year ended 30 June 2016,.

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

Reverse Acquisition Accounting

The acquisition of Linus (Aust) Pty Ltd by the Company is considered to be a reverse acquisition under Australian Accounting Standards, notwithstanding the Company being the legal parent of the Group. Consequently the financial information presented in this Report is the financial information of Linus (Aust) Pty Ltd. Linus (Aust) Pty Ltd was incorporated on 10 September 2015, hence the reporting period is from this date up to 30 June 2016 and there is no prior corresponding period comparative information.

Where considered relevant, some historical financial information of Firestrike Resources Limited (renamed Linus Technologies Limited) for the year ended 30 June 2015 has also been disclosed.

The legal structure of the Group subsequent to the acquisition of Linus (Aust) Pty Ltd will be 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, Linus (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 (Linus (Aust) Pty Ltd, with the assets and liabilities of the legal subsidiary being recognised and measured at their precombination carrying amounts rather than their fair values.

These interim financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2016, which are available at the Company's registered office located at Level 40, 140 William Street, Melbourne, Victoria and on the website www.Linius.com.

Note 2. Commitments and contingent liabilities

The consolidated entity has no contingent liabilities at the date of this report (June 2016: Nil).

The consolidated entity has the following commitments at 31 December 2016.

Lease commitments – operating

Committed at the reporting date, but not recognised as liabilities, payable:

Within one year

	Consolidated December 2016 \$	June 2016 \$
	6,720	-
	<u>6,720</u>	<u>-</u>

Note 3. Segment Reporting

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

Note 4. Intellectual property

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

	Consolidated	
	December	June
	2016	2016
	\$	\$
Intellectual property at cost	5,400,000	5,400,000
Accumulated amortisation	(585,000)	(315,000)
	<u>4,815,000</u>	<u>5,085,000</u>

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

The cost of the intellectual property was established upon the purchase of the intellectual property through a third party transaction in November 2015. The value of the intellectual property was further validated through the reverse takeover process and capital raising undertaken by Linus Technologies Limited (Linus) 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.

Since listing on ASX, the shares of Linus have traded in a ready market, supporting the value of the intellectual property asset. The assets of the Group at 31 December 2016 consist principally of cash of \$2.8m and Intellectual property at written down value of \$4.8m. Net assets are \$7.5m at 31 December 2016.

Linus shares closed at a price of 4.4 cents per share on 31 December 2016. Total fully paid ordinary shares on issue at 31 December 2016 are 679.2m, which derives a market capitalisation of Linus of \$29.9m at 31 December 2016. Given the development nature of the Group's operations, the directors believe that the recoverability of the value of the intellectual property on the balance sheet at 31 December 2016 is supported by the market valuation of the Group..

The directors note that the intellectual property is at an early stage in its commercial life, with the associated technology now commencing commercialisation steps. 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.

Note 5. Equity - issued capital

	Legal Parent		Consolidated	
	December	June	December	June
	2016	2016	2016	2016
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>679,190,880</u>	<u>562,238,580</u>	<u>12,563,070</u>	<u>11,809,470</u>

Linus Technologies Limited
Notes to the consolidated financial statements
31 December 2016

Movements in ordinary share capital

Details	Date	No. of shares Legal Parent
Legal parent		
Balance as at 30 June 2016		562,238,580
Issue of shares via placement	Sept 2016	10,000,000
Issue of shares as payment of consulting fees	Sept 2016	197,511
Issue of shares as payment of consulting fees	Nov 2016	231,283
Issue of shares on conversion of performance shares	Nov 2016	50,000,000
Issue of shares on conversion of performance shares	Dec 2016	50,000,000
Issue of shares on exercise of listed options	Dec 2016	<u>6,523,506</u>
Balance as at 31 December 2016		<u><u>679,190,880</u></u>

Details	Date	\$
Consolidated entity		
Balance as at 30 June 2016		11,809,470
Issue of shares as payment of consulting fees	Sept 2016	15,000
Issue of shares as payment of consulting fees	Nov 2016	15,000
Issue of share capital via placement (net of costs of \$25,000)	Sept 2016	475,000
Issue of shares on exercise of listed options	Dec 2016	<u>248,600</u>
Balance as at 31 December 2016		<u><u>12,563,070</u></u>

Issue of shares via placement

During the period the company issued 10,000,000 fully paid ordinary shares at \$0.05 per share via a private placement.

Listed Options

During the period 6,523,506 listed options which were exercised at the exercise price of \$0.04 per share and converted to fully paid ordinary shares. The remaining unexercised listed options expired on 31 December 2016 (refer Note 6).

Performance shares

During the period the remaining 100,000,000 unlisted performance shares converted to fully paid ordinary shares in accordance with the terms of issue of the performance shares.

Ordinary shares

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

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

Note 6. Equity based payments

Employee share option plan

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

As at 31 December 2016 no options had been granted under the ESOP.

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

Linus Technologies Limited
Notes to the consolidated financial statements
31 December 2016

Options issued to Directors, executives and consultants

As at 31 December 2016 the following options over ordinary shares in Linus Technologies Limited had been issued (Options). These Options were issued separately to the ESOP.

The following share based payment arrangements were in existence at 31 December 2016:

Option Issue date	Option Expiry date	Exercise price	Balance at 30 June 2016 Number	Issued during the period Number	Exercised during the period Number	Expired or forfeited during the period Number	Balance at 31 December 2016 Number	Vested and exercisable at end of the period Number
29/04/2016	31/03/2019	\$0.05	61,500,000	-	-	-	61,500,000	60,425,000
30/11/2016	30/11/2019	\$0.045	-	11,500,000	-	-	11,500,000	-
Total			61,500,000	-	-	-	73,000,000	60,425,000
Weighted average exercise price			\$0.05				\$0.049	\$0.05

The following shares based payment arrangements were in existence at 30 June 2016.

Option Issue date	Option Expiry date	Exercise price	Balance at 30 June 2015 Number	Issued during the period Number	Exercised during the period Number	Expired or forfeited during the period Number	Balance at 30 June 2016 Number	Vested and exercisable at end of the period Number
29/04/2016	31/03/2019	\$0.05	61,500,000	-	-	-	61,500,000	54,675,000
Weighted average exercise price			\$0.05				\$0.05	\$0.05

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

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

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

Linus Technologies Limited
Notes to the consolidated financial statements
31 December 2016

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 Linus technology in the form of software (Linus 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 Linus Software, whether by way of indirect means (eg via a reseller arrangement) or direct means (eg via a licence to use); and
- Vesting Condition 5 means the date on which the Company's and its subsidiaries' forecast gross operational revenue from third party agreements for the following 12-month period is at least \$1,000,000.

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

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

31 December 2016	11,500,000
Dividend yield (%)	Unlisted options
Expected volatility (%)	Nil
Risk-free interest rate (%)	86%
Expected life of option (years)	1.895%
Exercise price (cents)	3.0 yrs
Grant date share price	\$0.045
Grant date fair value	\$0.042
Grant date	\$0.022
	30 November 2016

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

	December 2016 Options	June 2016 Options
Opening balance	76,027,554	17,800,000
Unlisted options issued to Directors, executives and consultants	11,500,000	61,500,000
Listed options exercised during the period	(6,523,506)	(3,272,446)
Listed options – expired on 31 December 2016	(8,004,048)	-
Balance at reporting date	<u>73,000,000</u>	<u>76,027,554</u>

Expenses arising from share based payment transactions

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

Note 7. Fair value measurement

Due to the nature of the consolidated entity's operating profile, the Directors and management do not consider that the fair values of the consolidated entity's financial assets and liabilities are materially different from their carrying amounts at 31 December 2016.

Note 8. Related party transactions

	Consolidated	
	December	December
	2016	2015
	\$	\$
Transactions with key management personnel:		
Entity related to Stephen McGovern	49,163	-
Entity related to Christopher Richardson	65,000	5,000
Entity related to Stephen Kerr	42,000	-

Transactions relate to payment of directors' remuneration.

	Consolidated	
	December	June
	2016	2016
	\$	\$
Amounts owing to key management personnel (included in trade and other payables):		
Entity related to Stephen McGovern	9,013	8,193
Entity related to Christopher Richardson	22,512	5,000
Entity related to Stephen Kerr	7,700	7,700

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

Note 9. Tax expense

The consolidated entity's effective tax rate in respect of its continuing operations for the six months ended 31 December 2016 was nil percent due to the non-recognition of tax benefits arising from the operating loss incurred before tax. Management does not yet consider it probable that future taxable profits will be available against which unrecognised tax losses and temporary differences will be utilised and therefore these items have not been brought to account at balance date.

Linius Technologies Limited
Directors' declaration
31 December 2016

In the directors' opinion:

1. the attached consolidated financial statements and accompanying notes are in accordance with the *Corporations Act 2001* and;
 - (a) comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors.

On behalf of the directors



Stephen McGovern
Chairman

27 February 2017
Melbourne



Independent auditor's review report to the members of Linius Technologies Limited

We have reviewed the accompanying half-year financial report of Linius Technologies Limited, which comprises the consolidated statement of financial position as at 31 December 2016, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1-9 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibility of the Directors for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Linius Technologies Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Linus Technologies Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

KPMG

Tony Batsakis
Partner

Melbourne

27 February 2017



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

To: the directors of Linus Technologies Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2016 there have been:

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

KPMG

KPMG

Tony Batsakis
Partner

Melbourne

27 February 2017