

## 1. Company details

Name of entity:	Covata Limited
ABN:	61 120 658 497
Reporting period:	For the nine-month period ended 31 March 2019
Previous period:	For the year ended 30 June 2018

## 2. Results for announcement to the market

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for annual reporting periods commencing on or after 1 January 2018.

On 30 January 2019, the Company announced that it had entered into a binding but conditional agreement to acquire dataglobal GmbH ('dataglobal'), a German-based software provider. The Group changed its financial year from 30 June to 31 March in order to synchronise its financial year with that of dataglobal. This will improve the efficiency of the potential acquisition and inclusion of dataglobal into the consolidated Group. The financial statements have been prepared for the 9 months period ended 31 March 2019. The comparative accounting period is for the 12 months ended 30 June 2018; therefore, the results are not directly comparable.

On 30 January 2019, the Company also announced it had entered into an agreement to divest the shares of its subsidiary Cocoon Data Holdings Pty Limited ('Cocoon') to Gibraltar Holdings Pty Limited ('Gibraltar') or its approved nominee. Gibraltar was granted an option until 15 March 2019, which was exercised by Gibraltar's nominee Cybr5 Pty Limited ('Cybr5'). In accordance with AASB 5, the disposal group comprising Cocoon and its subsidiaries has been classified as 'held for sale'.

The comparative period (being the 12 months to 30 June 2018) for the statement of profit & loss has therefore been restated with the same classification applied.

Refer to Note 2 for the impact of adoption of AASB 9 and AASB 15 on the Group.

			\$
Revenues from ordinary activities	down	39.2% to	1,590,191
Revenues from continuing operations	down	62.3% to	217,040
Loss from ordinary activities after tax attributable to the owners of Covata Limited	up	12.0% to	(8,333,570)
Loss for the period attributable to the owners of Covata Limited	up	12.0% to	(8,333,570)
			<b>9 months ended 31 March 2019</b>
			<b>12 months ended 30 June 2018</b>
			<b>Cents Cents</b>
Basic earnings per share			(1.22) (1.30)
Diluted earnings per share			(1.22) (1.30)

### Dividends

There were no dividends paid, recommended or declared during the current financial period.

### Comments

The loss for the Group after providing for income tax amounted to \$8,333,570 (30 June 2018: \$7,443,469).

The Group will continue to submit its research and development (R&D) tax concession revenue based on a 30 June tax cycle and will provide an update at that point.

Refer to the 'Review of operations' section of the Directors' report accompanying this Appendix 4E for further commentary.

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### 3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(0.09)</u>	<u>0.91</u>

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### 4. Control gained over entities

Not applicable.

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### 5. Loss of control over entities

Refer to Notes 8, 10, 17 and 31 - Discontinued operations, assets and liabilities of disposal group classified as held for sale and interest in subsidiaries for further details.

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### 6. Dividends

#### *Current period*

There were no dividends paid, recommended or declared during the current financial period.

#### *Previous period*

There were no dividends paid, recommended or declared during the previous financial period.

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### 7. Audit qualification or review

#### *Details of audit/review dispute or qualification (if any):*

The financial statements have been audited and an unqualified opinion has been issued.

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### 8. Attachments

#### *Details of attachments (if any):*

The Annual Report of Covata Limited for the period ended 31 March 2019 is attached.

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9. Signed

Signed



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William McCluggage  
Chairman  
Sydney

Date: 3 July 2019

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**Covata Limited**

**ABN 61 120 658 497**

**Annual Report - 31 March 2019**

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Directors	William McCluggage (Chairman) Edward Pretty Steven Bliim
Joint Company secretaries	Steven Bliim Patrick Gowans
Registered office	Level 4, 81 York Street Sydney, NSW, 2000 Telephone: (02) 8412 8200
Share register	Boardroom Pty Limited Level 12, 225 George Street Sydney, NSW, 2000
Auditor	Nexia Sydney Audit Pty Limited Level 16, 1 Market Street Sydney, NSW 2000
Stock exchange listing	Covata Limited shares are listed on the Australian Securities Exchange (ASX code: CVT)
Website	<a href="http://www.covata.com">www.covata.com</a>

Corporate Governance Statement Covata Limited and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance. Covata Limited has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd Edition) published by the ASX Corporate Governance Council.

Details of the corporate governance report is available on the Group website at <https://covata.com/about/ir/#governance>

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Covata Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 31 March 2019.

### **Directors**

The following persons were directors of the Company during the whole of the financial period and up to the date of this report, unless otherwise stated:

William McCluggage - Non-Executive Chairman  
Edward Pretty - Managing Director and CEO  
Steven Bliim - Executive Director and CFO (appointed on 31 January 2019)  
Lindsay Tanner (resigned on 30 January 2019)  
David Irvine (resigned on 1 December 2018)

### **Principal activities**

The principal activity of the Group is the development and commercialisation of intellectual property primarily in the field of data security technology.

### **Dividends**

There were no dividends paid, recommended or declared during the current or previous financial period.

### **Review of operations**

The loss for the Group after providing for income tax amounted to \$8,333,570 (30 June 2018: \$7,443,469).

The Group changed its financial year from 30 June to 31 March in order to synchronise its financial year with that of dataglobal GmbH, Heilbronn ('dataglobal'). This will improve the efficiency of the potential acquisition and inclusion of dataglobal into the consolidated Group. The financial statements have been prepared for the 9-month period ended 31 March 2019. The comparative accounting period is for the 12 months ended 30 June 2018; therefore, the results are not directly comparable.

As at 31 March 2019, the Group held \$1,605,067 (2018: \$4,471,616) in cash and term deposits.

Additionally, the Group recognised research and development ('R&D') tax concession revenue of \$709,295 (2018: \$1,144,335). This decreased by 38 percent from the corresponding period as the Group rationalised and reduced its operating cost base.

### **Highlights**

- Announcement of intention to undertake major transformational acquisition of dataglobal GmbH.
- Entered into agreement to divest the SafeShare business to Cybr5 Pty Limited.
- Commencement of a 'start up' deployment for Eclipse for SharePoint with a European-based Global 500 customer in Q1.
- General availability of SafeShare for ITAR in the United States and consistent customer growth.
- Eclipse extended from SharePoint on-premises to cloud, as well as to Exchange and Exchange365.
- Enhancements to SafeShare including use within Microsoft Office.
- T-Systems South Africa secured as Customer and Partner.
- Launch of SafeShare Trust, utilising blockchain technology (in partnership with ByzGen Limited).
- Launch of Data Security Console to provide CEOs, business owners and IT administrators with a single pane of glass to discover and manage sensitive data.

### **Product update**

In Q1 of FY2019, new product features were launched, including extending the reach of our Eclipse data security product from SharePoint on-premises to the Cloud via SharePoint Online and OneDrive and implementing ByzGen blockchain technology into Covata's existing data security platform to deliver data and access control immutability and real-time auditability.

The Company also released multiple updates for SafeShare:

- upgrade of Azure UK to Light Deployment Model;
- QA and release of new SafeShare features including Outlook Add-in, Single Sign On, Multi-tenant SAML and Reporting services;
- upgrade of the Australian SafeShare instance on Azure;
- the second phase of ByzGen blockchain (integration for on chain permissions use case);
- upgrade of the SafeShare instance in Azure to a new deployment model and CS1.0 features; and
- the deployment of Office Online Server for ITAR.

Covata's Eclipse product also saw upgrades:

- QA and release of Eclipse 1.2 including topology refresh tools and range of other improvements; and
- Completion of work on protecting content in Microsoft Exchange, Multitenant single sign on, customer migration, reporting and Eclipse service improvements.

Additionally, Covata has developed a unique Data Security Console that provides CEOs, business owners and IT administrators with a single pane of glass to discover and understand where sensitive data is stored and whether it is appropriately secured. This knowledge allows the user to classify, protect and control that data. This product incorporates the Covata Security Index that rates your security readiness. Trials are slated to start shortly with partner customers.

The Console is intended to satisfy use cases where an organisation wishes to assess the degree to which it is ready to meet its internal Data Security Policies or Framework as well as compliance, which is key for those organisations who need to comply with requirements such as the European General Data Protection Regulation ('GDPR').

### **Significant product developments**

#### *SafeShare for US International Traffic in Arms Regulations ('ITAR')*

Covata launched its SafeShare for ITAR product in September 2018. The ITAR are a regulatory regime to restrict and control the export of US defence and military technology including technical data and defence services.

With features such as end-to-end encryption, multi-factor authentication, and advanced access controls to strongly authenticate and authorise access to sensitive information, SafeShare provides an ideal US-based platform (deployed on AWS GovCloud) to allow small and medium-sized US businesses to move to the cloud while complying with the ITAR regime. Further, the activity logging feature of SafeShare for ITAR automates records keeping required to track exports of regulated information.

At launch in September 2018, Covata was pleased to announce that five customers had been signed on to its SafeShare for ITAR platform, with an additional two customers coming on board in each of Q2 and Q3 FY2019 and a strong pipeline.

#### *European Major Customer Progress*

Following initial engagement in early 2018, the Company was approved to enter a 'start-up' deployment phase of Eclipse for SharePoint with a European-based Global 500 customer in Q1 FY2019. Negotiations with procurement and business units continued through the remainder of the period and the deployment was moved into 'staging' in January 2019. The next phases are expected to be a move into 'full production' and a final purchase approval process.

#### *ByzGen Strategic Relationship*

Covata has developed a strategic relationship with UK-based ByzGen Limited ('ByzGen'), a London-based technology company and one of the first blockchain companies to focus exclusively on the Defence and Security sector.

In 1H2019, Covata completed the integration of blockchain capabilities into our secure collaboration product, SafeShare. SafeShare is in use by more than 30 Australian Government agencies today as well as enterprises in sensitive industries such as defence both in Australia and internationally, including for ITAR compliance.



This blockchain enabled instance of SafeShare ('SafeShare Trust') will make key aspects of stored files immutable and enable the blockchain to be the point of trust for access control to that data, ensuring the data is securely shared and not tampered with. This new capability addresses a range of use cases including:

- Government security and credential vetting;
- Chain of evidence and eDiscovery and litigation support; and
- FOI (Freedom of Information) compliance and verification.

#### *T-Systems South Africa Partnership*

The Company was pleased to announce the signing of T-Systems South Africa ('T-Systems SA') as a reseller for the important South African market. The reseller agreement was entered into following the success of an initial licence agreement for SafeShare in July 2018. The development of a go-to-market campaign targeting T-Systems SA's extensive presence in South Africa's leading public and private sector enterprises will allow Covata to quickly scale in the region and capitalise on T-Systems SA's ability to provide in-country services and support.

#### **Capital raising**

As noted in Covata's Annual Report issued on 28 August 2018, the Company successfully completed a capital raise on 5 July 2018 (announced on 31 May 2018) via Placement, Entitlement Issue and Shortfall for a total of \$1,962,000 (before associated costs). \$1,500,000 was raised during the year ended 30 June 2018 and the balance was received in the six months to 31 December 2018. This capital raise was not underwritten:

- Commitments were received from sophisticated and professional investors for a placement of \$1,500,000 at an issue price of \$0.028 per share ('Placement'). Every three Placement Shares was issued with one free-attaching option to acquire an ordinary fully paid share in the Company ('Placement Option'). Each Placement Option has an exercise price of \$0.055, expires 24 months from the date of issue, and entitles the holder to one fully paid ordinary share in the Company once exercised.
- In conjunction with the Placement, eligible shareholders were offered the opportunity to apply for new fully paid shares (Shares) under a non-renounceable pro-rata rights issue ('Entitlement Issue') at a rate of one Share for every 11 fully paid ordinary shares held at the record date. Every three shares successfully subscribed for under the Entitlement Issue was accompanied by one free-attaching option on the same terms as the Placement Options.
- The Entitlement Issue received valid acceptances for 8,448,374 new Covata shares from eligible shareholder entitlements and 5,995,984 new Covata shares from the Shortfall from eligible shareholders, for a total of 14,444,358 new shares, raising \$404,441. Subsequent agreements with sophisticated shareholders saw the placement of an additional 2,069,435 Shortfall shares for \$57,944 (total shares 16,513,792).
- The Company notes that it issued 5,504,671 free attaching options in conjunction with the Placement and Entitlement Issue at an exercise price of \$0.055.

In November 2018, Covata announced a Share Purchase Plan ('SPP') to raise funds to support the Company's focus on Europe, ongoing digital marketing and lead generation for the Company's SafeShare for ITAR product in the USA and Europe as well as working capital. The SPP closed on Friday 8 February 2019, with 42 applications totalling \$156,000 for fully paid ordinary shares at \$0.018 per share, resulting in the issue of 8,666,647 ordinary fully paid shares.

#### **Major transformational acquisition**

On 30 January 2019, the Company announced plans to pursue a major transformational acquisition, being the acquisition of German-based content services, digital workplace and archiving software provider dataglobal GmbH, Heilbronn ('dataglobal'). Covata first partnered with dataglobal in March 2018, whereby the Company acquired intellectual property used to conduct sensitive information discovery and data classification as well as secure archiving. The Company's relationship with dataglobal has grown stronger since this partnership commenced and the benefits of a combined business approach have become apparent.

Covata has entered into a binding but conditional agreement to acquire dataglobal. The acquisition conditions include completion of due diligence, regulatory and shareholder approvals (including re-compliance with Chapters 1 and 2 of the ASX Listing Rules) and completion of a capital raising of \$13,700,000.

The Company secured bridge funding by way of the issue of \$1,400,000 of secured convertible notes to support the direct costs of seeking to implement the dataglobal acquisition and the Company's working capital requirements during the acquisition phase, resulting in the issue of 77,777,781 notes convertible at a price of \$0.018 per note with 58,620,689 attaching warrants exercisable at \$0.028 and with a term of 18 months from 22 February 2019.

The dataglobal business is profitable (based on review of audited accounts) and has a strong history of strong customer relationships with near zero attrition. dataglobal shows strong growth potential by applying additional capital to the expansion into adjacent markets.

The acquisition will help to deliver Covata into a position focusing on data discovery, classification, protection and control, and archiving, in line with the strategy that the Company has previously outlined.

An interim change has been implemented to the Board during the period in which it seeks to implement to the proposed acquisition, with Lindsay Tanner resigning and the Company's CFO, Steven Bliim, being appointed as Executive Director.

#### Acquisition Terms

- Covata will acquire all of the issued share capital from the dataglobal shareholders for a total of €13,000,000 with consideration settled 50% in cash and 50% through the issue of fully paid ordinary Covata shares.
- The share component of the consideration is fixed at 34,666,667 shares in Covata at a deemed issue price of \$0.30 per share (post-consolidation) (It should be noted that the Company is seeking shareholder approval to consolidate its existing issued capital on a 20 for 1 basis).
- The consideration shares are to be voluntarily escrowed for a period of up to 18 months from the issue date, subject to any additional escrow applied by ASX.
- The cash component is subject to fluctuations in the currency exchange between the AUD and EUR, management will seek to limit the degree of risk these variances will have on the terms of the acquisition. The Company may seek to hedge any downside risk at an appropriate time with a currency instrument.
- Covata has agreed to anti-dilution provisions which will result in the dataglobal vendors being issued with additional Covata shares in the event that the convertible notes are converted or the warrants issued in connection with the convertible notes are exercised.

#### Acquisition Conditions

- Covata and the vendors completing, and being reasonably satisfied with the outcome of, due diligence investigations.
- Covata obtaining all necessary shareholder approvals, which are anticipated to include approvals for:
  - The change of scale of Covata's activities that would result on completion of the acquisition in accordance with ASX Listing Rule 11.1.2;
  - The issue of the consideration shares in accordance with the requirements of the ASX Listing Rules and (if necessary) the Corporations Act 2001;
  - The completion of the Acquisition Capital Raising;
  - The appointment of new members of the Board;
  - The change of the name of the Company to 'dataglobal Limited' (or another name agreed as appropriate for the merged business); and
  - The consolidation of the Company's issued capital at a ratio of 20:1.
- Covata obtaining all required board and regulatory approvals and waivers, including under the ASX Listing Rules and Corporations Act including, in the case of ASX, ASX confirming that Covata has successfully re-complied with Chapters 1 and 2 of the ASX Listing Rules subject to satisfaction of usual conditions (including completion of the dataglobal acquisition). It should be noted that the Company has not sought in-principle advice from ASX on the suitability of the merged entity for re-admission.
  - Covata receiving valid subscriptions for a capital raising to raise not less than \$13,700,000 to support payment of the cash consideration and the ongoing working capital requirements of the merged businesses.
  - The Company completing the sale of Cocoon Data Holdings Pty Limited.
  - There having been no material adverse event (as defined in the share sale agreement) between the date of the conditional sale agreement and completion of the acquisition.
  - The dataglobal vendors receiving confirmation from a relevant German taxing authority that the transactions contemplated by sale agreement will not trigger an adverse taxing event.
  - The dataglobal vendors providing evidence to the reasonable satisfaction of Covata that dataglobal is debt-free and has minimum working capital of €800,000 at completion.
  - dataglobal, and to the extent they are able, the dataglobal vendors, procuring the consent (in a form reasonably acceptable to Covata) of counterparties to identified major contacts to the change in control of dataglobal resulting from completion of the acquisition.
  - The agreement (in a form reasonably acceptable to Covata) of certain identified key dataglobal personnel to the continuation of their employment with dataglobal following completion.
  - The dataglobal vendors procuring that dataglobal divests itself of the managed service business (referred to above) and the grant of certain limited intellectual property licences to, and sub-leases and services arrangements with, the owner of the managed services business.

### ASX re-compliance

As the acquisition of dataglobal will amount to a significant change in the scale of the Company's activities, the Company is required to obtain the approval of its shareholders for the transaction under Chapter 11 of the ASX Listing rules, and must re-comply with Chapters 1 and 2 of the Listing Rules.

### About dataglobal GmbH, Heilbronn

dataglobal is a leader in content services, digital workplace and archiving. Based in Heilbronn, Germany, it has been in business for 20 years and is led by its founder Wolfgang Munz, who also directly or indirectly holds all of the issued share capital of the Company.

The dataglobal business has more than 450 customers in 40 countries with negligible customer turnover. Its clients cover the automotive, aerospace, chemical, financial, energy, and manufacturing sectors and include Rhenus Logistics, NDR, Mars, Universal, T-Systems, the Federal Network Agency, and the Deutsche Börse.

The software solutions of dataglobal enable digital transformation, company-wide, audit-proof archiving and the easy creation and management of individual workflows. dataglobal delivers smart content services that simplify and accelerate mobile and distributed collaboration across the enterprise, dramatically improving its competitiveness. Revenues are generated from licence sales, maintenance and services, and professional services. These revenue streams are sourced either through direct sales from employee sales staff or through partners that are trained in dataglobal's product set.

On completion of the acquisition, it is intended that Covata will be rebranded as dataglobal Limited and positioned as a leading content services player providing discovery, classification, security, protection and archiving services, operating at scale, with a robust range of products across Europe and with strong future growth prospects in the US and Asia.

Following completion of the acquisition, it is intended that Covata will change its name to 'dataglobal Limited', the main operational office will shift to Heilbronn, just south of Frankfurt, and management and development resource will be structured to provide core development capability and to address growth opportunities. Covata will continue to maintain an operating presence in Sydney, Australia in addition to its ASX listing.

### Divestment of SafeShare

On 30 January 2019, the Company announced it had entered into an agreement whereby Gibraltar Holdings Pty Limited (Gibraltar), or its approved nominee, had an option up until 15 March 2019 (unless extended by mutual agreement) to acquire the shares of Cocoon Data Holdings Pty Limited ('Cocoon') for the sum of \$5,000,000 cash. Cocoon holds the relevant IP and 100% of the shares in Covata Australia Pty Limited ('CVA'), the Company which licences the SafeShare product and holds customer contracts in connection with the technology.

The option was exercised by Gibraltar's nominee, Cybr5 Pty Limited ('Cybr5'), and Covata subsequently entered into a binding Share Purchase Agreement to sell the shares in Cocoon to Cybr5 which, on completion, will result in Cybr5 becoming the owner of Cocoon and the ultimate parent of CVA. A deposit of \$150,000 was paid by Cybr5 which is non-refundable except in very limited circumstances if the transaction does not proceed.

The transaction is also subject to various conditions precedent including obtaining shareholder approval at a Covata EGM and, assuming these conditions are satisfied, is likely to be completed on or around 15 July 2019.

All Australian employees of CVA specifically involved in the development and support of SafeShare will continue in their positions, ensuring continuity to existing customers. The sale is subject to a global, perpetual, royalty-free licence of the IP and platforms developed by Cocoon and CVA back to Covata for use in its ongoing businesses, other than to be used for a development of a product not connected to the Company's core product range. Covata and Cybr5 have also entered into a mutual collaboration and reselling relationship.

Excluded from the sale are all assets in and shares of CipherPoint Software, Inc. and all customers of its Eclipse product, the rights to the dataglobal GmbH classification IP, all IP to Covata's data security console, and all other IP and/or associated technical support and architecture materials which are held outside of Cocoon or CVA.

Updated details of the divestment are below at matters subsequent to the end of the financial period.

### **Covata – entering FY2020 with renewed confidence**

As detailed throughout this report, the past nine months have seen the Group's growth in capability and opportunity.

The Board would like to publicly thank all involved at Covata for their hard work and dedication over the past year and look forward to seeing results from the valued work they do.

With our transition to a new, lower cost, more customer focused Covata, we enter FY20 with renewed confidence. We have strengthened our product suite, sales capabilities and resources. We are well placed to develop new customer bases with a focus on Europe. In FY20 Covata is seeking to deliver strong revenue growth and improved financial performance.

### **Significant changes in the state of affairs**

The Group changed its financial year from 30 June to 31 March in order to synchronise its financial year with that of dataglobal GmbH, Heilbronn ('dataglobal').

There were no other significant changes in the state of affairs of the Group during the financial period.

### **Matters subsequent to the end of the financial period**

On 11 April 2019, the Company announced the appointment of Shaw and Partners Limited and Aitken Murray Capital Partners Pty Ltd as Joint Lead Managers (JLMs) in relation to its proposed equity raising to undertake the acquisition of dataglobal. The JLMs will be paid a total of 8% of the gross amount raised under the Equity Offer (excluding GST), which will be split equally between the JLMs. Additionally, the Company will reimburse the JLMs for reasonable out-of-pocket expenses incurred in relation to the transaction.

On 12 April 2019, the Group registered a new company, DG Operations Australia Pty Limited (DG Operations) in anticipation of the sale of Cocoon Data Holdings Pty Limited (Cocoon). The Group intends for DG Operations to be the trading entity in Australia.

On 10 May 2019, the Company conducted a General Meeting to seek shareholder approval for the sale of 100% of the equity of Cocoon. The single resolution was passed with 99.16% approval.

On 15 May 2019, the Company announced that it had signed a master Supply and Services agreement with DHL Information Services (Europe) s.r.o. (DHL). The initial order was to the value of €244,360.

On 26 June 2019, the Company advised that:

1. It was in the process of executing an agreement with parties to subscribe for additional secured convertible notes on the same terms as the convertible notes issued on 22 February 2019 to provide funding of \$500,000. The funds are to be used as working capital ahead of the acquisition of dataglobal.

It was also proposed that Covata will issue, subject to shareholder approval, the noteholders (including the holders of new notes referred to above) with: (a) 25,200,000 warrants at an exercise price of 2.8c per share (pre-Consolidation) with an expiry date 18 months from date of issue; and (b) 122,644,594 warrants at an exercise price of 1.5c per share (pre-Consolidation) with various expiry dates ranging from 120 days to 18 months from the issue date.

The issue of these warrants will form part of the resolutions requiring the authorisation of shareholders at a general meeting

2. It was in the process of executing an agreement with Cybr5 Pty Ltd, the proposed purchaser of Cocoon, and the noteholders (including the holders of the new notes referred to above), pursuant to which the obligation for payment of the aggregate \$5 million in respect of the Cocoon sale will be discharged as follows:
  - a. \$2 million through the extinguishment of the Company's obligations under the convertible notes, including the new notes referred to above (which were otherwise to have been redeemed together with accrued but unpaid interest through cash received from the Cocoon sale). The noteholders will, subject to certain conditions including lodgement of the Prospectus, accept an issue of new notes in Cybr5 in consideration of extinguishment of their convertible notes with the Company;
  - b. \$2 million in cash at completion of the Cocoon sale; and
  - c. \$1 million in the form of a vendor terms loan from Covata (on terms which would be customary for unsecured loans obtained from any major Australian bank, such as a business overdraft account, or such other terms as agreed between Cybr5 and Covata) to be repaid by Cybr5 within 90 days and payable by Cybr5 in priority to the payment of any debts or obligations of Cybr5 (other than day to day operating expenses).
3. The ratio of CVT shares to cash payable to the dataglobal vendors would be amended from 65/35 to 50/50. The Company believes that these changes reflect the dataglobal vendors' commitment to, and confidence in, the ongoing business.

On 26 June 2019, the Company released a prospectus in relation to the dataglobal acquisition (Prospectus). The Prospectus is available on ASX's website or via the Company's website [www.covata.com](http://www.covata.com).

No other matter or circumstance has arisen since 31 March 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

#### **Likely developments and expected results of operations**

The Group will continue to pursue opportunities to commercialise and market its patented security technology across markets in a number of countries around the globe. Operating costs will continue to outpace revenue until sales from current and future contracts commence to generate significant revenue streams.

The future success of the Group will depend on the acquisition of dataglobal as detailed above and its success as an ongoing business

#### **Environmental regulation**

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.



### Information on directors

Name: William McCluggage  
Title: Non-Executive Chairman  
Experience and expertise: With over 15 years of experience working as an IT Director, Chief Technology Officer and Chief Information Officer within central government and the private sector, William plays a critical role for Covata in sales and contract deployment within the UK and Northern Ireland government sector.

Currently Managing Director of Laganview Associates, a digital and technology services consultancy, he is also Head of Information Security on the UK's Open Banking Programme in London, Entrepreneur-in-Residence at Catalyst (formerly Northern Ireland Science Park), a member of the Board of Governors of the Northern Regional College in Northern Ireland and Executive Chairman of Community Mechanics.

Previously, William served as Chief Information Officer for the Irish Government, leading the development and implementation of an Information and Communications Technology ('ICT') strategy. He was also Chief Technologist of Dell EMC's public sector business, where he was a trusted adviser to the UK and Ireland's public sector customers, and the UK's Deputy Government Chief Information Officer at the UK Cabinet Office, responsible for ICT strategies and policies.

William began his career as an engineering officer with the Royal Air Force, where he worked for 24 years.

He held posts in the UK and USA and supported operations in Africa, Cyprus, Norway, Canada and the Falkland Islands. He finished his career as the Technical Director of a Defence Agency.

Other current directorships: None  
Former directorships (last 3 years): None  
Interests in shares: 1,334,148 ordinary shares  
Interests in options: 1,000,000 options over ordinary shares

Name: Edward Pretty  
Title: Managing Director and Chief Executive Officer  
Experience and expertise: Edward is a widely recognised senior technology and telecommunications executive with significant experience in complex networks, data hosting and security, as well as a deep knowledge of emerging trends in security and information technology.

Joining Covata as Managing Director and Chief Executive Officer in January 2017, his responsibilities include driving revenue, developing the sales pipeline, guiding new product development and exploring near-term growth opportunities.

Most recently, Edward was a senior adviser at Macquarie Group, supporting principal investments in emerging companies, covering information governance, big data and analytics, security and encryption. His career has included roles such as Group Managing Director of Technology Innovation and Product at Telstra Group, Chairman of Fujitsu Limited, Chairman of ASX-listed NEXTDC Limited and RP Data Limited, Advisory Chairman of Tech Mahindra and Managing Director and Chief Executive Officer of Hills Limited.

Other current directorships: None  
Former directorships (last 3 years): None  
Interests in shares: 8,862,953 ordinary shares  
Interests in options: 754,604 options over ordinary shares  
Interests in loan shares: 28,030,798 ordinary shares issued pursuant to employee loan share plan

Name: Steven Bliim (appointed on 31 January 2019)  
 Title: Executive Director and Chief Financial Officer  
 Experience and expertise: Steven has been with Covata since 2012 and during this time has played a key role in the group's expansion into the US, UK and Europe along with the reverse acquisition of Prime Minerals Limited, subsequent re-listing of Covata Limited on the Australian Securities Exchange and the acquisition of CipherPoint Software Inc. In addition to his role as director, and CFO, Steven is also Joint Company Secretary.

Prior to joining Covata, Steven worked in business services and tax advisory for over seven years, consulting primarily to small-to-medium enterprise and primary production businesses.

Steven is a member of Chartered Accountants Australia & New Zealand, and holds a Bachelor of Commerce – Accounting from the University of South Australia.

Other current directorships: None  
 Former directorships (last 3 years): None  
 Interests in shares: 160,428 ordinary shares  
 Interests in options: 311,905 options over ordinary shares  
 Interests in loan shares: 6,535,608 ordinary shares issued pursuant to employee loan share plan

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

#### **Company secretaries**

##### **Patrick Gowans - Joint Company Secretary**

Patrick graduated from La Trobe University in 2006 with a Bachelor of Laws/Arts. He was admitted to practice as a lawyer in March 2008 . Patrick is currently a Partner of Quinert Rodda & Associates Lawyers.

##### **Steven Bliim - Joint Company Secretary**

Steven has held the role of Company Secretary since 2012. See 'Information on directors' above for further information.

#### **Meetings of directors**

The number of meetings of the Company's Board of Directors ('the Board') held during the period ended 31 March 2019, and the number of meetings attended by each director were:

	Attended	Held
William McCluggage	6	6
Edward Pretty	6	6
Steven Bliim	1	1
Lindsay Tanner	5	5
David Irvine	3	3

Held: represents the number of meetings held during the time the director held office.

### Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Consequences of performance on shareholders' wealth
- Additional disclosures relating to KMP

#### **Principles used to determine the nature and amount of remuneration**

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel.

In FY2019, it was the role of the Board to review and make recommendations in relation to the remuneration arrangements for its directors and executives.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

#### **Non-executive directors' remuneration**

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, these directors. The Board decides the total amount paid to each non-executive director as remuneration for their services as a director.

As described in the Long-Term Incentive Plan, the Board may elect at their discretion to issue share options to non-executive directors in order to attract individuals who bring the necessary leadership and strategic skills to the Group.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 18 November 2015, where the shareholders approved a maximum annual aggregate remuneration of \$400,000.



### *Executive remuneration*

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- long-term incentives
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

### **Equity instruments**

#### *(i) Loan funded share plan*

In the loan funded share plan, shares are purchased by the participant and funded by a loan provided by the Company. The shares are held by the participant until they vest (or are forfeited) and are eligible for dividends. Should the Company pay dividends or make capital distributions in the future, any dividends paid or distributions made to the participant will be applied to repay the loan and to meet the tax liability on those dividends or distributions.

The loan is for a period of 10 years from issue, is limited recourse and interest free. The loan is repayable in full on the earlier of the termination date of the loan or when the shares are sold.

In the event that the vesting / performance conditions are not met and shares do not vest for any other reason, the shares will be compulsorily acquired by the Company for the value of the outstanding loan.

The shares are forfeited in the event that the participant ceases employment prior to vesting. Where there is a change of control event, the Board may at its discretion make a determination that some or all of a participant's unvested shares may vest.

For accounting purposes, the loan funded share plan is treated and valued as options.

#### *(ii) Share options*

Selected KMP and directors are made individual offers of specific numbers of share options at the discretion of the Board. The Board may determine the number of share options, vesting conditions, vesting period, exercise price and expiry date. Share options may be granted at any time, subject to the Corporations Act and ASX Listing Rules.

The grant of share options is designed to attract and provide appropriate incentives to directors and KMP who have recently joined the Group and/or relocated. These share options are subject to time-based vesting. There are no specific performance conditions attached to the vesting of those options as the early stage of the Group's business does not readily allow for the returns and results of the performance by executives to be measured quantitatively on a regular basis.

#### *(iii) Ordinary share issues*

The Board may offer KMP and selected directors' incentives that are settled in ordinary shares of the Company from time to time. This assists the Board in balancing the needs of the Company, while providing an appropriate mix of cash and non-cash incentives to directors and KMP.

### **Short-term incentive plan ('STIP')**

The Chief Executive Officer and the KMP are eligible to participate in the STIP in a manner determined by the Board from time to time. Participants in the STIP have a target cash payment which is set as a percentage of their total fixed annual remuneration, subject to a maximum target of 100% for the Chief Executive Officer, 75% for the Chief Technology Officer and 15% for the Chief Financial Officer.

Payments under the STIP in any given year depend on the achievement of a range of financial and non-financial key performance indicators and objectives ('KPIs') for both the participant and the Group overall. Bonus awards granted to KMP may be settled in either cash or equity instruments of the Company at the discretion of the Board.

Amounts awarded under the STIP to KMP during the year were in connection with the Company achieving revenue targets; securing new customers and contracts; expanding the Company's sales pipeline; delivering new products to market; eliminating technical debt and achieving new product integrations.

#### **Long-term incentive plan ('LTIP')**

KMP, including non-executive directors, are eligible to participate in the LTIP as determined by the Board. The LTIP is designed to align the long-term goals of the Group with those of the KMP. The LTIP comprises the share options and loan funded shares.

Following the annual general meeting on 16 October 2018, shareholders approved the renewal of the Employee Share Option Plan ('ESOP'). This plan, in addition to the existing Employee Loan Share Plan ('ELSP'), provides the Company with the means to incentivise its KMP with instruments that have the purpose of aligning the medium to long-term goals of the Board with the success of the Group.

#### **Share options and loan funded share plan shares issued under the LTIP**

The following grants were provided to Executive Directors of the Group during the period ended 31 March 2019:

- Loan funded share plan shares granted to Edward Pretty on 19 October 2018, with components as follows:  
7,678,500 shares with a loan price of 2.8c, a term of 10 years and vest in the following tranches: 31.25% on 30 December 2018 and 6.25% to vest quarterly for the remaining 11 calendar quarters.

The following grants were provided to KMP during the period ended 31 March 2019:

- Loan funded share plan shares granted to Steven Bliim on 7 September 2018, with components as follows:  
3,214,200 shares with a loan price of 2.8c, a term of 10 years and vest in the following tranches: 31.25% on 30 September 2018 and 6.25% to vest quarterly for the remaining 11 calendar quarters.
- Loan funded share plan shares granted to Derek Brown on 7 September 2018, with components as follows:  
4,464,200 shares with a loan price of 2.8c, a term of 10 years and vest in the following tranches: 31.25% on 30 September 2018 and 6.25% to vest quarterly for the remaining 11 calendar quarters.

#### **Future grants**

The Board may consider amending the vesting terms and the performance hurdles from time to time to ensure that they are aligned to market practices and to ensure the best outcomes for the Group. The Board has the absolute discretion to replace the LTIP in any one or more years with an equivalent LTIP or any other program.

#### ***Consolidated entity performance and link to remuneration***

Any amount that may be awarded to the participants under the STIP is subject to the absolute discretion of the Board, and will be subject to the approval of the Board, after taking into account performance against KPIs, and any other matters determined by the Board to be relevant at its discretion including, without limitation, the participant's conduct and the financial performance and position of the Group.

#### ***Use of remuneration consultants***

During the financial period ended 31 March 2019, the Group did not engage remuneration consultants, to review its existing remuneration policies and provide recommendations on how to improve both the STI and LTI programs.

#### ***Voting and comments made at the Company's 2018 Annual General Meeting ('AGM')***

At the 2018 AGM, 95% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

#### ***Details of remuneration***

Details of the remuneration of the KMP of the Group are set out in the following tables. Remuneration paid in US dollars is converted to Australian dollars using a weighted-average exchange rate determined each month during the year.

The options and rights on the following table include the fair-value expense recognition for the loan funded share plan and share option plan.

*Amounts of remuneration*

Details of the remuneration of key management personnel of the Group are set out in the following tables.

The key management personnel of the Group consisted of the following directors of Covata Limited:

- William McCluggage - Non-Executive Chairman
- Edward Pretty - Managing Director and Chief Executive Officer
- Steven Bliim - Executive Director (appointed on 31 January 2019), Chief Financial Officer (appointed on 25 August 2017) and Joint Company Secretary
- Lindsay Tanner (resigned on 30 January 2019) - Former Non-Executive Director
- David Irvine (resigned on 1 December 2018) - Former Non-Executive Director

And the following persons as KMP:

- Derek Brown - Chief Commercial Officer
- Woody Shea - Chief Technical Officer

*Changes since the end of the reporting period:*

- Derek Brown was given 3 months' notice in April 2019
- Woody Shea was given 6 months' notice and transitioned to part time in April 2019

	Cash salary and fees	Short-term benefits Commis- sion	Cash bonus (a)	Post- employment benefits Superannua- tion / 401K	Long-term benefits Employee benefits	Share- based payments Equity- settled (b)	Termination	Total
<b>9 months ended 31 March 2019</b>	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
William McCluggage	52,500	-	-	-	-	3,234	-	55,734
Lindsay Tanner (c)	37,917	-	-	3,602	-	2,156	-	43,675
David Irvine (c)	27,083	-	-	2,573	-	2,156	-	31,812
<i>Executive Directors:</i>								
Edward Pretty	336,833	-	451,000	15,399	11,748	182,106	-	997,086
Steven Bliim	145,833	-	27,000	14,541	1,126	71,939	-	260,439
<i>Other KMP:</i>								
Derek Brown	240,000	19,619	-	15,399	(4,363)	91,925	102,538	465,118
Woody Shea	143,728	-	-	-	(7,291)	56,266	44,041	236,744
	<u>983,894</u>	<u>19,619</u>	<u>478,000</u>	<u>51,514</u>	<u>1,220</u>	<u>409,782</u>	<u>146,579</u>	<u>2,090,609</u>

(a) Cash-settled award issued under the STIP was accrued (and not paid) contingent on the dataglobal acquisition.

(b) Represents the fair value of vested share-based payments granted in prior years to William, Lindsay and David and represents the fair value vesting of loan funded share plan shares issued to Edward, Steven, Derek and Woody.

(c) Represents remuneration from 1 July 2018 to date of resignation.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary and fees	Commission	Cash bonus (a)	Superannuation / 401K	Employee benefits	Equity-settled (b)	Options	
<b>12 months ended 30 June 2018</b>	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
William McCluggage	70,000	-	-	-	-	-	9,160	79,160
Lindsay Tanner	65,000	-	-	6,175	-	-	9,160	80,335
David Irvine	65,000	-	-	6,175	-	-	9,160	80,335
<i>Executive Directors:</i>								
Edward Pretty	430,000	-	193,500	20,049	20,333	453,242	-	1,117,124
<i>Other KMP:</i>								
Steven Bliim (c)	142,885	-	27,000	13,574	19,908	80,316	-	283,683
Derek Brown (d)	267,500	142,970	70,000	20,049	18,461	87,256	-	606,236
Woody Shea (e)	165,495	-	25,539	-	9,375	-	87,885	288,294
	<u>1,205,880</u>	<u>142,970</u>	<u>316,039</u>	<u>66,022</u>	<u>68,077</u>	<u>620,814</u>	<u>115,365</u>	<u>2,535,167</u>

(a) Cash-settled award issued under the STIP in connection with obtaining certain KPI's concerning increasing revenue and sales pipeline, retaining key employees, achieving greater product performance, obtaining new product capability and accessing new markets/channels

(b) Represents the fair value of vested share-based payments granted in prior years (William, David, Lindsay) Represents the fair value vesting of loan funded share plan shares issued under STIP \$111,875 and LTIP \$341,367 (Edward)

(c) Represents remuneration from 25 August 2017 (date of appointment as Head of Finance) to 30 June 2018

(d) Represents remuneration from 1 July 2017 (date of appointment) to 30 June 2018

(e) Represents remuneration from 25 August 2017 (date of appointment as Chief Technology Officer) to 30 June 2018

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	9 months ended 31 March 2019	12 months ended 30 June 2018	9 months ended 31 March 2019	12 months ended 30 June 2018	9 months ended 31 March 2019	12 months ended 30 June 2018
<i>Non-Executive Directors:</i>						
William McCluggage	94%	88%	-	-	6%	12%
Lindsay Tanner	95%	89%	-	-	5%	11%
David Irvine	93%	89%	-	-	7%	11%
<i>Executive Directors:</i>						
Edward Pretty	38%	42%	44%	27%	18%	31%
Steven Bliim	64%	62%	10%	10%	26%	28%
<i>Other KMP:</i>						
Derek Brown	71%	50%	5%	35%	24%	15%
Woody Shea	72%	61%	-	9%	28%	30%

## Service agreements

### Non-executive directors

Non-executive directors do not have fixed term contracts with the Company. On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation.

Name: William (Bill) McCluggage  
Title: Non-Executive Chairman  
Agreement commenced: 21 October 2016  
Term of agreement: No fixed duration  
Details: Fixed annual remuneration \$70,000

### Executive directors

Remuneration and other terms of employment for the executive directors are formalised in service agreements in the form of employment agreements. Details of these agreements are as follows:

Name: Edward (Ted) Pretty  
Title: Managing Director and Chief Executive Officer  
Agreement commenced: Originally commenced on 23 January 2017, contract renewed with effect from 23 January 2018  
Term of agreement: An initial term of 12 months, extended for an additional 3 years to be reviewed annually  
Details:

- Fixed annual remuneration of \$451,000 (increased from \$430,000 from 1 March 2019) plus superannuation
- Monthly director's fee \$5,417 (commencing 31 January 2019)
- Entitled to participate in the STIP with target participation under the STIP capped at a maximum of 100% of his fixed annual remuneration. Payments under the STIP in any given year depend on the achievement of milestones and goals as approved by the Board
- Annual leave six weeks.

Ted or the Company may terminate the employment contract by giving either party 6 months written notice. Under specific circumstances, employment may be terminated by the Company at any time with or without notice (serious misconduct, failure to perform duties, or other specified circumstances).

Name: Steven Bliim  
Title: Executive Director, Chief Financial Officer and Joint Company Secretary  
Agreement commenced: January 2019  
Term of agreement: No fixed term  
Details:

- Fixed annual remuneration \$180,000 plus superannuation
- Monthly director's fee \$5,417 (commencing 31 January 2019)
- Entitled to participate in a STIP capped at a maximum of 15% of his fixed annual remuneration based upon achievement of a range of financial and non-financial objectives set in consultation with the Chief Executive Officer

Steven or the Company may terminate the employment contract by giving either party 1 months written notice. Under specific circumstances, employment may be terminated by the Company at any time with or without notice (serious misconduct, failure to perform duties, or other specified circumstances).

### Other key management personnel

Other key management personnel have employment contracts setting out the terms and conditions of their employment.

These contracts generally provide for:

- A base salary denominated in either Australian or US Dollars and paid monthly
- For US KMP, payment of health and dental insurance, eligible 401K
- Eligibility to participate in the STIP, with target participation in the STIP individually capped at a maximum percentage of total fixed annual remuneration up to 50%
- A grant of share options over the ordinary shares of Covata Limited

Name: Derek Brown  
 Title: Chief Commercial Officer  
 Agreement commenced: 1 July 2017  
 Term of agreement: No fixed term  
 Detail:
 

- Fixed annual remuneration of \$266,600
- Monthly travel allowance \$4,450
- Entitled to participate in the Company's commission scheme as his role is directly connected with developing new channels and markets for the Company.

Derek was given notice by the Company on 5 April 2019 in connection with the major transformational acquisition. Derek is working through the 3 months' notice.

Name: Woody Shea  
 Title: Chief Technology Officer  
 Agreement commenced: 25 August 2017  
 Term of agreement: No fixed term  
 Details:
 

- Fixed annual remuneration US\$125,000
- Entitled to Company provided health and dental insurance along with 401K contributions matched up to 6% of fixed annual remuneration

Woody was given notice by the Company on 15 April 2019 in connection with the major transformational acquisition. Woody is working on a part-time basis, receiving 50% of his salary over 6 months.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

### Share-based compensation

#### Employee Loan Share Plan

Details of ordinary shares issued to directors and other KMP under the Employee Loan Share Plan Agreement ('ELSP') as part of compensation during the period ended 31 March 2019 are set out below:

Name	Issue date	ELSP shares	Loan amount		Fair value (\$)
			per share	Term in years	
Edward Pretty (a)	19/10/2018	7,678,500	0.028	10	132,838
Steven Bliim (b)	07/09/2018	3,214,200	0.028	10	67,498
Derek Brown (b)	07/09/2018	4,464,200	0.028	10	93,748

(a) 31.25% at 30 Dec 2018; 6.25% on 31 Mar 2019 and every calendar quarter thereafter for 11 calendar quarters

(b) 31.25% at 30 Sep 2018; 6.25% on 31 Dec 2018 and every calendar quarter thereafter for 11 calendar quarters



*Options*

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial period or future reporting years are as follows:

Name	Number of options		Vesting date and		Exercise price	Fair value per option at grant date
	granted	Grant date	exercisable date	Expiry date		
Woody Shea	3,022,500	07/09/2018	(a)	7/09/2023	\$0.0280	\$0.017

(a) 31.25% at 30 Sep 2018; 6.25% on 31 Dec 2018 and every calendar quarter thereafter for 11 calendar quarters  
 Options granted carry no dividend or voting rights.

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the period ended 31 March 2019 are set out below:

Name	Value of options granted during the period \$	Value of options exercised during the period \$	Value of options lapsed during the period \$	Remuneration consisting of options for the period %
Woody Shea	51,080	-	-	21%

**Additional disclosures relating to KMP**

*Shareholding - Ordinary shares*

The number of shares in the Company held during the financial period by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the period	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the period
<i>Ordinary shares</i>					
William McCluggage	1,334,148	-	-	-	1,334,148
Lindsay Tanner	200,000	-	-	-	200,000
Edward Pretty	24,901,873	7,678,500	4,313,378	-	36,893,751
Steven Bliim	3,446,121	3,214,200	35,715	-	6,696,036
Derek Brown	6,311,597	4,464,200	1,032,847	-	11,808,644
Woody Shea	1,059,964	-	-	-	1,059,964
	<u>37,253,703</u>	<u>15,356,900</u>	<u>5,400,122</u>	<u>-</u>	<u>58,010,725</u>

As at 31 March 2019, the number of ordinary shares above held by Edward Pretty, Steven Bliim and Derek Brown include shares issued under the Employee Loan Share Plan. The shares held by Edward Pretty, Steven Bliim and Derek Brown under the Employee Loan Share Plan are 28,030,798, 6,535,608 and 9,237,200 respectively.

There is no disclosure for David Irvine.

*Shareholding - share options*

The number of options over ordinary shares in the Company held during the financial period by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
<i>Options over ordinary shares</i>					
William McCluggage	1,000,000	-	-	-	1,000,000
Lindsay Tanner	1,000,000	-	-	(600,000)	400,000
David Irvine	1,000,000	-	-	(200,000)	800,000
Steven Bliim	300,000	-	-	-	300,000
Woody Shea	3,224,194	3,022,500	-	-	6,246,694
	<u>6,524,194</u>	<u>3,022,500</u>	<u>-</u>	<u>(800,000)</u>	<u>8,746,694</u>

*Loans to key management personnel and their related parties*

During the period ended 31 March 2019 there were no loans granted to KMP and their related parties.

There are no disclosures for Ted Pretty and Derek Brown.

**Consequences of performance on shareholders' wealth**

In considering the Group's performance and benefits for shareholder's wealth, the Remuneration Committee have regard to the following financial and share price information in respect of the current financial year and the previous four financial years.

The earnings of the Group for the five years to 31 March 2019 are summarised below:

	2019 \$	2018 \$	2017 \$	2016 \$	2015 \$
Loss attributable to owners of the Company	(8,333,570)	(7,443,469)	(10,179,664)	(14,116,627)	(27,462,676)
Change in share price	(0.01)	(0.02)	(0.20)	(0.10)	0.14

***This concludes the remuneration report, which has been audited.***

**Shares under option**

Unissued ordinary shares of Covata Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
31/07/2013	31/10/2019	\$0.1467	6,828,816
1/12/2013	31/10/2019	\$0.2000	5,000,000
01/08/2014	22/12/2019	\$0.2000	1,237,500
10/03/2015	12/03/2020	\$0.3300	231,400
12/03/2015	02/11/2020	\$0.2400	300,000
30/10/2015	17/12/2020	\$0.3300	490,669
29/01/2016	20/07/2021	\$0.1950	400,000
02/06/2016	04/05/2022	\$0.2000	3,000,000
21/07/2016	21/06/2022	\$0.0500	840,000
08/12/2016	17/08/2022	\$0.0500	1,000,000
04/05/2017	22/11/2022	\$0.0500	11,064,000
22/06/2017	22/11/2022	\$0.0450	5,569,583
17/06/2017	06/09/2023	\$0.0280	19,523,000
			<u>55,484,968</u>



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

### **Shares under Employee loan share plan**

Unissued ordinary shares of Covata Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
02/12/2013	01/12/2023	\$0.1467	8,793,087
20/08/2014	19/08/2024	\$0.1467	567,188
11/03/2015	10/03/2025	\$0.2850	1,300,000
12/03/2015	11/03/2025	\$0.2850	136,916
27/01/2017	26/01/2027	\$0.1200	400,000
04/05/2017	03/05/2027	\$0.0933	10,000,000
23/06/2017	22/06/2027	\$0.0360	6,300,000
03/08/2017	02/08/2027	\$0.0360	60,000
24/11/2017	23/11/2027	\$0.0550	29,534,298
06/03/2018	05/03/2028	\$0.0500	4,085,000
07/09/2018	06/09/2028	\$0.0280	32,392,800
19/10/2018	18/10/2028	\$0.0280	7,678,500
			101,247,789

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

### **Shares issued on the exercise of options**

There were no ordinary shares of Covata Limited issued on the exercise of options during the period ended 31 March 2019 and up to the date of this report.

### **Indemnity and insurance of officers**

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial period, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

### **Indemnity and insurance of auditor**

The Company has not, during or since the end of the financial period, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial period, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

### **Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to 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 part of those proceedings.

### Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial period by the auditor are outlined in note 25 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial period, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 25 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

### Officers of the Company who are former directors of Nexia Sydney Audit Pty Ltd

There are no officers of the Company who are former directors of Nexia Sydney Audit Pty Ltd.

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

### Auditor

On 23 January 2019, the Company announced that it had received approval from the Australian Securities and Investments Commission to change its auditor. The Company subsequently accepted the resignation of KPMG and the consent of Nexia Sydney Audit Pty Ltd ('Nexia') to be appointed as Covata's auditor. Nexia has worked with Covata since June 2015 in preparing the Company's R&D Tax Incentive Application and tax related matters and this move consolidates the Company's accounting advisory into one firm.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



William McCluggage

3 July 2019  
Sydney

**Auditor's Independence Declaration under section 307C of the *Corporations Act 2001***

As lead audit director for the audit of the financial statements of Covata Limited for the nine-month period ended 31 March 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

Yours sincerely

**Nexia Sydney Audit Pty Ltd**

**Lester Wills**  
Director

Date: 3 July 2019

		Consolidated	
		9 months ended 31 March 2019 \$	12 months ended 30 June 2018 \$
	Note		
<b>Revenue from continuing operations</b>			
Revenue - technology related products and services	5	217,040	574,566
Other income		-	993
		<u>217,040</u>	<u>575,559</u>
<b>Expenses</b>			
Employee benefit expense		(2,642,438)	(3,625,426)
Consultancy fees expense		(163,652)	(308,430)
Depreciation and amortisation expense		(609,205)	(420,279)
Impairment of assets	12	(1,827,567)	-
Impairment of receivables		(6,162)	-
Legal and professional fees expense		(254,251)	(313,273)
Marketing and promotion expense		(222,962)	(259,234)
Travel and accommodation expense		(202,499)	(518,147)
Office and administration expense		(61,019)	(205,471)
Other expenses		(480,772)	(361,911)
Total expenses		<u>(6,470,527)</u>	<u>(6,012,171)</u>
<b>Results from operating activities</b>		(6,253,487)	(5,436,612)
Finance income calculated using the effective interest method		9,204	60,864
Finance costs	6	<u>(156,093)</u>	<u>(4,073)</u>
<b>Loss before income tax expense from continuing operations</b>		(6,400,376)	(5,379,821)
Income tax expense	7	-	-
Loss after income tax expense from continuing operations		(6,400,376)	(5,379,821)
Loss after income tax expense from discontinued operations	8	<u>(1,933,194)</u>	<u>(2,063,648)</u>
<b>Loss after income tax expense for the period attributable to the owners of Covata Limited</b>		(8,333,570)	(7,443,469)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>(25,357)</u>	25,347
Other comprehensive income for the period, net of tax		<u>(25,357)</u>	25,347
<b>Total comprehensive income for the period attributable to the owners of Covata Limited</b>		<u>(8,358,927)</u>	<u>(7,418,122)</u>
Total comprehensive income for the period is attributable to:			
Continuing operations		(6,425,733)	(5,354,474)
Discontinued operations		<u>(1,933,194)</u>	<u>(2,063,648)</u>
		<u>(8,358,927)</u>	<u>(7,418,122)</u>

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

Note	Consolidated	
	9 months ended 31 March 2019 \$	12 months ended 30 June 2018 \$
	Cents	Cents
<b>Earnings per share for loss from continuing operations attributable to the owners of Covata Limited</b>		
Basic earnings per share	33 (0.94)	(0.94)
Diluted earnings per share	33 (0.94)	(0.94)
<b>Earnings per share for loss from discontinued operations attributable to the owners of Covata Limited</b>		
Basic earnings per share	33 (0.28)	(0.36)
Diluted earnings per share	33 (0.28)	(0.36)
<b>Earnings per share for loss attributable to the owners of Covata Limited</b>		
Basic earnings per share	33 (1.22)	(1.30)
Diluted earnings per share	33 (1.22)	(1.30)

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

		Consolidated	
	Note	31 March 2019 \$	30 June 2018 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,605,067	4,471,616
Trade and other receivables	9	739,137	1,267,336
Prepayments		46,119	28,300
		<u>2,390,323</u>	<u>5,767,252</u>
Assets of disposal group classified as held for sale	10	203,517	-
Total current assets		<u>2,593,840</u>	<u>5,767,252</u>
<b>Non-current assets</b>			
Property, plant and equipment	11	11,745	73,392
Intangibles	12	1,287,680	3,706,658
Other non-current assets	13	95,752	157,452
Total non-current assets		<u>1,395,177</u>	<u>3,937,502</u>
<b>Total assets</b>		<u>3,989,017</u>	<u>9,704,754</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	1,477,487	2,091,740
Contract liabilities	15	163,882	559,003
Derivative liability	19	253,433	-
Borrowings	19	1,031,466	-
Employee benefits	16	56,162	180,817
Contingent consideration		-	318,465
		<u>2,982,430</u>	<u>3,150,025</u>
Liabilities directly associated with assets classified as held for sale	17	341,966	-
Total current liabilities		<u>3,324,396</u>	<u>3,150,025</u>
<b>Non-current liabilities</b>			
Contract liabilities	18	18,549	1,041,826
Total non-current liabilities		<u>18,549</u>	<u>1,041,826</u>
<b>Total liabilities</b>		<u>3,342,945</u>	<u>4,191,851</u>
<b>Net assets</b>		<u>646,072</u>	<u>5,512,903</u>
<b>Equity</b>			
Issued capital	20	93,120,766	92,206,341
Reserves	21	8,758,203	7,651,195
Accumulated losses		(101,232,897)	(94,344,633)
<b>Total equity</b>		<u>646,072</u>	<u>5,512,903</u>

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

<b>Consolidated</b>	<b>Share capital</b> \$	<b>Reserves</b> \$	<b>Accumulated losses</b> \$	<b>Total equity</b> \$
Balance at 1 July 2017	86,885,280	7,340,637	(88,137,677)	6,088,240
Loss after income tax expense for the period	-	-	(7,443,469)	(7,443,469)
Other comprehensive income for the period, net of tax	-	25,347	-	25,347
Total comprehensive income for the period	-	25,347	(7,443,469)	(7,418,122)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 20)	5,321,061	-	-	5,321,061
Share based payments – share options	-	419,739	-	419,739
Share based payments – employee loan shares	-	1,167,879	-	1,167,879
Share options lapsed	-	(1,283,110)	1,236,513	(46,597)
Employee loan shares lapsed	-	(19,297)	-	(19,297)
Balance at 30 June 2018	<u>92,206,341</u>	<u>7,651,195</u>	<u>(94,344,633)</u>	<u>5,512,903</u>
<b>Consolidated</b>	<b>Share capital</b> \$	<b>Reserves</b> \$	<b>Accumulated losses</b> \$	<b>Total equity</b> \$
Balance at 1 July 2018	92,206,341	7,651,195	(94,344,633)	5,512,903
Adjustment for change in accounting policy (Note 2)	-	(377)	1,246,574	1,246,197
Balance at 1 July 2018 - restated	92,206,341	7,650,818	(93,098,059)	6,759,100
Loss after income tax expense for the period	-	-	(8,333,570)	(8,333,570)
Other comprehensive income for the period, net of tax	-	(25,357)	-	(25,357)
Total comprehensive income for the period	-	(25,357)	(8,333,570)	(8,358,927)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 20)	914,425	-	-	914,425
Share based payments – share options	-	259,404	-	259,404
Share based payments – employee loan shares	-	804,051	-	804,051
Share options lapsed	-	(151,219)	151,219	-
Employee loan shares lapsed	-	(47,513)	47,513	-
Warrants issued (Note 19)	-	268,019	-	268,019
Balance at 31 March 2019	<u>93,120,766</u>	<u>8,758,203</u>	<u>(101,232,897)</u>	<u>646,072</u>

	<b>Consolidated</b>	
	<b>9 months</b>	<b>12 months</b>
	<b>ended 31</b>	<b>ended 30</b>
	<b>March 2019</b>	<b>June 2018</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Loss before income tax expense for the period	(8,333,570)	(7,443,469)
Adjustments for:		
Depreciation and amortisation	632,631	444,762
Impairment of assets	1,831,615	-
Net loss on disposal of property, plant and equipment	-	2,545
Share-based payments	1,063,455	1,522,283
Foreign exchange differences	(25,734)	(178,000)
	<u>(4,831,603)</u>	<u>(5,651,879)</u>
Change in operating assets and liabilities:		
Decrease in trade and other receivables	353,103	328,205
Decrease/(increase) in prepayments	(32,860)	149,507
Increase in trade and other payables	173,970	728,830
Decrease in contract liabilities including adjustments for adoption of AASB 15	(15,277)	(17,470)
Increase/(decrease) in employee benefits	(23,381)	108,282
	<u>(4,376,048)</u>	<u>(4,354,525)</u>
Net finance costs	6,029	56,790
Net cash used in operating activities	<u>(4,370,019)</u>	<u>(4,297,735)</u>
<b>Cash flows from investing activities</b>		
Refund of investments in term deposits	-	5,000,000
Refund of deposits	64,700	42,491
Payment for acquisition of intellectual property	(553,875)	(557,855)
Acquisition of controlled entity (net of cash received)	-	(164,746)
Proceeds from disposal of property, plant and equipment	-	2,545
Payment for acquisition of property, plant and equipment	-	(87,396)
Net cash from/(used in) investing activities	<u>(489,175)</u>	<u>4,235,039</u>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of shares	618,460	3,562,277
Payment of share issue costs	(22,500)	(136,531)
Proceeds from borrowings - convertible notes payables	1,400,000	-
Net cash from financing activities	<u>1,995,960</u>	<u>3,425,746</u>
Net increase/(decrease) in cash and cash equivalents	(2,863,234)	3,363,050
Cash and cash equivalents at the beginning of the financial period	4,471,616	1,325,280
Effects of exchange rate changes on cash and cash equivalents	(3,315)	(216,714)
Cash and cash equivalents at the end of the financial period	<u><u>1,605,067</u></u>	<u><u>4,471,616</u></u>

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



## Note 1. General information

The financial statements cover Covata Limited (the 'Company' or 'parent entity') as a consolidated entity consisting of Covata Limited and the entities it controlled ('the Group') at the end of, or during, the period. The financial statements are presented in Australian dollars, which is Covata Limited's functional and presentation currency.

The Group changed its financial year from 30 June to 31 March in order to synchronise its financial year with that of dataglobal GmbH, Heilbronn ('dataglobal'). This will improve the efficiency of the potential acquisition and inclusion of dataglobal into the consolidated Group. The financial statements have been prepared for the 9-month period ended 31 March 2019. The comparative accounting period is for the 12 months ended 30 June 2018; therefore, the results are not directly comparable.

Covata Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 1, Level 4, 81 York Street  
Sydney, NSW 2000

A description of the nature of the Group'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 3 July 2019.

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the Group:

#### *AASB 9 Financial Instruments*

The Group has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

## Note 2. Significant accounting policies (continued)

### *AASB 15 Revenue from Contracts with Customers*

AASB 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 – Revenue and AASB 111 – Construction Contracts. The Group has adopted this standard from 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings as at 1 July 2018 and comparatives are not restated. In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 July 2018.

Revenue arises mainly from the sale of software licenses, maintenance and support and professional services. To determine whether to recognise revenue, the Group follows a 5-step process:

- Identifying the contract with a customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to performance obligations
- Recognising revenue when / as performance obligation(s) are satisfied.

The Group often enters into transactions involving a range of the Group's products and services, for example for the delivery of software and related maintenance and support. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties. Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

### *Contracts with multiple performance obligations*

Many of the Group's contracts comprise a variety of performance obligations including, but not limited to, grant of license, installation, data hosting, maintenance and support and training. Under AASB 15, the Group must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is distinct if both:

- the customer benefits from the item either on its own or together with readily available resources; and
- it is 'separately identifiable' i.e. the Group does not provide a significant service integrating, modifying or customising it.

### *Impact of adoption*

The adoption of AASB 15 significantly affected the timing and amount of revenue recognised for TPG Telecom. The contract was signed in August 2012 for a 10-year licence totalling \$2,667,000. Under AASB 118, \$266,667 was recognised annually. Under AASB 15, revenue under the contract was recognised upon satisfying the performance obligations i.e. in full in FY2013.

AASB 15 was adopted using the modified retrospective approach and as such comparatives have not been restated.

AASB 9 was adopted using the fully retrospective approach. There was no material impact on the financial position or performance of the Group in either the current or prior period and there were no transition date adjustments required.

**Note 2. Significant accounting policies (continued)**

Summary of impact of adoption of AASB 9 and AASB 15 is as follows:

	30 June 2018 \$	Adjustments AASB 15 \$	Adjustments AASB 9 \$	1 July 2018 \$
Liabilities:				
Contract liabilities	1,600,829	(1,246,574)	-	354,255
Equity:				
Retained earnings	(94,344,633)	1,246,574	-	(93,098,059)

**Going concern**

The financial statements of the Group have been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business.

The Group is in the research, development and commercialisation stage of its data security technology. During the period ended 31 March 2019, the Group incurred a loss after tax of \$8,333,570 (2018: \$7,443,469), current liabilities exceeded current assets by \$730,556 and incurred net cash outflows from operating activities of \$4,370,019 (2018: \$4,297,735). At 31 March 2019, the Group had cash and cash equivalents of \$1,605,067 and net assets of \$646,072. The Group has prepared cashflow forecasts as at 31 March 2019 to determine the appropriateness of the going concern assumption and the recoverability of the group's intangibles and deferred tax assets.

The key assumptions underlying these forecasts are as follows:

- The Company secures additional secured convertible note funding of \$500,000 to be used as working capital ahead of the acquisition of dataglobal;
- The Company's obligations under convertible notes will be extinguished upon the completion of the Cocoon sale. The total liability that will be extinguished is \$2 million including the notes referred above;
- The Company will receive \$2 million upon the completion of the Cocoon sale;
- Upon the completion of the Cocoon sale, the Company will extend a \$1 million note in the form of a vendor terms loan to Cybr5 to be repaid by Cybr5 within 90 days and payable by Cybr5 in priority to the payment of any debts or obligations of Cybr5; and
- The Company will raise capital in connection with the dataglobal acquisition. The Prospectus is available on ASX's website or via the Company's website [www.covata.com](http://www.covata.com).

The inability to complete the above transactions in a timely manner would have a material impact on the anticipated trading results and cash flows, which gives rise to a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. In this event the Group may not be able to realise its assets and settle its liabilities in the normal course of operation and at the amounts stated in the financial statements. The Directors are confident of realising these objectives and accordingly they believe the going concern assumption is appropriate and the group's intangibles and tax assets are recoverable.

However, forecast events may not occur as expected as many external and internal factors impact on future events. In the event that these objectives are not realised, directors have in place a strategy to restructure commitments and expenditure in order to manage the Group's cash flows so that it is able to continue as a going concern.

**Basis of preparation**

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

*Historical cost convention*

The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services.

## Note 2. Significant accounting policies (continued)

### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### **Change of financial year end**

The financial year of the Company has changed from 30 June to 31 March to align the year end date of dataglobal GmbH ('dataglobal'). This will improve the efficiency of the potential acquisition and inclusion of dataglobal into the consolidated Group. Accordingly, the financial period reported in these financial statements covers the nine months 1 July 2018 to 31 March 2019. Comparative figures for these financial statements cover the twelve-month period from 1 July 2017 to 30 June 2018. The results for the current period are therefore not directly comparable with the results for the prior period.

### **Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 30.

### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Covata Limited as at 31 March 2019 and the results of all subsidiaries for the period then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

### **Operating segments**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

### **Foreign currency translation**

#### *Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

## Note 2. Significant accounting policies (continued)

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

### Revenue recognition

The Group recognises revenue as follows:

#### *Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

#### *Rendering of services*

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

#### *Technology related products and services are comprised of the following services*

##### *(a) Software licence*

For a sale of a software licence that the Group is not subject to significant integration services or continued maintenance and support, control transfers at the point in time the customer takes undisputed delivery of the goods. When such items are either customised or sold together with significant integration services, the goods and services represent a single combined performance obligation over which control is considered to transfer over time. This is because the combined product is unique to each customer (has no alternative use) and the Group has an enforceable right to payment for the work completed to date. Revenue for these performance obligations is recognised over time as the Group continues to support the license.

##### *(b) Maintenance and support*

The Group enters into maintenance and support contracts with its customers generally between one and three years in length, which includes customer support, updates and upgrades. Customers generally pay in advance for each 12-month service period and the relevant payment due dates are specified in each contract. Revenue is recognised over the life of the contract.

#### *Research and development tax concession*

Research and development tax incentives are recognised in the profit or loss when there is reasonable assurance that the Group will comply with the conditions attached to them.

#### *Interest calculated using the effective interest method*

Interest is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.



## Note 2. Significant accounting policies (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Covata Limited (the 'head entity') and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

### Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

### Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

## Note 2. Significant accounting policies (continued)

### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

### Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

### Non-current assets or disposal groups classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

### Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Leasehold improvement	Over the lease term
Plant and equipment	1.5 - 5 years

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

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

## Note 2. Significant accounting policies (continued)

### Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

### 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.

### Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

### Intellectual property

Significant costs associated with intellectual property are deferred and amortised on a straight-line basis over the period of their expected benefit, being their life of 4-5 years.

### Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

### Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

### Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

### Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.



## Note 2. Significant accounting policies (continued)

### Convertible notes

The convertible notes are classified as a liability in the statement of financial position, net of transaction costs due to the conversion features within the notes being the obligation to deliver a variable number of shares on settlement.

On the issue of the convertible notes the fair value of the liability is recognised as cash received net of transaction costs and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion, maturity or redemption. The interest on convertible notes is expensed to profit or loss using the effective interest method.

### Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

### Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

### Employee benefits

#### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

#### *Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### *Share-based payments*

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

## Note 2. Significant accounting policies (continued)

### Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

### Earnings per share

#### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of Covata Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the financial period.

#### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

### New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 March 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

## Note 2. Significant accounting policies (continued)

### AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset and lease liability are recognised at the commencement of the lease. The right-of-use asset is recognised at an amount that is equivalent to the initial measurement of the lease liability, adjusted for lease prepayments, lease incentives received, initial direct costs incurred, and an estimate of any future restoration, removal or dismantling costs. The lease liability is recognised at the present value of future lease payments comprising fixed lease payments less incentives, variable lease payments, residual guarantees payable, payment of purchase options where exercise is reasonably certain, and any anticipated termination penalties. The lease payments are discounted at the rate implicit in the lease, or where not readily determinable, the entity's incremental borrowing rate. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 July 2019. Management cannot reliably determine the impact of AASB 16 on the date of signing as the lease held by the Group at Level 4, 81 York Street, Sydney will be transferred to Cybr5 Pty Ltd upon the completion of the divestment of SafeShare.

### IASB revised Conceptual Framework for Financial Reporting

The revised Conceptual Framework has been issued by the International Accounting Standards Board ('IASB'), but the Australian equivalent has yet to be published. The revised framework is applicable for annual reporting periods beginning on or after 1 January 2020 and the application of the new definition and recognition criteria may result in future amendments to several accounting standards. Furthermore, entities who rely on the conceptual framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards may need to revisit such policies. The Group will apply the revised conceptual framework from 1 January 2020 and is yet to assess its impact.

## Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

### Share-based payment transactions

The Group 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 by using either the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

### Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

### Note 3. Critical accounting judgements, estimates and assumptions (continued)

#### *Goodwill*

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

#### *Impairment of non-financial assets*

The Group assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

#### *Income tax*

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

#### *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

### Note 4. Operating segments

#### *Identification of reportable operating segments*

The Group operates in one segment, based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

As a result, the operating segment information is as disclosed in the statements and notes to the financial statements throughout the report.

No seasonality in the business segment has been identified that would have a significant impact on the results of the Group.

### Note 5. Revenue

	Consolidated	
	9 months ended 31 March 2019 \$	12 months ended 30 June 2018 \$
<b>Revenue from contracts with customers:</b>		
Revenue - technology related products and services	<u>217,040</u>	<u>574,566</u>

**Note 5. Revenue (continued)**

*Disaggregation of revenue*

The disaggregation of revenue from contracts with customers is as follows:

	<b>Consolidated</b>	
	<b>9 months ended 31 March 2019</b>	<b>12 months ended 30 June 2018</b>
	<b>\$</b>	<b>\$</b>
<i>Major product lines</i>		
License	28,558	270,630
Maintenance and Support	167,392	247,544
Services	21,090	56,392
	<u>217,040</u>	<u>574,566</u>
<i>Geographical regions</i>		
Australasia	10,442	-
United States of America	164,687	537,904
United Kingdom	6,557	12,202
Germany	25,479	-
Singapore	9,875	24,460
	<u>217,040</u>	<u>574,566</u>
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	49,648	330,540
Services transferred over time	167,392	244,026
	<u>217,040</u>	<u>574,566</u>

Note 6. Expenses

	Consolidated	
	9 months ended 31 March 2019 \$	12 months ended 30 June 2018 \$
Loss before income tax from continuing operations includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	2,588	15,660
<i>Amortisation</i>		
Intellectual property	606,617	404,619
Total depreciation and amortisation	609,205	420,279
<i>Impairment of assets</i>		
Goodwill	894,713	-
Intellectual property	932,854	-
Total impairment of assets	1,827,567	-
<i>Employee benefit expense</i>		
Wages and salaries	1,044,475	1,497,193
Non-executive director fees	139,167	200,000
Other employee related expenses	33,428	48,179
Payroll taxes	57,945	75,005
Defined contribution superannuation expense	64,915	88,727
Bonus - cash component	226,858	144,509
Equity settled share-based payments	1,057,430	1,522,283
Commissions	18,220	49,530
Total employee benefits	2,642,438	3,625,426
<i>Finance costs</i>		
Interest and finance charges paid/payable	3,175	4,074
Interest charges payable in relation to Convertible notes	152,918	-
Finance costs expensed	156,093	4,074

Note 7. Income tax

	Consolidated 9 months ended 31 March 2019 \$	12 months ended 30 June 2018 \$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense from continuing operations	(6,400,376)	(5,379,821)
Loss before income tax expense from discontinued operations	(1,933,194)	(2,063,648)
	<u>(8,333,570)</u>	<u>(7,443,469)</u>
Tax at the statutory tax rate of 27.5%	(2,291,732)	(2,046,954)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Permanent differences	1,108,955	1,774,213
Effect of tax losses and temporary differences not taken to account	(161,023)	(183,241)
Current year losses not recognised	1,343,800	455,982
Income tax expense	<u>-</u>	<u>-</u>

	Consolidated 31 March 2019 \$	30 June 2018 \$
<i>Deferred tax assets not recognised</i>		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Temporary differences	780,094	869,337
Tax losses	10,161,659	8,819,027
Total deferred tax assets not recognised	<u>10,941,753</u>	<u>9,688,364</u>

Deferred tax assets have not been recognised in respect of tax losses and temporary differences. Deferred tax assets will be recognised when it becomes probable that future taxable profits will be earned by the Group against which the Group can utilise the benefits therefrom.

Tax losses include \$4,163,773 of Cocoon Data Holdings Limited losses for the substitute tax period in 2015. These losses will only be available to the Group if the same business test is passed. Further, if the losses are available, the losses will be subject to restricted set-off by an available fraction.

Note 8. Discontinued operations

**Divestment of SafeShare**

On 30 January 2019, the Company announced it had entered into an agreement whereby Gibraltar Holdings Pty Limited (Gibraltar), or its approved nominee, had an option up until 15 March 2019 (unless extended by mutual agreement) to acquire the shares of Cocoon Data Holdings Pty Limited ('Cocoon') for the sum of \$5,000,000. Cocoon holds the relevant IP and 100% of the shares in Covata Australia Pty Limited ('CVA'), the Company which licences the SafeShare product and holds customer contracts in connection with the technology.

On 21 March 2019, the Company announced that the option was exercised by Gibraltar's nominee, Cybr5 Pty Limited ('Cybr5'), and Covata subsequently entered into a binding Share Purchase Agreement to sell the shares in Cocoon to Cybr5 which, on completion, will result in Cybr5 becoming the owner of Cocoon and the ultimate parent of CVA.

On 10 May 2019, shareholders voted in favour of selling 100% of the shares in its subsidiary Cocoon Data Holdings Pty Limited (comprising the SafeShare product and associated business) to Cybr5 Pty Ltd.



Note 8. Discontinued operations (continued)

Financial performance information

	Consolidated	
	9 months ended 31 March 2019	12 months ended 30 June 2018
	\$	\$
Revenue - technology related products and services	663,856	898,229
Research and development tax concession	709,295	1,144,335
Other income	-	1,552
Total revenue	<u>1,373,151</u>	<u>2,044,116</u>
Employee benefit expense	(2,236,483)	(3,044,220)
Consultancy fees expense	(104,797)	(47,428)
Depreciation and amortisation expense	(23,426)	(24,482)
Impairment of receivables	(4,386)	-
Legal and professional fees expense	(39,393)	(46,190)
Marketing and promotion expense	(57,887)	(116,853)
Travel and accommodation expense	(86,785)	(26,036)
Office and administration expense	(373,366)	(489,325)
Other expenses	(379,822)	(313,230)
Total expenses	<u>(3,306,345)</u>	<u>(4,107,764)</u>
Loss before income tax expense	(1,933,194)	(2,063,648)
Income tax expense	-	-
Loss after income tax expense from discontinued operations	<u>(1,933,194)</u>	<u>(2,063,648)</u>

Carrying amounts of assets and liabilities disposed

	9 months ended 31 March 2019
	\$
Trade and other receivables	152,552
Prepayments	15,041
Property, plant and equipment	35,924
Total assets	<u>203,517</u>
Trade and other payables	87,459
Contract liabilities - current	111,717
Employee benefits	102,196
Contract liabilities - non-current	40,594
Total liabilities	<u>341,966</u>
Net assets / (liabilities)	<u>(138,449)</u>

Note 9. Current assets - trade and other receivables

	Consolidated	
	31 March 2019	30 June 2018
	\$	\$
Trade receivables	40,476	273,567
Less: Allowance for expected credit losses	(6,162)	-
	<u>34,314</u>	<u>273,567</u>
Research and development tax concession receivable	704,823	986,949
GST/ VAT receivables	-	6,820
	<u>739,137</u>	<u>1,267,336</u>

*Allowance for expected credit losses*

The Group has recognised a loss of \$6,162 (30 June 2018: nil) in profit or loss in respect of the expected credit losses for the period ended 31 March 2019 after the adoption of AASB 9 (see note 2).

The method used to calculate the expected credit loss rate was based on revenue type and categorisation for each customer based on their life cycle. The following rates were applied:

- 3% for continuing SaaS customers
- 5% for new customers on a term license
- 15% for maintenance and support renewals

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Expected credit loss rate	Carrying amount	Allowance for expected credit losses
	31 March 2019	31 March 2019	31 March 2019
Consolidated	%	\$	\$
Maintenance and support renewals	15%	40,476	6,162

Movements in the allowance for expected credit losses are as follows:

	Consolidated	
	31 March 2019	30 June 2018
	\$	\$
Opening balance	-	-
Additional provisions recognised	6,162	-
Closing balance	<u>6,162</u>	<u>-</u>

**Note 10. Current assets - assets of disposal group classified as held for sale**

Refer for further details in Note 8 - Discontinued operations.

	Consolidated	
	31 March 2019 \$	30 June 2018 \$
Trade receivables	129,625	-
GST / VAT receivables	22,927	-
Prepayments	15,041	-
Property, plant and equipment	35,923	-
	<u>203,517</u>	<u>-</u>

**Note 11. Non-current assets - property, plant and equipment**

	Consolidated	
	31 March 2019 \$	30 June 2018 \$
Leasehold improvements - at cost	-	80,670
Less: Accumulated depreciation	-	(40,571)
	<u>-</u>	<u>40,099</u>
Plant and equipment - at cost	42,651	88,186
Less: Accumulated depreciation	(30,906)	(54,893)
	<u>11,745</u>	<u>33,293</u>
	<u>11,745</u>	<u>73,392</u>

The lease held by the Group at Level 4, 81 York Street, Sydney will be transferred to Cybr5 Pty Ltd upon the completion of the divestment of SafeShare.

**Reconciliations**

Reconciliations of the written down values at the beginning and end of the current and previous financial period are set out below:

Consolidated	Leasehold improvement \$	Plant and equipment \$	Total \$
Balance at 1 July 2017	-	42,291	42,291
Additions	52,410	35,230	87,640
Exchange differences	-	(16,396)	(16,396)
Depreciation expense	(12,311)	(27,832)	(40,143)
	<u>40,099</u>	<u>33,293</u>	<u>73,392</u>
Balance at 30 June 2018	40,099	33,293	73,392
Additions	-	290	290
Classified as held for sale	(25,663)	(10,260)	(35,923)
Depreciation expense	(14,436)	(11,578)	(26,014)
	<u>-</u>	<u>11,745</u>	<u>11,745</u>
Balance at 31 March 2019	<u>-</u>	<u>11,745</u>	<u>11,745</u>

Note 12. Non-current assets - intangibles

	Consolidated	
	31 March 2019 \$	30 June 2018 \$
Goodwill - at cost	894,713	886,434
Less: Impairment	(894,713)	-
	<u>-</u>	<u>886,434</u>
Intellectual property - at cost	3,230,713	3,224,843
Less: Accumulated amortisation	(1,010,179)	(404,619)
Less: Impairment	(932,854)	-
	<u>1,287,680</u>	<u>2,820,224</u>
	<u>1,287,680</u>	<u>3,706,658</u>

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial period are set out below:

Consolidated	Goodwill \$	Intellectual property \$	Total \$
Balance at 1 July 2017	-	-	-
Additions	-	1,575,130	1,575,130
Additions through business combinations	886,434	1,649,713	2,536,147
Amortisation expense	-	(404,619)	(404,619)
Balance at 30 June 2018	886,434	2,820,224	3,706,658
Effects of movements in exchange rate	8,279	6,927	15,206
Impairment of assets	(894,713)	(932,854)	(1,827,567)
Amortisation expense	-	(606,617)	(606,617)
Balance at 31 March 2019	<u>-</u>	<u>1,287,680</u>	<u>1,287,680</u>

Goodwill was recognised upon the acquisition of CipherPoint Software, Inc (CipherPoint) in connection with the acquired IP, technology, staff, customers and processes of the business. During the period ended 31 March 2019, the Company announced a major transformational acquisition and further capital raising. As a consequence of these changes and uncertainty around the availability of resources to further utilise the existing CipherPoint business, management determined that it is prudent to recognise an impairment of the acquired goodwill of \$894,713.

For the period ended 31 March 2019, the Group has also assessed internal impairment indicators in relation to the intellectual property of Eclipse and the carrying amount was greater than the value in use therefore an impairment loss of \$932,854 was recognised in profit and loss at 31 March 2019.

**Note 13. Non-current assets - other**

	Consolidated	
	31 March 2019	30 June 2018
	\$	\$
Rental bonds	36,009	36,009
Security deposits	44,534	106,234
Domain names	15,209	15,209
	<u>95,752</u>	<u>157,452</u>

**Note 14. Current liabilities - trade and other payables**

	Consolidated	
	31 March 2019	30 June 2018
	\$	\$
Trade payables	37,384	1,233,485
Other payables and accrued expenses	1,440,103	858,255
	<u>1,477,487</u>	<u>2,091,740</u>

Refer to note 23 for further information on financial instruments.

**Note 15. Current liabilities - contract liabilities**

	Consolidated	
	31 March 2019	30 June 2018
	\$	\$
Contract liabilities	<u>163,882</u>	<u>559,003</u>

*Reconciliation*

Reconciliation of the written down values at the beginning and end of the current and previous financial period are set out below:

Opening balance	559,003	573,098
Additions through business combinations	-	140,847
Payments received in advance	197,910	454,217
Transfer on transition to AASB 15 on 1 July 2018	(204,748)	-
Contract liabilities held for sale	(111,717)	-
Transfer to revenue - performance obligations satisfied	(276,566)	(609,159)
Closing balance	<u>163,882</u>	<u>559,003</u>

**Note 15. Current liabilities - contract liabilities (continued)**

*Unsatisfied performance obligations (current and non-current)*

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was \$182,432 as at 31 March 2019 (\$nil as at 30 June 2018) and is expected to be recognised as revenue in future periods as follows:

	<b>Consolidated</b>	
	<b>31 March 2019</b>	<b>30 June 2018</b>
	\$	\$
Within 6 months	93,051	425,670
6 to 12 months	70,888	133,334
12 to 18 months	18,493	133,334
18 to 24 months	-	908,493
	<u>182,432</u>	<u>1,600,829</u>

The unsatisfied performance obligations include the non-current balance.

**Note 16. Current liabilities - employee benefits**

	<b>Consolidated</b>	
	<b>31 March 2019</b>	<b>30 June 2018</b>
	\$	\$
Annual leave	45,977	158,283
Long service leave	10,185	22,534
	<u>56,162</u>	<u>180,817</u>

**Note 17. Current liabilities - liabilities directly associated with assets classified as held for sale**

Refer for further details in Note 8 - Discontinued operations.

	<b>Consolidated</b>	
	<b>31 March 2019</b>	<b>30 June 2018</b>
	\$	\$
Trade and other payables	87,460	-
Contract liabilities	152,310	-
Employee benefits	102,196	-
	<u>341,966</u>	<u>-</u>

**Note 18. Non-current liabilities - contract liabilities**

	<b>Consolidated</b>	
	<b>31 March 2019</b>	<b>30 June 2018</b>
	\$	\$
Contract liabilities	18,549	1,041,826

**Note 19. Non-current liabilities - borrowings**

	Consolidated	
	31 March 2019	30 June 2018
	\$	\$
Derivative liability	253,433	-
	<u>253,433</u>	<u>-</u>
	Consolidated	
	31 March 2019	30 June 2018
	\$	\$
Convertible notes payable	1,031,466	-
	<u>1,031,466</u>	<u>-</u>

Refer to note 23 for further information on financial instruments.

The Company has issued 77,777,781 convertible notes at a price of \$0.018 per note with 58,620,689 attaching warrants exercisable at \$0.028 and with a term of 18 months from 22 February 2019.

The total face value of the convertible note was \$1,400,000. This liability comprises of three components, being the host debt liability (\$878,548), the embedded derivative liability (\$253,433) for the conversion feature and the cost of the warrant issue (\$268,019). The interest expense on the host liability component up to 31 March 2019 amounted to \$152,918.

There was no movement in the fair value of the derivative liability at 31 March 2019. Due to the 6 month expiry of the convertible notes, the derivative liability has been classified as current.

The cost of the warrants are disclosed in note 21.

The Company's obligations under the convertible notes will be extinguished upon the settlement of the Cocoon sale.

**Note 20. Equity - issued capital**

	Consolidated			
	31 March 2019	30 June 2018	31 March 2019	30 June 2018
	Shares	Shares	\$	\$
Ordinary shares - fully paid	690,806,468	652,648,629	93,120,766	92,206,341
	<u>690,806,468</u>	<u>652,648,629</u>	<u>93,120,766</u>	<u>92,206,341</u>



Note 20. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2017	526,714,955		86,885,280
CipherPoint vendor shares (a)	25 August 2017	18,468,974	\$0.0820	1,510,762
Top up placement 1 (b)	22 November 2017	43,877,715	\$0.0470	2,062,260
Issue costs paid in cash (c)		-	\$0.0000	(48,934)
CipherPoint Milestone One shares (d)	31 January 2018	10,000,000	\$0.0334	334,000
Employee loan shares settled (e)		376,500	\$0.1470	55,233
Top up placement 2 (f)	5 June 2018	53,210,485	\$0.0280	1,500,000
Less: issue costs paid in cash (g)		-	\$0.0000	(92,260)
Balance	30 June 2018	652,648,629		92,206,341
Issue of rights (h)	12 July 2018	16,513,792	\$0.0280	462,387
CipherPoint Milestone Two shares (i)	20 July 2018	12,977,400	\$0.0245	318,465
Share purchase plan (j)	18 February 2019	8,666,647	\$0.0180	156,073
Less: share issue costs (k)		-	\$0.0000	(22,500)
Balance	31 March 2019	<u>690,806,468</u>		<u>93,120,766</u>

During the year to 30 June 2018, the Group completed the following transactions in respect of the issue of ordinary shares:

- The Group issued 18,468,974 ordinary shares in the Company totalling \$1,510,762 as part of acquisition of CipherPoint.
- The Group issued 43,877,715 ordinary shares in the Company totalling \$2,062,260, of which \$400,000 was part of the top up placement and \$1,662,260 was part of the share purchase plan.
- The Group paid \$48,934 in brokerage fees relating to (b).
- The Group issued 10,000,000 ordinary shares in the Company totalling \$334,000 as part of the acquisition of CipherPoint – representing Milestone One payment.
- The Group issued 376,500 ordinary shares in the Company totalling \$55,233 in settlement of a loan.
- The Group issued 53,210,485 ordinary shares in the Company totalling \$1,500,000 as part of the top up placement.
- The Group paid \$92,260 in brokerage fees relating to (e).

During the period ended 31 March 2019, the Group completed the following transactions in respect of the issue of ordinary shares:

- The Group issued 16,513,792 ordinary shares in the Company totalling \$462,387 as part of the rights issue.
- The Group issued 12,977,400 ordinary shares in the Company totalling \$318,465 as part of the acquisition of CipherPoint – representing Milestone Two payment.
- The Group issued 8,666,647 ordinary shares in the Company totalling \$156,073 as part of the share purchase plan.
- The Group paid \$22,500 in brokerage fees relating to (j).

*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.

*Share buy-back*

There is no current on-market share buy-back.

*Capital risk management*

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

**Note 20. Equity - issued capital (continued)**

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term, pending the capital raising in relation to the dataglobal acquisition.

The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

**Note 21. Equity - reserves**

	<b>Consolidated</b>	
	<b>31 March 2019</b>	<b>30 June 2018</b>
	<b>\$</b>	<b>\$</b>
Foreign currency reserve	(283,155)	(257,421)
Share-based payments reserve	4,166,089	3,301,366
Warrants reserve	4,875,269	4,607,250
	<u>8,758,203</u>	<u>7,651,195</u>

*Foreign currency reserve*

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

*Share-based payments reserve and warrants reserve*

These reserves are used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

*Movements in reserves*

Movements in each class of reserve during the current and previous financial period are set out below:

<b>Consolidated</b>	Foreign currency \$	Share-based payments \$	Warrants \$	Total \$
Balance at 1 July 2017	(282,768)	3,016,155	4,607,250	7,340,637
Foreign currency translation	25,347	-	-	25,347
Share-based payments – share options	-	419,740	-	419,740
Share-based payments – employee loan shares	-	1,167,879	-	1,167,879
Share options lapsed	-	(1,283,110)	-	(1,283,110)
Employee loan shares lapsed	-	(19,298)	-	(19,298)
Balance at 30 June 2018	(257,421)	3,301,366	4,607,250	7,651,195
Foreign currency translation	(25,734)	-	-	(25,734)
Share-based payments - share options	-	259,404	-	259,404
Share-based payments - employee loan shares	-	804,051	-	804,051
Share options lapsed	-	(151,219)	-	(151,219)
Employee loan shares lapsed	-	(47,513)	-	(47,513)
Warrants issued	-	-	268,019	268,019
Balance at 31 March 2019	<u>(283,155)</u>	<u>4,166,089</u>	<u>4,875,269</u>	<u>8,758,203</u>

## Note 22. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial period.

## Note 23. Financial instruments

### Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group.

The Group's policy is not to trade in or use financial instruments to hedge its risks.

Risk management is carried out by the Board of Directors ('the Board'). The Board uses different methods to measure different types of risks to which the Group is exposed. These methods include ageing analysis for credit risk and sensitivity analysis in the case of interest rate risk.

### Market risk

#### Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group companies. The currencies in which transactions are denominated are primarily US dollars, Australian dollars and British pounds, whilst cash and cash equivalents and term deposits are predominantly denominated in Australian dollars.

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
	31 March 2019 \$	30 June 2018 \$	31 March 2019 \$	30 June 2018 \$
<b>Consolidated</b>				
US dollars	184,287	322,239	(67,621)	(157,479)
Euros	36,687	546,576	(473,190)	(1,017,125)
Pound Sterling	47,874	141,194	(5,740)	(56,422)
	<u>268,848</u>	<u>1,010,009</u>	<u>(546,551)</u>	<u>(1,231,026)</u>

A strengthening/(weakening) of the AUD against the GBP, USD or EUR by 10 percent at the reporting date would have decreased/(increased) equity and profit/(loss) for the year by the amounts shown. This analysis assumes that all other variables, in particular interest rates, remain constant.

Note 23. Financial instruments (continued)

Consolidated - 31 March 2019	% change	AUD strengthened Effect on		% change	AUD weakened Effect on	
		profit before tax	Effect on equity		profit before tax	Effect on equity
US dollars	10%	11,667	11,667	10%	(11,667)	(11,667)
Euros	10%	43,650	43,650	10%	(43,650)	(43,650)
Pound Sterling	10%	4,213	4,213	10%	(4,213)	(4,213)
		<u>59,530</u>	<u>59,530</u>		<u>(59,530)</u>	<u>(59,530)</u>

  

Consolidated - 30 June 2018	% change	AUD strengthened Effect on		% change	AUD weakened Effect on	
		profit before tax	Effect on equity		profit before tax	Effect on equity
US dollars	10%	16,476	16,476	10%	(16,476)	(16,476)
Euros	10%	47,055	47,055	10%	(47,055)	(47,055)
Pound Sterling	10%	8,477	8,477	10%	(8,477)	(8,477)
		<u>72,008</u>	<u>72,088</u>		<u>(72,008)</u>	<u>(72,088)</u>

*Price risk*

The Group is not exposed to any significant price risk.

*Interest rate risk*

At the reporting date, the Group had no variable rate borrowings. Cash at bank earns interest at floating rates based on daily bank deposit rates.

As at the reporting date, the Group had the following exposure to interest rate risk:

Consolidated	31 March 2019		30 June 2018	
	Weighted average interest rate %	\$	Weighted average interest rate %	\$
Cash and cash equivalents	0.004%	1,503,373	0.004%	4,471,616
Term deposits and rental bonds	0.001%	44,534	0.001%	142,243
Convertible notes payable	11.00%	(1,031,466)	-	-
Net exposure to cash flow interest rate risk		<u>516,441</u>		<u>4,613,859</u>

*Sensitivity analysis*

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit/(loss) for the period by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the comparative period.

	Consolidated	
	31 March 2019 \$	30 June 2018 \$
Impact on profit/(loss) for the period	5,164	46,139

Convertible notes payable are also interest-bearing, however these instruments convert to ordinary shares upon conversion.

**Note 23. Financial instruments (continued)**

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

**Liquidity risk**

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

**Remaining contractual maturities**

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate	6 months or less	Between 6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
	%	\$	\$	\$	\$	\$	\$
<b>Consolidated - 31 March 2019</b>							
<b>Non-derivatives</b>							
<i>Non-interest bearing</i>							
Trade and other payables	-	475,754	1,001,732	-	-	-	1,477,486
<i>Interest-bearing</i>							
Convertible notes payable	-	1,400,000	-	-	-	-	1,400,000
Total non-derivatives		<u>1,875,754</u>	<u>1,001,732</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,877,486</u>

\* The total trade and other payables includes \$473,190 (€300,000) payable that may be settled as part of the dataglobal acquisition.

	Weighted average interest rate	6 months or less	Between 6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
	%	\$	\$	\$	\$	\$	\$
<b>Consolidated - 30 June 2018</b>							
<b>Non-derivatives</b>							
<i>Non-interest bearing</i>							
Trade and other payables	-	1,618,560	473,180	-	-	-	2,091,740
Total non-derivatives		<u>1,618,560</u>	<u>473,180</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,091,740</u>

**Note 23. Financial instruments (continued)**

\* The total trade and other payables includes \$552,055 (€350,000) payable at 30 June 2018 (settled in July 2018) and \$473,180 (€300,000) payable by 31 March 2019.

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

**Fair value of financial instruments**

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

**Note 24. Fair value measurement**

*Fair value hierarchy*

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

<b>Consolidated - 31 March 2019</b>	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Liabilities</i>				
Derivative liability on convertible note	-	253,433	-	253,433
Total liabilities	-	253,433	-	253,433
<b>Consolidated - 30 June 2018</b>				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Liabilities</i>				
Deferred consideration	-	318,465	-	318,465
Total liabilities	-	318,465	-	318,465

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial period.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

*Valuation techniques for fair value measurements categorised within level 2 and level 3*

Unquoted investments have been valued using a discounted cash flow model.

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

**Note 25. Remuneration of auditors**

During the financial period the following fees were paid or payable for services provided by Nexia Sydney Audit Pty Ltd, the auditor of the Company:

	<b>Consolidated</b>	
	<b>9 months ended 31 March 2019</b>	<b>12 months ended 30 June 2018</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - Nexia Sydney Audit Pty Ltd (30 June 2018: KPMG)</i> Audit or review of the financial statements	67,500	93,052
<i>Other services - Nexia Sydney Partnership (30 June 2018: KPMG)</i> In relation to other assurance, taxation and due diligence services	11,140	76,213
	<u>78,640</u>	<u>169,265</u>

**Note 26. Contingent liabilities**

The Group had no contingent liabilities as at 31 March 2019 and 30 June 2018.

**Note 27. Commitments**

	<b>Consolidated</b>	
	<b>31 March 2019</b>	<b>30 June 2018</b>
	<b>\$</b>	<b>\$</b>
<i>Lease commitments - operating</i> Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	154,869	170,035
One to five years	48,012	160,372
	<u>202,881</u>	<u>330,407</u>

During the financial year period ended 31 March 2019, \$122,427 was recognised as an expense in profit or loss in respect of operating leases (year ended 30 June 2018: \$151,532).

The lease held by the Group at Level 4, 81 York Street, Sydney will be transferred to Cybr5 Pty Ltd upon the completion of the divestment of SafeShare.



**Note 28. Key management personnel disclosures**

*Compensation*

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	<b>Consolidated</b>	
	<b>9 months ended 31 March 2019</b>	<b>12 months ended 30 June 2018</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	1,481,513	1,664,889
Post-employment benefits	51,514	66,022
Long-term benefits	1,220	68,077
Termination benefits	146,579	-
Share-based payments	409,782	736,179
	<u>2,090,608</u>	<u>2,535,167</u>

**Note 29. Related party transactions**

*Parent entity*

Covata Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 31.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 28 and the remuneration report included in the directors' report.

*Transactions with related parties*

There were no transactions with related parties during the current and previous financial period.

*Receivable from and payable to related parties*

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

*Loans to/from related parties*

There were no loans to or from related parties at the current and previous reporting date.

**Note 30. Parent entity information**

Set out below is the supplementary information about the parent entity.

*Statement of profit or loss and other comprehensive income*

	<b>Parent</b>	
	<b>9 months ended 31 March 2019</b>	<b>12 months ended 30 June 2018</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax	<u>(2,456,324)</u>	<u>(4,297,333)</u>
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income	<u>(2,456,324)</u>	<u>(4,297,333)</u>

Note 30. Parent entity information (continued)

Statement of financial position

	Parent	
	31 March 2019 \$	30 June 2018 \$
Total current assets	22,598	14,081
Total non-current assets	1,287,679	3,706,658
Total assets	1,310,277	3,720,739
Total current liabilities	425,457	365,954
Total non-current liabilities	1,031,466	-
Total liabilities	1,456,923	365,954
Net assets/(liabilities)	<u>(146,646)</u>	<u>3,354,785</u>
Equity		
Issued capital	93,120,766	92,206,341
Foreign currency reserve	(299,712)	(257,421)
Share-based payments reserve	4,182,646	3,301,366
Warrants reserve	4,875,269	4,607,250
Accumulated losses	(102,025,614)	(96,502,751)
Total equity/(deficiency)	<u>(146,646)</u>	<u>3,354,785</u>

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 March 2019 and 30 June 2018.

*Contingent liabilities*

The parent entity had no contingent liabilities as at 31 March 2019 and 30 June 2018.

*Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment as at 31 March 2019 and 30 June 2018.

*Significant accounting policies*

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

**Note 31. Interests in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 March 2019 %	30 June 2018 %
Cocoon Data Holdings Limited*	Australia	100%	100%
CipherPoint Software, Inc.	United States of America	100%	100%
Cocoon Data Pty Limited*	Australia	100%	100%
Covata Australia Pty Limited*	Australia	100%	100%
Covata USA, Inc. *	United States of America	100%	100%
Covata UK Limited*	United Kingdom	100%	100%

\* held for sale

**Note 32. Changes in liabilities arising from financing activities**

Consolidated	Convertible notes \$
Balance at 1 July 2017	-
Balance at 30 June 2018	-
Net cash from financing activities – convertible notes	1,400,000
Balance at 31 March 2019	<u>1,400,000</u>

The Company's obligations under the convertible notes will be extinguished upon the settlement of the Cocoon sale.

**Note 33. Earnings per share**

	Consolidated	
	9 months ended 31 March 2019 \$	12 months ended 30 June 2018 \$
<i>Earnings per share for loss from continuing operations</i>		
Loss after income tax attributable to the owners of Covata Limited	<u>(6,400,376)</u>	<u>(5,379,821)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>681,905,430</u>	<u>573,368,849</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>681,905,430</u>	<u>573,368,849</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(0.94)	(0.94)
Diluted earnings per share	(0.94)	(0.94)

Note 33. Earnings per share (continued)

	Consolidated 9 months ended 31 March 2019 \$	12 months ended 30 June 2018 \$
<i>Earnings per share for loss from discontinued operations</i>		
Loss after income tax attributable to the owners of Covata Limited	<u>(1,933,194)</u>	<u>(2,063,648)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>681,905,430</u>	<u>573,368,849</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>681,905,430</u>	<u>573,368,849</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(0.28)	(0.36)
Diluted earnings per share	(0.28)	(0.36)

	Consolidated 9 months ended 31 March 2019 \$	12 months ended 30 June 2018 \$
<i>Earnings per share for loss</i>		
Loss after income tax attributable to the owners of Covata Limited	<u>(8,333,570)</u>	<u>(7,443,469)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>681,905,430</u>	<u>573,368,849</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>681,905,430</u>	<u>573,368,849</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(1.22)	(1.30)
Diluted earnings per share	(1.22)	(1.30)

As the end of the financial periods, options over ordinary shares were excluded from the calculation of the weighted average number of ordinary shares used in calculating diluted earnings per share due to being anti-dilutive.

Note 34. Share-based payments

Share option programme

The Group has a share option programme that entitles non-Australian based directors, employees and contractors to purchase shares in the Company. In accordance with this programme, holders of vested options are entitled to purchase share at a price per share as detailed below.

**Note 34. Share-based payments (continued)**

Set out below are summaries of options granted under the plan:

**Employee Share Option Plan  
31 March 2019**

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Lapsed	Balance at the end of the period
31/10/2014	30/10/2019	\$0.222	10,384,825	-	-	-	10,384,825
12/03/2015	11/03/2020	\$0.330	231,400	-	-	-	231,400
30/10/2015	29/10/2020	\$0.285	300,000	-	-	-	300,000
17/12/2015	16/12/2020	\$0.195	490,669	-	-	-	490,669
21/07/2016	20/07/2021	\$0.195	124,715	-	-	-	124,715
08/12/2016	07/12/2021	\$0.200	250,000	-	-	(250,000)	-
04/05/2017	03/05/2022	\$0.050	3,000,000	-	-	(533,330)	2,466,670
22/06/2017	21/06/2022	\$0.045	693,700	-	-	-	693,700
17/08/2017	16/08/2022	\$0.050	5,569,583	-	-	(1,514,369)	4,055,214
21/08/2017	20/08/2022	\$0.050	1,000,000	-	-	(366,262)	633,738
24/11/2017	23/11/2022	\$0.050	9,971,479	-	-	(1,092,522)	8,878,957
07/09/2018	06/09/2023	\$0.028	-	19,523,000	-	(2,147,281)	17,375,718
			<u>32,016,371</u>	<u>19,523,000</u>	<u>-</u>	<u>(5,903,764)</u>	<u>45,635,607</u>
Weighted average exercise price			\$0.025	\$0.028	\$0.0000	\$0.060	\$0.095

**30 June 2018**

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Lapsed	Balance at the end of the period
31/10/2014	30/10/2019	\$0.222	24,407,032	-	-	(14,022,206)	10,384,826
12/03/2015	11/03/2020	\$0.330	231,400	-	-	-	231,400
30/10/2015	29/10/2020	\$0.285	300,000	-	-	-	300,000
30/11/2015	29/11/2020	\$0.300	1,000,000	-	-	(1,000,000)	-
17/12/2015	16/12/2020	\$0.330	906,994	-	-	(416,325)	490,669
21/07/2016	20/07/2021	\$0.195	124,715	-	-	-	124,715
08/12/2016	07/12/2021	\$0.195	250,000	-	-	-	250,000
04/05/2017	03/05/2022	\$0.200	3,000,000	-	-	-	3,000,000
22/06/2017	21/06/2022	\$0.050	840,000	-	-	(146,300)	693,700
17/08/2017	16/08/2022	\$0.045	-	5,569,583	-	-	5,569,583
21/08/2017	20/08/2022	\$0.050	-	1,000,000	-	-	1,000,000
24/11/2017	23/11/2022	\$0.050	-	11,064,000	-	(1,092,522)	9,971,479
			<u>31,060,141</u>	<u>17,633,583</u>	<u>-</u>	<u>(16,677,353)</u>	<u>32,016,371</u>
Weighted average exercise price			\$0.159	\$0.048	\$0.000	\$0.143	\$0.025

5,569,583 options were granted to CipherPoint employees upon acquisition per employment contracts.

The weighted average remaining contractual life of options outstanding at the end of the financial period was 5 years (2018: 5 years).

For the options granted during the current financial period, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
07/09/2018	06/09/2023	\$0.0240	\$0.0280	95.00%	-	2.17%	\$0.017

Note 34. Share-based payments (continued)

Employee Loan Share Plan  
31 March 2019

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Lapsed	Balance at the end of the period
02/12/2013	01/12/2023	\$0.147	7,905,650	-	-	-	7,905,650
20/08/2014	19/08/2024	\$0.200	443,848	-	-	-	443,848
11/03/2015	10/03/2025	\$0.285	933,333	-	-	-	933,333
12/03/2015	11/03/2025	\$0.285	136,925	-	-	-	136,925
08/12/2015	07/12/2025	\$0.330	132,167	-	-	-	132,167
27/01/2017	26/01/2027	\$0.120	175,000	-	-	-	175,000
04/05/2017	03/05/2027	\$0.029	4,000,000	-	-	-	4,000,000
04/05/2017	03/05/2027	\$0.027	6,000,000	-	-	-	6,000,000
23/06/2017	22/06/2027	\$0.200	5,806,412	-	-	(43,718)	5,762,694
24/11/2017	23/11/2027	\$0.055	29,305,173	-	-	(370,806)	28,934,367
06/03/2017	05/03/2027	\$0.050	4,085,000	-	-	(143,859)	3,941,141
07/09/2018	06/09/2028	\$0.028	-	32,392,800	-	(1,811,126)	30,581,674
19/10/2018	18/10/2028	\$0.028	-	7,678,500	-	-	7,678,500
			58,923,508	40,071,300	-	(2,369,509)	96,625,299
Weighted average exercise price			\$0.025	\$0.028	\$0.0000	\$0.060	\$0.095

30 June 2018

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Lapsed	Balance at the end of the period
02/12/2013	01/12/2023	\$0.147	8,282,150	-	-	(376,500)	7,905,650
20/08/2014	19/08/2024	\$0.200	443,848	-	-	-	443,848
11/03/2015	10/03/2025	\$0.285	933,333	-	-	-	933,333
12/03/2015	11/03/2025	\$0.285	136,925	-	-	-	136,925
08/12/2015	07/12/2025	\$0.330	132,167	-	-	-	132,167
27/01/2017	26/01/2027	\$0.120	175,000	-	-	-	175,000
04/05/2017	03/05/2027	\$0.029	4,000,000	-	-	-	4,000,000
04/05/2017	03/05/2027	\$0.027	6,000,000	-	-	-	6,000,000
23/06/2017	22/06/2027	\$0.200	6,300,000	-	-	(493,588)	5,806,412
24/11/2017	23/11/2027	\$0.055	-	29,534,298	-	(229,125)	29,305,173
06/03/2017	05/03/2027	\$0.050	-	4,085,000	-	-	4,085,000
			26,403,423	33,619,298	-	(1,099,213)	58,923,508
Weighted average exercise price			\$0.159	\$0.048	\$0.000	\$0.143	\$0.025

Employee loan share plan

During the period ended 31 March 2019, 40,071,300 ordinary shares in the Company were granted under the ELSP to employees as bonus remuneration (year ended 30 June 2018: 33,619,298).

Note 34. Share-based payments (continued)

Grant date	Vesting conditions	Granted	Exercise price \$
07/09/2018	31.25% at 30 September 2018, remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing 31 December 2018	32,392,800	\$0.028
19/10/2018	31.25% at 30 December 2018, remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing 31 March 2019	7,678,500	\$0.028
		<u>40,071,300</u>	

Grant date	Vesting conditions	Granted	Exercise price \$
24/11/2017	31.25% on 31 December 2017, remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing 31 March 2018	29,534,298	\$0.055
06/03/2018	31.25% on 31 March 2018, remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing 30 June 2018	4,085,000	\$0.055
		<u>33,619,298</u>	

For the ELSP granted during the current financial period, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
07/09/2018	06/09/2028	\$0.0240	\$0.0280	95.00%	-	2.55%	\$0.021
19/10/2018	18/10/2028	\$0.0200	\$0.0280	95.00%	-	2.68%	\$0.017

Share-based payment expense recognised in profit or loss

	Consolidated	
	9 months ended 31 March 2019	12 months ended 30 June 2018
Options granted	259,404	419,739
Employee loan share plan shares granted	804,645	1,167,879
Total recognised as employee benefits expense	<u>1,064,049</u>	<u>1,587,618</u>



### Note 35. Events after the reporting period

On 11 April 2019, the Company announced the appointment of Shaw and Partners Limited and Aitken Murray Capital Partners Pty Ltd as Joint Lead Managers (JLMs) in relation to its proposed equity raising to undertake the acquisition of dataglobal. The JLMs will be paid a total of 8% of the gross amount raised under the Equity Offer (excluding GST), which will be split equally between the JLMs. Additionally, the Company will reimburse the JLMs for reasonable out-of-pocket expenses incurred in relation to the transaction.

On 12 April 2019, the Group registered a new company, DG Operations Australia Pty Limited (DG Operations) in anticipation of the sale of Cocoon Data Holdings Pty Limited (Cocoon). The Group intends for DG Operations to be the trading entity in Australia.

On 10 May 2019, the Company conducted a General Meeting to seek shareholder approval for the sale of 100% of the equity of Cocoon. The single resolution was passed with 99.16% approval.

On 15 May 2019, the Company announced that it had signed a master Supply and Services agreement with DHL Information Services (Europe) s.r.o. (DHL). The initial order was to the value of €244,360.

On 26 June 2019, the Company advised that:

- It was in the process of executing an agreement with parties to subscribe for additional secured convertible notes on the same terms as the convertible notes issued on 22 February 2019 to provide funding of \$500,000. The funds are to be used as working capital ahead of the acquisition of dataglobal.

It was also proposed that Covata will issue, subject to shareholder approval, the noteholders (including the holders of new notes referred to above) with: (a) 25,200,000 warrants at an exercise price of 2.8c per share (pre-Consolidation) with an expiry date 18 months from date of issue; and (b) 122,644,594 warrants at an exercise price of 1.5c per share (pre-Consolidation) with various expiry dates ranging from 120 days to 18 months from the issue date.

The issue of these warrants will form part of the resolutions requiring the authorisation of shareholders at a general meeting.

- It was in the process of executing an agreement with Cybr5 Pty Ltd, the proposed purchaser of Cocoon, and the noteholders (including the holders of the new notes referred to above), pursuant to which the obligation for payment of the aggregate \$5 million in respect of the Cocoon sale will be discharged as follows:
  - a) \$2 million through the extinguishment of the Company's obligations under the convertible notes, including the new notes referred to above (which were otherwise to have been redeemed together with accrued but unpaid interest through cash received from the Cocoon sale). The noteholders will, subject to certain conditions including lodgement of the Prospectus, accept an issue of new notes in Cybr5 in consideration of extinguishment of their convertible notes with the Company;
  - b) \$2 million in cash at completion of the Cocoon sale; and
  - c) \$1 million in the form of a vendor terms loan from Covata (on terms which would be customary for unsecured loans obtained from any major Australian bank, such as a business overdraft account, or such other terms as agreed between Cybr5 and Covata) to be repaid by Cybr5 within 90 days and payable by Cybr5 in priority" to the payment of any debts or obligations of Cybr5 (other than day to day operating expenses).
- The ratio of CVT shares to cash payable to the dataglobal vendors would be amended from 65/35 to 50/50. The Company believes that these changes reflect the dataglobal vendors' commitment to, and confidence in, the ongoing business.

On 26 June 2019, the Company released a prospectus in relation to the dataglobal acquisition (Prospectus). The Prospectus is available on ASX's website or via the Company's website [www.covata.com](http://www.covata.com).

No other matter or circumstance has arisen since 31 March 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 March 2019 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



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William McCluggage  
Chairman

3 July 2019  
Sydney

## Independent Auditor's Report to the Members of Covata Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Covata Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 31 March 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the nine-month period then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- i) giving a true and fair view of the Group's financial position as at 31 March 2019 and of its financial performance for the nine-month period then ended; and
- ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material uncertainty related to going concern

We draw attention to the Going Concern disclosure in Note 2 in the financial report, which indicates that the Group incurred a net loss of \$8,333,570, current liabilities exceeded current assets by \$730,556 and net cash outflows from operating activities of \$4,370,019 during the nine-month period ended 31 March 2019. As stated in Note 2, these events or conditions, along with other matters as set forth in the note, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
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**Revenue recognition**

As a result of the mandatory application of AASB15 – ‘Revenue’, the revenue recognition accounting policy has been changed during the current financial reporting period. There has been notable changes to the recognition of revenue impacting both the current period and prior year upon retrospective application of AASB15.

The change in accounting policy has required significant attention during the audit due to the complexities in application for both new and existing contracts and the first year application of the standard.

- Obtained an understanding of the changes made to the accounting policies for revenue recognition to align with requirements of AASB15 for the 2019 financial period.
- Selected all material contracts and tested to confirm the correct application of AASB15 in relation to recognition of revenue and contract liability balances.
- In particular, focused on management’s evaluation on:
  - the separability of the promised goods or services based on whether they are ‘distinct’; and
  - the timing of the revenue recognition.
- Concluded on whether management has correctly accounted for the selected contracts under AASB15.
- Checked the financial report presentation and disclosures to ensure that the necessary presentation and disclosure requirements of AASB15 have been adhered to.

**Other information**

The directors are responsible for the other information. The other information comprises the information in Covata Limited’s annual report for the period ended 31 March 2019, but does not include the financial report and the auditor’s report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

**Directors’ responsibility for the financial report**

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibility for the audit of the financial report**

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf). This description forms part of our auditor's report.

### **Report on the Remuneration Report**

#### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 12 to 20 of the directors' Report for the nine-month period ended 31 March 2019.

In our opinion, the Remuneration Report of Covata Limited for the nine-month period ended 31 March 2019, complies with section 300A of the Corporations Act 2001.

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



**Nexia Sydney Audit Pty Ltd**



**Lester Wills**

Director

Dated: 3 July 2019  
Sydney

The shareholder information set out below was applicable as at 28 June 2019.

### Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options and scheme shares over ordinary shares
1 to 1,000	240	82
1,001 to 5,000	419	55
5,001 to 10,000	296	27
10,001 to 100,000	1,083	60
100,001 and over	696	117
	<u>2,734</u>	<u>341</u>
Holding less than a marketable parcel	<u>1,493</u>	<u>-</u>

### Equity security holders

#### Twenty largest security holders

The names of the twenty largest security holders are listed below:

Name	Ordinary shares Number held	% of total shares issued
TPG TELECOM LIMITED	76,043,498	9.71
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	75,122,450	9.59
EDWARD NOEL PRETTY & VAGANA PTY LTD (PRETTY SUPER FUND A/C) (a)	34,379,865	4.39
ILWELLA PTY LTD	23,794,324	3.04
RAVEN CAPITAL NOMINEES PTY LTD (RAVEN TECHNOLOGY FUND 1 A/C)	23,494,538	3.00
GAFFWICK PTY LTD (THE DUNCAN FAMILY A/C)	21,666,665	2.77
EXCALIBUR PARTNERS XVI LP	14,381,123	1.84
RAVEN VENTURES (AUSTRALIA) PTY LTD (THE GATEWAY VENTURE FUND A/C)	10,809,902	1.38
SUNLORA PTY LTD (THE THREE FISH SUPER A/C)	10,090,910	1.29
MR DEREK BROWN	10,019,272	1.28
HUMAN TECHNOLOGY PTY LIMITED (GRAHAM MIRABITO FAMILY A/C)	8,751,256	1.12
MR GERARD O'BRIEN & MRS HELEN O'BRIEN (O'BRIEN SUPER A/C)	8,177,462	1.04
MR STEVEN RICHARD BLIIM	7,589,808	0.97
MR HUGH STODART	7,296,565	0.93
MS CHERYL I-WEN LEE (CHI WEN A/C)	7,142,857	0.91
JACK BURSTON (THE BURSTON FAMILY A/C)	6,981,414	0.89
ESS SEE PTY LTD (ESS SEE SUPERFUND A/C)	6,458,418	0.82
EUROPLAY CAPITAL ADVISORS LLC	6,234,452	0.80
DRP CARTONS (NSW) PTY LIMITED (DRP CARTONS NSW P/L S/F A/C)	6,008,403	0.77
COVELANE PTY LTD	5,860,672	0.75
	<u>358,434,779</u>	<u>45.78</u>

*Unquoted equity securities*

	Number on issue	Number of holders
Options over ordinary shares issued	55,484,968	284
Employee share loan plan shares over ordinary shares issued	101,247,789	57
Convertible notes over ordinary shares issued	77,777,781	7

**Substantial holders**

Substantial holders in the Company are set out below:

Name	Ordinary shares	
	Number held	% of total shares issued
TPG TELECOM LIMITED	76,043,498	11.01
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	75,122,450	10.87

**Voting rights**

*Ordinary shares*

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.

There are no other classes of equity securities.

**Warrants**

Details	Number of warrants
Warrants exercisable at \$0.274 expiring 25 March 2020	38,240,979
Warrants issued at \$0.028 per share and expiry date which is 18 months from the issue date	<u>58,620,689</u>
	<u><u>96,861,668</u></u>

**Securities subject to voluntary escrow**

Class	Expiry date	Number of shares
Ordinary shares	19 July 2019	12,977,400