ASX ANNOUNCEMENT

28 February 2019

COVATA RELEASES APPENDIX 4D HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2018 AND PROVIDES PERIOD-ON-PERIOD UPDATE

- **Cash receipts up 97% from prior comparable period**
- **AASB 15 revenue impact of (12.3%) when comparative figures adjusted on same basis**
- **Revenue increased by 14% when adjusted on like-for-like basis**

Covata Limited (**Covata** or **the Company**) announces the release of Appendix 4D Half Year Report for the period ended 31 December 2018.

The half year information set out in the Appendix 4D is given to ASX under Listing Rule 4.2A. The information set out in the Appendix 4D should be read in connection with the Company's most recent annual financial report.

The Company also provides the following period-on-period analysis of revenue and cash receipts, which are not otherwise disclosed in the Appendix 4D and Quarterly Appendix 4C statements.

Metrics Summary Table

	Period to 31 Dec 2018	Period to 31 Dec 2017	Variance	Percentage
Revenue ($)	582,617	512,336	70,281	14%
Cash Receipts ($)	618,466	314,020	304,446	97%
Head Count	19	24	(5)	(20%)

Revenue, New Accounting Standard Impact and Cash Receipts

Covata notes that it delivered half-year revenue of $582K, down 12.43% on $665K in the prior period. If AASB 15 had been adopted during the 31 December 2017 half year, the revenue reported for that period would have been $512K ($665K per AASB 118), up 14% as reflected on a normalised basis in the table above.

On 1 July 2018, Covata adopted new accounting standard, AASB 15 – *Revenue from Contracts with Customers* (**AASB 15**), which impacts the timing of when revenue is recognised. The biggest change was to the treatment of revenues relating to TPG Telecom. Under the previous standard, AASB 118 – *Revenue*, revenue was recognised over the life of the contract (10 years). Under AASB 15, the revenue was recognised immediately upon satisfying the performance obligations of the contract. In the six months to 31 December 2017, the Company recognised $133,332 revenue relating to the TPG Telecom contract, whereas in the six months to 31 December 2018, the Company recognised $0 from the contract.

Cash receipts for the period were $618K (up 97% from the half year 1HFY2018), which was reported in the Q1 and Q2 Appendix 4C statements. A comparison of these results to the corresponding period in the half-year ending 31 December 2017 is also set out in the summary table above.

Staff

As at 31 December 2018, Covata had 19 staff (excluding the Board) compared with 24 as at 31 December 2017, down 21%. This change demonstrates the Company's continuing commitment to streamlining costs and improving efficiency.

Product Update

The first half has been very busy with development work with the completion of "SafeShare Trust" (with Blockchain integration); Office and Outlook Add-ins; new versions of SafeShare and Eclipse; Discovery and Classification; and the vision for our Data Security Console (DSC).

The second half will see some refinement of these developments and continued focus on strategic priorities including:

1. Building out the Data Security Console: The core solution will be completed and further extensions will be developed in conjunction with our key customers to provide further insight to business owners and risk managers developed; and
2. Broadening protection and refining user experience through integrations: This will include discovery and protection for Exchange Email and a wider range of cloud applications and repositories (e.g. Discover and Classify in SharePoint Online). Our development priorities are being driven by feedback from customers on where they have limited visibility and control over sensitive, unstructured data.

The above will be supported by continued refinement of the underlying infrastructure solution to improve resiliency, security and availability.

Mr Pretty said: "The underlying Covata business continues to show positive signs of progress. Management is pleased with the growth in revenue and cash receipts in both the Australian and international markets, driven by increased awareness of data security requirements and GDPR. The Company is now focussed on building scale and deepening penetration into the European market, which may include the major transformational acquisition of dataglobal GmbH".

- Ends -

About Covata

Covata is a leading provider of software solutions that enable continuous identification, classification and secure management of unstructured data across enterprise and the cloud and consolidates control into one place for companies to securely manage their data to be compliant, reduce risk, reduce costs and improve productivity.

Our Data Security Console empowers businesses to discover, protect and control sensitive information across multiple platforms and repositories with industry best security for Microsoft SharePoint & Office 365, Secure Enterprise File Sharing & Collaboration, and Access Security Broker capabilities through our API translator.

With offices and resources in the US, UK, Europe and Australia and coverage in all other regions, our customers & partners span the public sector and defence, aerospace, technology, automotive, manufacturing, finance, media and sports industries.

Further information

For further information, please visit covata.com.

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Covata Limited
ABN 61 120 658 497

Appendix 4D

Reporting period

Reporting period: Six months ended 31 December 2018
Comparative period: Six months ended 31 December 2017

Results for announcement to the market

	$	Up/Down	Movement %
Revenue from ordinary activities	582,617	Down	(12.43%)
Loss from ordinary activities after tax attributable to members	(4,869,954)	Up	59.56%
Net loss attributable to members	(4,869,954)	Up	59.56%

Revenue from ordinary activities includes revenue derived from technology related products and services which has decreased by 12.43% from the comparative period due to the adoption of new accounting standard AASB 15 – *Revenue from Contracts with Customers* (**AASB 15**), which impacts the timing of when revenue is recognised. If AASB 15 had been adopted during the 31 December 2017 half year, half-year revenue would have been reported as $512K ($665K per AASB 118).

The Group recorded a loss after tax of $4,869,954 for the six months to 31 December 2018 (2017: $3,052,089). The loss included an impairment expense of $896,618 on the goodwill of CipherPoint Software Inc, and an amortisation expense of $416,830 on the intellectual property relating to CipherPoint "Eclipse" and intellectual property acquired from dataglobal GmbH.

Refer to the Directors' Report contained in the Half Year Report for further explanation of the consolidated results.

Dividend information

No dividend has been proposed to be paid or payable for the six months ended 31 December 2018, nor for the comparative period.

Net tangible assets per security

	31 December 2018	31 December 2017
Net tangible assets per security	**0.17 cents**	0.66 cents

Covata Limited
ABN 61 120 658 497

Corporate Information

Directors

Mr. William McCluggage (Chairman)	- Appointed 21 October 2016
Mr. Edward Pretty (CEO)	- Appointed 23 January 2017
Mr. Lindsay Tanner	- Appointed 1 January 2017, Resigned 30 January 2019
Mr. David Irvine	- Appointed 1 January 2017, Resigned 1 December 2018
Mr. Steven Bliim	- Appointed 31 January 2019

Joint Company Secretaries

Mr. Patrick Gowans	- Appointed 23 December 2014
Mr. Steven Bliim	- Appointed 31 March 2017

Registered Office

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Sydney, NSW, 2000
Australia

Principal Places of Business

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Sydney, NSW, 2000
Australia

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United States of America

Hamilton House
4 Mabledon Pl.
Kings Cross, London WC1H 9BD
United Kingdom

Share Register

Boardroom Pty Limited
Level 8, 446 Collins Street
Melbourne, VIC, 3000

Auditors

Nexia Sydney Audit Pty Ltd
Level 16, 1 Market Street
Sydney NSW 2000

Covata Limited

ABN 61 120 658 497

Half Year Report
for the six months ended 31 December 2018

Directors' Report

The directors of Covata Limited (**Covata** or the **Company**) present their report together with the interim financial statements of the Covata Group (the **Group**), being the Company and its controlled entities, for the six months ended 31 December 2018.

Directors

The names of the directors of the Company during or since the end of the half-year are:

Mr. William McCluggage (Chairman)	- Appointed 21 October 2016
Mr. Edward Pretty (CEO)	- Appointed 23 January 2017
Mr. Lindsay Tanner	- Appointed 1 January 2017, Resigned 30 January 2019
Mr. David Irvine	- Appointed 1 January 2017, Resigned 1 December 2018
Mr. Steven Bliim	- Appointed 31 January 2019

Principal activities

During the period, the principal activity of the Group was the development and commercialisation of intellectual property primarily in the field of data security technology.

Review of operations

Highlights

- 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.

Financials

The Group recorded a loss after tax of $4,869,954 for the six months to 31 December 2018 (2017: $3,052,089). During the period, the Group earned technology-related revenue of $582,617 (2017: $665,341). The Group also accrued research and development tax concession revenue of $578,796 (2017: $595,762). As at 31 December 2018, the Group held cash and term deposits of $1,282,352 (2017: $6,348,714).

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.

Review of operations (continued)

Product update (continued)

In Q2 of FY2019, the Company 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

<u>SafeShare for ITAR</u>

Covata launched its SafeShare for ITAR product in September 2018. The US International Traffic in Arms Regulations (**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, Covata was pleased to announce that five customers had been signed on to its SafeShare for ITAR platform, with a further two customers coming on board in Q2 FY2019 and a strong pipeline for the remainder of the financial year.

<u>European Major Customer Progress</u>

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 in March.

Review of operations (continued)

Significant product developments (continued)

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.

Impairment of goodwill

Goodwill was recognized upon the acquisition of CipherPoint Software, Inc (**CipherPoint**) in connection with acquired IP, technology, staff, customers and processes of the business. Subsequent to the reporting period, the Company announced plans to pursue a major transformational acquisition and further capital raising. As a consequence of these changes and uncertainty around availability of resources to further utilize the existing CipherPoint business, management has determined it is prudent to recognize an impairment of the acquired goodwill of $896,618.

Capital Raise

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 $1.962M (before associated costs). $1.5M 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.

Review of operations (continued)

Capital Raise (continued)

- 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 CVT shares from eligible shareholder entitlements and 5,995,984 new CVT 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 (1.8 cents) per share, resulting in the issue of 8,666,647 shares.

Covata looking ahead

As detailed throughout this report, the past six 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 half year and look forward to seeing results from the valued work they do.

Significant changes in the state of affairs

In the opinion of the directors, there have been no significant changes in the state of affairs of the Group during the period other than those disclosed elsewhere in the interim financial report or notes thereto.

Events subsequent to reporting date

- 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.
- 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 (**dataglobal** or **dg**). The full detail of this acquisition plan can be read in the Company's ASX release of this date, but the key highlights are that the Company:
  - 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 currently proposed to be approximately A$20 million;

Review of operations (continued)

Events subsequent to reporting date (continued)

- - has secured bridge funding by way of the issue of $1.4 million 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;
- Divestment of SafeShare
  - The company has entered into an agreement whereby Gibraltar Holdings Pty Limited (**Gibraltar**), or its approved nominee, has 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 million cash. Cocoon holds the relevant IP and 100% of the shares in Covata Australia Pty Limited, the company which licences the SafeShare product and holds customer contracts in connection with the technology.
  - It should be noted that the sale of Cocoon is not connected with, or conditional on, the acquisition of dataglobal (nor vice versa).
  - Completion must occur within 30 days after exercise of the option and is subject to any required shareholder third party or regulatory approvals.
  - The divestment will be subject to a perpetual, royalty-free licence back to Covata of the SafeShare IP and platforms developed by the Company for its use in its ongoing business. The agreement also contemplates that, if the option is exercised, Covata and Gibraltar (or its nominee) will also enter into mutual collaboration and reselling relationship with certain non-compete arrangements.
  - In the event of a superior proposal being received by the Company, the option agreement allows the Company to require the option holder to exercise the option or otherwise permits the Company to accept the third-party offer.
  - Excluded from the sale are all assets not held in Cocoon, including shares of CipherPoint and all customers of its Eclipse product, the rights to the dataglobal classification IP, all IP to Covata's Data Security Platform and Console, and all technical support and architecture materials as noted above.
- An interim change has been implemented to the Board during the period in which it seeks to implement to the proposed acquisition, with Mr Lindsay Tanner resigning and the Company's CFO, Steven Bliim, being appointed.

Other than the items mentioned above, there has not arisen in the interval between the end of the period to 31 December 2018 and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

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

William McCluggage
Chairman

Dated at Sydney, NSW, Australia this 28th day of February 2019.

Nexia Australia

To the Board of Directors of Covata Limited

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

As lead audit partner for the review of the interim financial statements of Covata Limited for the financial half year ended 31 December 2018, 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 review; and

(b) any applicable code of professional conduct in relation to the review.

Yours sincerely

Nexia

Nexia Sydney Audit Pty Ltd

Lester Wills
Director

Date: 28 February 2019

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Covata Limited and its controlled entities
Condensed consolidated statement of profit or loss and other comprehensive income
For the six months ended 31 December 2018

	Note	31 December 2018 $	31 December 2017 $
Revenue and other income			
Revenue – technology related products and services		**582,617**	665,341
Financing expense for income in advance		**(1,422)**	-
Commissions		**(32,339)**	(19,548)
Research & development tax concession		**578,796**	595,762
Other income		**-**	300
		1,127,652	1,241,855
Expenses			
Employee benefit expenses		**(3,136,295)**	(2,786,824)
Consultancy fees expense		**(160,219)**	(229,550)
Depreciation and amortisation expense		**(431,309)**	(24,574)
Impairment expense	*11*	**(896,618)**	-
Legal and professional fees expense		**(85,617)**	(81,501)
Marketing and promotion expense		**(213,013)**	(214,321)
Travel and accommodation expense		**(215,760)**	(225,594)
Office and administration expenses		**(286,288)**	(445,391)
Other direct research and development project expenses		**(350,808)**	(111,860)
Other expenses		**(227,151)**	(208,915)
		(6,003,078)	(4,328,530)
Results from operating activities		**(4,875,426)**	(3,086,675)
Finance income		**7,815**	36,337
Finance costs		**(2,343)**	(1,751)
Net finance income		**5,472**	34,586
Loss before income tax		**(4,869,954)**	(3,052,089)
Income tax expense	*7*	**-**	-
Loss for the period		**(4,869,954)**	(3,052,089)
Other comprehensive income			
Items that may be classified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(6,931)**	(52,650)
Total other comprehensive income		**(6,931)**	(52,650)
Total comprehensive loss for the period		**(4,876,885)**	(3,104,739)
Earnings per share			
Basic earnings per share (cents per share)	*6*	**(0.7)**	(0.6)
Diluted earnings per share (cents per share)	*6*	**(0.7)**	(0.6)

The notes on pages 17 to 29 are an integral part of these condensed consolidated interim financial statements.

Covata Limited and its controlled entities
Condensed consolidated statement of changes in equity

For the six months ended 31 December 2018

	Note	Share Capital	Foreign Currency Translation Reserve	Share Options Reserve	Warrants Reserve	Accumulated Losses	Total Equity
		$	$	$	$	$	$
Balance at 1 July 2017	*8*	86,885,280	(282,768)	3,016,155	4,607,250	(88,137,677)	6,088,240
Total comprehensive income for the period							
Loss for the period		-	-	-	-	(3,052,089)	(3,052,089)
Total other comprehensive income/(loss)		-	(52,650)	-	-	-	(52,650)
Total comprehensive income/(loss)		-	(52,650)	-	-	(3,052,089)	(3,104,739)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Ordinary shares issued	*8*	3,628,271	-	-	-	-	3,628,271
Share based payments – share options	*9*	-	-	234,422	-	-	234,422
Share based payments – employee loan shares	*9*	-	-	464,793	-	-	464,793
Share options lapsed	*9*	-	-	(1,232,077)	-	1,232,077	-
Employee loan shares lapsed	*9*	-	-	(4,434)	-	4,434	-
Capital raising costs	*8*	(48,934)	-	-	-	-	(48,934)
Total contributions by and distributions to owners		3,579,337	-	(537,296)	-	1,236,511	4,278,552
Balance at 31 December 2017		90,464,617	(335,418)	2,478,859	4,607,250	(89,953,255)	7,262,053
Balance at 1 July 2018	*8*	**92,206,341**	**(257,421)**	**3,301,366**	**4,607,250**	**(94,344,633)**	**5,512,903**
Change in accounting policy	*3c*	**-**	**(377)**	**-**	**-**	**1,246,574**	**1,246,197**
Restated total equity at the beginning of the period		**92,206,341**	**(257,798)**	**3,301,366**	**4,607,250**	**(93,098,059)**	**6,759,100**
Total comprehensive income for the period							
Loss for the period		**-**	**-**	**-**	**-**	**(4,869,954)**	**(4,869,954)**
Total other comprehensive income/(loss)		**-**	**(6,931)**	**-**	**-**	**-**	**(6,931)**
Total comprehensive income/(loss)		**-**	**(6,931)**	**-**	**-**	**(4,869,954)**	**(4,876,885)**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Ordinary shares issued	*8*	**780,852**	**-**	**-**	**-**	**-**	**780,852**
Share based payments – share options	*9*	**-**	**-**	**217,206**	**-**	**-**	**217,206**
Share based payments – employee loan shares	*9*	**-**	**-**	**654,961**	**-**	**-**	**654,961**
Share options lapsed	*9*	**-**	**-**	**(22,723)**	**-**	**22,723**	**-**
Employee loan shares lapsed	*9*	**-**	**-**	**(29,201)**	**-**	**29,201**	**-**
Capital raising costs	*8*	**(22,500)**	**-**	**-**	**-**	**-**	**(22,500)**
Total contributions by and distributions to owners		**758,352**	**-**	**820,243**	**-**	**51,924**	**1,630,519**
Balance at 31 December 2018		**92,964,693**	**(264,729)**	**4,121,609**	**4,607,250**	**(97,916,089)**	**3,512,734**

The notes on pages 17 to 29 are an integral part of these condensed consolidated interim financial statements.

Covata Limited and its controlled entities
Condensed consolidated statement of financial position

As at 31 December 2018

	Note	31 December 2018 $	30 June 2018 $
Assets			
Cash and cash equivalents		**1,282,352**	4,471,616
Trade and other receivables		**861,521**	1,267,336
Prepayments		**87,639**	28,300
Total current assets		**2,231,512**	5,767,252
Property, plant and equipment		**55,238**	73,392
Intangible assets	*11*	**2,403,394**	3,706,658
Other non-current assets		**197,471**	157,452
Total non-current assets		**2,656,103**	3,937,502
Total assets		**4,887,615**	9,704,754
Liabilities			
Trade and other payables		**883,291**	2,091,740
Contract liabilities		**279,246**	559,003
Employee benefits		**149,478**	180,817
Contingent consideration payable		**-**	318,465
Total current liabilities		**1,312,015**	3,150,025
Contract liabilities		**62,866**	1,041,826
Total non-current liabilities		**62,866**	1,041,826
Total liabilities		**1,374,881**	4,191,851
Net assets		**3,512,734**	5,512,903
Equity			
Share capital	*8*	**92,964,693**	92,206,341
Reserves		**8,464,130**	7,651,195
Accumulated losses		**(97,916,089)**	(94,344,633)
Total equity		**3,512,734**	5,512,903

The notes on pages 17 to 29 are an integral part of these condensed consolidated interim financial statements.

Covata Limited and its controlled entities
Condensed consolidated statement of cash flows

For the six months ended 31 December 2018

	31 December 2018	31 December 2017
	$	$
Cash flows used in operating activities		
Cash receipts from customers	**618,466**	314,020
Cash paid to suppliers and employees	**(4,647,940)**	(3,754,447)
Cash used in operating activities	**(4,029,474)**	(3,440,427)
R&D rebates received	**991,421**	1,612,693
Interest received	**7,815**	75,485
Interest paid	**(2,343)**	(1,752)
Net cash used in operating activities	**(3,032,581)**	(1,754,001)
Cash flows used in investing activities		
Receipts from/ (payments for) investments in term deposits	**-**	1,000,000
Acquisition of controlled entity (net of cash received)	**-**	(165,465)
Payment for deposits	**(40,019)**	-
Proceeds from disposal of property, plant and equipment	**-**	1,500
Acquisition of property, plant and equipment	**-**	(65,768)
Acquisition of intangibles	**(553,875)**	-
Net cash used in investing activities	**(593,894)**	770,267
Cash flows from financing activities		
Proceeds from the issue of share capital	**462,387**	2,062,278
Payment of share issue costs	**(22,500)**	(48,934)
Net cash from financing activities	**439,887**	2,013,344
Net increase/(decrease) in cash and cash equivalents	**(3,186,588)**	1,029,610
Cash and cash equivalents at 1 July 2018	**4,471,616**	1,325,280
Effect of movements in exchange rates on cash held	**(2,676)**	(6,176)
Cash and cash equivalents at 31 December 2018	**1,282,352**	2,348,714

The notes on pages 17 to 29 are an integral part of these condensed consolidated interim financial statements.

For the six months ended 31 December 2018

1. Reporting entity

Covata Limited (**Covata** or the **Company**) is a company domiciled in Australia. These condensed consolidated interim financial statements (**interim financial statements**) as at and for the six months ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the **Group**). The Group is primarily involved in the development and commercialisation of intellectual property predominantly in the field of data security technology.

2. Basis of accounting

The condensed consolidated interim financial statements are general purpose financial statements prepared in accordance with AASB 134 - *Interim Financial Reporting* and the *Corporations Act 2001*, and with IAS 134 - *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 30 June 2018.

The condensed consolidated interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated annual financial statements of the Covata Limited Group as at and for the year ended 30 June 2018. The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2018.

These interim financial statements were authorised for issue by the Company's Board of Directors on 28 February 2019.

3. Significant accounting policies

(a) Going concern

The interim 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 six months ended 31 December 2018, the Group incurred a loss after tax of $4,869,954 (2017: loss of $3,052,089) and incurred net cash outflows from operating activities of $3,032,581 for the period (2017: outflows of $1,754,001). At 31 December 2018, the Group had cash and cash equivalents of $1,282,352 and net assets of $3,512,734.

Management has prepared cash flow projections that support the Group's ability to continue as a going concern. While cash receipts have continued to increase period-on-period and expenditures continue to be managed closely in line with available funding, ongoing negative cash flows have required additional support through both debt and equity funding from new and long-standing investors. The Group is currently investigating possible restructuring which may involve the acquisition of a more commercially stable business along with the possible divestment of the SafeShare business, either event which may improve the Group's ability to continue as a going concern.

These conditions give rise to a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. In the event that the Group is unable to achieve its forecast cashflow projection and/or raise additional funding, it 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.

3. Significant accounting policies (continued)

(b) Basis of consolidation

Business Combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(c) Changes in accounting policies

The accounting policies are consistent with those of the previous financial year except for the adoption of AASB 15 – *Revenue from Contracts with Customers* and AASB 9 – *Financial Instruments*, which became mandatorily effective on 1 July 2018. Accordingly, these standards apply for the first time to this set of financial statements. The nature and effect of changes arising from these standards are summarised below.

Initial adoption of 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:

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

3. Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

Initial adoption of AASB 15 - Revenue from Contracts with Customers (continued)

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.

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.

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 twelve-month service period and the relevant payment due dates are specified in each contract. Revenue is recognised over the life of the contract.

The adoption of AASB 15 significantly impacted on the timing and amount of revenue recognised for TPG Telecom. The contract was signed in August 2012 for a 10-year license totalling $2.667M. Under AASB 118, $266,667 was recognised as revenue every year for 10 years. Under AASB 15, revenue under the contract was recognised upon satisfying performance obligations i.e. in full in FY2013.

The net impact of AASB 15 on the financial statements is summarised on page 21.

3. Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

Initial adoption of AASB 9 – Financial Instruments

The Group has adopted this standard from 1 July 2018. AASB 9 replaces the existing guidance in AASB 139 – *Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139.

When adopting AASB 9, the Group elected not to restate prior periods. Rather, differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018. Further, the Group chose to continue applying the hedge accounting requirements in AASB 139 as permitted by AASB 9.

Initial adoption of AASB 9 – Financial Instruments

Recognition and derecognition
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets
Financial assets are classified according to their business model and the characteristics of their contractual cash flows. Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Subsequent measurement of financial assets
For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following four categories:

- Financial assets at amortised cost
- Financial assets at fair value through profit or loss (FVTPL)
- Debt instruments at fair value through other comprehensive income (FVTOCI)
- Equity instruments at FVTOCI

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Financial assets at amortised cost
Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of 'hold to collect' contractual cash flows are accounted for at amortised cost using the effective interest method. The Group's trade and most other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL)
All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments. Investments in equity instruments fall into this category unless the Group irrevocably elects at inception to account as Equity FVTOCI.

For the six months ended 31 December 2018

3. Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

Initial adoption of AASB 9 – Financial Instruments (continued)

Debt instruments at fair value through other comprehensive income (Debt FVTOCI)
Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of collecting the contractual cash flows and selling the assets are accounted for at FVTOCI. Any gains or losses recognised in OCI will be recycled upon derecognition of the asset.

Equity instruments at fair value through other comprehensive income (Equity FVTOCI)
Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVTOCI. Under this category, subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividend income is taken to profit or loss unless the dividend clearly represents return of capital.

Impairment of financial assets
AASB 9's new forward-looking impairment model applies to the Group's investments at amortised cost and debt instruments at FVTOCI. The application of the new impairment model depends on whether there has been a significant increase in credit risk.

Classification and measurement of financial liabilities
As the accounting for financial liabilities remains largely unchanged from AASB 139, the Group's financial liabilities were not impacted by the adoption of AASB 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

While this represents significant new guidance, the implementation of this new guidance did not have a significant impact on the recognition and measurement of financial instruments during the year.

The cumulative effect of the changes made to the consolidated 1 July 2018 balance sheet for the adoption of AASB 15 and AASB 9 were as follows:

	Balance at 30 June 2018	Adjustments due to AASB 15	Adjustments due to AASB 9	Balance at 1 Jul 2018
Liabilities				
Contract liabilities	1,600,829	(1,246,574)	-	**354,255**
Equity				
Retained Earnings	(94,344,633)	1,246,574	-	**(93,098,059)**

3. Significant accounting policies (continued)

(d) Standards issued but not yet effective

A number of new standards and amendments to standards are able to be adopted for annual periods beginning after 1 July 2018; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

AASB 16 – Leases

AASB 16 *Leases* was issued and introduced changes to lessee accounting. It requires recognition of lease liabilities and assets other than short-term leases of leases of low-value assets on the statement of financial position. This will replace the operating/financial lease distinction and accounting requirements prescribed in AASB 117 Leases.

AASB 16 will become mandatory for the Group's 30 June 2020 financial statements.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 16.

4. Use of judgements and estimates

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

5. Segment Reporting

The Group has identified its operating segments based on internal reports that are reviewed and used by the Board of Directors, being the chief operating decision makers, in assessing performance and determining the allocation of resources.

The Group only operates in one business segment, being the development and commercialisation of data security technology. As all assets and liabilities and the financial result relates to the one business segment, no detailed segment analysis has been performed. No seasonality in the business segment has been identified that would have a significant impact on the interim results of the Group.

The Group predominantly operates in Australia, USA and the United Kingdom.

For the six months ended 31 December 2018

6. Earnings per share

	31 December 2018	31 December 2017
Earnings per share from continuing operations:		
Loss after income tax (basic)	**$(4,869,954)**	**$(3,052,089)**
Loss after income tax (diluted)	**$(4,869,954)**	**$(3,052,089)**
Weighted average number of ordinary shares used in calculating basic earnings per share	**680,020,295**	**549,659,198**
Weighted average number of ordinary shares used in calculating diluted earnings per share	**680,020,295**	**549,659,198**
Basic earnings per share (cents per share)	**(0.7)**	**(0.6)**
Diluted earnings per share (cents per share)	**(0.7)**	**(0.6)**

The effects of potential ordinary shares such as warrants and share options are only included in diluted earnings share calculations where their inclusion would increase the loss per share or decrease the earnings per share. There were no potential ordinary shares considered dilutive during the period.

7. Tax expense

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

8. Share capital

	Ordinary Shares 31 December 2018	
	Number	$
Fully paid ordinary shares		
On issue at the start of period	652,648,629	92,206,341
Issued for cash	16,513,792	462,387
Less: issue costs paid in cash	-	(22,500)
Issued for non-cash – other	-	-
Issued for non-cash – acquisition of subsidiary	12,977,400	318,465
Share capital at the end of the period	682,139,821	92,964,693

Issue of ordinary shares
The 12,977,400 shares were issued upon CipherPoint meeting Milestone 2 targets. 16,513,792 shares were issued as a rights issue in July 2018.

For the six months ended 31 December 2018

8. Share capital (continued)

Ordinary Shares

	31 December 2017 Number	$
Fully paid ordinary shares		
On issue at the start of period	**526,714,955**	**86,885,280**
Issued for cash	**43,877,715**	**2,062,276**
Less: issue costs paid in cash	**-**	**(48,934)**
Issued for non-cash – other	**376,500**	**55,233**
Issued for non-cash – acquisition of subsidiary	**18,468,974**	**1,510,762**
Share capital at the end of the period	**589,438,144**	**90,464,617**

Issue of ordinary shares
Of the 589,438,144 Covata Limited ordinary shares on issue as at 31 December 2017, 57,091,571 were restricted ordinary shares issued under an employee loan share plan as described in Note 9.

9. Share based payments

At 31 December 2018 the Group has the following share-based payment arrangements:

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. A total of 19,523,000 (2017: 17,633,583) share options were issued under this programme in the six months to 31 December 2018. In accordance with this programme, holders of vested options are entitled to purchase shares at a price per share as detailed below.

Employee loan share plan (ELSP)
For accounting purposes shares allocated to employees pursuant to the Share Plan are treated and valued as options, and the fair value of the options granted under the Share Plan is estimated as at the grant date using a Black-Scholes model considering the terms and conditions upon which they were granted. There were 40,071,300 (2017: 29,534,298) employee loan share plan shares granted in the six months to 31 December 2018.

Share options granted during the six months to 31 December 2018

Grant date	No. of options	Exercise price $AUD	Fair value at grant date $AUD	Vesting Conditions
7/09/2018	**19,523,000**	0.03	0.02	31.25% vest in September 2018, with the remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing December 2018.
	19,523,000			

9. Share based payments (continued)

Employee loan share plan shares granted during the six months to 31 December 2018

Grant date	No. of options	Exercise price $AUD	Fair value at grant date $AUD	Vesting Conditions
7/09/2018	**32,392,800**	0.03	0.02	31.25% vest in September 2018, with the remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing December 2018.
19/10/2018	**7,678,500**	0.03	0.02	31.25% vest in December 2018, with the remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing March 2019.
	40,071,300			

Share options granted during the six months to 31 December 2017

Grant date	No. of options	Exercise price $AUD	Fair value at grant date $AUD	Vesting Conditions
17/08/2017	**5,569,583**	0.05	0.04	31.25% vest in December 2017, with the remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing March 2018.
21/08/2017	**1,000,000**	0.05	0.04	31.25% vest in September 2017, with the remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing December 2017.
24/11/2017	**11,064,000**	0.05	0.04	31.25% vest in March 2018, with the remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing June 2018.
	17,633,583			

Employee loan share plan shares granted during the six months to 31 December 2017

Grant date	No. of options	Exercise price $AUD	Fair value at grant date $AUD	Vesting Conditions
24/11/2017	**27,000,000**	0.05	0.04	31.25% vest in March 2018, with the remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing June 2018.
24/11/2017	**2,534,298**	0.05	0.04	Fully vested as at the date of grant.
	29,534,298			

Equity-settled share-based payment plans

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows:

	Share options
Grant Date	7 Sep 2018
Fair value at grant date	$0.028
Share price at grant date	$0.024
Exercise price	$0.028
Expected volatility (weighted average)	95%
Expected life (weighted average)	5 years
Expected dividends	Nil
Risk-free interest rate (based on government bonds)	2.17%

9. Share based payments (continued)

Equity-settled share-based payment plans (continued)

	ELSP	ELSP
Grant Date	7 Sep 2018	19 Oct 2018
Fair value at grant date	$0.028	$0.028
Share price at grant date	$0.024	$0.020
Exercise price	$0.028	$0.028
Expected volatility (weighted average)	95%	95%
Expected life (weighted average)	5 years	5 years
Expected dividends	Nil	Nil
Risk-free interest rate (based on government bonds)	2.17%	2.68%

Employee expenses recognised in profit or loss	December 2018	December 2017
	$	$
Share options granted – 2019	159,319	-
Share options granted – 2018	50,695	226,250
Share options granted – 2017	7,192	4,256
Share options granted – 2016	-	5,478
Share options granted – 2015	-	2,438
Share options expense total	217,206	238,422
Employee loan shares granted – 2019	444,720	-
Employee loan shares granted – 2018	174,726	464,351
Employee loan shares granted – 2017	35,515	-
Employee loan shares granted – 2015	-	442
Employee loan shares granted – 2014, modified 2015	-	-
Employee loan shares expense total	654,961	464,793
Total expense recognised as employee costs	872,779	699,215

The share-based payments – share options amount of $217,206 on the condensed consolidated statement of changes in equity represents the $217,206 share options expense.

The share-based payments – employee loan shares amount of $654,961 on the condensed consolidated statement of changes in equity represents the $654,961 employee loan share plan expense.

During the period 648,300 vested share options with a grant date fair value of $22,723 lapsed. During the period, 828,309 employee loan shares with a total fair value of $29,210 lapsed, reducing the net amount recognised in the share options reserve for the six months ended 31 December 2018 to $820,243.

For the six months ended 31 December 2018

10. Related parties

a) Consolidated entities

Parent entity	Country of incorporation	Ownership interest 2018	Ownership interest 2017
Covata Limited	Australia		
Subsidiaries			
Cocoon Data Holdings Limited	*Australia*	***100%***	*100%*
Cocoon Data Pty Limited	*Australia*	***100%***	*100%*
Covata Australia Pty Limited	*Australia*	***100%***	*100%*
Covata USA, Inc.	*United States*	***100%***	*100%*
Covata UK Limited	*United Kingdom*	***100%***	*100%*
CipherPoint Software, Inc.	*United States*	***100%***	*100%*

11. Intangible assets

Intellectual property was acquired through the acquisition of CipherPoint Software Inc, which included the "Eclipse" product and the acquisition of dataglobal's intellectual property. Eclipse is being amortised over 4 years, while the intellectual property of dataglobal is being amortised over 5 years.

The Group will review the useful life of each asset at each financial year end.

	Intellectual property $	Goodwill $	Total $
Cost			
Balance at 1 July 2017	-	-	-
Acquisitions	3,224,843	886,434	4,111,277
Effect of movements in exchange rates	-	-	-
Balance at 30 June 2018	3,224,843	886,434	4,111,277
Balance at 1 July 2018	**3,224,843**	**886,434**	**4,111,277**
Acquisitions	**-**	**-**	**-**
Effect of movements in exchange rates	**-**	**10,185**	**10,185**
Balance at 31 December 2018	**3,224,843**	**896,618**	**4,121,462**
Accumulated amortisation			
Balance at 1 July 2017	-	-	-
Amortisation	404,619	-	404,619
Impairment loss	-	-	-
Effect of movements in exchange rates	-	-	-
Balance at 30 June 2018	404,619	-	404,619
Balance at 1 July 2018	**404,619**	**-**	**404,619**
Amortisation	**416,830**	**-**	**416,830**
Impairment loss	**-**	**896,618**	**896,618**
Effect of movements in exchange rates	**-**	**-**	**-**
Balance at 31 December 2018	**821,449**	**896,618**	**1,718,067**

11. Intangible assets (continued)

	Intellectual property $	Goodwill $	Total $
Carrying amounts			
At 30 June 2017	-	-	-
At 30 June 2018	2,820,224	886,434	3,706,658
At 31 December 2018	2,403,394	-	2,403,394

12. Subsequent events

- 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.
- 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 (**dataglobal** or **dg**). The full detail of this acquisition plan can be read in the Company's ASX release of this date, but the key highlights are that the Company:
  - 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 currently proposed to be approximately A$20 million;
  - has secured bridge funding by way of the issue of $1.4 million 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 form 22 February 2019;
  - has granted a call option (which, if exercised, is conditional upon any required shareholder and regulatory approvals) whereby it may undertake a potential divestment of its existing SafeShare intellectual property subject to retaining certain licence and reseller rights; and
  - has implemented an interim change to the Board during the period in which it seeks to implement to the proposed acquisition, with Mr Lindsay Tanner resigning and the Company's CFO, Steven Bliim, being appointed.
- Divestment of SafeShare
  - The company has entered into an agreement whereby Gibraltar Holdings Pty Limited (**Gibraltar**), or its approved nominee, has 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 million cash. Cocoon holds the relevant IP and 100% of the shares in Covata Australia Pty Limited, the company which licences the SafeShare product and holds customer contracts in connection with the technology.
  - It should be noted that the sale of Cocoon is not connected with, or conditional on, the acquisition of dataglobal (nor vice versa).
  - Completion must occur within 30 days after exercise of the option and is subject to any required shareholder third party or regulatory approvals.
  - The divestment will be subject to a perpetual, royalty-free licence back to Covata of the SafeShare IP and platforms developed by the Company for its use in its ongoing business. The agreement also contemplates that, if the option is exercised, Covata and Gibraltar (or its nominee) will also enter into mutual collaboration and reselling relationship with certain non-compete arrangements.

12. Subsequent events (continued)

- In the event of a superior proposal being received by the Company, the option agreement allows the Company to require the option holder to exercise the option or otherwise permits the Company to accept the third-party offer.
  Excluded from the sale are all assets not held in Cocoon, including shares of CipherPoint and all customers of its Eclipse product, the rights to the dataglobal classification IP, all IP to Covata's Data Security Platform and Console, and all technical support and architecture materials as noted above.

Other than the items mentioned above, there has not arisen in the interval between the end of the period to 31 December 2018 and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Covata Limited and its controlled entities
Director's declaration

In the opinion of the directors of Covata Limited (**the Company**):

a) the condensed consolidated financial statements and notes that are set out on pages 17 to 29 are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance, for the six months ended on that date; and

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

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

Dated at Sydney NSW, Australia this 28th day of February 2019.

Signed in accordance with a resolution of the directors:

William McCluggage
Chairman

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF COVATA LIMITED

We have reviewed the accompanying half-year financial report of Covata Limited (the 'Company') and Consolidated Entities (the 'Group'), which comprises the consolidated statement of financial position as at 31 December 2018, 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 half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group comprising the Company and the entities it controlled at the half year's end or from time to time during the half year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Covata Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been given to the directors of Covata Limited.

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF COVATA LIMITED (CONT'D)

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of Covata Limited and controlled entities is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Material Uncertainty Related to Going Concern

We draw attention to Note 3(a) of the financial statements which indicates that the Group has incurred a net loss of $4,869,954 and net cash outflows from operating activities of $3,032,581 during the period ended 31 December 2018. As stated in Note 3(a), these events or conditions, along with other matters as set forth in that note, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our review conclusion is not modified in respect of this matter.

Nexia

Nexia Sydney Audit Pty Ltd

Lester Wills
Director

Dated: 28 February 2019

Sydney