

ASX ANNOUNCEMENT

23 February 2018

COVATA RELEASES APPENDIX 4D HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2017 AND PROVIDES PERIOD-ON-PERIOD UPDATE

- **Material improvement in Statutory and Period-on-Period results**
- **Good sales momentum**
- **Cash receipts improving**
- **New blockchain and Microsoft Office 365 product features**

Covata (the Company) announces the release of Appendix 4D Half Year Report for the period ended 31 December 2017.

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

Covata also provides the following period-on-period analysis of revenue and cash receipts, together with an analysis and explanation of 'bookings'; another metric used internally to measure commercial and market traction which is not otherwise disclosed in the Appendix 4D and Quarterly Appendix 4C statements.

Metrics Summary Table

	Year to 31 Dec 2017	Year to 31 Dec 2016	Variance	Percentage
	\$	\$	\$	
Revenue	665,341	193,305	472,036	244%
Cash Receipts	314,020	19,915	294,105	1,477%
Bookings	2,278,673	8,921	2,269,751	2,5442%
Head Count	24	48	(24)	-50%

Revenue and Cash Receipts

Covata is pleased to note that it delivered half-year revenue of \$665K (already up 57%/\$241K on the full year FY2017) and cash receipts, which were reported in the Q1 and Q2 Appendix 4C statements, for the year to date of \$314K (up 235% on the full year FY2017). A comparison of these results to the corresponding period in the half-year ending 31 December 2016 is also set out in the summary table above.

Bookings

In addition to revenue for each relevant period, the Company monitors 'bookings' as a measure of sales momentum. In 1HFY2018, the Company achieved bookings of \$2.27M (there were nominal bookings in FY2017).

Bookings represent the sum of all new deals signed in the relevant period, including the total value of new, expanded or renewed contracts or purchase orders under which customers are contractually obliged to pay for the Company's software either on usual trading terms (i.e. upfront) or over a defined contract terms up to a three-year period.

It should be noted that:

- 'Bookings' is not a GAAP or IFRS defined term although is frequently used by software companies as an indicator of performance and momentum
- The Company only includes subscriptions which are contractually committed to for a fixed term in its bookings figure and does not include trial or pilot customers, proofs of concept or month-to-month contracts (if any). It should be noted, however, that the contracts comprising bookings are subject to typical termination rights including for non-performance, breach or default – the Company has no knowledge of any current circumstances which would give rise to these rights of termination
- The renegotiation of the higher per-user rates with a major reseller over the next three years accounted for approximately \$1.4M of the bookings for the period. This sum represents the increase in the incremental user-based charges that will be due to the Company as a result of the renegotiation in respect of contracted licenses over the three-year term of the reseller agreement

Covata Managing Director and CEO Mr Ted Pretty said, "The momentum we have achieved on pipeline, billings and cash demonstrates our turnaround is well underway and our products are competitive and valued. The CipherPoint acquisition has contributed to this improved outcome. Our refreshed team is performing very well. Our expenses are being controlled. These positive results deliver on the objectives we outlined at the AGM. We are building a sustainable business market by market and customer by customer".

Staff

As at 31 December 2017, Covata had 24 staff (excluding the board) compared with 48 as at 31 December 2016, down 50%. At the date of this report, there are six staff now dedicated to sales, pre-sales, marketing and channel management (25% of total staff).

Product Update

Microsoft Office 365 – In the second half FY18 Covata will launch (CipherPoint) Eclipse for O365. This will see the integration of the product into O365 and the release of the beta version of our Data Security Platform (DSP), which will integrate Secure File Share directly with Office applications (e.g. Inline edit, save directly to Covata Secure).

Blockchain - Covata is developing improvements in its products to enhance the integrity of data stored and secured in our products. This integrity will be enabled using blockchain technology which will add an independent source of trust and immutable evidence of document history. The Covata DSP will also include an 'enablement' toolset available as an independent service, to facilitate the easy adoption of blockchain to achieve similar outcomes in third party applications.

Mr. Pretty added: "Our focus is to ensure data integrity by using blockchain technology to add an independent source of trust and immutable evidence of document history. It is very logical for us to leverage the blockchain feature of being inherently resistant to modification of the data".

- Ends -

About Covata

Covata is a leading provider of software solutions that protect data and enable secure collaboration. Our data-centric security platform empowers governments and businesses to discover, protect and control their sensitive information. Our products and platform support multiple use cases, including search, governance and compliance, user behaviour and analytics, and file synchronisation and sharing. Covata also provides data discovery, transparent data encryption, centralised permissions management, and activity logging for sensitive and regulated information in SharePoint.

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

We ensure security is never an afterthought, protecting information and ensuring the safe and efficient sharing of data across internal and external stakeholders, devices, networks and geographic regions providing organisations with control, visibility and auditability of their sensitive information.

For further information, please visit covata.com

Covata Investor Relations contact:

Steven Bliim
Head of Finance & Company Secretary
steven.bliim@covata.com

Covata Limited
ABN 61 120 658 497

Appendix 4D

Reporting period

Reporting period: Six months ended 31 December 2017
 Comparative period: Six months ended 31 December 2016

Results for announcement to the market

	<u>\$</u>	<u>Up/Down</u>	<u>Movement %</u>
Revenue from ordinary activities	665,341	Up	244.19%
Loss from ordinary activities after tax attributable to members	(3,052,089)	Down	(48.93%)
Net loss attributable to members	(3,052,089)	Down	(48.93%)

Revenue from ordinary activities includes revenue derived from technology related products and services which has increased by 244% from the comparative period due to the improved momentum of the Group's sales team.

The Group recorded a loss after tax of \$3,052,089 for the six months to 31 December 2017 (2016: \$5,976,519).

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

Acquisition

On 25 August 2017, the Group acquired 100% of the shares and voting interests in US-based CipherPoint Software, Inc.

For the four months ended 31 December 2017, CipherPoint contributed revenue from ordinary activities of A\$339,659 and a loss from ordinary activities after tax of A\$294,793.

Dividend information

No dividend has been proposed to be paid or payable for the six months ended 31 December 2017, nor for the comparative period.

Net tangible assets per security

	31 December 2017	31 December 2016
Net tangible assets per security	0.66 cents	1.38 cents

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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
Mr. David Irvine	- Appointed 1 January 2017

Joint Company Secretaries

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

Registered Office

Suite 1, Level 6, 50 Queen Street
Melbourne, VIC, 3000

Principal Place of Business

Level 4, 81 York Street
Sydney, NSW, 2000

Suite B, 2326 Webberville Road,
Austin, Texas 78702,
United States of America

7/10 Chandos Street, Cavendish Square
London, W1G 9DQ
United Kingdom

Suite 300, 5857 Owens Avenue
Carlsbad, California 92008
United States of America

Share Register

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

Auditors

KPMG
Level 11, Corporate Centre One
Cnr Bundall Road & Slatyer Avenue
Bundall, QLD, 4217



Covata Limited

ABN 61 120 658 497

Half Year Report

for the six months ended 31 December 2017

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Covata Limited Directors' report

The directors of Covata Limited ("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 2017.

Directors

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

Mr. William McCluggage
Mr. Edward Pretty
Mr. Lindsay Tanner
Mr. David Irvine

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

- Completion of the acquisition of CipherPoint Software, Inc ("CipherPoint");
- Derek Brown joined Covata as its Chief Commercial Officer;
- Following the acquisition of CipherPoint, Mike Fleck joined Covata as VP Security and Head of Marketing, Woody Shea joined Covata as Chief Technology Officer and Kevin Homer joined as VP of Sales;
- Successful completion of capital raise by way of placement and Share Purchase Plan (SPP);
- Service pack updates for SafeShare, Eclipse, and iOS and Android mobile apps for Macquarie Telecom;
- SafeShare production released and signed first customer on Microsoft Azure Cloud;
- Beta launch of the data discovery tool;
- Exhibited at BlackHat conference in London; and
- Restructure of the Macquarie Telecom agreement.

Contract wins

- Sale of a licensing agreement for SafeShare to the Australian subsidiary of a global technology company worth A\$360,000 over a three-year period;
- Licensing agreement for CipherPoint Eclipse to a Major US sporting association for US\$46,000 (A\$60,095) with US\$10,000 (A\$13,086) annual ongoing maintenance;
- Contract win for Arthur J Gallagher & Co for US\$76,000 (A\$96,900); and
- A confidential deal to supply a perpetual licence of CipherPoint Eclipse to a US subsidiary of a global power generation, automation and medical diagnosis company to replace the end of life Cryptzone product. The deal reflects a total contract value of US\$82,500 (A\$105,000).

Covata Limited

Directors' report

Review of operations (continued)

Financials

The Group recorded a loss after tax of \$3,052,089 for the six months to 31 December 2017 (2016: \$5,976,519). During the period, the Group earned technology-related revenue of \$665,341 (2016: \$193,305). The Group also accrued research and development tax concession revenue of \$595,762 (2016: \$903,623). As at 31 December 2017, the Group held cash and term deposits of \$6,348,714 (2016: \$11,095,229).

In November 2017, Covata completed a \$2.06 million capital raising (before deducting associated costs). This has been, and continues to be, used for further development and commercialisation of Safe Share and CipherPoint Eclipse, and sales, business development and marketing for Safe Share's whole-of-government strategy.

CipherPoint acquisition

On 25 August 2017, Covata completed the acquisition of US-based CipherPoint Software, Inc (CipherPoint). CipherPoint was founded in 2010 and provides data-centric audit and protection via a suite of integrated data security and privacy compliance solutions for Microsoft SharePoint, file servers, and Office 365 ("CipherPoint Eclipse"). The acquisition was primarily stock-based, with:

- Funding of up to US\$150,000 to CipherPoint's creditors as at the date of completion;
- A\$510,760 CVT shares, issued to the holders of various derivative instruments and preference rights of CipherPoint, at the higher of \$0.045 or the 5-day VWAP as at the date of completion;
- A\$1 million CVT shares issued at completion at the higher of \$0.047 or the 5-day VWAP;
- A\$1 million further shares to be issued at the higher of \$0.10 or the 5-day VWAP as at 31 December 2017, subject to CipherPoint achieving revenues more than US\$300,000 between 1 July 2017 and 31 December 2017 and a key staff member remaining in employment at 31 December 2017 (Milestone One Shares); and
- A\$1,297,740 CVT shares to be issued at the higher of \$0.10 or the 5-day VWAP as at 30 June 2018, subject to CipherPoint achieving revenues in excess of US\$500,000 between 1 July 2017 and 30 June 2018 and a key staff member remaining in employment at 30 June 2018 (Milestone Two Shares).

Covata was pleased to report that CipherPoint achieved the Milestone One targets as at 31 December 2017 and 10,000,000 Milestone One Shares were subsequently issued with a deemed issue price of \$0.10 per share on 31 January 2018.

Resourcing

On 1 July 2017, Derek Brown joined Covata as Chief Commercial Officer, taking on responsibility for global sales, pre-sales, pre-solutions delivery, marketing and channels. Derek brought significant industry experience from his recent role as Head of Workplace Technology Solutions and Virtual CIO of Ricoh Australia and has several decades of experience in enterprise IT including leadership roles at Hills, Staples and Westpac.

As part of the CipherPoint acquisition, Covata gained senior US-based resources in Mike Fleck as VP Security and Head of Marketing, Woody Shea as Chief Technology Officer and Kevin Homer as VP of Sales.

Covata Limited

Directors' report

Review of operations (continued)

Resourcing (continued)

Covata's sales capability has been significantly boosted by the addition of Derek, Kevin and Mike, reflected in the contract wins through the first half of FY2018 and the increase in the Group's unweighted pipeline to US\$12m (A\$15m) by 31 December 2017. The Group's marketing and sales activity increased throughout the half in both digital form through targeted campaigns for GDPR and by more traditional avenues such as exhibiting and presenting at Black Hat Europe in December, with focus to remain on building and converting pipeline opportunities.

Product update

In Q1 of FY2018, SafeShare was launched onto Microsoft's Azure public cloud, with the final production release being finalised in Q2 and the first SafeShare customer going live on 8 November 2017. The Azure instance of SafeShare boosts Covata's cloud-based data security SaaS and increases penetration into the Australian government market, with the Australian Signals Directorate (ASD) certifying the Microsoft Azure platform and Microsoft Office 365 services for inclusion on the ASD Certified Cloud Services List.

In Q2 of FY2018, Covata released service pack updates for SafeShare (version 3.5 Service Pack 1) and CipherPoint Eclipse (version X.1.1), which provided bug fixes and usability upgrades to two core products. Additionally, the iOS and Android mobile apps were upgraded in conjunction with Australian channel partner Macquarie Telecom.

Q2 also saw the launch of a beta version of the data discovery tool, which allows businesses to search unstructured data repositories to find sensitive information such as credit card numbers, patient information and personally identifiable information. Once discovered, businesses can use tools such as SafeShare or CipherPoint Eclipse to secure information and reduce risks of exposure to data breach or compliance regulations.

Capital raise

On 17 October 2017, Covata announced a capital raise to fund continued improvements and developments in application integrations, development of the Data Security Platform (DSP) and enabling the Azure cloud deployment, as well as funding additional sales, lead generation and marketing activities.

Commitments were received from sophisticated and professional investors for a placement of \$400,000 at an issue price of \$0.047 per share (Placement). In conjunction with the placement, a Share Purchase Plan (SPP) and top up placement (Top Up Placement) were announced to allow eligible existing shareholders and sophisticated investors to apply for.

On 17 November 2017, Covata successfully completed the capital raise, with the SPP receiving 166 applications for fully paid ordinary shares at \$0.047 per share, comprising a total of \$1,637,260. The Top Up Placement received one application from a sophisticated investor for a total of \$25,000.

The total funds raised by Placement and SPP was \$2,062,278 (before associated costs).

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.

Covata Limited

Directors' report

Review of operations (continued)

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 11 January 2018, the Group announced the successful selection of SafeShare to secure monthly reporting by Open Banking UK. The selection came as the result of a tender process, where Covata won against a major UK-based competitor. Covata sees the win as a potential beachhead into the financial services market in the UK;
- On 15 January 2018, the Group appointed Mr Satyarth Mishra to the position of VP Sales, Asia-Pacific & MEA. Satyarth joined Covata from Accenture, where he was an ANZ Managing Director within its Technology portfolio and has significant previous experience in sales and business development from roles including ANZ/Oceania Regional Director at Tech Mahindra, Country Manager Australia and Malaysia at HCL Technologies, and Managing Director Australia and Head of Global Sales at Ness Technologies;
- On 19 January 2018, Covata announced the contract renewal of Managing Director and CEO, Ted Pretty, for a further three years on materially the same terms as his initial contract, which was for one year and expired on 23 January 2018; and
- As at 31 December 2017, CipherPoint met the Milestone One target and subsequently 10,000,000 shares were issued at a deemed share price of \$0.10 per share on 31 January 2018.

Other than the items mentioned above, there has not arisen in the interval between the end of the period to 31 December 2017 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 23rd day of February 2018.



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

To the Directors of Covata Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Covata Limited for the Half Year ended 31 December 2017 there have been:

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

KPMG

Jeff Frazer
Partner

Bundall
23 February 2018

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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 2017

	Note	31 December 2017	31 December 2016
Revenue and other income			
Revenue – technology related products and services		665,341	193,305
Research & development tax concession		595,762	903,623
Other income		300	3,295
		1,261,403	1,100,223
Expenses			
Employee benefit expenses		(2,806,372)	(4,583,885)
Consultancy fees expense		(229,550)	(656,079)
Depreciation expense		(24,574)	(40,233)
Legal and professional fees expense		(81,501)	(180,008)
Marketing and promotion expense		(214,321)	(282,465)
Travel and accommodation expense		(225,594)	(445,758)
Office and administration expenses		(445,391)	(719,912)
Other direct research and development project expenses		(111,860)	(26,850)
Other expenses		(208,915)	(255,263)
		(4,348,078)	(7,190,453)
		(3,086,675)	(6,090,230)
Results from operating activities			
Finance income		36,337	118,152
Finance costs		(1,751)	(4,441)
Net finance income		34,586	113,711
		(3,052,089)	(5,976,519)
Income tax expense		-	-
		(3,052,089)	(5,976,519)
Loss for the period			
Other comprehensive income			
Items that may be classified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(52,650)	(67,095)
Total other comprehensive income		(52,650)	(67,095)
Total comprehensive loss for the period		(3,104,739)	(6,043,614)
Earnings per share			
Basic earnings per share (cents per share)	6	(0.6)	(1.1)
Diluted earnings per share (cents per share)	6	(0.6)	(1.1)

The notes on pages 17 to 27 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 2017

	Note	Share Capital	Foreign Currency Translation Reserve	Share Options Reserve	Warrants Reserve	Accumulated Losses	Total Equity
Balance at 1 July 2016	7	79,126,785	(179,753)	3,115,681	4,607,250	(78,119,144)	8,550,819
Total comprehensive income for the period							
Loss for the period		-	-	-	-	(5,976,519)	(5,976,519)
<i>Total other comprehensive income/(loss)</i>		-	(67,095)	-	-	-	(67,095)
Total comprehensive income/(loss)		-	(67,095)	-	-	(5,976,519)	(6,043,614)
Transactions with owners, recorded directly in equity							
<i>Contributions by and distributions to owners</i>							
Ordinary shares issued	8	7,851,741	-	-	-	-	7,851,741
Ordinary shares issued – employee bonus	8	164,787	-	-	-	-	164,787
Share based payments – share options	9	-	-	111,359	-	-	111,359
Share based payments – employee loan shares	9	-	-	28,907	-	-	28,907
Share options lapsed	9	-	-	(157,663)	-	157,663	-
Employee loan shares lapsed	9	-	-	(3,468)	-	3,468	-
Capital raising costs	8	(473,033)	-	-	-	-	(473,033)
<i>Total contributions by and distributions to owners</i>		7,543,495	-	(20,865)	-	161,131	7,683,761
Balance at 31 December 2016		86,670,280	(246,848)	3,094,816	4,607,250	(83,934,532)	10,190,966
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							
<i>Contributions by and distributions to owners</i>							
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)
<i>Total contributions by and distributions to owners</i>		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

The notes on pages 17 to 27 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 2017

	Note	31 December 2017	30 June 2017
Assets			
Cash and cash equivalents		2,348,714	1,325,280
Term deposits		4,000,000	5,000,000
Trade and other receivables		904,583	1,595,463
Prepayments		179,471	177,807
Other current assets		80,667	80,667
Total current assets		7,513,435	8,179,217
Property, plant and equipment		68,123	42,291
Intangible assets	11	3,404,894	-
Other non-current assets		157,336	119,278
Total non-current assets		3,630,353	161,569
Total assets		11,143,788	8,340,786
Liabilities			
Trade and other payables		465,183	561,713
Deferred income		548,914	294,875
Employee benefits		95,589	72,534
Contingent consideration payable	11	1,596,212	-
Total current liabilities		2,705,898	929,122
Deferred income		1,175,837	1,323,424
Total non-current liabilities		1,175,837	1,323,424
Total liabilities		3,881,735	2,252,546
Net assets		7,262,053	6,088,240
Equity			
Share capital	8	90,464,617	86,885,280
Reserves	8	6,750,691	7,340,637
Accumulated losses		(89,953,255)	(88,137,677)
Total equity		7,262,053	6,088,240

The notes on pages 17 to 27 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 2017

Note	31 December 2017	31 December 2016
Cash flows used in operating activities		
Cash receipts from customers	314,020	19,915
Cash paid to suppliers and employees	(3,754,447)	(7,146,195)
Cash used in operating activities	(3,440,427)	(7,126,280)
R&D rebates received	1,612,693	2,021,729
Interest received	75,485	15,302
Interest paid	(1,752)	(4,442)
Net cash used in operating activities	(1,754,001)	(5,093,691)
Cash flows used in investing activities		
Receipts from/ (payments for) investments in term deposits	1,000,000	(7,000,000)
Acquisition of controlled entity (net of cash received)	(165,465)	-
Proceeds from disposal of property, plant and equipment	1,500	4,750
Acquisition of property, plant and equipment	(65,768)	(4,265)
Net cash used in investing activities	770,267	(6,999,515)
Cash flows from financing activities		
Proceeds from the issue of share capital	2,062,278	7,851,741
Payment of share issue costs	(48,934)	(473,032)
Net cash from financing activities	2,013,344	7,378,709
Net increase in cash and cash equivalents	1,029,610	(4,714,497)
Cash and cash equivalents at 1 July	1,325,280	8,879,821
Effect of movements in exchange rates on cash held	(6,176)	(70,095)
Cash and cash equivalents at 31 December	2,348,714	4,095,229

The notes on pages 17 to 27 are an integral part of these condensed consolidated interim financial statements.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2017

1. Reporting entity

Covata Limited (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 2017 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 2017.

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 2017. 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 2017.

These interim financial statements were authorised for issue by the Company's Board of Directors on 23 February 2018.

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 2017, the Group incurred a loss after tax of \$3,052,089 (2016: loss of \$5,976,519) and incurred net cash outflows from operating activities of \$1,754,001 for the period (2016: outflows of \$5,093,691). At 31 December 2017, the Group had cash and cash equivalents of \$2,348,714 (this does not include \$4,000,000 of Term Deposit on hand as at 31 December 2017) and net assets of \$7,262,053.

Management have prepared cash flow projections that support the Group's ability to continue as a going concern. These cash flows assume the Group continues to invest heavily in the research, development, and commercialisation of its data security technology and that the Group maintains expenditures in line with available funding.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2017

(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 is 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) 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 2017; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

AASB 9 – Financial Instruments

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.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group does not plan to adopt this standard early and is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9.

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*.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2017

(c) Standards issued but not yet effective (continued)

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15.

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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the year ended 31 December 2017 is included in the following notes:

Note 11 – acquisition of a subsidiary: fair value of the consideration transferred (including contingent consideration) and fair value of the assets acquired, and liabilities assumed, measured on a provisional basis.

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.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2017

6. Earnings per share

	31 December 2017	31 December 2016
Earnings per share from continuing operations:		
Loss after income tax (basic)	(3,052,089)	(5,976,519)
Loss after income tax (diluted)	(3,052,089)	(5,976,519)
Weighted average number of ordinary shares used in calculating basic earnings per share	549,659,198	520,430,787
Weighted average number of ordinary shares used in calculating diluted earnings per share	549,659,198	520,430,787
Basic earnings per share (cents per share)	(0.6)	(1.1)
Diluted earnings per share (cents per share)	(0.6)	(1.1)

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

	<i>Ordinary Shares</i>	
	<i>31 December 2017</i>	
Note	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

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2017

8. Share capital (continued)

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.

	Note	Ordinary Shares 31 December 2016	
		Number	\$
Fully paid ordinary shares			
On issue at the start of period		489,540,167	79,126,785
Issued for cash		34,138,005	7,851,741
Less: issue costs paid in cash		-	(473,033)
Issued for non-cash – employee bonus		732,388	164,787
Share capital at the end of the period		524,410,560	86,670,280

Issue of ordinary shares

Of the 524,410,560 Covata Limited ordinary shares on issue as at 31 December 2016, 10,797,191 were restricted ordinary shares issued under an employee loan share plan as described in Note 9.

9. Share based payments

At 31 December 2017 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 17,633,583 (2016: 500,000) share options were issued under this programme in the six months to 31 December 2017 including shares to CipherPoint employees on completion of the acquisition. 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 29,534,298 (2016: nil) employee loan share plan shares granted in the six months to 31 December 2017.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2017

9. Share based payments (continued)

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			

Share options granted during the six months to 31 December 2016

Grant date	No. of options	Exercise price \$AUD	Fair value at grant date \$AUD	Vesting Conditions
21/07/2016	250,000	0.20	0.07	25% vest on 20 July 2017, with the remainder to vest equally over 12 calendar quarters on the last day of each quarter commencing 30 September 2017.
8/12/2016	250,000	0.20	0.07	Fully vested as at the date of grant.
	500,000			

Employee loan share plan shares granted during the six months to 31 December 2016

There were nil employee loan share plan shares granted during the six months to 31 December 2016.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2017

9. Share based payments (continued)

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	Share options	Share options
Grant Date	17 Aug 17	21 Aug 17	24 Nov 17
Fair value at grant date	\$0.04	\$0.04	\$0.04
Share price at grant date	\$0.05	\$0.05	\$0.05
Exercise price	\$0.05	\$0.05	\$0.05
Expected volatility (weighted average)	95%	95%	95%
Expected life (weighted average)	5 years	5 years	5 years
Expected dividends	Nil	Nil	Nil
Risk-free interest rate (based on government bonds)	2.19%	2.14%	2.13%

	ELSP
Grant Date	24 November 2017
Fair value at grant date	\$0.04
Share price at grant date	\$0.05
Exercise price	\$0.05
Expected volatility (weighted average)	95%
Expected life (weighted average)	10 years
Expected dividends	Nil
Risk-free interest rate (based on government bonds)	2.51%

Employee expenses recognised in profit or loss	December 2017	December 2016
Share options granted – 2018	226,250	-
Share options granted – 2017	4,256	22,968
Share options granted – 2016	5,478	48,448
Share options granted – 2015	2,438	38,748
Share options granted – 2014	-	693
Share options granted – 2013	-	502
Share options expense total	234,422	111,359
Employee loan shares granted – 2018	464,351	-
Employee loan shares granted – 2016	-	-
Employee loan shares granted – 2015	442	12,779
Employee loan shares granted – 2014, modified 2015	-	16,128
Employee loan shares expense total	464,793	28,907
Total expense recognised as employee costs	699,215	140,266

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2017

9. Share based payments (continued)

The share-based payments – share options amount of \$227,782 on the condensed consolidated statement of changes in equity represents the \$227,782 share options expense.

The share-based payments – employee loan shares amount of \$475,106 on the condensed consolidated statement of changes in equity represents the \$475,106 employee loan share plan expense.

During the period 1,146,300 vested share options with a grant date fair value of \$88,224 lapsed. A further 10,416,325 employee share options with a grant date fair value of \$1,141,870 were cancelled in settlement of an outstanding loan to the Group. During the period, 614,838 employee loan shares with a total fair value of \$4,434 lapsed, reducing the net amount recognised in the share options reserve for the six months ended 31 December 2017 to (\$537,296).

10. Related parties

a) Consolidated entities

Parent entity	Country of incorporation	Ownership interest	
		2017	2016
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%
Fineloo Holdings Pty Limited ⁽¹⁾	Australia	-	100%
Covata UK Limited	United Kingdom	100%	100%
CipherPoint Software, Inc. ⁽²⁾	United States	100%	-

⁽¹⁾ Fineloo Holdings Pty Ltd was deregistered on 17 May 2017.

⁽²⁾ CipherPoint Software, Inc. was acquired on 25 August 2017.

11. Acquisition of subsidiary

On 25 August 2017, the Group acquired 100% of the shares and voting interests in CipherPoint. The benefits from acquisition of CipherPoint include the access of key technology such as extensive data discovery tools and faster integration with Microsoft applications as well as greater geographic reach into the US, Europe and Asia.

For the four months ended 31 December 2017, CipherPoint contributed revenue of A\$339,659 and an adjusted loss of A\$105,098 to the Group's results exclusive of stock options expenses (A\$189,695).

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2017

11. Acquisition of subsidiary (continued)

i) Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred.

	A\$
Cash settlement of CipherPoint creditors	192,180
Shares in settlement of CipherPoint convertible notes	510,760
Shares on completion	1,000,000
Contingent consideration – shares	1,596,212
Total Consideration transferred	3,299,152

ii) Equity instruments issued

The fair value of the ordinary shares issued at a price equal to the higher of \$0.045 or the VWAP of the Company's ordinary shares for the 5-days prior to completion. As a result, the issue price was \$0.0818 per share.

iii) Contingent consideration

The Group has agreed to issue key CipherPoint management additional shares to the value of A\$1,000,000 if the acquiree earns revenue of US\$300,000 for the six months to 31 December 2017 (Milestone One) and A\$1,297,740 if the acquiree earns revenue of US\$500,000 for the year ending 30 June 2018 (Milestone Two), taking into account the probability of achievement of each milestone.

As at 31 December 2017, CipherPoint met the Milestone One target and subsequently 10,000,000 shares were issued at a deemed share price of \$0.10 per share on 31 January 2018. The Group had not yet obtained all necessary information to finalise the calculation of goodwill (see Note 11 *vii) Measurement of fair values*) wherein the intangible asset amount is incomplete and as such, the intangible asset was remeasured at balance date. As such, \$340,293 was included in the intangible asset balance and contingent consideration balance.

iv) Acquisition-related costs

The following acquisition related costs have been expensed per IFRS 3 para 53 (GST exclusive):

- Legal Fees A\$30,145
- Accounting A\$30,750

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2017

11. Acquisition of subsidiary (continued)

v) Identifiable assets acquired, and liabilities assumed

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition.

	25 August 2017 A\$
Cash and cash equivalents	30,318
Trade and other receivables	38,155
Prepayments	3,369
Trade and other payables	(9,230)
Deferred income	(141,595)
Employee benefits	(26,759)
Total identifiable net assets acquired	(105,742)

vi) Measurement of fair values

Fair values measured on a provisional basis

The following amounts have been measured on a provisional basis:

- The fair value of CipherPoint's intangible assets (trademarks and customer lists), which have been measured at nil, pending an independent valuation.

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

vii) Intangible assets

Intangible assets arising from the acquisition have been recognised as follows.

	A\$
Consideration transferred	3,299,152
Less Fair Value of Identifiable Net Assets	(105,742)
Intangible assets	3,404,894

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2017

12. Subsequent events

- On 11 January 2018, the Group announced the successful selection of SafeShare to secure monthly reporting by Open Banking UK. The selection came as the result of a tender process, where Covata won against a major UK-based competitor. Covata sees the win as a potential beachhead into the financial services market in the UK;
- On 15 January 2018, the Group appointed Mr Satyarth Mishra to the position of VP Sales, Asia-Pacific & MEA. Satyarth joined Covata from Accenture, where he was an ANZ Managing Director within its Technology portfolio and has significant previous experience in sales and business development from roles including ANZ/Oceania Regional Director at Tech Mahindra, Country Manager Australia and Malaysia at HCL Technologies, and Managing Director Australia and Head of Global Sales at Ness Technologies;
- On 19 January 2018, Covata announced the contract renewal of Managing Director and CEO, Ted Pretty, for a further three years on materially the same terms as his initial contract, which was for one year and expired on 23 January 2018; and
- As at 31 December 2017, CipherPoint met the Milestone One target and subsequently 10,000,000 shares were issued at a deemed share price of \$0.10 per share on 31 January 2018.

Other than the items mentioned above, there has not arisen in the interval between the end of the period to 31 December 2017 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 13 to 27 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 2017 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 23rd day of February 2018.

Signed in accordance with a resolution of the directors:



William McCluggage
Chairman



Independent Auditor's Review Report

To the Directors of Covata Limited

Report on the Half Year Financial Report

Conclusion

We have reviewed the accompanying **Half Year Financial Report** of Covata Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half Year Financial Report of Covata Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2017 and of its performance for the Half Year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half Year Financial Report** comprises:

- Condensed consolidated statement of financial position as at 31 December 2017
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Half Year ended on that date
- Notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Group** comprises Covata Limited (the Company) and the entities it controlled at the Half Year's end or from time to time during the Half Year.



Responsibilities of the Directors for the Half Year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half Year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Half Year Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Half Year Financial Report

Our responsibility is to express a conclusion on the Half Year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half Year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the Half Year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of 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.

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

KPMG

JJ Frazer
Partner

Bundall

23 February 2018