



ASX ANNOUNCEMENT | COVATA LIMITED

31 January 2017

Business update for quarter ended 31 December 2016

Summary

This is my last update as I transition from your CEO to your Chairman.

I have been with Covata since the beginning, taking the business from conception to the publicly-listed software security company it is today. It has been a pleasure to lead the Covata team on this journey so far - I am proud of our progress in a challenging landscape.

My belief is that as we transition into a deeper phase of Covata's commercialisation, we require a seasoned and connected CEO alongside a Board with deep industry expertise. This determination saw the undertaking of executive and Board changes. We welcomed David Irvine, Lindsay Tanner and Bill McCluggage to the Board, and I'm excited to have appointed Ted Pretty as our new CEO. Equally, I am looking forward to my changed leadership role as your new Chairman. Ted and I have developed clear tasks and goals for the next 90 days that will define our year ahead, and accordingly Ted's entrance signifies the time for review and acceleration.

I am confident that with these changes, Covata is far better positioned for future growth, with a greater level of executive and board experience and networks, across Australia, the UK and the US; focused on markets and key sectors where we operate.

Our two Proof of Concepts, currently underway in the UK/Europe government market continue alongside a focus on our 'whole-of-government' strategy.

We held an excellent event in San Francisco in mid-December, where industry experts and members of leading organisations joined Covata's leadership team to discuss data security and the protection of sensitive data in a world of IoT, Cloud, Big Data and Digital Transformation. We look forward to working further with some of these organisations to explore how the next generation of the Delta platform can fit into their operations.

Cash receipts in the second quarter were low, as expected. Covata continues with the cost reduction program it commenced in November last year. Our monthly cash expenditure has reduced, as forecast, and we intend to continue to implement additional reductions. Our current forecasts imply a runway until the third quarter of FY2018. We will release our half year results before the end of February 2017.

Next month, we will be attending and exhibiting at the annual RSA Conference in San Francisco. The well-regarded event helps drive the global information security agenda and explores the most important issues.

Drawing over 40,000 attendees, this forum provides Covata with the opportunity to be viewed as, and engage with, thought leaders in our industry. It will contribute to the augmentation of our sales pipeline for Safe Share, and allow us to engage in deeper conversations about Delta, currently in an alpha release phase.

Ted and I will also be joining an Austrade mission to San Francisco which coincides with the RSA conference. Craig Davies, the recently appointed CEO of the Australian Cyber Security Growth Network, will lead the



delegation. We look forward to briefings from key American cyber security experts, industry updates and connections to leading companies to explore potential business opportunities.

Quarter two highlights

- Appointment of Ted Pretty as Covata's new Managing Director and CEO
- Existing CEO and Founder Trent Telford to be appointed as Chairman of the Board replacing Charles Archer, who will remain on the Board as Non-Executive Director
- Appointment of Bill McCluggage as Executive Director
- Appointment of David Irvine and Lindsay Tanner as Non-Executive Directors
- The Crown Prosecution Service extended its POC with Covata's full support
- New POC commenced in Northern Ireland extends Covata's 'whole-of-government' strategy in the UK
- Alpha release of Delta released as expected for review and evaluation to a select group of organisations
- All resolutions passed by a Poll at the Annual General Meeting

Key financial items

- \$11.1 million in cash as at 31 December 2016 (30 September 2016: \$12.5 million)
- R&D rebate of \$2.03 million received in December 2016
- Net cash used in operating activities of \$1.5 million (for quarter ended 30 September 2016: \$3.6 million)
- Net cash from financing activities of \$1k (for quarter ended 30 September 2016: \$7.4 million)
- Customer cash receipts of \$4k (for quarter ended 30 September 2016: \$16k)
 - Delayed customer collection of December quarter billings resulted in an \$18k trade receivable as at 31 December 2016

Highlights

Appointment of new Managing Director and CEO

Ted Pretty was appointed as the Managing Director and CEO of Covata on 23 January 2017. Ted's initial focus will be on the revenue potential from existing proof of concepts, followed closely by developing the sales pipeline, new product development, and exploring other near term growth opportunities.

Ted is a recognised technology and telecommunications executive and director with significant experience in complex networks, data hosting and security. His career has included relevant roles such as Telstra Group MD Technology Innovation and Product, Chairman of Fujitsu Limited, Chairman of ASX listed NEXTDC and RP Data Limited, Advisory Chairman of Tech Mahindra and MD/CEO of Hills Limited.

He is currently a Senior Adviser at a major international investment bank, supporting principal investments in emerging companies covering information governance, big data and analytics, security and encryption. Ted is also on the Advisory Board of Lighthouse Accelerator located at Barangaroo.

Board changes

New Chairman announced

I have been appointed as Chairman of the Board, replacing Charles (Chuck) Archer. In addition to my role as Chairman, I will perform an advisory and consulting role for a period of 12 months. Chuck will step down as Chair, but will remain on the Board as a Non-Executive Director. This allows me to support Ted by focusing on promoting the Company outwardly to drive growth and value.

Three new Board Directors

We were delighted to welcome three new Directors to our Board last quarter; Mr David Irvine (AO), Mr Lindsay Tanner and Mr Bill McCluggage.

David Irvine (AO)

We are excited to have someone of David's calibre join our Board with his deep understanding of the intelligence and cyber security landscape. His wealth of knowledge, experience and his network will be of significant value to Covata's Board and Management in providing strategic direction and support, and assisting Covata to achieve our objectives in the Australian and UK government markets.

David currently sits on the Foreign Investment Review Board, whose role is to advise the Treasurer and the Government on Australia's Foreign Investment Policy and its administration. He is also a member of the Advisory Council of the National Archives of Australia.

Prior to this, David was Director-General of Security in charge of the Australian Security Intelligence Organisation (ASIO), and a member of the Board of the Australian Crime Commission. Before this, he was Director-General of the Australian Secret Intelligence Service (ASIS). He served with the Australian Department of Foreign Affairs and Trade (or its antecedents) for 33 years from 1970.

Lindsay Tanner

Lindsay is well regarded and respected for both his political and business acumen, making him an excellent candidate to assist in driving the Company's strategic objectives across enterprise and government. He has developed many strong and enduring relationships with leading figures in the business community and has a wide network in education, industrial relations, public service and non-government organisations.

Lindsay is currently a special adviser for financial advisory firm, Lazard. He also holds many other esteemed Board level positions. He has also held several parliamentary positions since 1996, including most recently the Minister for Finance and Deregulation from 2007 until 2010. He served on a number of parliamentary committees between 1993 and 2007 and holds several honorary positions.

Bill McCluggage

As announced in the previous CEO update, we welcomed Bill McCluggage to our Board of Directors in October. Bill brings deep experience across the IT, security, enterprise and government sectors to Covata, having held roles such as CIO of the Irish Government, Deputy CIO of UK Government Cabinet Office, Chief Technologist of Dell EMC's public sector business and most recently, leading Laganview Associates, an advisory agency with deep roots across the UK Government.

Farewell

We farewelled Mr Joseph Miller and Mr Philip King from the Board in October 2016 and thank them for their support and commitment to Covata over the past five years.

POC updates

Crown Prosecution Service (CPS)

The current POC with CPS that was expected to complete by the end of 2016 has been extended beyond January 2017. We are pleased with our technical engagement to date, and are supportive of CPS' extension of the POC. As advised by CPS, the extension is due to finalisation of business processes, particularly in relation to data protection and data ownership policies / standards that CPS must complete, and not due to the Covata technology assessment. This opportunity remains a competitive process whereby the formal outcome of the POC will not be known to Covata until CPS has received approval from its Project Board.

Northern Ireland

An engagement has been submitted to a further government department comparable to CPS - in terms of the size that the opportunity represents to Covata. Covata confirms that as anticipated, this engagement has proceeded to Proof of Concept (POC). Again, this process is both competitive and iterative - further updates will be provided when appropriate.

Alpha version of Delta released as expected

Special guests from organisations including Salesforce, ThoughtWorks, AIG, Zuckerberg San Francisco General Hospital, McKesson Corporation, ARM, CodeScience, Momenta Partners, Legend Merchant Group and Nok Nok Labs, joined key members of Covata's leadership team in mid-December to discuss data security in a world of IoT, Cloud, Big Data, and Digital Transformation.

Following this event, the alpha release of Covata Delta was provided to select organisations to enable them to download, play and build against the developer tool kit. These organisations will be actively engaged with Covata to provide feedback and drive use cases.

Annual General Meeting

Covata held its **Annual General on 30 November 2016, at the Grace Hotel in Sydney**. Shareholders were updated on Covata's partners, product direction, people and corporate strategy, with several questions from the floor. All resolutions were passed by way of a Poll.

With a reduced cost structure, current cash reserves and a R&D rebate similar to last year, our projected runway remains on track into Q3FY2018.

Finally, I would like to thank all our shareholders for all their support. It has been a pleasure to serve as Covata's CEO and I am confident that under the guidance of our new CEO, Ted, Covata will go from strength to strength.

Regards,



Trent Telford
Covata Founder and Chairman



CORPORATE CONTACT DETAILS

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Covata

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Covata Limited

ABN

61 120 658 497

Quarter ended ("current quarter")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	4	20
1.2 Payments for		
(a) research and development	(14)	(26)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(154)	(308)
(d) leased assets	-	-
(e) staff costs	(2,390)	(4,592)
(f) administration and corporate costs	(956)	(2,222)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	15
1.5 Interest and other costs of finance paid	(2)	(4)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	2,022	2,022
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,486)	(5,095)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(2)	(4)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	3	5
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	1	1

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	7,852
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	(473)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-	7,379

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	12,524	8,880
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,486)	(5,095)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	1	1
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	7,379

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	56	(70)
4.6	Cash and cash equivalents at end of quarter	11,095	11,095

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	4,095	5,524
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Term deposits callable with less than 3 months notice)	7,000	7,000
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	11,095	12,524

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
(385)
-

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7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
-
-

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8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(94)
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	(316)
9.4 Leased assets	-
9.5 Staff costs	(2,095)
9.6 Administration and corporate costs	(828)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(3,333)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:
(Director)

Date:31 January 2017.....

Print name:Trent Telford.....

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.