Covata Limited
ABN 61 120 658 497

Appendix 4E

Reporting period

Reporting period: Financial year ended 30 June 2017
Comparative period: Financial year ended 30 June 2016

Results for announcement to the market

	$	Up/Down	Movement %
Revenue from ordinary activities	1,892,060	Up	(15.29%)
Loss from ordinary activities after tax attributable to members	(10,179,664)	Down	(27.89%)
Net loss attributable to members	(10,179,664)	Down	(27.89%)

The Group recorded a loss after tax of $10,179,664 for the year to 30 June 2017 (2016: $14,116,627). Net cash used in operations was $10,338,348 (2016: $12,725,453).

During the year the Group earned technology related revenues of $424,102 (2016: $349,584).

Additionally the Group accrued research and development (R&D) tax concession revenue of $1,455,307 (2016: $2,025,612). This has decreased 28% from the corresponding year as the Group decreased its engineering headcount with the rationalisation of its operations in Sydney and further development of its Key-as-a-Service product. The R&D cash receipt is expected in Q2 FY18.

Dividend information

No dividend has been proposed to be paid or payable for the year ended 30 June 2017, nor for the comparative period.

Covata Limited
ABN 61 120 658 497

Appendix 4E

Net tangible assets per security

	2017	2016
Net tangible assets per security	**1.16 cents**	1.75 cents

Details of entities over which control has been gained or lost during the period

Not applicable.

Details of associates and joint ventures

Not applicable.

Audit

This report is based on accounts which have been audited.

Attachments

The audited annual financial report of Covata Limited for the year ended 30 June 2017 is attached.

Additional Appendix 4E disclosure requirements can be found in the annual financial report which contains the Directors' Report and the 30 June 2017 Financial Statements and accompanying notes.

Covata Limited

ABN 61 120 658 497

Annual Financial Report

30 June 2017

Contents

Covata Limited
Directors' Report

The directors present their report together with the consolidated financial statements of the Group, comprising of Covata Limited ("the Company") and its subsidiaries for the financial year ended 30 June 2017 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Mr. William (Bill) McCluggage
Non-Executive Chairman

With over 15 years of experience working as an IT Director, Chief Technology Officer and Chief Information Officer within central government and the private sector, Bill plays a critical role for Covata in sales and contract deployment within the UK and Northern Ireland government sector.

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

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

Bill began his career as an engineering officer with the Royal Air Force, where he worked for 24 years. He held posts in the UK and USA and supported operations in Africa, Cyprus, Norway, Canada and the Falkland Islands. He finished his career as the Technical Director of a Defence Agency.

Appointed Director of Covata Limited on 21 October 2016.

Mr. Edward (Ted) Pretty
Managing Director and Chief Executive Officer

Ted is a widely recognised senior technology and telecommunications executive with significant experience in complex networks, data hosting and security, as well as a deep knowledge of emerging trends in security and information technology.

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

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

Appointed Director of Covata Limited on 23 January 2017.

Directors (continued)

Mr. Lindsay Tanner
Non-Executive Director

Lindsay is a well-regarded and respected executive with considerable expertise from a career spanning in both politics and business. He has developed many strong and enduring business relationships, and built an extensive network across education, industrial relations, public service and non-government organisations.

Currently a special adviser for financial advisory firm, Lazard (Australia), he is directly involved in a range of advisory processes regarding major corporate mergers, acquisitions and capital raisings. Lindsay is also Chairman of Essendon Football Club, a non-executive director for Virgin Australia International Holdings, a member of First Principles Review of Department of Defence, a member of the Australian Advisory Board for Canadian Steamships, Vice-Chancellor's Fellow for Victoria University, and Chairman for Mitchell Institute for Health and Education Research.

In politics, he has held several parliamentary positions, most recently the Minister for Finance and Deregulation from 2007 until 2010. Past roles include Federal Opposition Policy Co-ordinator, Shadow Minister for Finance, Shadow Minister for Community Relationships, Shadow Minister for Communications, Shadow Minister for Consumer Affairs and Shadow Minister for Transport. Between 1993 and 2007, he also served on a number of parliamentary committees.

Lindsay has authored eight books and has a longstanding informal commitment assisting African-Australian communities.

Appointed Director of Covata Limited on 1 January 2017.

Mr. David Irvine (AO)
Non-Executive Director

A well-respected leader with over 45 years in the industry, David has a deep understanding of the intelligence and cyber security landscape. His knowledge, experience and network are of significant value, providing strategic direction and support to Covata's management team.

David is Chairman of the Foreign Investment Review Board which advises 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.

From 2009 to 2014, he 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. David served with the Australian Department of Foreign Affairs and Trade (or its antecedents) for 33 years from 1970, with a professional focus on Australia's relations with the Asia-Pacific region. He was Australia's High Commissioner to Papua New Guinea from 1996 to 1999, and Australian Ambassador to the People's Republic of China, North Korea and Mongolia from 2000 to 2003.

David was appointed an Officer of the Order of Australia (AO) in 2005, for services to the promotion of Australia's international relations. He has authored several publications and books.

Appointed Director of Covata Limited on 1 January 2017.

Directors (continued)

Mr. Charles Archer
Non-Executive Chairman

Resigned as a Director of Covata Limited on 31 March 2017.

Mr. Trent Telford
Chief Executive Officer

Resigned as a Director of Covata Limited on 31 March 2017.

Mr. Philip King
Non-Executive Director

Resigned as a Director of Covata Limited on 21 October 2016.

Mr. Joseph Miller
Non-Executive Director

Resigned as a Director of Covata Limited on 31 March 2017.

Mr. Michael Quinert
Independent Non-Executive Director and Chairman of the Remuneration Committee

Resigned as a Director of Covata Limited on 31 March 2017.

Company Secretaries

Mr. Patrick Gowans
Joint Company Secretary

Patrick graduated from La Trobe University in 2006 with a Bachelor of Laws. He was admitted to practice in March 2008 after completing articles with Oakley Thompson & Co and joined Quinert Rodda & Associates upon its incorporation in 2009.

Appointed Joint Company Secretary of Covata Limited on 23 December 2014.

Company Secretaries (continued)

Mr. Steven Bliim
Joint Company Secretary
Steven has been with Covata since 2012 and during this time has played a key role in the group's expansion into the US, UK and Europe along with the reverse acquisition of Prime Mineral Limited and subsequent re-listing of Covata Limited on the Australian Securities Exchange. In addition to his role as Joint Company Secretary, Steven is also Head of Finance.

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

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

Appointed Joint Company Secretary of Covata Limited on 14 June 2017.

Mr. Nicholas Chiarelli
Joint Company Secretary and Chief Financial Officer

Resigned as Joint Company Secretary and Chief Financial Officer of Covata Limited on 10 March 2017.

Directors' meetings

The number of directors' meetings held and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings	
	A	**B**
Mr. William McCluggage	2	2
Mr. Edward Pretty	2	2
Mr. Lindsay Tanner	2	2
Mr. David Irvine	2	2
Mr. Charles Archer	3	3
Mr. Trent Telford	3	3
Mr. Philip King	-	1
Mr. Joseph Miller	1	1
Mr. Phillip Dunkelberger	2	3
Mr. Michael Quinert	2	3

A – Number of meetings attended
B – Number of meetings held during the time the director held office during the year

Covata Limited
Directors' Report

Principal Activities

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

Operating and Financial Review

Review of Operations

Highlights

- Appointed Edward (Ted) Pretty, as Managing Director and CEO - a seasoned and well recognised technology and telecommunications executive and director with considerable experience in complex networks, data hosting and security
- Appointed highly regarded and globally networked board members, namely William (Bill) McCluggage, David Irvine and Lindsay Tanner
- Appointed key senior employees into product and engineering positions and refocused resourcing
- Restructured and right-sized the company from 46 to 16 employees
- Closed the Washington DC and San Francisco offices to deliver substantial cost savings
- Decreased operating costs by 50 percent and extended cash runway to CY19
- Increased user licenses at German-based client Messe Berlin
- Implemented a sales focused approach with customer led development
- Announced a strategic pivot to build and deploy a Data Security Platform
- Awarded International Standard 'ISO 27001' for information security management for the second year in a row
- Accredited within the Cyber Essentials Scheme run by the UK government verifying that Covata has all appropriate cyber security precautions in place and can bid for UK government contracts
- Featured in three Gartner reports including; 'Choosing between Cloud SaaS and CASB Encryption is Problematic', 'Market Guide to IoT Security' and 'Prioritize Enterprisewide Encryption for Critical Datasets'

Financial Overview

During 2017, the Group recorded a comprehensive loss of $10,282,679 (2016: $14,248,022), earned technology related revenues of $424,102 (2016: $357,393). As at 30 June 2017, the Group held $6,325,280 in cash and term deposits.

Additionally, the Group accrued research and development (R&D) tax concession revenue of $1,455,307 (2016: $2,025,612). This decreased by 28 percent from the corresponding year as the Group rationalised and reduced its operating cost base, which extended to reducing surplus engineering headcount. The R&D cash receipt is expected in Q2 FY18.

Prior to the appointment of Mr. Pretty, cash burn averaged $1.2 million per month. During the March 2017 quarter, the business was restructured. Subsequently, monthly expenses were reduced by 50 percent in the last quarter of the financial year, and are expected to continue at a reduced level.

Review of Operations (continued)

Business Overview

Executive Team and Board of Directors

There were several significant changes made to the Executive Team and Board of Directors over the past financial year. Departing from the Board included Chairman, Charles (Chuck) Archer, and Directors Philip King, Joe Miller and Phillip Dunkelberger. Departures from the Executive Team included CEO, Trent Telford and CFO, Nicholas Chiarelli, as well as San Francisco based VP and Business Head of Delta, Pavan Singh.

In January 2017, two new board appointments were made, namely David Irvine, the former Director-General of ASIO and advisor on the Foreign Investment Review Board, and Lindsay Tanner, former Minister for Finance & Deregulation, and current special adviser for financial advisory firm, Lazard.

Additionally, in January 2017, Edward (Ted) Pretty joined Covata as its Managing Director and CEO. He is a seasoned and well recognised technology and telecommunications executive and director with considerable experience in complex networks, data hosting and security, and a well-established business network.

In October 2016, Bill McCluggage was appointed to the Board as a Non-Executive Director. He then assumed the Non-Executive Chairman role in March 2017. His appointment aligned well with Covata's UK government focus, given Mr. McCluggage's previous roles as Government CIO in Ireland and Deputy CIO of the UK Cabinet Office.

Mr. Pretty focused his first three months on conducting a thorough review of Covata. Following this, he executed an organisational reset to address technical debt in the product, undertake connector development and integrations, improve channel partnerships, enhance the Company's sales and business development approach, and ensure easier and quicker deployment. Significant progress in the delivery of these initiatives has been made on all these fronts, as outlined in further detail in this Operating Review and Subsequent Events.

With the current Board of Directors and Executive Team in place, Covata is now well positioned for future success in the markets where the Group operates, with a more experienced, better networked and globally appropriate Board of Director's to support future growth.

Restructure of Team and Rationalisation of Offices

In addition to changes at the Board and Executive level, there was significant rationalisation of offices and right-sizing of the team as part of a focus on cost cutting to further extend runway. Employee headcount was reduced from 46 to 16.

Existing employees were strategically refocused and additional employees with deep security, product and cloud based experience were hired to focus on the management and development of Covata's product and services portfolio.

In December 2016, the Washington DC office was closed, with the team relocating back to Sydney, Australia, and in April 2017, the San Francisco office was closed. This delivered substantial cost savings in rent, overheads and wages.

Review of Operations (continued)

Business Overview (continued)

Channel Partners

During the financial year, Covata reassessed the near-term viability of a number of channel relationships. As outlined at the EGM in April 2017, Covata no longer has active relationships, nor have they received any revenue from, or paid any revenue to Chunghwa, Colt, Cisco and Sumatics. Covata's partnership with Cisco remains in the background purely as a long-term project for the group, with resources needing to be allocated to more immediate opportunities.

Covata did and will continue to work with two channel partners, Macquarie Telecom (MacTel) in Australia and T-Systems in Germany. Covata placed a greater emphasis and focus on its relationship with government channel partner MacTel, providing a dedicated Account Manager and additional pre-sales resources to support the growth of this channel.

At the date of this report, Covata was renegotiating its agreement with MacTel to ensure more favourable terms and margins. Progress has been made and the market will be updated accordingly when terms have been reached.

Covata continues to support a multi-tenant instance at T-Systems in Germany, for both its internal use of the platform, as well as for its enterprise clients. Covata intends to refresh its commitment to the German market, to benefit from valuable opportunities and to address GDPR compliance issues in the European Union and globally.

Clients

Covata continued to work with existing clients over the course of the financial year, as well as with select small business foundation clients, as part of its refocus away from purely engineering led development and towards client led development.

In Australia, two small finance companies commenced using SafeShare towards the end of the financial year. They will work closely with Covata to develop use cases and case studies for the market. MacTel continued to support 23 government departments using SafeShare, with a rising number of users during the financial year.

In Germany, exhibition and conference venue company, Messe Berlin, increased its user licenses, while health company Barmer discontinued its use of SafeShare. Barmer was originally sold SafeShare as part of a technology stack, not due to an identified need or problem, and the product was never well accepted or adopted.

In March 2017, Covata announced that following a trial, it was not chosen as the preferred vendor by the Crown Prosecution Services in the UK. While this was seen by the market as a lack of product validation, SafeShare's suitability for the government market is well known through its use in 23 Australian government departments.

Originally included as part of a UK Tender for a multi-national Aerospace and Defence contract ('Prime'), following more than a year of no progress, this opportunity is no longer being pursued.

Review of Operations (continued)

Business Overview (continued)

In November 2016, Covata announced SafeShare trials with the UK and Norther Ireland Government agencies. At the end of the financial year, discussions continued around the deployment of SafeShare.

External Market Recognition and Certifications

Covata achieved several certifications and inclusions in research analyst reports during the financial year.

In May 2017, Covata transitioned from its awarded G-Cloud 8 certified status to G-Cloud 9 certification. This sees SafeShare available on Crown Commercial Service's G-Cloud 9 in The UK Digital Marketplace under Cloud Hosting, Software and Support. Covata is pleased to continue to offer the UK public sector access to encryption-based, data-level security solution, SafeShare. With cyberattacks becoming a regular and costly occurrence, it is critical to apply stringent security to public sector data.

In December 2016, Covata was accredited within the Cyber Essentials Scheme run by the UK government, further advancing the Company's position within the UK government marketplace. Part of the UK government's National Cyber Security Strategy, the Cyber Essentials Scheme defines a set of controls which, when properly implemented, provide organisations with basic protection from the most prevalent forms of security threats and aims to create a baseline level of security to mitigate the risk of data and financial loss. The accreditation illustrates Covata has met the Cyber Essentials implementation profile and is deemed to have appropriate cyber security precautions in place that all organisations bidding for government contracts must meet.

In April 2017, Covata re-certified to maintain its compliance with the 'ISO 27001' standard, addressing the security processes and practices involved in developing SafeShare. There is an expectation to be proactive when it comes to security practices, as Covata's product is employed to improve the protection level for data over and above a company's own security. This certification is a statement to the market that Covata is audited and complies with the security best practices consolidated in the referred ISO standard.

Over the financial year, Covata engaged in an analyst relations program with several research houses. Covata featured in three Gartner reports including; 'Choosing between Cloud SaaS and CASB Encryption is Problematic', 'Market Guide to IoT Security' and 'Prioritize Enterprisewide Encryption for Critical Datasets'.

Markets

Covata's focus over the past financial year was on its 'Whole-of Government' strategy in the UK, including special government departments, Defence, Aerospace and Intelligence. While Government continues to be an addressable market for the Company, the enterprise market is also a growing focus in the UK, and subsequent to the end of the financial year, a new sales lead was appointed for the region.

In Australia, the focus was on both the government market, through Covata's channel partner MacTel, and the enterprise market, specifically, verticals including IT, Banking, Financial Services & Insurance and Healthcare. The appointment of a Chief Commercial Officer with deep sales expertise was made subsequent to the end of the financial year.

Review of Operations (continued)

Technology Overview

Product Update

Covata continued to develop the feature set its flagship product, SafeShare, during the past financial year. SafeShare helps to protect data from internal and external breaches and enables government and enterprise clients to meet critical governance and compliance requirements. SafeShare ensures data is protected and secure, however and wherever it's shared.

Three product updates were made over the past financial year, with Version 3.3 released in August 2016, Version 3.4 released in December 2016 and Version 3.5 released in March 2017. These releases incorporated a number of new features and functionality into SafeShare including:

- Versioning: Support for file versioning, whereby users are no longer required to rename a file each time a new version is uploaded with SafeShare. The number of versions and the storage used can be viewed and managed from within the client interface.

- Contact groups: SafeShare users can share files/folders with a group of users known as a contact group, as an alternative to sharing individually with users via their email addresses. Contact groups are specific to each organisation and are configurable by an organisation administrator.

- FIPS compliance: SafeShare uses Federal Information Processing Standard (FIPS) compliant libraries in the Content Service, so all cryptographic operations (encryption, decryption, etc.) that are performed comply with this standard.

Delta

In early 2016, Covata announced its Key-As-A-Service offering, later renamed as Covata Delta. Delta provided open public APIs that allow developers to include underlying data security into their applications, products and services, to securely communicate with any relaying parties, irrespective of any legacy or proprietary boundaries in place.

A decision to concentrate on the development of the SafeShare application in Australia and an intended move to a Data Security Platform approach, resulted in the closure of the San Francisco office. While specific Delta development ceased, Covata is able to leverage off the initial design work and market input provided. Should there be a use case to utilise Covata's underlying security via an OEM arrangement, the underlying structure is well positioned.

Review of Operations (continued)

Cash Flows from financing activities

In July 2016, the Company received $7.8 million from the settlement of the second tranche of a cash investment from a $13.2 million equity placement (first tranche of $5.4 million settled in June 2016).

These investments were completed under the Company's existing placement capacity under ASX Listing Rule 7, after being approved by shareholders at an Extraordinary General Meeting on 14 July 2016. The strategic equity placement included increased investment from the Company's number one and number two shareholders, TPG Telecom and Fidelity International and also a range of new investment from Institutional and sophisticated investors in Australia, the USA and Asia Pacific.

Following the appointment of Mr. Edward Pretty in January 2017, shareholders approved the issue of 2,304,395 subscription shares to Mr. Pretty at the Company's Extraordinary General Meeting on 5 April 2017. The total consideration for this subscription was $215,000 paid in cash by Mr. Pretty, representing a subscription price per share of $0.0933 (9.33c).

Dividends

No dividends have been paid or declared up until the date of this report. The directors have not recommended the payment of a dividend in the current financial year.

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 year other than those disclosed elsewhere in the financial report or notes thereto.

Events subsequent to reporting date

Subsequent but significant events following the end of the financial year included the appointment of a Chief Commercial Officer, a major enterprise client win, the announcement of an enhanced Data Security Platform strategy, the acquisition of US based CipherPoint and deployment of SafeShare on Microsoft's Azure Cloud.

In July 2017, Mr. Derek Brown joined Covata as its Chief Commercial Officer, with responsibility for global sales, pre-sales/solutions, marketing and channels. Mr. Brown joined Covata after serving as the Head of Workplace Technology Services and Virtual CIO of Ricoh Australia, covering a range of relevant products such as managed document services.

In July 2017, Covata sold a licensing agreement for its SafeShare product to the Australian subsidiary of a global technology company. The sale was worth $360,000 in revenue over a three-year period, or $10,000 per month. The client will work with Covata to further improve its offering. The deal demonstrated the effectiveness of Covata's new sales strategy and focus, and highlighted to the market that enterprise security is no longer just an IT issue, but a significant business-wide concern for C-suite, senior management and risk managers.

Review of Operations (continued)

Events subsequent to reporting date (continued)

In August 2017, Covata announced it had deployed SafeShare on Microsoft's Azure Cloud platform, and that it is scheduled to be available to customers by the end of September 2017. Further discussions are being held with Microsoft UK to replicate this deployment in that market, with the intention to expand to Europe (initially in Germany) and the US.

In August 2017, Covata announced it would enhance its data security offering by building and deploying an integrated data security platform (DSP), or data-centric audit and protection platform. The expanded offering will include features such as discovery, access and policy control, and classification. This is not a version extension to SafeShare, but a new platform to be called 'Covata Secure'. The new platform will be able to be deployed in the Microsoft Azure public cloud, in private and hybrid clouds, GRC (Governance, Risk Management and Compliance) or on-premises.

Further, Microsoft announced that the Australian Signals Directorate (ASD) formally certified a greatly expanded range of Microsoft Azure and Microsoft Office 365 services for inclusion on the ASD Certified Cloud Services List (CCSL). This certification has enabled Microsoft to deliver the most complete, intelligent and trusted cloud for Australian federal, state and local government needs. Office 365 remains the only productivity platform certified to this level by Australian government on the CCSL. Covata products and services will also be made available on this platform in due course, to enable federal state and local agencies users to process and store unclassified information holding Australian government sensitivity markers.

Acquisition of CipherPoint

In August 2017, Covata announced that it had entered into a binding agreement to acquire all the issued capital of CipherPoint Software Inc. (CipherPoint). CipherPoint operates with resources in Denver Colorado, Austin Texas, and San Diego California.

Founded in 2010, CipherPoint provides data-centric audit and protection solutions which enable companies to search for and discover where sensitive information resides within their organisation, and secures unstructured information in platforms such as Microsoft SharePoint, Office 365, Google Drive and file servers. CipherPoint's data security suite ("CipherPoint Eclipse"), allows organisations to locate sensitive data, encrypt that information, centrally manage permissions to protect against unauthorised access, and log all permitted and denied access requests to secure sensitive data.

The acquisition consideration is predominantly stock based and any cash costs of the acquisition will be met from existing reserves.

The potential benefits from this transaction include:

- key technology including extensive data discovery tools, protection of SharePoint files, Microsoft integrations and API translator that will form part of Covata's data security platform;
- a strong core team;
- the acquisition of marquee customers including US Army, Arthur J. Gallagher & Co. DARPA, a US Space agency, Singapore Government agency and an industry leading partner in Dimension Data;
- faster integration with other Microsoft applications; and
- greater geographic reach into the US, Europe and Asia.

Review of Operations (continued)

Events subsequent to reporting date (continued)

CipherPoint recently launched its General Data Protection Regulation (GDPR) service offering to help meet European Union (EU) GDPR compliance. The EU GDPR applies to businesses both within and outside the EU that collect personal data belonging to EU citizens. This will benefit all of Covata's global customers with EU GDPR exposure and also Covata's Australian customers as they begin to prepare for mandatory data breach notification legislation to take effect in Australia within the next 12 months.

CipherPoint's five US-based employees will join Covata's existing team. Milestone based components of the consideration payable to the CipherPoint vendors are dependent on CipherPoint delivering at least US$300,000 of revenue in the six months to 31 December 2017, and a second separate milestone based on CipherPoint delivering at least US$500,000 in revenue in the 12 month period from 1 July 2017 to 30 June 2018.

Environmental regulation

The Group's operations are not subject to significant environmental regulations under both the Commonwealth and State legislation in relation to its activities.

Likely developments

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

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Indemnification and insurance of officers and auditors

Indemnification

The Company has agreed to indemnify the directors and the company secretaries for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position in the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

The Company has not entered into an agreement to indemnify the auditors of the Company.

The disclosure of the nature of the insurance cover and the amount of the premiums involved is prohibited by the contract.

Review of Operations (continued)

Indemnification and insurance of officers and auditors (continued)

Non-audit services

In addition to their statutory audit and review of the financial statements, during the year KPMG, the Group's auditor provided tax advisory services. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Remuneration Report (audited)

The Remuneration Report, which has been audited, describes the Executive Directors, Non-Executive Directors and Key Management Personnel ('KMP') remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its regulations.

Introduction

The Remuneration Report is designed to provide shareholders with an understanding of Covata Limited's remuneration policies, and the link between the Group's remuneration philosophy and strategy. The Remuneration Report specifically focuses on Covata Limited's remuneration arrangements for the year ended 30 June 2017.

The Group's remuneration policies and practices are designed to align the interests of staff and shareholders while attracting and retaining staff members who are critical to the Group's growth and success. The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to market practice for delivery of reward.

The Remuneration Report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration;
- Details of remuneration;
- Service agreements;
- Share-based compensation; and
- Additional disclosures relating to KMP.

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Competitiveness and reasonableness.
- Acceptability to shareholders.
- Performance linkage / alignment of executive compensation, and
- Transparency.

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

In 2017, it was the role of the Board to review and make recommendations in relation to the remuneration arrangements for its directors and executives.

Alignment to shareholders' interests

The remuneration strategy:

- Focuses the executives on key financial and non-financial drivers of value, including maintaining appropriate controls over the level of expenditure, the commercialisation of cutting edge data security software products, and entering into strategic partnerships with significant corporate and government enterprises globally, and
- Is intended to attract and retain high calibre executives.

Remuneration Report (audited) (continued)

Principles used to determine the nature and amount of remuneration (continued)

Alignment to program participants' interests

The remuneration strategy:

- Rewards capability and experience,
- Reflects competitive reward for contribution to growth in shareholder wealth, and
- Provides a clear structure for earning rewards.

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

Non-executive directors' remuneration

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

The Chairman is Mr. William (Bill) McCluggage who was appointed to the Board as a Non-Executive Director on 21 October 2016 and as Non-Executive Chairman on 31 March 2017. Mr. McCluggage will receive an annual salary of $70,000. His total salary was $48,737 for the year ended 30 June 2017.

Mr. Lindsay Tanner and Mr. David Irvine were appointed to the Board as Non-Executive Directors on 1 January 2017 and will receive an annual salary of $65,000 each. Their total salaries were $32,500 each for the year ended 30 June 2017.

Mr. Philip King and Mr. Joseph Miller were Non-Executive Directors until 21 October 2016 and their salaries for the year ended 30 June 2017 were $12,295 each (2016: $40,000 each).

Mr. Phillip Dunkelberger was a Non-Executive Director until 31 March 2017 and his salary for the year ended 30 June 2017 was $30,000 (2016: $40,000).

Mr. Charles Archer was the Non-Executive Chairman and transferred to Non-Executive Director from 23 January 2017 to 31 March 2017 and his salary for the year was USD$45,000 (2016: USD$141,333).

Mr. Michael Quinert was a Non-Executive Director as well as Chairman of the Remuneration Committee until 31 March 2017. Mr. Quinert received a total salary of $51,169 including $20,000 per annum (pro-rata) fees as the Chairman of the Remuneration Committee (2016: $46,137)

Superannuation and GST are paid in addition to non-executive directors' fees, where applicable. There are no retirement benefit schemes for non-executive directors, other than statutory superannuation contributions.

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

Remuneration Report (audited) (continued)

Principles used to determine the nature and amount of remuneration (continued)

Executive remuneration

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

The executive remuneration and reward framework has four components:

- Current base pay and non-monetary benefits,
- Short-term performance incentives,
- Long-term incentives, and
- Other statutory entitlements such as superannuation.

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

Fixed remuneration

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually, based on individual performance, the overall performance of the Group and comparable market remuneration.

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

Equity instruments

1. Loan funded share plan:

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

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

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

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

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

Remuneration Report (audited) (continued)

Principles used to determine the nature and amount of remuneration (continued)

2. *Share options:*

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

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

3. *Ordinary share issues:*

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

Short-term incentive plan ('STIP')

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

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

Long-term incentive plan ('LTIP')

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

Following the extraordinary general meeting on 5 April 2017, shareholders approved the issue of long-term incentives structured to both Executive and Non-Executive Directors. These incentives were provided early into the tenure of the respective Directors in order to align the medium to long-term goals of the Board with the success of the Group.

Remuneration Report (audited) (continued)

Principles used to determine the nature and amount of remuneration (continued)

Share options and loan funded share plan shares issued under the long-term incentive plan ('LTIP')

The following grants were provided to Executive Directors of the Group:

- Loan funded share plan shares granted to Edward Pretty on 4 May 2017, with components as follows:
  - a loan price of 9.33c, a term of 10 years and vest in the following tranches: 50% upon issue, but with 12 months' escrow; 50% 12 months from Mr. Pretty's commencement date.
  - a loan price of 20c, a term of 10 years and vest in the following tranches: 50% 18 months from Mr. Pretty's commencement date; 50% 3 years from Mr. Pretty's commencement date.
  - Both parcels immediately vest whereby the volume weighted average price (VWAP) of the Company's ordinary shares over any 40 consecutive days on which trades in the Company's ordinary shares are recorded exceed $0.50 (50c).

Share options and loan funded share plan shares issued in lieu of cash to non-executive directors:

The following grants were provided to Non-Executive Directors of the Group:

- The share options granted to Michael Quinert on 2 December 2016, have an exercise price of 19.5c, a term of five years and vest upon the date of issue.
- The share options granted to David Irvine on 4 May 2017, have an exercise price of 20c, a term of five years and vest in the following tranches: 40% on 31 March 2018; 40% on 31 March 2019; 20% on 31 March 2020.
- The share options granted to William McCluggage on 4 May 2017, have an exercise price of 20c, a term of five years and vest in the following tranches: 40% on 31 March 2018; 40% on 31 March 2019; 20% on 31 March 2020.
- The share options granted to Lindsay Tanner on 4 May 2017, have an exercise price of 20c, a term of five years and vest in the following tranches: 40% on 31 March 2018; 40% on 31 March 2019; 20% on 31 March 2020.

Future grants

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

Remuneration Report (audited) (continued)

Principles used to determine the nature and amount of remuneration (continued)

2017 remuneration structure

The 2017 remuneration structure for the KMP is as follows:

		Fixed remuneration $ (1) (2)	STIP $ (1) (5)	LTIP $ (1)(6)
Non-Executive Directors				
Philip King		**13,463**	**-**	**-**
Joseph Miller (1)		**12,295**	**-**	**-**
Phillip Dunkelberger (1)		**30,000**	**-**	**51,489**
Michael Quinert		**51,169**	**-**	**4,087**
Lindsay Tanner (9)		**35,588**	**-**	**129**
David Irvine (9)		**35,588**	**-**	**129**
Non-Executive Chairman				
Charles Archer (1)(2)(3)		**60,856**	**-**	**-**
William McCluggage (4)		**48,737**	**-**	**129**
Executive Director				
Trent Telford (7)	Chief Executive Officer	**498,769**	**86,581**	**-**
Edward Pretty (8)	Chief Executive Officer	**200,552**	**-**	**69,241**
Executive Management Team				
Nicholas Chiarelli (1) (10)	Chief Financial Officer and Joint Company Secretary	**365,815**	**45,304**	**7,302**

(1) KMPs were based in the United States and their remuneration is denominated in USD and for reporting purposes translated to AUD at the weighted-average monthly exchange rate over the year.

(2) Fixed remuneration includes base salary, consulting fees, relocation costs, termination payments, health insurance, 401k contributions or superannuation as required by local statute.

(3) Charles Archer was the Non-Executive Chairman from 1 September 2015 to 23 January 2017 and transferred to Non-Executive Director with effect on 23 January 2017 to 31 March 2017.

(4) William McCluggage was the appointed Non-Executive Chairman with effect 31 March 2017.

(5) STIP includes cash, the fair-value of share options and loan share grants with immediate vesting and the grant of ordinary shares.

(6) LTIP includes the fair-value of prior year share option and loan share grants, vested and recognised as an expense during the year.

(7) Trent Telford was Chief Executive Officer for the course of the 2015 and 2016 financial years and transferred to Executive Chairman effective 23 January 2017 to 31 March 2017.

(8) Edward Pretty was Chief Executive Officer effective 23 January 2017.

(9) Lindsay Tanner and David Irvine were appointed Non-Executive Director with effect on 1 January 2017

(10) Nicholas Chiarelli returned to Australia from the US in November 2016. Mr. Chiarelli's employment terminated with the Group on 10 March 2017. This amount includes a redundancy payment of $149,066.

Remuneration Report (audited) (continued)

Principles used to determine the nature and amount of remuneration (continued)

Consolidated entity performance and link to remuneration

The 2017 STIP were awarded primarily on the basis of achievement of key strategic, mostly non-financial KPI's.

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

Services from remuneration consultants

The Board engaged remuneration consultant Pearl Meyer & Partners in July 2016 to review key management personnel remuneration structure against a peer group analysis and provide general recommendations in relation thereto.

Pearl Meyer & Partners was paid $9,830 for their review and recommendations in respect of their undertaking.

The engagement of Pearl Meyer & Partners by the remuneration committee was based on a documented set of protocols that would be followed by Pearl Meyer & Partners, members of the remuneration committee, and members of the KMP for the way in which remuneration recommendations would be developed by Pearl Meyer & Partners and provided to the Board.

These arrangements were implemented to ensure that Pearl Meyer & Partners would be able to carry out its work, including information capture and the formation of its recommendations, free from undue influence by members of the KMP about whom the recommendations may relate.

The Board is satisfied that the remuneration recommendations were made by Pearl Meyer & Partners free from undue influence by members of the KMP about whom the recommendations may relate.

The Remuneration Committee presented these finding to the board in September 2016. At the report date the Board continues to evaluate the findings of Pearl Meyer & Partners and balance these with the immediate resources and needs of the Group and is yet to implement any recommendations.

Details of remuneration

Amounts of remuneration

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

The KMP of the Group consisted of the directors of Covata Limited and the following persons:

- Nicholas Chiarelli - Chief Financial Officer and Joint Company Secretary (resigned 10 March 2017)

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

Remuneration Report (audited) (continued)

Details of remuneration (continued)

Amounts of remuneration (continued)

2017	Short-term benefits Cash salary and fees $	Bonus $	Post-employment benefits Superannuation / 401K $	Termination benefits $	Share- based payments Options and rights $	Shares $	Total $
Non-Executive Directors							
Philip King (1)	12,295	-	1,168	-	-	-	13,463
Joseph Miller (1)	12,295	-	-	-	-	-	12,295
Phillip Dunkelberger (2)	30,000	-	-	-	51,489 (9)	-	81,489
Michael Quinert (2)	51,169	-	-	-	4,087(10)	-	55,256
David Irvine (3)	32,500	-	3,088	-	129(11)	-	35,717
Lindsay Tanner (3)	32,500	-	3,088		129(11)	-	35,717
Non-Executive Chairman							
Charles Archer (4)	60,253	-	603	-	-	-	60,856
William McCluggage(5)	48,737	-	-	-	129(11)	-	48,866
Executive Director							
Trent Telford (6)	374,886	86,581	14,915	108,968	-	-	585,350
Edward Pretty (7)	190,744	-	9,808	-	69,241(11)		269,793
Key Management Personnel							
Nicholas Chiarelli (8)	204,291	45,304	12,458	149,066	7,302 (9)	-	418,421
	1,049,670	131,885	45,128	258,034	132,506	-	1,617,223

(1) Philip King and Joseph Miller resigned as Non-Executive Directors effective 21 October 2016.

(2) Phillip Dunkelberger and Michael Quinert resigned as Non-Executive Directors effective 31 March 2017.

(3) Lindsay Tanner and David Irvine were appointed Non-Executive Directors effective 1 January 2017.

(4) Charles Archer was the Non-Executive Chairman and transferred to Non-Executive Director effective 23 January 2017. Mr. Archer resigned as Non-Executive Director effective 31 March 2017.

(5) William McCluggage was appointed to the board on 21 October 2016 as a Non-Executive Director. Mr. McCluggage transferred to the role of Non-Executive Chairman effective 31 March 2017.

(6) Trent Telford was Chief Executive Officer and transferred to Executive Chairman on 23 January 2017. Effective 31 March 2017, Mr. Telford resigned his position of Executive Chairman and Director of the Group.

(7) Edward Pretty was appointed Chief Executive Officer and Managing Director effective 23 January 2017.

(8) Nicholas Chiarelli returned to Australia from the United States in November 2016. Mr. Chiarelli's employment terminated with the group on 10 March 2017.

(9) The following amounts represent the fair-value of prior year share option and loan share option grants recognised as an expense during the year; P. Dunkelberger - $51,489; N. Chiarelli - $7,302.

(10) Fair value of share-based payment to M. Quinert on 8 December 2016, $4,087.

(11) The following amounts represent the fair value of share-based payments issued to Directors following approval by shareholders at the extraordinary general meeting held on 5 April 2017; D. Irvine - $129, L. Tanner - $129, W. McCluggage - $129, E. Pretty - $69,241.

Remuneration Report (audited) (continued)

Details of remuneration (continued)

Amounts of remuneration (continued)

2016	Short-term benefits Cash salary and fees $	Bonus $	Post-employment benefits Superannuation / 401K $	Termination benefits $	Share- based payments Options and rights $	Shares $	Total $
Non-Executive Directors							
Philip King	40,000	-	4,433	-	16,232[(3)]	-	60,665
Joseph Miller	40,000	-	-	-	16,232[(3)]	-	56,232
Phillip Dunkelberger	40,000	-	-	-	138,958[(4)]	-	178,958
Michael Quinert	46,137	-	-	-	-	-	46,137
Non-Executive Chairman							
Charles Archer [(1)]	193,571	-	1,936	-	57,147[(3)(4)]	-	252,654
Executive Director							
Trent Telford	464,520	112,763[(5)]	19,353	-	304,315[(3)(4)]	168,449[(5)]	1,069,400
Key Management Personnel							
Nicholas Chiarelli	287,805	49,682[(5)]	19,353	-	50,765[(4)]	96,126[(5)]	503,731
Vic Winkler [(2)]	25,706	-	710	149,096	(121,849)[(2)]	-	53,663
	1,137,739	162,445	45,785	149,096	461,800	264,575	2,221,440

(1) Charles Archer was Executive Chairman for the course of the 2014 and 2015 financial years and transferred to Non-Executive Chairman effective 1 September 2015.

(2) Vic Winkler resigned effective 1 August 2015. The fair-value of share options recognised as expense in prior years lapsed after his resignation resulting in a credit in the current year.

(3) The following amounts represent the fair value of share-based payment bonuses primarily to reward the successful recapitalisation of the Group, completion of the merger with Prime Minerals Limited and re-listing of the newly merged Covata Limited on the ASX in the year ended 30 June 2015 and approved by shareholders at the annual general meeting on 18 November 2015; P. King - $16,232, J. Miller - $16,232, C. Archer - $44,028, T. Telford - $51,129.

(4) The following amounts represent the fair-value of prior year share option and loan share option grants recognised as an expense during the year; P. Dunkelberger - $138,958, C. Archer - $13,119, T. Telford - $253,186, N. Chiarelli - $50,765.

(5) Bonus shares and associated cash for statutory withholding taxes. No cash bonuses were paid during the financial year.

Remuneration Report (audited) (continued)

Details of remuneration (continued)

Amounts of remuneration (continued)

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

	Fixed remuneration		At risk - STIP		At risk - LTIP	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Non-Executive Directors						
Philip King	100%	73%	-	27%	-	-
Joseph Miller	100%	71%	-	29%	-	-
Phillip Dunkelberger	37%	22%	-	-	63%	78%
Michael Quinert	93%	100%	-	-	7%	-
Lindsay Tanner	100%	-	-	-	-	-
David Irvine	100%	-	-	-	-	-
Non-Executive Chairman						
Charles Archer	100%	77%	-	18%	-	5%
William McCluggage	100%	-	-	-	-	-
Executive Director						
Trent Telford	85%	45%	15%	31%	-	24%
Edward Pretty	74%	-	-	-	26%	-
Key Management Personnel						
Nicholas Chiarelli	87%	61%	11%	29%	2%	10%

Service agreements

Non-executive directors

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

William (Bill) McCluggage | Non-Executive Chairman

Agreement commenced - 21 October 2016

Term of agreement - No fixed duration

Details

Mr. McCluggage was appointed to the Board as a Non-Executive Director effective 21 October 2016 and Non-Executive Chairman effective 31 March 2017 and is entitled to:

- Receive fixed annual remuneration of $70,000

Remuneration Report (audited) (continued)

Details of remuneration (continued)

Lindsay Tanner | Non-Executive Director

Agreement commenced - 1 January 2017

Term of agreement - No fixed duration

Details

Mr. Tanner was appointed to the Board as a Non-Executive Director effective 1 January 2017 and is entitled to:

- Receive fixed annual remuneration of $65,000
- Payment of eligible superannuation contributions

David Irvine | Non-Executive Director

Agreement commenced - 1 January 2017

Term of agreement - No fixed duration

Details

Mr. Irvine was appointed to the Board as a Non-Executive Director effective 1 January 2017 and is entitled to:

- Receive fixed annual remuneration of $65,000
- Payment of eligible superannuation contributions

Executive directors

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

Trent Telford | Chief Executive Officer / Executive Chairman

Agreement commenced - Signed 22 January 2017, with commencement on 23 January 2017.

Term of agreement - 12 months

Details

Mr. Telford transferred from Chief Executive Officer to Executive Chairman with effect 23 January 2017 and is entitled to:

- Receive fixed annual remuneration as Executive Chairman of $75,000
- Receive a monthly consultancy fee in the amount of $15,000 for an initial period of 12 months
- After expiry of the initial term, the consultancy agreement may be terminated by the Company, by providing Mr. Telford with 3 months written notice
- Effective 31 March 2017, the consultancy agreement was settled in full by way of a prepayment of the 14-month initial term, inclusive of the 3 months' notice for termination
- This cash payment was partially offset by deducting prior loans to Mr. Telford outstanding at that date
- Mr. Telford will assume an advisory role and continues to be available to the Board

Remuneration Report (audited) (continued)

Details of remuneration (continued)

Edward (Ted) Pretty | Managing Director and Chief Executive Officer

Agreement commenced - Signed 22 December 2016, with commencement: on 23 January 2017

Term of agreement - An initial term of 12 months

Details

Mr. Pretty was appointed Managing Director and Chief Executive Officer with effect 23 January 2017 and is entitled to:

- Receive fixed annual remuneration of $430,000
- Payment of eligible superannuation contributions
- Participate in the STIP with target participation under the STIP capped at a maximum of 100% of his fixed annual remuneration. Payments under the STIP in any given year depend on the achievement of milestones and goals as approved by the Board
- Subject to shareholder approval, entitlement to subscribe for 10,000,000 ordinary fully paid shares issued under the terms of the terms of the Loan Share Plan.

After an initial period of 12 months, either Mr. Pretty or the Company may terminate the employment contract by giving either party 3 months written notice. Under specific circumstances, employment may be terminated by the Company at any time with or without notice (serious misconduct, failure to perform duties, or other specified circumstances).

Other key management personnel

Other key management personnel have employment contracts setting out the terms and conditions of their employment. The agreements are not of a fixed duration.

These agreements provide for:

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

The employment contract may be terminated by the Company at any time with or without 'cause' (serious misconduct, failure to perform duties, or other specified circumstances) and may be terminated by the KMP with 30 days written notice for the CFO. Where the Group terminates the employment contract with 'cause', it does so without payment for notice or payment in lieu of notice. In the event of termination without 'cause' by the Group, the KMP will be entitled to 3 months' salary for the CFO as specified in each employment contract with the KMP.

Remuneration Report (audited) (continued)

Share-based compensation

Options

All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the terms of the agreements.

Details of shares options issued to directors and other KMP as part of compensation during the year ended 30 June 2017 are set out below:

Name	Issue date	Options	Strike price	Term	Fair value
Michael Quinert	2 December 2016	250,000	$0.20	5 years	$4,087
David Irvine	4 May 2017	1,000,000	$0.20	5 years	$129
William McCluggage	4 May 2017	1,000,000	$0.20	5 years	$129
Lindsay Tanner	4 May 2017	1,000,000	$0.20	5 years	$129

Details of shares options issued to directors and other KMP as part of compensation during the year ended 30 June 2016 are set out below:

Name	Issue date	Options	Strike price	Term	Fair value
Charles Archer	17 December 2015	358,502	$0.33	5 years	$44,028
Trent Telford	17 December 2015	416,325	$0.33	5 years	$51,129
Joseph Miller	17 December 2015	132,167	$0.33	5 years	$16,232

The 17 December 2015 options issued were fully vested at the issue date.

Employee Loan Share Plan

Details of ordinary shares issued on 4 May 2017 to directors and other KMP under the Employee Loan Share Plan Agreement (ELSP) as part of compensation during the year ended 30 June 2017 are set out below:

Name	Issue date	ELSP shares	Loan amount per share	Term	Fair value
Edward Pretty	4 May 2017	4,000,000	$0.9333	5 years	$88,000
Edward Pretty	4 May 2017	6,000,000	$0.2000	5 years	$116,000

Remuneration Report (audited) (continued)

Share-based compensation (continued)

Details of ordinary shares issued on 7 December 2015 to directors and other KMP under the Employee Loan Share Plan Agreement (ELSP) as part of compensation during the year ended 30 June 2016 are set out below:

Name	Issue date	ELSP shares	Loan amount per share	Term	Fair value
Philip King	17 December 2015	132,167	$0.33	5 years	$16,232

The 17 December 2015 ELSP shares issued were fully vested at the issue date.

Additional disclosures relating to Key Management Personnel

In accordance with ASIC Corporations (Amendment) Instrument 2016/45 issued by the Australian Securities and Investment Commission, relating to 'Key Management Personnel equity instrument disclosures', the following disclosures relate only to the equity instruments in the Company and its subsidiaries.

Shareholding – Ordinary shares

The number of ordinary shares in the Company held during the financial year by each director and other members of the KMP, including their personally related parties, is set out below:

2017

Name	Balance as at 1 July 2016	Received as part of remuneration	Option conversions	Acquisition on-market/ subscription	Disposals	Balance as at 30 June 2017
Charles Archer	**-**	-	-	45,000	-	**45,000**
William McCluggage	**-**	-	-	470,000	-	**470,000**
Philip King	**2,492,393**	-	-	-	(411,590)	**2,080,803**
Joseph Miller	**-**	-	-	-	-	**-**
Phillip Dunkelberger	**-**	-	-	-	-	**-**
Michael Quinert	**57,600**	-	-	-	-	**57,600**
Lindsay Tanner	**-**	-	-	200,000	-	**200,000**
David Irvine	**-**	-	-	-	-	**-**
Trent Telford	**5,576,976**	732,888	-	-	(4,655,981)	**1,653,883**
Edward Pretty	**-**	10,000,000	-	3,475,505	-	**13,475,505**
Nicholas Chiarelli	**642,842**	-	-	125,000	(280,000)	**487,842**

As at 30 June 2017, the number of ordinary shares above held by Trent Telford, Philip King, Nicholas Chiarelli and Edward Pretty include shares issued under the Employee Loan Share Plan. The shares held by Trent Telford, Philip King, Nicholas Chiarelli and Edward Pretty under the Employee Loan Share Plan are 776,500, 1,107,247, 545,879 and 10,000,000 respectively.

Remuneration Report (audited) (continued)

Additional disclosures relating to Key Management Personnel (continued)

Shareholding – Share Options

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

2017

Name	Balance as at 1 July 2016	Received as part of remuneration	Exercised	Lapsed	Balance as at 30 June 2017
Charles Archer	**5,664,752**	-	-	-	**5,664,752**
William McCluggage	-	1,000,000	-	-	**1,000,000**
Philip King	-	-	-	-	-
Joseph Miller	-	-	-	-	-
Phillip Dunkelberger	**5,000,000**	-	-	-	**5,000,000**
Michael Quinert	-	250,000	-	-	**250,000**
Lindsay Tanner	-	1,000,000	-	-	**1,000,000**
David Irvine	-	1,000,000	-	-	**1,000,000**
Trent Telford	**10,416,325**	-	-	-	**10,416,325**
Edward Pretty	-	-	-	-	-
Nicholas Chiarelli	**1,468,900**	-	-	-	**1,468,900**

Consequences of performance on shareholders' wealth

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

	2017	2016	2015	2014	2013
	$	$	$	$	$
Profit/ (loss) attributable to owners of the company	(10,179,664)	(14,116,627)	(27,462,676)	(9,769,356)	(8,387,076)
Change in share price	(0.20)	(0.10)	0.14	-	(0.05)

The overall level of KMP's compensation has been determined based on market conditions in addition to the attainment of key strategic objectives and the status of the Group's projects.

Remuneration report (audited) (continued)

Additional disclosures relating to Key Management Personnel (continued)

Loans to KMP and their related parties

Details regarding loans outstanding at the end of the reporting period to KMP and their related parties, where the individual's aggregate loan balance exceeded $100,000 in the reporting period, are as follows:

	Balance 1 July 2016 $	Balance 30 June 2017 $	Interest charged $	Highest balance in the period $
Trent Telford	145,001	-	21,958	150,242

All unsecured loans extended to Trent Telford were settled during the year ended 30 June 2017.

Details regarding the aggregate of all loans made by any entity in the Group to KMP and their related parties, and the number of individuals in each as at 30 June 2017, are as follows:

	Balance 1 July 2016 $	Balance 30 June 2017 $	Total Interest charged $	Number in group at 30 June 2017
Total for key management personnel and their related parties	145,001	-	21,958	-

Loans to KMP include interest accrued at a rate of 15% per annum. Loans are repayable in full within 12 months after the date of issue.

This concludes the Remuneration Report, which has been audited.

Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 33 and forms part of the directors' report for the financial year ended 30 June 2017.

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

William McCluggage
Chairman

Dated at Sydney, Australia this 29th day of August 2017.

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 audit of Covata Limited for the financial year ended 30 June 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the [audit/review]; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

JJ Frazer
Partner

Bundall
29 August 2017

Covata Limited
Corporate Governance Report

The Board of Directors ('the Board') of Covata Limited ('the Company') is committed to achieving the highest standards of corporate governance. Subsequent to the Company's relisting on the ASX on 10 November 2014, the Board adopted a corporate governance framework comprising principles and policies that the Board considers fundamental to the Company's continued growth and success.

This framework is designed to promote responsible management and assists the Board to discharge its corporate governance responsibilities on behalf of the Company's shareholders.

Copies of the charters under which the Board and its Committees operate, the Company's policies and other relevant information referred to in this Statement are available on the Company's website at https://covata.com/company/investor-relations-2/.

Covata Limited's Corporate Governance Statement, which was approved by the Board on 30 August 2016 and is current at that date, describes our corporate governance framework, policies and practices as at 30 June 2017. The Company has, where appropriate, followed the guidelines and recommendations set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition) ('ASX Recommendations') from the date of relisting on 10 November 2014 to 30 June 2017. Where the Board has made the assessment that it is not appropriate to completely comply with the guidelines and recommendations, this assessment has been disclosed and an explanation provided.

Principle 1 – Lay solid foundations for management and oversight

The Company has adopted a Board Charter with the express intention and purpose of seeking to implement good corporate governance practices and to achieve good governance outcomes.

The Board Charter sets out the specific responsibilities of the Board, requirements as to the Board's composition and manner of operation, as well as the roles and responsibilities of the Senior Management of the Company.

The Board is ultimately responsible for the overall management and corporate governance of the Company. The Board responsibilities include:

- the development, implementation and alteration of the strategic direction of the Company, including future expansion of the Company's business activities,
- the appointment, and where appropriate, the removal of the Chief Executive Officer ('CEO'), the Chief Financial Officer ('CFO'), executive directors, and company secretaries,
- monitoring and evaluating the performance of the CEO in achieving the strategies and budgets set by the Board and establishing targets and goals for senior management to achieve and monitoring the performance of senior management,
- review and oversight of compliance with ASX Listing Rules, financial reporting obligations, including yearly and continuous disclosure, legal compliance and related corporate governance matters,
- risk management, assessment and monitoring, and
- monitoring and reviewing the operational performance of the Company including the viability of current and prospective operations and opportunities.

The Company's Board Charter has detailed guidelines for the appointment and selection of the Board which requires the undertaking of appropriate checks before appointing a person, or putting forward to shareholders a candidate for election, as a director. All material information relevant to a decision on whether or not to elect or re-elect a Director will be provided to shareholders in a Notice of Meeting pursuant to which resolutions to elect or re-elect a Director will be voted on.

Principle 1 – Lay solid foundations for management and oversight (continued)

All incoming Directors and senior executives will have written agreements with the Company which set out the terms of their appointment.

The Company Secretary supports the proper functioning of the Board. The Chairperson liaises with the Company Secretary on matters of corporate governance and conveys all information to the Board.

The responsibility for the operation and administration of the Company is delegated by the Board to the CEO and the Executive Management Team. The Board ensures that both the CEO and the Executive Management Team are appropriately qualified and experienced to discharge their responsibilities and has in place procedures to monitor and assess their performance.

The Company is committed to the periodic review of the performance of its Board, individual directors and senior executives. This process is expected to typically be conducted by the Board or by special purpose committees established by the Board.

Diversity

The Company has adopted policies on diversity which are contained in the Board Charter and in the Company's Diversity Policy. The Company is committed to providing a diversity inclusive workplace in which all employees regardless of gender, age, ethnicity, religious or cultural background, marital status and sexual orientation have the opportunity to participate fully and are valued for their individual skills, experience and perspectives.

The Company believes that the promotion of diversity within the organisation generally enlarges the pool for recruitment of high quality employees, is likely to encourage employee retention, and is likely to encourage greater innovation through the inclusion of different perspectives.

Whilst the Company's policies on diversity provide a framework for the Company to achieve a list of measurable objectives that encompass gender equality, it does not propose to establish measurable gender diversity objectives in the foreseeable future as the Company is strongly committed to making all selection decisions on the basis of merit and the setting of specific objectives for the quantum of males/females at any level would potentially influence decision making to the detriment of the business. In accordance with the diversity policy the Board will, however, aim to increase the proportion of women on the Board and in senior management roles as vacancies and circumstances allow.

The Company's diversity policies provide for the monitoring and evaluation of the scope and currency of the diversity polices.

Gender diversity	30 June 2017	
	No.	%
Women on the Board	0	0
Women in Senior Management Roles	1	33
Women employees in the Company	7	35

The Company's policies on diversity are contained in the Diversity Policy which is available on the Company's website.

Principle 2 – Structure the board to add value

Composition of the Board

Full details as to each directors' date of appointment and relevant skills and experience are set out in the Directors' Report.

It is the objective of the Company to establish and maintain a Board with a broad representation of skills, experience and expertise. At this stage, it is not practical for the Company to establish a Nomination Committee, however, where it is proposed that a new Director is to be appointed to fill a casual vacancy or to be put forward to security holders as a candidate for election as a new Director of the Company, the Board will review and assess candidate Directors against criteria which include overall skills, experience and background, and professional skills. Any new appointments to the Board will go through an induction program which will involve the provision of corporate governance policies to the incoming director and a process of introduction to the remaining members of the Board and (where appropriate) other key staff.

The Board Charter provides for the disclosure of the names of Directors considered by the Board to be independent. The names of the members of the Board as at the date of this report are as follows:

- Mr. William McCluggage (Chairman) – Non-Executive Director
- Mr. Edward Pretty – Managing Director and Chief Executive Officer
- Mr. Lindsay Tanner – Non-Executive Director
- Mr. David Irvine – Non-Executive Director

The Board will consider a Director to be independent if in accordance with the principles and recommendations, the director is free of any interest, relationship or association that may materially influence, or may reasonably be perceived to materially influence, the director's capacity to exercise their independent judgment on issues before the Board, and to act in the best interests of the Company and its shareholders. The criteria for determining independence include that the director:

- is not a member of senior management of the Company,
- is not a substantial security holder of the Company, or an officer of, or otherwise directly associated with a substantial security holder of the Company,
- is not or has not been employed in an executive capacity by the Company within the last three years and did not become a director within three years of being so employed,
- within the last three years, has not been a senior employee, partner or director of material professional services to the Company,
- within the last three years, has not been in a material business relationship with the Company,
- is not a party to a material contractual relationship with the Company, and
- is free of any conflict of interest which may materially interfere with that Director's motivation to act in the best interests of the Company.

Mr. William McCluggage, Mr. Lindsay Tanner and Mr. David Irvine are Non-Executive Directors of the Company and are independent on the basis that they, or entities that they have an involvement in, do not hold a substantial number of equity securities in the Company. The directors consider that the current structure of the Board is appropriate as each Director brings specific and targeted business skills.

The Board Charter requires Directors to disclose their interest, positions, associations and relationships and requires that the independence of Directors is regularly assessed by the Board in light of the interests disclosed by Directors. Details of the Directors interests, positions, associations and relationships are provided in this Annual Financial Report.

Principle 2 – Structure the board to add value (continued)

The Board currently holds a wide matrix of experience and skills including extensive experience across industries and sectors which are considered to be of particular relevance and importance to the Company's business including experience and involvement in the development and commercialisation of technology companies, knowledge of capital markets, experience in the legal and security industries and experience in national security organisations. The Board will monitor and review the collective mix of skills, experience and expertise of its members to seek to identify any gaps that should be addressed having regard for the nature and development of the Company's business.

Directors will be offered regular opportunities for professional development by the Company where relevant to their position as Directors of the Company and their role as Board members.

Role of the Chairperson

The Board Charter provides that the Chairperson should not be the Chief Executive Officer and that their responsibilities as set out in the Board Charter include:

- the organisation and efficient conduct of the business of the Board at Board meetings and on all other occasions,
- ensuring all Directors are adequately informed about Board matters in a timely fashion to facilitate rigorous and accurate decision making in all business of the Board,
- setting the agenda for meetings of the Board, guiding the meetings to facilitate open discussion and managing the conduct of, and frequency and length of such meetings, in order to provide the Board with an opportunity to arrive at a detailed understanding of the Company's performance, financial position, operations and challenges,
- liaising with the Company Secretary concerning matters of corporate governance and conveying all information to the Board, and
- encouraging engagement and compliance by Board members with their duties as Directors.

Principle 3 – Promote ethical and responsible decision making

Directors' Code of Conduct

The Company recognises the importance of establishing and maintaining high ethical standards and decision making in conducting its business and is committed to increasing shareholder value in conjunction with fulfilling its responsibilities as a good corporate citizen. The Company's reputation as an ethical business organisation is important to its ongoing success and it expects all its officers and employees to be familiar and have a personal commitment to meeting these standards.

Directors, Managers and employees who suspect that any fraudulent or unethical behaviour has occurred, should contact the Chairperson, Chief Executive Officer or Company Secretary. All communications received by a Director are to be treated with the strictest confidence.

The Company's Directors' Code of Conduct is available on the Company's website and forms part of the Corporate Governance Charter.

Principle 3 – Promote ethical and responsible decision making (continued)

Securities Trading Policy

The Company has established a Securities Trading Policy which governs trading in the Company's securities and applies to all Directors, Officers and employees of the Company. A copy of the policy is available on the Company's website under Investor Relations.

Under this Securities Trading Policy, the Company's Directors, other officers, senior management or employees, as well as any entity that they control, must not trade in any securities of the Company at any time when they are in procession of unpublished, price sensitive information in relation to those securities.

Additionally, they are prohibited from trading each period of 30 days immediately prior to the intended date for the Company's release of quarterly, half-yearly and annual financial reports to the ASX until 24 hours immediately after the date of release as well as each period of 24 hours immediately after the date upon which the Company issues a price-sensitive ASX announcement.

No director, officer or employee may deal in the Company's securities at any time for short-term gain, including by buying and selling the Company's securities in a three month period, without the written approval of the Chairman or, in the case of the Chairman, the Chief Executive Officer.

In order to ensure compliance with this Policy, all directors, other officers, senior management and employees must discuss any proposed dealing with (and obtain written approval from) the Secretary or a director prior to trading the Company's securities at any time.

As required by the ASX Listing Rules, the Company notifies the ASX of any transaction conducted by Directors in the securities of the Company.

Principle 4 – Safeguard integrity in corporate reporting

Audit and Risk Committee

At this stage, it is not practical for the Company to establish an Audit and Risk Committee due to the nature of the Company's current and proposed business structure, financial capacity and objectives.

Until such time as the Committee is established the Board will undertake the functions of the Committee, giving effect to the Audit and Risk Committee Charter, with adaptations as necessary and appropriate which will include reviewing the performance and effectiveness of the external auditors and internal review procedures and the rotation of the external audit engagement partners.

The Company's Audit and Risk Management Charter form part of the Corporate Governance Charter and is available on the Company website.

Before the Board approves the entity's financial statements for a financial year, the CEO and Head of Finance (or such appropriate person) declared that in their opinion the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity.

The Company will make arrangements for its external auditor to attend its AGM (as required by the Corporations Act) to answer questions from shareholders relevant to the audit.

Principle 5 – Make timely and balanced disclosure

The Company is subject to continuous disclosure obligations under the ASX Listing Rules and Corporations Act 2001. Subject to some limited exceptions, under the continuous disclosure requirements, the Company must immediately notify the market, through the ASX, of any information which a reasonable person would expect to have a material effect on the price or value of the Company's shares. To achieve these objectives and satisfy the regulatory requirements, the Board has adopted a Communication and Disclosure Policy. A copy of the policy is available on the Company's website.

The Company is committed to ensuring all investors have equal and timely access to material information concerning the Company, and to facilitating trading on an informed basis. The Company will not disclose price-sensitive information in any forum unless it has been previously disclosed to the ASX. Any price-sensitive information for public announcement shall be lodged with ASX as soon as practicable and prior to external disclosure elsewhere.

The Company's communications shall:

- be factual, and shall not omit material information,
- be subject to internal review and authorisation before issue,
- be expressed in a clear and precise manner, and
- be timely.

The Company is committed to communicating effectively with its shareholders and providing shareholders with timely access to balanced information concerning the Company. The Company has appointed joint company secretaries as the persons responsible for communications with the ASX in relation to listing rule matters and also for ensuring compliance with the Communication and Disclosure Policy.

Principle 6 – Respect the rights of shareholders

Information about the Company and its governance is available in the Board Charter and corporate governance policies which can be found on the Company's website.

The Company has adopted shareholder communications policies in its Communication and Disclosure Policy which aim to promote and facilitate effective two-way communication with investors. The policies outline a range of ways in which information is communicated to shareholders.

The Company aims to promote effective communication with shareholders through:

- the Annual Financial Report, including relevant information about the operations of the Group during the year, key financial information, changes in the state of affairs and indications of future developments. The Annual Financial Report can be accessed either through the ASX website or the Company's website.
- the half year and full year financial results are announced to the ASX and are available to shareholders via the Company's website and ASX website.
- all announcements made to the market and related information (including presentations to investors and information provided to analysts or the media during briefings), are made available to all shareholders under the investor information section of the Company's website after they have been released to the ASX.
- detailed notices of shareholder meetings are sent to all shareholders in advance of the meeting.
- all shareholders have the opportunity to elect to receive communications by email.
- shareholding and dividend payment details are available through the Group's share register, Boardroom Pty Limited.

Principle 6 – Respect the rights of shareholders (continued)

In commitment to Shareholder communication, the Company provides business updates on a quarterly basis, which inform Shareholders of the Company's strategic direction and financial performance.

The Board encourages full participation by shareholders at the Annual General Meeting to ensure a high level of Director accountability to shareholders and shareholder identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions. The shareholders are requested to vote on matters such as the adoption of the Group's remuneration report, the granting of options and shares to Directors and changes to the Constitution

Principle 7 – Recognise and manage risk

Risk oversight and management

The Board is charged with the responsibility of determining the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies.

Whilst the Company does not have an Audit and Risk Committee, it will follow the audit and risk management policies where possible and is confident that this will independently verify and safeguard the integrity of its financial reports. A copy of the audit and risk policies forms part of the Company's Audit and Risk Committee Charter and is available on the Company's website.

As the Company does not have an Audit and Risk Committee at this stage, it does not have an internal audit function either. However, the Company it will follow the audit and risk management policies set out in its Corporate Governance Charter and is confident that this will independently verify and safeguard the integrity of its financial reports.

The audit and risk management policies set out in the Corporate Governance Charter detail the Company's risk management systems which assist in identifying and managing potential or apparent business, economic, environmental and social sustainability risks (if appropriate). The Board and Management are continually evaluating and monitoring the Company's risk management framework, although no formal review of risk management framework was conducted during 2017. The Company does not consider it has any material exposure to environmental or social sustainability risk, however is subject to economic risks including currency risks (refer to note 24(B) of the consolidated financial statements on pages 73 and 74.

Principle 8 – Remunerate fairly and responsibly

The Board is responsible for performing functions of the remuneration committee. The Board followed the remuneration policies set out in its Board Charter where possible and is confident that this process will ensure that the remuneration for Directors and senior executives is fair and reasonable.

During 2016, the Company formally appointed a Remuneration Committee. The Remuneration Committee was comprised of three members, namely Michael Quinert, Charles Archer, and Phillip Dunkelberger. Michael Quinert, an independent Director of the Company, was chair of the Remuneration Committee.

During the period, the Group underwent a restructuring of the Board. Subsequently, all members of the Remuneration Committee resigned from Covata effective 31 March 2017. Following the resignation of the committee members, responsibility for the processes employed in setting the level and composition of remuneration for directors and senior executives has become the responsibility of the entire Covata Limited Board.

Principle 8 – Remunerate fairly and responsibly (continued)

Details of the Company's remuneration framework are set out in the Remuneration Report, contained within the directors' report. Details of the remuneration of non-executive directors, executive directors and other KMP can be found in the directors' report under the 'Remuneration Report' section, which has been audited.

As detailed under Principle 3, the Company has a Securities Trading Policy which governs the trading in the Company's securities and applies to all Directors, Officers and employees of the Company. The Company's Securities Trading Policy does not specifically prohibit participants in the Company's equity-based remuneration schemes from entering into transactions which limit the economic risk of participating in the Company's equity-based scheme, however, the broader policies within the Securities Trading Policy which limit the trading in the Company's securities for short-term gain, together with the limited availability of derivative securities to hedge the economic risk due to the size of the Company, are considered sufficient to meet the objectives of this principle at this stage.

Covata Limited and its controlled entities
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2017

	Note	2017 $	2016 $
Revenue and other income			
Revenue – technology related products and services		**424,102**	357,393
Research & development tax concession		**1,455,307**	2,025,612
Other income		**12,651**	768
		1,892,060	2,383,773
Expenses			
Employee benefit expense	*11*	**(7,976,142)**	(9,707,128)
Consultancy fees expense		**(908,784)**	(1,826,102)
Depreciation expense	*18*	**(75,891)**	(104,015)
Legal and professional fees expense		**(299,361)**	(487,222)
Marketing and promotion expense		**(616,828)**	(692,560)
Travel and accommodation expense		**(618,128)**	(1,256,511)
Office and administration expense		**(1,184,002)**	(1,299,158)
Other direct research and development project expenses		**(169,404)**	(728,895)
Foreign currency exchange expense		**(410)**	(7,065)
Other expenses		**(408,000)**	(482,939)
		(12,256,950)	(16,591,595)
Results from operating activities		**(10,364,890)**	(14,207,822)
Finance income		**192,787**	103,199
Finance costs	*12*	**(7,561)**	(12,004)
Net finance income / (costs)		**185,226**	91,195
Loss before income tax		**(10,179,664)**	(14,116,627)
Income tax expense	*13*	**-**	-
Loss for the year		**(10,179,664)**	(14,116,627)
Other comprehensive income			
Items that may be classified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(103,015)**	(131,395)
Total other comprehensive loss		**(103,015)**	(131,395)
Total comprehensive loss for the year		**(10,282,679)**	(14,248,022)
Earnings per share			
Basic earnings per share (cents per share)	*9*	**(1.95)**	(3.13)
Diluted earnings per share (cents per share)	*9*	**(1.95)**	(3.13)

The notes on pages 46-79 are an integral part of these consolidated financial statements.

Covata Limited and its controlled entities
Consolidated statement of changes in equity
For the year ended 30 June 2017

	Note	Share Capital	Foreign currency translation reserve	Share options reserve	Warrants reserve	Accumulated losses	Total equity
Balance at 1 July 2015		64,933,717	(48,358)	2,709,605	4,607,250	(64,230,885)	7,971,329
Total comprehensive income for the year							
Loss for the year		-	-	-	-	(14,116,627)	(14,116,627)
Total other comprehensive income/ (loss)		-	(131,395)	-	-	-	(131,395)
Total comprehensive income/ (loss)		-	(131,395)	-	-	(14,116,627)	(14,248,022)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Ordinary shares issued	*22*	12,620,603	-	-	-	-	12,620,603
Share based payments – share options	*22/23*	2,164,642	-	452,195	-	-	2,616,837
Share based payments – employee loan shares	*22/23*	150,394	-	182,249	-	-	332,643
Share options lapsed	*22*	-	-	(228,368)	-	228,368	-
Capital raising costs	*22*	(742,571)	-	-	-	-	(742,571)
Total contributions by and distributions to owners		14,193,068	-	406,076	-	228,368	14,827,512
Balance at 30 June 2016		**79,126,785**	**(179,753)**	**3,115,681**	**4,607,250**	**(78,119,144)**	**8,550,819**
Balance at 1 July 2016		79,126,785	(179,753)	3,115,681	4,607,250	(78,119,144)	8,550,819
Total comprehensive income for the year							
Loss for the year		-	-	-	-	(10,179,664)	(10,179,664)
Total other comprehensive income/ (loss)		-	(103,015)	-	-	-	(103,015)
Total comprehensive income/ (loss)		-	(103,015)	-	-	(10,179,664)	(10,282,679)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Ordinary shares issued	*22*	8,231,528	-	-	-	-	8,231,528
Share based payments – share options	*22/23*	-	-	133,903	-	-	133,903
Share based payments – employee loan shares	*22/23*	-	-	99,231	-	-	99,231
Share options lapsed	*23*	-	-	(320,229)	-	161,131	(159,098)
Employee loan shares lapsed	*23*	-	-	(12,431)	-	-	(12,431)
Capital raising costs	22	(473,033)	-	-	-	-	(473,033)
Total contributions by and distributions to owners		7,758,495	-	(99,526)	-	161,131	7,820,100
Balance at 30 June 2017		**86,885,280**	**(282,768)**	**3,016,155**	**4,607,250**	**(88,137,677)**	**6,088,240**

The notes on pages 46-79 are an integral part of these consolidated financial statements.

Covata Limited and its controlled entities
Consolidated statement of financial position

As at 30 June 2017

Assets	***Note***	**2017 $**	**2016 $**
Cash and cash equivalents	*14*	**1,325,280**	8,879,821
Term deposits	*15*	**5,000,000**	-
Trade and other receivables	*16*	**1,595,463**	2,241,097
Prepayments		**177,807**	58,280
Other current assets	*17*	**80,667**	103,913
Total current assets		**8,179,217**	11,283,111
Property, plant and equipment	*18*	**42,291**	158,987
Other non-current assets	*17*	**119,278**	397,857
Total non-current assets		**161,569**	556,844
Total assets		**8,340,786**	11,839,955
Liabilities			
Trade and other payables	*19*	**561,713**	1,225,665
Deferred income	*20*	**294,875**	314,671
Employee benefits	*21*	**72,534**	131,473
Total current liabilities		**929,122**	1,671,809
Deferred income	*20*	**1,323,424**	1,617,327
Total non-current liabilities		**1,323,424**	1,617,327
Total liabilities		**2,252,546**	3,289,136
Net assets		**6,088,240**	8,550,819
Equity			
Share capital	*22*	**86,885,280**	79,126,785
Reserves		**7,340,637**	7,543,178
Accumulated losses		**(88,137,677)**	(78,119,144)
Total equity		**6,088,240**	8,550,819

The notes on pages 46-79 are an integral part of these consolidated financial statements.

Covata Limited and its controlled entities
Consolidated statement of cash flows

For the year ended 30 June 2017

	Note	2017	2016
Cash flows used in operating activities		**$**	**$**
Cash receipts from customers		**93,635**	173,578
Cash paid to suppliers and employees		**(12,589,944)**	(14,806,644)
Cash used in operating activities		**(12,496,309)**	(14,633,066)
Research & development tax concession received		**2,021,729**	1,649,951
Interest received		**142,464**	269,666
Interest paid		**(6,232)**	(12,004)
Net cash used in operating activities	*26*	**(10,338,348)**	(12,725,453)
Cash flows used in investing activities			
(Payment to) / Refund of investments in term deposits		**(5,000,000)**	9,000,000
(Payment for) / refund of deposits		**130,500**	(87,497)
Proceeds from disposal of property, plant and equipment		**15,167**	767
Acquisition of property, plant and equipment		**(13,531)**	(71,994)
Net cash from / (used in) investing activities		**(4,867,864)**	8,841,276
Cash flows from financing activities			
Proceeds from the issue of share capital		**8,066,741**	12,374,193
Proceeds from employee loan shares repaid		**106,504**	99,432
Proceeds from the exercise of share options		**-**	1,708,433
Short term debt facility repayment		**-**	(2,300,000)
Payment of share issue costs		**(473,033)**	(742,571)
Net cash from financing activities		**7,700,212**	11,139,487
Net increase / (decrease) in cash and cash equivalents		**(7,506,000)**	7,255,310
Cash and cash equivalents at 1 July		**8,879,821**	1,809,699
Effect of movements in exchange rates on cash held		**(48,541)**	(185,188)
Cash and cash equivalents at 30 June	*14*	**1,325,280**	8,879,821

The notes on pages 46-79 are an integral part of these consolidated financial statements.

1. Reporting entity

Covata Limited (the 'Company') is domiciled in Australia. The Company's registered office is at Suite 1, Level 6, 50 Queen Street, Melbourne, Victoria, Australia, 3000.

These consolidated financial statements as at and for the year ended 30 June 2017 comprise the Company and its subsidiaries (collectively the 'Group' and individually 'Group companies').

The Group is a for-profit entity and primarily involved in the development and commercialisation of intellectual property predominantly in the field of data security technology.

2. Basis of accounting

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

These financial statements were authorised for issue by the Company's Board of Directors on 29 August 2017.

3. Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

4. Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, 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.

(a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Share-based payments (note 23)

4. Use of judgements and estimates (continued)

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 22 – Capital and reserves;
- Note 23 – Share based payments; and
- Note 24 – Financial instruments.

5. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date.

Items	Measurement basis
Share-based payment transactions	Fair value at grant date, recognised over vesting period

6. Significant accounting policies

The Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

i. 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 and 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 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.

ii. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

6. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

iii. Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

iv. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Going concern

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

The Group is in the research, development and commercialisation stage of its data security technology. During the year ended 30 June 2017, the Group incurred a loss after tax of $10,179,664 (2016: $14,116,627), and incurred net cash outflows from operating activities of $10,338,348 (2016: $12,725,453) for the year. At 30 June 2017, the Group had cash and cash equivalents of $1,325,280, term deposits of $5,000,000 and net assets of $6,088,240.

The Group completed a re-structure during the year that has resulted in a significant reduction in operational expenditure.

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 in the research, development and commercialisation of its data security technology and that the Group maintains expenditures in line with available funding.

(c) Foreign currency

i. Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Group at an exchange rate at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

6. Significant accounting policies (continued)

(c) Foreign currency (continued)

i. Foreign currency transactions (continued)

However, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income:

- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedges are effective.

ii. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the functional currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

(d) Revenue

i. Sale of goods (software)

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, and the amount of revenue can be measured reliably. Revenue is measured net of any revenue sharing arrangements, trade discounts and volume rebates.

ii. Subscriptions

Revenue from sale of subscription services is recognised on a straight-line basis over the period of subscription, from the date of contract until expiry, reflecting the period over which the services are supplied.

6. Significant accounting policies (continued)

(d) Revenue (continued)

iii. Maintenance/support service revenue for licensed software

Unearned income is recognised upon receipt of payment for maintenance/ support contracts. Revenue is brought to account over time as it is earned. However, to the extent that the Group has fulfilled all its obligations under the contract, the income is recognised as being earned at the time when all the Group's obligations under the contract have been fulfilled.

iv. Consulting revenue

Revenue from a contract to provide consulting services is recognised by reference to the percentage of completion of the contract. The percentage of completion of the contract is determined by reference to the proportion of work performed (costs incurred to date) to estimated total work performed (total contract costs). When the percentage of completion cannot be estimated reliably, contract revenue is recognised only to the extent of the contract costs incurred that are likely to be recovered. An expected loss on a contract is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income at inception.

v. Interest revenue

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

(e) Employee benefits

i. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii. Share-based payment transactions

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

iii. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

6. Significant accounting policies (continued)

(e) Employee benefits (continued)

iv. Other long-term employee benefits

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Corporate bonds at the reporting date which have maturity dates approximating to the terms of the Group's obligations.

(f) Government grants

Grants that compensate the Group for expenses incurred, including the research and development tax concession, are recognised in profit or loss as income.

(g) Finance income and costs

The Group's finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest and transaction expenses on borrowings, including convertible notes. Borrowing costs that are not directly attributable to acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. Movements in the fair value of financial liabilities classified as at fair value through profit or loss are also classified within finance costs.

(h) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity, or in other comprehensive income.

i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

ii. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

6. Significant accounting policies (continued)

(h) Income tax (continued)

ii. Deferred tax (continued)

- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the temporary difference can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

iii. Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group effective for the current tax year from 1 July 2014. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Covata Limited effective 31 October 2014, prior to this date the head entity was Cocoon Data Holdings Pty Limited.

Current tax expense / income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the ‘stand-alone taxpayer’ approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to / (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The head entity recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

6. Significant accounting policies (continued)

(i) Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

ii. Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

iii. Depreciation

Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

- Office equipment 3 – 5 years
- Computer equipment 1.5 – 3 years
- Communications equipment 1.5 – 4 years
- Software 3 years

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

(j) Intangible assets

i. Recognition and measurement

Intangible assets, including intellectual property, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on research activities is recognised in profit or loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

ii. Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

6. Significant accounting policies (continued)

(j) Intangible assets (continued)

iii. Amortisation

Amortisation is calculated to write-off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

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

Intangible assets with indefinite useful lives are systematically tested annually for impairment.

(k) Financial instruments

i. Non-derivative financial assets and financial liabilities – Recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

ii. Non-derivative financial assets – Measurement

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

iii. Non-derivative financial liabilities – Measurement

Non-derivative financial liabilities comprise loans and borrowings, debt securities issued and trade and other payables. Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

iv. Derivative financial instruments and hedge accounting

The Group holds from time to time derivative financial instruments to hedge its foreign currency risk exposures. These derivative instruments are not designated as a cash flow hedging instrument. They are initially recognised at fair value and any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

6. Significant accounting policies (continued)

(l) Share capital

i. Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

ii. Compound financial instruments

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognised in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

(m) Impairment

i. Non-derivative financial assets

Financial assets not classified at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor; restructuring of an amount due to the Group on terms that the Group would not consider otherwise; indications that a debtor or issuer will enter bankruptcy; adverse changes in the payment status of borrowers or issuers; the disappearance of an active market for a security; or observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

The Group considers evidence of impairment for financial assets measured at amortised cost at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that actual losses are likely to be greater or lesser than suggested by historical trends.

6. Significant accounting policies (continued)

(m) Impairment (continued)

i. Non-derivative financial assets (continued)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

ii. Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit (CGU).

The recoverable amount of an asset or CGU's is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Operating leases payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

7. Standards issued but not yet adopted

A number of new standards and amendments to standards are able to be adopted for annual periods beginning after 1 July 2016; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

7. Standards issued but not yet adopted (continued)

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*.

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.

8. 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.

In 2017, the Group only operated 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 results of the Group.

The Group operates in Australia, the USA and the United Kingdom. There were no non-current assets held in the USA following the closure of the San Francisco and Reston offices in April 2017 and December 2016 respectively (2016: $274,749). The non-current assets held in the United Kingdom are computer equipment that has been fully depreciation at 30 June 2017 and thus the balance of non-current assets is nil (2016: Nil).

For the year ended 30 June 2017

9. Earnings per share

	2017 $	2016 $
Earnings per share from continuing operations:		
Loss after income tax (basic)	**(10,179,664)**	(14,116,627)
Loss after income tax (diluted)	**(10,179,664)**	(14,116,627)
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**522,593,721**	449,945,436
Basic earnings per share (cents per share)	**(1.95)**	(3.13)
Diluted earnings per share (cents per share)	**(1.95)**	(3.13)

The calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

10. Auditors' remuneration

	2017 $	2016 $
Audit and review services		
Auditors of the Company – KPMG		
Audit and review of financial statements	**97,055**	140,650
Other services		
Auditors of the Company – KPMG		
In relation to taxation services	**1,639**	-
	98,694	140,650

11. Employee benefit expense

	2017 $	2016 $
Wages and salaries	**5,758,480**	6,427,003
Non-executive director fees	**231,996**	160,000
Termination benefits	**586,516**	213,458
Recruitment and sourcing	**203,689**	354,982
Other employee related expenses	**394,612**	374,847
Payroll taxes	**237,626**	248,628
Contributions to defined contribution superannuation plans	**368,379**	324,956
Bonus – share-based payment accrual	**-**	164,787
Bonus – cash component	**136,919**	248,151
Equity-settled share-based payments	**57,925**	1,190,316
	7,976,142	9,707,128

12. Finance Costs

	2017 $	2016 $
Interest expense on short term borrowings	**7,561**	12,004
	7,561	12,004

13. Income tax expense

a. Current tax expense

	2017 $	2016 $
Current year	**-**	-
Tax expense on continuing operations	**-**	-

b. Reconciliation of effective tax rate

	2017 %	2017 $	2016 %	2016 $
Loss before tax		**(10,179,664)**		(14,116,627)
Tax using the domestic tax rate	**(27.5%)**	**(2,799,408)**	(30.0%)	(4,234,988)
Permanent differences	**6.4%**	**647,511**	5.7%	806,878
Effect of tax losses and temporary differences not taken to account	**(1.9%)**	**(192,039)**	(0.8%)	(109,378)
Current year losses not recognised	**(23.0%)**	**(2,343,935)**	(25.1%)	(3,537,488)
Income tax expense	**-**	**-**	-	-

c. Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2017 $	2016 $
Temporary differences	**1,045,926**	1,216,991
Tax losses	**7,875,342**	6,527,250
	8,921,268	7,744,241

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

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

For the year ended 30 June 2017

14. Cash and cash equivalents

	2017 $	2016 $
Cash at bank	**1,325,280**	8,879,821

15. Financial assets

	2017 $	2016 $
Term deposits	**5,000,000**	-

16. Trade and other receivables

	2017 $	2016 $
Research & development tax concession receivable	**1,455,307**	2,025,612
Trade receivables	**29,562**	10,075
Other receivables	**45,097**	140,650
GST/ VAT receivables	**65,497**	64,760
	1,595,463	2,241,097

The Group's exposure to credit and market risk and impairment losses to trade and other receivables are disclosed in note 24.

17. Other assets

	2017 $	2016 $
Current		
Rental bonds	**-**	103,913
Security deposits	**80,667**	-
	80,667	103,913
Non-current		
Rental bonds	**4,069**	147,828
Security deposits	**100,000**	234,820
Domain names	**15,209**	15,209
	119,278	397,857

A security deposit of $80,667 is held over the lease of Level 4, 156 Clarence Street Sydney, which expires in September 2017 and will be refunded to the Group. The Group's Sydney operations relocated to Level 4, 81 York Street, Sydney in August 2017. A security deposit of $36,009 was executed in July 2017.

18. Property, plant and equipment

	Plant and equipment	Leasehold improvement	Software	Total
Cost				
Balance at 1 July 2015	650,869	441,504	14,304	1,106,677
Additions	71,994	-	-	71,994
Disposals	(9,206)	-	-	(9,206)
Effect of movements in exchange rates	(3,164)	1,014	462	(1,688)
Balance at 30 June 2016	710,493	442,518	14,766	1,167,777
Balance at 1 July 2016	**710,493**	**442,518**	**14,766**	**1,167,777**
Additions	**17,421**	**-**	**-**	**17,421**
Disposals	**(214,437)**	**(3,650)**	**-**	**(218,087)**
Effect of movements in exchange rates	**(7,893)**	**(530)**	**-**	**(8,423)**
Balance at 30 June 2017	**505,584**	**438,338**	**14,766**	**958,688**
Accumulated depreciation				
Balance at 1 July 2015	484,352	416,429	12,262	913,043
Depreciation	81,124	20,854	2,037	104,015
Disposals	(9,206)	-	-	(9,206)
Effect of movements in exchange rates	432	39	467	938
Balance at 30 June 2016	556,702	437,322	14,766	1,008,790
Balance at 1 July 2016	**556,702**	**437,322**	**14,766**	**1,008,790**
Depreciation	**74,345**	**1,546**	**-**	**75,891**
Disposals	**(214,437)**	**(3,650)**	**-**	**(218,087)**
Effect of movements in exchange rates	**46,683**	**3,120**	**-**	**49,803**
Balance at 30 June 2017	**463,293**	**438,338**	**14,766**	**916,397**
Carrying amounts				
At 1 July 2015	166,517	25,075	2,042	193,634
At 30 June 2016	153,791	5,196	-	158,987
At 30 June 2017	**42,291**	**-**	-	**42,291**

19. Trade and other payables

	2017 **$**	**2016** **$**
Trade payables	**169,848**	300,335
Other payables and accrued expenses	**391,865**	925,330
	561,713	1,225,665

Information about the Group's exposure to currency and liquidity risk in included in note 24.

20. Deferred income

	2017 $	2016 $
Licence income received in advance	**1,618,299**	1,931,998
Current	**294,875**	314,671
Non-current	**1,323,424**	1,617,327
	1,618,299	1,931,998

During 2013, the Group entered into a strategic relationship with TPG Telecom Limited (TPG). In exchange for a $10,000,000 cash investment, TPG was provided with a 10 year exclusive licence (Australia and New Zealand, excluding government and defence markets) to sell, market and distribute certain advanced technology products. When considering the accounting substance of the transaction and with specific reference to *AASB 132 Financial Instruments: Presentation, AASB 139 Financial Instruments: Recognition and Measurement* and *AASB 118 Revenue*, $2,666,667 of the TPG investment was recognised as licence income received in advance, to be recognised proportionately over the 10 year life of the licence. At 30 June 2017 $266,667 (2016: $266,667) of the TPG licence income received in advance is classified as current and $1,308,493 (2016: $1,575,163) is classified as non-current.

In addition to the above, the Group has received prepayments for certain licenses that are to be recognised as revenue over the licence period.

21. Employee benefits

Provision for annual leave	**72,534**	131,473

There are no long-service leave benefits that require a provision at 30 June 2017 (2016: Nil).

22. Capital and reserves

		Ordinary Shares 2017	
	Note	**Number**	**$**
Fully paid ordinary shares			
On issue at the start of year		**489,540,167**	**79,126,785**
Shares issued in strategic equity placement tranche 2	*(a)*	**34,138,005**	**7,851,741**
Less: issue costs paid in cash	*(b)*		**(473,033)**
Issued for non-cash – employee bonuses	*(c)*	**732,388**	**164,787**
Issued for cash	*(d)*	**2,304,395**	**215,000**
Total ordinary shares on issue at the end of the year		**526,714,955**	**86,885,280**

22. Capital and reserves (continued)

	Note	Ordinary Shares 2016 Number	$
Fully paid ordinary shares			
On issue at the start of year		423,286,364	64,933,717
Shares issued to Fidelity International	*(e)*	34,741,613	6,948,323
Shares issued in strategic equity placement tranche 1	*(f)*	23,590,743	5,425,871
Less: issue costs paid in cash	*(g)*		(742,571)
Share options exercised – cash settled	*(h)*	7,006,606	2,164,642
Employee loan shares exercised – cash settled	*(i)*	-	150,394
Issued for non-cash – employee bonuses	*(j)*	741,998	189,209
Issued for non-cash – advisor fees	*(k)*	125,000	45,000
Issued for non-cash – employee incentive	*(l)*	47,843	12,200
Total ordinary shares on issue at the end of the year		489,540,167	79,126,785

Issue of ordinary shares

All issued ordinary shares are fully paid. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

During the year to 30 June 2017, the Group completed the following transactions in respect of the issue of ordinary shares:

(a) The Group issued 34,138,005 ordinary shares totalling $7,851,741 (23 cents a share in the Company at 21 July 2016 as part of the second tranche of a $13.2M strategic equity placement. The first tranche was for a cash investment of $5,425,871 (23 cents a share).
(b) The Group paid $473,033 in brokerage fees relating to (a).
(c) The Group issued 732,388 ordinary shares in the Company to employees for 30 June 2016 bonuses. These shares were assessed with a fair value at the time of issue of $164,787 (22.5 cents).
(d) The Group issued 2,304,395 ordinary shares in connection with the appointment of Edward Pretty as CEO and Managing Director. These shares were issued following receipt of $215,000 (9.33 cents) from Mr. Pretty as set out in his subscription deed approved by shareholders at the 5 April 2017 EGM.

During the year to 30 June 2016, the Group completed the following transactions in respect of the issue of ordinary shares:

(e) The Group issued 34,741,613 ordinary shares in the Company to Fidelity International at 27 November 2015 for a cash investment of $6,948,323 (20 cents a share).
(f) The Group issued 23,590,743 ordinary shares in the Company at 3 June 2016 as part of a $13.2 million strategic equity placement funded in two tranches. The first tranche was for a cash investment of $5,425,871 (23 cents a share). The second tranche was completed in early FY2017 (refer to (a) above).
(g) The Group paid $742,571 in brokerage fees relating to (e) and (f).
(h) The Group issued 7,006,606 ordinary shares in the Company from the exercise of share options and cash settled at an average exercise price of 24 cents and an average share option fair value of 7 cents.
(i) The Group received $150,394 in cash in relation to restricted ordinary shares under the employee loan share plan as described in note 25.

22. Capital and reserves (continued)

(j) The Group issued 741,998 ordinary shares in the Company to employees for 31 December 2015 calendar year bonuses. These shares were assessed with a fair value at the time of issue of $189,209 (25.5 cents).
(k) The Group issued 125,000 ordinary shares in the Company to MZ Group for global investor relations services. These shares were assessed with a fair value at the time of issue of $45,000 (36 cents).
(l) The Group issued 47,843 ordinary shares in the Company to an employee for no consideration as part of the terms of their employment contract. These shares were assessed with a fair value at the time of issue of $12,200 (25.5 cents).

Nature and purpose of reserves

Share options / warrants reserve
The share options reserve and warrants reserve are used to recognise the grant date fair value of share options and warrants issued, but not exercised.

Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Dividends

There were no dividends declared or paid during the year (2016: Nil).

23. Share-based payments

At 30 June 2017, the Group has the following share-based payment arrangements:

Share option programme

The Group has a share option programme that enables directors, employees and contractors to purchase shares in the Company. A total of 4,340,000 share options were issued under this programme in the year to 30 June 2017 (2016: 4,706,994). In accordance with this programme, holders of vested options are entitled to purchase shares at a price per share as detailed below.

The terms of options issued to US based participants is the shorter of five years from the option grant date or three months from the termination of service (one year if termination is caused by death).

23. Share-based payments (continued)

Share options granted during the year

Grant date	No. of options	Exercise price $AUD	Fair value at grant date $AUD	Vesting conditions
21/07/16	**250,000**	0.20	0.07	25% on 30 June 2017, remainder to vest equally over 12 calendar quarters on the last day of each quarter commencing 30 September 2017.
02/12/16	**250,000**	0.20	0.07	Fully vested upon date of issue, being 2 December 2016.
040/5/17	**3,000,000**	0.20	0.00	40% on 31 March 2018 and 31 March 2019, remainder to vest on 31 March 2020.
22/06/17	**840,000**	0.05	0.02	31.25% on 30 September 2017, remainder to vest equally over 12 calendar quarters on the last day of each quarter commencing 31 December 2017.
	4,340,000			

Share options granted during the prior year

Grant date	No. of options	Exercise price $AUD	Fair value at grant date $AUD	Vesting conditions
30/10/15	**300,000**	0.24	0.09	20% on grant, 30% on 15 October 2016, remainder to vest equally over four calendar quarters on the last day of each quarter commencing 31 December 2016.
30/11/15	**1,000,000**	0.20	0.09	Full vesting subject to the Company's ordinary shares achieving a 10-day VWAP of at least $0.30 within 12 months of the issue date.
17/12/15	**906,994**	0.33	0.12	Fully vested options granted in lieu of cash bonuses.
28/01/16	**500,000**	0.31	0.12	35% on grant, 15% on 30 June 2016, remainder to vest equally over five calendar quarters on the last day of each quarter commencing 30 September 2016.
28/01/16	**500,000**	0.31	0.12	25% on 31 December 2016, remainder to vest over a period of four calendar quarters on the last day of each quarter commencing 30 March 2017.
02/06/16	**1,500,000**	0.255	0.09	25% on 31 March 2017, remainder to vest over a period of 12 calendar quarters on the last day of each quarter commencing 30 June 2017.
	4,706,994			

For the year ended 30 June 2017

23. Share based payments (continued)

Employee loan share plan

During the year to 30 June 2017, 16,700,000 Covata Limited ordinary shares were issued under the ELSP to employees as bonus remuneration (2016: 132,167).

Employee loan share plan shares granted during the year

Grant date	No. of ELSP	Exercise price $AUD	Fair value at grant date $AUD	Vesting conditions
27/01/17	**400,000**	0.12	0.06	25% on 1 July 2017, remainder to vest equally over 12 calendar quarters on the last day of each quarter commencing 30 September 2017.
04/05/17	**4,000,000**	0.09	0.01	50% on Grant date, remainder to vest on 23 January 2018. Immediately vest whereby the volume weighted average price (VWAP) of the Company's ordinary shares over any 40 consecutive days on which trades in the Company's ordinary shares are recorded exceed $0.50 (50c).
04/05/17	**6,000,000**	0.20	0.00 (1)	50% on 23 July 2018, remainder to vest 23 January 2020. Immediately vest whereby the VWAP of the Company's ordinary shares over any 40 consecutive days on which trades in the Company's ordinary shares are recorded exceed $0.50 (50c)
23/06/17	**6,300,000**	0.04	0.02	30% on 30 September 2017, remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing 31 December 2017
	16,700,000			

(1) Actual Fair Value $0.0046

Employee loan share plan shares granted during the prior year

Grant date	No. of ELSP	Exercise price $AUD	Fair value at grant date $AUD	Vesting conditions
17/12/15	**132,167**	0.33	0.12	Fully vested loan shares granted in lieu of cash bonuses.
	132,167			

Measurement of fair values

The fair value of all share-based payment plans was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility on grant date.

23. 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:

2017

Grant date	Share options 21/7/16	Share options 8/12/16	Share options 4/5/17	Share options 22/6/17
Fair value at grant date	$0.07	$0.07	0.00 (1)	0.02
Share price at grant date	$0.20	$0.10	$0.04	$0.04
Exercise price	$0.20	$0.20	$0.20	$0.05
Expected volatility (weighted average)	85.80%	90.60%	100.00%	100.00%
Expected life (weighted average)	5 years	5 years	5 years	5 years
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate (based on government bonds)	1.53%	1.76%	1.73%	1.68%

(1) Actual fair value $0.0008

2016

Grant date	Share options 30/10/15	Share options 30/11/15	Share options 17/12/15	Share options 28/1/16	Share options 2/6/16
Fair value at grant date	$0.09	$0.09	$0.12	$0.12	$0.09
Share price at grant date	$0.24	$0.26	$0.33	$0.31	$0.26
Exercise price	$0.24	$0.20	$0.33	$0.31	$0.26
Expected volatility (weighted average)	38.90%	38.90%	38.90%	38.90%	38.90%
Expected life (weighted average)	5 years	2 years	5 years	5 years	5 years
Expected dividends	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate (based on government bonds)	2.03%	2.04%	2.31%	2.13%	1.79%

2017

Grant date	ELSP 27/1/17	ELSP 4/5/17	ELSP 4/5/17	ELSP 23/6/17
Fair value at grant date	$0.06	$0.02	$0.02	$0.02
Share price at grant date	$0.10	$0.04	$0.04	$0.04
Exercise price	$0.12	$0.09	$0.20	$0.04
Expected volatility (weighted average)	92.00%	100.00%	100.00%	100.00%
Expected life (weighted average)	10 years	10 years	10 years	10 years
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate (based on government bonds)	1.81%	1.73%	1.73%	1.68%

23. Share-based payments (continued)

Equity-settled share-based payment plans (continued)

2016	ELSP	ELSP	ELSP
Grant date	**17/12/15**	**11/3/15**	**12/3/15**
Fair value at grant date	$0.12	$0.14	$0.12
Share price at grant date	$0.33	$0.27	$0.33
Exercise price	$0.33	$0.27	$0.33
Expected volatility (weighted average)	38.90%	38.40%	38.40%
Expected life (weighted average)	5 years	5 years	5 years
Expected dividends	Nil	Nil	Nil
Risk-free interest rate (based on government bonds)	2.31%	2.05%	2.12%

Expenses recognised in profit or loss	**Share option reserve**	**Share capital**	**Total expense**	Total expense
	2017	**2017**	**2017**	2016
Share options granted – 2017	16,163	-	16,163	-
Share options granted – 2016	58,904	-	58,904	269,632
Share options granted – 2015	57,641	-	57,641	614,183
Share options granted – 2014	693	-	693	4,061
Share options granted – 2013	502	-	502	20,502
Share options total	**133,903**	-	133,903	908,378
Employee share plan granted – 2017	65,996	-	65,996	-
Employee share plan granted – 2016	-	-	-	16,232
Employee share plan granted – 2015	17,106	-	17,106	67,225
Employee share plan granted – granted 2013, modified 2015	16,128	-	16,128	98,792
Employee share plan total	**99,231**		99,231	182,249
Ordinary shares granted	-	-	-	246,409
Total recognized as expense	**247,197**	-	247,197	1,337,036
Total recognised as employee benefits expense	**247,197**	-	247,197	1,190,316
Total recognised as consultancy fees expense	-	-	-	146,720

The share-based payments – share options amount of $147,967 in 2017 on the consolidated statement of changes in equity represents the $147,967 share options employee expense. In 2016, the share-based payments – share options amount of $452,195 on the consolidated statement of changes in equity represents the $908,378 share options employee expense less $456,183 of fair value related to the 7,006,606 vested share options that were exercised during the period.

The share-based payments – employee loan shares amount of $99,231 in 2017 on the consolidated statement of changes in equity represents $99,231 employee loan shares employee expenses. In 2016, the Share based payments employee loan shares amount of $182,249 on the consolidated statement of changes in equity represents the total employee loan shares employee expenses

In 2017, 2,699,503 share options lapsed (2016: 2,975,329) with a total fair value of $320,229 (2016: $228,368) thereby reducing the share option reserve on the consolidated statement of changes in equity.

For the year ended 30 June 2017

23. Share-based payments (continued)

Equity-settled share-based payment plans (continued)

During the year employee share plan shares were issued to employees with a fair value of $99,231. This included the issue of 10,000,000 employee share plan shares to Edward Pretty. The issue relates to the terms of his employment contract and was approved by shareholders at the 5 April 2017 EGM.

The total expense recognised in profit and loss for the year for ordinary shares granted was $0 (2016: $246,409).

During the year, several employees departed the company with options still vesting. The fair value of share options recognised as an expense in prior periods lapsed on resignation resulting in a credit recognised in profit and loss for the year of $159,098 (2016: $121,849).

Reconciliation of outstanding share options and warrants

The number and weighted average exercise prices of share options and warrants are as follows:

	Number of share options	Weighted average exercise price	Number of warrants	Weighted average exercise price
	Jun 2017	Jun 2017	Jun 2017	Jun 2017
Outstanding at 1 July	29,419,644	$0.22	38,240,979	$0.27
Lapsed during the year	(2,699,503)	$0.22	-	-
Converted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Amended during the year	-	-	-	-
Granted during the year	4,340,000	$0.17	-	-
Outstanding at 30 June	31,060,141	$0.21	38,240,979	$0.27
Exercisable at 30 June	26,474,842	$0.22	-	-

	Number of share options	Weighted average exercise price	Number of warrants	Weighted average exercise price
	Jun 2016	Jun 2016	Jun 2016	Jun 2016
Outstanding at 1 July	35,194,585	$0.20	38,240,979	$0.27
Lapsed during the year	(2,975,329)	$0.26	-	-
Converted during the year	-	-	-	-
Exercised during the year	(7,006,606)	$0.24	-	-
Expired during the year	-	-	-	-
Amended during the year	(500,000)	$0.53	-	-
Granted during the year	4,706,994	$0.27	-	-
Outstanding at 30 June	29,419,644	$0.22	38,240,979	$0.27
Exercisable at 30 June	24,442,150	$0.21	-	-

The options outstanding at 30 June 2017 have a weighted average exercise price of $0.21 and a weighted average contractual life of 3 years (2016: 3.4 years).

24. Financial instruments – Fair values and risk management

A. Net fair values of financial assets and liabilities

The carrying amounts of financial assets and liabilities of the Company and the Group, for the year ended 30 June 2017 and 30 June 2016, approximate their net fair values, given the short time frames to maturity and or variable interest rates.

(i) Fair value hierarchy

The Group currently has no financial instruments recorded at fair value.

The different levels have been defined as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

B. Financial risk management

The Group has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

(i) Risk management framework

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Company's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

24. Financial instruments – Fair values and risk management (continued)

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristic of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and country in which customers operate.

As at 30 June 2017 and as at 30 June 2016 all trade and other receivables of the Group were current, excluding one invoice outstanding its past due balance. The view of the Group is that this balance is recoverable. There have been no impairment losses recognised during the year (2016: nil).

B. Financial risk management (continued)

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Carrying amount	
Exposure to credit risk	**30 June 2017**	**30 June 2016**
Cash and cash equivalents	**1,325,280**	8,879,821
Term deposits	**5,000,000**	-
Research & development tax concession receivable	**1,455,307**	2,025,612
Trade receivables	**29,562**	10,075
GST / VAT receivables	**65,497**	64,760
Other receivables	**45,097**	140,650
Other assets	**184,735**	486,561
	8,105,478	11,607,479

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation (refer note 6(b)).

Ultimate responsibility for liquidity management rests with the directors. The Group ensures that, where possible, it has sufficient cash on demand to meet expected net cash outflows, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of any netting agreements.

30 June 2017		**Contractual cash flows**		
	Carrying amount	**Total**	**6 months or less**	**More than 6 months**
Non-derivative financial liabilities				
Trade and other payables	**561,713**	**(561,713)**	**(561,713)**	**-**
	561,713	**(561,713)**	**(561,713)**	**-**

24. Financial instruments – Fair values and risk management (continued)

B. Financial risk management (continued)

30 June 2016	Carrying amount	Contractual cash flows Total	6 months or less	More than 6 months
Non-derivative financial liabilities				
Trade and other payables	1,225,665	(1,225,665)	(1,225,665)	-
	1,225,665	(1,225,665)	(1,225,665)	-

(iv) Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

Sensitivity analysis

The Group is exposed to currency risk on its cash and expenses that are denominated in Great British Pounds and United States Dollars. The Group's exposure to foreign currency risk was as follows, based on notional amounts.

	2017 $	2016 $
GBP exposure		
Cash	**199,370**	-
Trade and other receivables	**31,233**	-
Trade and other payables	**(25,275)**	-
Group balance sheet exposure	**205,328**	-

24. Financial instruments – Fair values and risk management (continued)

B. Financial risk management (continued)

(iv) Market risk (continued)

Currency risk (continued)

	2017 $	2016 $
USD exposure		
Cash	**175,789**	2,447,581
Trade and other receivables	**-**	31,486
Other current assets	**-**	103,912
Trade and other payables	**(234)**	(246,352)
Group balance sheet exposure	**175,555**	2,336,627

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

	Equity $	Profit or loss $
30 June 2017		
GBP	**(20,532)**	**(20,532)**
USD	**(17,555)**	**(17,555)**
30 June 2016		
GBP	**-**	**-**
USD	**(173,308)**	**(173,308)**

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2017	2016	**2017**	2016
AUD/GBP	**0.5943**	n/a	**0.6114**	n/a
AUD/USD	**0.7281**	0.7281	**0.7871**	0.7417

Interest rate risk

The Group adopts a policy to minimise exposure to interest rate risk by depositing excess funds in interest bearing accounts that are variable rate.

At the reporting date the interest rate profile of the Group's interest bearing financial instruments is detailed below.

24. Financial instruments – Fair values and risk management (continued)

B. Financial risk management (continued)

(iv) Market risk (continued)

Interest rate risk (continued)

Variable interest rate instruments	30 June 2017 $	30 June 2016 $
Cash and cash equivalents	**1,325,280**	8,879,821
Term deposits	**5,000,000**	-
Term deposits and rental bonds	**184,736**	486,561
	6,510,016	9,366,382

Sensitivity analysis

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

Impact on profit/(loss) for the period	**65,100**	93,664

25. Operating leases

At 30 June, the future minimum lease payments under non-cancellable leases are payable as follows:

	2017 $	2016 $
Less than one year	**66,068**	596,992
Between one and five years	-	161,520
	66,068	758,512

During the financial year ended 30 June 2017, $788,015 was recognised as an expense in profit or loss in respect of operating leases (2016: $742,556).

The reduction in headcount resulted in surplus lease space at Level 4, 156 Clarence Street Sydney, where the lease expires in September 2017. Subsequent to year end, the Group entered into a three-year lease over the property at Level 4, 81 York Street, Sydney commencing August 2017. Rental expenses will decrease by 51% as a result, and operating expenses are also expected to decrease.

26. Reconciliation of cash flows from operating activities

	2017 $	2016 $
Loss for the year	**(10,179,664)**	(14,116,627)
Adjustments for:		
Depreciation	**75,891**	104,015
Share-based payments	**247,197**	1,337,036
Net finance costs	**185,226**	91,195
Gain on disposal of property, plant and equipment	**12,651**	768
Exchange differences on translation of foreign operations	**52,967**	53,793
	(9,605,732)	(12,529,820)
Changes in:		
- trade and other receivables	**423,518**	(236,535)
- prepayments	**(119,545)**	(9,739)
- trade and other payables	**(663,952)**	280,286
- deferred income	**(313,698)**	(176,499)
- provisions and employee benefits	**(58,939)**	(53,146)
Net cash used in operating activities	**(10,338,348)**	(12,725,453)

27. Related parties

a) Consolidated entities

	Country of incorporation	Ownership interest 2017	Ownership interest 2016
Parent entity			
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%**
Fineloop Holdings Pty Limited (1)	Australia	**0%**	**100%**
Covata UK Limited	United Kingdom	**100%**	**100%**

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

27. Related parties (continued)

b) Transactions with key management personnel

i) Advances to directors

Unsecured advances to directors at 30 June 2017 were $0 (2016: $145,001). Previous advances related to payments made by the Group on Mr Telford's behalf to assist with his relocation back to Australia in addition to an unsecured loan relating to 726,000 loan shares which were previously disposed. The Group extended these advances on commercial terms. All unsecured advances were settled in full in March 2017.

ii) Other transactions with directors and key management personnel

During 2017, key management personnel did not dispose of any ordinary shares.

The Group used the legal services of a legal firm of which a director is a partner. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. The total amount billed and expensed in 2017 was $29,482 (2016: $15,711).

iii) Key management personnel compensation

Key management personnel compensation comprised the following.

	2017 $	2016 $
Short-term employee benefits	**1,439,589**	1,449,280
Post-employment benefits	**45,128**	45,785
Share-based payments	**92,015**	726,375
	1,576,732	2,221,440

28. Subsequent events

In July 2017, Derek Brown joined Covata as its Chief Commercial Officer, with responsibility for global sales, pre-sales/solutions, marketing and channels. Brown joined Covata after serving as the Head of Workplace Technology Services and Virtual CIO of Ricoh Australia, covering a range of relevant products such as managed document services.

In July 2017, Covata sold a licensing agreement for its SafeShare product to the Australian subsidiary of a global technology company. The sale was worth $360,000 in revenue over a three-year period, or $10,000 per month. The client will work with Covata to further improve its offering. The deal demonstrated the effectiveness of Covata's new sales strategy and focus, and highlighted to the market that enterprise security is no longer just an IT issue, but a significant business-wide concern for C-suite, senior management and risk managers.

In August 2017, Covata announced it had deployed SafeShare on Microsoft's Azure Cloud platform late July 2017, and will be available to customers by the end of September 2017. Further discussions are being held with Microsoft UK to replicate this deployment in that market, with the intention to expand to Europe (initially in Germany) and the US.

28. Subsequent events (continued)

In August 2017, Covata announced it would enhance its data security offering by building and deploying an integrated data security platform (DSP), or data-centric audit and protection platform. The expanded offering will include features such as discovery, access and policy control, classification (Covata Secure), activity monitoring, data loss prevention, user sensitive behaviour analytics and reporting. The new platform will be able to be deployed in the Microsoft Azure public cloud, in private and hybrid clouds, GC (Governance, Reporting, Compliance) or on-premises.

Further, Microsoft announced that the Australian Signals Directorate (ASD) formally certified a greatly expanded range of Microsoft Azure and Microsoft Office 365 services for inclusion on the ASD Certified Cloud Services List (CCSL). This certification has enabled Microsoft to deliver the most complete, intelligent and trusted cloud for Australian federal, state and local government needs. Office 365 remains the only productivity platform certified to this level by Australian government on the CCSL. Covata products and services will be available on this platform, to enable federal state and local agencies users to process and store unclassified information holding Australian government sensitivity markers.

Acquisition of CipherPoint

In August 2017, Covata announced that it had entered into a binding, agreement to acquire all the issued capital of CipherPoint Software Inc. (CipherPoint). CipherPoint operates with resources in Denver Colorado, Austin Texas, and San Diego California.

Founded in 2010, CipherPoint provides data-centric audit and protection solutions which enable companies to search for and discover where sensitive information resides within their organisation, and secures unstructured information in platforms such as Microsoft SharePoint, Office 365, Google Drive and file servers. CipherPoint's Data security suite ("CipherPoint Eclipse"), allows organisations to locate sensitive data, encrypt that information, centrally manage permissions to protect against unauthorised access, and log all permitted and denied access requests to secure sensitive data.

The acquisition consideration is predominantly stock based and any cash costs of the acquisition will be met from existing reserves.

The potential benefits from this transaction include:

- key technology including extensive data discovery tools, protection of SharePoint files, Microsoft integrations and API translator that will form part of Covata's data security platform;
- a strong core team;
- the acquisition of marquee customers including US Army, Arthur J. Gallagher & Co. DARPA, a US Space agency, Singapore Government agency and an industry leading partner in Dimension Data;
- faster integration with other Microsoft applications; and
- greater geographic reach into the US, Europe and Asia.

CipherPoint recently launched its General Data Protection Regulation (GDPR) service offering to help meet European Union (EU) GDPR compliance. The EU GDPR applies to businesses both within and outside the EU that collect personal data belonging to EU citizens. This will benefit all of Covata's global customers with EU GDPR exposure and also Covata's Australian customers as they begin to prepare for mandatory data breach notification legislation to take effect in Australia within the next 12 months.

28. Subsequent events (continued)

CipherPoint's five US-based employees will join Covata's existing team. Milestone based components of the consideration payable to the CipherPoint vendors are dependent on CipherPoint delivering at least US$300,000 of revenue in the six months to 31 December 2017, and a second separate milestone based on CipherPoint delivering at least US$500,000 in revenue in the 12 months from 1 July 2017 to 30 June 2018.

29. Parent entity disclosures

As at the financial year ended 30 June 2017, the parent entity of the Group was Covata Limited.

	2017 $	2016 $
Results of the parent entity		
Loss for the period	**(12,122,838)**	(502,876)
Total Comprehensive loss	**(12,122,838)**	(502,876)
Financial position of parent entity at year end		
Current assets	**64,214**	4,773,318
Non-current assets	**-**	-
Total assets	**64,214**	4,773,318
Current liabilities	**58,079**	188,819
Total liabilities	**58,079**	188,819
Net assets	**6,135**	4,584,499
Total equity of the parent entity comprising of:		
Share capital	**86,885,282**	79,126,786
Reserves	**7,326,271**	7,540,293
Accumulated losses	**(94,205,418)**	(82,082,580)
Total Equity	**6,135**	4,584,499

Parent entity contingencies
The parent entity did not have any capital commitments or contingent liabilities at 30 June 2017 (2016: Nil).

Covata Limited and its controlled entities
Director's declaration

1. In the opinion of the directors of Covata Limited ("the Company"):

   a) the consolidated financial statements and notes that are set out on pages 42 to 79 and the remuneration report set out on pages 16 to 31 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance, for the year 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.

2. The directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2017.

3. The directors draw attention to note 2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Sydney, Australia this 29th day of August 2017.

Signed in accordance with a resolution of the directors:

William McCluggage
Chairman

Independent Auditor's Report

To the shareholders of Covata Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Covata Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated Statement of Financial Position as at 30 June 2017;
- Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

Going Concern basis of accounting	
Refer to Note 6b to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**

The Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to:
- the high level of judgement required by us in evaluating the Group's assessment of going concern and the events or conditions that may cast significant doubt on their ability to continue as a going concern. These are outlined in Note 6b; and
- the cash flow projections prepared as the basis of the Director's assessment that the use of the going concern basis of accounting is appropriate in preparing the financial report incorporate a number of assumptions and significant judgements.
 	
We critically assessed the levels of uncertainty, as it related to the Group's ability to continue as a going concern, within these assumptions and judgements, focusing on the Group's planned levels of operational expenditures, and the ability of the Group to manage cash outflows within available funding, particularly in light of the historical cash outflows from operations and loss making operations.
 	
In assessing this key audit matter, we involved senior audit team members who understand the Group's business, industry and the economic environment it operates in.
	Our procedures included:
	• We analysed the cash flow projections by:
	  • Evaluating the underlying data used to generate the Group prepared cash flow projections. We specifically looked for their consistency with the Group's intentions, and their comparability to past practices;
	  • Assessing the resultant impact to the ability of the Group to pay debts as and when they fall due and continue as a going concern. The specific areas we focused on were informed from our test results of the accuracy of previous Group cash flow projections on key cash flow projection assumptions;
	  • Assessing the planned levels of operating expenditures for consistency of relationships and trends to the Group's historical results, particularly in light of the historical cash outflows from operations, loss making operations, results since year end, and our understanding of the business, industry and economic conditions of the Group;
	  • Assessing net cash flows associated with the acquisition of CipherPoint Software Inc., including comparison to historical net cash flows from operations generated by that entity;
	• We evaluated the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements.

Other Information

Other Information is financial and non-financial information in Covata Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Covata Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 16 to 31 of the Directors' report for the year ended 30 June 2017.

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

KPMG

KPMG

JJ Frazer

Partner

Bundall

29 August 2017

Covata Limited and its controlled entities
Additional Information

Shareholding Information as at 21 August 2017

a. Distribution of Shareholders

Category (size of holding)	Number of holders of ordinary shares	Number of holders of share options	Number of holders of warrants
1 to 1,000	235	-	-
1,001 to 5,000	512	-	-
5,001 to 10,000	382	-	-
10,001 to 100,000	1,251	4	-
100,001 and over	518	13	1
Total	**2,898**	17	1

b. Marketable Parcels

There were 235 shareholders holding less than a marketable parcel of 883 shares as at 21 August 2017.

c. The names of the substantial shareholders listed in the company's register are:

Shareholder	Number of ordinary shares [1]
TPG Telecom Limited	76,043,498
FIL Limited, part of Fidelity International <HSBC Cust Nom AU LTD>	52,322,547

[1] The number of ordinary shares include ordinary shares where the substantial shareholder's associates have a relevant interest, as disclosed in their substantial shareholding notice.

d. Voting rights

As at 21 August 2017 the company has 517,611,856 fully-paid ordinary shares on issue, there are 27,497,191 employee loan funded shares on issue, 26,474842 share options over the ordinary share capital of the company outstanding, and 38,240,979 warrants over the ordinary shares of the company outstanding.

Only the shareholders of ordinary shares are entitled to vote and each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Shareholding Information as at 21 August 2017 (continued)

e. 20 Largest Shareholders – Ordinary Shares

Rank	Name	Number of ordinary shares	%
1	TPG Telecom Limited	76,043,498	14.69%
2	HSBC Custody Nominees (Australia) Limited	54,513,755	10.53%
3	Raven Capital Nominees Pty Ltd <Raven Technology Fund 1 A/C>	23,494,538	4.54%
4	Gaffwick Pty Ltd <The Duncan Family A/C>	21,666,665	4.19%
5	Ilwella Pty Ltd	21,666,665	4.19%
6	Raven Ventures (Australia) Pty Ltd <The Gateway Venture Fund A/C>	10,809,902	2.09%
7	Gerard O'Brien & Helen O'Brien <O'Brien Super A/C>	8,177,462	1.58%
8	Ess See Pty Ltd <Ess See Superfund A/C>	6,388,838	1.23%
9	Europlay Capital Advisors LLC	6,234,452	1.20%
10	Covelane Gold Coast Pty Ltd <Covelane S/F A/C>	6,100,000	1.18%
11	Jack Burston <The Burston Family A/C>	6,080,481	1.17%
12	MBA Investments Pty Ltd	5,876,087	1.14%
13	Fed Id Australia Pty Ltd	4,743,986	0.92%
14	Vagana Pty Ltd <Pretty Super Fund A/C>	3,475,505	0.67%
15	Cidex Computer Systems Pty Ltd <The Nussbaum Family A/C>	3,227,954	0.62%
16	Invia Custodian Pty Limited <Ben Smith Super Fund A/C>	3,151,000	0.61%
17	Mr Edward Michael Eadeh & Mrs Diann Elizabeth Eadeh <Tahoe Super Fund A/C>	3,100,000	0.60%
18	Drp Cartons (NSW) Pty Limited <Drp Cartons NSW P/L S/F A/C>	3,008,403	0.58%
19	Invia Custodian Pty Limited <Kelloway A/C>	2,923,259	0.56%
20	Mrs Vincenza Frisina & Mr Roger Frisina	2,800,000	0.54%
	Total (Top 20)	273,482,450	52.84%
	Total (Remaining)	244,129,406	47.16%
	Total	**517,611,856**	**100.00%**

(1) HSBC is the custodian for FIL Limited, part of Fidelity International. Of the 54,513,755 Ordinary shares held by HSBC, FIL Limited holds 52,322,547 at 21 August 2017

(2) Vagana Pty Ltd is the trustee of Pretty Superannuation Fund for related party Edward Pretty

Covata Limited and its controlled entities
Corporate Directory

Directors

Mr. William McCluggage (Chairman)
Mr. Edward Pretty (CEO)
Mr. Lindsay Tanner
Mr. David Irvine

Joint Company Secretaries

Mr. Steven Bliim
Mr. Patrick Gowans

Registered Office

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Telephone: (03) 8692-9030

Principal Place of Business

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Telephone: (02) 8412-8200

Share Register

Boardroom Pty Limited
Level 12, 225 George Street
Sydney, NSW, 2000

Auditors

KPMG
Level 11, Corporate Centre One
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Bundall, Queensland, 4217