# Covata Limited
# ABN 61 120 658 497

# Appendix 4E

The information set out in the Appendix 4E is given to ASX under Listing 4.3A. The information set out in the Appendix 4E should be read in connection with the Company's most recent annual financial report.

## Reporting period

| | |
|---|---|
| Reporting period: | Financial year ended 30 June 2018 |
| Comparative period: | Financial year ended 30 June 2017 |

## Results for announcement to the market

| | $ | Up/Down | Movement (%) |
|---|---|---|---|
| Revenue from ordinary activities | 2,617,203 | Up | 38.32% |
| Loss from ordinary activities after tax attributable to members | (7,443,469) | Down | (26.88%) |
| Net loss attributable to members | (7,443,469) | Down | (26.88%) |

The Group recorded a loss after tax of $7,443,469 for the year ended 30 June 2018 (2017: $10,179,664). Net cash used in operations was $4,297,735, down 58.42% from 2017 (2017: $10,338,348).

During the year the Group earned technology related revenues of $1,470,323 up 247% from 2017 (2017: $424,102).

Additionally, the Group accrued research and development (R&D) tax concession revenue of $1,144,335 (2017: $1,455,307). This has decreased 21% from the previous year as the Group decreased its operation costs. The R&D cash receipt is expected in Q2 FY2019.

## Dividend information

No dividend has been proposed to be paid or payable for the year ended 30 June 2018, nor for the comparative period.

## Net tangible assets per security

| | 2018 | 2017 |
|---|---|---|
| Net tangible assets per security | **0.91 cents** | 1.16 cents |

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

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

For the ten months ended 30 June 2018, CipherPoint contributed revenue from ordinary activities of A$705,591 and an adjusted loss from ordinary activities after tax of A$681,951, after adding back stock options expense.

## Covata Limited
## ABN 61 120 658 497

# Appendix 4E

## Details of associates and joint ventures

Not applicable

## Audit

This report is based on accounts which have been audited.

## Attachments

The audited financial report of Covata Limited for the year ended 30 June 2018 is attached

Additional Appendix 4E disclosure requirements can be found in the annual financial report which contains the Directors' Report and the 30 June 2018 Financial Statements and accompanying notes.

# Covata Limited

ABN 61 120 658 497

## Annual Financial Report
## 30 June 2018

# 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 2018 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.

## Company Secretaries

**Mr. Patrick Gowans**
**Joint Company Secretary**

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

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

**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 Minerals 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.

## 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 | 4 | 4 |
| Mr. Edward Pretty | 4 | 4 |
| Mr. Lindsay Tanner | 4 | 4 |
| Mr. David Irvine | 4 | 4 |

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

## 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

### Restructuring complete, product offering expanded

The financial year commenced following a period of restructure which saw the Group rationalise its cost base and international footprint, scaling back US operations, reducing headcount in Australia and focusing available resources on customer-led development along with greater sales and marketing support.

Operational highlights included:

- Restructure of the Macquarie Telecom agreement;
- SafeShare released and signed first customer on Microsoft Azure Cloud;
- Completion of the acquisition of data classification IP from, and alliance with, dataglobal GmbH;
- Service pack updates for SafeShare, Eclipse, and iOS and Android mobile apps for Macquarie Telecom;
- Launch of the Company's ITAR (International Traffic in Arms Regulations) offering in the United States;
- Derek Brown joined Covata as its Chief Commercial Officer;
- Following the acquisition of CipherPoint, Mike Fleck joined Covata as VP Security and Head of Marketing, Woody Shea joined Covata as Chief Technology Officer and Kevin Homer joined as VP of Sales;
- Successful completion of two capital raises by way of Placement, Share Purchase Plan and Entitlement Issue; and
- Beta launch of the data discovery tool.

### Contract wins – building revenues

- Sale of a licensing agreement for SafeShare to the Australian subsidiary of a global technology company worth A$360,000 over a three-year period;
- Licensing agreement for CipherPoint Eclipse to a Major US sporting association for US$46,000 (A$60,095) with US$10,000 (A$13,086) annual ongoing maintenance;
- Contract win for Arthur J Gallagher & Co for US$76,000 (A$96,900);
- A confidential deal to supply a perpetual licence of CipherPoint Eclipse to a US subsidiary of a global power generation, automation and medical diagnosis company to replace the end of life Cryptzone product. The deal reflects a total contract value of US$82,500 (A$105,000);
- First US-based SafeShare sales to DSM Dyneema and SAES Getters valued US$100,800 (A$135,730); and
- The Group delivered revenue of $1.47M up 247% (2017: $1.016M) and cash receipts of $1.118M up 1,095% (2017: $93,635).

### Financial overview

During 2018, the Group recorded a comprehensive loss of $7,482,122 (2017: $10,282,679), and earned technology related revenues of $1,470,323 (2017: $424,102). As at 30 June 2018, the Group held $4,471,616 (2017: $6,325,280) in cash and term deposits.

Additionally, the Group recognised research and development (R&D) tax concession revenue of $1,144,335 (2017: $1,455,307). This decreased by 21 percent from the corresponding year as the Group rationalised and reduced its operating cost base.

## Review of Operations (continued)

### CipherPoint acquisition

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

- Settlement of up to US$150,000 to CipherPoint's creditors as at the date of completion;
- A$510,760 CVT shares, issued to the holders of various derivative instruments and preference rights of CipherPoint, at the higher of $0.045 or the 5-day VWAP as at the date of completion;
- A$1 million CVT shares issued at completion at the higher of $0.047 or the 5-day VWAP; and
- The Group agreed to issue key CipherPoint management additional shares up to the value of A$1,000,000 if the acquire earns revenue of US$300,000 for the six months to 31 December 2017 (Milestone One) and up to A$1,297,740 if the acquiree earns revenue of US$500,000 for the year ending 30 June 2018 (Milestone Two).

Covata was pleased to report that both the Milestone One targets as at 31 December 2017 and the Milestone Two targets as at 30 June 2018 were achieved, with 10,000,000 Milestone One Shares with a fair value of $0.033 per share and 12,977,400 Milestone Two Shares with a fair value of $0.024 per share being issued on 31 January 2018 and 20 July 2018 respectively.

### Strengthening our resources and customer facing capabilities

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

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

Covata's sales capability has been significantly boosted by the addition of Mr. Brown, the US sales team, and sales staff based in the UK and Germany. The additional resourcing across these regions has had an immediate impact on the Group's ability to acquire and close customer contracts. Further, the Group's marketing and sales activity has markedly increased throughout the financial year as a result of the introduction of General Data Protection Regulations ("GDPR") in the UK and Europe International Traffic in Arms Regulations ("ITAR") in the US and the Notifiable Data Breaches ("NDB") scheme in Australia. The Group's unweighted pipeline has grown to US$12M (A$15M) as at 30 June 2018 and management has positioned the Group to execute.

## Review of Operations (continued)

### Product update – expanded offering

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

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

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

Further developments in the second half of the financial year include the addition of 'Edit in Office Online' to SafeShare, which allows users to edit Microsoft Office documents directly in the browser and remain within SafeShare's secure perimeter, 'Create' directly within SafeShare using Office Online, and a 'Save to SafeShare' addon for Microsoft applications. These, coupled with improvements to user experience in both SafeShare and Eclipse, significantly increase the usability of Covata's products. A new deployment model was also released, which enables SafeShare to be operated with a smaller footprint and with improved reliability, this model is also the foundation for Covata's Data Security Platform.

### Capital raising completed

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

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

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

The total funds raised by Placement and SPP was $2,062,260 (before associated costs).

On 31 May 2018 Covata announced a capital raise to fund integration with dataglobal, expansion into the European market, the development of a next-generation virtual data room (**VDR**), and technology development of AI/Machine learning (new techniques for data classification) and SecureTender (the working name of a tender/offer platform for emerging markets).

Commitments were received from sophisticated and professional investors for a placement of $1,500,000 at an issue price of $0.028 per share (Placement). Every three Placement Shares was issued with one free-attaching option to acquire an ordinary fully paid share in the Company (Placement Option). Each Placement Option has an exercise price of $0.055, expires 24 months from the date of issue, and entitles the holder to one fully paid ordinary share in the Company once exercised.

## Review of Operations (continued)

### Capital raising completed (continued)

In conjunction with the Placement, eligible shareholders were offered the opportunity to apply for new fully paid shares (Shares) under a non-renounceable pro-rata rights issue (Entitlement Issue) at a rate of one Share for every 11 fully paid ordinary shares held at the record date. Every three shares successfully subscribed for under the Entitlement Issue was accompanied by one free-attaching option on the same terms as the Placement Options.

This capital raise was not underwritten.

On 5 July 2018, Covata successfully completed the capital raise with the Entitlement Issue receiving valid acceptances for 8,448,374 new CVT shares from eligible shareholder entitlements and 5,995,984 new CVT shares from the Shortfall from eligible shareholders, for a total of 14,444,358 new shares, raising $404,441. Subsequent agreements with sophisticated shareholders saw the placement of an additional 2,069,435 Shortfall shares for $57,944 (total shares 16,513,792).

The total funds raised by the Placement, Entitlement Issue and Shortfall was $1.962M (before associated costs).

The Company notes that it has issued 5,504,671 free attaching options in conjunction with the Placement and Entitlement Issue at an exercise price of $0.055.

### Covata – entering FY2019 with renewed confidence

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

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

With our transition to a new, lower cost, more customer focussed Covata complete, we enter FY2019 with renewed confidence. We have strengthened our product suite, sales capabilities and resources. We are well placed to develop new customer bases with a focus on Europe. In FY2019 Covata is seeking to deliver strong revenue growth and improved financial performance.

### 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

On 5 July 2018, Covata successfully completed a non-renounceable pro-rata rights issue raising $404,441. Subsequent agreements with sophisticated shareholders saw the placement of additional shares for a further $57,944.

CipherPoint met Milestone Two targets as at 30 June 2018 and subsequently 12,977,400 shares were issued at a fair value of $0.024 per share on 20 July 2018. Further details are contained in this Operating Review and Note 28 Acquisition of Subsidiary.

## Review of Operations (continued)

## 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.

### Non-audit services

During the year, in addition to their statutory audit and review of the financial statements, KPMG, the Group's auditor, performed a review on due diligence for the acquisition of CipherPoint disclosed in Review of Operations. The due diligence was conducted in-house.

## 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 2018.

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 2018, 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. His total salary was $70,000 for the year ended 30 June 2018.

Mr. Lindsay Tanner was appointed to the Board as a Non-Executive Director on 1 January 2017 and informally serves in the function of the Head of the Audit Committee by reporting to the board on matters concerning the Company's half-year and annual reports. His total salary was $65,000 for the year ended 30 June 2018.

Mr. David Irvine was appointed to the Board as a Non-Executive Director on 1 January 2017. Due to the Board's size, Mr. Irvine informally reports to the Board on matters concerning Remuneration. His total salary was $65,000 for the year ended 30 June 2018.

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.

***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.

## Remuneration Report (audited) (continued)

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

***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.

*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.

## Remuneration Report (audited) (continued)

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

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

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

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

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

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

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 loan funded shares.

Following the annual general meeting on 22 November 2017, shareholders approved the renewal of the Employee Loan Share Plan (ELSP). This plan, in addition to the existing Employee Share Option Plan (ESOP), provides the Company with the means to incentivise its KMP with instruments that have the purpose of aligning the medium to long-term goals of the Board with the success of the Group.

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

The following grants were provided to Executive Directors of the Group during the year ended 30 June 2018:

- Loan funded share plan shares granted to Edward Pretty on 22 November 2017, as follows:
    - 2,534,298 shares with a loan price of 5c, a term of 10 years with vesting effective immediately upon issue, due to the issue being in settlement of the FY2017 cash short-term incentive.

***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 during the year ended 30 June 2018:

- Loan funded share plan shares granted to Edward Pretty on 22 November 2017, with components as follows:
    - 7,818,000 shares with a loan price of 5c, a term of 10 years and vest in the following tranches: 31.25% on 31 March 2018 and 6.25% to vest quarterly, for the remaining 11 calendar quarters.

***Future grants***

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

# Remuneration Report (audited) (continued)

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

### *2018 remuneration structure*

The 2018 remuneration structure for KMP is as follows:

| | | Fixed remuneration(1)(2) $ | STIP(1)(3) $ | LTIP(1)(4) $ |
|---|---|---|---|---|
| **Non-Executive Directors** | | | | |
| David Irvine | | **71,175** | **-** | **9,160** |
| Lindsay Tanner | | **71,175** | **-** | **9,160** |
| | | | | |
| **Non-Executive Chairman** | | | | |
| William McCluggage | | **70,000** | **-** | **9,160** |
| | | | | |
| **Executive Director** | | | | |
| Edward Pretty | Chief Executive Officer | **470,382** | **305,375(8)** | **341,367** |
| | | | | |
| **Executive Management Team** | | | | |
| Steven Bliim(5) | Head of Finance and Joint Company Secretary | **176,367** | **27,000** | **80,316** |
| Derek Brown(6) | Chief Commercial Officer | **306,010** | **212,970** | **87,256** |
| Woody Shea(1)(7) | Chief Technology Officer | **174,869** | **25,539** | **87,885** |

(1) KMP based in the United States with their remuneration 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, annual leave, long service leave, 401k contributions or superannuation as required by local statute.
(3) STIP includes cash and the fair-value of loan share grants with immediate vesting.
(4) LTIP includes the fair-value of share option and loan share grants, vested and recognised as an expense during the year.
(5) Steven Bliim became part of the KMP on 25 August 2017.
(6) Derek Brown commenced with the Company on 1 July 2017.
(7) Woody Shea joined the Company as Chief Technology Officer following the acquisition of CipherPoint Software, Inc. on 25 August 2017.
(8) Comprises $193,500 as a cash-settled bonus and $111,875 as vesting for loan shares.

### *Analysis of bonuses included in remuneration*

Details of the vesting profile of the-short term incentive cash bonuses awarded as remuneration to each director of the Company, and other key management personnel are detailed below.

| | | Short-term incentive bonus | | |
|---|---|---|---|---|
| **KMP** | | **Included in remuneration(1) $** | **% vested in year** | **% forfeited in year(2)** |
| Edward Pretty | | **193,500** | **45%** | **55%** |

(1) Amounts included in remuneration for the financial year represent the amount related to the financial year based on achievement of personal goals and satisfaction of specified performance criteria. The Board of directors approved these amounts on 17 July 2018.

(2) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

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

The 2018 STIP were awarded primarily on the basis of achievement of key strategic, mostly non-financial KPIs.

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.

## Remuneration Report (audited) (continued)

### 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:

- Steven Bliim – Head of Finance and Joint Company Secretary
- Derek Brown – Chief Commercial Officer
- Woody Shea – Chief Technical Officer

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

| | Short-term benefits | | | Post-employment benefits | Other long-term | Share- based payments | | |
|---|---|---|---|---|---|---|---|---|
| **2018** | **Salary and fees $** | **Commi-ssion $** | **Cash Bonus $** | **Super / 401K $** | **Leave / LSL $** | **Shares $** | **Options $** | **Total $** |
| **Non-Executive Directors** | | | | | | | | |
| David Irvine[1] | 65,000 | - | - | 6,175 | - | - | 9,160[1] | 80,335 |
| Lindsay Tanner[1] | 65,000 | - | - | 6,175 | - | - | 9,160[1] | 80,335 |
| **Non-Executive Chairman** | | | | | | | | |
| William McCluggage[1] | 70,000 | - | - | - | - | - | 9,160[1] | 79,160 |
| **Executive Director** | | | | | | | | |
| Edward Pretty | 430,000 | - | 193,500[5] | 20,049 | 20,333 | 453,242[6] | - | 1,117,124 |
| **KMP** | | | | | | | | |
| Steven Bliim[2] | 142,885 | - | 27,000[5] | 13,574 | 19,908 | 80,316 | - | 283,683 |
| Derek Brown[3] | 267,500 | 142,970 | 70,000[5] | 20,049 | 18,461 | 87,256 | - | 606,236 |
| Woody Shea[4] | 165,495 | - | 25,539[5] | - | 9,375 | - | 87,885 | 288,294 |
| | 1,205,880 | 142,970 | 316,039 | 66,022 | 68,077 | 620,814 | 115,365 | 2,535,167 |

(1) The following amounts represent the fair value of vested share-based payments issued to Non-Executive Directors in prior years, which vested during the year ended 30 June 2018; D. Irvine - $9,160, L. Tanner - $9,160, W. McCluggage - $9,160.
(2) Steven Bliim formed part of the KMP effective from 25 August 2017.
(3) Derek Brown joined the Company on 1 July 2017.
(4) Woody Shea was appointed Chief Technology Officer following the acquisition of CipherPoint Software, Inc on 25 August 2017.
(5) Cash-settled award issued under the STIP in connection with obtaining certain KPI's concerning increasing revenue and sales pipeline, retaining key employees, achieving greater product performance, obtaining new product capability and accessing new markets/channels.
(6) Represents the fair-value vesting of loan funded share plan shares issued to Mr. Pretty under the following incentive plans: STIP $111,875; LTIP $341,367.

## Remuneration Report (audited) (continued)

### Details of remuneration (continued)

#### *Amounts of remuneration (continued)*

| | Short-term benefits Cash | | Post-employment benefits | Other long-term | Termination benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|
| **2017** | **Salary and fees $** | **Bonus $** | **Super / 401K $** | **Leave / LSL $** | **$** | **Options and rights $** | **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 | 18,341 | - | 69,241[11] | 288,134 |
| **KMP** | | | | | | | |
| Nicholas Chiarelli[8] | 204,291 | 45,304 | 12,458 | - | 149,066 | 7,302[9] | 418,421 |
| | 1,049,670 | 131,885 | 45,128 | 18,341 | 258,034 | 132,506 | 1,635,564 |

(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)*

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

| | Fixed remuneration | | At risk - STIP | | At risk - LTIP | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Non-Executive Directors** | | | | | | |
| Philip King | - | 100% | - | - | - | - |
| Joseph Miller | - | 100% | - | - | - | - |
| Phillip Dunkelberger | - | 37% | - | - | - | 63% |
| Michael Quinert | - | 93% | - | - | - | 7% |
| Lindsay Tanner | 89% | 100% | - | - | 11% | - |
| David Irvine | 89% | 100% | - | - | 11% | - |
| **Non-Executive Chairman** | | | | | | |
| Charles Archer | - | 100% | - | - | - | - |
| William McCluggage | 98% | 100% | - | - | 12% | - |
| **Executive Director** | | | | | | |
| Trent Telford | - | 85% | - | 15% | - | - |
| Edward Pretty | 42% | 76% | 27% | - | 31% | 13% |
| **Key Management Personnel** | | | | | | |
| Steven Bliim | 62% | - | 10% | - | 28% | - |
| Derek Brown | 50% | - | 35% | - | 15% | - |
| Nicholas Chiarelli | - | 87% | - | 11% | - | 2% |
| Woody Shea | 61% | - | 9% | - | 30% | - |

## Service agreements

### *Non-executive directors*

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

**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

**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

## Remuneration Report (audited) (continued)

### Service agreements (continued)

#### *Non-executive directors (continued)*

**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:

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

***Agreement commenced*** - Originally commenced on 23 January 2017, contract renewed with effect from 23 January 2018
***Term of agreement*** - An initial term of 12 months, extended for an additional 3 years to be reviewed annually
***Details***
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, which were granted on 4 May 2017.

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

#### *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 generally provide for:

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

# Remuneration Report (audited) (continued)

## Service agreements (continued)

### *Other key management personnel (continued)*

**Mr. Steven Bliim** has been with the Group since June 2012 and joined the KMP on 25 August 2017 in his strategic role as Head of Finance and Joint Company Secretary. Mr. Bliim's annual remuneration is $180,000 with 1 month written notice required by either party to terminate his employment. Mr. Bliim is also entitled to statutory contributions to his nominated superannuation fund as required by law. Mr. Bliim is eligible to participate in a short-term incentive plan valued up to 15% of his base salary based upon achievement of a range of financial and non-financial objectives set in consultation with the Chief Executive Officer.

**Mr. Derek Brown** joined the Company on 1 July 2017 as Chief Commercial Officer. Mr. Brown's annual remuneration is $250,000 with 3 months written notice required by either party to terminate his employment. This increased to $320,000 effective April 2018. Mr. Brown is also entitled to participate in the company's commission scheme as his role is directly connected with developing new channels and markets for the Company. In addition, he is entitled to statutory contributions to his nominated superannuation fund up to the statutory limit as required by law. Mr. Brown is eligible to participate in a short-term incentive plan valued up to $140,000 which is based upon achieving set sales bookings targets as set in consultation with the Chief Executive Officer.

**Mr. Woody Shea** was appointed as Chief Technology Officer following the acquisition of CipherPoint Software, Inc. on 25 August 2017. Mr. Shea's annual remuneration is US$125,000 with 3 months written notice required by either party to terminate his employment. Mr. Shea is entitled to company provided health and dental insurance along with 401K contributions matched up to 6% of annual salary. Mr. Shea is eligible to participate in a short-term incentive plan valued up to 75% of his base salary based upon achievement of a range of objectives set by the Chief Executive Officer.

## 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 2018 are set out below:

| Name | Issue date | Options | Strike price | Term | Fair value |
|---|---|---|---|---|---|
| Woody Shea | 24 November 2017(1) | 1,773,194 | $0.045 | 5 years | $63,124 |
| Woody Shea | 24 November 2017 | 1,451,000 | $0.050 | 5 years | $52,741 |

(1) Granted upon acquisition per employment contract

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 | $16,165 |
| William McCluggage | 4 May 2017 | 1,000,000 | $0.20 | 5 years | $16,165 |
| Lindsay Tanner | 4 May 2017 | 1,000,000 | $0.20 | 5 years | $16,165 |

## Remuneration Report (audited) (continued)

### Share-based compensation (continued)

#### *Employee Loan Share Plan*

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

| Name | Issue date | ELSP shares | Loan amount per share | Term | Fair value |
|---|---|---|---|---|---|
| Edward Pretty | 24 November 2017 | 7,818,000 | $0.055 | 10 years | $345,121 |
| Edward Pretty(1) | 24 November 2017 | 2,534,298 | $0.055 | 10 years | $111,875 |
| Steven Bliim | 24 November 2017 | 2,727,000 | $0.055 | 10 years | $120,382 |
| Derek Brown | 24 November 2017 | 2,273,000 | $0.055 | 10 years | $100,340 |

(1) Vested immediately

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 | $40,453 |
| Edward Pretty | 4 May 2017 | 6,000,000 | $0.2000 | 5 years | $27,726 |

#### *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:

**2018**

| Name | Balance as at 1 July 2017 | Received as part of remuneration | Consideration Shares(1) | Acquisition on-market/ subscription | Disposals | Balance as at 30 June 2018 |
|---|---|---|---|---|---|---|
| William McCluggage | **470,000** | - | - | 864,148 | - | **1,334,148** |
| Lindsay Tanner | **200,000** | - | - | - | - | **200,000** |
| David Irvine | **-** | - | - | - | - | **-** |
| Edward Pretty | **13,475,505** | 10,352,298 | - | 1,074,070 | - | **24,901,873** |
| Steven Bliim | **612,739** | 2,727,000 | - | 106,382 | - | **3,446,121** |
| Derek Brown | **2,700,000** | 2,273,000 | - | 1,338,597 | - | **6,311,597** |
| Woody Shea | **-** | - | 1,059,964 | - | - | **1,059,964** |

(1) Consideration shares were granted to Woody Shea following the acquisition of CipherPoint Software, Inc. on 25 August 2017.

As at 30 June 2018, the number of ordinary shares above held by Edward Pretty, Steven Bliim and Derek Brown include shares issued under the Employee Loan Share Plan. The shares held by Edward Pretty, Steven Bliim and Derek Brown under the Employee Loan Share Plan are 20,352,298, 3,321,408, and 4,773,000 respectively.

# Remuneration Report (audited) (continued)

## Share-based compensation (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:

**2018**

| Name | Balance as at 1 July 2017 | Received as part of remuneration | Acquisition on-market/ subscription | Exercised | Lapsed | Balance as at 30 June 2018 |
|---|---|---|---|---|---|---|
| William McCluggage | 1,000,000 | - | - | - | - | **1,000,000** |
| Lindsay Tanner | 1,000,000 | - | - | - | - | **1,000,000** |
| David Irvine | 1,000,000 | - | - | - | - | **1,000,000** |
| Steven Bliim | 300,000 | - | - | - | - | **300,000** |
| Woody Shea | - | 3,224,194 | - | - | - | **3,224,194** |

### *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.

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Profit/ (loss) attributable to owners of the company | **(7,443,469)** | (10,179,664) | (14,116,627) | (27,462,676) | (9,769,356) |
| Change in share price | **(0.02)** | (0.20) | (0.10) | 0.14 | - |

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.

### *Loans to KMP and their related parties*

During the year ended 30 June 2018, there were no loans granted to KMP and their related parties.

All unsecured loans extended to KMP were settled during the year ended 30 June 2017. 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 |

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.

Covata Limited
Directors' Report

## Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 25 and forms part of the directors' report for the financial year ended 30 June 2018.

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

William McCluggage
*Chairman*

Dated at Sydney, Australia this 28th day of August 2018.

## Covata Limited
## Corporate Governance Report

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

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

# 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 2018 there have been:

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

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

KPMG

KPMG

Jeff Frazer

*Partner*

Gold Coast

28 August 2018

# Covata Limited and its controlled entities
## Consolidated statement of profit or loss and other comprehensive income
### For the year ended 30 June 2018

| | Note | 2018 $ | 2017 $ |
|---|---|---|---|
| **Revenue and other income** | | | |
| Revenue – technology related products and services | | **1,470,323** | 424,102 |
| Research & development tax concession | | **1,144,335** | 1,455,307 |
| Other income | | **2,545** | 12,651 |
| | | **2,617,203** | 1,892,060 |
| **Expenses** | | | |
| Employee benefit expense | *11* | **(6,669,647)** | (7,976,142) |
| Consultancy fees expense | | **(355,857)** | (908,784) |
| Depreciation and amortisation expense | *18,30* | **(444,762)** | (75,891) |
| Legal and professional fees expense | | **(359,461)** | (299,361) |
| Marketing and promotion expense | | **(376,087)** | (616,828) |
| Travel and accommodation expense | | **(540,292)** | (618,128) |
| Office and administration expense | | **(694,707)** | (1,184,002) |
| Other direct research and development project expenses | | **(338,178)** | (169,404) |
| Foreign currency exchange expense | | **4,608** | (410) |
| Other expenses | | **(343,079)** | (408,000) |
| | | **(10,117,462)** | (12,256,950) |
| **Results from operating activities** | | **(7,500,259)** | (10,364,890) |
| Finance income | | **60,864** | 192,787 |
| Finance costs | *12* | **(4,074)** | (7,561) |
| **Net finance income / (costs)** | | **56,790** | 185,226 |
| **Loss before income tax** | | **(7,443,469)** | (10,179,664) |
| Income tax expense | *13* | **-** | - |
| **Loss for the year** | | **(7,443,469)** | (10,179,664) |
| **Other comprehensive income** | | | |
| **Items that may be classified subsequently to profit or loss** | | | |
| Exchange differences on translation of foreign operations | | **25,347** | (103,015) |
| **Total other comprehensive income / (loss)** | | **25,347** | (103,015 |
| **Total comprehensive loss for the year** | | **(7,418,122)** | (10,282,679) |
| **Earnings per share** | | | |
| Basic earnings per share (cents per share) | *9* | **(1.30)** | (1.95) |
| Diluted earnings per share (cents per share) | *9* | **(1.30)** | (1.95) |

*The notes on pages 30-63 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 2018

| | *Note* | Share Capital | Foreign Currency Translation Reserve | Share Options Reserve | Warrants Reserve | Accumulated Losses | Total Equity |
|---|---|---|---|---|---|---|---|
| **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 period** | | | | | | | 0 |
| Loss for the period | | | | | | (10,179,664) | (10,179,664) |
| Total other comprehensive income | | | (103,015) | | | | (103,015) |
| **Total comprehensive income/(loss)** | | 0 | (103,015) | 0 | 0 | (10,179,664) | (10,282,679) |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| *Contributions by and distributions to owners* | | | | | | | |
| Ordinary share issued | *22* | 8,231,528 | | | | | 8,231,528 |
| Share based payments – share options | | | | 133,903 | | | 133,903 |
| Share based payments – employee loan shares | | | | 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 | | (473,033) | | | | | (473,033) |
| Total contributions by and distributions to owners | | 7,758,495 | 0 | (99,526) | 0 | 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 |
| | | | | | | | |
| **Balance at 1 July 2017** | | **86,885,280** | **(282,768)** | **3,016,155** | **4,607,250** | **(88,137,677)** | **6,088,240** |
| **Total comprehensive income for the period** | | | | | | | |
| Loss for the period | | | | | | **(7,443,469)** | **(7,443,469)** |
| Total other comprehensive income/(loss) | | | **25,347** | | | | **25,3473** |
| **Total comprehensive income/(loss)** | | **0** | **25,347** | **0** | **0** | **(7,443,469)** | **(7,418,122)** |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| *Contributions by and distributions to owners* | | | | | | | |
| Ordinary shares issued | *22* | **5,462,255** | | | | | **5,462,255** |
| Share based payments – share options | *23* | | | **419,739** | | | **419,740** |
| Share based payments – employee loan shares | *23* | | | **1,167,879** | | | **1,167,879** |
| Share options lapsed | *23* | | | **(1,283,110)** | | **1,236,513** | **(46,597)** |
| Employee loan shares lapsed | *23* | | | **(19,297)** | | | **(19,298)** |
| Capital raising costs | *22* | **(141,194)** | | | | | **(141,194)** |
| Total contributions by and distributions to owners | | **5,321,061** | **0** | **285,211** | **0** | **1,236,513** | **6,842,785** |
| **Balance at 30 June 2018** | | **92,206,341** | **(257,421)** | **3,301,366** | **4,607,250** | **(94,344,633)** | **5,512,903** |

*The notes on pages 30-63 are an integral part of these consolidated financial statements.*

# Covata Limited and its controlled entities
# Consolidated statement of financial position
### As at 30 June 2018

| Assets | Note | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| Cash and cash equivalents | *14* | **4,471,616** | 1,325,280 |
| Term deposits | *15* | **-** | 5,000,000 |
| Trade and other receivables | *16* | **1,267,336** | 1,595,463 |
| Prepayments | | **28,300** | 177,807 |
| Other current assets | *17* | **-** | 80,667 |
| **Total current assets** | | **5,767,252** | 8,179,217 |
| | | | |
| Property, plant and equipment | *18* | **73,392** | 42,291 |
| Intangible assets | *30* | **3,706,658** | - |
| Other non-current assets | *17* | **157,452** | 119,278 |
| **Total non-current assets** | | **3,937,502** | 161,569 |
| | | | |
| **Total assets** | | **9,704,754** | 8,340,786 |
| | | | |
| **Liabilities** | | | |
| | | | |
| Trade and other payables | *19* | **2,091,740** | 561,713 |
| Deferred income | *20* | **559,003** | 294,875 |
| Employee benefits | *21* | **180,817** | 72,534 |
| Contingent consideration payable | *28* | **318,465** | - |
| **Total current liabilities** | | **3,150,025** | 929,122 |
| | | | |
| Deferred income | *20* | **1,041,826** | 1,323,424 |
| **Total non-current liabilities** | | **1,041,826** | 1,323,424 |
| | | | |
| **Total liabilities** | | **4,191,851** | 2,252,546 |
| | | | |
| **Net assets** | | **5,512,903** | 6,088,240 |
| | | | |
| **Equity** | | | |
| Share capital | *22* | **92,206,341** | 86,885,280 |
| Reserves | | **7,651,195** | 7,340,637 |
| Accumulated losses | | **(94,344,633)** | (88,137,677) |
| | | | |
| **Total equity** | | **5,512,903** | 6,088,240 |

*The notes on pages 30-63 are an integral part of these consolidated financial statements.*

| | *Note* | 2018 | 2017 |
|---|---|---|---|
| **Cash flows used in operating activities** | | **$** | **$** |
| Cash receipts from customers | | **1,118,826** | 93,635 |
| Cash paid to suppliers and employees | | **(7,134,321)** | (12,589,944) |
| Cash used in operating activities | | **(6,015,495)** | (12,496,309) |
| Research & development tax concession received | | **1,612,693** | 2,021,729 |
| Interest received | | **109,141** | 142,464 |
| Interest paid | | **(4,074)** | (6,232) |
| **Net cash used in operating activities** | *26* | **(4,297,735)** | (10,338,348) |
| **Cash flows used in investing activities** | | | |
| (Payment to) / Refund of investments in term deposits | | **5,000,000** | (5,000,000) |
| (Payment for) / refund of deposits | | **42,491** | 130,500 |
| Acquisition of intellectual property | | **(557,855)** | - |
| Acquisition of controlled entity (net of cash received) | | **(164,746)** | - |
| Proceeds from disposal of property, plant and equipment | | **2,545** | 15,167 |
| Acquisition of property, plant and equipment | | **(87,396)** | (13,531) |
| **Net cash from / (used in) investing activities** | | **4,235,039** | (4,867,864) |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of share capital | | **3,562,277** | 8,066,741 |
| Proceeds from employee loan shares repaid | | **-** | 106,504 |
| Payment of share issue costs | | **(136,531)** | (473,033) |
| **Net cash from financing activities** | | **3,425,746** | 7,700,212 |
| Net increase / (decrease) in cash and cash equivalents | | **3,363,050** | (7,506,000) |
| Cash and cash equivalents at 1 July | | **1,325,280** | 8,879,821 |
| Effect of movements in exchange rates on cash held | | **(216,714)** | (48,541) |
| Cash and cash equivalents at 30 June | *14* | **4,471,616** | 1,325,280 |

*The notes on pages 30-63 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 2018 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 28 August 2018.

## 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:

- Revenue recognition (note 6(d));
- Share-based payments (note 23); and
- Acquisition of subsidiary (note 28).

### (b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 30 June 2018 is included in the following notes:

- Note 6(b) – Going concern; and
- Note 28 – Provisional accounting for purchase price allocation.

## 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;
- Note 24 – Financial instruments; and
- Note 28 – Acquisition of subsidiary.

## 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 transaction | Fair value at grant date, recognised over vesting period |
| Acquisition of subsidiary | Fair value |

## 6. Significant accounting policies

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

## 6. Significant accounting policies (continued)
## (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.

### 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 2018, the Group incurred a loss after tax of $7,443,469 (2017: $10,179,664) and incurred net cash outflows from operating activities of $4,297,735 (2016: $10,338,348) for the year. At 30 June 2018, the Group had cash and cash equivalents of $4,471,616 and net assets of $5,512,903.

### 6. Significant accounting policies (continued)
### (b) Going concern (continued)
Management have prepared cash flow projections that support the Group's ability to continue as a going concern. These cash flows assume the Group continues to invest heavily in the research, development and commercialisation of its data security technology and that the Group achieves significant revenue growth sufficient to meet planned expenditures.

The directors of the Company consider the cash flow projections and assumptions will be achieved, however in the absence of material sales being secured during the December 2018 quarter, the Group will likely require further debt or equity funding and/or need to reduce expenditures in line with available funding to continue as a going concern.

These conditions give rise to a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. In the event that the Group cannot achieve its forecast cash flow projection and/or raise additional funding, it may not be able to realise its assets and settle its liabilities in the normal course of operations and at the amounts stated in the financial statements.

### (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.

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

- available-for-sale equity investments (except on impairment, in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss);
- 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.

## 6. Significant accounting policies (continued)

### (d) Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts or volume rebates allowed. The Group recognised revenue as follows:

#### 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.

#### 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)

### 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 of 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;
- 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.

## 6. Significant accounting policies (continued)

### ii. Deferred tax (continued)

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.

## (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.

## 6. Significant accounting policies (continued)

### iii. Depreciation (continued)

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.

### 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.

The estimated useful lives of intellectual property assets are between 4 – 5 years.

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.

### 6. Significant accounting policies (continued)
### (k) Financial instruments (continued)
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.

### (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.

## 6. Significant accounting policies (continued)
## (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.

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. Goodwill is not subject to amortisation and is tested at least annually for impairment.

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.

## 6. Significant accounting policies (continued)

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

***AASB 9 – Financial Instruments***

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

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

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

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

AASB 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 – *Revenue* and AASB 111 – *Construction Contracts*.

AASB 15 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 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 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 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 2018, 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. The non-current assets held in the United Kingdom are computer equipment that has been fully depreciation at 30 June 2018 and thus the balance of non-current assets is nil (2017: Nil). The balance of non-current assets in the USA is $9,497.

### *Geographical segments*

Segment revenue information is presented below based on the geographical location of customers.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Australia | **705,850** | 289,038 |
| USA | **693,763** | - |
| UK | **29,422** | 97,673 |
| Germany | **29,029** | 37,391 |
| Singapore | **12,259** | - |
| | **1,470,323** | 424,102 |

## 9. Earnings per share

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Loss after income tax (basic) | **(7,443,469)** | (10,179,664) |
| Loss after income tax (diluted) | **(7,443,469)** | (10,179,664) |
| Weighted average number of ordinary shares used in calculating basic and diluted earnings per share | **573,368,849** | 522,593,721 |
| Basic earnings per share (cents per share) | **(1.30)** | (1.95) |
| Diluted earnings per share (cents per share) | **(1.30)** | (1.95) |

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

| | 2018 $ | 2017 $ |
|---|---|---|
| **Audit and review services** | | |
| Auditors of the Company – KPMG | | |
| Audit and review of financial statements | **93,052** | 97,055 |
| **Other services** | | |
| Auditors of the Company – KPMG | | |
| In relation to other assurance, taxation and due diligence services | **76,213** | 1,639 |
| | **169,265** | 98,694 |

## 11. Employee benefit expense

| | 2018 $ | 2017 $ |
|---|---|---|
| Wages and salaries | **3,586,813** | 5,758,480 |
| Non-executive director fees | **200,000** | 231,996 |
| Termination benefits | **-** | 586,516 |
| Recruitment and sourcing | **268,621** | 203,689 |
| Other employee related expenses | **160,977** | 394,612 |
| Payroll taxes | **179,690** | 237,626 |
| Contributions to defined contribution superannuation plans | **212,563** | 368,379 |
| Bonus – share-based payment accrual | **-** | - |
| Bonus – cash component | **346,199** | 136,919 |
| Equity-settled share-based payments | **1,522,283** | 57,925 |
| Commissions | **192,501** | - |
| | **6,669,647** | 7,976,142 |

## 12. Finance Costs

| | 2018 $ | 2017 $ |
|---|---|---|
| Interest expense | **4,074** | 7,561 |
| | **4,074** | 7,561 |

## 13. Income tax expense

| **a. Current tax expense** | 2018 $ | 2017 $ |
|---|---|---|
| Current year | **-** | - |
| Tax expense on continuing operations | **-** | - |

## 13. Income tax expense (continued)

### b. Reconciliation of effective tax rate

| | 2018 % | 2018 $ | 2017 % | 2017 $ |
|---|---|---|---|---|
| Loss before tax | | **(7,443,469)** | | (10,179,664) |
| Tax using the domestic tax rate | **(27.50%)** | **2,046,952** | (27.5%) | (2,799,408) |
| Permanent differences | **(23.84%)** | **(2,046,952)** | 6.4% | 647,511 |
| Effect of tax losses and temporary differences not taken to account | **2.46%** | **1,774,213** | (1.9%) | (192,039) |
| Temporary differences through equity | **-** | | - | |
| Current year losses not recognised | **(6.13%)** | **455,980** | (23.0%) | (2,343,935) |
| Income tax expense | **-** | **-** | - | - |

## 13. Income tax expense (continued)

### c. Unrecognised deferred tax assets

| | 2018 $ | 2017 $ |
|---|---|---|
| Deferred tax assets have not been recognised in respect of the following items: | | |
| Temporary differences | **869,337** | 1,045,926 |
| Tax losses | **8,819,027** | 7,875,342 |
| | **9,688,364** | 8,921,268 |

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.

## 14. Cash and cash equivalents

| | 2018 $ | 2017 $ |
|---|---|---|
| Cash at bank | **4,471,616** | 1,325,280 |

## 15. Financial assets

| | 2018 $ | 2017 $ |
|---|---|---|
| Term deposits | **-** | 5,000,000 |

## 16. Trade and other receivables

| | 2018 $ | 2017 $ |
|---|---|---|
| Research & development tax concession receivable | **986,949** | 1,455,307 |
| Trade receivables | **273,567** | 29,562 |
| Other receivables | **-** | 45,097 |
| GST/ VAT receivables | **6,820** | 65,497 |
| | **1,267,336** | **1,595,463** |

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

| | 2018 $ | 2017 $ |
|---|---|---|
| **Current** | | |
| Security deposits | **-** | **80,667** |
| | **-** | **80,667** |
| **Non-current** | | |
| Rental bonds | **6,234** | **4,069** |
| Security deposits | **136,009** | **100,000** |
| Domain names | **15,209** | **15,209** |
| | **157,452** | **119,278** |

## 18. Property, plant and equipment

| | Plant and equipment | Leasehold improvement | Software | Total |
|---|---|---|---|---|
| ***Cost*** | | | | |
| 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 |
| Balance at 1 July 2017 | **505,584** | **438,338** | **14,766** | **958,688** |
| Additions | **35,230** | **52,410** | **-** | **87,640** |
| Disposals | **(444,395)** | **(410,078)** | **-** | **(854,473)** |
| Effect of movements in exchange rates | **(8,233)** | **-** | **-** | **(8,233)** |
| Balance at 30 June 2018 | **88,186** | **80,670** | **14,766** | **183,622** |
| **Accumulated depreciation** | | | | |
| 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 |
| Balance at 1 July 2017 | **463,293** | **438,338** | **14,766** | **916,397** |
| Depreciation | **27,832** | **12,311** | **-** | **40,143** |
| Disposals | **(444,395)** | **(410,078)** | **-** | **(854,473)** |
| Effect of movements in exchange rates | **8,163** | **-** | **-** | **8,163** |
| Balance at 30 June 2018 | **54,893** | **40,571** | **14,766** | **110,230** |
| **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 |
| At 30 June 2018 | **33,293** | **40,099** | - | **73,392** |

## 19. Trade and other payables

| | 2018 $ | 2017 $ |
|---|---|---|
| Trade payables | **1,233,485** | 169,848 |
| Other payables and accrued expenses | **858,255** | 391,865 |
| | **2,091,740** | 561,713 |

The amount at trade payables includes €650,000 (A$1,025,245) payable to dataglobal for intellectual property. More information is included in note 29.

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

## 20. Deferred income

| Licence income received in advance | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Current | **559,003** | 294,875 |
| Non-current | **1,041,826** | 1,323,424 |
| | **1,600,829** | 1,618,300 |

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 2018 $266,667 (2017: $266,667) of the TPG licence income received in advance is classified as current and $1,041,826 (2017: $1,308,493) 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

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Provision for annual leave | **158,283** | 72,534 |
| Provision for long service leave | **22,534** | - |
| | **180,817** | 72,534 |

## 22. Capital and reserves

| | Note | Ordinary Shares 2018 Number | Ordinary Shares 2018 $ |
|---|---|---|---|
| **Fully paid ordinary shares** | | | |
| On issue at the start of year | | **526,714,955** | **86,885,280** |
| CipherPoint vendor shares | *(a)* | **18,468,974** | **1,510,762** |
| Top up placement 1 | *(b)* | **43,877,715** | **2,062,260** |
| Less: issue costs paid in cash | *(c)* | **-** | **(48,934)** |
| CipherPoint Milestone One shares | *(d)* | **10,000,000** | **334,000** |
| Employee loan shares settled | *(e)* | **376,500** | **55,233** |
| Top up placement 2 | *(f)* | **53,210,485** | **1,500,000** |
| Less: issue costs paid in cash | *(g)* | **-** | **(92,260)** |
| **Total ordinary shares on issue at the end of the year** | | **652,648,629** | **92,206,341** |

| | Note | Ordinary Shares 2017 Number | Ordinary Shares 2017 $ |
|---|---|---|---|
| **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 | *(h)* | 34,138,005 | 7,851,741 |
| Less: issue costs paid in cash | *(i)* | - | (473,033) |
| Issued for non-cash – employee bonuses | *(j)* | 732,388 | 164,787 |
| Issued for cash | *(k)* | 2,304,395 | 215,000 |
| **Total ordinary shares on issue at the end of the year** | | 526,714,955 | 86,885,280 |

### 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 2018, the Group completed the following transactions in respect of the issue of ordinary shares:

(a) The Group issued 18,468,974 ordinary shares totalling $1,510,762 (8.2 cents per share in the Company at 25 August 2018 as part of acquisition of CipherPoint.
(b) The Group issued 43,877,715 ordinary shares totalling $2,062,260 (4.7 cents a share in the Company at 22 November 2017, of which $400,000 was part of the top up placement and $1,662,260 was part of the share purchase plan)
(c) The Group paid $48,934 in brokerage fees relating to (b).
(d) The Group issued 10,000,000 ordinary shares totalling $334,000 (3.34 cents a share in the Company at 31 January 2018 as part of the acquisition of CipherPoint – representing Milestone One payment).
(e) The Group issued 376,500 ordinary shares totalling $55,233 (14.7 cents a share in the Company in settlement of a loan.
(f) The Group issued 53,210,485 ordinary shares totalling $1,500,000 (2.8 cents a share in the Company at 5 June 2018 as part of the top up placement).
(g) The Group paid $92,260 in brokerage fees relating to (e).

## 22. Capital and reserves (continued)

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

(h) 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 trance was for a cash investment of $5,425,871 (23 cents a share)
(i) The Group paid $473,033 in brokerage fees relating to (h).
(j) 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 a share).
(k) 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.

### 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 (2017: Nil).

## 23. Share-based payments

At 30 June 2018, 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 17,633,583 share options were issued under this programme in the year to 30 June 2018 (2017: 4,340,000). 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).

### Share options granted during the year

| Grant date | No. of options | Exercise price $AUD | Fair value at grant date $AUD | Vesting conditions |
|---|---|---|---|---|
| 21/08/2017 | **1,000,000** | 0.05 | 0.04 | 31.25% on 31 December 2017, remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing 31 March 2018 |
| 24/11/2017 | **5,569,583**(1) | 0.05 | 0.04 | 31.25% on 31 December 2017, remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing 31 March 2018 |
| 24/11/2017 | **11,064,000** | 0.05 | 0.04 | 31.25% on 31 March 2018, remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing 30 June 2018 |
| | **17,633,583** | | | |

(1) Share options to CipherPoint employees upon acquisition per employment contracts.

## 23. Share-based payments (continued)

### Share options granted during the prior year

| Grant date | No. of options | Exercise price $AUD | Fair value at grant date $AUD | Vesting conditions |
|---|---|---|---|---|
| 21/07/2016 | **250,000** | 0.20 | 0.07 | 25% on 30 June 2017, remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing 30 September 2017. |
| 02/12/2016 | **250,000** | 0.20 | 0.07 | Fully vested upon date of issue, being 2 December 2016. |
| 040/5/2017 | **3,000,000** | 0.20 | 0.00 | 40% on 31 March 2018 and 31 March 2019, remainder to vest on 31 March 2020. |
| 22/06/2017 | **840,000** | 0.05 | 0.02 | 31.25% on 30 September 2017, remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing 31 December 2017. |
| | **4,340,000** | | | |

### Employee loan share plan

During the year to 30 June 2018, 33,619,298 Covata Limited ordinary shares were issued under the ELSP to employees as bonus remuneration (2017: 16,700,000).

### 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 |
|---|---|---|---|---|
| 24/11/2017 | **29,534,298** | 0.06 | 0.04 | 31.25% on 31 December 2017, remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing 31 March 2018 |
| 6/03/2018 | **4,085,000** | 0.06 | 0.04 | 31.25% on 31 March 2018, remainder to vest equally over 11 calendar quarters on the last day of each quarter commencing 30 June 2018 |
| | **33,619,298** | | | |

### 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 |
|---|---|---|---|---|
| 27/01/2017 | **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. |
| 04/05/2017 | **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). |
| 04/05/2017 | **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) |
| 23/06/2017 | **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

## 23. Share-based payments (continued)

### 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.

### 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:

**2018**

| Grant date | Share options 21/8/2017 | Share options 24/11/2017 | Share options 24/11/2017 |
|---|---|---|---|
| Fair value at grant date | $0.04 | $0.04 | $0.04 |
| Share price at grant date | $0.07 | $0.06 | $0.05 |
| Exercise price | $0.05 | $0.05 | $0.05 |
| Expected volatility (weighted average) | 95.00% | 95.00% | 95.00% |
| Expected life (weighted average) | 5 years | 5 years | 5 years |
| Expected dividends | Nil | Nil | Nil |
| Risk-free interest rate (based on government bonds) | 1.78% | 1.92% | 1.79% |

**2017**

| Grant date | Share options 21/7/2016 | Share options 8/12/2016 | Share options 4/5/2017 | Share options 22/6/2017 |
|---|---|---|---|---|
| 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

**2018**

| Grant date | ELSP 24/11/2017 | ELSP 6/03/2018 |
|---|---|---|
| Fair value at grant date | $0.04 | $0.04 |
| Share price at grant date | $0.05 | $0.03 |
| Exercise price | $0.06 | $0.06 |
| Expected volatility (weighted average) | 95.00% | 95.00% |
| Expected life (weighted average) | 10 years | 10 years |
| Expected dividends | Nil | Nil |
| Risk-free interest rate (based on government bonds) | 1.79% | 1.99% |

## 23. Share-based payments (continued)

### 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 | $0.01 | $0.00(2) | $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% |

(2) Actual Fair Value $0.0046

| Expenses recognised in profit or loss | Share option reserve 2018 | Share capital 2018 | Total expense 2018 | Total expense 2017 |
|---|---|---|---|---|
| Share options granted – 2018 | 378,379 | - | 378,379 | - |
| Share options granted – 2017 | 33,448 | - | 33,448 | 16,163 |
| Share options granted – 2016 | 421 | - | 421 | 58,904 |
| Share options granted – 2015 | 7,491 | - | 7,491 | 57,641 |
| Share options granted – 2014 | - | - | - | 693 |
| Share options granted – 2013 | - | - | - | 502 |
| Share options total | **419,739** | - | **419,739** | 133,903 |
| Employee share plan granted – 2018 | 930,077 | - | 930,077 | - |
| Employee share plan granted – 2017 | 172,025 | - | 172,025 | 65,996 |
| Employee share plan granted – 2016 | - | - | - | - |
| Employee share plan granted – 2015 | 442 | - | 442 | 17,106 |
| Employee share plan granted – granted 2013, modified 2015 | - | - | - | 16,128 |
| Employee share plan total | **1,102,544** | | **1,102,544** | 99,230 |
| Ordinary shares granted | - | - | - | 246,409 |
| **Total recognied as expense** | **1,522,283** | - | **1,522,283** | 233,133 |
| Total recognised as employee benefits expense | **1,522,283** | - | **1,522,283** | 233,133 |

The share-based payments – share options amount of $419,739 in 2018 on the consolidated statement of changes in equity represents the $419,739 share options employee expense. In 2017, the share-based payments – share options amount of $133,903 on the consolidated statement of changes in equity represents the $133,903 share options employee expense.

The share-based payments – employee loan shares amount of $1,102,544 in 2018 on the consolidated statement of changes in equity represents $1,102,544 employee loan shares employee expenses. In 2017, the share-based payments – employee loan shares amount of $99,230 on the consolidated statement of changes in equity represents $99,230 employee loan shares employee expenses.

In 2018, 12,634,286 share options lapsed (2017: 2,699,503) with a total grant date fair value of $1,283,110 (2017: $320,229 ) thereby reducing the share option reserve on the consolidated statement of changes in equity.

## 23. Share-based payments (continued)

### Equity-settled share-based payment plans (continued)

During the year, 33,619,298 employee share plan shares were issued to employees with a fair value of $1,483,515. This included the issue of 10,352,298 employee share plan shares to Edward Pretty. The issue relates to the terms of his employment contract and was approved by shareholders at the 22 November 2017 AGM.

The total expense recognized in profit and loss for the year for ordinary shares granted was $1,167,879 (2017: $0).

In 2017, 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.

### 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 Jun 2018 | Weighted average exercise price Jun 2018 | Number of warrants Jun 2018 | Weighted average exercise price Jun 2018 |
|---|---|---|---|---|
| Outstanding at 1 July | 31,060,141 | $0.21 | 38,240,979 | $0.27 |
| Lapsed during the year | (16,677,353) | $0.17 | - | - |
| Converted during the year | - | - | - | - |
| Exercised during the year | - | - | - | - |
| Expired during the year | - | - | - | - |
| Amended during the year | - | - | - | - |
| Granted during the year | 17,633,583 | $0.04 | - | - |
| Outstanding at 30 June | 32,016,371 | $0.21 | 38,240,979 | $0.27 |
| Exercisable at 30 June | 26,495,299 | $0.22 | - | - |

| | Number of share options Jun 2017 | Weighted average exercise price Jun 2017 | Number of warrants Jun 2017 | Weighted average exercise price Jun 2017 |
|---|---|---|---|---|
| Outstanding at 1 July | 29,419,644 | $0.22 | 38,240,979 | $0.27 |
| Lapsed during the year | (2,699,503) | $0.26 | - | - |
| Converted during the year | - | - | - | - |
| Exercised during the year | - | - | - | - |
| Expired during the year | - | - | - | - |
| Amended during the year | - | - | - | - |
| Granted during the year | 4,340,000 | $0.27 | - | - |
| Outstanding at 30 June | 31,060,141 | $0.20 | 38,240,979 | $0.27 |
| Exercisable at 30 June | 26,474,842 | $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.

## 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 2018 and 30 June 2017, approximate their net fair values, given the short time frames to maturity and or variable interest rates.

#### (i) Fair value hierarchy
The fair values of financial assets and liabilities approximate their carrying amounts.

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.

***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 2018 and as at 30 June 2017 all trade and other receivables of the Group were current due, 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 (2017: nil).

## 24. Financial instruments – Fair values and risk management (continued)
### 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 2018** | 30 June 2017 |
| Cash and cash equivalents | **4,471,616** | 1,325,280 |
| Term deposits | **-** | 5,000,000 |
| Research & development tax concession receivable | **986,949** | 1,455,307 |
| Trade receivables | **273,567** | 29,562 |
| GST / VAT receivables | **6,820** | 65,497 |
| Other receivables | **-** | 45,097 |
| Other assets | **157,453** | 184,736 |
| | **5,896,405** | 8,105,479 |

### (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 2018** | | **Contractual cash flows** | | |
|---|---|---|---|---|
| | **Carrying amount** | **Total** | **6 months or less** | **More than 6 months** |
| **Non-derivative financial liabilities** | | | | |
| Trade and other payables | **2,091,740** | **(2,091,740)** | **(1,618,550)** | **(473,190)** |
| | **2,091,740** | **(2,091,740)** | **(1,618,550)** | **(473,190)** |

The total trade and other payables includes $552,055 (€350,000) payable at 30 June 2018 (settled in July 2018) and $473,190 (€300,000) payable by 31 March 2019.

| **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)

#### (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, United States Dollars and Euro. The Group's exposure to foreign currency risk was as follows, based on notional amounts.

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| **GBP exposure** | | |
| Cash | **98,898** | 199,370 |
| Trade and other receivables | **42,296** | 31,233 |
| Trade and other payables | **(56,422)** | (25,275) |
| Group balance sheet exposure | **84,772** | 205,328 |

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| **USD exposure** | | |
| Cash | **185,418** | 175,789 |
| Trade and other receivables | **134,218** | - |
| Other current assets | **2,603** | - |
| Trade and other payables | **(157,479)** | (234) |
| Group balance sheet exposure | **164,760** | 175,555 |

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| **EUR exposure** | | |
| Cash | **546,576** | 15,634 |
| Trade and other receivables | **-** | - |
| Other current assets | **-** | - |
| Trade and other payables | **(1,017,125)** | - |
| Group balance sheet exposure | **(470,549)** | 15,634 |

## 24. Financial instruments – Fair values and risk management (continued)
### B. Financial risk management (continued)
### (iv) Market risk (continued)
***Currency risk (continued)***

A strengthening/ (weakening) of the AUD against the GBP, USD or EUR by 10 percent at 30 June 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 2018** | | |
| GBP | **(8,477)** | **(8,477)** |
| USD | **(16,476)** | **(16,476)** |
| EUR | **(47,055)** | **(47,055)** |

| | Equity $ | Profit or loss $ |
|---|---|---|
| **30 June 2017** | | |
| GBP | **(20,532)** | **(20,532)** |
| USD | **(17,555)** | **(17,555)** |
| EUR | **(1,563)** | **(1,563)** |

The following significant exchange rates applied during the year:

| | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| AUD:GBP | **0.6233** | 0.5943 | **0.5614** | 0.6114 |
| AUD:USD | **0.8027** | 0.7281 | **0.7385** | 0.7871 |
| AUD:EUR | **0.6831** | 0.7247 | **0.6339** | 0.6716 |

***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 at a variable rate.

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

| **Variable interest rate instruments** | **30 June 2018 $** | **30 June 2017 $** |
|---|---|---|
| Cash and cash equivalents | **4,471,616** | 1,325,280 |
| Term deposits | **-** | 5,000,000 |
| Term deposits and rental bonds | **142,244** | 184,736 |
| | **4,613,860** | 6,510,016 |

## 24. Financial instruments – Fair values and risk management (continued)
### B. Financial risk management (continued)
### (iv) Market risk (continued)
***Interest rate risk (continued)***

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

| | 30 June 2018 $ | 30 June 2017 $ |
|---|---|---|
| Impact on profit/(loss) for the period | **46,139** | 65,100 |

## 25. Operating leases

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

| | 2018 $ | 2017 $ |
|---|---|---|
| Less than one year | **170,035** | **66,068** |
| Between one and five years | **160,372** | - |
| | **330,407** | **66,068** |

During the financial year ended 30 June 2018, $151,532 was recognised as an expense in profit or loss in respect of operating leases (2017: $788,015).

## 26. Reconciliation of cash flows from operating activities

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Loss for the year | **(7,443,469)** | (10,179,664) |
| Adjustments for: | | |
| Depreciation | **40,143** | 75,891 |
| Amortisation | **404,619** | - |
| Share-based payments | **1,522,283** | 247,197 |
| Net finance costs | **56,790** | 185,226 |
| Gain on disposal of property, plant and equipment | **2,545** | 12,651 |
| Exchange differences on translation of foreign operations | **(178,000)** | 52,967 |
| | **(5,595,089)** | (9,605,732) |
| Changes in: | | |
| - trade and other receivables | **328,205** | 423,518 |
| - prepayments | **149,507** | (119,545) |
| - trade and other payables | **728,829** | (663,952) |
| - deferred income | **(17,470)** | (313,698) |
| - provisions and employee benefits | **108,283** | (58,939) |
| **Net cash used in operating activities** | **(4,297,735)** | (10,338,348) |

## 27. Related parties

### a) Consolidated entities

| **Parent entity** | **Country of incorporation** | **Ownership interest 2018** | **Ownership interest 2017** |
|---|---|---|---|
| Covata Limited | Australia | | |
| **Subsidiaries** | | | |
| Cocoon Data Holdings Limited | Australia | **100%** | **100%** |
| Cocoon Data Pty Limited | Australia | **100%** | **100%** |
| Covata Australia Pty Limited | Australia | **100%** | **100%** |
| Covata USA, Inc. | United States | **100%** | **100%** |
| Covata UK Limited | United Kingdom | **100%** | **100%** |
| CipherPoint Software, Inc [(1)] | United States | **100%** | **-** |

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

### b) Transactions with key management personnel

### *i) Advances to directors*

There were no unsecured advances to directors during the year (2017: Settled in March 2017).

## 27. Related parties (continued)
### *ii) Other transactions with directors and key management personnel*

During 2018, key management personnel did not dispose of any ordinary shares.

The Group did not use the services of directors or key management personnel in any other capacity. In 2017, 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.

### *iii) Key management personnel compensation*

Key management personnel compensation comprised the following.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Short-term employee benefits | **1,732,966** | **1,439,589** |
| Post-employment benefits | **66,022** | **45,128** |
| Share-based payments | **736,179** | **92,015** |
| | **2,535,167** | **1,576,732** |

## 28. Acquisition of subsidiary

On 25 August 2017, the Group acquired 100% of the shares and voting interests in CipherPoint Software, Inc ("CipherPoint"). CipherPoint software "Eclipse" was recognised separately from goodwill in accordance with AASB 3 para B31.

The benefits from acquisition of CipherPoint include the access of key technology such as extensive data discovery tools and faster integration with Microsoft applications as well as greater geographic reach into the US, Europe and Asia.

| | Ten months to 30 June 2018<br>$ | Four months to 31 Dec 2017<br>$ |
|---|---|---|
| Revenue contributed | **705,591** | 339,658 |
| Adjusted profit or loss (exclusive of stock options expense) | **(681,951)** | (105,098) |

### *i) Consideration transferred*

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

| | A$ |
|---|---|
| Cash settlement of CipherPoint creditors | 192,180 |
| Shares in settlement of CipherPoint convertible notes | 510,760 |
| Shares on completion | 1,000,000 |
| Contingent consideration – shares | 727,465 |
| **Total Consideration transferred** | **2,430,405** |

## 28. Acquisition of subsidiary (continued)

### *ii) Equity instruments issued*

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

### *iii) Contingent consideration*

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

CipherPoint met both the Milestone One and Two targets and subsequently 10,000,000 shares were issued at a fair value of $0.033 per share on 31 January 2018 and 12,977,400 shares were issued at a fair value of $0.024 per share on 20 July 2018.

### *iv) Acquisition-related costs*

The following acquisition related costs have been expensed:

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

### *v) Identifiable assets acquired, and liabilities assumed*

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

| | **25 August 2017** |
|---|---|
| | **A$** |
| Cash and cash equivalents | **30,318** |
| Trade and other receivables | **38,155** |
| Prepayments | **3,369** |
| Intellectual property | **1,649,713** |
| Trade and other payables | **(9,230)** |
| Deferred income | **(141,595)** |
| Employee benefits | **(26,759)** |
| Total identifiable net assets acquired | **1,543,971** |

### *vi) Measurement of fair values*

### *Fair values measured on a provisional basis*

The following amounts have been measured on a provisional basis

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

### 28. Acquisition of subsidiary (continued)

#### *vii) Goodwill*

Goodwill arising from the acquisition has been recognised as the excess of total consideration transferred over and above the fair value of assets acquired, and liabilities assumed at the date of acquisition as follows.

| | A$ |
|---|---|
| Consideration transferred | **2,430,405** |
| Less Fair Value of Identifiable Net Assets | **(1,543,971)** |
| Goodwill | **886,434** |

#### *viii) Goodwill impairment*

The Group will perform impairment testing annually or on the anniversary of the acquisition unless an indicator of impairment is evident that requires an impairment test be performed at an earlier date.

#### *ix) Amortisation of intellectual property*

The acquired intellectual property will be amortised over a 4-year period in accordance with the Group's accounting policy. The Group recognised an amortisation expense of $349,152 in this regard.

### 29. Acquisition of intellectual property

On 20 March 2018, the Group entered into a strategic alliance with German-headquartered company dataglobal GmbH ("dataglobal"), acquiring rights to dataglobal's intellectual property relating to data classification and analysis and entering into a worldwide original equipment manufacturer ("OEM") agreement for the entire dataglobal product suite ("Intangible asset").

Covata will pay €1M, in consideration for the licensed software and support from dataglobal to bring the asset to its working condition. The consideration is payable in 3 instalments.

The intangible asset is initially measured at cost as a separate acquisition i.e. not as part of a business combination. The consideration of €1M is broken down as follows:

- €350K (A$557,855) at settlement for the license
  Upon acquiring the license, Covata had access to source code and collateral as well as the ability to sell the dataglobal suite.
- €350K (A$543,935 paid on paid on 6 July 2018) upon the delivery of a Covata branded version of the licensed software.
- €300K (A$473,190 shown in Trade Payables) installation of the intangible assets at a partner or customer of Covata (but latest on 31 March 2019).

The directly attributable costs of bringing the asset to its working condition, platform integration, and testing are included in €1M. The whole consideration is paid within 12 months of acquiring the intangible asset and thus the value is not discounted at 30 June 2018.

**Useful life**

Given the history of rapid changes in software and Covata's view on how regularly code will need to be updated, the useful life is relatively short. Covata has assessed that the useful life of the intangible asset is 5 years based on the market standards. Accordingly, Covata will amortise the intangible asset on a straight-line basis over 5 years starting April 2018, when the software was available to the Group to market and sell. $55,467 was recognised as an amortisation expense in this regard.

Covata will review the useful life at each financial year end.

### 30. Intangible assets

| | Intellectual property | Goodwill | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 July 2016 | - | - | - |
| Acquisitions | - | - | - |
| Effect of movements in exchange rates | - | - | - |
| Balance at 30 June 2017 | - | - | - |
| Balance at 1 July 2017 | **-** | **-** | **-** |
| Acquisitions | **3,224,843** | **886,434** | **4,111,277** |
| Effect of movements in exchange rates | **-** | **-** | **-** |
| Balance at 30 June 2018 | **3,224,843** | **886,434** | **4,111,277** |
| **Accumulated amortisation** | | | |
| Balance at 1 July 2016 | - | - | - |
| Amortisation | - | - | - |
| Impairment loss | - | - | - |
| Effect of movements in exchange rates | - | - | - |
| Balance at 30 June 2017 | **-** | **-** | **-** |
| Balance at 1 July 2017 | **-** | **-** | **-** |
| Amortisation | **404,619** | **-** | **404,619** |
| Impairment loss | **-** | **-** | **-** |
| Effect of movements in exchange rates | **-** | **-** | **-** |
| Balance at 30 June 2018 | **404,619** | **-** | **404,619** |
| **Carrying amounts** | | | |
| At 30 June 2017 | **-** | **-** | **-** |
| At 30 June 2018 | **2,820,224** | **886,434** | **3,706,658** |

### 31. Subsequent events

On 5 July 2018, Covata successfully completed a non-renounceable pro-rata rights issue raising $404,441. Subsequent agreements with sophisticated shareholders saw the placement of additional shares for a further $57,944.

CipherPoint met Milestone Two targets as at 30 June 2018 and subsequently 12,977,400 shares were issued at a fair value of $0.024 per share on 20 July 2018. Further details are contained in this Operating Review and Note 28 Acquisition of Subsidiary.

## 32. Parent entity disclosures

As at the financial year ended 30 June 2018, the parent entity of the Group was Covata Limited.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Results of the parent entity** | | |
| Loss for the period | (4,297,333) | (12,122,838) |
| Total Comprehensive loss | (4,297,333) | (12,122,838) |
| | | |
| **Financial position of parent entity at year end** | | |
| Current assets | 14,081 | 64,214 |
| Non-current assets | 3,706,658 | - |
| Total assets | 3,720,739 | 64,214 |
| | | |
| Current liabilities | 365,954 | 58,079 |
| Total liabilities | 365,954 | 58,079 |
| Net assets | 3,354,785 | 6,135 |
| | | |
| **Total equity of the parent entity comprising of:** | | |
| Share capital | 92,206,341 | 86,885,282 |
| Reserves | 7,651,195 | 7,326,271 |
| Accumulated losses | (96,502,751) | (94,205,418) |
| **Total Equity** | 3,354,785 | 6,135 |

**Parent entity contingencies**
The parent entity did not have any capital commitments or contingent liabilities at 30 June 2018 (2017: Nil).

## 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 26 to 63 and the remuneration report set out on pages 11 to 22 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 2018 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 2018.

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 28th day of August 2018.

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 2018 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 2018

• 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

• *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.

KPMG

## Material uncertainty related to going concern

We draw attention to Note 6(b), "Going concern" in the financial report. The conditions disclosed in Note 6(b), indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

In concluding there is a material uncertainty related to going concern we evaluated the extent of uncertainty regarding events or conditions casting significant doubt in the Group's assessment of going concern. Our approach to this involved:

- Evaluating the feasibility, quantum and timing of the Group's plans to significantly grow revenue and/or raise additional funding to address going concern;
- Assessing the Group's cash flow forecasts for incorporation of the Group's operations and plans to address going concern, in particular in light of the history of loss making operations; and
- Determining the completeness of the Group's going concern disclosures for the principle matters casting significant doubt on the Group's ability to continue as a going concern, the Group's plans to address these matters, and the material uncertainty.

## Key Audit Matters

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the ***Key Audit Matters***:

- *Revenue recognition*
- *Acquisition accounting*

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

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

| **Revenue recognition ($1,470,323)** | |
|---|---|
| Refer to Note 6(d) 'Revenue' | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| We focused on revenue recognition as a key audit matter due to the significant audit effort required to test the Group's revenue. Specific drivers for this significant effort included the:<br><br>• Inherent complexity of software and technology related revenue recognition including selling of | Our procedures included:<br><br>• Critically assessing the Group's revenue recognition policies against relevant accounting standards requirements. This involved gaining an understanding of arrangements with customers through evaluation of a sample of underlying contracts and/or agreements;<br><br>• Testing a sample of revenue transactions to supporting documentation, assessing where the revenue recognised |

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| multiple goods and services to individual customers;<br><br>• Varying forms of revenue recognised by the Group including:<br>  • Sale of goods (software) revenue<br>  • Subscriptions revenue<br>  • Maintenance and support revenue<br>  • Consulting revenue; and<br><br>• Significant value of revenue recognised by the Group, being 56% of total revenue and other income. | was in accordance with the Group's revenue recognition policies and agreeing receipt of related funds to bank statements; and<br><br>• Conducting cut-off procedures to assess the completeness and accuracy of revenue transactions. |

| **Acquisition accounting ($2,430,405)** | |
|---|---|
| Refer to Note 6(a) 'Business combinations' and Note 28 'Acquisition of subsidiary' | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| During the year, the Group acquired 100% of the shares in Cipherpoint Software Inc, a US based entity. The acquisition accounting remains provisional at year end.<br><br>Acquisition accounting related to this transaction is a key audit matter due to:<br><br>  • The size of the transaction (purchase price of $2,430,405); and<br><br>  • The complexity of judgements surrounding estimated fair value of assets and liabilities as determined by the Group in accordance with applicable accounting standards which required our assessment.<br><br>The Group prepared a Purchase Price Allocation ('PPA') calculation to determine the provisional fair value of the assets and liabilities acquired using the relevant accounting standards. This involved the identification and measurement of intangible assets not | Our procedures included:<br><br>• Reading the underlying Share Sale Agreement to evaluate the acquisition date, consideration (and contingent consideration) to be transferred and other key terms and conditions of the transaction determined by the Group;<br><br>• Evaluating the methodology used by the Group for the acquisition accounting against accounting standard requirements and common industry practice for the determination of fair value;<br><br>• Examining the provisional fair value of assets and liabilities recorded by the Group in the PPA calculation and the calculated goodwill balance;<br><br>• Working with our valuation specialists, we used our knowledge of the acquired business and its industry to assess the completeness of other intangible assets separately recognised at the date of acquisition (i.e. intellectual property assets); and<br><br>• Assessing the adequacy of the Group's disclosures in respect of the acquisition against the requirements of the accounting standards and our knowledge of the transaction. |

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| previously recognised by the acquiree.<br><br>The significant judgements we focused on included:<br><br>• The assessment of the provisional fair value of the assets acquired and liabilities assumed; and<br><br>• The assessment of contingent consideration associated with revenue targets. | |

## 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 and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. 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 and Company or to cease operations, or have no realistic alternative but to do so.

KPMG

## 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 the 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_responsibilities/ar1.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 2018, 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 11 to 22 of the Directors' report for the year ended 30 June 2018.

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

KPMG

KPMG

Jeff Frazer

*Partner*

Gold Coast

28 August 2018

# Shareholding Information as at 31 July 2018

### 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 | 239 | 108,946 | - |
| 1,001 to 5,000 | 432 | 1,271,821 | - |
| 5,001 to 10,000 | 314 | 2,612,943 | - |
| 10,001 to 100,000 | 1,151 | 47,731,878 | - |
| 100,001 and over | 688 | 682,472,066 | 1 |
| Total | **2,824** | **734,197,654** | **1** |

### b. Marketable Parcels

There were 1,203 shareholders holding less than a marketable parcel of 7,097,647 shares as at 22 August 2018.

### 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> | 75,700,785 |

[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 31 July 2018, the Company has 663,231,537 ordinary shares on issue, 72,780,025 share options over the ordinary share cap
ital 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 31 July 2018 (continued)

### e. 20 Largest Shareholders – Ordinary Shares

| Rank | Name | Number of ordinary shares | % |
|---|---|---|---|
| 1 | TPG TELECOM LIMITED | 76,043,498 | 10.36% |
| 2 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED (1) | 75,700,785 | 10.31% |
| 3 | ILWELLA PTY LTD | 23,794,324 | 3.24% |
| 4 | RAVEN CAPITAL NOMINEES PTY LTD <RAVEN TECHNOLOGY FUND 1 A/C> | 23,494,538 | 3.20% |
| 5 | GAFFWICK PTY LTD <THE DUNCAN FAMILY A/C> | 21,666,665 | 2.95% |
| 6 | RAVEN VENTURES (AUSTRALIA) PTY LTD <THE GATEWAY VENTURE FUND A/C> | 10,809,902 | 1.47% |
| 7 | SUNLORA PTY LTD <THE THREE FISH SUPER A/C> | 10,090,910 | 1.37% |
| 8 | EXCALIBUR PARTNERS XVI LP | 9,763,159 | 1.33% |
| 9 | HUMAN TECHNOLOGY PTY LIMITED <GRAHAM MIRABITO FAMILY A/C> | 9,611,283 | 1.31% |
| 10 | MR GERARD O'BRIEN & MRS HELEN O'BRIEN <O'BRIEN SUPER A/C> | 8,177,462 | 1.11% |
| 11 | MS CHERYL I-WEN LEE <CHI WEN A/C> | 7,142,857 | 0.97% |
| 12 | JACK BURSTON <THE BURSTON FAMILY A/C> | 6,981,414 | 0.95% |
| 13 | ESS SEE PTY LTD <ESS SEE SUPERFUND A/C> | 6,458,418 | 0.88% |
| 14 | EUROPLAY CAPITAL ADVISORS LLC | 6,234,452 | 0.85% |
| 15 | DRP CARTONS (NSW) PTY LIMITED <DRP CARTONS NSW P/L S/F A/C> | 6,008,403 | 0.82% |
| 16 | VAGANA PTY LTD <PRETTY SUPER FUND A/C> (2) | 5,872,265 | 0.80% |
| 17 | COVELANE PTY LTD | 5,427,659 | 0.74% |
| 18 | BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> | 5,167,963 | 0.70% |
| 19 | FED ID AUSTRALIA PTY LTD | 4,743,986 | 0.65% |
| 20 | THORPE ROAD NOMINEES PTY LTD <IAN TREGONING FAMILY NO2 A/C> | 3,563,204 | 0.49% |

| | | |
|---|---|---|
| **Total (Top 20)** | 326,753,147 | 44.50% |
| **Total (Remaining)** | **407,444,507** | **55.50%** |
| **Total** | **734,197,654** | **100.00%** |

(1) HSBC is the custodian for FIL Limited, part of Fidelity International. Of the 75,700,785 Ordinary shares held by HSBC, FIL Limited holds 71,915,079 at 31 July 2018
(2) Vagana Pty Ltd is the trustee of Pretty Superannuation Fund for related party Edward Pretty

# 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

Suite 1, Level 6, 50 Queen Street,
Melbourne, VIC, 3000
Telephone: (03) 8692-9030

## Principal Place of Business

Level 4, 81 York Street,
Sydney, NSW, 2000
Telephone: (02) 8412-8200

## Share Register

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

## Auditors

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