

Appendix 4D

Reporting period

Reporting period: Six months ended 31 December 2015
 Comparative period: Six months ended 31 December 2014

Results for announcement to the market

	\$	Up/Down	Movement %
Revenue from ordinary activities	1,001,965	Down	-12.1%
Loss from ordinary activities after tax attributable to members	(6,869,660)	Down	53.2%
Net loss attributable to members	(6,869,660)	Down	53.2%

Revenue from ordinary activities includes the research and development tax concession which has decreased 9.5% from the corresponding period as the Group transitions from the research and development of data security technology to the commercialisation of data security products.

The Group recorded a loss after tax of \$6,869,660 for the six months to 31 December 2015 (2014: \$14,691,913). Included within the loss for the six months to 31 December 2014 are \$9,959,795 of non-cash, non-recurring, expenses primarily related to the acquisition of Prime Minerals Limited on 31 October 2014. The loss after tax excluding these non-cash items for the 6 months to 31 December 2014 was \$4,732,118.

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

Dividend information

No dividend has been proposed to be paid or payable for the six months ended 31 December 2015, nor for the comparative period.

Net tangible assets per security

	31 December 2015	31 December 2014
Net tangible assets per security	1.98 cents	3.56 cents

Other information

Details of entities over which control has been gained during the six months to 31 December 2015 (and the comparative period to 31 December 2014) are contained in Note 4 of the Half Year Report.

Corporate Information

Directors

Mr. Charles Archer (Chairman)	- Appointed 31 October 2014
Mr. Trent Telford (CEO)	- Appointed 31 October 2014
Mr. Philip King	- Appointed 31 October 2014
Mr. Joseph Miller	- Appointed 31 October 2014
Mr. Phillip Dunkelberger	- Appointed 31 October 2014
Mr. Michael Quinert	- Appointed 17 February 2015

Joint Company Secretaries

Mr. Nicholas Chiarelli	- Appointed 31 October 2014
Mr. Patrick Gowans	- Appointed 23 December 2014

Registered Office

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

Principal Place of Business

Level 4, 156 Clarence Street, Sydney, NSW, 2000	Suite 140, 11190 Sunrise Valley Drive Reston, Virginia, 20191 United States of America
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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



Covata Limited

ABN 61 120 658 497

**Half Year Report
for the 6 months ended 31 December 2015**

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Covata Limited

Directors' report

The directors of Covata Limited ("the Company") present their report together with the interim financial statements of the Covata Group ("the Group"), being the Company and its controlled entities, for the six months ended 31 December 2015.

Directors

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

Mr. Charles Archer
Mr. Trent Telford
Mr. Philip King
Mr. Joseph Miller
Mr. Phillip Dunkelberger
Mr. Michael Quinert

Principal activities

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

Review of operations

Highlights

- Signed a 3 year contract for 20,000 Safe Share end users with Germany's largest public health insurer Barmer GEK
- Welcomed Fidelity Limited, part of Fidelity International, as a major shareholder (approx. 7%)
- Safe Share product accepted onto the UK Government G-Cloud Marketplace
- Active trials underway with new Telco partners in Europe, Latin America and Asia for the distribution of Safe Share. We aim to close a number in the second half of financial year 2016
- Covata KaaS, a new product, which will initially be deployed with Cisco was introduced in Sydney in February 2016
- 2 new patents lodged in February 2016, as part of the Covata KaaS, relating to "location based access for key retrieval" and "encryption key fragmentation"

The Group recorded a loss after tax of \$6,869,660 for the six months to 31 December 2015 (2014: \$14,691,913). Included within the loss for the 6 months to 31 December 2014 are \$9,959,795 of non-cash, non-recurring, expenses primarily related to the acquisition of Prime Minerals Limited. The loss after tax excluding these non-cash items was \$4,732,118 for the 6 months to 31 December 2014.

During the period the Group earned technology related revenues of \$159,329 (2014: \$208,332). The decrease is attributable to an old contract, for a no longer supported version of Safe Share, with a large Australian Government department expiring. This department has since transitioned to the current version of Safe Share via our reseller partner Macquarie Telecom. The Group also accrued research and development tax concession revenue of \$841,999 (2014: \$930,796). This has decreased 9.5% from the corresponding period as the Group continues to transition from the research and development of data security technology to the commercialisation of data security products.

Covata Limited Directors' report

Review of operations (continued)

During the period, the Group continued to invest in its technology and development capability. This resulted in the release of Safe Share 3.0 ("Safe Share"). Safe Share has been developed with new and improved features to SaaS (Software as a Service) enable Telco partners with secure, easy to use file sharing and storage for their Enterprise and Public Sector customers. The Board believes that Safe Share 3.0 goes well beyond current cloud file sharing solutions and addresses one of the most important data compliance topics – that of total control of files in the cloud or on mobile devices, wherever a user is in the world. Data sovereignty is the next challenge for global enterprises and the Board believes that Safe Share, using the Covata Platform, is uniquely positioned to control access to content around the world. Key features of Safe Share 3.0 include:

- **Multi-Tenancy** – This new feature makes it easier and more cost effective for Telco partners to provision Safe Share to their customers. Telco partners can manage multiple enterprise or government customers through a single administration console. This simplifies support, maintenance and billing. It also provides significant economies of scale for every tenant to save on underlying infrastructure costs.
- **Watermark/Finger-Print View** – This feature enables customers to not only watermark, but also include in the watermark a digital "fingerprint" of when and who is opening a file in the Safe Share Secure Viewer. This offers an additional layer of traceability and closes the loop of security and control on shared files by making it substantially more difficult to photograph and distribute protected content without being able to trace the leaked data back to the Secure View it originated from.
- **Improved Instant Revocation** – This feature allows any creator of content to login and revoke access to any Secure View that is active. A practical application of this feature is where a file has been shared with many users who may all be actively viewing the file at once. Should the creator wish to "kill" access, the Secure Viewer in the browser of all recipients simply goes blank – without the need for a refresh or any action by the user.

It's important to note that the Secure Viewer, including instant revocation, end-to-end encryption and the Watermark/Finger-Print feature do not require a plugin to the user's web browser. The Board believes that this is a major imperative for enterprise usage and the take-up of Safe Share as plugins and installation of software is prohibited at a user-level by most large enterprises and government organisations.

During the period the Group achieved a number of significant milestones in Europe. Some of the highlights include:

- Signing a partnership with leading multinational telecommunications provider Colt Technology Services (Colt). Colt counts many of Europe's largest financial services and capital markets institutions as core customers and Safe Share is to be targeted at this global segment. We look forward to partnering with Colt and ramping this channel in the second half of the 2016 financial year.

Covata Limited Directors' report

Review of operations (continued)

- Signing a three-year deal for 20,000 end user Safe Share licenses through our partner T-Systems to Barmer GEK. Barmer GEK is Germany's largest public (statutory) health insurer with 8.6mil policyholders, over 20,000 employees in 950 locations, and a network of over 150,000 physicians, pharmacies and clinics.
- Acceptance of Safe Share onto the UK Government G-Cloud Marketplace. The G Cloud Marketplace allows public sector organisations to find, build and integrate world-class digital services from pre-approved and procured SaaS services. The UK Government has mandated a "Cloud First" approach to IT, with the marketplace achieving strong success since launching. Covata's successful application means that public sector organisations can purchase Safe Share quickly and efficiently without the need to run a full tender process.

At the date of this report we have more than 50 enterprise opportunities in our Safe Share pipeline across a range of key verticals including finance, technology, manufacturing, insurance and government. In particular, and since being accepted onto the highly coveted UK Government G-Cloud Marketplace, the government sector is shaping up to be a key vertical. There are more than 5.3mil employees in the UK public sector alone and within the first months of being live, there are 5 major UK government departments considering Safe Share as their preferred secure file sharing application. Covata's security focus is unique and has the potential to be a major drawcard for this particular sector. As we've progressed deeper into sales cycles with enterprise and government prospects we've also found that contracts may increasingly shift from a per-user per-month subscription basis to enterprise-wide/whole of department multi-year contracts for up to 10 years. This is an exciting development for the company but also comes with a degree of increased risk in terms of delivery and support. Over the last 12 months the Group has undertaken a significant amount of work, together with our European partner NSC Global, to design and implement global delivery and service desk capabilities with the aim to ensure world class delivery and support to our end customers and mitigate the risk associated with delivering large-scale contracts.

The Group continues to advance partnership discussions with a number of Telco's in our target regions of Europe, Latin America and Asia. A number of these discussions have progressed from trials to commercial discussions. It is our objective to close a number of these in the second half of financial year 2016.

In early February 2016 Covata hosted an event in Sydney, alongside partner Cisco, addressing the future of IoE ("Internet of Everything") and how it will be secured. This event was a resounding success and provided key insights into how both Covata and Cisco view the evolving world of IoE and security. The event was also important because Covata introduced Covata 'Key-as-a-Service' ("KaaS") and announced that it will initially be deployed with Cisco. The service will eliminate the burden of encryption key and access policy management, as well as guarding against upcoming legal and regulatory issues, through patent pending techniques such as encryption key fragmentation and location based access for encryption key retrieval. With the amount of data due to increase exponentially as the IoE takes off, securing the keys and achieving data sovereignty will be absolutely vital to discourage hackers using these devices as a vehicle to compromise corporate and personal networks. Cisco and Covata are already looking into a range of IoE and cloud projects that will determine the first Covata KaaS customer to embed the service into their products.

Covata Limited

Directors' report

Review of operations (continued)

During the period, the Company raised \$6,948,323 of additional working capital through an issue of 34,741,613 fully paid ordinary shares, at a price of \$0.20 per share, to FIL Limited, part of Fidelity International. Fidelity International is a global asset manager with assets under management of US\$258bn (as at 30 Sep 2015) for clients across Asia-Pacific, Europe, the Middle East and South America. The Company is very pleased to welcome an investor as highly regarded as Fidelity to the register. We believe that this is a reflection of the increased profile that Covata has worked to attain in the global investment community over the last 12 months. We look forward to boosting the profile of the Company further in Asia and the USA over the next 12 months. To aid in these efforts the Group appointed MZ Group as its Global Investor Relations Advisor in January 2016. MZ Group is the largest independent IR firm in the world and we are very pleased to have them lead Covata through its next stage of international investor awareness.

The Board and Management, whilst recognising all that has been achieved in the short space of time since listing the Company on the ASX in November 2014, are focused on developments over the next 6 to 12 months. In addition to planned near term partner and customer signings, we look forward to introducing Covata to RSA, the world's largest security conference, held in San Francisco in early March 2016. This will include the official opening of the Covata San Francisco office, with Cisco and other security community influencers present.

This is an exciting time to be in the data security space. We are working hard to ensure that Covata is uniquely positioned to deliver significant longer-term value for shareholders. The Board and Management look forward to delivering this value throughout the remainder of financial year 2016 and beyond.

Significant changes in the state of affairs

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

Covata Limited

Directors' report

Events subsequent to reporting date

On 10 February 2016 the Group received \$1,649,951 in research and development tax concessions from AusIndustry for the 30 June 2015 income tax year.

On 3 February 2016 the Group lodged 2 new provisional patents. The first patent, titled "Location based access for key retrieval" allows data sovereignty to be achieved by shifting the focus from trying to control where the data is, to controlling where the keys that protect the data reside.

The second patent, titled "Escrow key fragmentation system" is designed to help governments appease consumer privacy advocates and help enterprises achieve the balance between government access and customer privacy.

Other than the items mentioned above there has not arisen in the interval between the end of the period to 31 December 2015, and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

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



Charles Archer
Chairman

Dated at Reston, VA, USA this 26th day of February 2016.



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

To: the directors of Covata Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2015 there have been:

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

KPMG

KPMG

A handwritten signature in blue ink, appearing to read 'Adam Twemlow', with a stylized flourish at the end.

Adam Twemlow
Partner

Bundall

26 February 2016

Covata Limited and its controlled entities

Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 31 December 2015

	Note	2015	2014
Revenue and other income			
Revenue – technology related products and services		159,329	208,332
Research & development tax concession		841,999	930,796
Other income		637	200
		1,001,965	1,139,328
Expenses			
Employee benefit expenses		(4,399,032)	(3,726,979)
Consultancy fees expense		(888,204)	(370,189)
Depreciation expense		(48,057)	(71,342)
Legal and professional fees expense		(262,132)	(609,921)
Marketing and promotion expense		(267,860)	(228,382)
Travel and accommodation expense		(669,635)	(321,662)
Office and administration expenses		(522,652)	(332,110)
Other direct research and development project expenses		(606,016)	(42,000)
Advisor fees on acquisition of Prime Minerals Limited	4	-	(2,000,000)
Costs arising from recapitalisation	4	-	(2,196,318)
Listing expense on acquisition of Prime Minerals Limited	4	-	(5,428,991)
Foreign currency exchange expense		(13,642)	-
Other expenses		(257,042)	(226,414)
		(7,934,272)	(15,554,308)
Results from operating activities		(6,932,307)	(14,414,980)
Finance income		68,628	59,236
Finance costs		(5,981)	(336,169)
Net finance income (costs)		62,647	(276,933)
Loss before income tax		(6,869,660)	(14,691,913)
Income tax expense		-	-
Loss for the period		(6,869,660)	(14,691,913)
Other comprehensive income			
Items that may be classified subsequently to profit or loss			
Exchange differences on translation of foreign operations		58,206	27,329
Total other comprehensive income		58,206	27,329
Total comprehensive loss for the period		(6,811,454)	(14,664,584)
Earnings per share			
Basic earnings per share (cents per share)	6	(1.6)	(5.4)
Diluted earnings per share (cents per share)	6	(1.6)	(5.4)

The notes on pages 15 to 23 are an integral part of these condensed consolidated interim financial statements.

Covata Limited and its controlled entities

Condensed consolidated statement of changes in equity

For the six months ended 31 December 2015

	Note	Share Capital	Equity Conversion Reserve	Foreign Currency Translation Reserve	Share Options Reserve	Warrants Reserve	Accumulated Losses	Total Equity
Balance at 1 July 2014		14,836,983	5,396,667	(8,978)	2,264,132	5,377,157	(36,804,649)	(8,938,688)
Total comprehensive income for the period								
Loss for the period		-	-	-	-	-	(14,691,913)	(14,691,913)
Total other comprehensive income		-	-	27,329	-	-	-	27,329
Total comprehensive income/(loss)		-	-	27,329	-	-	(14,691,913)	(14,664,584)
Transactions with owners, recorded directly in equity								
<i>Contributions by and distributions to owners</i>								
Ordinary share issued		17,000,000	-	-	-	-	-	17,000,000
Ordinary shares issued on conversion of notes		19,005,533	(5,396,667)	-	-	-	(200,000)	13,408,866
Share based payments – acquisition of PIM		6,748,899	-	-	-	-	-	6,748,899
Share based payments – share options and warrants		5,377,157	-	-	916,913	(5,377,157)	-	916,913
Share based payments – employee loan shares		867,113	-	-	(820,958)	-	-	46,155
Share options lapsed		-	-	-	(170,657)	-	170,657	-
Capital raising costs		(900,000)	-	-	-	-	-	(900,000)
Total contributions by and distributions to owners		48,098,702	(5,396,667)	-	(74,702)	(5,377,157)	(29,343)	37,220,833
Balance at 31 December 2014		62,935,685	-	18,351	2,189,430	-	(51,525,905)	13,617,561
Balance at 1 July 2015	8	64,933,717	-	(48,358)	2,709,605	4,607,250	(64,230,885)	7,971,329
Total comprehensive income for the period								
Loss for the period		-	-	-	-	-	(6,869,660)	(6,869,660)
Total other comprehensive income/(loss)		-	-	58,206	-	-	-	58,206
Total comprehensive income/(loss)		-	-	58,206	-	-	(6,869,660)	(6,811,454)
Transactions with owners, recorded directly in equity								
<i>Contributions by and distributions to owners</i>								
Ordinary shares issued	8	6,948,323	-	-	-	-	-	6,948,323
Share based payments – share options	8,9	1,104,213	-	-	244,720	-	-	1,348,933
Share based payments – employee loan shares	8,9	67,482	-	-	45,173	-	-	112,655
Share options lapsed	9	-	-	-	(121,849)	-	121,849	-
Capital raising costs	8	(416,900)	-	-	-	-	-	(416,900)
Total contributions by and distributions to owners		7,703,118	-	-	168,044	-	121,849	7,993,011
Balance at 31 December 2015		72,636,835	-	9,848	2,877,649	4,607,250	(70,978,696)	9,152,886

The notes on pages 15 to 23 are an integral part of these condensed consolidated interim financial statements.

Covata Limited and its controlled entities

Condensed consolidated statement of financial position

As at 31 December 2015

	Note	31 December 2015	30 June 2015
Assets			
Cash and cash equivalents		8,527,271	1,809,699
Term deposits		-	9,000,000
Trade and other receivables		2,690,963	1,932,070
Prepayments		84,175	48,541
Other current assets		325,220	198,000
Total current assets		11,627,629	12,988,310
Property, plant and equipment		183,287	193,634
Other non-current assets		270,306	221,588
Total non-current assets		453,593	415,222
Total assets		12,081,222	13,403,532
Liabilities			
Trade and other payables		854,243	945,379
Deferred income		266,669	266,667
Employee benefits		98,926	78,327
Loans and borrowings		-	2,300,000
Total current liabilities		1,219,838	3,590,373
Deferred income		1,708,498	1,841,830
Total non-current liabilities		1,708,498	1,841,830
Total liabilities		2,928,336	5,432,203
Net assets		9,152,886	7,971,329
Equity			
Share capital	8	72,636,835	64,933,717
Reserves		7,494,747	7,268,497
Accumulated losses		(70,978,696)	(64,230,885)
Total equity		9,152,886	7,971,329

The notes on pages 15 to 23 are an integral part of these condensed consolidated interim financial statements.

Covata Limited and its controlled entities

Condensed consolidated statement of cash flows

For the six months ended 31 December 2015

	Note	2015	2014
Cash flows used in operating activities			
Cash receipts from customers		27,899	31,700
Cash paid to suppliers and employees		(7,384,277)	(5,333,699)
Cash used in operating activities		(7,356,378)	(5,301,999)
R&D rebates received		-	2,342,935
Interest received		235,095	40,854
Interest paid		(5,982)	(1,683)
Net cash used in operating activities		(7,127,265)	(2,919,893)
Cash flows used in investing activities			
Proceeds from/ payments for investments in term deposits		9,000,000	(7,000,000)
Payment for deposits		(169,317)	(263,304)
Acquisition of controlled entity (net of cash received)		-	1,176,773
Proceeds from disposal of property, plant and equipment		636	21,188
Acquisition of property, plant and equipment		(31,511)	(24,248)
Net cash from / (used in) investing activities		8,799,808	(6,089,591)
Cash flows from financing activities			
Proceeds from the issue of share capital		6,948,323	15,014,670
Proceeds from the issue of convertible notes		-	100,000
Proceeds from the employee loan share loans repaid		57,568	-
Proceeds from the share option plan exercise		756,038	-
Repayment of short term debt facility		(2,300,000)	-
Payment of share issue costs		(416,900)	(900,000)
Net cash from financing activities		5,045,029	14,214,670
Net increase in cash and cash equivalents		6,717,572	5,205,186
Cash and cash equivalents at 1 July		1,809,699	2,158,047
Cash and cash equivalents at 31 December		8,527,271	7,363,233

The notes on pages 15 to 23 are an integral part of these condensed consolidated interim financial statements.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

1. Reporting entity

Covata Limited (the 'Company') is a company domiciled in Australia. These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved in the development and commercialisation of intellectual property predominantly in the field of data security technology.

2. Basis of accounting

The condensed consolidated interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, and with IAS 134 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 30 June 2015.

The condensed consolidated interim financial statements do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Covata Limited Group as at and for the year ended 30 June 2015. The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2015.

These interim financial statements were authorised for issue by the Company's Board of Directors on 26 February 2016.

(a) Basis of consolidation

On 31 October 2014, Covata Limited (formerly Prime Minerals Limited) completed the acquisition of Cocoon Data Holdings Limited, an unlisted public company involved in the development and commercialisation of intellectual property predominantly in the field of data security technology. Although the transaction was not a business combination, the acquisition has been accounted for as an asset acquisition with reference to the guidance for reverse acquisitions in AASB 3 *Business Combinations* and with reference to AASB 2 *Share Based Payments*.

Prime Minerals Limited gained legal control of Cocoon Data Holdings Limited through the issue of Prime Minerals Limited ordinary shares to the shareholders of Cocoon Data Holdings Limited. The acquisition of Prime Minerals Limited by Cocoon Data Holdings Limited does not meet the definition of a business combination under AASB 3 *Business Combinations* as Prime Minerals Limited did not meet the business test at the time of acquisition. From an accounting perspective, the acquirer was Cocoon Data Holdings Limited and the acquiree is Prime Minerals Limited because the shareholders of Cocoon Data Holdings Limited gained an 89% interest and therefore control of Prime Minerals Limited post acquisition. Additionally, the directors of Cocoon Data Holdings Limited were appointed directors of Prime Minerals Limited on 31 October 2014, and the existing directors of Prime Minerals Limited resigned on this date.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

2. Basis of accounting

(a) Basis of consolidation (continued)

The acquisition of the identifiable net assets of Prime Minerals Limited has been accounted for as a share-based payment transaction in accordance with AASB 2 *Share Based Payments*. The assets and liabilities of Cocoon Data Holdings Limited, as the acquirer, are measured at their pre-combination carrying amounts and the assets and liabilities of Prime Minerals Limited, as the acquiree, are measured at fair value on the date of acquisition. The difference between the fair value of the identifiable net assets of Prime Minerals Limited acquired and the fair value of the shares deemed to be issued by Cocoon Data Holdings Limited to the shareholders of Prime Minerals Limited, measured at the acquisition date, is recognised as an expense of the acquisition in the prior period profit and loss.

(b) Going concern

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

The Group is in the research, development and commercialisation stage of its data security technology. During the six months ended 31 December 2015, the Group incurred a loss after tax of \$6,869,660 (2014: loss of \$14,691,913), and incurred net cash outflows from operating activities of \$7,127,265 for the period (2014: outflows of \$2,919,893). At 31 December 2015, the Group had cash and cash equivalents of \$8,527,271 and net assets of \$9,152,886. Subsequent to the end of the half year the Group received \$1,649,951 in research and development tax concessions from AusIndustry for the 30 June 2015 income tax year.

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 additional funding will be required in order to meet budgeted expenditures.

The achievement of these cash flow projections is dependent upon the Group being able to raise additional cash funding. Should the Group be unable to raise additional funding, there would need to be a reduction of expenditures in-line with available cash reserves. The directors of the Company consider that the cash flow projections and assumptions will be achieved, and in the longer term, significant revenues could be generated from the commercialisation of intellectual property, and accordingly, the Group will be able to continue as a going concern.

In the event that the Group does not obtain additional funding or reduce expenditures in-line with available cash reserves, it may not be able to continue its operations as a going concern and therefore 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 interim financial statements.

3. Use of judgements and estimates

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

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

4. Acquisition of Prime Minerals Limited

On 31 October 2014, the Company acquired 100% of the ordinary share capital and voting rights of Cocoon Data Holdings Limited as detailed in the Bid Implementation Agreement between Prime Minerals Limited ("PIM") and Cocoon Data Holdings Limited dated 27 June 2014. The accounting treatment of this acquisition is detailed in Note 2(a).

The consideration in an acquisition accounted for under AASB 2 *Share Based Payments* is measured at the fair value of the deemed issue of shares by Cocoon Data Holdings Limited, equivalent to the current shareholders interest in Prime Minerals Limited post the acquisition. Any excess of the fair value of the shares over the acquired assets and liabilities is recognised as a listing expense in profit or loss.

	2014
	\$
Fair value of share-based payment, assessed in accordance with AASB 2	6,748,899
Fair value of Prime Minerals Limited assets and liabilities held at acquisition date:	
less:	
Cash and cash equivalents	1,176,773
Trade and other receivables	108,790
Other current assets	34,345
	1,319,908
Listing expense on reverse acquisition recognised on the date of acquisition	5,428,991

Other transaction costs related to the acquisition have also been recognised as an expense in the prior period.

- \$2,000,000 – being the value of 10,000,000 ordinary shares in the Company issued to advisors of the acquisition of Prime Minerals Limited and as detailed in the Prospectus dated 23 September 2014.
- \$2,196,318 – being the fair value movement of shares issued in Cocoon Data Holdings Limited as a result of the conversion of convertible notes prior to the acquisition of Prime Minerals Limited and in accordance with the Plan of Recapitalisation, with an additional \$334,486 non-cash finance costs relating to the convertible notes prior to conversion.

5. Segment Reporting

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

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

The Group predominantly operates in Australia, although, it has offices in the USA and the United Kingdom.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

6. Earnings per share

In accordance with the principles of reverse acquisition accounting as detailed in Note 2(a), the weighted average number of ordinary shares for the six months ended 31 December 2014 has been calculated as the weighted average number of ordinary shares of Cocoon Data Holdings Limited outstanding during the period before acquisition, amended by the ratio of Cocoon Data Holdings Limited shares to Prime Minerals Limited shares established at acquisition, and the weighted average number of ordinary shares outstanding in the period from acquisition up until 31 December 2014.

	31 December 2015	31 December 2014
Earnings per share from continuing operations:		
Loss after income tax (basic)	(6,869,660)	(14,691,913)
Loss after income tax (diluted)	(6,869,660)	(14,691,913)
Weighted average number of ordinary shares used in calculating basic earnings per share	432,349,069	272,766,740
Weighted average number of ordinary shares used in calculating diluted earnings per share	432,349,069	272,766,740
Basic earnings per share (cents per share)	(1.6)	(5.4)
Diluted earnings per share (cents per share)	(1.6)	(5.4)

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

7. Tax expense

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

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

8. Share capital

	Note	<i>Ordinary Shares</i> <i>31 December 2015</i>	
		Number	\$
Fully paid ordinary shares			
On issue at the start of period		423,286,364	64,933,717
Issued for cash		34,741,613	6,948,323
Less: issue costs paid in cash		-	(416,900)
Share options exercised – cash settled		3,756,606	1,104,213
Conversion of restricted employee shares to ordinary shares		-	67,482
Share capital at the end of the period		461,784,583	72,636,835

Issue of ordinary shares

Of the 461,784,583 Covata Limited ordinary shares on issue as at 31 December 2015, 9,922,947 were restricted ordinary shares issued under an employee loan share plan as described in Note 9.

	Note	<i>Ordinary Shares</i> <i>31 December 2014</i>	
		Number	\$
Fully paid ordinary shares			
On issue at the start of period		224,170,039	14,836,983
Conversion of convertible notes		116,777,777	16,275,533
Conversion of warrants		26,000,000	5,377,157
Conversion of restricted employee shares to ordinary shares		14,930,000	867,113
Cocoon Data Holdings Limited ("CDHL") ordinary shares		381,877,816	37,356,786
CDHL ordinary shares surrendered		(381,877,816)	-
Covata Limited shares issued to the shareholders of CDHL		250,015,292	-
Share based payment – acquisition of PIM	4	33,744,495	6,748,899
Covata Limited shares issued on conversion of CDHL convertible notes		13,650,000	2,730,000
Shares issued under the Covata Limited prospectus		75,000,000	15,000,000
Less: issue costs paid in cash		-	(900,000)
Issued for non-cash – advisor fees	4	10,000,000	2,000,000
Share capital at the end of the period		382,409,787	62,935,685

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

8. Share capital (continued)

Issue of ordinary shares

During the six months to 31 December 2014, the Group completed the following transactions as part of the recapitalisation completed prior to the acquisition of Prime Minerals Limited:

1. Cocoon Data Holdings Limited entered into a Plan of Recapitalisation with existing convertible note and warrant holders. This resulted in 116,777,777 ordinary shares being issued as a result of the convertible note conversions and 26,000,000 ordinary shares being issued as a result of the exercise of the warrants.
2. Cocoon Data Holdings Limited declared the acquisition a liquidity event under the terms of the employee share plan in order to convert 14,930,000 restricted 'A' class shares in Cocoon Data Holdings Limited into 9,774,671 restricted ordinary shares in Covata Limited.
3. Prime Minerals Limited then issued 250,015,292 shares in itself to the Cocoon Data Holdings Limited shareholders in exchange for their 381,877,816 ordinary shares in Cocoon Data Holdings Limited. This share issue was in addition to the 33,744,495 ordinary shares held by the existing shareholders in Prime Minerals Limited.
4. Covata Limited (formerly Prime Minerals Limited) issued 13,650,000 ordinary shares to convertible notes holders of Cocoon Data Holdings Limited.
5. Covata Limited issued 75,000,000 ordinary shares in the Company at 20 cents each under the Prospectus dated 23 September 2014.
6. Covata Limited issued 10,000,000 ordinary shares in the Company to the advisors in respect to the acquisition of Prime Minerals Limited and as detailed in the Prospectus dated 23 September 2014.

Of the 382,409,787 Covata Limited ordinary shares on issue as at 31 December 2014, 9,674,671 were restricted ordinary shares issued under an employee share plan as described in Note 9.

9. Share based payments

At 31 December 2015 the Group has the following share-based payment arrangements:

Share option programme

The Group has a share option programme that entitles non-Australian based directors, employees and contractors to purchase shares in the Company. A total of 2,206,994 (2014:16,737,500) share options were issued under this programme in the six months to 31 December 2015. In accordance with this programme, holders of vested options are entitled to purchase shares at a price per share as detailed below.

Employee loan share plan

For accounting purposes shares allocated to employees pursuant to the Share Plan are treated and valued as options, and the fair value of the options granted under the Share Plan is estimated as at the grant date using a Black-Scholes model taking into account the terms and conditions upon which they were granted. A total of 132,167 (2014 Nil) employee loan share plan shares were granted in the six months to 31 December 2015.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

9. Share based payments (continued)

Share options granted during the six months to 31 December 2015

Grant date	No. of options	Exercise price \$AUD	Fair value at grant date \$AUD	Vesting Conditions
30/10/2015	300,000	0.24	0.10	20% vest on 15 October 2015, 30% vest on 15 October 2016, with the remainder to vest equally over 4 calendar quarters on the last day of each quarter commencing December 31, 2016.
30/11/2015	1,000,000	0.20	0.09	Conditional vesting share price equal to or greater than \$0.30 for ten consecutive trading days within 12 months of grant.
17/12/2015	906,994	0.33	0.12	Fully vested as at the date of grant.
	2,206,994			

Employee loan share plan shares granted during the six months to 31 December 2015

Grant date	No. of ELSP	Exercise price \$AUD	Fair value at grant date \$AUD	Vesting Conditions
17/12/2015	132,167	0.33	0.12	Fully vested as at the date of grant.
	132,167			

Share options granted during the six months to 31 December 2014

Grant date	No. of options	Exercise price \$AUD	Fair value at grant date \$AUD	Vesting Conditions
1/8/2014	5,000,000	0.20	0.11	10% on grant, 15% on the 1 year anniversary of grant date, remainder to vest over a period of 12 calendar quarters on the last day of each quarter commencing March 31, 2015.
1/8/2014	10,000,000	0.20	0.11	20% on grant, 30% on the 1 year anniversary of grant date, remainder to vest over a year of 4 calendar quarters on the last day of each quarter commencing September 30, 2015.
23/12/2014	1,237,500	0.20	0.09	20% on grant, 30% on September 1, 2015, remainder to vest over a year of 4 calendar quarters on the last day of each quarter commencing December 31, 2015.
23/12/2014	500,000	0.20	0.09	20% on grant, 30% on November 10, 2015, remainder to vest over a year of 4 calendar quarters on the last day of each quarter commencing March 31, 2016.
	16,737,500			

There were nil employee loan share plan shares granted during the six months to 31 December 2014

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

9. Share based payments (continued)

Equity-settled share-based payment plans

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

	Share options	Share options	Share options
Grant Date	30 Oct 15	30 Nov 15	17 Dec 15
Fair value at grant date	\$0.10	\$0.09	\$0.12
Share price at grant date	\$0.24	\$0.20	\$0.33
Exercise price	\$0.24	\$0.20	\$0.33
Expected volatility (weighted average)	38.9%	38.9%	38.5%
Expected life (weighted average)	5 years	5 years	5 years
Expected dividends	Nil	Nil	Nil
Risk-free interest rate (based on government bonds)	2.03%	2.04%	2.31%

ELSP Shares

Grant Date	17 Dec 15
Fair value at grant date	\$0.12
Share price at grant date	\$0.33
Exercise price	\$0.33
Expected volatility (weighted average)	38.5%
Expected life (weighted average)	5 years
Expected dividends	Nil
Risk-free interest rate (based on government bonds)	2.31%

Employee expenses recognised in profit or loss	December 2015	December 2014
Share options granted – 2016	121,540	-
Share options granted – 2015	452,945	800,608
Share options granted – 2014	2,579	27,600
Share options granted – 2013	15,831	88,705
Share options expense total	592,895	916,913
Employee loan shares granted – 2016	16,232	-
Employee loan shares granted – 2015	28,941	-
Employee loan shares expense total	45,173	-
Total expense recognised as employee costs	638,068	916,913

The Share based payments – share options amount of \$244,720 on the condensed consolidated statement of changes in equity represents the \$592,895 share options expense less \$348,175 of fair value related to the 3,756,606 vested share options that were exercised during the period.

The Share based payments – employee loan shares amount of \$45,173 on the condensed consolidated statement of changes in equity represents the \$45,173 employee loan share plan expense.

During the period 1,475,329 vested share options lapsed with a total fair value of \$121,849 reducing the net amount recognised in the share options reserve for the six months ended 31 December 2015 to \$168,044.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

10. Related parties

(a) Consolidated entities

Parent entity	Country of Incorporation	Ownership interest	
		2015	2014
Covata Limited (formerly Prime Minerals Limited)	Australia		
Subsidiaries			
Cocoon Data Holdings Limited	Australia	100%	100%
Cocoon Data Pty Limited	Australia	100%	100%
Covata Australia Pty Limited	Australia	100%	100%
Covata USA, Inc.	United States	100%	100%
Fineloop Holdings Pty Limited	Australia	100%	100%
Covata UK Limited	United Kingdom	100%	-

(b) Transactions with key management personnel - *advances to directors*

Unsecured advances to directors during the six months to 31 December 2015 were \$67,482 (2014: \$25,924). These advances were provided as part of the employee loan share plan and related to 460,000 shares sold by Trent Telford in December 2015. This amount was outstanding at the date of this report.

In 2014, unsecured advances to directors related to Trent Telford's relocation from Australia to the USA and were in addition to any relocation allowance that was provided. No interest was payable and the entire balance of \$25,924 was repaid in February 2015.

11. Subsequent events

On 10 February 2016 the Group received \$1,649,951 in research and development tax concessions from AusIndustry for the 30 June 2015 income tax year.

On 3 February 2016 the Group lodged 2 new provisional patents. The first patent, titled "Location based access for key retrieval" allows data sovereignty to be achieved by shifting the focus from trying to control where the data is, to controlling where the keys that protect the data reside.

The second patent, titled "Escrow key fragmentation system" is designed to help governments appease consumer privacy advocates and help enterprises achieve the balance between government access and customer privacy.

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Covata Limited and its controlled entities

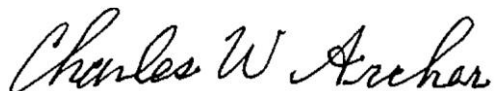
Director's declaration

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

- a) the condensed consolidated financial statements and notes that are set out on pages 11 to 23, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance, for the six months ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Reston, VA, USA this 26th day of February 2016.

Signed in accordance with a resolution of the directors:



Charles Archer
Chairman



Independent auditor's review report to the members of Covata Limited

We have reviewed the accompanying half-year financial report of Covata Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2015, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, Notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As auditor of Covata Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Covata Limited is not in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

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

Material uncertainty regarding continuation as a going concern

Without modifying our conclusion, we draw attention to Note 2(b) "Going Concern" in the half-year financial report. The conditions disclosed in Note 2(b), including the Group's need to raise additional funding and/or reduce expenditure in-line with available cash reserves, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the half-year financial report.

KPMG

Adam Twemlow
Partner

Bundall
26 February 2016