Covata Limited
ABN 61 120 658 497

Appendix 4E

Reporting period

Reporting period: Financial year ended 30 June 2016
Comparative period: Financial year ended 30 June 2015

Results for announcement to the market

	$	Up/Down	Movement %
Revenue from ordinary activities	2,383,773	Up	15.29%
Loss from ordinary activities after tax attributable to members	(14,116,627)	Down	(48.60%)
Net loss attributable to members	(14,116,627)	Down	(48.60%)

The Group recorded a loss after tax of $14,116,627 for the year to 30 June 2016 (2015: $27,462,676). Net cash used in operations was $12,725,453 (2015: $8,900,113).

During the year the Group earned technology related revenues of $357,393 (2015: $349,584).

Additionally the Group accrued research and development (R&D) tax concession revenue of $2,025,612 (2015: $1,649,951). This has increased 23% from the corresponding year as the Group increased its engineering headcount and capabilities as it developed Safe Share version 3.0 and began to develop its KaaS offering. The R&D cash receipt is expected in Q2 FY17.

Dividend information

No dividend has been proposed to be paid or payable for the year ended 30 June 2016, nor for the comparative period.

Covata Limited
ABN 61 120 658 497

Appendix 4E

Net tangible assets per security

	2016	2015
Net tangible assets per security	**1.75 cents**	1.88 cents

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

Not applicable.

Details of associates and joint ventures

Not applicable.

Audit

This report is based on accounts which have been audited.

Attachments

The audited annual financial report of Covata Limited for the year ended 30 June 2016 is attached.

Additional Appendix 4E disclosure requirements can be found in the annual financial report which contains the Directors' Report and the 30 June 2016 Financial Statements and accompanying notes.

Covata Limited

ABN 61 120 658 497

Annual Financial Report
30 June 2016

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 2016 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. Charles Archer
Non-Executive Chairman

Charles ("Chuck") Archer is a senior executive with government and industry experience of exceptional breadth and access. Chuck culminated his 28 years of US Federal Government service as Assistant Director of the Federal Bureau of Investigation in charge of the FBI's Criminal Justice Information Services Division (CJIS), managing 3,000 employees and overseeing 600 contractors.

He was appointed by the US Attorney General to SES-6, the highest civil-service rank in the US Government. Chuck frequently testified before multiple US Senate and House committees on policy matters and issues related to advancing technology for criminal justice. He has also spoken at international conventions including the United Nations in Vienna, Interpol in Lyon, and the International Association of Chiefs of Police in New Delhi and Canberra.

Chuck attended graduate programs at the University of Maryland School of Business, the University of Virginia Darden School of Business, the University of Pennsylvania Wharton School, and the USDA Graduate School. He is a member of the International Association for Identification (IAI), the International Association of Chiefs of Police (IACP), the Federal Investigators' Association (FIA), the Association of Former Intelligence Officers (AFIO), the American Society for Industrial Security (ASIS), and the Society of Former Special Agents (SFSA) of the FBI.

Director of Cocoon Data Holdings Limited since 2012. Appointed Director of Covata Limited 31 October 2014.

Mr. Trent Telford
Chief Executive Officer

Trent is an experienced company director and CEO. He has held various ASX and private company directorships and management positions across a number of sectors including mining services, IT and biotechnology.

Trent started his career in large financial organisations in Europe, including Bankers Trust and Deutsche Bank, before becoming an IT management consultant across Australia and Asia. He has advised blue-chip companies on government strategy, delivery, technology architecture, change management and transformation.

In 2001 Trent founded one of Australia's first mobile marketing technology companies with STW Group (part of WPP) and counted major television networks and global brands as customers.

Directors (continued)

Mr. Trent Telford (continued)

Trent founded Cocoon in October 2007 and acquired the Secure Objects Technology, which underpins the Company's core products and technology today. He is also is a regular contributor to industry forums' and media outlets on cyber-security in Australia, Europe and the U.S.

Director of Cocoon Data Holdings Limited since 2007. Appointed Director of Covata Limited 31 October 2014.

Mr. Philip King
Non-Executive Director

Philip has been a senior executive in a diverse range of businesses for over 30 years, focusing principally on financial services, payments and IT and including consulting and project management, IT recruitment, data security and back office processing businesses.

He has been a private equity investor for 20 years and has been a founder, seed and early stage investor in a variety of successful IT and technology businesses. Philip has held senior management and consulting roles in some of the world's leading financial services institutions in the UK, Europe and South Africa. Before co-founding Asia Principal Capital Limited in Brunei and Singapore, Philip was CEO of an electronic payments business providing clearing and settlement solutions globally in selected verticals, notably travel. This is now a multi-billion dollar payment processing company and is considered to be one of the world's largest aggregators of travel payments. In 2010 he co-founded Asia Principal Capital in Australia.

Philip has extensive company director experience and is currently Chairman of Licentia Group Limited and MyPinPad Limited, UK based authentication software services businesses. He has extensive M&A, capital raising and strategic counsel experience. Philip holds a Bachelor (Honours) degree in Economics and Accounting and a Masters degree in Computing.

Philip is a previous CEO and Executive Chairman of Cocoon Data Holdings Limited.

Director of Cocoon Data Holdings Limited since 2010. Appointed Director of Covata Limited 31 October 2014.

Mr. Joseph Miller
Non-Executive Director

Since 2003, Joseph has been a Managing Director at Europlay Capital Advisors, LLC ("ECA"). ECA is a Los Angeles based boutique merchant bank and financial advisory firm that services and invests in companies in the technology, media, telecom, life sciences and consumer sectors.

ECA's clients and investments include such notable companies as Skype, Rdio, Flashfunders, Fanduel and Red Bull Global Rallycross. Joseph currently serves on the boards of several of these companies including Manalto Limited (ASX: MTL), FlashFunders and Red Bull Global Rallycross. In the past, Joseph has also served on the Boards of Talon International, Multigig and Unicorn Media as well as on the Compensation and Audit Committees of Skype Global prior to its sale to Microsoft.

Directors (continued)

Mr. Joseph Miller (continued)

From 1998 to 2003, Joseph was a Vice President and Senior Vice President at Houlihan Lokey Howard & Zukin ("HLHZ"), a leading middle-market investment bank, where he was focused on transactions in the Entertainment and Media group, and serviced such clients as Warner Bros, Chrysalis, EMI Group and Dreamworks amongst many others.

From 1994 to 1998, Joseph served as the Vice President of Corporate Development for Alliance Communications Corporation, Canada's leading independent producer and distributor of filmed entertainment where he was involved in several high profile transactions, including its US-based listing on NASDAQ and many acquisitions.

Joseph holds a Bachelor degree in Economics/ Business from University of California, Los Angeles (UCLA) and holds FINRA Series 7, Series 24 and Series 63 securities licenses.

Director of Cocoon Data Holdings Limited since 2012. Appointed Director of Covata Limited 31 October 2014.

Mr. Phillip Dunkelberger
Non-Executive Director

Phillip is President and CEO of Nok Nok Labs, Inc., a leader in strong authentication solutions. Phillip has broad experience resulting from more than 34 years in technology. Prior to leading Nok Nok Labs, he served for 8 years as co-founder and CEO of PGP Corporation, a leader in the Enterprise Data Protection market, until acquired by Symantec in 2010. He has significant experience in SaaS infrastructure and enterprise software, having served as Entrepreneur-in-Residence at DCM, President and CEO of Embark, and COO of Vantive Corporation. He has also held senior management positions with Symantec, Apple Computer and Xerox Corporation.

Phillip has served on several boards of directors, and currently serves on the Board of Nok Nok Labs and Ionic Security and numerous Advisory Boards. He is a founding board member of the Cyber Security Industry Alliance (CSIA) and is Chairman Emeritus of TechAmerica's CxO Council. Phillip holds a B.A. in Political Science from Westmont College and is a member of the school's President's Advisory Board.

Director of Cocoon Data Holdings Limited since 1 August 2014. Appointed Director of Covata Limited 31 October 2014.

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

Michael Quinert graduated with degrees in economics and law from Monash University in 1984 and 1985 respectively and has 30 years' experience as a commercial lawyer, including three years with ASX Limited and over 20 years as a partner in a Melbourne law firm. He has extensive experience in assisting and advising public companies on capital raising and market compliance issues and has regularly advised publicly listed mining companies.

Directors (continued)

Mr. Michael Quinert (continued)

Michael sits as a Managing Partner of Melbourne law firm Quinert Rodda & Associates, as Chairman of ASX listed West Wits Mining Limited, as a director of ASX listed Manalto Limited and as a Director of Victorian Livestock Exchange Pty Ltd.

Appointed Director of Covata Limited 17 February 2015.

Company Secretaries

Mr. Nicholas Chiarelli
Joint Company Secretary and Chief Financial Officer

Nicholas has over 15 years' finance experience, covering a broad range of commercial and chartered roles. Prior to joining the Group, Nicholas worked in business services at Crowe Horwath Sydney (previously WHK Horwath).

Prior to this Nicholas resided in London working in private equity and investment banking with a variety of reporting roles (financial/regulatory, investor related and valuations) at 3i Group, Bank of New York Mellon and Man Investments.

Nicholas is a member of Chartered Accountants Australia & New Zealand, and holds a Bachelor of Business from the University of Technology, Sydney.

Company Secretary of Cocoon Data Holdings Limited since 2010. Appointed Company Secretary of Covata Limited 31 October 2014.

Mr. Patrick Gowans
Joint Company Secretary

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

Appointed Joint Company Secretary of Covata Limited 23 December 2014.

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	Board Meetings B
Mr. Charles Archer	4	5
Mr. Trent Telford	4	5
Mr. Philip King	3	5
Mr. Joseph Miller	4	5
Mr. Phillip Dunkelberger	4	5
Mr. Michael Quinert	4	5

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

Highlights

- Signed a three-year enterprise deal for Safe Share, with Germany's largest public health insurer Barmer GEK.
- Signed a reseller agreement with Chunghwa, Taiwan's largest Telco, to sell Safe Share into their Government and enterprise customer base.
- Safe Share product accepted onto the UK Government G-Cloud Marketplace.
- Furthered the relationship with the UK Government Foreign & Commonwealth Office Services (FCOS) to be the Company's government hosting partner and will deploy Safe Share to Covata customers on Official Accredited Cloud Infrastructure.
- Built out the Covata UK government business development and sales team in the London office with experienced personnel.
- Established direct relationships within the UK government, targeting revenue generating contracts for award beginning first half FY17 and beyond.
- Covata named in a successful UK Government tender won by a multi-national cyber security corporation.
- Built out the San Francisco team including an ex-Cisco executive to deepen the reach within Cisco and other targeted Fortune 100 technology companies.
- Covata Key-as-a-Service (KaaS), an extended and enriched public cloud service originating from the Covata Platform, was introduced in Sydney in February 2016. The KaaS build-out has progressed substantially in the period for on-target release in late 2016.
- IP portfolio extended - two new patents lodged in February 2016 relating to "location based access for key retrieval" and "encryption key fragmentation."

Review of Operations (continued)

- International standard 'ISO 27001' awarded to the Company pertaining to information security management.
- Welcomed FIL Limited, part of Fidelity International, as a major shareholder holding approx. 7% in October 2015 through a $6.9M placement, and increasing their position to approx. 10% by July 2016.
- A $13.2M Strategic Equity Placement executed in two tranches; Tranche 1 $5.4M in June 2016 and Tranche 2 $7.8M in July 2016.
- Achieved a strong cash position with cash and cash equivalents of $8.9M held at 30 June 2016. A further $7.35M (net of costs) was received from Tranche 2 of the Strategic Equity Placement noted above, with an additional $2.0M research and development (R&D) cash receipt expected in Q2 FY17.

Financial Overview

The Group recorded a loss after tax of $14,116,627 for the year to 30 June 2016 (2015: $27,462,676). Net cash used in operations was $12,725,453 (2015: $8,900,113).

During the year the Group earned technology related revenues of $357,393 (2015: $349,584).

Additionally the Group accrued research and development (R&D) tax concession revenue of $2,025,612 (2015: $1,649,951). This has increased 23% from the corresponding year as the Group increased its engineering headcount and capabilities as it developed Safe Share version 3.0 and began to develop its KaaS offering. The R&D cash receipt is expected in Q2 FY17.

Technology Overview

The Group has continued to invest strategically in its technology and development capabilities to support its go-to-market strategy, resulting in a number of significant milestones during the 2016 financial year. Furthermore the technology development of Safe Share, resulting in the major release of 3.0 and further iterations, over the year has been directly influenced by technical requirement discussions with current partners, customers and prospects. This considered approach to development has strengthened the Company's position and progressed the current sales pipeline within our target markets.

The Covata Platform, which follows the core patented principals of tying encryption to policy and identity, remains a distinctly unique data centric approach to security and has received strong interest and support from tech leaders and Covata partners, Cisco and T-Systems to name a couple. With the launch of KaaS the Group has bolstered engineering efforts towards enhancing the platform and its capabilities to service initiatives from cloud and IoT ("Internet of Things") industries. Since the February launch of KaaS significant progress has been made in the development and commercialisation of the platform. In this time, a new team has been put together, Covata executives have met with potential customers alongside Cisco and established delivery targets for the first half of FY17 for the release of the developer portal and alpha APIs. The APIs, which will be made available on the developer portal, will enable the global IT, engineering and developer community to tap into the power of the platform to augment applications and services with government grade data security.

The Group's dedication to investing in its technology also manifested in the rapid deployment of Safe Share Version 3.0 and subsequent iterations, which have played a key role in positioning the Company on G-Cloud 8 in the UK and securing a Telco partnership with leading Taiwanese Telco, Chunghwa.

Review of Operations (continued)

Technology Overview (continued)

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 the Safe Share 3.0 iterations go 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, with its patented technology, is the only product of its kind that can secure and control access to sensitive and valuable enterprise and government data.

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.

- Watermarking/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 Viewer 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.

Cyber Defense Magazine, the industry's leading electronic information security magazine and media partner of the RSA Conference 2016, has named Safe Share as the winner of the 'Cutting Edge Managed File Transfer Solution' category for the 2016 InfoSec Awards. Covata Safe Share was bestowed with this accolade by Cyber Defense Magazine after many months of review and judged by leading independent information security experts.

Business Overview

At the time of listing the Group outlined a three-pronged go-to-market strategy. Firstly, to distribute Safe Share globally to enterprise customers through partnering with leading Telecommunications providers in identified target regions. Secondly, to distribute Safe Share and the Covata Platform to major technology businesses via Original Equipment Manufacturer (OEM) partnerships. Lastly, given the Company's success and history in Government, that this would continue to be a channel the Group would selectively target.

Review of Operations (continued)

Business Overview (continued)
As an overarching comment, Telco has had some challenges and grown modestly in FY16. As a result the Company has not only identified the challenges within the model but put in place solutions to seek to ensure that the channel is successful. People and processes have been identified and set up to support and extend the positive work carried out to date within T-Systems and Macquarie Telecom. Telecommunications providers are continuing to focus on selling over the top services into their enterprise base. In a recent Infotechlead article, T-Systems identified its partner network, naming Covata, and its continued expansion of capabilities around IoT and security to add value to its enterprise customer base, as key drivers behind potential success for the business. The Company acknowledges that the Telco channel is slower than expected however the Board and management believe that with major Telco partners, this channel has significant potential to deliver results in FY17.

The Company has, however, seen substantial progress in the other two channels. Government has strengthened significantly with our expansion into the UK sector, and the Platform business with Cisco turned a meaningful corner in Q4 with the Cisco restructure complete and key hires within Covata fully established to drive business opportunities forward.
A discussion of Telecommunications, Government and OEM Market channel achievements are as follows:

<u>Safe Share: Telecommunications and Government Market Channels</u>
During the period the Group achieved a number of significant milestones in the Telecommunications and Government Market Channels. Some of the highlights include:

- Signing a three-year deal for Safe Share with Barmer GEK, through our partner T-Systems. Barmer GEK is Germany's largest public (statutory) health insurer with 8.6 million policyholders, over 20,000 employees in 950 locations, and a network of over 150,000 physicians, pharmacies and clinics. The rollout continues in line with the program management office of a wider IT program within Barmer. It is currently being rolled out at the executive level, with the sales divisions to follow. Barmer will be an official customer reference for the Company and has proven to be an exemplary case study for subsequent sales discussions.

- Signing a partnership with Chunghwa, Taiwan's largest Telco, to sell Safe Share into their government and enterprise customer base. Both Companies carried out extensive due diligence before executing the agreement which required the approval of various departments heads.

- 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 suppliers. The UK Government has mandated a "Cloud First" approach to IT, with the marketplace achieving strong success since launching.

- The Company has been awarded Tier 2 Secret Classification on G Cloud 8 (G8), significantly advancing the Company's position within the UK government marketplace. Covata Safe Share is the only file sharing application to be deployed and hosted on an Official Accredited Cloud Platform delivered by our government hosting partner FCOS, using security cleared staff. Covata now offers two versions of Safe Share in G8 at two price points; 'UK Gov +' from £8 to £10 per user per month (PUPM) and 'UK Gov + Premium' from £25 to £29 PUPM. This is a marked increase from G7 pricing for 'UK Gov +' which was priced at £6 to £8 PUPM. These licenses will typically be sold as 'SaaS for Government' licenses on a multi-year basis with a minimum number of users required for any department.

Review of Operations (continued)

Business Overview (continued)

Safe Share: Telecommunications and Government Market Channels (continued)

- Covata was named in a successful UK law-enforcement and community services tender by a multi-national aero-space and defence corporation (Prime contractor). This is a multi-year contract with a total value to the Prime contractor in excess of $200M AUD. The Company continues to work with the Prime contractor to define contract details and will keep shareholders informed as developments arise.
- Established a strong relationship with UK Government Foreign & Commonwealth Office Services (FCOS). The Group anticipates that this partnership, which will see Safe Share delivered to UK Gov departments over FCOS trusted infrastructure, will accelerate the conversion of the current government pipeline consisting of more than 250,000 potential end users.

Since being accepted onto the highly coveted UK Government G-Cloud Marketplace, the UK Government sector is shaping up to be a key vertical with the current pipeline representing more than 250,000 potential end users. There are more than 5.3 million employees in the UK public sector alone and within the first eight months of being live on G Cloud, a number of major UK government departments are 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.

The work undertaken to date has been strategically developed to pave the way for substantial sales through the Covata 'whole of government' strategy. Safe Share can be used to securely interlink departments and seeks to maximise interoperability. The Group has employees focused solely on government sales being supported by a number of ex senior government officials operating in official consultant capacity - including a recently retired Director General and Commander of the British Army. This team have focused on building relationships with "frontline" departments and agencies; such as counter terrorism, law enforcement, emergency services, healthcare, diplomatic channels and the 'Intel' community. Safe Share enables data to flow from these frontline agencies to other interrelated agencies, breaking down silos and enabling government to securely function like never before. This is a multi-billion dollar service industry for network and hardware incumbents ripe for disruption with software.

As the Company has progressed deeper into sales cycles with enterprise and government prospects it has also found that contracts are likely to 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 and will enable the Company to have transparency over the total contract value for the life of the engagement. 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 of ensuring world-class delivery and support to our end customers and mitigate the risk associated with delivering large-scale contracts.

The Group identified both Asia Pac and Latin America (LatAm) as target regions for Telco partnerships at the start of FY16. After identifying a partner pipeline across the region, several sales and technical discussions, and negotiations with senior decision makers at two of the largest Telco's in LatAm, the Group has made the tactical decision to pause LatAm efforts and focus our resources for FY17 on the higher value markets in Europe and Asia Pacific.

Review of Operations (continued)

Business Overview (continued)

Safe Share: Telecommunications and Government Market Channels (continued)
The re-seller agreement between Chunghwa and Covata allows Taiwan's largest telecommunications company, to sell Safe Share into their government and enterprise customer base. The process of signing this partnership was extensive and required the Company to receive departmental sign off from numerous business heads as well as gain executive leadership buy-in. In 2015 Chunghwa heightened their focus on the delivery of ICT Services, including cloud, information security and IoT. Chunghwa have identified early stage pipeline targets and we are fully focused on building our position in the Asian cyber security market alongside Chunghwa over the coming year.

Safe Share remains a premium security file sharing product and one of the only solutions available to government and enterprise customers who are looking for robust encryption, identity/access controls and audit and compliance. Telco and Government partners provide access to a large total addressable market of entities with whom they have long standing relationships, however to sell through these partners requires a significant investment of time. Board and management believe that the time invested and the pipeline built to-date has the potential to bring in meaningful contracts in the near term within the Telco and Government channels.

Key-as-a-Service Advances

At the start of February 2016, Covata hosted an event in Sydney, alongside partner Cisco, addressing the future of IoT 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 IoT and security, and how the two Company's will work together. The event was also the launch of Covata's 'Key-as-a-Service' ("KaaS"), the Company's new IoT and cloud security product which is being initially deployed through 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.

With the amount of data due to increase exponentially as IoT 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. Today's rigid information structures are built on legacy applications that don't talk to each other. With security concerns prohibiting enterprises and governments from breaking down data silos, valuable data remains locked in proprietary systems. Businesses can maximise the use of their data by using KaaS – to open up new revenue streams, decrease costs and lower risk. KaaS enables businesses and applications to communicate securely, in a common language. This intelligent exchange promotes the fluidity and openness of the Internet yet ensures the security and integrity of all data. Through APIs and SDKs developers, and their applications, will get the unbridled business benefits of the digital transformation era, with minimal risk.

Cisco and Covata are looking into a range of IoT and cloud projects for customers that are looking for, and value secure data sharing. Covata has been in customer meetings alongside Cisco with the Group focused on turning initial scoping into paid high value POCs. In parallel, Covata will drive broader adoption of the technology by opening up public APIs to the global developer community. The public APIs and developer portal will be made available over the first half of FY17.

Review of Operations (continued)

Business Overview (continued)

Key-as-a-Service Advances (continued)

The Covata Developer Portal will allow app developers, from two person operations through to the largest technology companies in the world, to engage directly with Covata's APIs and SDKs. to bake the power of the Covata platform within their apps and services to significantly enhance the security of their products. The Developer Portal will provide a place for developers to build an organic community around the thematic of IoT and Cloud security, engaging with the Covata Platform, through APIs, from the beginning of their product life cycle. Developer communities are acknowledged for their viral engagement and for underpinning the development of numerous software masterpieces.

To provide an example of the sheer size of this market segment, Gartner stated in April 2016 that worldwide application infrastructure and middleware (AIM) software revenue totalled US$23.9 billion in 2015. Twilio, a notable company selling cloud communication APIs into the developer community, listed on the NYSE in June 2016 and currently has a market cap of more than US$4.5 billion. Founded in 2008, the site has approximately one million developers in its community and over 28,000 active customers including brand names such as Uber, Dell and Salesforce.

The Group believes the ease of access for developers on the portal coupled with the high demand for SaaS security solutions will make this a strong sales channel for the KaaS offering, and will run in parallel to our sales strategy alongside Cisco and future industry partners.

Management are executing formal product branding for KaaS, to be launched alongside the developer portal over the coming months. This will involve an integrated marketing and communications campaign to reach target customers, drive adoption and position Covata as a thought leader in the IoT and Cloud data security space.

The Group is very excited about the next twelve months for KaaS and looks forward to sharing developments as KaaS progresses.

Cash Flows from Financing Activities

During the year, the Company strengthened its cash position through a $6.9 million cash investment by Fidelity and a $13.2 million strategic equity placement that was funded in two tranches. The first tranche of $5.4 million, settled at the start of June under the Company's existing placement capacity under ASX Listing Rule 7.1 and the remaining $7.8 million settled in tranche 2, after being approved by shareholders at an Extraordinary General Meeting on 14 July 2016. The strategic equity placement included increased investment from the Company's number one and number two shareholders, TPG Telecom and Fidelity International and also a range of new investment from Institutional and sophisticated investors in Australia, the USA and Asia Pac.

In addition, the Company raised $1.7M in cash through the exercise of options that were set to expire and $0.1M through the employee loan share plan. In total $13.4M of cash was raised during the year ($6.9M Fidelity, $5.4M strategic equity placement tranche 1, $1.7M options, $0.1M loan shares, less $0.7M brokerage costs).

Cash Flows from Financing Activities (continued)

Fidelity International is a global asset manager with assets under management of US$272B (as at 31 Mar 2016) 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.

FY16, in particular Q3 and Q4 presented many challenges as global companies, including Covata, navigated volatility caused by a general cooling of sentiment towards the tech sector and global economic uncertainty and political instability in our key markets of the UK, USA and even Australia.
The June 2016 Brexit referendum, which saw Britain vote to leave the EU, has had some impact, both positive and negative for the Group. Post the vote we have seen the cost of doing business in the UK decrease by over 5% due to a weakening GBP against the AUD and a number of significant early stage sales opportunities have presented themselves as a direct consequence of the vote. At the same time some smaller continental Europe sales opportunities have slowed, however these have been relatively minor. As always the Group continues to monitor macroeconomic conditions in key markets and will respond accordingly.

As a software company Covata does not have large fixed costs, with around 60% of all operating costs relating to the cost of employees. With two of the Groups offices, London and San Francisco, being located in arguably two of most competitive technology labour markets in the world, competing for top talent has been challenging and required increased time and capital to build teams. Despite this, the second half FY16 saw us grow our headcount to approx. 50 full time employees, and a lot of those new employees are best in their field. Over the year the Group also formed key partnerships, and strengthened existing ones, to greatly enhance our delivery, hosting and support capabilities. We did this whilst carefully managing our cash reserves and maintaining operating expenses within expectations, at an average of $1.2 million per month over the full financial year.

Operationally FY16 has been a big year for Covata. Whilst there have been significant wins for the Company, including the launch of KaaS, opening the San Francisco office, Barmer contract win with T-Systems and advancement of Safe Share onto G Cloud 8; the Board are acutely aware of the frustration felt by shareholders in the timing of closing deals. Nevertheless, the Company has built a strong foundation and pipeline with current deals substantially progressed. Management have recapitalised and are confident that the partnerships and the team that have been built throughout the year will deliver in the near term and provide the next steps of growth and value to the shareholders.

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

The Group completed the $13.2 million strategic equity placement on 21 July 2016 and received $7.8 million in cash, before costs subsequent to the end of the financial year. The placement was executed in two tranches. The first tranche of $5.4 million, settled within Q4 under the Company's existing placement capacity under ASX Listing Rule 7.1 and the remaining $7.8 million settled in tranche 2 after being approved by shareholders at an Extraordinary General Meeting on 14 July 2016. The strategic equity placement included increased investment from the Company's number 1 and number 2 shareholders, TPG Telecom and Fidelity International and also a range of new investment from Institutional and sophisticated investors in Australia, the USA and Asia Pac.

There has not arisen in the interval between the end of the year to 30 June 2016, 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.

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.

Indemnification and insurance of officers and auditors (continued)

Non-audit services

During the year KPMG, the Group's auditor, has not performed other services in addition to their statutory audit and review of the financial statements.

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 2016.

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 2016, it is 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)

<u>Principles used to determine the nature and amount of remuneration (continued)</u>

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 fees paid to each non-executive director are $40,000 (2015: $40,000) per annum, exclusive of any superannuation where applicable.

The Chairman is Mr. Charles Archer who transferred from an Executive Director to a Non-Executive Director effective 1 September 2015, accordingly his annual salary has been adjusted to USD$100,000 (2015: USD$348,000).

On 11 March 2016, the Board resolved to establish a Remuneration Committee and appointed Mr. Michael Quinert as Chairman. Mr. Quinert will receive $20,000 per annum (pro-rata) in addition to fees received as a non-executive director.

GST is 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 remuneration 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 compulsory 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)

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 and Chief Financial Officer.

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

During the year, at the annual general meeting on 18 November 2015, shareholders approved the provision of bonus awards to selected non-executive directors. These bonus awards were provided to non-executive directors in connection with the successful recapitalisation of the Group, completion of the merger with Prime Minerals Limited and re-listing of the newly merged Covata Limited on the ASX taking place in the financial year ending 30 June 2015.

Bonus awards were granted to Nicholas Chiarelli and Trent Telford in respect of the period ending 31 December 2015. These short-term incentives were awarded in relation to the achievement of a range of qualitative objectives and were comprised of shares and associated cash for statutory withholding taxes. The grant of the award to Trent Telford was subject to shareholder approval, which was obtained at the Extraordinary General Meeting on 14 July 2016. An accrual for the shares and associated cash for statutory withholding taxes was recognised in the accounts as at the date of this report. No cash bonuses were paid during the financial year.

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.

Share options and loan funded share plan shares issued in lieu of cash under the short term incentive plan ('STIP')

The following grants were provided in connection with the successful recapitalisation of the Group, completion of the merger with Prime Minerals Limited and re-listing of the newly merged Covata Limited on the ASX taking place during the financial year ending 30 June 2015:

- The share options granted to Trent Telford on 17 December 2015, have an exercise price of 33c, a term of 5 years and vest immediately on the grant date.
- The share options granted to Charles Archer on 17 December 2015, have an exercise price of 33c, a term of 5 years and vest immediately on the grant date.

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

- The share options granted to Joseph Miller on 17 December 2015, have an exercise price of 33c, a term of 5 years and vest immediately on the grant date.

The loan funded share plan shares granted to Philip King on 7 December 2015 have a loan of 33c per share, a term of 10 years and vest immediately on the grant date.

Remuneration report (audited) (continued)

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.

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

2016 remuneration structure

The 2016 remuneration structure for the KMP is as follows:

		Fixed remuneration $ (2) (4)	STIP $ (2) (5)	LTIP $ (2)(6)
Non-Executive Directors				
Philip King		44,433	16,232	-
Joseph Miller		40,000	16,232	-
Phillip Dunkelberger		40,000	-	138,958
Michael Quinert		46,137	-	-
Non-Executive Chairman				
Charles Archer (1)		195,507	44,028	13,119
Executive Director	Chief Executive Officer			
Trent Telford		483,873	332,341	253,186
Executive Management Team				
Nicholas Chiarelli	Chief Financial Officer and Joint Company Secretary	307,159	145,808	50,765
Vic Winkler (3)	Chief Technology Officer	175,512	-	(121,849)(3)

(1) Charles Archer was Executive Chairman for the course of the 2014 and 2015 financial years and transferred to Non-Executive Chairman with effect on 1 September 2015.
(2) All KMP are based in the United States and their remuneration is denominated in USD and for reporting purposes translated to AUD at the weighted-average monthly exchange rate over the year.
(3) Vic Winkler resigned from his position as Chief Technology Officer with effect on 1 August 2015. The fair-value of share options recognised as expense in prior years lapsed after his resignation resulting in a credit in the current year.
(4) Fixed remuneration includes base salary, health insurance, 401k contributions or superannuation as required by local statute.
(5) STIP includes cash, the fair-value of share options and loan share grants with immediate vesting and the grant of ordinary shares.
(6) LTIP includes the fair-value of prior year share option and loan share grants, vested and recognised as an expense during the year.

Consolidated entity performance and link to remuneration

The 2016 STIP were awarded primarily on the basis of achievement of key strategic, mostly non-financial KPI's.

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

Remuneration report (audited) (continued)

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

Services from remuneration consultants

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

Pearl Meyer & Partners was paid AUD$41,600 for their review and recommendations in respect of their undertaking.

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

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

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

At the report date the Board is reviewing the findings of Pearl Meyer & Partners and is yet to implement any recommendations.

Details of remuneration

Amounts of remuneration

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

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

- Nicholas Chiarelli Chief Financial Officer and Joint Company Secretary
- Vic Winkler Chief Technology 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.

Covata Limited
Directors' Report

Remuneration report (audited) (continued)

Details of remuneration (continued)

Amounts of remuneration (continued)

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

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

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

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

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

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

2015	Short-term benefits Cash salary and fees $	Bonus $	Post-employment benefits Superannuation / 401K $	Termination benefits $	Share- based payments Options and rights $	Shares $	Total $
Non-Executive Directors							
Philip King	34,469	-	2,641	-	-	-	37,110
Joseph Miller	35,192	-	-	-	-	-	35,192
Phillip Dunkelberger	26,858	-	-	-	347,433	-	374,291
Michael Quinert	14,667	-	-	-	-	-	14,667
Executive Chairman							
Charles Archer	413,149	44,532	9,993	-	-	-	467,674
Executive Director							
Trent Telford	445,169	51,715	18,783	-	825,980	-	1,341,647
Key Management Personnel							
Nicholas Chiarelli	257,234	42,815	18,089	-	108,576	-	426,714
Vic Winkler	263,824	11,492	5,706	-	11,443	-	292,465
	1,490,562	150,554	55,212	-	1,293,432	-	2,989,760

Remuneration report (audited) (continued)

Details 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	
	2016	2015	**2016**	2015	**2016**	2015
Non-Executive Directors						
Philip King	73%	100%	27%	-	-	-
Joseph Miller	71%	100%	29%	-	-	-
Phillip Dunkelberger	22%	7%	-	-	78%	93%
Michael Quinert	100%	100%	-	-	-	-
Non-Executive Chairman						
Charles Archer	77%	90%	18%	10%	5%	-
Executive Director						
Trent Telford	45%	33%	31%	4%	24%	63%
Key Management Personnel						
Nicholas Chiarelli	61%	65%	29%	10%	10%	25%
Vic Winkler	327%	92%	-	4%	(227)%	4%

Service agreements

Non-executive directors

With the exception of the Non-Executive Chairman, 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.

Charles Archer I Non-Executive Chairman (Executive chairman prior to 1 September 2015)

Agreement commenced - 20 April 2012

Term of agreement - No fixed duration.

Details

Effective 1 September 2015, Charles transferred from Executive Chairman to Non-Executive Chairman and was entitled to:

- Receive fixed annual remuneration of USD $100,000,
- Payment of health and dental insurance and eligible 401K contributions
- Whilst an Executive Chairman, 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, and
- A once off grant of 6,975,000 share options on 24 July 2012 over the ordinary shares of Cocoon Data Holdings Limited (which converted to 5,231,250 share options over the ordinary shares of Covata Limited subsequent to the reverse acquisition of Covata Limited).

The employment contract may be terminated by the Company at any time with or without 'cause' (serious misconduct, failure to perform duties, or other specified circumstances) and may be terminated by Charles with 30 days written notice.

Remuneration report (audited) (continued)

Executive directors

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

Trent Telford I Chief Executive Officer

Agreement commenced	- Signed 10 April 2014, with commencement in August 2014.
Term of agreement	- 2 years; Trent's employment agreement has been extended by the board to 31 August 2016, upon which a new employment agreement will be determined.

Details

Trent is entitled to:

- Receive fixed annual remuneration of USD $320,000,
- Payment of health and dental insurance and eligible superannuation contributions under bilateral social security arrangements.
- 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, and
- A once off grant of 13,333,333 share options over the ordinary shares of Cocoon Data Holdings Limited (which converted to 10,000,000 share options over the ordinary shares of Covata Limited subsequent to the reverse acquisition of Covata Limited).

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

Other key management personnel

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

These agreements provide for:

- A base salary denominated in US Dollars and paid monthly,
- For US KMP, payment of health and dental insurance, eligible 401K or superannuation contributions,
- Eligibility to participate in the STIP, with target participation in the STIP individually capped at a maximum percentage of total fixed annual remuneration up to 100%, and
- A grant of share options over the ordinary shares of Cocoon Data Holdings Limited (which converted to share options over the ordinary shares of Covata Limited subsequent to the reverse acquisition of Covata Limited), or a grant of share options over the ordinary shares of Covata Limited.

The employment contract may be terminated by the Company at any time with or without 'cause' (serious misconduct, failure to perform duties, or other specified circumstances) and may be terminated by the KMP with 30 days written notice for the CFO to 3 months written notice for the CTO. Where the Group terminates the employment contract with 'cause', it does so without payment for notice or payment in lieu of notice. In the event of termination without 'cause' by the Group, the KMP will be entitled to 3 months' salary for the CFO to 6 months' salary for the CTO as specified in each employment contract with the KMP.

Remuneration report (audited) (continued)

Share-based compensation

Options

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

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

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

Details of shares options issued to directors and other KMP as part of compensation during the year ended 30 June 2015 are set out below:

Name	Issue Date	Options	Strike Price	Term	Fair Value
Phillip Dunkelberger	1 August 2014	5,000,000	$0.20	5 years	$347,433
Trent Telford	1 August 2014	10,000,000	$0.20	5 years	$825,980
Nicholas Chiarelli	23 December 2014	1,237,500	$0.20	5 years	$79,954
Nicholas Chiarelli	12 March 2015	231,400	$0.33	5 years	$28,622
Vic Winkler	12 March 2015	92,517	$0.33	5 years	$11,443

The 17 December 2015 and 12 March 2015 options issued were fully vested at the issue date and the 1 August 2014 and 23 December 2014 options issued vest over multiple periods.

On 1 August 2014, the grant of share options over the ordinary shares of Cocoon Data Holdings Limited was modified and became a grant of share options over the ordinary shares of Covata Limited on a 1 for 0.75 basis, the strike price was increased to USD 0.1467 and the term reduced to 5 years. The fair value of the share options on the modified terms was assessed at the date of modification to have decreased from the fair value of the share options on the original terms as at the date of modification. As a result, no additional share based payment expense was recognised on modification.

Employee Loan Share Plan

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

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

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

Remuneration report (audited) (continued)

Additional disclosures relating to Key Management Personnel

In accordance with Class Order 14/632 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:

2016

Name	Balance as at 1 July 2015	Received as part of Remuneration	Option Conversions	Disposals	Balance as at 30 June 2016
Charles Archer	-	-	-	-	**-**
Philip King	2,360,226	132,167	-	-	**2,492,393**
Joseph Miller	-	-	-	-	**-**
Phillip Dunkelberger	-	-	-	-	**-**
Michael Quinert	57,600	-	-	-	**57,600**
Trent Telford	6,645,175	-	-	(1,068,199)	**5,576,976**
Nicholas Chiarelli	695,060	376,963	-	(429,181)	**642,842**
Vic Winkler	-	-	3,756,606	(3,756,606)	**-**

As at 30 June 2016, the number of ordinary shares above held by Trent Telford, Philip King and Nicholas Chiarelli include shares issued under the Employee Loan Share Plan. The shares held by Trent Telford, Philip King and Nicholas Chiarelli under the Employee Loan Share Plan are 776,500, 1,107,167 and 440,413 respectively.

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:

2016

Name	Balance as at 1 July 2015	Received as part of remuneration	Exercised	Lapsed	Balance as at 30 June 2016
Charles Archer	5,306,250	358,502	-	**-**	**5,664,752**
Philip King	-	-	-	**-**	**-**
Joseph Miller(1)	-	-	-	**-**	**-**
Phillip Dunkelberger	5,000,000	-	-	**-**	**5,000,000**
Michael Quinert	-	-	-	**-**	**-**
Trent Telford	10,375,000	416,325	-	(375,000)	**10,416,325**
Nicholas Chiarelli	1,468,900	-	-	**-**	**1,468,900**
Vic Winkler	5,231,935	-	(3,756,606)	(1,475,329)	**-**

(1) 132,167 share options were issued to Europlay Capital Advisors (ECA), a nominee of Joseph Miller. ECA is not a related party of Joseph Miller as defined in AASB 124 Related Party Disclosures 9(b)(vi).

Remuneration report (audited) (continued)

Additional disclosures relating to Key Management Personnel (continued)

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

	2016 $	2015 $	2014 $	2013 $	2012 $
Profit/(loss) attributable to owners of the company	(14,116,627)	(27,462,676)	(9,769,356)	(8,387,076)	(11,128,513)
Change in share price	(0.10)	0.14	-	(0.05)	0.05

The overall level of key management personnel'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 key management personnel and their related parties

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

	Balance 1 July 2015 $	Balance 30 June 2016 $	Interest Charged $	Highest balance in the period $
Trent Telford	-	145,001	8,286	145,001

Unsecured loans extended to Trent Telford during the year ended 30 June 2016 amounted to $145,001. Mr. Telford has made arrangements to repay the entire loan within 12 months of the date of this report.

Details regarding the aggregate of all loans made by any entity in the Group to key management personnel and their related parties, and the number of individuals in each as at 30 June 2016, are as follows:

	Balance 1 July 2015 $	Balance 30 June 2016 $	Total Interest Charged $	Number in group at 30 June 2016
Total for key management personnel and their related parties	-	145,001	8,286	1

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 30 and forms part of the directors' report for the financial year ended 30 June 2016.

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

Charles W Archer

Charles Archer
Chairman

Dated at Reston, VA, USA this 30th day of August 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 audit for the financial year ended 30 June 2016 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

Adam Twemlow
Partner

Bundall

30 August 2016

Covata Limited
Corporate Governance Report

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

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

Copies of the charters under which the Board and its Committees operate, the Company's policies and other relevant information referred to in this Statement are available on the Company's website at //www.covata.com/corporate-governance/.

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

Principle 1 – Lay solid foundations for management and oversight

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

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

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

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

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

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

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

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

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

The Company is committed to the periodic review of the performance of its Board, individual directors and senior executives. This process is expected to typically be conducted by the Board or by special purpose committees established by the Board. In the current financial year, as announced to ASX on 13 April 2016, a performance review for the calendar year ended 31 December 2015 was completed.

During 2016 the Company established a Remuneration Committee.

Diversity

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

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

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

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

Gender Diversity	**2016**	
	No.	**%**
Women on the Board	0	0
Women in Senior Management Roles	2	13
Women employees in the Company	14	39

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

Principle 2 – Structure the board to add value

Composition of the board

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

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

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

- Mr. Charles Archer (Chairman) – Non-Executive Director
- Mr. Trent Telford – Executive Director and Chief Executive Officer
- Mr. Philip King –Non-Executive Director
- Mr. Joseph Miller –Non-Executive Director
- Mr. Phillip Dunkelberger – Non-Executive Director
- Mr. Michael Quinert – Independent Non-Executive Director

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

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

Mr Philip King, Mr Joseph Miller, Mr. Charles Archer and Mr Phillip Dunkelberger are non-executive directors of the Company and are not independent on the basis that they, or entities that they have an involvement in, hold a substantial numbers of equity securities in the Company. Due to the transition from Prime Minerals Limited to Covata Limited in October 2014 and the overhaul of the Board at that time, the current Board has only one independent director. The directors consider that the current structure of the Board is appropriate as each Director brings specific and targeted business skills.

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

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

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

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

Role of the Chairperson

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

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

Principle 3 – Promote ethical and responsible decision making

Directors' Code of Conduct

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

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

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

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

Securities Trading Policy

The Company has established a Securities Trading Policy which governs the trading in the Company's securities and applies to all Directors, Officers and employees of the Company. A copy of the policy is available on the Company's website at //www.covata.com/corporate-governance/.

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

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

No director, officer or employee may deal in the Company's securities at any time for short-term gain, including by buying and selling the Company's securities in a 3 month period, without the written approval of the Chairman or, in the case of the Chairman, the Chief Executive Officer.

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

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

Principle 4 – Safeguard integrity in corporate reporting

Audit and Risk Committee

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

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

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

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

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

Principle 5 – Make timely and balanced disclosure

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

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

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

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

Principle 6 – Respect the rights of shareholders

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

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

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

Principle 6 – Respect the rights of shareholders (continued)

As an example of its commitment to shareholder communication, the Company made videos of its event, 'The Future of the Internet of Everything and Security', which was jointly hosted with Cisco on 3 February 2016, available to shareholders who could not attend. Furthermore, subsequent to the end of 2016 financial year, the Company also held a live business update conference call which enabled shareholders the opportunity to ask questions of key management.

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

Principle 7 – Recognise and manage risk

Risk oversight and management

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

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

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

The audit and risk management policies set out in the Corporate Governance Charter detail the Company's risk management systems which assist in identifying and managing potential or apparent business, economic, environmental and social sustainability risks (if appropriate). The Board and Management are continually evaluating and monitoring the Company's risk management framework, although no formal review of risk management framework was conducted during 2016. The Company does not consider it has any material exposure to environmental or social sustainability risk, however is subject to economic risks including currency risks (refer to note 26(B) of the consolidated financial statements on pages 73 and 74.

Principle 8 – Remunerate fairly and responsibly

During 2016 the Company formally appointed a Remuneration Committee. Prior to its appointment the Board was responsible for performing functions of the remuneration committee and followed the remuneration policies set out in its Board Charter where possible and is confident that this process will ensure that the remuneration for Directors and senior executives is fair and reasonable.

Principle 8 – Remunerate fairly and responsibly (continued)

The Remuneration Committee is comprised of three members, namely Michael Quinert, Charles Archer, and Phillip Dunkelberger. Michael Quinert, who acts as chair of the Remuneration Committee, is an independent Director of the Company. Since formation the Remuneration Committee has met formally on four occasions. Phillip Dunkelberger has attended three meetings; all other members have attended all meeting of the Remuneration Committee.

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

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

Covata Limited and its controlled entities
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2016

	Note	2016	2015
Revenue and other income			
Revenue – technology related products and services		**357,393**	349,584
Research & development tax concession		**2,025,612**	1,649,951
Foreign currency exchange net gains / losses		**-**	65,645
Other income		**768**	2,404
		2,383,773	2,067,584
Expenses			
Employee benefit expense	*12*	**(9,707,128)**	(8,283,134)
Consultancy fees expense		**(1,826,102)**	(1,921,840)
Depreciation expense	*19*	**(104,015)**	(119,953)
Legal and professional fees expense		**(487,222)**	(954,079)
Marketing and promotion expense		**(692,560)**	(494,567)
Travel and accommodation expense		**(1,256,511)**	(723,536)
Office and administration expense		**(1,299,158)**	(772,232)
Other direct research and development project expenses		**(728,895)**	(43,396)
Advisor fees on acquisition of Prime Minerals Limited	*24*	**-**	(2,000,000)
Listing expense on acquisition of Prime Minerals Limited	*8*	**-**	(5,428,991)
Share-based payments expense on issuing equities		**-**	(6,075,181)
Foreign currency exchange expense		**(7,065)**	-
Other expenses		**(482,939)**	(413,481)
		(16,591,595)	(27,230,390)
Results from operating activities		**(14,207,822)**	(25,162,806)
Finance income		**103,199**	248,005
Finance costs	*13*	**(12,004)**	(2,547,875)
Net finance income (costs)		**91,195**	(2,299,870)
Loss before income tax		**(14,116,627)**	(27,462,676)
Income tax expense	*14*	**-**	-
Loss for the year		**(14,116,627)**	(27,462,676)
Other comprehensive income			
Items that may be classified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(131,395)**	(39,380)
Total other comprehensive income / (loss)		**(131,395)**	(39,380)
Total comprehensive loss for the year		**(14,248,022)**	(27,502,056)
Earnings per share			
Basic earnings per share (cents per share)	*10*	**(3.1)**	(8.4)
Diluted earnings per share (cents per share)	*10*	**(3.1)**	(8.4)

The notes on pages 43 to 77 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 2016

	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 year								
Loss for the year		-	-	-	-	-	(27,462,676)	(27,462,676)
Total other comprehensive income		-	-	(39,380)	-	-	-	(39,380)
Total comprehensive income/(loss)		-	-	(39,380)	-	-	(27,462,676)	(27,502,056)
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Ordinary Shares issued	24	18,479,474	-	-	-	-	-	18,479,474
Ordinary Shares issued on conversion of notes	*24*	19,005,533	(5,396,667)	-	-	-	(200,000)	13,408,866
Share based payments – acquisition of PIM	*24*	6,748,899	-	-	-	-	-	6,748,899
Share based payments – warrants	*24/25*	5,377,157	-	-	-	(769,907)	-	4,607,250
Share based payments – share options	*24/25*	413,737	-	-	1,395,088	-		1,808,825
Share based payments – employee loan shares	*24/25*	971,934	-	-	(713,175)	-	-	258,759
Share options lapsed	*25*	-	-	-	(236,440)		236,440	-
Capital raising costs	*24*	(900,000)	-	-	-	-	-	(900,000)
Total contributions by and distributions to owners		50,096,734	(5,396,667)	-	445,473	(769,907)	36,440	44,412,073
Balance at 30 June 2015		**64,933,717**	**-**	**(48,358)**	**2,709,605**	**4,607,250**	**(64,230,885)**	**7,971,329**
Balance at 1 July 2015		64,933,717	-	(48,358)	2,709,605	4,607,250	(64,230,885)	7,971,329
Total comprehensive income for the year								
Loss for the year		-	-	-	-	-	(14,116,627)	(14,116,627)
Total other comprehensive income/(loss)		-	-	(131,395)	-	-	-	(131,395)
Total comprehensive income/(loss)		-	-	(131,395)	-	-	(14,116,627)	(14,248,022)
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Ordinary shares issued	*24*	12,620,603	-	-	-	-	-	12,620,603
Share based payments – share options	*24/25*	2,164,642	-	-	452,195	-	-	2,616,837
Share based payments – employee loan shares	*24/25*	150,394	-	-	182,249	-	-	332,643
Share options lapsed	*25*	-	-	-	(228,368)	-	228,368	-
Capital raising costs	*24*	(742,571)	-	-	-	-	-	(742,571)
Total contributions by and distributions to owners		14,193,068	-	-	406,076	-	228,368	14,827,512
Balance at 30 June 2016		**79,126,785**	**-**	**(179,753)**	**3,115,681**	**4,607,250**	**(78,119,144)**	**8,550,819**

The notes on pages 43 to 77 are an integral part of these consolidated financial statements.

Covata Limited and its controlled entities
Consolidated statement of financial position

As at 30 June 2016

	Note	2016	2015
Assets			
Cash and cash equivalents	*15*	**8,879,821**	1,809,699
Term deposits	*16*	**-**	9,000,000
Trade and other receivables	*17*	**2,241,097**	1,932,070
Prepayments		**58,280**	48,541
Other current assets	*18*	**103,913**	98,000
Total current assets		**11,283,111**	12,888,310
Property, plant and equipment	*19*	**158,987**	193,634
Other non-current assets	*18*	**397,857**	321,588
Total non-current assets		**556,844**	515,222
Total assets		**11,839,955**	13,403,532
Liabilities			
Trade and other payables	*20*	**1,225,665**	945,379
Deferred income	*21*	**314,671**	266,667
Employee benefits	*22*	**131,473**	78,327
Loans and borrowings	*23*	**-**	2,300,000
Total current liabilities		**1,671,809**	3,590,373
Deferred income	*21*	**1,617,327**	1,841,830
Total non-current liabilities		**1,617,327**	1,841,830
Total liabilities		**3,289,136**	5,432,203
Net assets		**8,550,819**	7,971,329
Equity			
Share capital	*24*	**79,126,785**	64,933,717
Reserves		**7,543,178**	7,268,497
Accumulated losses		**(78,119,144)**	(64,230,885)
Total equity		**8,550,819**	7,971,329

The notes on pages 43 to 77 are an integral part of these consolidated financial statements.

Covata Limited and its controlled entities
Consolidated statement of cash flows

For the year ended 30 June 2016

	Note	2016	2015
Cash flows used in operating activities			
Cash receipts from customers		**173,578**	39,420
Cash paid to suppliers and employees		**(14,806,644)**	(11,338,477)
Cash used in operating activities		**(14,633,066)**	(11,299,057)
Research & development tax concession received		**1,649,951**	2,342,935
Interest received		**269,666**	81,538
Interest paid		**(12,004)**	(25,529)
Net cash used in operating activities	*28*	**(12,725,453)**	(8,900,113)
Cash flows used in investing activities			
Refund of / payments for investments in term deposits		**9,000,000**	(9,000,000)
Payment for / refund of deposits		**(87,497)**	(244,213)
Acquisition of controlled entity (net of cash received)	*8*	**-**	1,176,773
Proceeds from disposal of property, plant and equipment		**767**	23,285
Acquisition of property, plant and equipment		**(71,994)**	(138,072)
Net cash from / (used in) investing activities		**8,841,276**	(8,182,227)
Cash flows from financing activities			
Proceeds from the issue of share capital		**12,374,193**	15,000,000
Proceeds from the issue of convertible notes		**-**	100,000
Proceeds from employee loan shares repaid		**99,432**	61,923
Proceeds from the exercise of share options		**1,708,433**	172,069
Short term debt facility (repayment) draw-down		**(2,300,000)**	2,300,000
Payment of share issue costs		**(742,571)**	(900,000)
Net cash from financing activities		**11,139,487**	16,733,992
Net increase in cash and cash equivalents		**7,255,310**	(348,348)
Cash and cash equivalents at 1 July		**1,809,699**	2,158,047
Effect of movements in exchange rates on cash held		**(185,188)**	-
Cash and cash equivalents at 30 June	*15*	**8,879,821**	1,809,699

The notes on pages 43 to 77 are an integral part of these consolidated financial statements.

For the year ended 30 June 2016

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 2016 comprise the Company and its subsidiaries (collectively the 'Group' and individually 'Group companies'). For the purposes of the consolidated financial statements, the Group is reflected as the continuation of Cocoon Data Holdings Limited, which was considered the accounting acquirer in the acquisition of Prime Minerals Limited during the year ended 30 June 2015.

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 30 August 2016.

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.

4. Use of judgements and estimates (continued)

(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:

- acquisition of Prime Minerals Limited as detailed in note 8.
- share based payments and convertible notes (notes 24 and 25).

(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 2016 is included in the following notes:

- Note 14 – non-recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;

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 24 – Capital and reserves;
- Note 25 – Share based payments; and
- Note 26 – Financial instruments.

5. Basis of measurement

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

Items	Measurement basis
Derivative financial instruments at fair value through profit or loss	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Share based payment transactions	Fair value at grant date, recognised over vesting period

6. Significant accounting policies

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

(a) Basis of consolidation

i. Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit and loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

ii. Subsidiaries

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

6. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

iii. Loss of control

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

iv. Transactions eliminated on consolidation

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

(b) Going concern

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

The Group is in the research, development and commercialisation stage of its data security technology. During the year ended 30 June 2016, the Group incurred a loss after tax of $14,116,627, and incurred net cash outflows from operating activities of $12,725,453 for the year. At 30 June 2016, the Group had cash and cash equivalents of $8,879,821 and net assets of $8,550,819. Subsequent to year end the Group raised a further $7.8 million in cash before costs through tranche 2 of a strategic equity placement as outlined in note 24.

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

(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.

6. Significant accounting policies (continued)

(c) Foreign currency (continued)

i. Foreign currency transactions (continued)

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.

(d) Revenue

i. Sale of goods (software)

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

6. Significant accounting policies (continued)

(d) Revenue (continued)

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.

6. Significant accounting policies (continued)

(e) Employee benefits (continued)

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.

iv. Other long-term employee benefits

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

(f) Government grants

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

(g) Finance income and costs

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

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

(h) Income tax

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

i. Current tax

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

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

ii. Deferred tax

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

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

6. Significant accounting policies (continued)

(h) Income tax (continued)

ii. Deferred tax (continued)

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

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

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

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

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

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

iii. Tax consolidation

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

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

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

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

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

6. Significant accounting policies (continued)

(i) Property, plant and equipment

i. Recognition and measurement

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

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

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

ii. Subsequent expenditure

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

iii. Depreciation

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

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

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

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

(j) Intangible assets

i. Recognition and measurement

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

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

ii. Subsequent expenditure

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

6. Significant accounting policies (continued)

(j) Intangible assets (continued)

iii. Amortisation

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

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

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

(k) Financial instruments

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

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

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

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

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

ii. Non-derivative financial assets – Measurement

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

iii. Non-derivative financial liabilities – Measurement

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

iv. Derivative financial instruments and hedge accounting

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

6. Significant accounting policies (continued)

(l) Share capital

i. Ordinary shares

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

ii. Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

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

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

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

(m) Impairment

i. Non-derivative financial assets

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

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

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

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

6. Significant accounting policies (continued)

(m) Impairment (continued)

i. Non-derivative financial assets (continued)

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

ii. Non-financial assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

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

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

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

(n) Operating leases payments

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

7. Standards issued but not yet adopted

A number of new standards and amendments to standards are able to be adopted for annual periods beginning after 1 July 2015; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

7. Standards issued but not yet adopted (continued)

AASB 9 – Financial Instruments

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

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

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

AASB 15 – Revenue from Contracts with Customers

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

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

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

AASB 16 – Leases

AASB 16 *Leases* was issued and introduced changes to lessee accounting. It requires recognition of lease liabilities and assets other than short-term leases of leases of low-value assets on the statement of financial position. This will replace the operating/financial lease distinction and accounting requirements prescribed in AASB 117 Leases.

AASB 16 will become mandatory for the Group's 30 June 2020 financial statements.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 16.

8. Acquisition of Prime Minerals Limited

In the prior year, on 31 October 2014, Covata Limited (formerly Prime Minerals Limited) 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 and Cocoon Data Holdings Limited dated 27 June 2014. Cocoon Data Holdings Limited was 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.

8. Acquisition of Prime Minerals Limited (continued)

However, from an accounting perspective, the acquirer is 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.

The acquisition of the identifiable net assets of Prime Minerals Limited therefore is 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 current year profit and loss.

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. Other transaction costs related to the acquisition have also been recognised as an expense in profit or loss.

	$
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:	
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**

9. 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 results of the Group.

The Group operates in Australia, the USA and the United Kingdom. The USA holds non-current assets with a book value of $274,749 (2015: 228,258). There are no non-current assets held in the United Kingdom.

10. Earnings per share

	2016	2015
Earnings per share from continuing operations:		
Loss after income tax (basic)	**(14,116,627)**	(27,462,676)
Loss after income tax (diluted)	**(14,116,627)**	(27,462,676)
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**449,945,436**	327,287,027
Basic earnings per share (cents per share)	**(3.1)**	(8.4)
Diluted earnings per share (cents per share)	**(3.1)**	(8.4)

In accordance with the principles of reverse acquisition accounting as detailed in note 8 the weighted average number of ordinary shares for the year ended 30 June 2015 has been calculated as the weighted average number of ordinary shares of Cocoon Data Holdings Limited outstanding during the period until acquisition, retrospectively 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 since acquisition up until 30 June 2015.

The effects of potential ordinary shares such as warrants, convertible notes and share options are only included in diluted earnings shares 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 year.

11. Auditors' remuneration

	2016 $	2015 $
Audit and review services		
Auditors of the Company – KPMG		
Audit and review of financial statements	**140,650**	132,280
Other Services		
Auditors of the Company – KPMG		
In relation to other assurance, taxation and due diligence services	**-**	80,701
	140,650	212,981

12. Employee benefit expense

	Note	2016 $	2015 $
Wages and salaries		**6,427,003**	5,225,711
Non-executive director fees		**160,000**	123,827
Termination benefits		**213,458**	20,104
Recruitment and sourcing		**354,982**	316,281
Other employee related expenses		**374,847**	259,992
Payroll taxes		**248,628**	228,870
Contributions to defined contribution superannuation plans		**324,956**	312,324
Bonus – share-based payment accrual		**164,787**	-
Bonus – cash component for taxes on share-based payments		**248,151**	-
Equity-settled share-based payments	*25*	**1,190,316**	1,796,025
		9,707,128	8,283,134

13. Finance Costs

	Note	2016 $	2015 $
Interest expense on short term borrowings		**12,004**	17,071
Net change in fair value on converting notes	*26*	**-**	2,196,318
Interest expense on converting notes	*26*	**-**	334,486
		12,004	2,547,875

14. Income tax expense

a. Current tax expense

	2016	2015
Current year	**-**	-
Tax expense on continuing operations	**-**	-

b. Reconciliation of effective tax rate

	2016 %	2016 $	2015 %	2015 $
Loss before tax		**(14,116,627)**		(27,462,676)
Tax using the domestic tax rate	**(30.0%)**	**(4,234,988)**	(30.0%)	(8,238,803)
Permanent differences	**5.7%**	**806,878**	21.2%	5,828,880
Effect of tax losses and temporary differences not taken to account	**(0.8%)**	**(109,378)**	(0.6%)	(157,128)
Temporary differences through equity	**-**		-	-
Current year losses not recognised	**25.1%**	**3,537,488**	9.4%	2,567,051
Income tax expense	**-**	**-**	-	-

14. Income tax expense (continued)

	2016 $	2015 $
c. Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Temporary differences	**1,216,991**	1,581,258
Tax losses	**6,527,250**	3,599,157
	7,744,241	5,180,415

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.

15. Cash and cash equivalents

	2016 $	2015 $
Cash at bank	**8,879,821**	1,809,699

16. Financial assets

Term deposits	**-**	9,000,000

17. Trade and other receivables

Research & development tax concession receivable	**2,025,612**	1,649,951
Trade receivables	**10,075**	2,760
Other receivables	**140,650**	233,023
GST/ VAT receivables	**64,760**	46,336
	2,241,097	1,932,070

The Group's exposure to credit and market risk and impairment losses to trade and other receivables are disclosed in note 26.

18. Other assets

	2016 $	2015 $
Current		
Rental bonds	**103,913**	88,000
	-	10,000
	103,913	98,000
Non-current		
Rental bonds	**147,828**	206,379
Security deposits	**234,820**	100,000
Domain names	**15,209**	15,209
	397,857	321,588

19. Property, plant and equipment

	Plant and equipment	Leasehold Improvement	Software	Total
Cost				
Balance at 1 July 2014	560,057	411,263	11,983	983,303
Additions	108,059	30,012	-	138,071
Disposals	(23,629)	-	-	(23,629)
Effect of movements in exchange rates	6,382	229	2,321	8,932
Balance at 30 June 2015	650,869	441,504	14,304	1,106,677
Balance at 1 July 2015	**650,869**	**441,504**	**14,304**	**1,106,677**
Additions	**71,994**	**-**	**-**	**71,994**
Disposals	**(9,206)**	**-**	**-**	**(9,206)**
Effect of movements in exchange rates	**(3,164)**	**1,014**	**462**	**(1,688)**
Balance at 30 June 2016	**710,493**	**442,518**	**14,766**	**1,167,777**
Accumulated depreciation				
Balance at 1 July 2014	427,713	371,348	6,274	805,335
Depreciation	71,111	44,467	4,375	119,953
Disposals	(19,915)	-	-	(19,915)
Effect of movements in exchange rates	5,443	614	1,613	7,670
Balance at 30 June 2015	484,352	416,429	12,262	913,043
Balance at 1 July 2015	**484,352**	**416,429**	**12,262**	**913,043**
Depreciation	**81,124**	**20,854**	**2,037**	**104,015**
Disposals	**(9,206)**	**-**	**-**	**(9,206)**
Effect of movements in exchange rates	**432**	**39**	**467**	**938**
Balance at 30 June 2016	**556,702**	**437,322**	**14,766**	**1,008,790**
Carrying amounts				
At 1 July 2014	**132,344**	**39,915**	**5,709**	**177,968**
At 30 June 2015	**166,517**	**25,075**	**2,042**	**193,634**
At 30 June 2016	**153,791**	**5,196**	**-**	**158,987**

20. Trade and other payables

	2016 $	2015 $
Trade payables	**300,335**	368,905
Amounts owing to related parties	**-**	36,585
Other payables and accrued expenses	**925,330**	539,889
	1,225,665	945,379

Information about the Group's exposure to currency and liquidity risk in included in note 26.

21. Deferred income

Licence income received in advance	**1,931,998**	2,108,497
Current	**314,671**	266,667
Non-current	**1,617,327**	1,841,830
	1,931,998	2,108,497

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 2016 $266,667 (2015: $266,667) of the TPG licence income received in advance is classified as current and $1,575,163 (2015: $1,841,830) is classified as non-current.

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

22. Employee benefits

Provision for annual leave	**131,473**	78,327

There are no long-service leave benefits that require a provision at 30 June 2016 (2015: Nil).

23. Loans and borrowings

Short term borrowings	**-**	2,300,000
	-	2,300,000

In 2014 the Covata Group entered into a short term finance facility of $7,000,000 which was secured over a term deposit of $7,000,000 and both matured in December 2015. The short term borrowings of $2,300,000 was the drawn down amount of the finance facility which was fully repaid during the current financial year.

For more information about the Group's exposure to interest rates and liquidity risk, see note 26.

23. Loans and borrowings (continued)

There were no outstanding borrowings at 30 June 2016.

The terms and conditions of outstanding short term borrowings at 30 June 2015 were as follows:

	Maturity date	Interest rate	Principal value	Carrying value 30 June 2015
Secured bank loan	4 Dec 2015	4.51%	300,000	300,000
Secured bank loan	4 Dec 2015	4.55%	2,000,000	2,000,000
			2,300,000	**2,300,000**

24. Capital and Reserves

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

Fully paid ordinary shares		*Ordinary Shares 2015*	
On issue at the start of year		224,170,039	14,836,983
Conversion of convertible notes	*(i)*	116,777,777	19,005,533
Conversion of warrants	*(i)*	26,000,000	5,377,157
Conversion of restricted employee shares to ordinary shares	*(j)*	14,930,000	971,934
Cocoon Data Holdings Limited ordinary shares		381,877,816	40,191,607
Cocoon Data Holdings Limited ordinary shares surrendered	*(k)*	(381,877,816)	
Covata Limited shares issued to the shareholders of Cocoon Data Holdings Limited	*(k)*	250,015,292	6,748,899
Covata Limited shares held by the shareholders of Prime Minerals Limited	*(k)*	33,744,495	-
Shares issued under the Covata Limited prospectus	*(l)*	75,000,000	15,000,000
Less: issue costs paid in cash		-	(900,000)
Covata Limited shares issued on conversion of Cocoon Data Holdings Limited convertible notes	*(m)*	13,650,000	-
Issued for non-cash – advisor fees	*(n)*	10,000,000	2,000,000
Performance shares converted to ordinary shares	*(o)*	36,392,879	-
Share options exercised – cashless exercise	*(p)*	1,164,278	157,562
Share options exercised – cash settled	*(p)*	907,457	256,175
Issued for non-cash – advisor fees	*(r)*	2,373,129	1,459,474
Issued for non-cash – employee incentive	*(q)*	38,834	20,000
Total ordinary shares on issue at the end of the year		423,286,364	64,933,717

24. Capital and reserves (continued)

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 2016, the Group completed the following transactions in respect of the issue of ordinary shares:

(a) The Group issued 34,741,613 ordinary shares in the Company to Fidelity International at 27 November 2015 for a cash investment of $6,948,323 (20 cents a share).
(b) The Group issued 23,590,743 ordinary shares in the Company at 3 June 2016 as part of a $13.2M strategic equity placement funded in two tranches. The first tranche was for a cash investment of $5,425,871 (23 cents a share). The second tranche was completed in early FY 2017.
(c) The Group paid $742,571 in brokerage fees relating to (a) and (b).
(d) The Group issued 7,006,606 ordinary shares in the Company from the exercise of share options and cash settled at an average exercise price of 24 cents and an average share option fair value of 7 cents.
(e) The Group received $150,394 in cash in relation to restricted ordinary shares under the employee loan share plan as described in note 25.
(f) The Group issued 741,998 ordinary shares in the Company to employees for 31 December 2015 calendar year bonuses. These shares were assessed with a fair value at the time of issue of $189,209 (25.5 cents).
(g) The Group issued 125,000 ordinary shares in the Company to MZ Group for global investor relations services. These shares were assessed with a fair value at the time of issue of $45,000 (36 cents).
(h) The Group issued 47,843 ordinary shares in the Company to an employee for no consideration as part of the terms of their employment contract. These shares were assessed with a fair value at the time of issue of $12,200 (25.5 cents).

During the year to 30 June 2015, the Group completed the following transactions as part of the recapitalisation completed prior to the acquisition of Prime Minerals Limited:

(i) 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.
(j) 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.
(k) 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.
(l) Covata Limited issued 75,000,000 ordinary shares in the Company at 20 cents each under the Prospectus dated 23 September 2014.
(m) Covata Limited (formerly Prime Minerals Limited) issued 13,650,000 ordinary shares to convertible note holders of Cocoon Data Holdings Limited.

24. Capital and reserves (continued)

Issue of ordinary shares (continued)

(n) 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.

During the year to 30 June 2015 and subsequent to the acquisition of Prime Minerals Limited, the following transactions in respect of the issue of ordinary shares:

(o) 36,392,879 performance shares were converted to ordinary shares under the terms of the Bid Implementation Agreement dated 27 June 2014 as Covata Limited entered into a 'Revenue Producing Agreement' with Cisco Systems Inc.
(p) Additionally, 1,164,278 ordinary shares in the Company were issued as a result of the cashless exercise of vested options with an average exercise price of USD 14.67 cents and 907,457 ordinary shares were issued and cash settled at an average exercise price of USD 14.67 cents and an average share option fair value of 7 cents.
(q) The Group issued 38,834 ordinary shares in the Company to an employee for no consideration as part of the terms of their employment contract. These shares were assessed with a fair value at the time of issue of $20,000.
(r) Covata Limited entered into an agreement with Asia Principal Capital Group in which Covata Limited agreed to issue to Asia Principal Capital Group 2,373,129 ordinary shares when a 'Revenue Producing Agreement' is entered into. These shares were issued after the agreement with Cisco Systems Inc. was entered into on 26 March 2015.

Of the 489,540,167 Covata Limited ordinary shares on issue as at 30 June 2016, 9,360,275 were restricted ordinary shares issued under an employee loan share plan as described in note 25.

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.

Equity conversion reserve
The equity conversion reserve is used to recognise the amount allocated to the equity component of convertible notes 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.

For the year ended 30 June 2016

24. Capital and reserves (continued)

Dividends

There were no dividends declared or paid during the year (2015: Nil).

25. Share based payments

During the year ended 30 June 2015 the Group modified its existing share based payment plans detailed below as result of the acquisition of Prime Minerals Limited with the issuing of Covata Limited shares and options in exchange for shares issued under prior arrangements. None of the modifications identified resulted in the fair value of the modified share based payment plans exceeding the fair value of the original share based payment plans at the modification date, and thus no additional expense was recorded in relation to the modifications. The existing warrants on issue at 30 June 2014 were converted to ordinary shares.

At 30 June 2016 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 4,706,994 share options were issued under this programme in the year to 30 June 2016 (2015: 20,161,417). 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 5 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
30/10/15	**300,000**	0.24	0.09	20% on grant, 30% on 15 October 2016, remainder to vest equally over 4 calendar quarters on the last day of each quarter commencing 31 December 2016.
30/11/15	**1,000,000**	0.20	0.09	Full vesting subject to the Company's ordinary shares achieving a 10-day VWAP of at least $0.30 within 12 months of the issue date.
17/12/15	**906,994**	0.33	0.12	Fully vested options granted in lieu of cash bonuses.
28/1/16	**500,000**	0.31	0.12	35% on grant, 15% on 30 June 2016, remainder to vest equally over 5 calendar quarters on the last day of each quarter commencing 30 September 2016.
28/1/16	**500,000**	0.31	0.12	25% on 31 December 2016, remainder to vest over a period of 4 calendar quarters on the last day of each quarter commencing 30 March 2017.
2/6/16	**1,500,000**	0.255	0.09	25% on 31 March 2017, remainder to vest over a period of 12 calendar quarters on the last day of each quarter commencing 30 June 2017.
	4,706,994			

25. 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
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 31 March 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 30 September 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 31 December 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 31 March 2016.
10/3/2015	**1,000,000**	0.285	0.11	25% on the 1 year anniversary of the grant date, remainder to vest over a year of 4 calendar quarters on the last day of each quarter commencing 31 March 2016.
12/3/2015	**1,500,000**	0.33	0.12	25% on the 1 year anniversary of the grant date, remainder to vest over a year of 4 calendar quarters on the last day of each quarter commencing 30 June 2016.
12/3/2015	**323,917**	0.33	0.12	Fully Vested
11/5/2015	**500,000**	0.53	0.20	35% on 31 December 2015, 15% on 30 June 2016, remainder to vest equally over 5 calendar quarters on the last day of each quarter commencing 30 September 2016.
13/5/2015	**100,000**	0.47	0.17	25% on 16 February 2016, remainder to vest equally over 12 calendar quarters on the last day of each quarter commencing 31 March 2016.
	20,161,417			

Employee loan share plan

During the 12 months to 30 June 2014 a total of 14,930,000 Cocoon Data Holdings Limited ordinary shares were issued under a newly established Employee Loan Share Plan ("ELSP"), fully vested. For accounting purposes shares allocated to employees pursuant to the ELSP are treated and valued as options, and the fair value of the options granted under the ELSP is estimated as at the grant date using a Black-Scholes model taking into account the terms and conditions upon which they were granted.

As a part of the acquisition of Prime Minerals Limited, these ELSP Cocoon Data Holdings Limited ordinary shares were converted to 9,774,671 Covata Limited ordinary shares and 1,422,827 Covata Limited performance shares during the year to 30 June 2015, however, they continue to be accounted for as a share-based payments arrangement. The Performance shares were subsequently converted to ordinary shares on satisfaction of the performance conditions for these shares.

During the year to 30 June 2016, 132,167 Covata Limited ordinary shares were issued under the ELSP to employees as bonus remuneration (2015: 1,436,925).

25. Share based payments (continued)

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
17/12/15	132,167	0.33	0.12	Fully vested loan shares granted in lieu of cash bonuses.
	132,167			

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
11/3/2015	1,300,000	0.265	0.14	25% on grant and then remainder to vest equally over 12 calendar quarters on the last day of each quarter commencing June 30, 2015.
12/3/2015	136,925	0.33	0.12	Fully vested.
	1,436,925			

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:

	Share options	Share options	Share options	Share options	Share options
Grant Date	30/10/15	30/11/15	17/12/15	28/1/16	2/06/16
Fair value at grant date	$0.09	$0.09	$0.12	$0.12	$0.09
Share price at grant date	$0.24	$0.26	$0.33	$0.31	$0.26
Exercise price	$0.24	$0.20	$0.33	$0.31	$0.26
Expected volatility (weighted average)	38.9%	38.9%	38.9%	38.9%	38.9%
Expected life (weighted average)	5 years	2 years	5 years	5 years	5 years
Expected dividends	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate (based on government bonds)	2.03%	2.04%	2.31%	2.13%	1.79%

	Share options	Share options	Share options	Share options	Share options	Share options
Grant Date	1/8/2014	23/12/2014	10/3/2015	12/3/2015	11/5/2015	13/5/2015
Fair value at grant date	$0.11	$0.09	$0.11	$0.12	$0.20	$0.17
Share price at grant date	$0.20	$0.20	$0.285	$0.33	$0.53	$0.47
Exercise price	$0.20	$0.20	$0.285	$0.33	$0.53	$0.47
Expected volatility (weighted average)	48%	48%	38.4%	38.4%	38.4%	38.4%
Expected life (weighted average)	5 years	5 years	5 years	5 years	5 years	5 years
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate (based on government bonds)	3.52%	3.01%	2.68%	2.51%	2.27%	2.30%

	ELSP	ELSP	ELSP
Grant Date	17/12/15	11/3/2015	12/3/2015
Fair value at grant date	$0.12	$0.14	$0.12
Share price at grant date	$0.33	$0.265	$0.33
Exercise price	$0.33	$0.265	$0.33
Expected volatility (weighted average)	38.9%	38.4%	38.4%
Expected life (weighted average)	5 years	5 years	5 years
Expected dividends	Nil	Nil	Nil
Risk-free interest rate (based on government bonds)	2.31%	2.05%	2.12%

25. Share based payments (continued)

Equity-settled share-based payment plans (continued)

Expenses recognised in profit or loss	Share option reserve 2016	Share capital 2016	Total expense 2016	Total expense 2015
Share options granted – 2016	269,632	-	269,632	1,442,095
Share options granted – 2015	614,183	-	614,183	49,211
Share options granted – 2014	4,061	-	4,061	145,390
Share options granted – 2013	20,502	-	20,502	-
Share options total	908,378	-	908,378	1,636,696
Employee share plan granted – 2016	16,232	-	16,232	-
Employee share plan granted – 2015	67,225	-	67,225	107,783
Employee share plan granted – granted 2013, modified 2015	98,792	-	98,792	31,546
Employee share plan total	182,249		182,249	139,329
Ordinary shares granted	-	246,409	246,409	20,000
Total recognized as expense	1,090,627	246,409	1,337,036	1,796,025
Total recognised as employee benefits expense	988,907	201,409	1,190,316	1,796,025
Total recognised as consultancy fees expense	101,720	45,000	146,720	-

The Share based payments – share options amount of $452,195 (2015: $1,395,088) on the consolidated statement of changes in equity represents the $908,378 (2015: $1,636,696) share options employee expense less $456,183 (2015: $241,608) of fair value related to the 7,006,606 (2015: 2,607,457) vested share options that were exercised during the period.

The Share based payments – employee loan shares amount of $182,249 in 2016 represents the employee share plan employee expense. The Share based payments – employee loan shares amount of ($713,175) in 2015 represents the employee share plan employee expense of $107,783 less $820,958 transferred to share capital as part of the capital restructuring from the acquisition of Prime Minerals Limited.

During the year 2,975,329 share options lapsed (2015: 3,106,543) with a total fair value of $228,368 (2015: $236,440) thereby reducing the share option reserve on the consolidated statement of changes in equity.

During the year 741,998 ordinary shares were issued to employees with a fair value of $189,209 relating to 31 December 2015 calendar year bonuses. A further 47,843 ordinary shares were issued to an employee with a fair value of $12,200, and relating to the terms of an employment contract. 125,000 ordinary shares were issued to MZ Group with a fair value of $45,000. The total expense recognized in profit and loss for the year for ordinary shares granted was $246,409 (2015: $20,000).

25. Share based payments (continued)

Equity-settled share-based payment plans (continued)

During 2015, the Group issued 38,240,979 warrants to Sumatics International FZC with a fair value determined at grant date of $4,607,250. The fair value was determined utilising a Black Scholes model with the following inputs:

	Warrants
Grant Date	20/3/2015
Fair value at grant date	$0.12
Share price at grant date	$0.40
Exercise price	$0.274
Expected volatility (weighted average)	38.4%
Expected life (weighted average)	2.5 years
Probability of Non-vesting condition being met	75%
Dilution discount	2.86%
Expected dividends	Nil
Risk-free interest rate (based on government bonds)	2.52%

Reconciliation of outstanding share options and warrants

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

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

	Number of share options	**Weighted average exercise price**	**Number of warrants**	**Weighted average exercise price**
	Jun 2015	**Jun 2015**	**Jun 2015**	**Jun 2015**
Outstanding at 1 July	43,755,000	$0.12	83,923,583	$0.11
Lapsed during the year	(3,106,543)	$0.16	-	-
Converted during the year	-	-	(26,000,000)	$0.11
Exercised during the year	(2,607,457)	$0.18	-	-
Expired during the year	-	-	-	-
Amended during the year	(23,007,832)	$0.11	(57,923,583)	$0.11
Granted during the year	20,161,417	$0.28	38,240,979	$0.27
Outstanding at 30 June	35,194,585	$0.20	38,240,979	$0.27
Exercisable at 30 June	18,425,714	$0.17	-	-

The options outstanding at 30 June 2016 have a weighted average exercise price of $0.22 and a weighted average contractual life of 3.4 years.

The 83,923,583 warrants on issue as at 1 July 2014 were converted during the prior year to 26,000,000 shares as part of the acquisition of Prime Minerals Limited and in accordance with the Plan of Recapitalisation.

26. 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 2016 and 30 June 2015, 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.

During the prior year the Company had converting notes classified at fair value through profit or loss that were designated as Level 3 financial instruments prior to their conversion. 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).

(ii) Valuation techniques and significant unobservable inputs

The fair value of converting notes, classified as a financial liability and measured at fair value through profit or loss is calculated using a Black Scholes Option Pricing model. Key inputs and assumptions used in the model at 30 June 2014 are as follows:

30 June 2014	Issued on 28 Feb 2013	Issued on 22 May 2013
Principal	**$3,150,000**	**$4,000,000**
Maturity date	**28 Feb 2015**	**31 July 2014**
Share price	**$0.15**	**$0.15**
Expected volatility	**48%**	**48%**
Dividend yield	**Nil**	**Nil**
Base conversion price	**$0.10**	**$0.16**
Risk-free interest rate	**2.40%**	**2.34%**

(iii) Level 3 fair values

The following table shows a reconciliation for Level 3 fair values.

	Loans and borrowings
Balance at 1 July 2014	10,878,062
Loss included in 'finance costs'	
- Net change in fair value (unrealised)	2,196,318
Finance costs	334,486
Conversion to ordinary shares	(13,408,866)
Balance at 30 June 2015	-

Covata Limited and its controlled entities
Notes to the consolidated financial statements

For the year ended 30 June 2016

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

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 2016 and as at 30 June 2015 all trade and other receivables of the Group were current due, there were no past due balances. There have been no impairment losses recognised during the year (2015: nil).

26. 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 2016**	**30 June 2015**
Cash and cash equivalents	**8,879,821**	1,809,699
Term Deposits	**-**	9,000,000
Research & development tax concession receivable	**2,025,612**	1,649,951
Trade receivables	**10,075**	2,760
GST / VAT receivables	**64,760**	46,336
Other receivables	**140,650**	233,023
Other assets	**486,561**	404,379
	11,607,479	13,146,148

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

30 June 2015		**Contractual cash flows**		
	Carrying amount	**Total**	**6 months or less**	**More than 6 months**
Non-derivative financial liabilities				
Trade and other payables	945,379	(945,379)	(945,379)	-
Loans and borrowings	2,300,000	(2,351,971)	(2,351,971)	-
	3,245,379	(3,297,350)	(3,297,350)	-

26. 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.

The Group has used derivatives in the prior year to manage market risks.

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.

During 2015 the Group entered into foreign exchange option contracts in order to manage the currency risk associated with US dollar payments for the US office being funded by cash and cash equivalents and term deposits held by the Group which are denominated in Australian dollars. The foreign exchange option contract matured in the prior year and as at reporting date, there are no outstanding foreign exchange option contracts.

Sensitivity analysis

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

	2016	**2015**
	$	**$**
USD exposure		
Cash	**2,447,581**	1,269,492
Other receivables	**31,486**	7,079
Other current assets	**103,912**	121,645
Trade and other payables	**(246,352)**	(331,945)
Group balance sheet exposure	**2,336,627**	1,066,271

A strengthening/(weakening) of the AUD against the USD 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.

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

B. Financial risk management (continued)

(iv) Market risk (continued)

Currency risk (continued)

	Equity $	Profit or loss $
30 June 2016		
USD	**(173,308)**	**(173,308)**
30 June 2015		
USD	(81,634)	(81,634)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2016	**2015**	**2016**	**2015**
AUD/USD	**0.7281**	0.8322	**0.7417**	0.7656

Interest rate risk

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

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

Variable interest rate instruments	**30 June 2016 $**	30 June 2015 $
Cash and cash equivalents	**8,879,821**	1,809,699
Term deposits	**-**	9,000,000
Term deposits and rental bonds	**486,561**	404,379
	9,366,382	11,214,078
Loans and borrowings	**-**	(2,300,000)
	-	(2,300,000)

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.

Impact on profit/(loss) for the period	**93,664**	89,141

27. Operating Leases

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

	2016 $	2015 $
Less than one year	**596,992**	566,037
Between one and five years	**161,520**	488,781
	758,512	1,054,818

During the financial year ended 30 June 2016, $742,556 was recognised as an expense in profit or loss in respect of operating leases (2015: $473,215).

28. Reconciliation of cash flows from operating activities

	2016 $	2015 $
Loss for the year	**(14,116,627)**	(27,462,676)
Adjustments for:		
Depreciation	**104,015**	119,953
Share-based payments	**1,337,036**	9,871,205
Net finance costs	**91,195**	326,029
Provision for doubtful debts	**-**	-
Gain on disposal of property, plant and equipment	**768**	(2,404)
Exchange differences on translation of foreign operations	**53,793**	(39,380)
Costs arising from recapitalisation	**-**	2,196,318
Listing expense on acquisition of Prime Minerals Limited	**-**	5,428,991
	(12,529,820)	(9,561,964)
Changes in:		
- trade and other receivables	**(236,535)**	695,259
- prepayments	**(9,739)**	(14,196)
- trade and other payables	**280,286**	302,160
- deferred income	**(176,499)**	(266,664)
- provisions and employee benefits	**(53,146)**	(54,708)
Net cash used in operating activities	**(12,725,453)**	(8,900,113)

29. Related parties

a) Consolidated entities

	Country of Incorporation	Ownership interest 2016	2015
Parent entity			
Covata Limited	Australia		
Subsidiaries			
Cocoon Data Holdings Limited	Australia	**100%**	100%
Cocoon Data Pty Limited	Australia	**100%**	100%
Covata Australia Pty Limited	Australia	**100%**	100%
Covata USA, Inc.	United States	**100%**	100%
Fineloop Holdings Pty Limited	Australia	**100%**	100%
Covata UK Limited	United Kingdom	**100%**	-

b) Transactions with key management personnel

i) Advances to directors

Unsecured advances to directors during the year to 30 June 2016 were $145,001 (2015: $25,924). $108,350 of these advances were provided as part of the employee loan share plan and related to 460,000 shares sold in December 2015 and 263,500 shares sold in March 2016 by Trent Telford. This amount was outstanding at the date of this report and includes accrued interest at a rate of 15% per annum.

In 2015, 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.

ii) Other transactions with directors and key management personnel

During 2016, key management personnel sold 149,181 ordinary shares held under the Employee Share Loan Plan and repaid the loan and accrued interest of $22,262 on 7 June 2016.

Additionally, key management personnel sold 317,438 ordinary shares held under the Employee Share Loan Plan and as at 30 June 2015 an amount was receivable under the Employee Share Loan Plan of $46,568. This amount was repaid in full on 7 July 2015.

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 2016 was $15,711 (2015: $396,112).

iii) Key management personnel compensation

Key management personnel compensation comprised the following.

	2016 $	2015 $
Short-term employee benefits	**1,449,280**	1,641,116
Post-employment benefits	**45,785**	55,212
Share-based payments	**726,375**	1,788,348
	2,221,400	3,484,676

For the year ended 30 June 2016

30. Subsequent events

The Group completed the $13.2 million strategic equity placement on 21 July 2016 and received an additional $7.8 million in cash, before costs subsequent to the end of the financial year. The placement was executed in two tranches. The first tranche of $5.4 million, settled within Q4 under the Company's existing placement capacity under ASX Listing Rule 7.1 and the remaining $7.8 million settled in tranche 2 after being approved by shareholders at an Extraordinary General Meeting on 14 July 2016. The strategic equity placement included increased investment from the Company's number 1 and number 2 shareholders, TPG Telecom and Fidelity International and also a range of new investment from Institutional and sophisticated investors in Australia, the USA and Asia Pac.

There has not arisen in the interval between the end of the financial year 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.

31. Parent entity disclosures

As at the financial year ended 30 June 2016, the parent entity of the Group was Covata Limited.

	2016 $	2015 $
Results of the parent entity		
Loss for the period	**(14,019,654)**	(27,474,594)
Total Comprehensive loss	**(14,019,654)**	(27,474,594)
Financial position of parent entity at year end		
Current assets	**8,581,472**	8,013,500
Non-current assets	**-**	-
Total assets	**8,581,472**	8,013,500
Current liabilities	**30,653**	42,171
Total liabilities	**30,653**	42,171
Net assets	**8,550,819**	7,971,329
Total equity of the parent entity comprising of:		
Share capital	**79,126,785**	64,933,717
Reserves	**7,722,931**	7,316,855
Accumulated losses	**(78,298,897)**	(64,279,243)
Total Equity	**8,550,819**	**7,971,329**

Parent entity contingencies

The parent entity did not have any capital commitments or contingent liabilities at 30 June 2016 (2015: Nil).

Covata Limited and its controlled entities
Director's declaration

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

    a) the consolidated financial statements and notes that are set out on pages 39 to 77 and the remuneration report set out on pages 17 to 28 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 2016 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 2016.

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 Reston, VA, USA this 30th day of August 2016.

Signed in accordance with a resolution of the directors:

Charles W Archer

Charles Archer
Chairman

Independent auditor's report to the members of Covata Limited

Report on the financial report

We have audited the accompanying financial report of Covata Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, 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 ended on that date, notes 1 to 31 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 year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is 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 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 17 to 28 of the Directors' Report for the year ended 30 June 2016. 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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Covata Limited for the year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Adam Twemlow
Partner

Bundall

30 August 2016

Covata Limited and its controlled entities
Additional Information

Shareholding Information as at 16 August 2016

a. Distribution of Shareholders

Category (size of holding)	Number of holders of ordinary shares	Number of holders of share options	Number of holders of warrants
1 to 1,000	235	-	-
1,001 to 5,000	688	-	-
5,001 to 10,000	478	-	-
10,001 to 100,000	1,417	2	-
100,001 and over	504	18	1
Total	3,322	20	1

b. Marketable Parcels

There were 531 shareholders holding less than a marketable parcel of 2,632 shares as at 16 August 2016.

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

Shareholder	Number of ordinary shares [1]
TPG Telecom Limited	76,043,498
FIL Limited, part of Fidelity International <HSBC Cust Nom AU LTD>	52,395,243

[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 16 August 2016 the company has 525,979,652 ordinary shares on issue, 33,473,098 share options over the ordinary share capital of the company outstanding, and 38,240,979 warrants over the ordinary shares of the company outstanding.

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

Of the 525,979,652 ordinary shares on issue, 10,953,138 are subject to escrow for a 24 month period ending on 10 November 2016, and 10,399,803 are restricted under the terms of the employee loan share plan.

Shareholding Information as at 16 August 2016 (continued)

e. 20 Largest Shareholders – Ordinary Shares

Rank	Name	Number of ordinary shares	%
1	TPG Telecom Limited	76,043,498	14.46%
2	FIL Limited, part of Fidelity International <HSBC Cust Nom AU LTD>	52,395,243	9.96%
3	Raven Capital Nominees Pty Ltd <Raven Technology Fund A/C>	24,000,000	4.56%
4	Gaffwick Pty Limited ATF The Duncan Family Trust	21,666,665	4.12%
5	Illwella Pty Limited	21,666,665	4.12%
6	Raven Ventures (Australia) Pty Ltd <The Gateway Venture Fund A/C>	10,809,902	2.06%
7	Europlay Capital Advisors LLC	8,234,452	1.57%
8	Gerard O'Brien and Helen O'Brien <O'Brien Super A/C>	8,177,462	1.55%
9	J P Morgan Nominees Australia Pty Limited	7,460,373	1.42%
10	Trent David Telford [(1)]	6,309,364	1.20%
11	Jack Burston <The Burston Family A/C>	6,253,942	1.19%
12	Mr Stuart Anthony Clark	5,500,000	1.05%
13	CS Fourth Nominees Pty Limited <HSBC Cust Nom AU LTD 11 A/C>	5,082,305	0.97%
14	Fed Id Australia Pty Limited	4,743,986	0.90%
15	Asia Principal Capital Group Pte Limited	4,251,904	0.81%
16	Invia Custodian Pty Limited <Ben Smith Super Fund A/C>	3,630,157	0.69%
17	Bantry Holdings Pty Limited <Bantry Family A/C>	3,319,785	0.63%
18	DRP Cartons (NSW) Pty Ltd <DRP Cartons NSW P/L S/F A/C>	3,274,791	0.62%
19	Cidex Computer Systems Pty Ltd <The Nussbaum Family A/C>	3,227,954	0.61%
20	Citicorp Nominees Pty Limited	3,172,678	0.60%
	Total (Top 20)	**279,221,126**	**53.09%**
	Total (Remaining)	**246,758,526**	**46.91%**
	Total	**525,979,652**	**100.00%**

(1) Includes entities related to Trent David Telford.

Covata Limited and its controlled entities
Corporate Directory

Directors

Mr. Charles Archer (Chairman)
Mr. Trent Telford (CEO)
Mr. Philip King
Mr. Joseph Miller
Mr. Phillip Dunkelberger
Mr. Michael Quinert

Joint Company Secretaries

Mr. Nicholas Chiarelli
Mr. Patrick Gowans

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Share Register

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Level 8, 446 Collins Street
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Auditors

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Level 11, Corporate Centre One
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Bundall, Queensland, 4217