

ASX ANNOUNCEMENT | COVATA LIMITED

27 April 2017

Appendix 4C and Business Update for quarter ended 31 March 2017

Summary

As previously communicated to shareholders, I assumed the position of CEO and Managing Director on 23 January 2017. Since then, I have reviewed the Company's strategy, financial position and operations. The results of that review and actions taken were outlined in the Shareholder Update presented at the EGM on 5 April. As I provided a complete update at that time, only a summary is provided in this quarterly announcement:

- During February and March, we reduced our cost base and cash burn, resulting in a leaner and more focused business, and extended our cash runway into FY19
- From April to July 2017, we will address our technical debt; build new connectors and integrate our product, Safe Share, with the most common content applications; seek to create new partnerships and open new channels; build out our product platform and rethink our pricing and business model
- Thereafter, our focus will be on growth opportunities, both organic and potentially through acquisition

Quarter Three Financial Highlights

- \$7.692m in cash as at 31 March 2017 (31 December 2016: \$11.095m) closely in line with our internal forecasts
- Receipts from customers were \$42k, which was higher this quarter due to a late payment from the previous quarter (quarter ended 31 December 2016: \$4k)
- Staff costs were \$2.33m this quarter (including termination costs of \$507k), compared to \$2.39m in the December quarter. Staff costs for the next quarter are anticipated to be \$1.03m
- \$97k was received from National Australia Bank on maturity of the \$7m term deposit in January, in addition to nearly \$20k of interest received from the settlement of loans
- Operating outflows were \$3.54m this quarter compared to \$1.486m in the December quarter. This was due to the impact of the R&D receipt of \$2.022m in December. Covata continues to accrue R&D claims that will be lodged at the end of the financial year and will result in a further cash inflow in the December 2017 quarter
- Estimated cash outflow for the June 2017 quarter is anticipated to be \$1.721m (exclusive of revenue and interest). This reflects a significant reduction in our operating cost base
- Net cash from financing activities of \$106k received from settlement of an outstanding loan relating to employee loan shares (quarter ended 31 December 2016: nil)

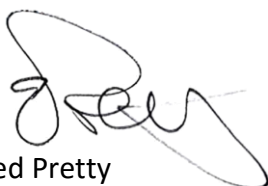
Quarter Three Operating Highlights

- As foreshadowed, a significant amount of detailed work has been undertaken during the quarter by the product and development team in reviewing our technical debt, rebuilding a rolling product roadmap and undertaking a global competitor analysis
- Messe Berlin acquired 100 more licenses for Safe Share, and although Barmer has decided not to proceed with its deployment, we have agreed with our channel partner, T-Systems, to undertake a refresh of the sales and marketing approach, considering the significant opportunities around GDPR in Europe

Going forward, any announcements regarding the pipeline and/or partnerships will be made where we have made substantial progress and otherwise in accordance with the Company's continuous disclosure obligations. I can advise that there are good reasons to be positive, including the continuing strong market demand for cyber security solutions, Covata's footprint across its target market and our focus on the enterprise and government space which is yielding a genuine pipeline of opportunities.

We have also commenced substantive discussions with potential technology partners in content management, search and analytics, and audit and protection.

Regards,



Ted Pretty
Chief Executive Officer and Managing Director

CORPORATE CONTACT DETAILS

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Covata
VP Marketing, Communications & Investor Relations
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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

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

Name of entity

Covata Limited

ABN

61 120 658 497

Quarter ended ("current quarter")

31 March 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	42	62
1.2 Payments for		
(a) research and development	(108)	(134)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(179)	(487)
(d) leased assets	-	-
(e) staff costs	(2,330)	(6,922)
(f) administration and corporate costs	(1,087)	(3,309)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	124	139
1.5 Interest and other costs of finance paid	(2)	(6)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	2,022
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(3,540)	(8,635)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(6)	(10)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	6	11
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	1

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	7,852
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	106	106
3.4	Transaction costs related to issues of shares, convertible notes or options	-	(473)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	106	7,485

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	11,095	8,880
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,540)	(8,635)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	1
4.4	Net cash from / (used in) financing activities (item 3.10 above)	106	7,485

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	31	(39)
4.6	Cash and cash equivalents at end of quarter	7,692	7,692

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,692	4,095
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Term deposits callable with less than 3 months notice)	5,000	7,000
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	7,692	11,095

6. Payments to directors of the entity and their associates

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

Current quarter \$A'000
(219)
-

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

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

Current quarter \$A'000
-
-

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

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(65)
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	(35)
9.4 Leased assets	-
9.5 Staff costs	(1,033)
9.6 Administration and corporate costs	(588)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(1,721)

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

Compliance statement

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

Sign here:
(Director)

Date: 27 April 2017

Print name: Edward Pretty

Notes

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