

ASX ANNOUNCEMENT | COVATA LIMITED

CEO business update for quarter ended 30 September 2016

Summary

Revenue acquisition in the first quarter was slower than the Company expected. However, milestones to reaching additional revenue are evident from the UK government multi-agency proof of concept project announced today. The UK government security software market segment represents tens of millions of dollars per annum in potential revenue. Accordingly, Covata intends to focus sales efforts in this area.

Quarter one and subsequent material events were as follows:

- Signed a paid Proof of Concept project in the UK with **Crown Prosecution Service (CPS)**, **Her Majesty's Revenue & Customs (HMRC)** service, and **National Crime Authority (NCA)**;
- Included in a major **IoT report published by** technology research and advisory group, **Gartner**;
- **Completed a \$13.2 million capital placement** to provide the financial foundation necessary to support progress underway.
- **FY16 R&D rebate for \$2.03m** expected to be received in December 2016
- Progressed the **Delta Platform and Safe Share** products ready for public licensing by way of **Q2 Software as a Service (SaaS) launch**;
- Included as **Tier 1 and 2 for up to Secret Classification on G Cloud 8**, becoming the only file sharing application with this status across the UK government;
- Strengthened the government experience with the first of new Board Appointments; **ex UK/Northern Ireland CIO, Bill McCluggage**; and
- Significantly advanced Covata's position within the UK government sector through active trials and licensing negotiations in progress.

Key financial items

- \$12.5 million in cash as at 30 September 2016 (30 June 2016: \$8.9 million).
- Net cash used in operating activities of \$3.6 million (for quarter ended 30 June 2016: \$3.8 million).
- Net cash from financing activities of \$7.4 million (for quarter ended 30 June 2016: \$5.1 million).
- Customer cash receipts down primarily due to Barmer pre-payment in June. GAAP revenue recognition quarter on quarter remains consistent.
- Lodged FY16 R&D rebate for \$2.03m

Highlights

Proof of Concept (POC) project signed with Crown Prosecution Service (CPS)

Covata has been selected to participate in a paid POC with the UK CPS. A successful outcome would, in the Company's opinion, bear well for broader take-up of Safe Share across UK government in 2017. This project is illustrative of our business development focus for the upcoming quarter and beyond. We also see the timeline to closing both paid trials and licensing revenue compressing, due to maturing relationships and pipeline qualification.

Strengthening Industry Experience on Covata's Board

As announced on Friday, 21 October 2016, we welcomed Mr Bill McCluggage to our Board of Directors. Mr McCluggage brings deep experience across the IT, security, enterprise and government sectors to Covata, having held roles such as CIO of the Irish Government, Deputy CIO of UK Government Cabinet Office , Chief Technologist of Dell EMC's public sector business and most recently, leading Laganview Associates, an advisory agency with deep roots across the UK Government.

We farewell Mr Joseph Miller and Mr Philip King from the Board, and sincerely thank them for the important roles they played over the years as we progressed from an early stage start up to an ASX listed company and beyond.

Operations Update

The wind-down of Washington DC office is largely complete. This process will deliver substantial savings in rent, overheads and wages ; with material efficiency gains through co-location (San Francisco, London, Sydney).

Delta; the brand name of KaaS

Since appointing Pavan Singh in late May 2016 as the Vice President and Business Head - KaaS, product and business development of our Covata Platform (Delta) has made significant progress, expanding the product roadmap and partnering opportunities beyond our existing relationship with Cisco.

I am pleased to announce the rebrand of Key-as-a-Service to Covata Delta DSS (Data Security Service). Symbolically the uppercase word "Delta" is depicted as a triangle. The original Secure Objects patent, which underpins Covata's approach to data centric security has been illustrated over the years as the Covata Triangle. Key management, identity and policy tie together to represent a holistic approach to securing individual pieces of data, no matter where they need to travel. This concept sits at the heart of our new innovative product, Delta.

Delta included in IoT Gartner Report

With an imminent launch and marketing underway, we are pleased to have received third party validation of Covata's Delta DSS Platform, by way of inclusion in the [Gartner IoT Security Market Guide](#) released at the beginning of October. This is a significant achievement for a new product and the result of targeted analyst briefings over the year. Gartner is widely recognised as a leading voice for IT related insights, used by technology and business leaders to fuel business development and purchasing decisions.

Delta Developer Portal

As outlined in the Q4 FY2016 investor call, the Delta Developer Portal and APIs are on track for a closed alpha release to selected partners, and the business development team have been focused on building awareness and support for the product amongst industry leaders. Twilio (NYSE:TWLO) is the market leading business model in how to deliver substantial revenue and shareholder value by offering valuable functions as transaction priced API's to software developers around the world. For further context, shareholders will recall I referred to the intent to launch our 'KaaS' Platform to the world of software developers with a transaction pricing model at the Cisco/Covata Sydney based event held in January this year. The video explaining this is available on the Company's website.

Safe Share

The Company released a substantial update (Version 3.3) to the product including version control for files. We continue to advance the Safe Share business within government departments and agencies. The CPS announcement today demonstrates the UK government progress. In addition, the Company is revisiting the Australian market place across government and enterprise to leverage overseas success and home-grown attributes.

Covata Products nominated for awards

Delta and Safe Share, have both been nominated for awards in the Computing Security Excellence Awards being held in London in November. Our products have been selected alongside recognisable brands such as Cloudview, Sophos and Skyhigh Networks. As our brand and products continue to receive accolades within these highly visible forums it will undoubtedly support our global sales efforts.

Annual General Meeting and 2017

I look forward to our **Annual General Meeting at 10.30am on Wednesday, 30 November 2016, at The Grace Hotel, 77 York Street, Sydney**, where I will update you regarding Covata's investment in its products and people for future growth, corporate strategy, product direction and, provide a client and partnership review.

Investor AGM packs including a Notice of Meeting and Proxy Form were distributed at the end of last week on Friday, 27 October 2016.

In addition to a detailed review of FY2016 and material events subsequent to closing, we look forward to providing further detail regarding the launch of **Delta and Safe Share as a Service (SSaaS) at the AGM.**

The Company's **cash reserves of \$12.5 million combined with expected R&D rebates of \$2.03 million provides runway through to the back-end of next calendar year on current cost base – excluding revenue from licensing activities . In addition, the company believes the R&D rebate for FY17 will not materially differ from FY16.**

Regards,



Trent Telford
Covata Founder and CEO



CORPORATE CONTACT DETAILS

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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")

30 September 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	16	16
1.2 Payments for		
(a) research and development	(12)	(12)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(154)	(154)
(d) leased assets	-	-
(e) staff costs	(2,202)	(2,202)
(f) administration and corporate costs	(1,266)	(1,266)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	11	11
1.5 Interest and other costs of finance paid	(2)	(2)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(3,609)	(3,609)

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	2	2
	(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	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	7,852	7,852
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(473)	(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	7,379	7,379

Notes:

3.1 Tranche 2 proceeds (\$7.9M) from the issue of 34,138,005 ordinary shares as announced to the ASX 30 May 2016 and approved by shareholders on 14 July 2016.

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	8,880	8,880
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,609)	(3,609)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	7,379	7,379
4.5	Effect of movement in exchange rates on cash held	(126)	(126)
4.6	Cash and cash equivalents at end of quarter	12,524	12,524

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	5,524	8,880
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Term deposits callable with less than 3 months notice)	7,000	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	12,524	8,880

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
(168)
-

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.		

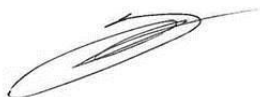
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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(50)
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	(150)
9.4 Leased assets	-
9.5 Staff costs	(2,200)
9.6 Administration and corporate costs	(1,200)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(3,600)

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: 31 October 2016

Print name: Trent Telford

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.