

Appendix 4D

Reporting period

Reporting period: Six months ended 31 December 2016
Comparative period: Six months ended 31 December 2015

Results for announcement to the market

	<u>\$</u>	<u>Up/Down</u>	<u>Movement %</u>
Revenue from ordinary activities	1,100,223	Up	9.81%
Loss from ordinary activities after tax attributable to members	(5,976,519)	Down	13.0%
Net loss attributable to members	(5,976,519)	Down	13.0%

Revenue from ordinary activities includes the research and development tax concession which has increased 7.3% from the corresponding period.

The Group recorded a loss after tax of \$5,976,519 for the six months to 31 December 2016 (2015: \$6,869,660).

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

Dividend information

No dividend has been proposed to be paid or payable for the six months ended 31 December 2016, nor for the comparative period.

Net tangible assets per security

	31 December 2016	31 December 2015
Net tangible assets per security	1.94 cents	1.98 cents

Corporate Information

Directors

Mr. Trent Telford (Chairman)	- Appointed 31 October 2014
Mr. Edward Pretty (CEO)	- Appointed 23 January 2017
Mr. William McCluggage	- Appointed 21 October 2016
Mr. Phillip Dunkelberger	- Appointed 31 October 2014
Mr. David Irvine	- Appointed 1 January 2017
Mr. Lindsay Tanner	- Appointed 1 January 2017
Mr. Charles Archer	- Resigned effective 31 March 2017
Mr. Michael Quinert	- Resigned effective 31 March 2017
Mr. Philip King	- Resigned 21 October 2016
Mr. Joseph Miller	- Resigned 21 October 2016

Joint Company Secretaries

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

Registered Office

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

Principal Place of Business

Level 4, 156 Clarence Street
Sydney, NSW, 2000

Suite 101B, 821 Folsom Street
San Francisco, California, 94070
United States of America

Share Register

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

Auditors

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



Covata Limited

ABN 61 120 658 497

**Half Year Report
for the six months ended 31 December 2016**

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Covata Limited

Directors' report

The directors of Covata Limited ("the Company") present their report together with the interim financial statements of the Covata Group ("the Group"), being the Company and its controlled entities, for the six months ended 31 December 2016.

Directors

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

Mr. Trent Telford
Mr. Edward Pretty
Mr. William McCluggage
Mr. Phillip Dunkelberger
Mr. David Irvine
Mr. Lindsay Tanner
Mr. Charles Archer
Mr. Michael Quinert
Mr. Philip King
Mr. Joseph Miller

Principal activities

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

Review of operations

Highlights

- Edward (Ted) Pretty appointed as Managing Director and CEO
- Significantly strengthened the Board's composition and experience with the appointments of William (Bill) McCluggage, David Irvine and Lindsay Tanner
- Commenced Safe Share Proof of Concepts (POCs) with the UK Crown Prosecution Service (CPS) and with a second government department in Northern Ireland:
 - The outcome of both POCs is unknown at the date of this report and will be communicated once known
- Released Safe Share versions 3.3 and 3.4 with new features and functionality
- Held a Covata Delta event in San Francisco with key industry players to discuss the future of data security
- Released Alpha version of Covata Delta and made APIs and SDKs publicly available to developers
- Covata Delta won the IoT Security Solution Award at the Computing Security Excellence Awards 2016 held in London, and was listed in Gartner's Market Guide for IoT Security
- Covata Safe Share received Tier 2 Secret Classification on G-Cloud 8

Covata Limited

Directors' report

Review of operations (continued)

Financials

The Group recorded a loss after tax of \$5,976,519 for the six months to 31 December 2016 (2015: \$6,869,660). During the period, the Group earned technology-related revenue of \$193,305 (2015: \$159,329). The Group also accrued research and development tax concession revenue of \$903,623 (2015: \$841,999). As at 31 December 2016, the Group held cash and term deposits of \$11,095,229 (2015: \$8,527,271).

In July 2016, Covata completed the second tranche of a total \$13.2 million capital raising. This has been, and continues to be, used for further development and commercialisation of Covata's Delta product, enhancing the features and functionality of Safe Share, and sales, business development and marketing for Safe Share's whole-of-government strategy.

Appointment of Ted Pretty as CEO

In December 2016, the Company announced the transition of Trent Telford from CEO of Covata to Chairman of the Board, replacing Charles (Chuck) Archer. Chuck stepped down as Chairman, transitioned to a Non-Executive Director, and subsequently resigned effective 31 March 2017. In addition to the Chairman role, Trent will perform an advisory and consulting role for an initial period of 12 months.

The Board was delighted to appoint Ted Pretty as Managing Director and CEO of Covata, effective 23 January 2017. His initial focus at Covata is on securing and maximising revenue potential from existing Proof of Concepts, as well as developing the sales pipeline, new product development and exploring other near-term growth opportunities.

Most recently, Ted was a senior adviser at a major international investment bank, supporting principal investments in emerging companies, covering information governance, big data and analytics, security and encryption. His career has included roles such as Managing Director of Technology Innovation and Product at Telstra Group, Chairman of Fujitsu Limited, Chairman of ASX-listed NEXTDC and RP Data Limited, Advisory Chairman of Tech Mahindra and Managing Director and Chief Executive Officer of Hills Limited.

Ted Pretty is a recognised technology and telecommunications executive and director with significant experience in complex networks, data hosting and security. Ted is also on the Advisory Board of Lighthouse Accelerator, located at Barangaroo. Ted's biography is located on the corporate website at www.covata.com.

Executive and Board changes

Three new independent Non-Executive Directors were appointed to the Covata Board during the six months ended 31 December 2016; David Irvine (AO), Lindsay Tanner and Bill McCluggage.

David Irvine (effective start date of 1 January 2017) has a deep understanding of the intelligence and cyber security landscape. His wealth of knowledge, experience and network will provide strategic direction and support to assist Covata to achieve its objectives in government markets.

Lindsay Tanner (effective start date of 1 January 2017) is well regarded and respected for both his political and business acumen, and will contribute to Covata's strategic objectives across enterprise and government. He has developed many strong and enduring relationships with leading figures in the business community and has a wide network in education, industrial relations, public service and non-government organisations.

Bill McCluggage joined Covata's Board in October 2016. He brings deep experience across the IT, security, enterprise and government sectors.

Full biographies for David, Lindsay and Bill are located on the corporate website at www.covata.com.

Covata Limited

Directors' report

Review of operations (continued)

Joseph Miller and Philip King departed from the Board in October 2016. Chuck Archer and Michael Quinert also retire from the Board effective 31 March 2017. Covata thank them all for their service and commitment to the Company.

Proof of Concepts

Crown Prosecution Service

In November 2016, Covata was selected to participate in a Proof of Concept (POC) by the Crown Prosecution Service (CPS), the principal prosecuting authority for England and Wales. This was the first POC resulting from the body of work undertaken in the second half of 2016 focusing on the UK government market.

Commencing in November 2016, the CPS POC saw Safe Share and a competing product trialled by agencies focused on law enforcement and justice – seeking a solution to share sensitive digital information pertinent to the prosecution process. The scope of the project requires a Software as Service (SaaS) solution that delivers end-to-end security, the ability to securely share information with strict access controls and a complete audit trail – these attributes are core features of Safe Share.

Due to complete in late December 2016, the POC was extended to the end of January 2017. As advised by CPS, the extension was due to finalisation of business processes, particularly in relation to data protection and data ownership policies / standards that CPS must complete, and not due to the Covata technology assessment. A formal outcome of the POC is not currently known and will be communicated once known.

Northern Ireland

In December 2016, an engagement was submitted to another government department in Northern Ireland which is comparable to CPS opportunity in terms of the size. As anticipated, this engagement has proceeded to a POC and, like the CPS POC, this process is both competitive and iterative. To date, Covata has not been provided with timeframes for conclusion of this POC.

Product update – Safe Share

In September 2016, Covata released Safe Share version 3.3. New features included:

- support for versioning - Safe Share can now maintain file version history enabling secure collaboration and the ability to restore / recover any version
- addition of a recycle bin, accessible from the interface, with the ability to restore deleted items
- a secure file editing tool in Windows so files can be securely edited from within a Windows interface, allowing a more seamless workflow for users
- an updated icon set which provides a more consistent user experience

In December 2016, Covata released Safe Share version 3.4. Key features included:

- Federal Information Processing Standard (FIPS) compliant cryptographic libraries within the Covata Platform
- a mobility application in the iOS App store to support on-premises installations of Safe Share
- additional changes to improve external collaborator workflow, password expiration policies and administrator authorisation

Covata Limited

Directors' report

Review of operations (continued)

As announced at Covata's Annual General Meeting (AGM) in November 2016, Covata intends to open Safe Share up to the global market via a direct SaaS channel. Building off a zero base, the Company cannot accurately predict how many organisations will sign up quarter-by-quarter, and therefore is not making public forecasts at this stage. Covata will focus on building out go-to-market strategies in defined verticals where compliance is key. The market will be kept updated accordingly.

Product update – Covata Delta

In February 2016, Covata announced that, by the end of 2016, it would launch Key-as-a-Service (KaaS), a new IoT and cloud security product that would eliminate the burden of key encryption and access policy management. Through its APIs and SDKs, KaaS would provide developers with the ability to enhance security, by building automated underlying end-to-end encryption into applications, products and services, and allow sensitive information (secrets) to be protected however and wherever they are shared.

In October 2016, KaaS was re-branded as Covata Delta, in preparation for the alpha version release. In December 2016, key organisations (including Salesforce, ThoughtWorks, AIG, Zuckerberg San Francisco General Hospital, McKesson Corporation, ARM, CodeScience, Momena Partners, Legend Merchant Group and Nok Nok Labs) joined members of Covata's leadership team in San Francisco to discuss the future of data security in a world of IoT, Cloud, Big Data and Digital Transformation.

Following the event, the alpha release of Covata Delta was provided to select organisations to enable them to download APIs and SDKs, and play with and build against them. These organisations have been actively engaged with Covata to provide feedback and drive use cases.

In January 2017, Covata Delta's APIs and SDKs were publicly opened to developers and actively promoted at the annual RSA Cyber Security Conference in San Francisco. Developers that, for mandated or compliance reasons must include security in their applications, products or services, are being encouraged to access these cloud-based tools and provide feedback. This feedback and engagement will help to form the next version of Covata Delta.

Partnership update

Covata operates with partners within three channels: Government, Telco and OEM (platform), and has initiated a strategic evaluation of several go-to-market opportunities.

The Group continues to resell Safe Share on a white labelled basis through its partnership with Macquarie Telecom. Currently used by 15 government departments, Covata sees this relationship as validation for further government engagement. Moving forward, Covata will be exploring other similar channel partner opportunities.

Despite having worked through the relevant go-to-market requirements with Taiwan's largest Telco, Chunghwa, traction has been difficult. Likewise, Cisco saw Covata as having the potential to provide some secure elements of their Service Exchange Platform (SXP) for cloud automation; however, to date, Cisco has not progressed on developing that platform.

Germany's T-Systems remains a Covata partner, but there is reduced emphasis due to slow progress and resources have been managed accordingly.

Covata will continue to work with partners and resellers to progress any opportunities that may arise, while simultaneously pursuing relationships with other system integrators and organisations.

Covata Limited

Directors' report

Review of operations (continued)

Staffing and global structure

The Washington DC office was closed in December 2016, delivering substantial savings in rent, overheads and wages. The existing executive and leadership team now reside in the Sydney head office.

The Group will continue to review its structure to ensure that it aligns with current strategic direction and focus.

Cost management

Covata continues to remain conscious of its expenditure, having implemented a cost-reduction program during the period ended 31 December 2016. This program continues into the second half of the year and beyond, with forecast cash reserves into the third quarter of FY2018, without the need to rely on capital markets.

Market recognition

Covata has had several forms of market recognition during the six-month period. Its Covata Delta product was listed in Gartner's Market Guide for IoT Security, released in October 2016. This was a solid endorsement of Covata Delta's potential.

Additionally, in December 2016, Covata Delta won the IoT Security Solution Award at the Computing Security Excellence Awards 2016 in London, joining other category winners including Splunk, Symantec, Sophos and Microsoft.

In July 2016, Covata was successfully listed for Tier 2 Secret Classification on G-Cloud 8, further advancing Covata's position within the UK government marketplace. This classification positions Safe Share as the only file sharing application across the UK government with this status.

Covata looking ahead

As detailed throughout this report, the past six months have seen numerous significant appointments. The Board would like to formally welcome its new directors' and welcome Ted as managing director and CEO. It is with eager optimism that we look forward to him driving the Group into its next phase.

Since his appointment, Ted has been undertaking a strategic review. An Extraordinary General Meeting (EGM) will be held in April 2017 (date to be confirmed) where Ted will brief shareholders and provide an update on plans moving forward.

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

Significant changes in the state of affairs

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

Covata Limited

Directors' report

Events subsequent to reporting date

On 1 January 2017, Lindsay Tanner and David Irvine were appointed to the Board of Covata Limited.

On 23 January 2017, Ted Pretty was appointed as executive (managing) director and CEO. Consequently, Trent Telford resigned his position as CEO and assumed the role of Chairman, leading to Charles Archer moving to the role of non-executive director.

Charles (Chuck) Archer and Michael Quinert resigned from the Board, effective 31 March 2017.

Other than the items mentioned above, there has not arisen in the interval between the end of the period to 31 December 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.

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



Trent Telford
Chairman

Dated at Sydney, NSW, Australia this 23 day of February 2017.



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

To: the directors of Covata Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2016 there have been:

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

KPMG

Jeff Frazer
Partner

Bundall

23 February 2017

Covata Limited and its controlled entities

Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 31 December 2016

	Note	31 December 2016	31 December 2015
Revenue and other income			
Revenue – technology related products and services		193,305	159,329
Research & development tax concession		903,623	841,999
Other income		3,295	637
		1,100,223	1,001,965
Expenses			
Employee benefit expenses		(4,583,885)	(4,399,032)
Consultancy fees expense		(656,079)	(888,204)
Depreciation expense		(40,233)	(48,057)
Legal and professional fees expense		(180,008)	(262,132)
Marketing and promotion expense		(282,465)	(267,860)
Travel and accommodation expense		(445,758)	(669,635)
Office and administration expenses		(719,912)	(522,652)
Other direct research and development project expenses		(26,850)	(606,016)
Foreign currency exchange expense		-	(13,642)
Other expenses		(255,263)	(257,042)
		(7,190,453)	(7,934,272)
Results from operating activities		(6,090,230)	(6,932,307)
Finance income		118,152	68,628
Finance costs		(4,441)	(5,981)
Net finance income (costs)		113,711	62,647
Loss before income tax		(5,976,519)	(6,869,660)
Income tax expense		-	-
Loss for the period		(5,976,519)	(6,869,660)
Other comprehensive income			
Items that may be classified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(67,095)	58,206
Total other comprehensive income		(67,095)	58,206
Total comprehensive loss for the period		(6,043,614)	(6,811,454)
Earnings per share			
Basic earnings per share (cents per share)	5	(1.1)	(1.6)
Diluted earnings per share (cents per share)	5	(1.1)	(1.6)

The notes on pages 16 to 21 are an integral part of these condensed consolidated interim financial statements.

Covata Limited and its controlled entities

Condensed consolidated statement of changes in equity

For the six months ended 31 December 2016

	Note	Share Capital	Foreign Currency Translation Reserve	Share Options Reserve	Warrants Reserve	Accumulated Losses	Total Equity
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 period							
Loss for the period		-	-	-	-	(6,869,660)	(6,869,660)
Total other comprehensive income		-	58,206	-	-	-	58,206
Total comprehensive income/(loss)		-	58,206	-	-	(6,869,660)	(6,811,454)
Transactions with owners, recorded directly in equity							
<i>Contributions by and distributions to owners</i>							
Ordinary share issued	7	6,948,323	-	-	-	-	6,948,323
Share based payments – share options	8	1,104,213	-	244,720	-	-	1,348,933
Share based payments – employee loan shares	8	67,482	-	45,173	-	-	112,655
Share options lapsed		-	-	(121,849)	-	121,849	-
Capital raising costs	7	(416,900)	-	-	-	-	(416,900)
Total contributions by and distributions to owners		7,703,118	-	168,044	-	121,849	7,993,011
Balance at 31 December 2015		72,636,835	9,848	2,877,649	4,607,250	(70,978,696)	9,152,886
Balance at 1 July 2016	7	79,126,785	(179,753)	3,115,681	4,607,250	(78,119,144)	8,550,819
Total comprehensive income for the period							
Loss for the period		-	-	-	-	(5,976,519)	(5,976,519)
Total other comprehensive income/(loss)		-	(67,095)	-	-	-	(67,095)
Total comprehensive income/(loss)		-	(67,095)	-	-	(5,976,519)	(6,043,614)
Transactions with owners, recorded directly in equity							
<i>Contributions by and distributions to owners</i>							
Ordinary shares issued	7	7,851,741	-	-	-	-	7,851,741
Ordinary shares issued – employee bonus	7	164,787	-	-	-	-	164,787
Share based payments – share options	8	-	-	111,359	-	-	111,359
Share based payments – employee loan shares	8	-	-	28,907	-	-	28,907
Share options lapsed	8	-	-	(157,663)	-	157,663	-
Employee loan shares lapsed	8	-	-	(3,468)	-	3,468	-
Capital raising costs	7	(473,033)	-	-	-	-	(473,033)
Total contributions by and distributions to owners		7,543,495	-	(20,865)	-	161,131	7,683,761
Balance at 31 December 2016		86,670,280	(246,848)	3,094,816	4,607,250	(83,934,532)	10,190,966

The notes on pages 16 to 21 are an integral part of these condensed consolidated interim financial statements.

Covata Limited and its controlled entities

Condensed consolidated statement of financial position

As at 31 December 2016

	Note	31 December 2016	30 June 2016
Assets			
Cash and cash equivalents		4,095,229	8,879,821
Term deposits		7,000,000	-
Trade and other receivables		1,247,840	2,241,097
Prepayments		65,597	58,280
Other current assets		106,665	103,913
Total current assets		12,515,331	11,283,111
Property, plant and equipment		78,958	158,987
Other non-current assets		390,171	397,857
Total non-current assets		469,129	556,844
Total assets		12,984,460	11,839,955
Liabilities			
Trade and other payables		903,368	1,225,665
Deferred income		299,241	314,671
Employee benefits		120,587	131,473
Total current liabilities		1,323,196	1,671,809
Deferred income		1,470,298	1,617,327
Total non-current liabilities		1,470,298	1,617,327
Total liabilities		2,793,494	3,289,136
Net assets		10,190,966	8,550,819
Equity			
Share capital	7	86,670,280	79,126,785
Reserves	7	7,455,218	7,543,178
Accumulated losses		(83,934,532)	(78,119,144)
Total equity		10,190,966	8,550,819

The notes on pages 16 to 21 are an integral part of these condensed consolidated interim financial statements.

Covata Limited and its controlled entities

Condensed consolidated statement of cash flows

For the six months ended 31 December 2016

	Note	31 December 2016	31 December 2015
Cash flows used in operating activities			
Cash receipts from customers		19,915	27,899
Cash paid to suppliers and employees		(7,146,195)	(7,384,277)
Cash used in operating activities		(7,126,280)	(7,356,378)
R&D rebates received		2,021,729	-
Interest received		15,302	235,095
Interest paid		(4,442)	(5,982)
Net cash used in operating activities		(5,093,691)	(7,127,265)
Cash flows used in investing activities			
Payments for investments in term deposits		(7,000,000)	9,000,000
Payments for deposits		-	(169,317)
Proceeds from disposal of property, plant and equipment		4,750	636
Acquisition of property, plant and equipment		(4,265)	(31,511)
Net cash used in investing activities		(6,999,515)	8,799,808
Cash flows from financing activities			
Proceeds from the issue of share capital		7,851,741	6,948,323
Proceeds from the employee loan share loans repaid		-	57,568
Proceeds from the share option plan exercise		-	756,038
Repayment of short term debt facility		-	(2,300,000)
Payment of share issue costs		(473,032)	(416,900)
Net cash from financing activities		7,378,709	5,045,029
Net increase in cash and cash equivalents		(4,714,497)	6,717,572
Cash and cash equivalents at 1 July		8,879,821	1,809,699
Effect of movements in exchange rates on cash held		(70,095)	-
Cash and cash equivalents at 31 December		4,095,229	8,527,271

The notes on pages 16 to 21 are an integral part of these condensed consolidated interim financial statements.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2016

1. Reporting entity

Covata Limited (the 'Company') is a company domiciled in Australia. These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved in the development and commercialisation of intellectual property predominantly in the field of data security technology.

2. Basis of accounting

The condensed consolidated interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, and with IAS 134 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 30 June 2016.

The condensed consolidated interim financial statements do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Covata Limited Group as at and for the year ended 30 June 2016. The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2016.

These interim financial statements were authorised for issue by the Company's Board of Directors on 23 February 2017.

(a) Going concern

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

The Group is in the research, development and commercialisation stage of its data security technology. During the six months ended 31 December 2016, the Group incurred a loss after tax of \$5,976,519 (2015: loss of \$6,869,660), and incurred net cash outflows from operating activities of \$5,093,691 for the period (2015: outflows of \$7,127,265). At 31 December 2016, the Group had cash and cash equivalents of \$4,095,229 (this does not include \$7,000,000 of Term Deposit on hand as at 31 December 2016) and net assets of \$10,190,966.

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.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2016

3. Use of judgements and estimates

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

4. Segment Reporting

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

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

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

5. Earnings per share

	31 December 2016	31 December 2015
Earnings per share from continuing operations:		
Loss after income tax (basic)	(5,976,519)	(6,869,660)
Loss after income tax (diluted)	(5,976,519)	(6,869,660)
Weighted average number of ordinary shares used in calculating basic earnings per share	520,430,787	432,349,069
Weighted average number of ordinary shares used in calculating diluted earnings per share	520,430,787	432,349,069
Basic earnings per share (cents per share)	(1.1)	(1.6)
Diluted earnings per share (cents per share)	(1.1)	(1.6)

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

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2016

6. Tax expense

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

7. Share capital

	Note	<i>Ordinary Shares</i> <i>31 December 2016</i>	
		Number	\$
Fully paid ordinary shares			
On issue at the start of period		489,540,167	79,126,785
Issued for cash		34,138,005	7,851,741
Less: issue costs paid in cash			(473,033)
Issued for non-cash – employee bonus		732,388	164,787
Share capital at the end of the period		524,410,560	86,670,280

Issue of ordinary shares

Of the 524,410,560 Covata Limited ordinary shares on issue as at 31 December 2016, 10,797,191 were restricted ordinary shares issued under an employee loan share plan as described in Note 8.

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

Issue of ordinary shares

Of the 461,784,583 Covata Limited ordinary shares on issue as at 31 December 2015, 9,922,947 were restricted ordinary shares issued under an employee share plan as described in Note 8.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2016

8. Share based payments

At 31 December 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 500,000 (2015: 2,206,994) share options were issued under this programme in the six months to 31 December 2016. In accordance with this programme, holders of vested options are entitled to purchase shares at a price per share as detailed below.

Employee loan share plan

For accounting purposes shares allocated to employees pursuant to the Share Plan are treated and valued as options, and the fair value of the options granted under the Share Plan is estimated as at the grant date using a Black-Scholes model taking into account the terms and conditions upon which they were granted. There were nil (2015: 132,167) employee loan share plan shares granted in the six months to 31 December 2016.

Share options granted during the six months to 31 December 2016

Grant date	No. of options	Exercise price \$AUD	Fair value at grant date \$AUD	Vesting Conditions
21/07/2016	250,000	0.20	0.07	25% vest on 20 July 2017, with the remainder to vest equally over 12 calendar quarters on the last day of each quarter commencing 30 September 2017.
8/12/2016	250,000	0.20	0.07	Fully vested as at the date of grant.
	500,000			

Employee loan share plan shares granted during the six months to 31 December 2016

There were nil employee loan share plan shares granted during the six months to 31 December 2016.

Share options granted during the six months to 31 December 2015

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

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2016

8. Share based payments (continued)

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

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

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
Grant Date	21 Jul 16	8 Dec 16
Fair value at grant date	\$0.07	\$0.07
Share price at grant date	\$0.20	\$0.20
Exercise price	\$0.20	\$0.20
Expected volatility (weighted average)	38.9%	38.9%
Expected life (weighted average)	5 years	5 years
Expected dividends	Nil	Nil
Risk-free interest rate (based on government bonds)	1.58%	2.14%

Employee expenses recognised in profit or loss	December 2016	December 2015
Share options granted – 2017	22,968	-
Share options granted – 2016	48,448	121,540
Share options granted – 2015	38,748	452,945
Share options granted – 2014	693	2,579
Share options granted – 2013	502	15,831
Share options expense total	111,359	592,895
Employee loan shares granted – 2016	-	16,232
Employee loan shares granted – 2015	12,779	28,941
Employee loan shares granted – 2014, modified 2015	16,128	-
Employee loan shares expense total	28,907	45,173
Total expense recognised as employee costs	140,266	638,068

The share based payments – share options amount of \$111,359 on the condensed consolidated statement of changes in equity represents the \$111,359 share options expense.

The share based payments – employee loan shares amount of \$28,907 on the condensed consolidated statement of changes in equity represents the \$28,907 employee loan share plan expense.

Covata Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2016

8. Share based payments (continued)

During the period 1,084,709 vested share options with a total fair value of \$157,663 and 23,948 employee loan shares with a total fair value of \$3,468 lapsed, reducing the net amount recognised in the share options reserve for the six months ended 31 December 2016 to (\$28,865).

9. Related parties

a) Consolidated entities

Parent entity	Country of incorporation	Ownership interest	
		2016	2015
Covata Limited (formerly Prime Minerals Limited)	Australia		
Subsidiaries			
Cocoon Data Holdings Limited	Australia	100%	100%
Cocoon Data Pty Limited	Australia	100%	100%
Covata Australia Pty Limited	Australia	100%	100%
Covata USA, Inc.	United States	100%	100%
Fineloop Holdings Pty Limited	Australia	100%	100%
Covata UK Limited	United Kingdom	100%	100%

b) Transactions with key management personnel

i) Advances to directors

Unsecured advances to directors as at 31 December 2016 were \$148,072 (2015: \$67,482). Advances primarily relate to payments made by the Group on Mr Telford's behalf to assist with his relocation from Australia to the USA in addition to an unsecured loan relating to 726,000 loan shares which were disposed in the preceding 18 months as at the date of this report. The Group has extended these advances on commercial terms with Mr Telford, these amounts remain outstanding as at the date of this report.

In 2015, unsecured advances to directors related to 460,000 shares sold by Trent Telford in December 2015.

10. Subsequent events

On 1 January 2017, Lindsay Tanner and David Irvine were appointed to the Board.

On 23 January 2017, Edward Pretty was appointed as executive (managing) director and CEO. Consequently, Trent Telford resigned his position as CEO and assumed the role of Chairman, leading to Charles Archer moving to the role of non-executive director.

Charles (Chuck) Archer and Michael Quinert resigned from the Board, effective 31 March 2017

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

Covata Limited and its controlled entities

Director's declaration

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

- a) the condensed consolidated financial statements and notes that are set out on pages 12 to 21, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance, for the six months ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney NSW, Australia this 23rd day of February 2017.

Signed in accordance with a resolution of the directors:



Trent Telford
Chairman



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

We have reviewed the accompanying half-year financial report of Covata Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2016, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, Notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Covata Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

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

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to be 'J Frazer'.

Jeff Frazer
Partner

Bundall

23 February 2017