DAMSTRA

ANNUAL REPORT 2020

DELIVERING A STEP CHANGE IN BUSINESS PERFORMANCE IN FY20

Rebekah Osmond
Client Configuration Coordinator

My role acts as one of the crucial pieces that links Damstra's ideas to the visions of a client. I like to think that my wheelhouse is a hybrid of technical savviness and engaging customer satisfaction. My drive is to equip both clients & their contractors with the tools for success.

Suey Stockton
Business Relationship Manager

I look after Damstra's Learning Management System (LMS) customers, from onboarding to account management and technical support. Our customers are at the heart of everything we do. I am passionate about delivering a service to be proud of and engaging the customers, helping them to meet their learning needs and engage their employees.

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CHAIRMAN'S AND CEO'S MESSAGE

Dear Shareholders,

On behalf of Damstra Holdings Limited (Damstra Technology) we are pleased to present our Annual Report for the financial year ended 30 June 2020 (FY20).

Damstra is an Australian-based provider of integrated workplace management solutions to multiple industry segments across the globe. The Company develops, sells and implements integrated hardware and software-as-a-service (SaaS) solutions in industries where compliance and safety are of utmost importance. These solutions assist Damstra's clients to better track, manage and protect their staff, contractors and their organisations, and to reduce the risks associated with worker health, safety and regulatory compliance.

It was a transformational year for Damstra, highlighted by the IPO of our Company on the Australian Stock Exchange on 16 October 2019. We have delivered a high-quality set of results across all business metrics, reflecting a fundamental step change in performance to prior years and validation of the operating leverage that exists in the business. To have delivered this performance during COVID-19 is a credit to the Damstra team and demonstrates the quality of our products and business model. Indeed, Damstra demonstrated its importance as a critical business tool during these challenging times, and customers have continued to rely on our solutions. During the height of the pandemic in our key markets, there was no reduction in demand for our services across the key verticals of mining, construction, and telecommunications.

In the FY20 period, revenue and other income rose by 47% to $23.5 million and client numbers increased from 129 to 279. It is especially pleasing to report that 90.7% of our revenue is recurring with churn less than 0.5%. This demonstrates the high quality of our revenue, the importance of our solutions to deliver a safe working environment and the commitment of our customer base.

FY20 HIGHLIGHTS

- Pro-forma earnings before interest, tax, depreciation and amortisation (EBITDA) of $6.8m (underlying EBITDA of $4.8m) versus $1.8m for FY19
- Operating leverage demonstrated by a 10.3 ppt increase in gross margin from 58.2% to 68.5%
- Pro-forma operating cash flow of $5.2m versus $0.3m for FY19
- NPATA of $6m versus ($2.3m) for FY19
- Users increased from 320,000 at the end of FY19 to 404,000

Johannes Risseeuw
Executive Chairman

Christian Damstra
Chief Executive Officer

While we are incredibly pleased with these results, we are equally proud of the innovation underpinning the new products launched to our clients. We added 14 fully integrated products and modules to our world-leading platform, to assist organisations in tracking, managing and protecting their workplaces. As companies prepare for or manage a return of staff to working locations, product enhancements to the Damstra solutions now provide the ability to test, track, trace and train in a highly scalable manner and using anonymised individual data for exception management. In doing so we focus on seamless inclusion into existing infrastructure which makes the Damstra platform a truly integrated and complete solution for small and large businesses. Investing deeply and innovating continuously makes our products easier to sell and accelerate growth.

Our acquisitions in FY20, including the proposed purchase of Vault Intelligence, demonstrate a targeted and considered approach to M&A. We adopt a disciplined and focused screening and integration methodology. During FY20, Damstra made three acquisitions: APE Mobile, Scenario Advantage and Smart Asset Software. As M&A is a core strategy for Damstra we have developed a specific approach, including a dedicated team, process on target selection, due diligence, negotiation, and then implementation. Our criteria for success and approach to M&A: no clients lost during transition, retention of key staff and integrate them organisationally, clear road map of systems and code base integration, new clients see a "single view of Damstra" in a product sense and the expanded offering we bring; and legacy systems and suppliers removed so the acquisition is marginally costed.

In North America we significantly scaled up resources to grow with our clients and have plans to pursue a wide array of opportunities in such a significant market. Damstra's channel partnership strategy continues to evolve as an important long term growth lever. In line with our regional growth focus we have recently signed channel partner agreements with leading third party providers Zivaro, Inc Brilliant IT and Government Acquisition, Inc. Expanding overseas also opens up new avenues of growth. For example, our solutions are increasingly being adopted in new industries such as education in which we won our first major client in the state of Colorado.

We have entered FY2021 with great energy and excitement and look forward to integrating the Vault transaction. We see this as a year of continued evolution with our business having size, scale and increasing product innovation effort to accelerate international growth. From an investor perspective, this is important as we believe we have significantly reduced our overall risk profile while increasing our organisational capability. We will now have presence in South East Asia and will continue to add significant resources in North America. Underpinning this we see a structural tailwind in markets we operate and, given our resilient business model, believe we are strategically well placed to navigate the disruptions caused by COVID-19. We believe there remains an ongoing opportunity to increase our geographic footprint and acquire attractive adjacent technology through targeted acquisitions. Damstra is committed and open about this strategy, as product innovation and development are at the heart of what we do.

We would like to acknowledge our colleagues on the Damstra Board and management team for their drive and ambition to create a truly global business. On the Board we have recently been joined by seasoned technology and sales executive Sara La Mela who has already added tremendous energy, thinking and insight from her extensive international experience. We are actively building the capability of our people at all levels of the organisation as we seize the enormous opportunity before us. Finally, we thank all our shareholders, employees and clients for your support. We respect the trust you place in Damstra and everyone across our organisation is committed to achieving our vision and delivering long-term shareholder value.

Your sincerely,

Johannes Risseeuw
Executive Chairman

Christian Damstra
Chief Executive Officer

FINANCIAL HIGHLIGHTS

Strong business performance in FY20, demonstrating a fundamental step change in the business compared to FY19. This places the business in a strong position for FY21, including the acquisition of Vault.

↑404,000

USERS
vs 320k at Jun-19

↑279

CLIENTS
vs 129 at Jun-19

↑ $23.5m

REVENUE AND OTHER INCOME
vs $16.0m in FY19

↑ 46.6%

REVENUE AND OTHER INCOME GROWTH
vs 3-year CAGR 42.0%

↑ 90.7%

RECURRING REVENUE[1]
vs 90.4% in FY19

↑ <0.5%

CLIENT REVENUE CHURN[2]
vs 1.0% in FY19

↑ 30%

INCREASE IN TOTAL[3] **R&D SPEND**
Total R&D spend is 22.9% of FY20 revenue

↑ $6.8m

PRO-FORMA EBITDA[4]
$4.8M UNDERLYING EBITDA[5]
vs $1.8m[6] in FY19

↑ $14.2m

CASH AND TRADE RECEIVABLES
vs $3.9m at Jun-19

↑ $5.2m

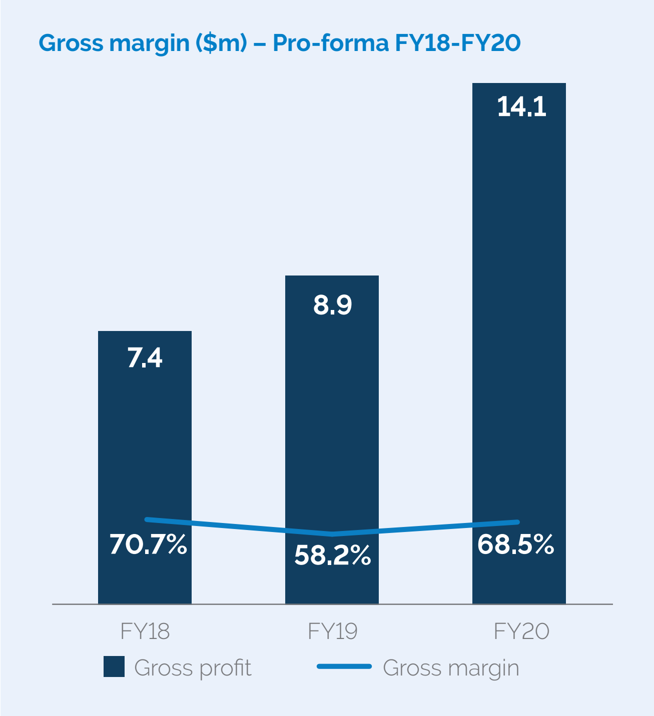
PRO-FORMA[7] **OPERATING CASH FLOW**
vs $0.3+ in FY19

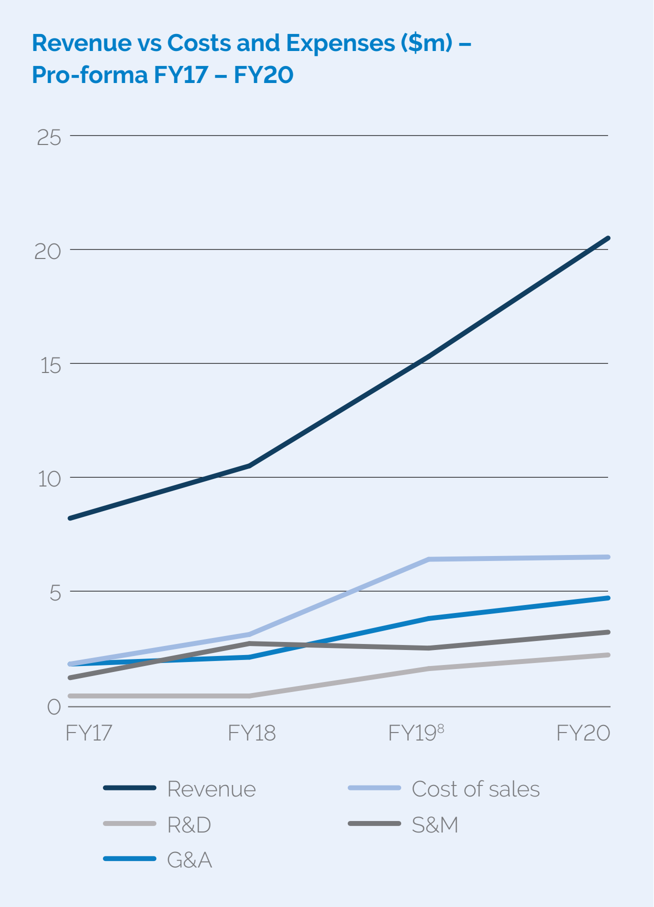
1. Relates to revenue that is earned over time.
2. Calculated as prior year recurring revenue that was lost during FY20.
3. Calculated as the sum of R&D expense per the pro-forma income statement and capitalised development costs per the cash flow statement.
4. Before IPO costs, share-based payments, income tax, finance expenses and acquisition costs.
5. Pro-forma EBITDA excluding one-off other income.
6. FY19 underlying and pro-forma EBITDA are equivalent.
7. Excludes transaction costs related to business combinations.

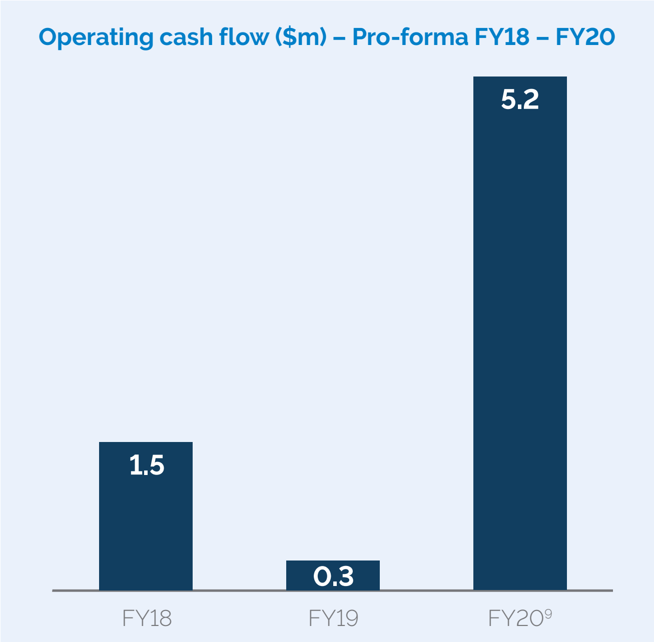
FINANCIAL HIGHLIGHTS

Continued

STRONG FINANCIAL PERFORMANCE – INCREASING GROSS MARGINS, OPERATING LEVERAGE, AND OPERATING CASH FLOW







Ling Hou
Financial Controller

Damstra is a great place to work. We embrace diverse backgrounds, we are empowered to drive stronger results and work collaboratively to support future growth. I just love it.

8. Includes pro-forma reallocation within operating expense to align with FY20 cost allocation.
9. Excludes transaction costs related to business combinations.

FY20 SAW SIGNIFICANT ACHIEVEMENTS ACROSS OUR FOUR CORE GROWTH PILLARS

Organic growth

Expanding our client base but staying focused on our core capability. New products enable cross-selling opportunities

New customer wins

- International: Winning new clients in the US and South-East Asia
- SE Asia now seen as a new market
- New verticals: Winning new clients in the Education and Finance sectors
- Construction: Core clients rolling out new infrastructure projects, new clients wins >60,000 users

Cross-selling to existing customers

- Fever detection – more than 20 clients have ordered the solution, and it is now live with clients
- CPB rollout of learning solution to all its contractors (have acquired 15,000 licenses)

Product & technology

We split expenditure on; new products, upgrading present modules and integration

Innovation

- Structural increase in total[10] R&D expenditure, 30% increase versus FY19

Product

- Increased R&D expenditure reflected in delivery of 14 new modules: fever/facial detection, mobile attendance, RFID tracking, digital form integration and skills management
- Overall, 4,420 new product features implemented during FY20

Commercialisation

- New modules: >50% are focused on commercialisation, not just upgraded UX/UI

Partners

Channel partners are a key plank for growth, focus on North America

US partners

- Strategic relationships formed with Zivaro (government and enterprise clients) and GAI (Federal, state and local government and education)

TechnologyOne

- Successful integration of Damstra's Learning Management platform. Targeting 75 clients acquired by the end of FY21

Increasing North America resources

- Two Senior VP's hired in North America and scaling up resources

Strategic acquisitions

M&A is product-centric with a strong focus on integration

Acquisition of Scenario

- Accelerates Damstra's growth on the East Coast of Australia

Acquisition of APE mobile

- Expands Damstra's paperless product suite, drives cross-sell

Acquisition of SmartAsset

- Expands Damstra's asset management, maintenance and tracking product offering and enables cross-selling
- Acquisitions are being integrated successfully, driven by a dedicated team, enabling cross-selling to commence

Andrew Aguirre
Senior Engineer

I feel blessed to be a part of Damstra and to be able to make an impact in helping keep people safe via our solutions, particularly during this pandemic.

10. Calculated as the sum of R&D expense per the pro-forma income statement and capitalised development costs per the cash flow statement.

DAMSTRA AT A GLANCE

AN AUSTRALIA-BASED PROVIDER OF INTEGRATED WORKPLACE MANAGEMENT SOLUTIONS ACROSS THE GLOBE

279+
clients

9
offices

10
countries[1]

404,000+
registered licences[2]

~145
employees

42,000+
documents verified per month

22,000+
lessons completed per month

5,700,000+
hours in time and attendance per month

240,000+
blood alcohol tests per month

1,000+
no. of active hardware devices

- Continents in which Damstra operates
- Damstra office locations
- Damstra headquarters

1. Countries where Damstra products are used.
2. Based on number of active paying licences as at June 2020.

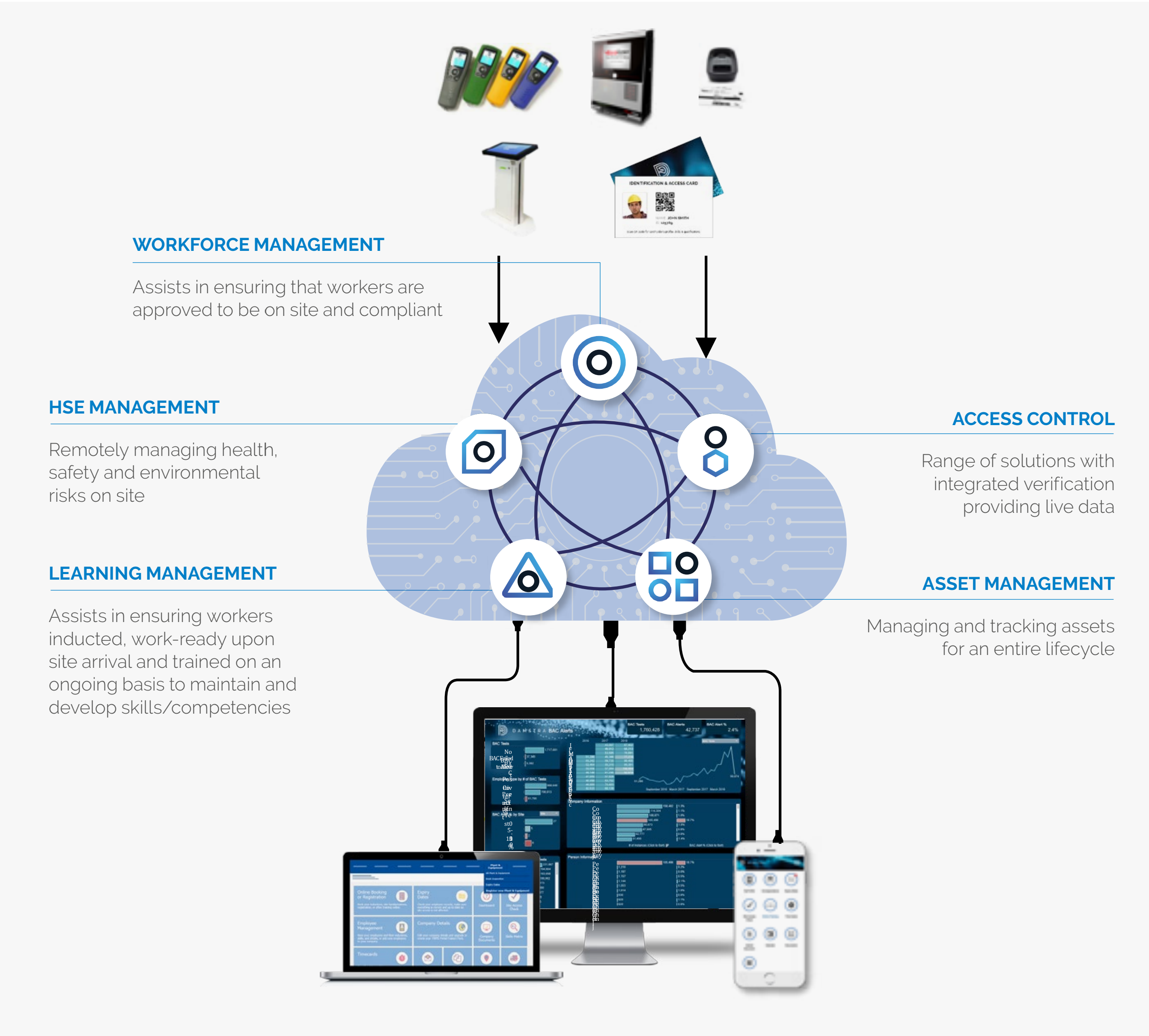
COMPANY HISTORY

DAMSTRA WAS FOUNDED AS A CONTRACTOR MANAGEMENT SOLUTION FOR A SINGLE SITE IN 2002…AND HAS SINCE GROWN TO PROVIDE SOLUTIONS TO 279 CLIENTS ACROSS AUSTRALIA AND THE GLOBE

BUSINESS MODEL

PLATFORM OVERVIEW

A single modular platform with integrated software and hardware.



Software modules

Damstra's platform provides a deeply integrated workplace management solution for organisations. Its core products include workforce management, access control, asset management, learning management and Health, Safety and Environment (HSE) management. These products are integrated within a single platform, allowing users of multiple products to have access to real time data on their workforce across all its product offerings. Each product is designed in a modular approach and its software is mobile enabled for use on remote sites or by mobile workforces. Clients are able to select individual modules and do not necessarily have all modules within a product active at any point in time.

Hardware solutions

Damstra's software integrates with hardware devices to provide real time data collection and access control services. Its onsite hardware devices are able to continue to operate offline and in harsh environments. As an example, alcohol breath testing hardware devices are available as wall-mountable units which can be customised to control the frequency and level of testing or as portable devices. Damstra's access control hardware incorporates biometric technology for verification purposes and proximity card solutions. Damstra sources its hardware through various arrangements with Third Party suppliers. Damstra's hardware solutions include:

- Login terminals (card and biometrics readers);
- Alcohol and drug testing (breathalysers);
- Tablet solutions and printers (time and attendance tracking); and
- Thermal readers (fever detection).

Our integrated platform replaces a range of standalone solutions, and provides single source of truth information into upstream ERP systems

BUSINESS MODEL

Continued

REVENUE GENERATION

Damstra generates revenue from a user licence model, often coupled with recurring hardware payments, which are driven by the number of licence subscriptions and renewals and the penetration of new products and modules within clients. Damstra enables clients to expand their usage on an as-needed basis, which assists Damstra to grow revenues over time as clients become more familiar with their product and potentially add more users, products, and modules. 91% of annual revenue was recurring in nature for the financial year ended 30 June 2020. Key drivers of revenue are:

- Recurring licence subscriptions: Prepaid annually for continued use of the software platform;
- Recurring hardware payments: Monthly payments for provision and maintenance of hardware in use on site;
- Hardware installation and maintenance fees: Charged on an as-needed basis;
- Online training fees: for custom training packages; and
- Other: Ad hoc fees for card issuance and replacement.

Clients that have employees using the Damstra solution pay the annual subscription fees. Where clients have contractors who are not directly employed by the client, the contractor typically pays the annual subscription fees before they commence work with Damstra's clients.

Key drivers of revenue for Damstra

Category	Recurring revenue streams	Other revenue streams
Software subscriptions per product	• Prepaid annual subscription fee per licence per product	• Identification card issuance • Card replacement
Hardware provision	• Monthly fee per item • Fees determined by type of equipment supplied, volumes and locations	• Site configuration and implementation of hardware devices
Other revenue	• Provision of online and in-person training packages per licence	• On-site training programs • Development of training programs • Creation of training content for online courses • Customisation and software development

Michael Saunders
Lead Engineer

I've grown with the Damstra business over 14 years. I've enjoyed seeing the business transform into the global presence it is today.

Cross-sell revenue in action (revenue growth from a major construction client)

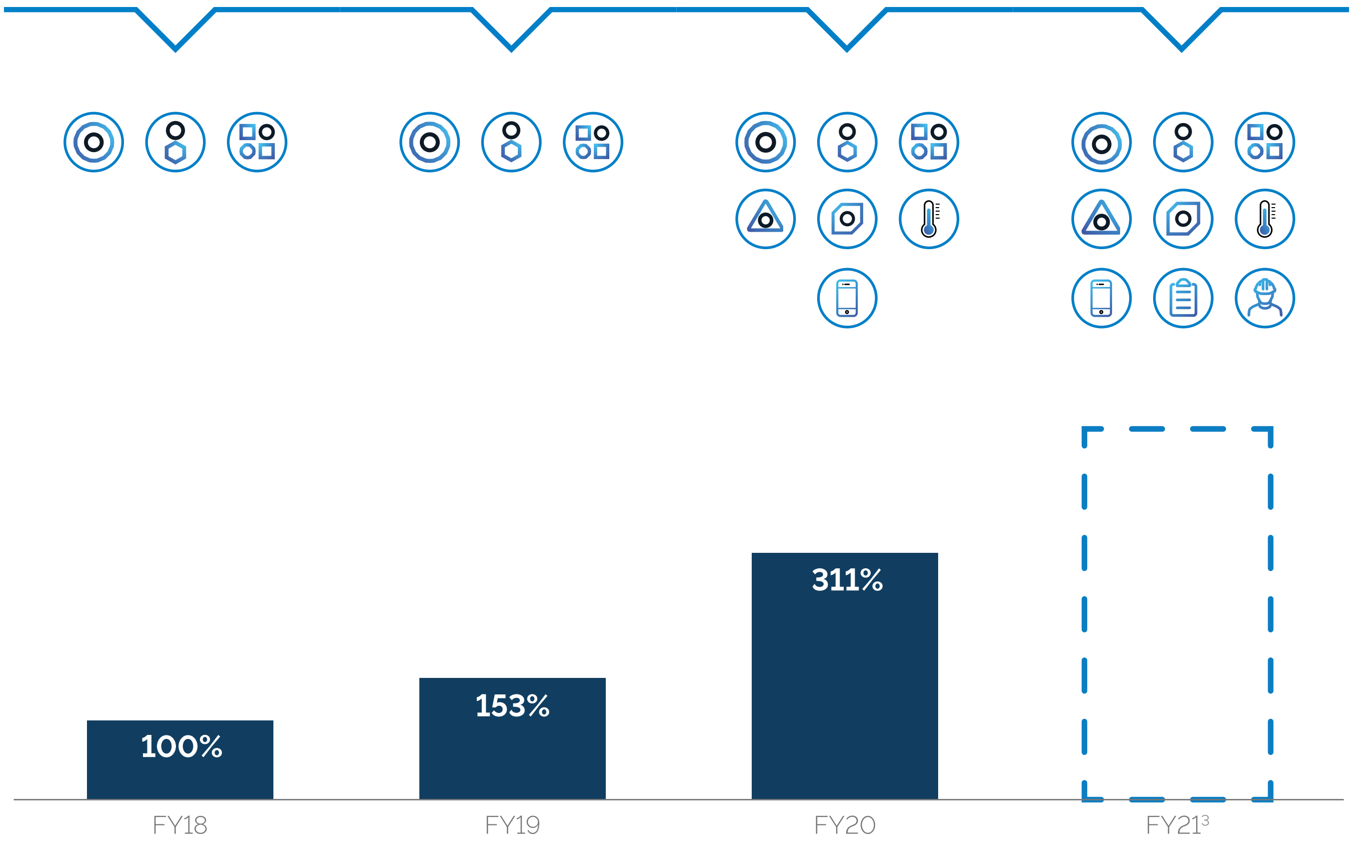
Revenue growth (indexed from FY18) – Pro-forma[1] FY18-FY20

Base year
Base products:
WFM integrated with
access control;
plant mobilisation

Site growth
Base products
deployed across increased
number of sites

Product expansion
New developed and
acquired products taken up:
Velpic LMS, HSE toolbox
talks, fever detection
and mobile login

Potential additions[2]
HSE digital forms,
WFM lone worker



1. Based on product invoice data.
2. Digital forms is in pilot; lone worker is subject to the completion of the Vault transaction and successful pilot.
3. FY21 is not a revenue forecast – provided for illustrative purposes only.

GROWTH STRATEGY

DAMSTRA'S GROWTH STRATEGY IS BASED ON THE FOLLOWING KEY PILLARS

1	2	3	4	5	6
More usage by existing customers	**New customers in global markets**	**Greenfield opportunities**	**Innovation**	**Monetise Data**	**M&A**
New modules, more sites, more users,more geographies • Natural growth as customers add users (e.g. due to starting new projects), expand into new modules, increase the number of sites on which our technology is deployed and grow revenue per user	**New customers, new projects, new global markets** • Near-term vision is focused on accelerated international expansion strategy with a pipeline of global opportunities	**New customer wins** • Targeting increased penetration through winning new clients from competitors, or as a result of new clients who have not previously or do not currently use an automated or software-based workforce management solution	**Advance products** • Suite of product development activities in response to high-demand offerings such as voice control, paperless human capital management, mobile facial recognition and further insights through data	**Further insights** • Potential to monetise the significant (and growing) collection of workforce data; provide real-time/ predictive insights about a workplace to improve efficiency and reduce risks on site	**Acquisitions** • Focus on building a single platform • Acquire companies to accelerate entry into new markets, build adjacencies and consolidate markets. Clients acquired have been converted with high rates of success

1. More usage by existing clients

Scalability of Damstra's platform enables clients to increase their use of Damstra's solution as their businesses grow and they take advantage of additional functions. Once on Damstra's platform, the opportunity to grow with global organisations can be significant as their operations may span across many functions and countries. Damstra plans to grow the use of its software as its existing clients grow, which is expected to add more users, expand usage into new modules, increase number of sites deployed and grow revenue over time. Damstra also plans to retain clients who currently use other providers with solutions offered on its platform. A recent example of existing client expansion into new products is a major construction company adding the use of acquired digital HSE forms product, Samm ("Site assistant manager on the mobile"), on their football stadium project.

2. New clients in global markets

Damstra's near-term vision is focused on accelerated international expansion and they are and intend to continue executing on a pipeline of global opportunities. Damstra's expansion strategy has proved successful in winning new clients in the past, from small-to-medium regional providers through to large multi-region logistics service providers and it intends to continue these strategies going forward to win new clients. The North American market is a current key priority for Damstra, having opened an office in Denver in December 2017, which is regarded as the mining and manufacturing centre in North America. Following recent success with Newmont Goldcorp where Damstra has implemented its solutions to various sites, Damstra has recently won a prominent school network contract, established a significant partnership agreement and broadened North American sales team capability with senior hires.

3. Greenfield opportunities

Damstra is targeting increased penetration through winning new clients from competitors, or as a result of new clients who have not previously or do not currently use a SaaS-based workplace management solution. An example of this is the new application of the Damstra solution in a North American schools network, to track, monitor and protect students. Damstra anticipates continued expansion of its solution into new industries which previously may not have considered or been aware of the application to its business or organisation. Damstra anticipates this will particularly be driven in the near term by the current COVID-19 pandemic, where there is heightened awareness of the need to trace worker contacts and check temperatures before they enter the site or workplace. Damstra also plans to accelerate market penetration by increasing investment into sales and marketing capabilities and initiatives to drive lead generation and new client wins.

4. Innovation

Damstra's strategy is to expand and advance its product offerings including voice control, mobile facial recognition and further insights through data. In the financial year ended 30 June 2020 Damstra invested 23% of its revenues in product development and innovation. Damstra intends to regularly upgrade and expand its platform to broaden its product offering and expand its addressable market. In FY20, significant enhancements included rapid development of fever detection and contact tracing in response to the COVID-19 pandemic, as well as development of mobile login and logout, worker skills matrices and training needs analysis and digital toolbox talk solutions.

5. Monetise data

Damstra's database of workplace and workforce data has the potential to be monetised to provide real time and predictive insights about an organisation's workplace to improve efficiency and reduce risks on site. There is also opportunity to utilise the significant amount of data collected across various industries and workforce sizes to provide insights for individual business that would otherwise have no or limited ability to utilise this for making key business decisions.

6. M&A

Damstra makes strategic acquisitions to buy into new markets, build adjacencies and consolidate markets. Clients acquired are retained with high rates of success. Another focus of Damstra's acquisitions is for intelligence of new product modules Damstra currently does not offer to allow it to offer its clients a more comprehensive range of solutions and expand on its addressable market. Damstra ensures that new products are integrated onto its platform.

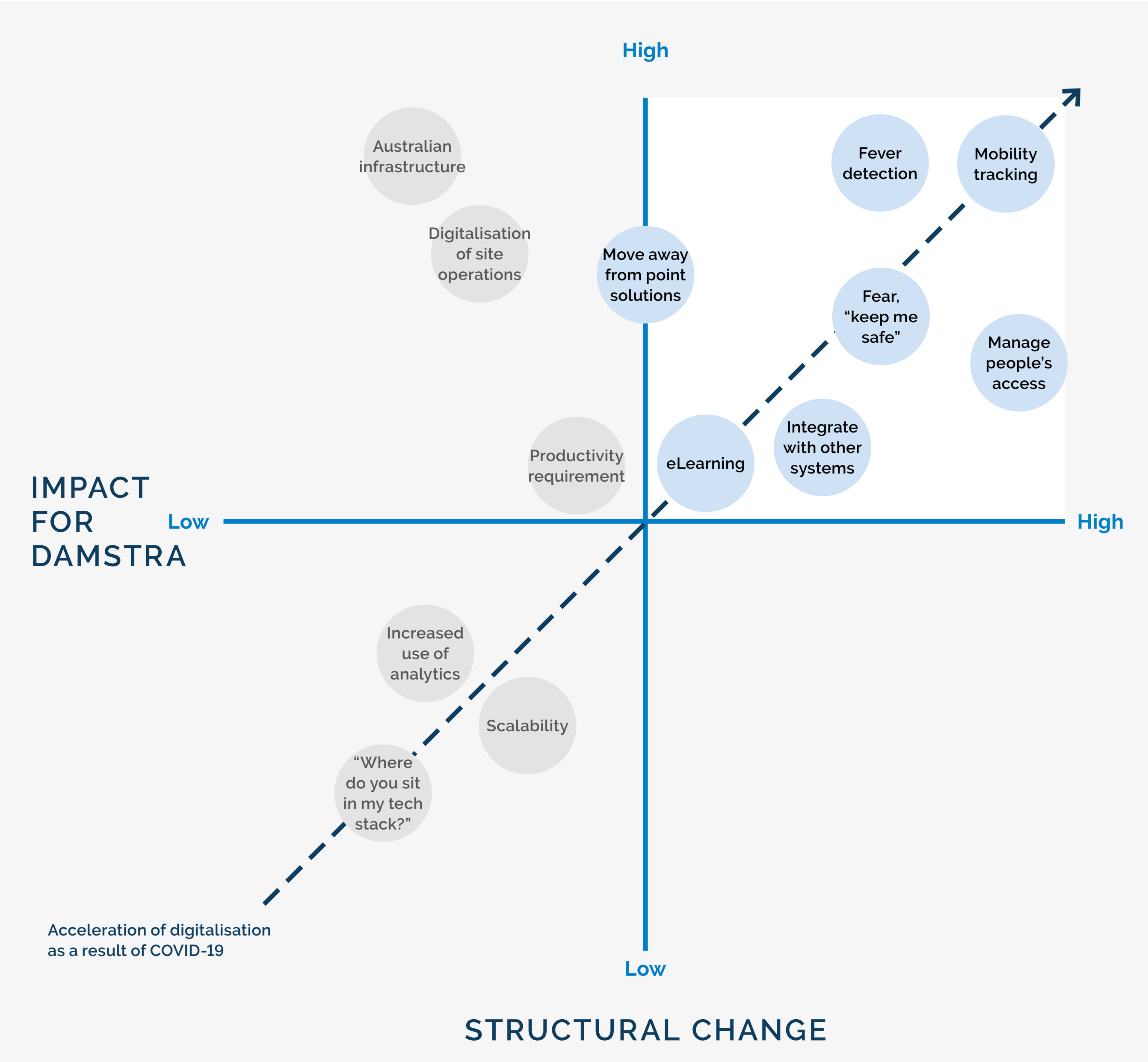
Oscar Tap
Enterprise Business Development Manager

I work with the entire Damstra team on making customer sites safe and compliant with the latest technology available.

GROWTH STRATEGY

Continued

Growth strategy is bolstered by structural tailwinds. COVID-19 has accelerated some underlying industry trends around digitisation, but companies must operate in an environment where every company say they have a "COVID" solution. There are some key long term underlying trends[1]



Damstra's solutions are considered critical by many customers in ensuring the delivery of a safe work environment, as well as to reduce the health and safety risks for employees on a site.

1. Based on Management observations and client survey feedback.

PRODUCT INNOVATION

During FY20, we have continued to invest in our product and infrastructure – with a focus on building innovative, highly scalable products for our clients

30%+	83%	4,420 Feature releases	99.9%	700m API calls
Increase in total[1] R&D expenditure	**Increase in R&D headcount**	**Faster product feature releases**	**Platform up-time**	**Increasing usage of API integrations**
Future growth	**Product innovation**	**Product enhancements and deployments**	**Better platform performance**	**Scale on demand**
Increased investment in innovation to drive and accelerate future growth	Increased investment in people to drive product module roll out	Leveraged new software tools, frameworks and methodologies for faster innovation	Infrastructure upgrades for improved, faster and more consistent experience	Expanding core platform, scaling, functionality, productivity and performance

We have added 14 fully integrated products and modules to our world-leading platform, to assist organisations in tracking, managing and protecting their workplaces

Workforce	Access Control	Assets	Learning	Health and Safety
Company mobilisation	Fixed and mobile access terminals	Plant management	Learning management	Prestart and toolbox talks
Employee mobilisation	Drug and alcohol testing	Equipment management	Course editor	Digital forms and flows
Verification	Visitor management	Equipment calibration	Deep integration with Workforce	Template form and flow building
Time and attendance	Evacuation management	RFID solution	Expanded course library	
RFID solution	Facial recognition	Asset management and maintenance	Skills matrix & training needs analysis	
Mobile login and logout	Temperature detection	Deep integration with digital forms		
Tracing of workers				
Deep integration with digital forms				
✓ 14 products and modules added in FY20	✓ Grown from 14 product modules to 28 since 2018	✓ Proven capability to integrate products/ modules fast	✓ Proven ability to cross-sell products to existing clients	✓ Insight from customers has driven development of additional modules and features

Added in FY20:

Internally developed
Acquired and Integrated

1. Calculated as the sum of R&D expense per the pro-forma income statement and capitalised development costs per the cash flow statement.

STRATEGIC ACQUISITIONS

We have created a specific approach, including a dedicated team, process on target selection, due diligence, negotiation, and then implementation

1 What do we look for in an acquisition target?

We have three core principles to identify a suitable target

1. Product – enhance or accelerate
2. People – if you don't retain the key staff you have no value
3. Commercialised – products must have been commercialised to some degree, we do not chase "moon shot" product successes

Our secondary filters

- Provide entry into new markets, be it geography or new verticals
- Establish new client and cross-selling opportunities increased network effect
- Accelerate convergence of technologies, that can scale internationally
- Acquire organisational capability
- Damstra internal "bandwidth" to execute and integrate

2 Acquisitions completed during FY20

Since IPO, Damstra announced and completed three acquisitions:

- Dec 2019 acquired Scenario Advantage:
  - Small competitor, opportunistic
- Feb 2020 acquired APE Mobile:
  - Product focussed acquisition – paperless forms
- Jun 2020 acquired Smart Asset:
  - Product focussed acquisition – asset management
- Acquisition multiples ranged between 1x to 4.5x last twelve months revenue

We have a demonstrated track record of successful integration of acquisitions and delivering value for shareholders. Our M&A strategy continues to evolve and is much more than a simple roll-up approach.

Kelechi Achara
Head of M&A

I am driven by executing value accretive acquisitions that expand our global presence, and enhance organic growth through the addition of complementary products and talent. At Damstra, delivering a seamlessly integrated product platform that meets our clients' needs is central to everything we do.

We have developed a four-step process for identifying, analysing and implementing M&A opportunities within Damstra

Target Identification

New customer wins

- We are scanning >200 companies globally, this also assists in terms of benchmarking our products
- Can acquire private or listed businesses
- Key questions we ask:
  - What client verticals are they in?
  - What is their operating cash burn and after acquisition can it be marginally costed?
  - What is the vendor's selling motivation?

Due Diligence

Key Risk items

- Intellectual property protection
- Client contracts, pricing logic
- Staff contracts
- Security and privacy review
- Understanding recurring vs one-off revenue
- Tax implications
- Compatibility with Damstra's module strategy
- Ability to extract operational synergies

Technology

Technical perspective

- Technical due diligence, including code review and independent penetration testing
- How will the tech stack be integrated
- Can we stand up the product on Damstra's infrastructure
- Ability to integrate seamlessly into Damstra's ERP system

Delivering value

Generating value

- Cross sell targets identified, and approach agreed
- Target 100% client retention
- Define Branding strategy, so the customer is clear

Marginally costed methodology

- Removing duplicate/ redundant systems
- Can't be run as standalone organisation
- Staff retention and integration critical

Acquisition case study – Velpic defines our approach

Our approach on accelerating overall Damstra growth once target is acquired – Velpic Case Study

- Velpic was acquired in 2018 predominately for its superior learning management system (LMS) product
- Velpic was listed on the ASX

At the time of acquisition, the Velpic business profile was as follows:

- Product launched with some commercial success, albeit sub-scale
- Revenue was ~$750k per annum
- R&D spent developing the product was ~$10m, product was first launched in 2014
- Organisational size pre-acquisition was ~25 full time employees, despite being listed on the ASX
- EBITDA and operating cash flow negative

Achieved Outcomes

- All IP acquired and integrated into Damstra, with single sign on implemented
- Now a core module offering that can be sold on a standalone basis or as an integrated solution
- Staff reduced from 24 to 4, using our infrastructure and support service functions
- Damstra LMS system was retired and associated R&D redeployed
- Velpic brand retained
- Business was operating cash breakeven within 3 months
- Revenue has increased ~200% since the acquisition (at the end of FY20)
- ~20% continual standalone client wins
- ~80% new revenue from cross sell to existing Damstra clients

This simple case study demonstrates the approach Damstra takes in regard to acquisition. In this case, where the acquisition was product driven, our approach was to undertake operational integration for the business, and then to cross-sell the product to our existing client base.

While every acquisition is different this case study demonstrates how Damstra extracts and delivers values from M&A. It is not simply a land grab approach.

THE DAMSTRA SOLUTION

DAMSTRA

ONE INTEGRATED WORKPLACE **MANAGEMENT PLATFORM**

Enabling digital transformation to manage compliance, risk, and health & safety.

Learning Management
Training and inductions, connected to your roles, sites, and projects

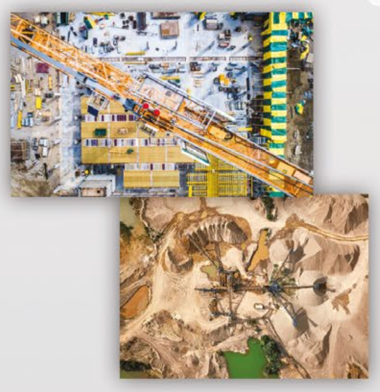
Access Control
Protect your site with intelligent access control

Asset Management
Track, monitor and maintain assets & ensure workforce competencies

Workforce Management
Ensure workers and contractors are compliant, skilled & site-ready

Predictive Analytics
Alerts, report & analytics to increase safety and efficiency

HSE Management
All site compliance requirements for plant, assets, and workforce



- Improve Process efficiency
- Reduce operational costs
- Enhance compliance & safety
- Gain Real-time visibility across the organisation with one source of truth

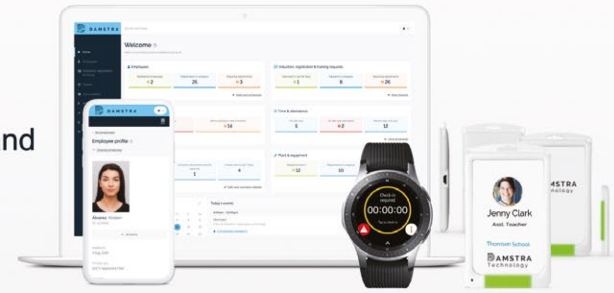
THE DAMSTRA SOLUTION

Continued

Workforce Management
By Damstra Technology

KNOW WHAT'S GOING ON &
ENSURE THE SAFETY OF ALL WORKERS AT ALL TIMES

Manage the entire lifecycle from worker registration and verification to induction and on-site performance



Online supplier & worker registration with independent verification

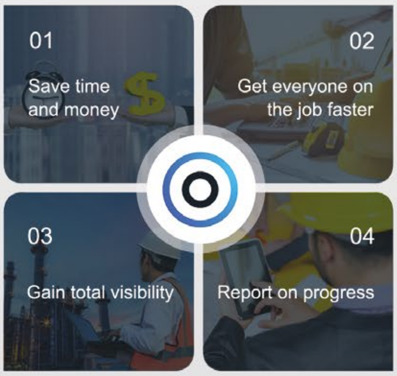
Lone worker management with the latest smartwatch technology

Online induction management

Proximity management with contact tracing

Onsite & mobile time & attendance

RFID tracking



Fully integrated across the Damstra suite

Asset Management

Access Control

HSE Management

Learning Management

Predictive Analytics

Access Control
By Damstra Technology

ENSURE ONLY COMPLIANT WORKERS AND PLANT CAN ACCESS SITES **WITH COMPLETE WORKFORCE ACCESS CONTROL**

Ensure on-site compliance of workers with a range of access control solutions with integrated verification, providing live data.

- Terminals with inbuilt verification
- Integrated temperature detection
- Integrated alcohol and drug testing
- Alerts for non-compliance
- Visitor management & terminals
- Evacuation and muster

Fully integrated across the Damstra suite

Workforce Management
Asset Management
HSE Management
Learning Management
Predictive Analytics

THE DAMSTRA SOLUTION

Continued

Temperature Detection

By Damstra Technology

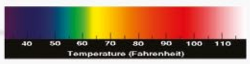
PROTECT YOUR WORKPLACE AND WORKFORCE
WITH FACIAL SCANNING & TEMPERATURE DETECTION

Seamless access control process to assess and triage workers and visitors, to provide a safer environment for all

Sophisticated thermal imaging camera identifies the face

Software builds a heat map

Heat map is translated into a highly accurate temperature reading



How it works

- Worker or visitor walks towards terminal and the thermal camera measures body temperature
- Results are instantly shown, and access is denied if elevated temperature is detected with real-time alerts to supervisors
- Worker or visitor identifies themselves by swipe card, biometric or keypad (if facial recognition is not deployed)
- On screen HSE questionnaire follows with instructions then to proceed to Alcolizer if deployed
- Access is then permitted
- The temperature is recorded against the person's Damstra profile

Integrated with Damstra's Access Control

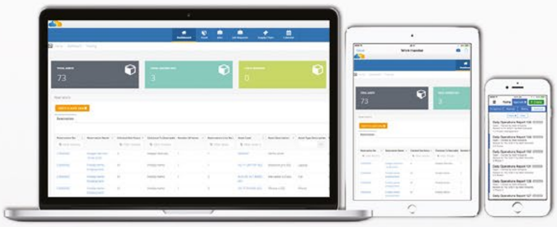
Access Control

Asset Management
By Damstra Technology

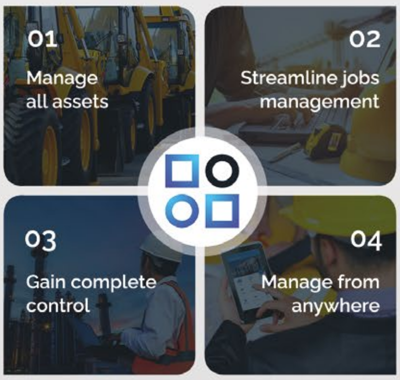
TRACK, MONITOR AND MAINTAIN ALL YOUR ASSETS **ANYTIME, ANYWHERE**

Maximise your assets, improve process efficiency, and reduce operational costs

- Ensure assets are fit for purpose
- View in real-time
- Keep track of maintenance and repair log for each asset
- Ensure all equipment is calibrated
- Monitor workers are licensed to operate plant & equipment



- Asset register, asset tracking, and warranty tracking
- Fault notifications, work order management, and timesheet recording
- Maintenance planning, preventative maintenance scheduling, and predictive maintenance
- Supply chain, cataloguing, and inventory management
- Project management including shutdown planning
- Risk management



Fully integrated across the Damstra suite

Workforce Management | Access Control | HSE Management | Learning Management | Predictive Analytics

THE DAMSTRA SOLUTION

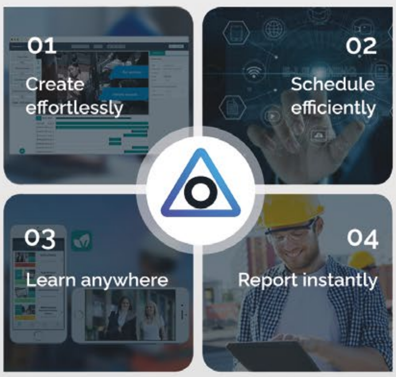
Continued

Learning Management
By Damstra Technology

INSPIRED LEARNING
TRANSFORM TRAINING WHILE SAVING TIME, MONEY, AND RESOURCES

Increase productivity and build a stronger workforce with our innovative platform with virtual reality capabilities

- Create visually dynamic multimedia lessons
- Purchase videos
- Publish quickly and securely to the cloud
- Streamline training administration & reporting
- Reduce cost to train by up to 70%
- Achieve ongoing long-term financial savings and productivity



Fully integrated across the Damstra suite

Workforce Management | Asset Management | Access Control | HSE Management | Predictive Analytics

HSE Management
By Damstra Technology

UNDERSTAND WHAT'S HAPPENING **ON SITE, INSTANTLY**

Capture and manage site-related data in real-time, enabling everyone in the field and in the office to know what is going on, make better decisions, and get more done

- Inspections and audits
- Risk assessment and management
- Incident and hazard management
- SWMS and RAMS
- Health and safety audits
- Pre-starts

Fully integrated across the Damstra suite

- Workforce Management
- Asset Management
- Access Control
- Learning Management
- Predictive Analytics

THE DAMSTRA SOLUTION

Continued

Predictive Analytics
By Damstra Technology

PREDICTIVE ANALYTICS
HELPING YOU FIND THE SAFETY, COMPLIANCE, AND EFFICIENCY INSIGHTS THAT REALLY MATTER

Turn data into meaningful safety, compliance, and efficiency insights, with real-time dashboards and alerts that are available anywhere at any time.

- Pre-configured dashboards & comprehensive suite of reports
- Skills matrix, BAC reporting, overstay reports and more
- Quick and easy access to on premise activity with App
- Automatic alerting to communicate essential information to users
- Stay in touch with all workers on a project and site at all times

Fully integrated across the Damstra suite

Workforce Management | Access Control | Asset Management | HSE Management | Learning Management

BOARD OF DIRECTORS

Johannes Risseeuw
Executive Chairman

Johannes joined Damstra in 2012 and has held the role of Executive Chairman since 2017. Former Vice President, Mergers & Acquisitions, Asia Pacific at Shell, where he drove billion dollar plus transactions across Australia, Singapore, Hong Kong, Malaysia and the Middle East. Previously Chief Investment Officer of Questus Energy, focused on the acquisition and management of oil and gas assets, and Chief Operating Officer at Skilled Group Limited.

Christian Damstra
Chief Executive Officer

Christian joined Damstra in 2002 as General Manager, after Christian's father founded the Company while undertaking contract work in the mining industry. Christian managed Damstra as a technology company as part of the Skilled Group, before leading a management buy-out of the Company in 2016 along with Johannes Risseeuw. Prior to joining Damstra, Christian ran his own business consulting to the mining industry and is a holder of an Open Cut Examiner Certificate of Competency.

Drew Fairchild
Non-executive Director

Drew joined Damstra as a Non-Executive Director in 2016. Drew has more than 20 years' experience as a Chief Financial Officer and entrepreneur, having commenced his career with Shell Australia, becoming Finance Director and a member of the Board. Prior to his appointment as a Non-Executive Director, Drew assisted the Company as an adviser during the buy-out of the Company from the Programmed Group. Prior to joining Damstra, Drew worked as a Chief Financial Officer within both Fulton Hogan and Cleanaway, and founded an oil and gas investment fund which was sponsored by Intermediate Capital Group plc.

Morgan Hurwitz
Non-executive Director

Morgan joined Damstra as a Non-Executive Director in 2016. Morgan is a senior IT executive with over 25 years' experience developing technology strategies and implementing technology across a range of industries in Australia and internationally. Prior to joining Damstra, Morgan was the President of Supply Chain and Chief Information Officer at Linfox, global Chief Information Officer at Orica Limited, and held a number of senior IT roles within Shell in Melbourne and London.

Simon Yencken
Non-executive Director

Simon joined Damstra as a Non-Executive Director in 2019. Simon is the Chief Executive Officer and founder of FanPlayr, which uses behavioural personalisation to increase user engagement with websites. Prior to joining Damstra, Simon was a Director of Aconex Limited for 18 years (including Chairman between 2011 and 2014). Aconex is a provider of cloud collaboration software for the construction industry, which was acquired by Oracle in 2018 for approximately US$1.2 billion. Simon is an active investor in start-up technology companies, including Canva, Matrak Industries, Moda Operandi and Redbubble.

FINANCIAL REPORT

30 June 2020

DIRECTORS' REPORT

For the year ended 30 June 2020

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Damstra Holdings Limited (referred to hereafter as 'Damstra' or 'the Company') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

Directors

The following persons were directors of Damstra Holdings Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Christian Damstra
Drew Fairchild
Johannes Risseeuw
Morgan Hurwitz
Simon Yencken (appointed 1 August 2019)

Company Secretaries

Pieter Christiaan Scholtz and Carlie Hodges were Joint Company Secretaries for the financial year and up to the date of this report.

Principal activities

Damstra is an Australian-based provider of integrated workplace management solutions to multiple industry segments across the globe. The Company develops, sells and implements integrated hardware and software-as-a-service (SaaS) solutions in industries where compliance and safety are of utmost importance. These solutions assist Damstra's clients to better track, manage and protect their staff, contractors and their organisations and to reduce the risks associated with worker health, safety and regulatory compliance.

The Company has been operating since 2002 and has grown from providing an Australian mining contractor management solution to an integrated workplace management solutions provider with a growing client base in international markets.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

Certain financial information in the review of operations section below referencing Earnings Before Interest, Tax, Depreciation and Amortisation[1] ("EBITDA") has been derived from the reviewed financial statements. The pro-forma EBITDA, pro-forma revenue and pro-forma operating expenses are non-IFRS financial information and as such have not been reviewed in accordance with Australian Accounting Standards.

For the full-year ended 30 June 2020 (FY20), Damstra reported revenue and other income of $23.5m, compared to $16.0m for the full-year ended 30 June 2019 (FY19). Damstra's profit after transaction costs of listing and share-based payments, before income tax, depreciation and amortisation and finance costs was $1.6m (FY19: profit of $1.6m).

1. Throughout this Annual Report, the Group has included certain non-IFRS financial information, including earnings before interest, tax, depreciation and amortisation ("EBITDA"), net debt and free cash flow. This information is presented to assist readers in making appropriate comparisons with prior periods and to assess the performance of the Group. EBITDA as it is sometimes called, is a measure frequently quoted in the industry and forms the basis upon which many investors, financiers and analysts are briefed. Non-IFRS information is not audited by PwC.

DIRECTORS' REPORT

Continued

Key operational and financial metrics for the full year ended 30 June 2020

Key financial metrics	FY20	FY19	FY18
Revenue and other income growth vs pcp (%)	46.6%	47.7%	30.5%
Gross margin (%)	68.5%	58.2%	70.7%
Research and development expenses as a % of revenue	(10.8%)	(2.8%)	(3.7%)
Sales and marketing expenses as a % of revenue	(15.8%)	(25.2%)	(25.8%)
General and administration expenses as a % of revenue	(23.0%)	(25.3%)	(19.8%)
Pro-forma EBITDA margin (%)	32.9%	8.2%	23.1%

Revenue

The growth in revenue during the year was driven by;

- Continued new client wins in Australia across a broad range of industries as well as internationally in Hong Kong and the Philippines;
- Significant growth of new projects which we will continue to implement over the course of FY21 in our core vertical market segments of infrastructure and construction;
- No residential construction and minimal office building construction exposure, both of which have been impacted by COVID-19;
- Implementation of numerous client contracts across various projects and operating sites across Australia;
- International market revenue comprised 17% of total revenue in FY20. International revenue performance demonstrates the ongoing implementation of Damstra's international strategic plan;
- Increased investment in research and development (R&D) and the development of new and existing modules which eventuated with 14 additional products/modules brought to market during FY20;
- Major staff appointments in North America and scale up in our North American business, including signing of our first North American channel partners. This is expected to show increased revenue in FY21;
- Three businesses acquired during FY20 with integration ahead of plan in all cases and an expanded product offering positioned to accelerate cross-sell opportunities during FY21; and
- Enhanced brand awareness and reputation of Damstra and its product offering.

Pro-forma financial performance

Damstra's pro-forma EBITDA before IPO costs, share-based payments, income tax, finance expenses and depreciation and amortisation was $6.8m (FY19: $1.8m) as shown in the table below:

	2020 $m	2019 $m
Revenue and other income	23.5	16.0
Employee benefits expense	(8.1)	(6.3)
Other expenses excluding share-based payments and IPO costs	(8.6)	(7.9)
Pro-forma EBITDA	**6.8**	**1.8**

Pro-forma financial information reflects Damstra's statutory financial statements adjusted for the impacts of IPO costs, share-based payments and expenses associated with the acquisitions. Other income includes income as per Note 7 of the financial statements.

Pro-forma gross margin

For FY20, Damstra reported pro-forma gross margin, excluding other income, of $13.1m (FY19: $8.7m).

Gross margin is calculated based on the total revenue from business operations less directly attributable costs associated with revenue earned. Based on the statutory presentation of the Group's consolidated comprehensive income, gross margin constitutes non-IFRS information.

Pro-forma EBITDA

For FY20, Damstra pro-forma EBITDA before IPO costs, share-based payments, income tax, finance expenses and depreciation and amortisation was $6.8m (FY19: $1.8m).

The key driver for operating expenses was Damstra's continued investment in future growth. There was increased investment in:

- Damstra's sales and marketing function, which reported pro-forma expenses of $3.2m. This represents 17% of revenue;
- Research and development of a total of $4.5m (including capitalised costs), primarily due to the development of new modules and the enhancement of existing modules. This represents 23% of revenue, which is a 280% increase on Prospectus forecast; and
- General and administrative expenses was $4.7m.

A reconciliation between loss before tax and pro-forma EBITDA is provided below.

	FY20 ($m)
Pro-forma EBITDA	**6.8**
Share-based payments	(2.1)
Acquisition costs	(0.6)
IPO costs	(2.5)
Statutory EBITDA	**1.6**

Financial position

As at 30 June 2020, Damstra has no debt (excluding leases) and a cash balance of $9.4m. The consolidated entity's strong cash position is due to Damstra's SaaS-based revenue model, whereby clients typically enter multiple year contracts and pay annual license fees in advance.

The consolidated entity's working capital (being current assets less current liabilities) was positive by $2.6m as at 30 June 2020 (FY19: negative $16.0m).

Consequently, the Directors believe the consolidated entity is in a strong and stable position to expand and grow its current operations.

Business growth strategy and likely developments

Expand and deepen the product offering

We will continue with new product releases across our platform. We see continued product innovation as a key differentiator for Damstra and will evolve the product platform across our core five pillars: workforce, access control, assets, learning and health and safety. We will continue to increase R&D resources to accelerate our product pipeline and supplement this with product-led acquisitions. Damstra will increase the breadth of modules in each of the core five pillars based on client demand and where industry trends show us opportunities that can be commercialised if brought to market.

DIRECTORS' REPORT

Continued

Increasing international growth

Damstra plans to accelerate growth in the North American and the America's markets via an increased head count, marketing support and expanding our engagement with more channel partners.

Greater usage from existing customers

Damstra aims to incorporate organic growth through increasing the use of its solutions among the existing customer base and by encouraging customers to licence additional modules. This involves clients adding new active users and Damstra increasing the number of modules and products that existing users have access to – therefore driving the revenue generated per active user. Where the acquisition is product-driven, our approach incorporates operational integration and cross-selling the product to our existing client base. After this, the product becomes core to the platform and is set for continued growth.

Channel partners

Damstra's channel partnership strategy continues to develop, with the T1 partnership already realising commercial results. In line with our North America growth focus we have recently signed channel partnerships with Zivaro, Inc Brilliant IT (Zivaro) and Government Acquisition, Inc (GAI). We see the North America Channel partner strategy as a key growth pillar.

Mergers & Acquisition (M&A)

M&A is a core strategy for Damstra, and we will continually look for opportunities globally. We have a demonstrated track record of successful integration and enhancement of value for acquisitions. While M&A strategy continues to evolve, we have three core principles in target identification:

- Product – enhance or accelerate;
- People – if you don't retain the key staff you have no value; and
- The product has already been commercialised to some degree – we are not chasing the next "moon shot" product success.

Significant changes in the state of affairs

On 16 October 2019 Damstra listed on the Australian Securities Exchange ("ASX") and issued 38.9m shares and raised $35m before costs.

On 16 October 2019 Damstra issued 8.7m shares to extinguish a convertible note liability with a value of $6.1m.

On 16 October 2019 Damstra issued 3,818,722 options over ordinary shares.

Damstra completed the acquisition of Scenario Advantage Workforce business (Scenario) from the Projection Group on 20 December 2019. Predominantly based on the East coast of Australia, Scenario is a provider of integrated workplace management solutions to the mining and utilities industries. Total purchase consideration was $4m.

On 25 February 2020 Damstra acquired all the issued shares in APE Mobile Pty Ltd ("APE Mobile"), a leading provider of digital form and workflow management solutions to the civil construction and mining industries, for a purchase consideration of $5.5m.

On 1 June 2020 Damstra acquired SmartAsset Software to accelerate the Group's asset and plant management product offering. SmartAsset Software Pty Ltd ("SmartAsset") is a provider of end-to-end enterprise asset management software. Total purchase consideration was $0.45m.

There were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

On 8 July 2020 Damstra announced that it has entered into an implementation agreement to acquire Vault Intelligence Limited ("Vault", ASX: VLT) by way of a recommended Scheme. The acquisition will create a larger, more diversified, workplace management company with an expanded and highly complementary product range.

A scheme booklet containing information relating to the Scheme, reasons for the Vault directors' unanimous recommendation, an Independent Expert Report and details of the Scheme meeting is expected to be sent to Vault shareholders in September 2020.

Vault shareholders will have the opportunity to vote on the Scheme at a court convened shareholder meeting, expected to be held on 2 October 2020. Subject to shareholder approval being obtained by the requisite majorities and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented on 19 October 2020.

The impact to the Group from COVID-19 disruption has been limited. Our recurring revenue base has stayed steady, and we have developed several new products to assist our clients to return to work safely.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect, the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on Directors

Key information on the Directors of the Company is as follows;

Name:	Johannes Risseeuw
Title:	Executive Chairman
Qualifications:	Johannes holds a Bachelor of Economics from the University of Sydney and Graduate Diploma of Applied Finance from Kaplan Professional.
Experience and expertise:	Johannes joined Damstra in 2012 and has held the role of Executive Chairman since 2017. Former Vice President, Mergers & Acquisitions, Asia Pacific at Shell, where he drove billion dollar plus transactions across Australia, Singapore, Hong Kong, Malaysia and the Middle East. Previously Chief Investment Officer of Questus Energy, focused on the acquisition and management of oil and gas assets, and Chief Operating Officer at Skilled Group Limited.
Other current directorships:	None
Former directorships (last 3 years):	Questus Energy Pty Ltd
Special responsibilities:	None
Interests in shares:	19,125,556 shares

DIRECTORS' REPORT

Continued

Name:	Christian Damstra
Title:	Chief Executive Officer
Qualifications:	Christian holds a Diploma in Electrical Engineering from TAFE New South Wales.
Experience and expertise:	Christian joined Damstra in 2002 as General Manager, after Christian's father founded the Company while undertaking contract work in the mining industry. Christian managed Damstra as a technology company as part of the Skilled Group, before leading a management buy-out of the Company in 2016 along with Johannes Risseeuw. Prior to joining Damstra, Christian ran his own business consulting to the mining industry and is a holder of an Open Cut Examiner Certificate of Competency.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	19,031,500 shares

Name:	Drew Fairchild
Title:	Non-executive Director
Qualifications:	Drew holds a Bachelor of Business from Monash University, a Master of Applied Finance from Melbourne University, and is a graduate of the Group Business Leadership Program (Insead).
Experience and expertise:	Drew joined Damstra as a Non-Executive Director in 2016. Drew has more than 20 years' experience as a Chief Financial Officer and entrepreneur, having commenced his career with Shell Australia, becoming Finance Director and a member of the Board. Prior to his appointment as a Non-Executive Director, Drew assisted the Company as an adviser during the buy-out of the Company from the Programmed Group. Prior to joining Damstra, Drew worked as a Chief Financial Officer within both Fulton Hogan and Cleanaway, and founded an oil and gas investment fund which was sponsored by Intermediate Capital Group plc.
Other current directorships:	Top Shelf International Pty Ltd
Former directorships (last 3 years):	Questus Energy Pty Ltd
Special responsibilities:	Audit and Risk Committee (Chair); Remuneration and Nomination Committee (Member)
Interests in shares:	3,662,222 shares

Name:	Morgan Hurwitz
Title:	Non-Executive Director
Qualifications:	Morgan holds a Bachelor of Arts from Monash University, and is a graduate of the Australian Institute of Company Directors.
Experience and expertise:	Morgan joined Damstra as a Non-Executive Director in 2016. Morgan is a senior IT executive with over 25 years' experience developing technology strategies and implementing technology across a range of industries in Australia and internationally. Prior to joining Damstra, Morgan was the President of Supply Chain and Chief Information Officer at Linfox, global Chief Information Officer at Orica Limited, and held a number of senior IT roles within Shell in Melbourne and London.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Audit and Risk Committee (Member); Remuneration and Nomination Committee (Chair)
Interests in shares:	3,466,667 shares

Name:	Simon Yencken
Title:	Non-executive Director
Qualifications:	Simon holds a Bachelor of Laws from Monash University and Bachelor of Science (Mathematics) from Monash University.
Experience and expertise:	Simon joined Damstra as a Non-Executive Director in 2019. Simon is the Chief Executive Officer and founder of FanPlayr, which uses behavioural personalisation to increase user engagement with websites. Prior to joining Damstra, Simon was a Director of Aconex Limited for 18 years (including Chairman between 2011 and 2014). Aconex is a provider of cloud collaboration software for the construction industry, which was acquired by Oracle in 2018 for approximately US$1.2 billion. Simon is an active investor in start-up technology companies, including Canva, Matrak Industries, Moda Operandi and Redbubble.
Other current directorships:	Fanplayr Pty Ltd Matrak Industries Pty Ltd
Former directorships (last 3 years):	None
Special responsibilities:	Audit and Risk Committee (Member); Remuneration and Nomination Committee (Member)
Interests in shares:	1,111,111 shares

DIRECTORS' REPORT

Continued

Company Secretaries

Name:	Pieter Christiaan Scholtz
Title:	Chief Financial Officer and Company Secretary
Experience and expertise:	Chris assumed finance responsibility for Damstra in 2014 at the Skilled Group, and became Chief Finance Officer in 2016. Prior to joining Damstra, Chris was a Chief Financial Officer and General Manager of Finance within the Skilled Group and was Chief Financial Officer at Thomas & Coffey Limited. Chris commenced his career within the audit division of KPMG in South Africa. Chris holds a Bachelor of Commerce (Honours) from the University of Johannesburg and is a practising member of the Institute of Chartered Accountants in South Africa, Australia and New Zealand.

Name:	Carlie Hodges
Title:	Company Secretary
Experience and expertise:	Carlie has held the role as Company Secretary of Damstra since June 2019. Carlie is a Manager of Corporate Governance at cdPlus Corporate Services, which provides outsourced corporate governance and company secretarial services to both private and public companies in Australia. In addition, she is an Associate at Coghlan Duffy & Co. Carlie is also Company Secretary of Murray River Organics Limited. Carlie holds a Bachelor of Science and Bachelor of Laws from Deakin University, a Master of Arts from King's College London, and is admitted as a solicitor in the state of Victoria.

Meetings of Directors

The number of meetings of the Group's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2020, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Christian Damstra	16	17	–	–	–	–
Drew Fairchild	17	17	1	1	6	6
Johannes Risseeuw	17	17	–	–	–	–
Morgan Hurwitz	17	17	1	1	6	6
Simon Yencken	15	16	1	1	4	6

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

REMUNERATION REPORT (AUDITED)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

This is the first year that the entity has prepared a remuneration report as it is the Group's first year as a listed company. On this basis, the remuneration report does not contain comparative information for the year ended 30 June 2019. In addition, as there was no requirement to prepare a remuneration report in the prior year, no resolution was voted on at the 2019 annual general meeting ("AGM").

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

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 key management personnel.

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 framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. 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 Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets, as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

DIRECTORS' REPORT

Continued

Non-executive directors' remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. FY20 total directors' fees were below the present approved shareholder cap of $600,000. The proposed total directors' fees for FY21 will also be below this approved shareholder cap.

Remuneration can be broken down on an annualised basis as follows:

	Special responsibilities	Director fee $	Chair fee $	Member fee $	Total base $	Superan-nuation $	Total $
Drew Fairchild	Chair of Audit and Risk Committee	60,000	10,000	5,000	75,000	7,125	82,125
Morgan Hurwitz	Chair of Nomination and Remuneration Committee	60,000	10,000	5,000	75,000	7,125	82,125
Simon Yencken		65,700	–	10,950	76,650	–	76,650
		185,700	**20,000**	**20,950**	**226,650**	**14,250**	**240,900**

Executive remuneration

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework have four components:

- base pay;
- non-monetary benefits;
- share-based payments; and
- other remuneration such as superannuation, annual leave and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

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.

The long-term incentives ('LTI') include long service leave and share-based payments. Share options are granted based on continued service with the Company under the employee incentive plan.

Group performance and link to remuneration

The board has approved the establishment of an Employee Incentive Plan ("EIP") with the purpose of incentivising staff against Company and individual targets. Remuneration for certain individuals is directly linked to the performance of the Group (Variable Remuneration). A portion of cash bonus and incentive payments are dependent on defined service conditions being met.

The objective of variable remuneration is to link the achievement of the Group's operational targets with the remuneration received by the employees charged with meeting those targets. The total potential variable remuneration is set at a level to provide sufficient incentive to employees to achieve the operational targets at a cost to the Company that is reasonable in the circumstances. The targets for the year under review, as it relates to key management personnel, were:

- 70% linked to the revenue and other income performance for the Group; and
- 30% linked to individual targets.

There is an EIP schedule for the broader staff population, with 50% of awards linked to the performance of the Group, and 50% linked to individual targets.

There are certain threshold hurdles that had to be achieved before the consideration of variable remuneration:

- At least 90% achievement at both a company and an individual target level; and
- Achievement of certain base targets regarding security and privacy.

Variable remuneration consists of both short-term and long-term incentives. In FY20, the EIP scheme was structured to pay variable remuneration based on a percentage of base salary with outcomes determined by individual and company KPI's as follows:

- Cash of 33%, payable after the annual report is finalised;
- Zero priced options of 33.5%, that vests over the course of the next three years if the employee remains in service; and
- Premium priced options of 33.5%, that vests over the course of the next three years if the employee remains in service. These options can be exercised at 170% of the volume weighted average price in the 20 days before award.

In all cases, the Board has final discretion on the value of the awards.

The EIP scheme will also be implemented for FY21 and will have a similar structure as the FY20 scheme.

In considering the performance of the consolidated entity and benefits for shareholder wealth, the Board and the remuneration committee have regard to the following indices in respect of the current financial year and the previous financial years. These are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMPs. As a consequence, there may not be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

	2020	**2019**	**2018**
Revenue ($'000s)	19,577	15,278	10,577
Other Income ($'000s)	3,889	726	240
Profit/(loss) after tax ($'000s)	(3,779)	(3,718)	(3,989)
Share price at year end ($)	1.31	N/A	N/A
Basic loss per share (cents)	(3.05)	(4.14)	N/A

DIRECTORS' REPORT

Continued

Details of performance is listed below:

Name	Group revenue and other income performance vs target		Individual targets performance vs target		Total
	Target	Actual	Target	Actual	
Johannes Risseeuw	70%	70%	30%	30%	100%
Christian Damstra	70%	70%	30%	30%	100%
Pieter Christiaan Scholtz	70%	70%	30%	30%	100%

The Nomination and Remuneration Committee and the Board has assessed performance as having met for both Company and individual targets for FY20.

The Nomination and Remuneration Committee is of the opinion that the continued improved results can be attributed in part to the adoption of performance-based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

Details of remuneration

The key management personnel of the Group consisted of the following directors:

- Christian Damstra
- Drew Fairchild
- Johannes Risseeuw
- Morgan Hurwitz
- Simon Yencken

And the following person:

- Pieter Christiaan Scholtz

Details of remuneration are set out in the tables below;

			Short-term benefits	Post-employment benefits	Long-term benefits	Share-based payments	
2020	**Cash salary and fees $**	**Cash bonus $**	**Expatriate and other allowances $**	**Super-annuation $**	**Other $**	**Equity-settled $**	**Total $**
Non-Executive Directors:							
Drew Fairchild	53,365	–	–	5,070	–	120,000	178,435
Morgan Hurwitz	53,365	–	–	5,070	–	120,000	178,435
Simon Yencken	54,294	–	–	–	–	120,000	174,294
Executive Directors:							
Johannes Risseeuw	371,565	112,860	–	20,559	19,762	377,854	902,600
Christian Damstra	449,351	112,860	153,756	18,095	27,273	377,854	1,139,189
Other Key Management Personnel:							
Pieter Christiaan Scholtz	276,324	57,915	–	21,674	18,686	151,829	526,428
	1,258,264	**283,635**	**153,756**	**70,468**	**65,721**	**1,267,537**	**3,099,381**

1. Drew Fairchild, Morgan Hurwitz, and Simon Yencken's director fees start from 16 October 2019. Their FY20 base salaries reflect the period from 16 October 2019 to 30 June 2020, inclusive. Simon Yencken's fees are paid in US Dollars (USD36,634).
2. Christian Damstra's base salary and benefits include a base salary of USD 301,073 and living away from home and school fees USD 103,007. His superannuation relates to the 401(k) employer contributions paid in the US.
3. Other long-term benefits relate to annual and long service leave.
4. Cash bonus relates to FY20 incentive accrued and proposed to be paid subsequent to the year end. The amount is subject to individual and Group performance conditions that were dependent on FY20 results and will be dependent on the individual satisfying employment service condition and is subject to shareholder approval.
5. The share-based payment expense for Johannes Risseeuw, Christian Damstra and Pieter Christiaan Scholtz includes an estimated valuation for options proposed to be issued subsequent to the year end. The options were subject to individual and Group performance conditions that were dependent on FY20 results and will be dependent on the participants satisfying employment service conditions and is subject to shareholder approval.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration	At risk STI & LTI
Name	**2020**	**2020**
Non-Executive Directors:		
Drew Fairchild	100%	–%
Morgan Hurwitz	100%	–%
Simon Yencken	100%	–%
Executive Directors:		
Johannes Risseeuw	46%	54%
Christian Damstra	57%	43%
Other Key Management Personnel:		
Pieter Christiaan Scholtz	60%	40%

Amounts received by the Executive Directors and other KMP in respect of cash bonus (STI) and share-based payments (LTI) are disclosed in the details of remuneration table above.

1. Non-Executive Directors received some remuneration in share options, but these were not subject to performance conditions.

DIRECTORS' REPORT

Continued

Service agreements

Name:	Johannes Risseeuw
Title:	Executive Chairman
Agreement commenced:	16 October 2017
Notice period:	6 months
Details:	$380,000 inclusive of superannuation

Name:	Christian Damstra
Title:	Chief Executive Officer
Agreement commenced:	15 March 2016
Notice period:	6 months
Details:	$380,000 inclusive of superannuation

Name:	Drew Fairchild
Title:	Non-executive Director
Agreement commenced:	1 April 2016
Notice period	Open until a written notice of resignation is communicated by the Director
Details	$82,125 in Director Fees

Name:	Morgan Hurwitz
Title	Non-executive Director
Agreement commenced:	7 November 2016
Notice period:	Open until a written notice of resignation is communicated by the Director
Details	$82,125 in Director Fees

Name:	Simon Yencken
Title:	Non-executive Director
Agreement commenced:	1 August 2019
Notice period:	Open until a written notice of resignation is communicated by the Director
Details:	$76,650 in Director Fees

Name:	Pieter Christiaan Scholtz
Title:	Chief Financial Officer and Company Secretary
Agreement commenced:	1 September 2016
Notice period:	6 months
Details:	$292,500 inclusive of superannuation

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2020.

Options

The following tranches of options are on issue to Directors and key management personnel;

Option tranche	Grant date	Vesting date	Expiry date	Exercise price ($)	Fair value at grant date ($)
Options issued to directors and key management personnel and other staff	01/10/2018	16/10/2019	16/10/2034	–	0.73
Issue of share options to CEO and Executive Chairman (Issue 1)	16/10/2019	16/10/2019	16/10/2025	1.53	0.28
Issue of share options to Non-executive Directors and key management personnel and other staff (Issue 2)	16/10/2019	16/10/2019	16/10/2034	–	0.90

In respect of issues 1 and 2 the options immediately vested upon successful IPO on the ASX, subject to an employee or KMP being employed by the Company on the IPO date. Upon vesting, 50% of the options will be subject to a 12-month exercise restriction and the remaining 50% will be subject to a 24-month exercise restriction period.

Details of options over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2020 are set out below:

Name	Number of options granted	Value of options granted $	Value of options vested at 30 June 2020 $	Number of options lapsed $	Value of options lapsed $
Issue of premium priced options to Executive Directors (issue 1):					
Johannes Risseeuw	982,142	275,000	275,000	–	–
Christian Damstra	982,142	275,000	275,000	–	–
Issue of zero priced options to Non-Executive Directors and key management personnel (issue 2):					
Drew Fairchild	133,333	120,000	120,000	–	–
Morgan Hurwitz	133,333	120,000	120,000	–	–
Simon Yencken	133,333	120,000	120,000	–	–
Pieter Christiaan Scholtz	111,111	100,000	100,000	–	–

As at 30 June 2020 all options had fully vested but were unexercisable as explained within this remuneration report.

A total of 683,328 zero-priced options with notional accounting value of $614,995 were granted and vested for 24 other staff as part of compensation during the year ended 30 June 2020.

DIRECTORS' REPORT

Continued

Performance rights

There were no performance rights over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2020.

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Group held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

Ordinary shares	Balance at the start of the year	Received as part of remuneration	Additions through on market trades	Disposals through on market trades	Balance at the end of the year
Johannes Risseeuw	19,440,000	–	785,556	(1,100,000)	19,125,556
Christian Damstra	19,440,000	–	141,500	(550,000)	19,031,500
Drew Fairchild	9,840,000	–	–	(6,177,778)	3,662,222
Morgan Hurwitz	2,800,000	–	666,667	–	3,466,667
Simon Yencken	–	–	1,111,111	–	1,111,111
Pieter Christiaan Scholtz	1,460,000	–	–	(150,000)	1,310,000
	52,980,000	**–**	**2,704,834**	**(7,977,778)**	**47,707,056**

Balance at the start of the year is represented on a post consolidation basis. On 9 September 2019, the Company completed a share consolidation of 1:20,000 prior to the completion of the initial public offering process.

Option holding

The number of options over ordinary shares in the Group held during the financial year by each director and other members of key management personnel is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Johannes Risseeuw	200,000	982,142	–	–	1,182,142
Christian Damstra	200,000	982,142	–	–	1,182,142
Drew Fairchild	–	133,333	–	–	133,333
Morgan Hurwitz	–	133,333	–	–	133,333
Simon Yencken	–	133,333	–	–	133,333
Pieter Christiaan Scholtz	100,000	111,111	–	–	211,111
	500,000	**2,475,394**	**–**	**–**	**2,975,394**

Loans to key management personnel and their related parties

There is an outstanding loan to Johannes Risseeuw as at 30 June 2020. The loan has no agreed term and is repaid at the request of the Board of Directors. Interest is charged on the outstanding balance at 8% per annum. Movements in the loan balance in the current year are shown below;

	$
Opening balance at 1 July 2019	305,802
Interest charged for the year	13,829
Repayments made during the year	(214,130)
Closing balance at 30 June 2020	105,501

Securities trading policy

A securities trading policy ("Trading Policy") has been adopted by the Board to provide guidance to Directors, employees of the Group, and other parties who may have access to price sensitive information and who may be contemplating dealing in the Group's securities or the securities of entities with whom the Group may have dealings. The Trading Policy is designed to ensure that any trading in the Group's securities is in accordance with the law. Any non-compliance with the Trading Policy will be regarded as an act of serious misconduct. The Trading Policy is available on Damstra's website at www.damstratechnology.com/investors.

THIS CONCLUDES THE REMUNERATION REPORT, WHICH HAS BEEN AUDITED.

DIRECTORS' REPORT

Continued

Shares under option

Unissued ordinary shares of Damstra Holdings Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
1 October 2018	16 October 2034	$0.00	660,000
16 October 2019	16 October 2025	$1.53	1,964,284
16 October 2019	16 October 2034	$0.00	1,194,438
			3,818,722

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Group or of any other body corporate.

Shares under performance rights

There were no unissued ordinary shares of Damstra Holdings Limited under performance rights outstanding at the date of this report.

Shares issued on the exercise of options

There were no ordinary shares of Damstra Holdings Limited issued on the exercise of options during the year ended 30 June 2020 and up to the date of this report.

Corporate governance statement

The ASX Corporate Governance Principles and Recommendations (Fourth Edition) and the ASX Listing Rules (ASX LR 4.10.3) permits entities to elect to publish their ASX Corporate Governance Statement and ASX Appendix 4G on its website.

Accordingly, the Group's 2020 ASX Corporate Governance Statement does not appear in this Annual Report and can be located on the Company's website (www.damstratechnology.com).

Indemnity and insurance of officers

During the year, the Group paid a premium to insure the directors and officeholders of Damstra Holdings Limited. The confidentiality clause of the contract of insurance prohibits disclosure of the nature of the liabilities insured against and the amount of the premium. No payment has been made to indemnify PwC during or since the financial year. No premium has been paid by the Company in respect of any insurance for PwC.

Indemnity and insurance of auditor

Damstra Holdings Limited has agreed to indemnify their auditors, PwC Australia, to the extent permitted by law, against any claim by a third party arising from the Company's breach of their agreement. The indemnity stipulates that the Company will meet the full amount of any such liabilities, including a reasonable amount of legal costs.

Proceedings on behalf of the Group

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 27 of the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in note 27 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risks and rewards.

Rounding of amounts

The Group is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors

Drew Fairchild
Director

Johannes Risseeuw
Director

27 August 2020
Melbourne

AUDITOR'S INDEPENDENCE DECLARATION

Auditor's Independence Declaration

As lead auditor for the audit of Damstra Holdings Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Damstra Holdings Limited and the entities it controlled during the period.

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
27 August 2020

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Liability limited by a scheme approved under Professional Standards Legislation.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

		Consolidated	
	Note	2020 $'000	2019 $'000
Revenue	6	**19,577**	**15,278**
Other income	7	3,889	726
Employee benefits expense		(10,186)	(6,546)
Depreciation and amortisation expense	8	(6,164)	(4,129)
Other expenses	8	(11,645)	(7,943)
Finance costs		(554)	(1,008)
Loss before income tax (expense)/benefit		**(5,083)**	**(3,622)**
Income tax (expense)/benefit	9	1,304	(96)
Loss after income tax (expense)/benefit for the year attributable to the owners of Damstra Holdings Limited		**(3,779)**	**(3,718)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(48)	1
Other comprehensive income for the year, net of tax		(48)	1
Total comprehensive income for the year attributable to the owners of Damstra Holdings Limited		**(3,827)**	**(3,717)**

		Cents	Cents
Basic loss per share	35	(3.05)	(4.14)
Diluted loss per share	35	(3.05)	(4.14)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		Consolidated	
	Note	2020 $'000	2019 $'000
Assets			
Current assets			
Cash and cash equivalents	11	9,365	303
Trade and other receivables	12	4,812	3,572
Current tax receivables		1,032	583
Other current assets	13	717	835
Total current assets		**15,926**	**5,293**
Non-current assets			
Costs to fulfil contracts		616	659
Property, plant and equipment	14	2,298	4,849
Right-of-use assets	10	5,277	–
Intangible assets	15	31,757	21,493
Deferred tax assets	16	2,366	57
Total non-current assets		**42,314**	**27,058**
Total assets		**58,240**	**32,351**
Liabilities			
Current liabilities			
Trade and other payables	17	3,653	5,625
Contract liabilities	6	4,581	3,478
Borrowings	18	–	10,269
Lease liabilities		2,687	–
Provisions	19	2,064	1,902
Deferred income	20	328	233
Total current liabilities		**13,313**	**21,507**
Non-current liabilities			
Contract liabilities	6	912	565
Borrowings	21	–	7,241
Lease liabilities		2,540	–
Provisions		74	–
Other payables	22	–	1,335
Deferred income	23	376	390
Total non-current liabilities		**3,902**	**9,531**
Total liabilities		**17,215**	**31,038**
Net assets		**41,025**	**1,313**
Equity			
Issued capital	24	43,269	2,542
Other reserves	25	9,085	6,321
(Accumulated losses)		(11,329)	(7,550)
Total equity		**41,025**	**1,313**

The above statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

Consolidated	Issued capital $'000	Other reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2018	2,542	6,056	(3,832)	4,766
Loss after income tax expense for the year	–	–	(3,718)	(3,718)
Other comprehensive income for the year, net of tax	–	1	–	1
Total comprehensive income for the year	–	1	(3,718)	(3,717)
Transactions with owners in their capacity as owners				
Share-based payments	–	264	–	264
Balance at 30 June 2019	**2,542**	**6,321**	**(7,550)**	**1,313**

Consolidated	Issued capital $'000	Other reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2019	2,542	6,321	(7,550)	1,313
Loss after income tax expense for the year	–	–	(3,779)	(3,779)
Other comprehensive income for the year, net of tax	–	(48)	–	(48)
Total comprehensive income for the year	–	(48)	(3,779)	(3,827)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 24)	38,477	–	–	38,477
Share-based payments (note 36)	–	2,062	–	2,062
Shares issued for part consideration of business combinations (note 31)	2,250	–	–	2,250
Acquisition reserve (note 31)	–	750	–	750
Balance at 30 June 2020	**43,269**	**9,085**	**(11,329)**	**41,025**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	Notes	Consolidated 2020 $'000	Consolidated 2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of Goods and Services Tax ("GST")		20,835	15,298
Payments to suppliers and employees (inclusive of GST)		(16,061)	(13,327)
		4,774	1,971
Income taxes paid		–	(355)
Transaction costs relating to business combinations		(471)	–
Cash received from government grants		420	–
Net cash from operating activities	34	4,723	1,616
Cash flows from investing activities			
Payments for acquisitions, net of cash acquired	31	(9,220)	(8,799)
Payments for property, plant and equipment		(4,997)	(3,760)
Payments for software development costs		(2,480)	(2,558)
(Repayment)/proceeds from related party loans (net)		214	(116)
Net cash used in investing activities		(16,483)	(15,233)
Cash flows from financing activities			
Proceeds from issue of shares	24	35,000	–
Share issue transaction costs		(3,642)	–
(Repayment)/proceeds from borrowings (net)		(4,776)	14,550
Payment of principal element of lease payments		(2,589)	(891)
Transaction costs related to issue of shares expensed		(2,815)	–
Interest and other finance costs paid		(388)	(526)
Interest received		45	90
Net cash from financing activities		20,835	13,223
Net increase/(decrease) in cash and cash equivalents		9,085	(394)
Cash and cash equivalents at the beginning of the financial year		290	684
Cash and cash equivalents at the end of the financial year	11	9,365	290

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2020

Note 1. General information

The financial statements cover Damstra Holdings Limited as a group, consisting of Damstra Holdings Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars ($), which is Damstra Holdings Limited's functional and presentation currency. A list of subsidiaries is included in Note 32.

Damstra Holdings Limited is a listed public company limited by shares and incorporated and domiciled in Australia. For the purposes of preparing the financial statements, the Group is a for-profit entity. Its registered office and principal place of business is:

Level 1
38-40 Garden Street
South Yarra VIC 3141

A description of the nature of the group's operations and its principal activities is included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 August 2020. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

This note provides a list of all significant accounting policies adopted in the preparation of this consolidated financial report. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report is for the Group consisting of Damstra Holdings Limited and its subsidiaries.

(a) Basis of preparation

This general-purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board. For the purpose of preparing the financial report, Damstra Holdings Limited is a for-profit entity.

(i) Compliance with IFRS

The consolidated financial report of Damstra Holdings Limited complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

The financial report has been prepared on a historical cost basis.

(iii) Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

NOTES TO THE FINANCIAL STATEMENTS

Continued

(b) New or amended Accounting Standards and Interpretations adopted

The following accounting standards and interpretations became effective for the Group from 1 July 2019;

AASB 16 *Leases*

The Group leases various offices and equipment. Rental contracts are typically made for fixed periods of three to seven years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The Group's equipment lease facilities contain certain covenants to be complied with and are subject to half-yearly reviews. Under the terms of the facility, the Group is required to comply with the following financial covenants

- The Financial Debt/EBITDA Ratio of the Group must at all times be less than 2.00 times by 30 June 2020 and 1.75 times by 30 June 2021;
- The Debt Service Cover Ratio for the Group must at all times be greater than 1.75 times by 30 June 2020 and 2 times by 31 December 2020; and
- The Quasi Capital Ratio of the Group must at all times be greater than 50%.

The Group has been in breach of its financial covenant during the financial year ended 30 June 2020 and a letter of waiver was obtained whereby the financier stipulated that they would defer their right to demand repayment as a result of the breaches for a period of at least 12 months from the reporting date (the reporting date being 30 June 2020). Management expects that the Group will be able to meet all contractual obligations from borrowings on a timely basis going forward.

Until the financial year ended June 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

At each reporting date the Group records a deferred tax asset or liability on the differential between the right-of-use asset and corresponding liability.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Extension and termination options

Extension and termination options are incorporated in the lease liability if the lease is reasonably certain to be extended (or not terminated). These terms are used to maximise operational flexibility in terms of managing contracts. Most extension and termination options held are exercisable only by the Group and not by the respective lessor.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS

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New standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2020 reporting period and have not been early adopted by the Group. These standards are currently being assessed by the Group, but are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Standard	Mandatory date for annual reporting periods beginning on or after	Reporting period standard adopted by the company
The revised Conceptual Framework for Financial Reporting	1 January 2020	1 July 2020
AASB 2018-6 *Amendments to Australian Accounting Standards* – Definition of a Business	1 January 2020	1 July 2020
AASB 2018-7 *Amendments to Australian Accounting Standards* – Definition of Material	1 January 2020	1 July 2020
AASB 2020-1 *Amendments to Australian Accounting Standards* – Classification of liabilities as Current or Non-Current	1 January 2023	1 July 2023

(c) Principles of consolidation

Subsidiaries

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the consolidated subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial report of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial report is presented in Australian dollars ($), which is Damstra Holdings Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of profit or loss and other comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income on a net basis within other gains/(losses).

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- Income and expenses for each consolidated statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

(e) Revenue recognition

The Group recognises revenue predominantly from the provision of software services (processing and development); the rental of hardware equipment; card reissues and training services.

Software services revenue primarily consists of fees that give customers access to the Group's workforce management system, which also includes related customer support and maintenance. These revenues are recognised over time as they are delivered and consumed concurrently over the service period, beginning on the date that the service is made available to the customer. Software services typically have a term of 12 months and are subject to penalties for early termination by the customer. Subscription services represent a single obligation to provide continuous access to the software, maintenance and support including upgrades on and when available basis.

Revenue from the rental of hardware equipment consists of fees that give customers access to hardware and includes (among other hardware) Alcolizers, Biometric technology, login terminals and handheld devices. These revenues are recognised over time as customers derive the benefit from the hardware, beginning on the date that the service is made available to the customer. Hardware rental contracts typically have a term of 12 months' duration.

Revenue from training and card re-issues is recognised at the point in time following delivery and completion of the agreed service with the Group.

Other income

Other income comprises Australian research and development grants and other income earned from third parties.

NOTES TO THE FINANCIAL STATEMENTS

Continued

Revenue recognition

To determine whether to recognise revenue, the Group follows a five-step process:

(a) Identifying the contract with a customer;

(b) Identifying the performance obligations within the customer contract;

(c) Determining the transaction price;

(d) Allocating the transaction price to the performance obligation; and

(e) Recognising revenue when/as performance obligations are satisfied.

Contract liabilities

Where consideration is received for subscription revenue in advance of the Group satisfying the corresponding performance obligations, a contract liability is recognised in the consolidated statement of financial position and will be subsequently released into the consolidated statement of profit or loss and other comprehensive income when control of the promised service is transferred to the customer.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

(f) Government grants

Grants from governments are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. In relation to research and development ('R&D') government grants, to the extent that these relate to costs which have been expensed as incurred, the government grant income is recognised as 'R&D tax incentive income'. To the extent that these relate to costs which have been capitalised to intangible assets, the government grant income is initially included in current and non-current liabilities as 'deferred income' and is subsequently credited to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the expected lives of the related assets.

(g) Income tax

The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year in the countries where the Group and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial report. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting year and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group considers its leases in the scope of AASB 16 *Leases* as single transactions in which the asset and liabilities are integrally linked, so there is no net temporary difference at inception. Subsequently, as differences arise on settlement of the liability and the amortisation of the leased asset, there will be a net temporary difference on which deferred tax is recognised.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- Fair values of the assets transferred;
- Liabilities incurred to the former owners of the acquired business;
- Equity interests issued by the Group;
- Fair value of any asset or liability resulting from a contingent consideration arrangement; and
- Fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

The excess of the:

- Consideration transferred;
- Amount of any non-controlling interest in the acquired entity; and
- Acquisition-date fair value of any previous equity interest in the acquired entity.

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration will be recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Continued

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting year.

(j) Cash and cash equivalents (excluding bank overdrafts)

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

(k) Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value.

The Group holds trade receivables with the objective to collect the contractual cash flows, and therefore measures them subsequently at an amortised cost using the effective interest method. The company applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

(l) Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ('OCI') or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ('FVOCI').

The Group reclassifies debt investments only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments as amortised cost.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the consolidated statement of profit or loss and other comprehensive income.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

(iv) Impairment

From 1 July 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 2(k) for further details.

(m) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting year in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

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Depreciation is calculated using the straight-line method, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Plant and equipment:	3-5 years
Leasehold improvements:	4-5 years
Motor vehicles:	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(i)).

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(n) Intangible assets

(i) Goodwill

Goodwill is measured as described in Note 2(h). Goodwill on acquisitions is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

(ii) Customer relationships

The customer relationships were acquired as part of multiple business combinations (which occurred in this financial year and historical financial years). They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over their estimated useful lives.

(iii) Software

Software consists of capitalised development costs being an internally generated intangible asset and externally acquired software.

(iv) Development costs

In relation to the Group's internally generated intangible assets, the initial capitalisation of costs is based on management's judgment that technological and economic feasibility is confirmed and when the preliminary research phase has been completed. These costs are analysed on a monthly basis to determine what amount is to be capitalised. Only costs directly relating to the development phase (design, construction and testing) are capitalised, excluding research and general project administrative costs.

The Group's policy is to capitalise expenditure for new product development or product development that significantly enhances existing software and is expected to result in commercial benefits. After initial recognition, development costs are to be carried at their cost less accumulated amortisation and any accumulated impairment losses on the consolidated statement of financial position. The capitalised development costs are to be amortised over the useful life of the developed software. The estimated useful life is 3 years and amortised on a straight-line basis.

At least annually, an assessment is to be performed to ensure that both the amortisation period and amortisation methods are still appropriate. The value of capitalised development costs is to be reviewed for impairment indicators at least annually, in accordance with AASB 136 *Impairment of Assets*, or sooner if circumstances indicate that the carrying amount might not be recoverable.

(v) Amortisation methods and useful lives

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. The useful life of intangible assets is based on the following criteria;

- Historical and forecast customer retention rates;
- The typical product life cycle for the asset; and/or
- Technical, technological, commercial or other types of obsolescence.

Goodwill is not amortised, but it tested for impairment annually of more frequently if events or changes in circumstances indicate that it might be impaired. The estimated useful lives are as follows:

Customer relationships:	5-15 years
Software:	3 years

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

(o) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date. This is measured net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as 'incurred'.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30-60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

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(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the year of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the year of the facility to which it relates.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as 'other income'. Interest received or paid on borrowings is classified as a 'cash inflow/outflow from financing activities.

(r) Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the year of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial year of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the year in which they are incurred.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting year. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as an interest expense.

(t) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as 'payables'.

(ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the year in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting year using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting year of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements resulting from experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the consolidated statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

(u) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

NOTES TO THE FINANCIAL STATEMENTS

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(w) Parent entity financial information

The financial information for the parent entity, Damstra Holdings Limited, disclosed in Note 37 has been prepared on the same basis as the consolidated financial report, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial report of Damstra Holdings Limited.

(x) Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

(y) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Damstra Holdings Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(z) Rounding of amounts

The Group is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 3. Critical accounting estimates, judgements and errors

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimated fair value of assets or liabilities acquired in a business combination including goodwill and intangibles

Detailed information about each of these estimates and judgements is included in Note 31 together with information about the basis of calculation for each critical accounting estimate and assumption used by management in determining the estimated fair value of certain assets or liabilities acquired in the business combinations.

Estimated fair value of share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

For the long-term incentive plans the fair value of the rights at grant date is determined using an options pricing model and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, where the change is unrelated to market conditions, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the employee share plans reserve.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates. In developing the Group's allowance for expected credit losses, the Group also considers existing market conditions as well as forward-looking estimates at the end of each reporting period.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and tax losses carried forward if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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Business combinations

As discussed in Note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group, taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. As a result of COVID-19, other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently.

Note 4. Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US$. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant Group entity. The risk is measured through a forecast of highly probable US$ expenditures.

The Group manages its foreign exchange risk by monitoring overseas operations closely. Foreign exchange risk is currently not significant and therefore hedging instruments are not required.

Exposure

The Group's exposure to foreign currency risk at the end of the reporting year, expressed in Australian dollars, was as follows:

	2020 USD $'000s	2020 NZD $'000s	2019 USD $'000s	2019 NZD $'000s
Cash and cash equivalents	201	82	17	18
Trade receivables	357	59	651	46
Trade payables	21	9	–	7

(ii) Interest rate risk

The Group repaid its borrowings during the year, and therefore is not exposed to any material interest rate risk.

(iii) Group sensitivity

Movements in exposure to fluctuations in foreign exchange are not considered material to the Group.

(b) Credit risk

Management assesses the risks arising from trade and other receivables in order to ensure that the Group's cash flows are not adversely impacted by credit risk.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's risk related to trade receivables is managed by credit control assessing the credit worthiness of customers on an individual customer basis.

The Group provides services to a wide range of customers in Australia. There is no significant concentration of credit risk that management believes presents a significant risk to the Group's operational income. Management is satisfied that these concentrations are within acceptable limits based on its stage of development and of the industry it operates in.

All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable financial institutions.

Carrying value of trade and other receivables reflect their fair value.

(i) Impairment of financial assets

- Receivables – Trade receivables;
- Receivables – Receivables from related parties; and
- Cash and cash equivalents.

There was no material impairment loss recognised on receivables from related parties or cash and cash equivalents.

Cash and cash equivalents

The Group's cash is held with respectable and well-regarded financial institutions.

Trade receivables

The Group applies the AASB 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

(c) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash reserves and access to funding by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

(i) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting year:

	Consolidated	
	2020 $'000	2019 $'000
Variable rate		
– Expiring beyond one year (Bank Bill Business Loan and Leases)	5,168	1,272

The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.

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(ii) Maturities of financial liabilities

The following table analyses the Groups' financial liabilities based on their contractual maturities. The balances due within 12 months are equal to their carrying value as the impact of discounting is not significant.

Contractual maturities of financial liabilities	**Up to 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total contractual cash flows**	**Carrying amount (assets)/ liabilities**
At 30 June 2020	**$'000s**	**$'000s**	**$'000s**	**$'000s**	**$'000s**
Non-derivatives					
Trade payables	1,384	–	–	1,384	1,384
Other payables and accruals	2,153	–	–	2,153	2,153
Lease liabilities	2,913	2,013	620	5,546	5,227
	6,450	2,013	620	9,083	8,764

Contractual maturities of financial liabilities	**Up to 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total contractual cash flows**	**Carrying amount (assets)/ liabilities**
At 30 June 2019	**$'000s**	**$'000s**	**$'000s**	**$'000s**	**$'000s**
Non-derivatives					
Trade payables	1,250	–	–	1,250	1,250
Other payables and accruals	2,052	–	–	2,052	2,052
Contingent consideration	2,361	1,335	–	3,696	3,696
Bank overdraft	13	–	–	13	13
Convertible notes	5,899	–	–	5,899	5,899
Borrowings (excluding finance leases)	2,874	1,349	3,876	8,099	8,099
Finance lease liabilities	1,483	2,016	–	3,499	3,499
	15,932	4,700	3,876	24,508	24,508

(d) Fair value measurements

Fair value hierarchy AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and

c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2020, on a recurring basis:

Fair value measurements – Level 2	2020 $'000s	2019 $'000s
Convertible note	–	5,899
Contingent consideration	–	3,696

(e) Price risk

The Group is not exposed to any significant price risk.

Note 5. Segment information

(a) Identification of reportable operating segments

The Group has determined there is one operating segment, being the operation of workforce management solutions. The determination of the operating segment is based on the information provided to the chief operating decision maker, who is the CEO, to assess performance and determine the allocation of resources.

Consideration has been given to the manner in which services are provided to customers, the organisational structure and the nature of the Group's customer base.

(b) Major customers

During the year ended 30 June 2020, two customers individually contributed more than 10% of the total external revenue generated by the Group (2019: nil).

(c) Disaggregation of revenue and non-current assets by geographical regions

The Group operates in Australia and internationally. Revenue is attributable to the country where the service was transacted.

	Consolidated	
	2020 $'000	2019 $'000
Total revenue and other income from continuing operations		
Australia	16,259	13,324
International operations*	3,319	1,954
Total	19,578	15,278
Total non-current assets		
Australia	40,794	26,577
International operations*	1,156	238
Total	41,950	26,815

* A significant portion of revenue from the Group's international operations was earned in the USA.

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Note 6. Revenue

	Consolidated	
	2020 $'000	2019 $'000
From continuing operations		
Revenue from rendering of services – Over time	13,348	11,784
Revenue from leasing hardware – Over time	4,414	2,008
Revenue from training and card re-issues – At a point in time	1,815	1,486
Total revenue	19,577	15,278

Assets and liabilities related to contracts with customers

Costs to fulfil contracts and contract liabilities relate solely to the rendering of services in relation to subscription income.

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

	Consolidated	
	2020 $'000	2019 $'000
Opening contract liabilities	(4,042)	(2,630)
Acquisition via business combination	(775)	(547)
Revenue recognised in current year	8,704	4,498
Advance payments received	(9,380)	(5,363)
Closing contract liabilities	(5,493)	(4,042)

Revenue analysis

	Consolidated	
	2020	2019
Revenue recognised over time	17,762	13,812
Revenue recognised at a point in time	1,815	1,466
Total revenue	19,577	15,278

Note 7. Other income

	Consolidated	
	2020 $'000	2019 $'000
Reversal of provisional R&D Clawback adjustment in relation to prior year business combinations	857	–
Interest income	142	22
R&D tax incentive income	551	636
Other income	425	68
Gain from bargain purchase (note 31)	451	–
Reversal of contingent consideration in relation to prior year business combinations	1,463	–
Other income	3,889	726

Note 8. Expenses

	Consolidated	
	2020 $'000	2019 $'000
(Loss) before income tax includes the following specific expenses		
Depreciation	2,308	1,228
Amortisation	3,784	2,899
IT and administration expenses	2,679	1,733
Contractor expenses	765	1,055
Listing expense	2,509	31
Other costs directly associated with service delivery	2,585	2,342

Note 9. Income tax expense/(benefit)

(a) Income tax expense

	Consolidated	
	2020 $'000	2019 $'000
Current tax		
Current tax on profits for the year	–	286
Adjustments for current tax of prior periods	183	221
Total current tax expense	183	507
Deferred income tax		
Decrease/(increase) in deferred tax assets (Note 16)	(1,084)	(293)
(Decrease)/increase in deferred tax liabilities (Note 16)	(403)	(118)
Total deferred tax (benefit)	(1,487)	(411)
Income tax expense/(benefit)	(1,304)	96
Income tax expense/(benefit) is attributable to: (Loss) from continuing operations	(1,304)	96

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(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated	
	2020 $'000	2019 $'000
Loss before income tax (expense)/benefit	(5,083)	(3,622)
Tax at the statutory tax rate of 27.5%	(1,398)	(996)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Stamp duty	–	40
Overseas operation losses	–	222
Entertainment	–	20
Non-taxable income	(937)	(21)
Adjustment for current tax of prior periods	183	343
Share-based payments	567	72
Other items – Net	–	252
Amortisation of customer contracts	74	60
Other non-deductible expenses	234	104
	(1,277)	96
Unrecognised temporary differences	(27)	–
Income tax expense/(benefit)	(1,304)	96

Note 10. Lease accounting

This note explains the impact of the adoption of AASB 16 *Leases* on the Group's financial statements.

The Group has adopted AASB 16 retrospectively from 1 July 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4.44%.

For leases previously classified as finance leases, the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of AASB 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	1 July 2019 $'000s
Operating lease commitments disclosed as at 30 June 2019	857
Discounted using the lessee's incremental borrowing rate at the date of initial application	756
Add: finance lease liabilities	3,498
Less: adjustments as a result of a different treatment of extension and termination options	(161)
Lease liability recognised at 1 July 2019	4,093
Of which are:	
Current lease liabilities	1,844
Non-current lease liabilities	2,249

The Group's lease liabilities contain certain covenants to be complied with. These have been detailed in Note 2. Significant accounting policies. The associated right-of-use assets for property leases were measured as if the lease commenced on 1 July 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 June 2020 $'000s	1 July 2019 $'000s
Properties	384	574
Equipment	4,893	3,029
	5,277	3,603

The transition to AASB 16 affected the following items in the balance sheet on 1 July 2019:

- Right-of-use assets – increase by $3,603,000;
- Property, plant and equipment – decrease by $3,029,000;
- Other receivables – increase by $20,596;
- Deferred tax assets – no change in balance;
- Borrowings – decrease by $3,498,404; and
- Lease liabilities – increase by $4,093,000.

There was no impact to retained earnings as a result of the change in this standard.

Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

NOTES TO THE FINANCIAL STATEMENTS

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The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease.

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial year are set out below:

Consolidated	Properties $'000s	Equipment $'000s	Total $'000s
Balance at 1 July 2019	574	3,029	3,603
Additions	69	3,528	3,597
Additions through business combinations	48	–	48
Lease depreciation	(309)	(1,664)	(1,973)
Exchange difference	2	–	2
Balance at 30 June 2020	384	4,893	5,277

The interest expense on lease liabilities for the year ended 30 June 2020 was $0.2 million.

Note 11. Current assets – cash and cash equivalents

	Consolidated	
	2020 $'000	2019 $'000
Cash at bank and in hand	9,365	303
Reconciliation to cash and cash equivalents at the end of the financial year		
The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:		
Balances as above	9,365	303
Bank overdraft (note 18)	–	(13)
Balance as per statement of cash flows	9,365	290

Classification as cash equivalents

Term deposits and demand deposits are presented as 'cash equivalents' if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours' notice with no loss of interest. See Note 2(j) for the Group's other accounting policies on cash and cash equivalents.

Note 12. Current assets – trade and other receivables

	Consolidated 2020 $'000	Consolidated 2019 $'000
Trade receivables	4,759	3,374
Less: Provision for impairment (a)	(131)	(133)
	4,628	3,241
Receivables from related parties	106	304
Other receivables	78	27
	184	331
	4,812	3,572

(a) Provision for impairment of receivables

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Consolidated	Expected credit loss rate 2020 %	Expected credit loss rate 2019 %	Gross carrying amount 2020 $'000s	Gross carrying amount 2019 $'000s	Allowance for expected credit losses 2020 $'000s	Allowance for expected credit losses 2019 $'000s
0-30 days	–	–	2,978	2,224	–	–
31-60 days	0.06%	0.06%	810	530	1	2
61-90 days	0.63%	0.63%	558	136	30	21
91-120 days	0.97%	0.97%	190	210	46	33
120+ days	1.13%	2.27%	223	274	54	77
			4,759	3,374	131	133

(b) Risk exposure

Information about the Group's financial risk management can be found in Note 4.

Note 13. Current assets – other current assets

	Consolidated 2020 $'000	Consolidated 2019 $'000
Prepayments	422	372
Security deposits	85	40
Other current assets	210	423
	717	835

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Note 14. Non-current assets – property, plant and equipment

	Consolidated 2020 $'000	Consolidated 2019 $'000
Leasehold improvements – at cost	179	233
Less: Accumulated depreciation	(147)	(189)
	32	44
Plant and equipment – at cost	8,136	9,410
Less: Accumulated depreciation	(5,885)	(4,634)
	2,251	4,776
Motor vehicles – at cost	121	121
Less: Accumulated depreciation	(106)	(92)
	15	29
	2,298	4,849

Reconciliations

Reconciliations of the written-down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Plant and Equipment $'000	Motor Vehicles $'000	Leasehold Improvements $'000	Total $'000
Balance at 1 July 2018	2,120	34	69	2,223
Additions	3,763	1	(4)	3,760
Additions through business combinations (Note 31)	90	4	–	94
Depreciation expense	(1,197)	(10)	(21)	(1,228)
Balance at 30 June 2019	4,776	29	44	4,849
Additions	882	–	–	882
Transfer to right-of-use assets (AASB 16)	(3,029)	–	–	(3,029)
Exchange differences	–	–	3	3
Depreciation expense	(378)	(14)	(15)	(407)
Balance at 30 June 2020	2,251	15	32	2,298

In the 2019 financial year, plant and equipment contains assets that are leased to customers.

Note 15. Non-current assets – intangible assets

	Consolidated 2020 $'000	Consolidated 2019 $'000
Goodwill – at cost	18,471	14,071
Customer relationships – at cost	3,381	2,846
Less: Amortisation	(898)	(630)
	2,483	2,216
Software – at cost	18,551	9,841
Less: Amortisation	(7,748)	(4,635)
	10,803	5,206
	31,757	21,493

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill $'000	Software $'000	Customer relationships $'000	Total $'000
Balance at 1 July 2018	2,088	1,929	2,202	6,219
Additions	–	1,973	–	1,973
Additions through business combinations	11,983	3,827	231	16,041
Amortisation expense	–	(2,523)	(217)	(2,740)
Balance at 30 June 2019	14,071	5,206	2,216	21,493
Additions	–	2,524	–	2,524
Disposals	–	(270)	–	(270)
Additions through business combinations (note 31)	4,400	6,456	534	11,390
Amortisation expense	–	(3,113)	(267)	(3,380)
Balance at 30 June 2020	18,471	10,803	2,483	31,757

(a) Impairment tests for goodwill

Goodwill is allocated to the Group's one cash generating unit being the provision of workforce management solutions to multiple industries.

The recoverable amount is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

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(b) Key assumptions used for value-in-use calculations

Growth rate in revenue	Post-tax discount rate	Terminal growth rate
Year 1 – 28% revenue growth rate for reoccurring work, 0% for non-reoccurring work	FY20: 10.2%	2.5% (FY19: 2%)
Year 2 to 5 – 10% revenue growth rate for reoccurring work, 0% for non-reoccurring work (**FY19**: average growth rate of 18.75% per year)	FY19: 11.4%	

The Directors believe that the growth rates disclosed above over the five-year forecast period are realistic and achievable based on the organic and significant existing investment in the Group's workplace management software.

As at 30 June 2020, the directors have concluded that there are no reasonable changes in the key assumptions that would cause an impairment.

Note 16. Non-current assets – deferred tax assets

	Consolidated	
	2020 $'000	2019 $'000
The balance comprises temporary differences attributable to:		
Blackhole expenditure	1,143	1,070
Other	151	52
Accruals and provisions	598	247
Tax losses carried forward from current period	1,815	–
Total deferred tax assets	3,707	1,369

	Consolidated	
	2020 $'000	2019 $'000
The balance comprises temporary differences attributable to:		
Costs to fulfil customer contracts	162	181
Property, plant and equipment	372	522
Customer relationships	683	609
Other	124	–
Total deferred tax liabilities	1,341	1,312

	Consolidated	
	2020 $'000	2019 $'000
Opening balance	56	241
Charged/(credited) to comprehensive income	1,487	410
Charged/(credited) to equity	990	–
Charged/(credited) to amounts recognised on acquisition	(167)	(594)
Closing balance	2,366	57

The deferred tax asset balance includes an amount of $1.8 million, which relates to carry forward tax losses of Damstra Holdings Limited. The Group has incurred the losses in the current financial year due to the costs associated with the continued growth of the Group's business. Specifically, these relate to one off cost incurred during the year associated with the business combinations completed by the Group and the costs of the IPO.

The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income, based on the approved business plans and budgets for the Group. The Group is expected to generate taxable income from 2021 onwards. The losses can be carried forward indefinitely and have no expiry date.

Note 17. Current liabilities – trade and other payables

	Consolidated	
	2020 $'000	2019 $'000
Trade payables	1,384	1,250
Accruals and other payables	2,269	2,052
Deferred consideration (a)	–	2,323
	3,653	5,625

(a) Deferred consideration

All deferred consideration amounts in respect of business combinations completed in the prior period were either released or paid during the year ended 30 June 2020.

(b) Risk exposures

Details of the Group's exposure to risks are set out in Note 4.

Note 18. Current liabilities – borrowings

	Consolidated	
	2020 $'000	2019 $'000
Secured		
Bank overdraft	–	13
Bank bill business loan	–	1,349
Finance lease liabilities	–	1,483
	–	2,845
Unsecured		
Deferred consideration	–	1,525
Convertible notes	–	5,899
	–	7,424
Total current borrowings	–	10,269

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(a) Risk exposures

The Group's bank overdraft and bank bill business loan was repaid during the year. Finance lease liabilities have been reclassified on implementation of AASB 16 *Leases*.

(b) Convertible notes

Convertible notes issued in the previous financial year were converted to shares during the current financial year.

Note 19. Current liabilities – provisions

	Consolidated	
	2020 $'000	2019 $'000
Employee benefit obligations (a)	1,804	810
Provision for claim	–	857
Other provisions	260	235
	2,064	1,902

(a) Employee benefit obligations

The current provision for employee benefits includes accrued annual leave and long service leave. Long service leave covers all unconditional entitlements where employees have completed the required period of service and those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as 'current', since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.

	Consolidated	
	2020 $'000	2019 $'000
Current leave obligations expected to be settled after the 12 months	69	132

Employee benefit obligation schedule

	Consolidated
	2020 $'000
Opening balance	810
Additional provision recognised	1,593
Provision used during the year	(489)
Provision reversed/unused during the year	(111)
Adjustments/transfers	–
	1,804

Note 20. Current liabilities – deferred income

	Consolidated	
	2020 $'000	2019 $'000
Deferred income	328	233

Note 21. Non-current liabilities – borrowings

	Consolidated	
	2020 $'000	2019 $'000
Bank bill business loan – secured	–	5,225
Finance lease liabilities – secured	–	2,016
	–	7,241

(a) Risk exposure

The Group's bank bill business loan was repaid during the year. Finance lease liabilities have been reclassified on implementation of AASB 16 *Leases*.

Note 22. Non-current liabilities – other payables

	Consolidated	
	2020 $'000	2019 $'000
Contingent consideration	–	1,335

Contingent consideration

The contingent consideration provision recorded in the 2019 financial year was based on EIFY achieving a predetermined 'Earn-out revenue' target for the 18-month period following the acquisition (ending April 2020). The revenue target was not achieved and the contingent consideration provision was released in its entirety as at 30 June 2020.

Note 23. Non-current liabilities – deferred income

	Consolidated	
	2020 $'000	2019 $'000
Other deferred income	376	390

Note 24. Equity – issued capital

	Consolidated			
	2020 Shares	2019 Shares	2020 $'000	2019 $'000
Ordinary shares – fully paid	139,482,567	4,488	43,269	2,542

NOTES TO THE FINANCIAL STATEMENTS

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Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2018	4,488		2,542
Balance	30 June 2019	4,488		2,542
Cancellation of previously issued shares	6 September 2019	(4,488)	$0.00	–
Conversion of issued shares at a ratio of 1:20,000	6 September 2019	89,760,000	$0.00	–
Conversion of issued shares at a ratio of 1:20,000	6 September 2019	60,000	$0.00	–
Issue of shares on initial public offering ("IPO")	16 October 2019	38,888,889	$0.90	35,000
Issue of employee gift shares	16 October 2019	38,885	$0.00	–
Issue of shares on conversion of convertible notes	16 October 2019	8,680,000	$0.70	6,062
Issues of shares for part consideration of APE Mobile	28 February 2020	2,054,793	$1.10	2,250
Share issuance costs (net of tax)		–	–	(2,585)
Balance	30 June 2020	139,482,567		43,269

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Group in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Group does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains largely unchanged from 30 June 2019.

The capital structure of the Group consists of cash and cash equivalents, borrowings (at 30 June 2019) and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings/accumulated losses.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as general administrative outgoings.

Note 25. Equity – other reserves

(a) Other reserves

	Consolidated	
	2020 $'000	2019 $'000
Foreign currency translation	(54)	(6)
Share-based payments	8,389	6,327
Acquisition reserve (note 31)	750	–
	9,085	6,321

	Consolidated	
	2020 $'000	2019 $'000
Movements:		
Share-based payments		
Opening balance	6,327	6,063
Employee share plan expense	2,062	264
Balance as at 30 June	8,389	6,327
Foreign currency translation		
Opening balance	(6)	(7)
Currency translation differences arising during the year	(48)	1
Balance as at 30 June	(54)	(6)

Nature and purpose of other reserves

The reserve is used to record the value of equity instruments issued to employees and directors as part of their remuneration, and other parties as part of compensation for their services.

Share-based payments

During the prior year, the Group entered into several agreements that included the issue of Group options to employees. Options issued to directors and employees were issued at the fair value of $14,548 per option. The fair value was based on the Group valuation.

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in Note 2(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

NOTES TO THE FINANCIAL STATEMENTS

Continued

(b) Retained earnings

Movements in retained earnings were as follows:

	Consolidated	
	2020 $'000	2019 $'000
Balance at 1 July	(7,550)	(3,832)
Net (loss) for the year	(3,779)	(3,718)
Balance as at 30 June	(11,329)	(7,550)

Note 26. Equity – dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

(a) Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

	Consolidated	
	2020 $'000	2019 $'000
Franking credits available for subsequent financial years based on a tax rate of 27.5%	1,172	588

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

Note 27. Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditor of the consolidated group, its related practices and non-related audit firms:

(a) PwC Australia

	Consolidated	
	2020 $	2019 $
(i) Audit and other assurance services		
Audit or review of the financial statements	199,637	75,500
(ii) Other services		
Advice in relation to employee equity services	–	70,000
Preparation of an investigating accountant's report	665,475	20,000
Employee Share Trust	7,650	–
Other	16,363	–
Total remuneration for other services	689,488	90,000
Total remuneration of PwC Australia	889,125	165,500

Note 28. Contingent liabilities and contingent assets

The Group had no contingent assets or liabilities at 30 June 2020 (2019: nil).

Note 29. Commitments

(a) Capital commitments

The Group had no capital commitments at 30 June 2020 (2019: nil).

Note 30. Related party transactions

(a) Key management personnel compensation

	Consolidated	
	2020 $'000	2019 $'000
Employee benefits	1,831	1,207
Share-based payments	1,268	197
Loan to key management personnel	106	306
Interest charged on loan to key management personnel	14	19

Subsidiaries

Interests in subsidiaries are set out in Note 32.

(b) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2020 $'000	2019 $'000
Rent paid during year	1	101
Rental income	8	18

(c) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the end of the reporting year in relation to transactions with related parties:

	Consolidated	
	2020 $'000	2019 $'000
Current payables (rent payable as at 30 June)	–	8

NOTES TO THE FINANCIAL STATEMENTS

Continued

(d) Loans to/from related parties

	Consolidated	
	2020 $'000	2019 $'000
Loans to key management personnel		
Beginning of the year	306	136
Loans advanced	–	454
Loan repayments received	(214)	(303)
Interest charged	14	19
End of year	106	306

(e) Terms and conditions

The loan to the key management personnel is unsecured and accrues interest at the rate of 8% per annum, computed from the date of each advance.

Note 31. Business combinations

Summary of acquisitions

The Group completed the acquisition of three business combinations during the year; being the Scenario Advantage Workforce Business ("SAW"), Applied Project Experience Pty Ltd ("APE Mobile") and SmartAsset Software Business ("SAS").

Acquisition of the Scenario Advantage Workforce Business ('SAW')

On 20 December 2019, the Company acquired 100% of the assets of the SAW business from the Projection Group. SAW provides workplace management solutions to the mining and utilities industries predominantly on the east coast of Australia. The assets were purchased for a cash consideration of $3,895,000.

Identifiable assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of SAW as at the date of the acquisition have been provisionally determined as follows:

	20 Dec 2019 $'000s
Intangible assets – software	2,384
Intangible assets – customer relationships	429
Deferred tax asset	29
Plant and equipment	8
Contract liabilities	(397)
Provisions	(178)
	2,275
Purchase consideration transferred including working capital adjustment (cash)	3,895
Goodwill arising of acquisition*	1,620

* Goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of SAW with those of the Company. The Goodwill is not deductible for tax purposes.

Acquisition costs

Transaction costs of approximately $176,630 associated with the acquisition have been expensed and are included within other expenses in the income statement.

Contingent Assets and Contingent Liabilities

No contingent assets or liabilities were assumed by the Group as a result of the acquisition of SAW.

Profit contribution

Since the date of acquisition, estimated revenue contributed by SAW was $1,057,084. Given the Group's blended pricing model and integrated workforce model, the Group was unable to determine with accuracy the profit contributed by SAW since the date of acquisition. Similarly, based on the nature of the business combination it was not possible to determine the revenue and profit impact to the Group if the acquisition had occurred on 1 July 2019.

Acquisition of Applied Project Experience Pty Ltd Business ("APE Mobile")

On 27 February 2020, the Company acquired APE Mobile, a leading provider of digital form and workflow management solutions, for a total consideration of $5.5 million.

	27 Feb 2020 $'000s
Intangible assets – software	2,733
Intangible assets – customer relationships	77
Other assets	299
Deferred tax asset	52
Right of use asset	47
Plant and equipment	14
Other liabilities	(174)
Lease liabilities	(48)
Contract liabilities	(216)
Provisions	(99)
	2,685
Cash consideration transferred including working capital adjustment, net of cash acquired	2,465
Shares issued as consideration	2,250
Deferred consideration shares**	750
Purchase consideration transferred including working capital adjustment, net of cash acquired	5,465
Goodwill arising of acquisition*	2,780

* Goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of APE Mobile with those of the Company. The Goodwill is not deductible for tax purposes.

** Deferred consideration shares are expected to be settled in November 2020.

Acquisition costs

Transactions costs of approximately $96,727 associated with the acquisition have been expensed and are included within other expenses in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

Continued

Contingent Assets and Contingent Liabilities

No contingent assets or liabilities were assumed by the Group as a result of the acquisition of APE Mobile.

Profit contribution

Since the date of acquisition, the estimated revenue contributed by APE Mobile was $360,415. Given the Group's blended pricing model and integrated workforce model, the Group was unable to determine with accuracy the profit contributed by APE Mobile since the date of acquisition. Similarly, based on the nature of the business combination it was not possible to determine the revenue and profit impact to the Group if the acquisition had occurred on 1 July 2019.

Acquisition of the SmartAsset Software Business ("SAS")

On 1 June 2020, the Company acquired SmartAsset Software, a provider of end-to-end enterprise asset management software, for a total consideration of $454,545.

	1 Jun 2020 $'000s
Intangible assets – software	1,338
Intangible assets – customer relationships	30
Deferred tax liability	(231)
Contract liabilities	(162)
Provisions	(69)
	906
Cash consideration transferred including working capital adjustment, net of cash acquired	455
Gain from a bargain purchase	451

Acquisition costs

Transactions costs of approximately $10,252 associated with the acquisition have been expensed and are included within other expenses in the income statement.

Contingent Assets and Contingent Liabilities

No contingent assets or liabilities were assumed by the Group as a result of the acquisition of SAS.

Profit contribution

Since the date of acquisition, the estimated revenue contributed by SAS was $45,065. Given the Group's blended pricing model and integrated workforce model, the Group was unable to determine with accuracy the profit contributed by SAS since the date of acquisition. Similarly, based on the nature of the business combination it was not possible to determine the revenue and profit impact to the Group if the acquisition had occurred on 1 July 2019.

Status of business combinations completed in prior periods

In the prior period the Group completed the acquisitions of Velpic Limited (which includes Velpic Australia Pty Ltd) and Eify Pty Ltd on 3 August 2018 and 2 October 2018 respectively. There have been no changes to the provisional accounting previously disclosed in the Group's 30 June 2019 annual report in respect of these acquisitions. In addition, the deferred consideration relating to the acquisitions completed in the prior year, what had a total value of $2.4m, was paid during the current period.

Note 32. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2:

		Equity holding	
Entity	**Country of incorporation**	**2020 %**	**2019 %**
Damstra Technology Pty Ltd	Australia	100.00%	100.00%
Damstra Technology Pty Ltd	New Zealand	100.00%	100.00%
Damstra Technology LLC	United States of America	100.00%	100.00%
Damstra Technology UK Limited	United Kingdom	100.00%	100.00%
EIFY Pty Limited	Australia	100.00%	100.00%
Applied Project Experience Pty Ltd	Australia	100.00%	–
Applied Project Experience Ltd	United Kingdom	100.00%	–
Applied Project Experience Inc	United States of America	100.00%	–

The proportion of ownership interest is equal to the proportion of voting power held.

Note 33. Events after the reporting period

On 8 July 2020, Damstra announced that it has entered into an implementation agreement to acquire Vault Intelligence Limited ("Vault", ASX: VLT) by way of a recommended Scheme. The acquisition will create a larger, more diversified workplace management company with an expanded and highly complementary product range.

A scheme booklet containing information relating to the Scheme, reasons for the Vault directors' unanimous recommendation, an Independent Expert Report and details of the Scheme meeting is expected to be sent to Vault shareholders in September 2020.

Vault shareholders will then have the opportunity to vote on the Scheme at a court convened shareholder meeting, expected to be held 2 October 2020. Subject to shareholder approval being obtained by the requisite majorities and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented on 19th October 2020.

The impact to the Group from COVID-19 disruption has been limited. Our recurring revenue base has stayed steady, and we have developed several new products to assist our clients to return to work safely.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

NOTES TO THE FINANCIAL STATEMENTS

Continued

Note 34. Reconciliation of loss after income tax to net cash from operating activities

(a) Reconciliation of loss after income tax to net cash inflow from operating activities

	Consolidated	
	2020 $'000	2019 $'000
Loss after income tax (expense)/benefit for the year	(3,779)	(3,718)
Adjustments for:		
Depreciation and amortisation	6,164	4,128
Non-cash employee benefits expense – share-based payments	2,062	264
Net exchange differences	(72)	2
Change in operating assets and liabilities:		
Increase in trade and other receivables	(1,225)	(2,012)
Increase in income tax refund due	(449)	–
(Increase) in other assets	318	(479)
Increase/(decrease) in trade and other payables	(758)	3,444
(Decrease) in income tax payables	–	(1,085)
Increase in other provisions	234	315
(Increase) in deferred revenue	(81)	–
Increase in deferred tax assets	2,309	757
Net cash from operating activities	4,723	1,616

Note 35. Loss per share

	Consolidated	
	2020 $'000	2019 $'000
Loss after income tax attributable to the owners of Damstra Holdings Limited	(3,779)	(3,718)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	124,057,501	89,760,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	124,057,501	89,760,000

	Cents	Cents
Basic loss per share	(3.05)	(4.14)
Diluted loss per share	(3.05)	(4.14)

Note 36. Share-based payments

Movement in share-based payments reserve during the year is as follows:

Date	Detail	$'000s
1 July 2019	Opening balance	6,327
16 October 2019	Issue of employee gift shares*	35
16 October 2019	Issue of share options to CEO and Executive Chairman (Issue 1)	550
16 October 2019	Issue of share options to non-executive Directors (issue 2)	360
16 October 2019	Issue of share options to senior management (issue 2)	715
30 June 2020	Proposed issue of share options to the CEO, Executive Chairman and senior management (issue 3)	106
30 June 2020	Proposed issue of share options to the CEO, Executive Chairman and senior management (issue 4)	36
30 June 2020	Cost of share-based payments issued in prior periods	260
		8,389

* As part of the Initial public offering completed on 16 October 2019 the Company issued 38,885 gift shares to employees of the Company. Each eligible employee received 1,111 shares at an issue price of $0.90.

The dollar value for each tranche noted above represents the expenses for the period recognised in the statement of profit or loss and other comprehensive income in employment expenses for the period to 30 June 2020.

Issue of share options (Issue 1 – Issue 2)

As part of the IPO, share options were issued to the Group CEO, Executive Chairman and Senior Management. All tranches of options noted above have been valued by an independent expert. The options have been valued using the binomial option valuation model to enable the restriction periods to be factored into the valuation.

The options were issued under the following terms and assumptions;

	Options issued to CEO and Executive Chairman (Issue 1)	Options issued to non-executive directors (Issue 2)	Options issued to senior management (Issue 2)
Number of options issued	1,964,284	399,999	794,439
Grant date	16 October 2019	16 October 2019	16 October 2019
Expiry date	16 October 2025	16 October 2034	16 October 2034
Price on issue date	$0.90	$0.90	$0.90
Exercise price	$1.53	$nil	$nil
Volatility	65%	50%	50%
Risk free rate	0.95%	1.18%	1.18%
Dividend yield	0% for first 2 years, 8% for subsequent years	0% for first 2 years, 8% for subsequent years	0% for first 2 years, 8% for subsequent years
Fair value of option at grant date	$0.28	$0.90	$0.90

Vesting conditions

Options will immediately vest upon successful IPO on the ASX, subject to an employee or Directors remaining employed by the Company. Upon vesting, 50% of the options will be subject to a 12-month exercise restriction and the remaining 50% will be subject to a 24-month exercise restriction period.

NOTES TO THE FINANCIAL STATEMENTS

Continued

Proposed issue of share options (Issue 3 – Issue 4)

As part of FY20 Equity Incentive Plan ("EIP"), the Company has proposed to issue share options to Key Management Personnel and staff under the EIP. In total, two tranches are proposed to be issued. Both tranches of options have been valued by an independent expert as part of the process. The proposed options have been valued using the binomial option valuation model to enable expected early exercise of the options to be factored into the valuation. The Group has begun to accrue for these options in advance of the proposed grant date as the terms have been mutually agreed between the parties on the IPO date. All issues to Key Management Personnel remain subject to shareholder approval.

The options are proposed to be issued under the following terms and assumptions;

	EIP Options (Issue 3)	EIP Options (Issue 4)
Number of options to be issued	552,935	552,935
Grant date	30 June 2020	30 June 2020
Expiry date	30 June 2035	30 June 2026
Price on issue date	$1.31	$1.31
Exercise price	$nil	$1.64
Volatility	50%	65%
Risk free rate	1.18%	0.95%
Dividend yield	0% for first 2 years, 8% for subsequent years	0% for first 2 years, 8% for subsequent years
Fair value of option at grant date	$0.77	$0.26

Vesting conditions

The holder is required to remain employed by the Company. Assuming the vesting condition is satisfied, the options will vest in four equal tranches following release of the annual report for the years ending 30 June 2020, 30 June 2021, 30 June 2022 and 30 June 2023.

Note 37. Parent entity financial information

(a) Summary financial information

	Consolidated 2020 $'000	2019 $'000
Balance sheet		
Current assets	3	1
Non-current assets	42,387	17,062
Total assets	42,390	17,063
Current liabilities	–	9,225
Non-current liabilities	–	5,899
Total liabilities	–	15,124
Net assets	42,390	1,939
Shareholders' equity		
Contributed equity	36,873	2,607
Reserves	9,289	6,327
Accumulated losses	(3,772)	(6,995)
	42,390	1,939
(Loss)/profit for the year	(2,840)	(869)
Total comprehensive (loss)/income	(2,840)	(869)

(b) Guarantees entered into by the parent entity

The parent entity has not entered into any guarantees in relation to the debts of its subsidiaries.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2020 or 30 June 2019.

(d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity did not have any contractual commitments as at 30 June 2020 or 30 June 2019.

DIRECTORS' DECLARATION

30 June 2020

In the directors' opinion:

- The attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- The attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- The attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

Drew Fairchild
Director

Johannes Risseeuw
Director

27 August 2020
Melbourne

INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report

To the members of Damstra Holdings Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Damstra Holdings Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2020
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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INDEPENDENT AUDITOR'S REPORT

Continued

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality	*Audit scope*	*Key audit matters*
• For the purpose of our audit we used overall Group materiality of \$194,000, which represents approximately 1% of the Group's revenues from ordinary activities. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group revenue from ordinary activities because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. • We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The Group operates across a single operating segment, being the operation of workforce management solutions. Its head office function is based in Melbourne, Australia.	• Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: – Carrying value of goodwill and intangible assets – Determination of amortisation periods applied to finite intangible assets – Revenue recognition – Accounting for business combinations – Share-based payments and remuneration report • These are further described in the *Key audit matters* section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Carrying value of goodwill and intangible assets *Refer to note 15 Intangible assets* At 30 June 2020, the Group has $31.8m of goodwill and intangible assets. At least annually, an impairment test is performed by the Group over the goodwill and intangible assets based on a value in use discounted cash flow model (the model). No impairment of the Group's goodwill and intangible assets was identified. The Group has determined that there is one Cash Generating Unit ("CGU"), being Total Workforce Management Solutions. We considered this a key audit matter due to: • The financial significance of the goodwill and intangibles assets balance • The significant judgement required by the Group to estimate the key assumptions in the model to determine the recoverable amount of the goodwill and intangible assets. The key assumptions applied by the Group include: – short-term and future growth rates in revenue – the discount rate adopted in the model – terminal growth rate The rapidly developing COVID-19 pandemic has meant assumptions regarding the economic outlook and the impacts on the Group's estimates is uncertain, increasing the degree of judgement required in determining the recoverable amount of goodwill and intangible assets. Specifically, this includes judgements regarding the impact of COVID-19 on forward looking information, including short term and future growth rates and terminal value forecasts.	Our audit procedures included, amongst others: • Assessing whether the allocation of goodwill and intangible assets to one CGU was consistent with our knowledge of the Group's operations and internal Group reporting. • Assessing whether the CGU appropriately included all directly attributable assets, liabilities, corporate overheads and cash flows. • Assessing the Group's historical ability to forecast future cash flows by comparing budgets with reported actual results for the previous year. • Evaluating forecast cash flows used in the models for consistency with the Group's most up-to-date budgets and business plans formally approved by the Board of Directors. • Considering whether the cash flows used in the model were reasonable and based on supportable assumptions by comparing actual cash flows for previous years to forecast cash flows and evaluating significant differences identified. • Assessing the sensitivity of key assumptions used in the model, including whether a reasonably possible change, either individually or collectively, would result in the impairment of assets. • Testing of the mathematical accuracy of the model on a sample basis. • Together with PwC valuation experts evaluating whether the discount rate and terminal growth rate used in the model appropriately reflected the risks of the CGU by considering relevant industry and market factors. • Considering the adequacy of disclosures in note 15, including those regarding the key assumptions in light of the requirements of Australian Accounting Standards.

INDEPENDENT AUDITOR'S REPORT

Continued

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Key audit matter	How our audit addressed the key audit matter
Determination of amortisation periods applied to finite intangible assets *Refer to notes 2(n)(v) Amortisation and useful lives and 15 Intangible assets* At 30 June 2020, the Group has $13.3m of finite intangible assets, comprising customer relationships, acquired software and internally generated software. The assessment of the amortisation period of intangible assets was a key audit matter due to the judgement involved in determining the amortisation period of intangible assets which can be susceptible to rapid change and technological obsolescence. In making these judgements the Group has considered the typical product life cycle as well as historical customer retention rates.	Our audit procedures included, amongst others: • Evaluating the Group's assessment of the amortisation period of acquired customer relationships by considering significant changes in expected customer retention rates since acquisition. • Assessing the estimated amortisation period applied to acquired software relative to the manner in which it is expected to be used by the Group. • Assessing the estimated amortisation period of internally developed costs capitalised to software during the year relative to the Group's experience of software lifecycles. • Assessing the remaining useful life of intangible assets with finite lives having considered any changes in the extent or manner in which the intangible assets are expected to be used. • Recalculation the amortisation expense for a sample of finite lived intangible assets. • Evaluating the adequacy of the disclosures made in notes 2(n)(v) and 15 in light of the requirements of Australian Accounting Standards.
Revenue recognition *Refer to notes 2(e) Revenue recognition and 6 Revenue* The Group recognised revenue of $19.6m, which is predominantly comprised of the following revenue streams: • Provision of software services ($13.4m) • Rental of hardware equipment ($4.4m) • Training and card re-issues ($1.8m) Costs to fulfil contracts totalling $0.3m were capitalised as contracts costs. Revenue recognition is a key audit matter due to: • The significance of revenue to the Group's financial results. • The extent of deferred revenue and contract assets recognised by the Group and the related revenue recognised during the year. • The level of judgement applied in the capitalisation and determination of the period over which to amortise contract costs.	Our audit procedures included, amongst others: • Developing an understanding of the process undertaken by the Group to recognise revenue from the provision of software services and from the rental of hardware equipment. • Testing the operating effectiveness of key controls over the processes for the deferral and recognition of revenue within the Group's general ledger system and the automated interface between the Group's invoicing systems. • Comparing a sample of invoices created in the invoicing systems to those transferred to the general ledger system. • Performing testing over revenue transactions and agreed a sample to supporting documents. • Performing tests over the mathematical accuracy of the contract cost calculation. • Assessing the reasonableness of the amortisation period over which contract costs are amortised relative to the average contract period. • Evaluating the adequacy of the disclosures made in notes 2(e) and 6 in light of the requirements of Australian Accounting Standards.

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Key audit matter	*How our audit addressed the key audit matter*
Accounting for business combinations *Refer to note 31 Business combinations* The Group acquired Scenario Advantage Workforce Business ('SAW'), Applied Project Experience Pty Ltd ('APE Mobile') and SmartAsset Software Business ('SAS') for purchase consideration of $3.9m, $5.5m and $0.5m respectively. Goodwill of $1.6m, $2.8m and a gain of $0.5m was recognised respectively. The Group has recognised the fair value of assets and liabilities for the acquired businesses. We considered this a key audit matter because of the significant judgement involved by Group in the following areas: • determining the acquisition dates • considering whether the Group acquired assets or a business • estimating the purchase consideration • identifying all assets and liabilities of the newly acquired businesses and; • estimating the fair value of each asset and liability for initial recognition by the Group.	Our audit procedures included, amongst others: • Evaluating the Group's accounting against the requirements of Australian Accounting Standards, the respective purchase agreements and our understanding of the businesses acquired. • Assessing the determination of the acquisition date against supporting documentation including ASX announcements, relevant share registers and the requirements of Australian Accounting Standards. • Assessing the fair value of the purchase consideration for each business by comparing a sample of payments to bank records and ASX takeover announcements. • Assessing the fair value of acquired software and customer relationship assets recognised by evaluating the valuation methodology and considering key sales and replacement cost assumptions used in the valuation models. • Evaluating the adequacy of the disclosures made in note 31 in light of the requirements of Australian Accounting Standards.
Share-based payments and remuneration report *Refer to note 36 Share-based payments and the remuneration report outlined in pages 9 to 16* The Group recognised a share-based payment expense of $2.1m during the year relating to: • Options granted over shares that vested upon completion of the Group's initial public offering. • Options proposed to be issued as part of the FY20 Equity Incentive Plan which are expected to vest over a four year period. This was a key audit matter due to the judgement in the key assumptions and estimates used in determining the fair value of the share-based payment expense including: • determination of the grant date • estimated volatility over the option period • probability of meeting vesting conditions	Our audit procedures included, amongst others: • Developing an understanding of the nature of the share based incentive schemes. • Reading the terms and conditions of the various incentive plan agreements. • Evaluating the Group's assessment of the likelihood of meeting the vesting conditions attached to each of the agreements. • Assessing the Group's methodology for calculating the fair value of share options, and agreeing a sample of valuation inputs to supporting documents including external data and employee offer letters. • Evaluating the adequacy of the disclosures made in note 36 and in the remuneration report in light of the requirements of Australian Accounting Standards and the Corporations Act.

INDEPENDENT AUDITOR'S REPORT

Continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors report. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

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Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 9 to 16 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Damstra Holdings Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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 Australian Auditing Standards.

PricewaterhouseCoopers

Jason Perry
Partner

Melbourne
27 August 2020

SHAREHOLDER INFORMATION

30 June 2020

The following information was applicable as at 31 July 2020.

1. Substantial shareholders

The following holders are registered by the Company as a substantial holder, having declared a relevant interest in accordance with the *Corporations Act 2001* (Cth), in the voting shares below:

Holder name	Date of interest	Number of ordinary shares[1]	% of issued capital[2]
Damstra Holdings Limited	18 April 2020	45,557,778	32.66%
Johannes Risseeuw	16 October 2020	18,895,556	13.75%
Christian Damstra	16 October 2020	18,890,000	13.70%
AustralianSuper Pty Ltd	09 July 2020	8,397,083	6.02%
Regal Funds Management Pty Ltd	28 July 2020	10,621,207	7.61%

1. As disclosed in the last notice lodged with the ASX by the substantial shareholder.
2. The percentage set out in the notice lodged with the ASX is based on the total issued capital of the Company at the date of interest.

2. Number of security holders

Securities	Number of holders
Ordinary Shares	4,236
Unlisted options over ordinary shares (Options)	30

3. Voting Rights

Securities	Voting rights
Ordinary Shares	Subject to the constitution and to any rights or restrictions attached to any shares or class of shares, at a general meeting: (a) on a show of hands, every member present has one vote; (b) on a poll, every member present has: (i) one vote for each fully paid share held as at the record time by the member and in respect of which the member is entitled to vote; and (ii) a fraction of a vote for each partly paid share held as at the record time by the member and in respect of which the member is entitled to vote, equivalent to the proportion which the amount paid (not credited) on the share bears to the total amounts paid and payable (excluding amounts credited) on the share.
Options	Options do not carry any voting rights.

4. Distribution schedule

The distribution schedule for Ordinary Shares is as follows:

Spread of holdings	Holders	Ordinary shares	% of total ordinary shares
1 – 1,000	1,128	763,992	0.55%
1,001 – 5,000	1,961	5,191,283	3.72%
5,001 – 10,000	584	4,469,702	3.20%
10,001 – 100,000	507	12,123,818	8.69%
100,001 – 9,999,999,999	56	116,933,772	83.83%
Totals	**4,236**	**139,482,567**	**100.00%**

The distribution schedule for Options is as follows:

Spread of holdings	Holders	Options	% of total options
1 – 1,000	0	0	0.00%
1,001 – 5,000	0	0	0.00%
5,001 – 10,000	0	0	0.00%
10,001 – 100,000	23	692,217	18.13%
100,001 – 9,999,999,999	7	3,126,505	81.87%
Totals	**30**	**3,818,722**	**100.00%**

5. Holders of non-marketable parcels

Date	Closing price of shares	Number of holders
31 July 2020	$1.70	74

SHAREHOLDER INFORMATION

Continued

6. Top 20 shareholders

The top 20 largest fully paid ordinary shareholders together hold 75.48% of the securities in this class and are listed below:

Rank	Holder name	Securities	%
1	RISJEF PTY LTD <J & C RISSEEUW S/FUND A/C>	15,465,556	11.09
2	DAMSTAR PTY LTD <C AND N DAMSTRA FAMILY A/C/>	13,670,000	9.80
3	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	12,406,141	8.89
4	CS THIRD NOMINEES PTY LTD <HSBC CUST NOM AU LTD 13 A/C>	8,721,345	6.25
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,529,878	5.40
6	MR JOHN COLIN LOOSEMORE + MRS SUSAN MARJORY LOOSEMORE <LOOSEMORE SUPER FUND A/C>	6,242,667	4.48
7	NATIONAL NOMINEES LIMITED	5,739,523	4.11
8	DAMSTRA SUPER PTY LTD <C&N DAMSTRA FAMILY SUPER A/C>	5,285,000	3.79
9	FORTIGEN PTY LTD <HUTCHINS FAMILY A/C>	5,000,000	3.58
10	ROSELEE RIDGE RESOURCES PTY LIMITED	4,580,000	3.28
11	CITCORP NOMINEES PTY LIMITED	3,973,886	2.85
12	CHOCOLATE PEARL PTY LTD <THE CINJAN A/C>	3,660,000	2.62
13	FAIRCHILD ADVISORY PTY LTD	2,884,444	2.07
14	BNP PARIBAS NOMS PTY LTD <DRP>	2,000,000	1.43
15	HURWITZ FAMILY PTY LTD <THE HURWITZ FAMILY A/C>	1,835,555	1.32
16	XWSL HOLDINGS PTY LTD <KRAMERS FAMILY A/C>	1,500,000	1.08
17	MR PIETER CHRISTIAAN SCHOLTZ	1,310,000	0.94
18	CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11	1,179,772	0.85
19	MR PHILLIP O'GRADY + JUDY ANN O'GRADY	1,160,000	0.83
20	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LTD	1,140,535	0.82
	Total	**105,284,302**	**75.48%**

7. Restricted securities

There are no shares on issue that are subject to mandatory escrow restrictions under ASX Listing Rules Chapter 9.

The following shares are subject to voluntary escrow restrictions:

Class	Expiry date	Number of shares
Ordinary Shares	18 October 2020	37,785,556
Ordinary Shares	Announcement of the Company's financial results for FY2020	7,772,222
		45,557,778

8. Unquoted securities

The following Options are on issue:

Class	Date of expiry	Exercise price	Number of options	Number of holders
Unlisted Options (subject to vesting conditions)	16 October 2034	$0.00	1,854,438	30
Unlisted Options (subject to vesting conditions)	16 October 2034	$1.53	1,964,284	2
			3,818,722	**30**

The following holder holds more than 20% of Options in the Company:

Holder name	Securities	% of issued
Chocolate Pearl Pty Ltd <The Cinjan A/C>	1,182,142	30.96%
Damstar Pty Ltd <C and N Damstra Family A/C>	1,182,142	30.96%

9. Share buy-backs

There is no current on-market buy-back scheme.

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CORPORATE DIRECTORY

Directors
Christian William Damstra
Drew Fairchild
Johannes Risseeuw
Morgan Hurwitz
Simon Yencken

Joint company secretaries
Pieter Christiaan Scholtz
Carlie Hodges

Registered office
Level 1
38-40 Garden Street
South Yarra VIC 3141

Auditor
PricewaterhouseCoopers

2 Riverside Quay
Southbank VIC 3006

Solicitors
Cottell & Co

Level 31, 120 Collins Street
Melbourne VIC 3000

Stock exchange listing
Damstra Holdings Limited shares are
listed on the Australian Securities Exchange
(ASX code: DTC)

Website
https://www.damstratechnology.com

Share registry
Computershare Investor Services Pty Ltd

Level 3, 60 Carrington Street
Sydney NSW 2000

ASX Code
DTC

DAMSTRA

www.damstratechnology.com