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DAMSTR A

ANNUAL REPORT 2021

Connect + Protect Your World



D A M S T R A

Connecting and protecting your world and reducing unforeseen risk

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We are driven by connecting and protecting the four largest areas of business investment through our orchestrated solutions on the Enterprise Protection Platform (EPP), our people, and a commitment to continuous innovation, customer relationships & success:

People

Employees and contractors

Places

Permanent and temporary locations

Assets

Fixed, mobile and other operational assets

Information

Business data, analytics, and integration



Brice Elliot
Senior VP of Operations
(Americas and EMEA)

We greatly reduce risk for our clients, while moving them to a highly automated digital world in the areas of security, health and safety. Our team is agile and collaborates to understand the market and better serve the needs of our clients.



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 2021 (FY21).

Damstra is a leader in enterprise protection software. Its Enterprise Protection Platform (EPP) integrates an extensive range of modules and products that allows organisations to mitigate and reduce unforeseen and unnecessary business risks around people, workplaces, assets, and information. As COVID-19 became a crisis, the Group's solutions enabled our SaaS customers to continue to operate seamlessly. The pandemic reinforced the significant value proposition of our global SaaS EPP solution, which provides mission-critical systems and enables our clients to work on any device, anywhere, any time and seamlessly without interruptions. This has also resonated strongly with the market, driving the Group's continuing strong results.

FY21 has been another transformational year for Damstra, having strategically repositioned our product offering under the Enterprise Protection Platform (EPP) banner, while delivering strong revenue growth and EBITDA performance. The rollout of EPP has been well received by our clients, both existing and new, and EPP enables us to continue to build deeper client relationships and showcase the full breadth of Damstra's capabilities. We are pleased to have successfully integrated Vault Intelligence Limited (Vault) into the Damstra ecosystem following its acquisition during the year. Significantly outperforming the targeted operational synergies from the deal has helped us to drive strong operating leverage in the business, resulting in robust EBITDA and margins in FY21.

The Group has continued to deliver on its vision of becoming a global business since listing on the ASX in 2019. The Group's ability to deliver these results is due to its clear vision, strategy, culture, and its continued investment in research and development. Damstra added 157 clients (excluding those acquired from Vault) this year and now has 724 clients globally. The Group ended the year with 737,000 users: up from 423,000 in the prior year, as a result of deepening relationships with current clients, success in customer acquisition and continued product innovation.

Strategic highlights

- **Successful strategic product pivot to an 'Enterprise Protection Platform' showcases the strength and integration capability of Damstra's expanded product offering.**
- **Acquisition of Vault successfully completed in October 2020 and fully integrated, with \$6.2 million of annual synergies achieved, significantly outperforming the original target of \$4 million.**
- **Debt refinanced with new AUD \$20 million facility with Partners for Growth VI, L.P., providing financial flexibility to fund Damstra's growth ambitions.**
- **Continued product innovation with launches of new and updated modules: Damstra Safety, Satellite, paperless forms, and workflows.**

On the Channel partner front, Damstra continued to focus on developing relationships with partners and investing in training and support programs to help deepen existing relationships. We now have approximately 40 partners globally, targeting 12 different verticals. Continued expansion of a scalable and profitable partner program is a key component in the Group's revenue growth strategy.

The Group successfully completed the acquisition of Vault in October 2020. The acquisition marked a major milestone in the continued implementation of the Group's strategy. The Group has continued to deliver on its vision to create a truly Australian global technology success story. The acquisition has enabled the Group to accelerate product innovation and to expand the overall offering, particularly in the mobility area. It has also proven to be a low risk and transformational step toward gaining increased scale and diversification.

This will further enable the Group to accelerate innovation and international expansion. The technology has been fully integrated ahead of plan and annualised synergies of \$6.2 million have been fully implemented, significantly outperforming the original target of \$4 million.

Our evolving Product Platform

Our product offering is at the core of who we are. During the year, we continued to implement new product releases across the platform, with product innovation being our key differentiator. This included evolving our product positioning to an Enterprise Protection Platform ('EPP'), a strategic pivot reflecting the breadth and depth of our rapidly expanding offering.

The EPP enables clients to harness the power of the four largest investment areas in any organisation that carry the largest business risks, ensuring prepared people, safe places, connected assets and accessible information. Strategically, current, and prospective clients have responded extremely favourably to the launch of the EPP, recognising how the Group's product suites have evolved to work not only individually but also, critically, how they can be orchestrated seamlessly into a fully unified offering.

Large clients now have great confidence that the Group can deploy the EPP at an enterprise-level, rather than viewing our offering as a suite of standalone single point solutions.

The Group's Solo product continues to roll out strongly in the Health, Aged Care and Disability support sectors. The positioning of the product has been strengthened with the Royal Commission findings into Aged Care, paving the way for solutions such as Solo to assist. Solo satellite capability has now been developed to work on mobiles and wearables in remote areas without 3G/4G telecommunications coverage. This extension to work via satellite allows the use of Solo anywhere globally, providing complete coverage for transport and logistics and remote healthcare, where client trials are underway.

The Group invested \$11 million in R&D this year (including capitalised costs), up 34% from the prior year



Solo is also currently being trialled with clients in the transport and waste sectors, where monitoring workers and vehicles is deemed a critical control point. In addition, Solo is being used by some of the Group's mining and construction clients. It is particularly useful in mining exploration activities, where workers operating in remote locations can now utilise the recently released satellite capability.

The Group invested \$11 million in R&D this year (including capitalised costs), up 34% from the prior year. This was a significant increase as the Group took the opportunity to accelerate R&D into several new and exciting areas. It continued its significant investment in product innovation to further develop its software platform and to build the innovation pipeline. With this R&D investment, it is constantly delivering upgrades to its products, further improving the scalability, functionality, productivity, and performance, whilst also creating more technology assets across the Group's businesses.

Financial highlights

During the year to 30 June 2021 and despite the impact of COVID-19 affecting some product rollouts, the Group delivered significant revenue growth across its global business. This evidences the Group's increased market penetration, customer usage and adoption of the Group's technology. The Group continued its significant investments in innovation and development, expanding its global footprint and securing strategic assets in new geographies, as well as adjacent technologies which together will accelerate the Group's future growth.

Chairman's and CEO's Message

Continued

Damstra reported strong performance across all key financial and operating metrics in FY21, delivering growth in revenue, cash receipts, user numbers and total clients. ARR grew by 63% to a record \$34.5 million, driving total revenue growth of 40% to \$27.4 million, with 87% of total revenues annually recurring. Cash receipts increased by 52% to a record \$31.7 million.

Operating leverage drove gross profit margin expansion of 10.4ppts to 78.9%. EBITDA performance was maintained at \$6.6 million, relative to pcip, reflecting a robust EBITDA margin of 24.3% and the successful integration and synergy capture of the previously loss-making Vault business.

Our People

We would like to thank the entire global Damstra team for their dedication and commitment through what has been such a challenging year. We have staff across seven different countries and our workforce is at the centre of everything we do.

Our values are driven by our Damstra DNA, and our mantras are the basis for a work environment that is empowering and provides meaningful work. We have five simple pillars that have always guided how we work and how we work with our clients; always safe, trusted partner, team players, focussed agility and a simple can-do attitude.

We have a flat, low-hierarchy management system with small, diverse teams made up of individuals with a wide range of professional backgrounds and experience. Through this, we create a work environment that stimulates creativity and supports bold ideas and innovations.

Our culture of innovation and productivity means we tackle the complex problems and create solutions for our clients. Our future growth and innovation are driven by the talent, motivation, and enthusiasm of our global team. This is underpinned by our core purpose of "Connecting + Protecting Your World".

Conclusion

During FY21, the Company was impacted by COVID-19, however we saw an immediate positive impact when regional restrictions were lifted. For FY22, we expect that the predominantly negative impact of COVID-19 will likely result from restrictions placed on Damstra's construction clients in New South Wales and Victoria. Currently these industries are still operating, albeit at reduced capacity, and we would expect to see a positive change once restrictions are lifted, which is anticipated to be during late Q2 of FY22 (based on Government announcements at this report date).

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. 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 Risseuw
Executive Chairman



Christian Damstra
Chief Executive Officer



Financial Highlights

Strong performance delivering record revenue, cash receipts, client and user numbers.



737,000

USERS

vs 423k at Jun-20



724

Clients

vs 279 at Jun-20

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Financial Highlights

Continued

↑ **\$27.4m**

REVENUE¹

40% growth vs FY20

↑ **\$34.5m**

ARR²

vs \$21.2m at Jun-20

↑ **79%**

GROSS MARGIN

vs 69% in FY20³

→ **\$6.6m**

PRO FORMA EBITDA⁴

vs \$6.8m in FY20

↓ **24%**

PRO FORMA EBITDA MARGIN⁵

vs 35% in FY20

↑ **\$31.7m**

CASH RECEIPTS

vs \$20.8m in FY20

1. Includes \$0.3m revenue share related to SkillPASS joint venture with Energy Skills Queensland.

2. Annual Recurring Revenue. Recurring portion of exit month revenue on an annualised basis.

3. On an underlying basis, excluding one-off other income.

4. Earnings before IPO costs, share based payments, income tax, finance expenses and acquisition costs.

5. Impacted by the pre-synergy orientation of the acquired Vault business.

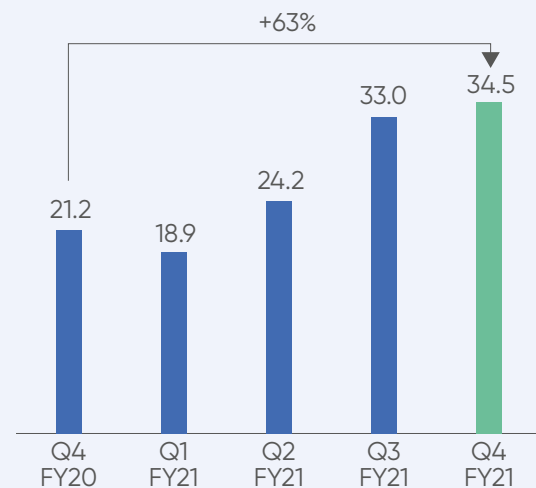


Kathleen Cabalu
Finance Operations Team Lead

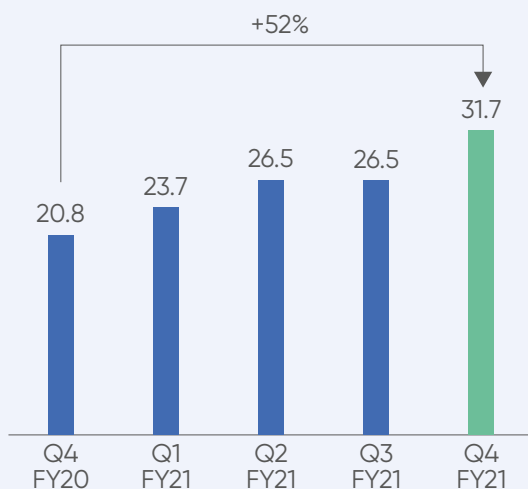
Having work-life balance is what I love most about working in Damstra. Being happy at work makes me strive to be successful and feel empowered to provide high quality operational and financial support and services.

FY21 saw a continuation of **growth across key metrics.**

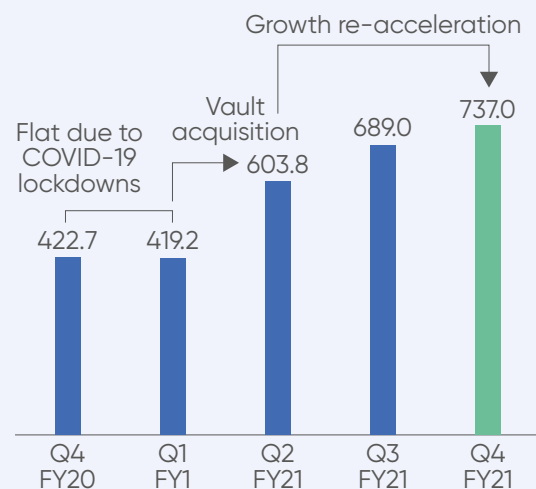
Increasing ARR (\$m)



Increasing cash receipts (LTM \$m)



Accelerating growth in users ('000)



Year of Significant Achievements

Growth

New customer wins

- Ended the year with 724 clients, an annual increase of 157¹ clients
- Global user numbers now stand at 737k, an annual of increase of 74%
- \$34.5m ARR at Jun-21
- 87% recurring revenue
- Products now used in >20 countries
- Passed 90,000 users in the construction industry

Major Contracts

- Skanska in progress

Products & technology

Enterprise Protection Platform (EPP)

- Strategic pivot to our EPP – reflecting the breadth, depth and integrated nature of our expanded product offering

Product momentum

- Increased R&D expenditure – 34% increase in total² R&D spend compared to FY20
- Paperless form users now exceed 15,000, reflecting rapid growth

New products launched

- Numerous new products launched in the year; Damstra Safety, Satellite, integrated paperless forms and Solo on an increased range of wearable devices

Corporate

Board

- Appointment of Sara La Mela as a Non-Executive Director (NED) – she has previously held technology roles at Twitter and Google and is presently a NED of Whispir

- North American Advisory Board established, the participants bring a strong background in technology, mining and energy

Debt refinanced

- Secured a new A\$20m debt facility with Partners For Growth (PFG)

Increasing North American presence

- Continuing to invest in our North American resources, regional FTE is planned to exceed 30 in FY22

Strategic

Financial

- Record Q4 cash receipts of \$10m and \$32m for the financial year
- Gross Margin of 79%
- EBITDA Margin of 24%

Operating Cash & FCF

- Positive operating cash flow, with an emerging path to FCF breakeven in FY22

Vault acquisition

- Acquisition completed in Oct-20, its technology is now fully integrated
- \$6.2m annual synergies implemented, versus \$4m target

Partners

- We now have >40 global partners and increased external recognition. This includes AWS Partner status, Verdantix recognition, US Security Executive Council accreditation and inclusion in the Oracle Innovation Hub



Luijies Rufon
Global Data Protection Officer

My role is to maintain Damstra's world-class management system for quality, information security and data privacy. Damstra is a great place to work. It embodies values that I am passionate about, such as integrity, accountability, excellence, enthusiasm and teamwork.

1. Excludes clients acquired in the Vault acquisition.
2. Cost of sales plus operating expense plus capitalised costs.

Damstra at a Glance

~20

Countries¹

724

Clients

737k

Registered
licences²

12

Offices

~200

Employees

~90

R&D Staff

Serving the mining, construction, energy, utilities, government, education, food and beverage, aviation, sports, retail, healthcare and waste industries around the world.



















Daniel Sarenac

Director, Business Development (Americas and EMEA)

I'm highly motivated by bringing Damstra's integrated Enterprise Protection Platform to the Americas & EMEA. I love the responses I receive from prospective clients after an initial meeting. They are blown away by our capabilities and value proposition!

Platform Overview

|  Workforce | |  Learning | |  Access | |
|--|-------------------------------------|---|---|---|-----------------------------------|
|  | Company mobilisation |  | Learning management |  | Fixed and mobile access terminals |
|  | Employee mobilisation |  | Course editor |  | Drug and alcohol testing |
|  | Verification |  | Deep integration with Workforce |  | Visitor management |
|  | Time and attendance |  | Expanded course library |  | Evacuation management |
|  | RFID solution |  | Skills matrix & training needs analysis |  | Facial recognition |
|  | Mobile login and logout | | |  | Temperature detection |
|  | Tracing of workers | | |  | COVID-19 event solution |
|  | Deep integration with digital forms | | | | |
|  | Lone worker solution (solo) | | | | |
|  | Deep group management & alerts | | | | |



















Safety



Assets



Predictive

| | | | | | |
|---|---------------------------------|---|-------------------------------------|---|----------------------|
|  | Prestart and toolbox talks |  | Plant management |  | Reports |
|  | Digital forms and flows |  | Equipment management |  | BI Tools |
|  | Template form and flow building |  | Equipment calibration |  | Predictive analytics |
|  | Damstra Safety |  | RFID solution | | |
|  | Satellite |  | Asset management and maintenance | | |
|  | Wearables: Apple Watch & Omate |  | Deep integration with digital forms | | |
| | |  | Workspace booking management | | |

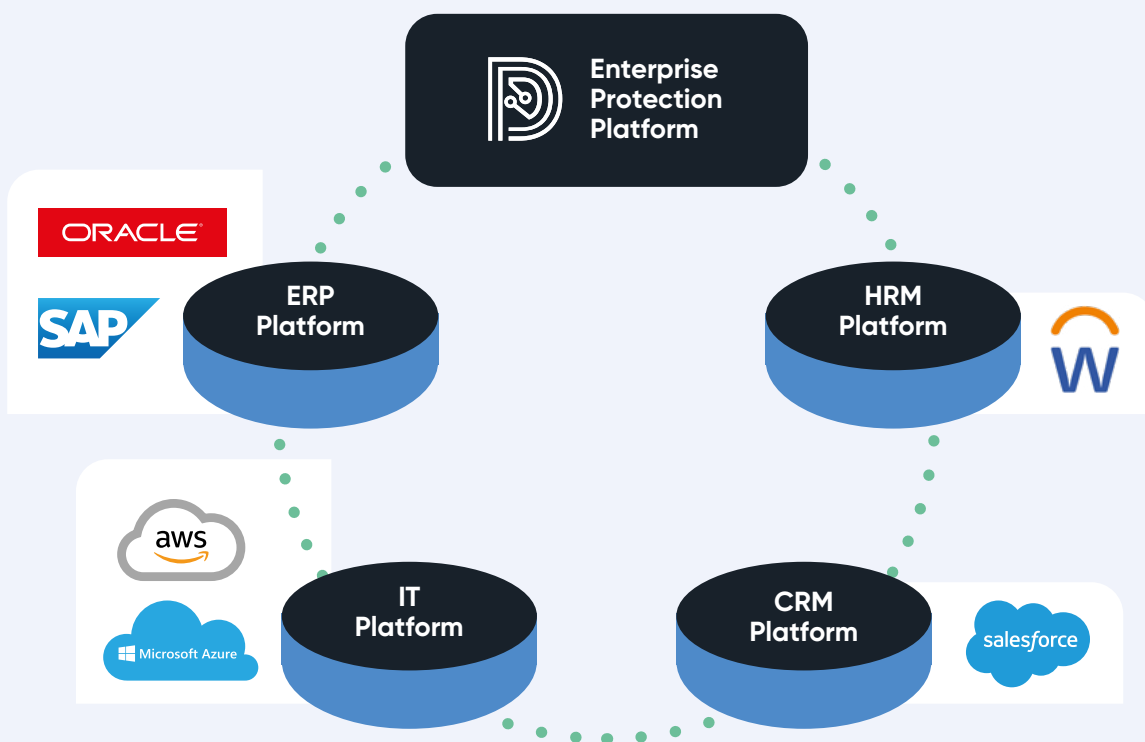
Judyanne Flint
Head of Project Management

It's important to me that our clients are provided with exceptional service across every project. It's exciting to be part of a team that assists clients to improve their business by implementing our fantastic product offering. There's nothing more satisfying than praise from a happy client!

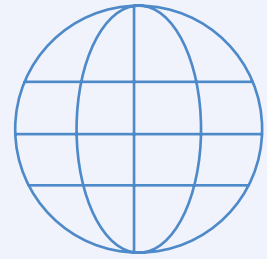


Product Innovation – Enterprise Protection Platform

Enterprise Protection Platform (EPP) is positioned in the enterprise software stack. Sits alongside and integrates with other leading enterprise platforms.

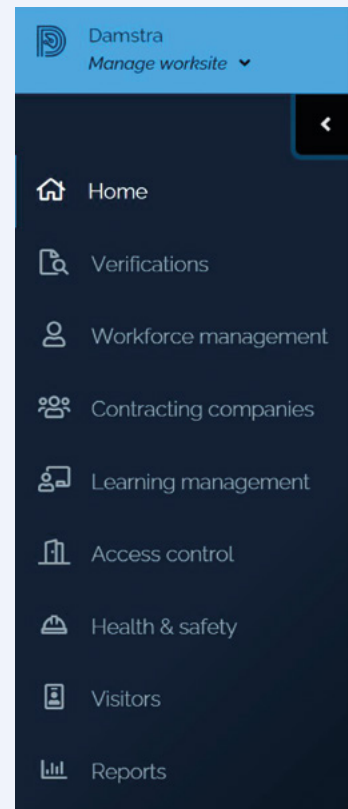


| Platform | Purpose | Leader |
|----------|----------------|-------------|
| EPP | Protection | Damstra |
| HRM | People | Workday |
| CRM | Customers | Salesforce |
| IT | Infrastructure | AWS, Azure |
| ERP | Financial | Oracle, SAP |



DAMSTRA HUB

Gateway to protecting
your world



EPP Hub integrates all Damstra modules and products.

| Investment area | Risk protection | Products and modules |
|-----------------|------------------------|--|
| People | Prepared People | <ul style="list-style-type: none"> • Workforce management • Learning management • Virtual reality |
| Workplaces | Safe Places | <ul style="list-style-type: none"> • Access control • Digital forms • Damstra Safety and incident management • Solo connected worker |
| Assets | Connected Assets | <ul style="list-style-type: none"> • Asset mobilisation • Asset management • RFID and IoT |
| Information | Accessible Information | <ul style="list-style-type: none"> • Reporting • User BI tools • Predictive analytics |



Connecting people, workplaces, assets and information through robust workflow engines

Paul Hemsall Head of Innovation

Exploring new and emerging technologies that help create zero-harm environments and keep people safe is at the heart of my role. Working alongside smart, driven teams with diverse backgrounds and experiences to fulfil this goal is particularly rewarding!

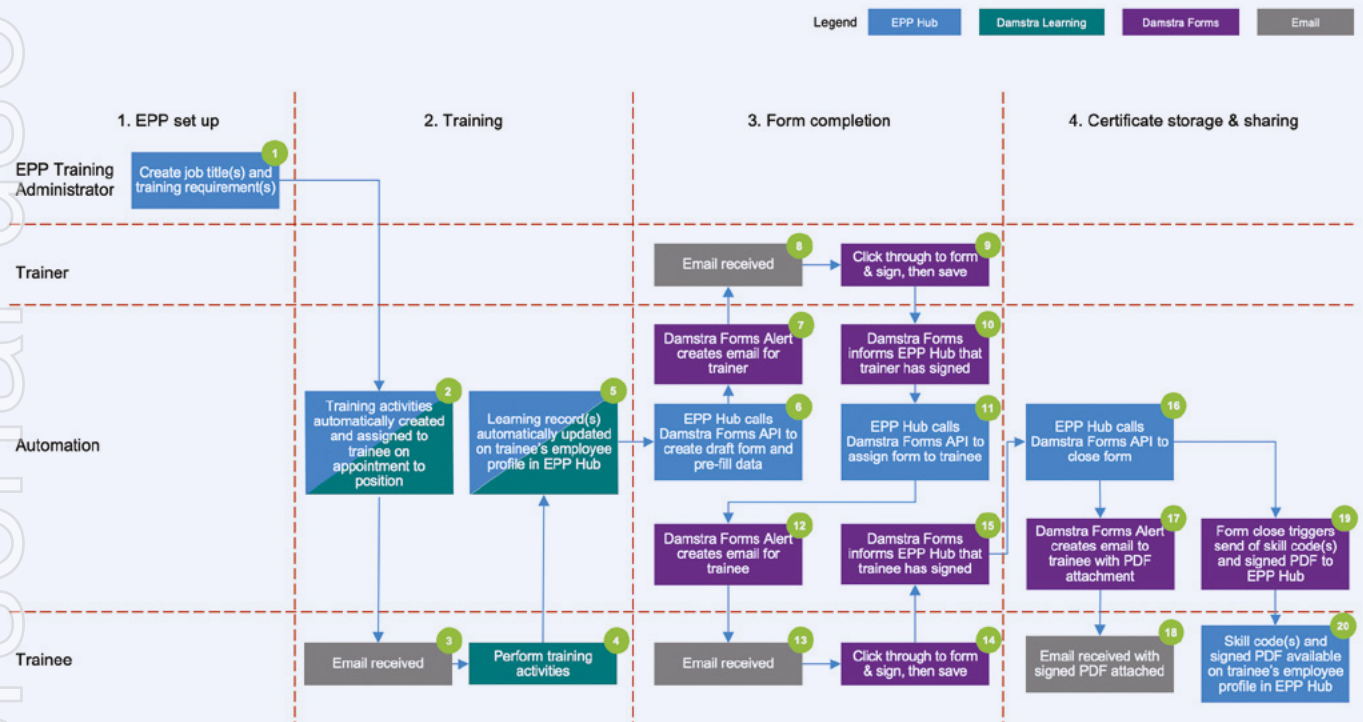


Product Innovation – Enterprise Protection Platform

Continued

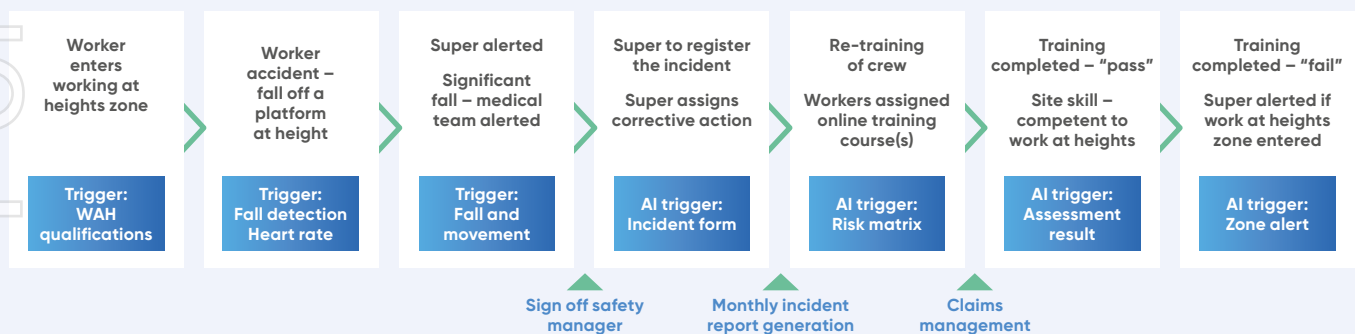
The future of protection is digitally transforming processes.

Connecting people, workplaces, assets and information through robust workflow engines with embedded AI at organisational inflection points.



Digital transformation of protection:

Working at heights – core protection process and branching



Product Modules

Solo

Safety

Learning

Workforce

Digital form

Predictive analytics – AI and ML

Product Case Studies

Predictive Analytics

Client use case example, driving prediction and prevention of health and safety related incidents and injuries in the workplace, towards a zero-injury guarantee for all workers.

Role of predictive analytics

- Artificial intelligence solution that transforms the way safety data is used
- Data analytics drives the identification of risks associated with people, workplaces, assets and information
- Allowing the visualisation of previously unforeseen risks

Client example of unforeseen safety risks identified

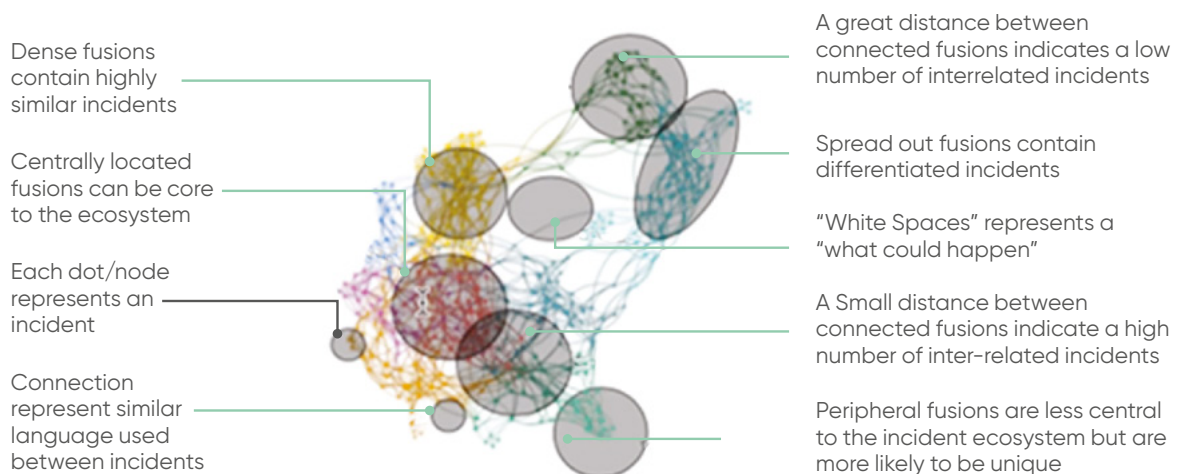
- Culture of non-compliance
- Insufficient information for root cause analysis
- Regular interactions between workers and vehicles in motion
- Misalignment of incidents with safety initiatives

Safety actions implemented as a result of identification

- Driver safety program initiated to improve situational awareness
- Hazard detection and audit program focused on off-site driving and interactions with the public

Example visualisation

Created from the combination of standard incident and observation safety data plus AI-driven natural language processes. Visualisation of data and text clusters drives a new level of insight.



Product Case Studies

Continued

Digital Forms

Digital transformation of a major mining company's Prepared People process, resulting in process efficiency

Introduction

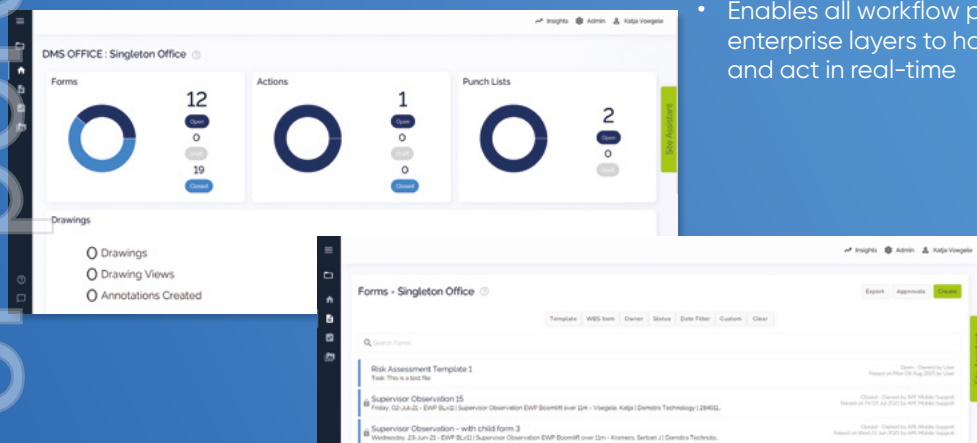
- Damstra is digitalizing enterprise workflows and processes as part of the future of protection (eliminating 600,000 paper forms for this client annually)
- Digital transformation is occurring via AI-connected workflows across enterprise layers

The solution

- A robust workflow engine has been setup for this client across their enterprise layers
- The platform is always on, and always connected
- At relevant process inflection points, a digital form is generated/prompted, requiring action by the relevant person(s) before the process can continue

The benefits

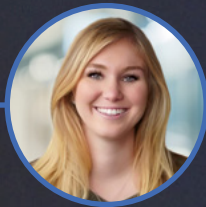
- The solution promotes organisation efficiency, by centralizing information, enhancing collaboration and increasing transparency
- Digitization of 600,000 paper forms annually equates to a \$5m annual saving in manual form entry time for this client
- Enables all workflow participants across enterprise layers to have the power to know and act in real-time



Jodarna Meade
Head of Customer Success

I'm fortunate to work with an amazing team of Customer Success professionals who assist our customers to maximize the value of their investment in the Damstra solution suite. Customers are at the core of everything we do at Damstra. I'm driven by hearing our customers success stories about how we've helped them to Connect + Protect their World.

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Emily Schultz
Customer Success Manager
(Americas and EMEA)

Working for Damstra as a Customer Success Manager is the most fulfilling job I have ever had. We prioritize people's safety every second of the day, while also leading the market with our Enterprise Protection Platform. Both our solutions and company culture are unique and truly incredible.



Julie Overall
Customer Success Manager

I help make our clients lives simpler, by helping them to utilise Damstra's technology more efficiently. I strive to be their trusted advisor, pre-empting their needs, solving their problems and assisting them to achieve their positive business outcomes.

600k

Digitised Forms
annually

Product Case Studies

Continued

Damstra Solo

Monitoring lone worker safety on-site via a wearable device

Introduction

A premier rig and shipbuilder requires a simple, accessible and productive lone worker safety monitoring solution.

Client's need is driven by government safe site regulations and compliance with COVID-19 safe workplace protocols.

Solution

Wearable has been deployed to 7.5k workers so far in the initial phase.

The ability to track and monitor individual workers enables incident management, fall detection, and productivity & performance analytics.

7.5k

Workers have used
so far

Wearable

Impact

Reduction in site risk following deployment, with higher levels of staff engagement and improved client throughput experienced.

Ability to isolate a COVID-19 outbreak via contact tracing minimised a recent shutdown to 20% of the workforce for 2 days, versus a complete workforce 14-day shutdown.



Board of Directors



Johannes Risseuw
Executive Chairman

Johannes joined Damstra in 2012 and has held the role of Executive Chairman since 2017. He was the 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. He was previously the Chief Investment Officer of Questus Energy Pty Ltd, focused on the acquisition and management of oil and gas assets, and Chief Operating Officer at Skilled Group Limited. Johannes is a non-executive director of US-based entity Fanplayr Inc.



Christian Damstra
Chief Executive Officer

Christian joined Damstra in 2002 as General Manager, after his father founded the Company while undertaking contract work in the mining industry. He managed the Company as a technology company as part of the Skilled Group, before leading a management buy-out of the Company in 2016 along with Johannes Risseuw. Prior to joining the Group, 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. He 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 the Non-Executive Director, he assisted the Company as an adviser during the buy-out of the Company from the Programmed Group. Prior to joining the Group, Drew worked as a Chief Financial Officer within both Fulton Hogan and Cleanaway, and founded an oil and gas investment fund that was sponsored by Intermediate Capital Group PLC. He also served as the Director for Questus Energy Pty Ltd.



Morgan Hurwitz
Non-Executive Director

Morgan joined Damstra as a Non-Executive Director in 2016. He 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 the Group, he 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. He is an active investor in the Technology sector and is a Non-Executive Director of Leighton O'Brien.



Simon Yencken
Non-Executive Director

Simon joined Damstra as a Non-Executive Director in 2019. He is the Chief Executive Officer and founder of Fanplayr Inc, which uses behavioural personalisation to increase user engagement with websites. Prior to joining the Group, he was a Director of Aconex Limited for 10 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 approx. US\$1.2 billion. Simon is an active investor in start-up technology companies, including Canva, Matrak Industries, Moda Operandi and Redbubble.



Sara La Mela
Non-Executive Director

Sara joined Damstra as Non-Executive Director in 2020. She has extensive experience as a technology executive in both Australia and the United States of America (Silicon Valley), serving in various sales and marketing roles at RedBull, Google and Twitter. She has served as the Chief Operating Officer of Local Measure International Pty Limited for the last seven years, which provides a communications management platform for cloud-based contact centres.

Financial Report

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Directors' Report

30 June 2021

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 the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2021.

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:

Johannes Risseuw
Christian Damstra
Drew Fairchild
Morgan Hurwitz
Simon Yencken
Sara La Mela (appointed on 1 October 2020)

Principal activities

The Group is an Australian-based provider of integrated workplace management solutions to multiple industry segments across the globe. The Group 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 the Group'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 Group 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.

Significant changes in the state of affairs

On 8 October 2020, the Group acquired Vault Intelligence Limited ('Vault') by acquiring 100% of the ordinary shares for the total non-cash consideration transferred of \$99,307,000 on completion of the court-approved Scheme of Arrangement. The consideration was fully settled by the issuance of 44,136,408 ordinary shares in the Company. Refer note 34 of the financial report for further details.

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

Review of operations

The loss for the Group after providing for income tax amounted to \$8,627,000 (30 June 2020: \$3,779,000).

Pro forma EBITDA, EBITDA and gross margin used in the review of operations section below is a financial measure that is not prescribed by Australian Accounting Standards ('AAS') and represents the statutory loss under AAS adjusted for certain items. The directors consider loss before tax excluding other items (being the impact of IPO transaction costs, acquisition costs and share-based payments expenses) to reflect the core earnings of the Group. Pro forma EBITDA refers to Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') adjusted for non-cash share-based payments, acquisition costs and initial public offering transaction costs. A reconciliation between pro forma EBITDA and statutory loss is provided below.

For the year ended 30 June 2021, the Group reported revenue and other income of \$28,727,000 (30 June 2020: \$23,529,000).

Directors' Report

Continued

Key operational and financial metrics for the financial year ended 30 June 2021:

| | 30 Jun 2021 % | 30 Jun 2020 % |
|---|------------------|------------------|
| Key financial metrics | | |
| Revenue growth vs previous corresponding period ('pcp') | 38.2% | 28.1% |
| Gross margin | 78.6% | 68.5% |
| Research and development expenses as a % of revenue | (23.8%) | (29.1%) |
| Sales and marketing expenses as a % of revenue | (29.0%) | (29.1%) |
| General and administration expenses as a % of revenue | (28.8%) | (26.8%) |
| Pro forma EBITDA margin | 24.5% | 32.9% |

Review of financial performance

The Group is a global leader in enterprise protection software. Its Enterprise Protection Platform ('EPP') integrates an extensive range of modules and products that allows organisations to mitigate and reduce unforeseen and unnecessary business risks around people, workplaces, assets, and information.

Integral to the Damstra EPP, the Group's Workforce Management, Learning Management and Connected Worker solutions combine to ensure people are protected, always.

The Group's Access Control, Digital Forms and Safety Solutions are used to create workplaces that are safe. Assets are connected into operations with the integrated Asset Management solution, enabling asset mobilisation and maintenance of assets, work order management. In addition, the Group provides offerings in RFID and IoT to track assets on-site and ensure the safe movement of assets to prevent harmful interactions with workers. Lastly, Accessible Information, Reporting Business Intelligence tools and Predictive Analytics are critical to ensuring customers are making the right decisions with the right information.

As COVID-19 became a crisis, the Group's solutions enabled our SaaS customers to continue to operate seamlessly. The pandemic reinforced the significant value proposition of our Global SaaS EPP solution which provides mission-critical systems and enables the clients to work on any device, anywhere, any time and seamlessly without interruptions. This has also resonated strongly with the market driving the Group's continuing strong results.

Vault acquisition

The Group successfully completed the acquisition of Vault Intelligence in October 2020. The acquisition marks a major milestone in the continued implementation of the Group's strategy. The Group has continued to deliver on its vision to create a truly Australian global technology success story. This acquisition enabled the Group to accelerate product innovation and to expand the overall offering, particularly in the mobility area. The acquisition has proven to be a low risk and transformational step to gain increased scale and diversification. This will allow the Group to accelerate innovation and our international expansion.

The technology has been fully integrated ahead of plan and acquisition synergies completed at an annualised \$6.2 million, significantly outperforming the original target of \$4 million.

Revenue up 38.2%

The Group's revenue was \$27,053,000 for the financial year, up by 38.2% on the prior year. Total revenue and other income for the year was \$28,727,000. The record revenue performance was driven by continued growth in user numbers among existing clients and new clients acquired during the year. Total user numbers grew by 74% to 737,000. This as a result of deepening relationships with current clients, success in customer acquisition and continued improvement in reducing non-renewals and the completion of the Vault acquisition.

The underlying increase revenue trend is reinforced by the increasing receipts from customers (LTM \$m) profile of the business which has increased by 52%.

Operating leverage drives gross margin and EBITDA expansion

Gross margin increased by \$2,109,000, up 11%, to \$21,274,000 (30 June 2020: \$19,165,000). Gross margin growth was mainly driven by organic revenue growth and the impact of acquisitions. The gross margin was 78.6% (30 June 2020: 68.5%), reflecting the continued leverage from increased scale.

The strong EBITDA performance demonstrates the successful integration of Vault. It evidences that the Group was able to offset the financial impact of Vault's previous operating cash loss business and proves that synergies were implemented quickly and efficiently. These are now fully landed and will deliver continued returns in future financial performance. The EBITDA and cash receipts from customers demonstrate integration risks presented by past acquisitions have been successfully mitigated.

Damstra SaaS ARR grows 63%

As the Group's SaaS business continues to grow quickly, the quality of this revenue stream is exceptionally high, given its recurring contractual nature, combined with the Group's very low churn rate of <1%.

The Group's total Annual Recurring Revenue (ARR) has hit \$34.5 million, up 63% on the prior year. The Group's ARR stands at 87% of total revenue which means the majority of the Group's revenue is locked-in at the start of the financial year which positions us well to achieve strong continuing growth in the new year.

Receipts from customers increase by 52%

Receipts from customers (LTM) have increased to \$31.7 million, up 52% from the prior year.

Investment in Research and Development (R&D) up 34%

The Group invested \$11 million in R&D this year (including capitalised costs), up 34% from the prior year. This was a significant increase as the Group took the opportunity this year to accelerate R&D into a number of new and exciting areas. The Group continued its significant investment in product innovation to further develop its software platform and to build the Group's innovation pipeline.

With the Group's research and development investment, the Group constantly deliver upgrades to its products, further improving the scalability, functionality, productivity, and performance, whilst also creating more technology assets across the Group's businesses.

The investment in R&D is reflected in the Group's headcount which now stands at 90 full-time employees.

Operating expenses:

Operating expenses grew by 14% to \$14.6 million for the year primarily as a result of:

- Investments focussed on resources internationally especially North America;
- Investments in network infrastructure to support ongoing onboarding major new global deployments;
- Investments in engineering to create the platform for future product releases;
- Within the operating expenses includes a business combination from Vault acquisition.

Debt Facility

During the year, the Group successfully refinanced its existing debt facilities, enhancing the Group's financial position to fund its ongoing product development and continued growth. The new secured debt facility of up to AUD\$20 million has been provided by Partners for Growth VI, L.P. (PFG), a well-known San Francisco Bay Area-headquartered specialist provider of growth funding solutions to technology companies.

Directors' Report

Continued

Summary of Financial Results

During the year to 30 June 2021, despite the impact of COVID-19 product rollout, the Group delivered significant revenue growth across its global business as the Group increased market penetration, customer usage and increased adoption of the Group's technology. The Group continued significant investments in innovation and development, expanding its global footprint and securing strategic assets in new geographies and adjacent technologies which together will accelerate the Group's future growth.

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

| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
|---|-----------------------|-----------------------|
| Loss before tax based on statutory accounts | (10,462) | (5,083) |
| Share-based payments | 3,242 | 2,062 |
| Initial public offering transaction costs | – | 2,509 |
| Acquisition costs | 1,462 | 603 |
| Depreciation and amortisation expenses | 11,776 | 6,164 |
| Net finance costs | 615 | 412 |
| <i>Pro forma EBITDA</i> | 6,633 | 6,667 |

The Group has continued to deliver on its vision of becoming a global business since listing on the ASX in 2019.

The Group's ability to deliver these results is due to its clear vision, strategy, culture, and its continued investment in Research and Development. This is discussed in detail in the following sections.

The Group sees continuing strong growth in the future, with expectations to continue increasing its business internationally.

The Group added 157 client customers this year and now have 724 clients globally. The Group ended the year with 737,000 users; up from 423,000 the prior year, as a result of deepening relationships with current clients, success in customer acquisition and continued product innovation.

The Group's global positioning of its EPP solution is delivering a compelling value proposition for its customers providing them with any device, any time access from anywhere around the globe as well as a simple and cost-effective way to run their enterprise. This is allowing its customers to innovate and meet their challenges ahead with greater agility and speed.

The Group's paperless forms module is now deeply integrated into the EPP. This offering allows the clients to increase the safety and compliance of their organisations and increase the productivity of their worksites at a reduced cost. It has had significant uptake across the Group's enterprise customer base, particularly in mining and construction. Following a series of successful pilots, Damstra Digital Forms are now being rolled out across these larger Damstra clients. Due to the complexity of integration and the benefits to clients, this is now the Group's highest priced product offering. Strategically, the Group sees this module of the EPP as a potential game-changer. It paves the way for the Group to extend its EPP offering to organisational workflow management, assisting organisations in the digital transformation of their protection and safety processes.

The Group's Solo product continues to roll out strongly in the Health, Aged Care and Disability support sectors. The positioning of the product has been strengthened with the Royal Commission findings into Aged Care, paving the way for solutions such as Solo to assist. Solo satellite capability has now been developed to work on mobiles and wearables in remote areas without 3G/4G telecommunications coverage. This extension to work on satellite allows the use of Solo anywhere globally, providing complete coverage for transport and logistics and remote healthcare, where client trials are underway.

Solo is also currently being trialled with clients in the transport and waste sectors where monitoring workers and vehicles is deemed a critical control point. In addition, Solo is being used by some of the Group's mining and construction clients. It is particularly useful in mining exploration activities, where workers operating in remote locations can now utilise the recently released satellite capability.

Evolving product offering – Enterprise Protection Platform

During the year, the Group continued to implement new product releases across its platform, with product innovation being a key differentiator. This included evolving its product positioning to an enterprise protection platform ('EPP'), a strategic pivot reflecting the breadth and depth of its rapidly expanding offering. The EPP enables clients to harness the power of the four largest investment areas in any organisation that carry the largest business risks, ensuring prepared people, safe places, connected assets and accessible information.

Strategically, current, and prospective clients have responded extremely favourably to the launch of the Group's new EPP, recognising how the Group's product suites have evolved to work not only individually but also, critically, how they can orchestrate seamlessly into a fully unified offering. Large clients now have great confidence that the Group can deploy the EPP at an enterprise-level rather than be seen as a single point solution.

The Group will continue to implement new products, modules, and features, under the umbrella of EPP. This strategic pivot reflects the breadth and depth of the Group's rapidly expanding offering. The EPP protects clients from unnecessary and unforeseen business risks in the four largest investment areas in any organisation, ensuring prepared people, safe workplaces, connected assets and accessible information.

North American Advisory Board

The Group announced the formation of a North American Advisory Board. The Board includes senior executives from the technology, mining, and energy industries. It has been established to help the Group's management identify business development opportunities and accelerate the Group's organic growth in the region. Foundational Advisory Board members Tim Davis, Ray Gogel, Pam Saxton and Ray Schiavone bring more than 120 years of combined industry experience.

Deepening channel partner strategy

The Group's partnership strategy continues to develop, with approximately 40 partners globally, targeting 12 different verticals. Continued expansion of a scalable and profitable partner program is a key component in Group's revenue growth strategy. This has been built on a solid, sustainable platform designed to discover, develop, and execute significant revenue opportunities across targeted industry verticals, via a group of carefully selected partners.

The Group achieved Partner status with Amazon Web Services ('AWS') and is now working with AWS's Global Mining team. The Group used AWS to build its Enterprise Protection Platform (EPP) on the AWS global cloud infrastructure, which provides best-in-class availability and scalability.

Verdantix is an independent global research and advisory firm with expertise in digital strategies for Environment, Health and Safety, ESG and Sustainability, Operational Excellence and Smart Buildings. Verdantix has featured the Group in two global reports, one being the 'Control of Work Software Applications' market, and Verdantix rating Solo one of '10 Exciting Connected Worker Solution Providers To Watch In 2021'.

The United States Security Executive Council ('SEC') is the leading research and advisory firm that specialises in corporate security risk mitigation solutions. The Group is a solutions technology partner helping to support SEC's member organizations.

Material business risks

The business has previously identified the following material risks that are still relevant: Failure to retain existing clients and attract new clients, increased competition, cyber-attacks and data hacks, losing access to networks and data centres, suppliers acting inconsistently with our Code of Conduct and failure to attract or retain key talent. In all cases, risks are recorded and actions assigned to address the likelihood and impact of those events occurring.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2021 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.

Directors' Report

Continued

Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations are included within the 'review of operations' section above.

Environmental regulation

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

Information on directors

| | |
|--------------------------------------|---|
| Name: | Johannes Risseuw |
| Title: | Executive Chairman |
| Qualifications: | Bachelor of Economics from the University of Sydney and Graduate Diploma of Applied Finance from Kaplan Professional |
| Experience and expertise: | Johannes joined the Group in 2012 and has held the role of Executive Chairman since 2017. He was the 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. He was previously the Chief Investment Officer of Questus Energy Pty Ltd, focused on the acquisition and management of oil and gas assets, and Chief Operating Officer at Skilled Group Limited. Johannes is a non-executive director of US-based entity Fanplayr Inc. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Interests in shares: | 19,125,556 ordinary shares |
| Interests in options: | 2,198,476 options over ordinary shares |
| Name: | Christian Damstra |
| Title: | Chief Executive Officer |
| Qualifications: | Diploma in Electrical Engineering from TAFE New South Wales |
| Experience and expertise: | Christian joined the Group in 2002 as General Manager, after his father founded the Company while undertaking contract work in the mining industry. He managed the Company as a technology company as part of the Skilled Group, before leading a management buy-out of the Company in 2016 along with Johannes Risseuw. Prior to joining the Group, 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 |
| Interests in shares: | 19,031,500 ordinary shares |
| Interests in options: | 2,198,476 options over ordinary shares |

| | |
|--------------------------------------|--|
| Name: | Drew Fairchild |
| Title: | Non-Executive Director |
| Qualifications: | Bachelor of Business from Monash University, Master of Applied Finance from Melbourne University, and a graduate of the Group Business Leadership Program (Insead). |
| Experience and expertise: | Drew joined the Group as a Non-Executive Director in 2016. He 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 the Non-Executive Director, he assisted the Company as an adviser during the buy-out of the Company from the Programmed Group. Prior to joining the Group, Drew worked as a Chief Financial Officer within both Fulton Hogan and Cleanaway, and founded an oil and gas investment fund that was sponsored by Intermediate Capital Group PLC. He also served as the Director for Questus Energy Pty Ltd. |
| Other current directorships: | Executive Director of Top Shelf International Holdings Ltd (ASX: TSI) – appointed on 17 September 2017 |
| Former directorships (last 3 years): | None |
| Special responsibilities: | Chairman of Audit and Risk Committee, member of Nomination and Remuneration Committee |
| Interests in shares: | 3,162,222 ordinary shares |
| Interests in options: | 133,333 options over ordinary shares |
| Name: | Morgan Hurwitz |
| Title: | Non-Executive Director |
| Qualifications: | Bachelor of Arts from Monash University and is a graduate of the Australian Institute of Company Directors |
| Experience and expertise: | Morgan joined the Group as a Non-Executive Director in 2016. He 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 the Group, he 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. He is an active investor in the Technology sector and is a Non-Executive Director of Leighton O'Brien. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Special responsibilities: | Chairman of Nomination and Remuneration Committee and member of Audit and Risk Committee |
| Interests in shares: | 3,583,333 ordinary shares |
| Interests in options: | 66,667 options over ordinary shares |

Directors' Report

Continued

| | |
|--------------------------------------|--|
| Name: | Simon Yencken |
| Title: | Non-Executive Director |
| Qualifications: | Bachelor of Laws from Monash University and Bachelor of Science (Mathematics) from Monash University |
| Experience and expertise: | Simon joined the Group as a Non-Executive Director in 2019. He is the Chief Executive Officer and founder of Fanplayr Inc, which uses behavioural personalisation to increase user engagement with websites. Prior to joining the Group, he was a Director of Aconex Limited for 10 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: | None |
| Former directorships (last 3 years): | None |
| Special responsibilities: | Member of Nomination and Remuneration Committee and member of Audit and Risk Committee |
| Interests in shares: | 1,177,777 ordinary shares |
| Interests in options: | 66,667 options over ordinary shares |
| Name: | Sara La Mela |
| Title: | Non-Executive Director |
| Qualifications: | Bachelor of Arts from the University of Pennsylvania and an MBA from INSEAD and a graduate of the Australian Institute of Company Directors |
| Experience and expertise: | Sara has extensive experience as a technology executive in both Australia and the United States of America (Silicon Valley), serving in various sales and marketing roles at RedBull, Google and Twitter. She has served as the Chief Operating Officer of Local Measure International Pty Limited for the last seven years, which provides a communications management platform for cloud-based contact centres. |
| Other current directorships: | Non-Executive Director of Whispir Limited (ASX: WSP) – appointed on 1 February 2019 |
| Former directorships (last 3 years): | None |
| Interests in shares: | None |
| Interests in options: | None |

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretaries

Chris Scholtz and **Carlie Hodges** are both Company Secretaries of the Company.

Chris is the Chief Financial Officer and Company Secretary of the Company. Chris assumed the Finance responsibility for the Group in 2014 when under Skilled Group ownership, and became Chief Financial Officer in 2016. He was previously the 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.

Carlie has held the role of Company Secretary since June 2019. She 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. She is also the 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 Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2021, 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 |
| Johannes Risseuw | 13 | 13 | – | – | – | – |
| Christian Damstra | 12 | 13 | – | – | – | – |
| Drew Fairchild | 12 | 13 | 2 | 2 | 4 | 4 |
| Morgan Hurwitz | 13 | 13 | 2 | 2 | 4 | 4 |
| Simon Yencken | 13 | 13 | 2 | 2 | 4 | 4 |
| Sara La Mela | 9 | 9 | – | – | – | – |

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 ('KMP') remuneration arrangements for the Group, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

KMP 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:

- 1 Principles used to determine the nature and amount of remuneration
- 2 Details of remuneration
- 3 Service agreements
- 4 Share-based compensation
- 5 Additional information
- 6 Additional disclosures relating to KMP

Directors' Report

Continued

1. 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 ('NRC') 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.

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 NRC. The NRC 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. The chairman's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

ASX listing rules require the aggregate Non-Executive Directors' remuneration be determined periodically by a general meeting. The shareholders approved a maximum annual aggregate remuneration of \$600,000 per annum. Non-Executive Directors are paid a base fee plus variable fees for committee membership and chairing responsibilities.

| | Chair fee | Member fee |
|-----------|-----------|------------|
| Board | N/A | \$75,000 |
| Committee | \$10,000 | \$5,000 |

All fees attract superannuation guarantee contributions. Mr Yencken's fees are grossed up by 9.5% to reflect a pro forma superannuation guarantee contribution.

The current base fees were reviewed with effect from 1 September 2020. Non-Executive Director fees (directors' fees and committee fees) (inclusive of superannuation) are summarised as follows:

| Name – Position | Fees per annum |
|---|----------------|
| Drew Fairchild – Non-Executive Director | \$99,000 |
| Morgan Hurwitz – Non-Executive Director | \$99,000 |
| Simon Yencken – Non-Executive Director | \$93,075 |
| Sara La Mela – Non-Executive Director | \$82,500 |

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 has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation 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 NRC 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 short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

The long-term incentives ('LTI') include share-based payments. Shares are awarded to executives based on continued service with the Company under the employee incentive plan. These include an increase in shareholders' value relative to the entire market and an increase compared to the Group's direct competitors. The NRC reviewed the long-term equity-linked performance incentives specifically for executives during the year ended 30 June 2021.

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 ('STI' or 'variable remuneration'). A portion of a 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 Group that is reasonable in the circumstances. The targets for the year under review, as it relates to KMP, 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.

Directors' Report

Continued

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

- at least 90% achievement at revenue target and at least 60% achievement at 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 Financial Year 2021 ('FY21'), the EIP scheme was structured to pay variable remuneration based on a percentage of basic salary with outcomes determined by individual and Group KPI's as follows:

- cash bonus 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.

The above zero priced and premium-priced options awarded are subject to further service condition up to the vesting date. Refer to section 'share-based payments' for further details.

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

The EIP scheme will also be implemented for FY22 and will have a similar structure as the FY21 scheme, except for the ratio of premium priced options to zero priced options.

Details of performance is listed below:

| Name | Group revenue and other income Target % | Group revenue and other income Actual % | Individual targets Target % | Individual targets Actual % |
|-------------------|--|--|--------------------------------------|--------------------------------------|
| Johannes Risseeuw | 70% | 32% | 30% | 27% |
| Christian Damstra | 70% | 32% | 30% | 21% |
| Chris Scholtz | 70% | 32% | 30% | 30% |

The NRC and the Board have assessed performance as being above the hurdle rate of achievement for both Group and individual targets for FY21. The total average net achievement for KMP is 51%.

The NRC 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.

Use of remuneration consultants

During the financial year ended 30 June 2021, the Group did not engage any remuneration consultants.

Voting and comments made at the Company's 2020 Annual General Meeting ('AGM')

At the 2020 AGM, shareholders voted to approve the adoption of the remuneration report for the year ended 30 June 2020. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

2. Details of remuneration

Amounts of remuneration

Details of the remuneration of KMP of the Group are set out in the following tables.

The KMP of the Group consisted of the following directors of Damstra Holdings Limited:

- Johannes Risseeuw – Executive Chairman
- Christian Damstra – Chief Executive Officer
- Drew Fairchild – Non-Executive Director
- Morgan Hurwitz – Non-Executive Director
- Simon Yencken – Non-Executive Director
- Sara La Mela – Non-Executive Director

And the following person:

- Chris Scholtz – Chief Financial Officer and Company Secretary

| | Short-term benefits | | | Post-employ- ment benefits | Long-term benefits | Share-based payments | Total \$ |
|---------------------------------|-------------------------------|------------------|---|-------------------------------|-----------------------|--------------------------|-------------|
| | Cash salary and fees \$ | Cash bonus \$ | Expatriate and other allowances \$ | Super- annuation \$ | Other \$ | Equity- settled \$ | |
| 30 Jun 2021 | | | | | | | |
| <i>Non-Executive Directors:</i> | | | | | | | |
| Drew Fairchild | 87,500 | – | – | 8,313 | – | – | 95,813 |
| Morgan Hurwitz | 87,500 | – | – | 8,313 | – | – | 95,813 |
| Simon Yencken* | 88,969 | – | – | – | – | – | 88,969 |
| Sara La Mela** | 56,250 | – | – | 5,344 | – | – | 61,594 |
| <i>Executive Directors:</i> | | | | | | | |
| Johannes Risseeuw | 409,166 | 105,531 | – | 21,694 | 49,060 | 315,266 | 900,717 |
| Christian Damstra | 462,690 | 82,713 | 140,017 | 21,649 | 23,586 | 292,844 | 1,023,499 |
| <i>Other KMP:</i> | | | | | | | |
| Chris Scholtz | 303,559 | 46,125 | – | 21,694 | 38,937 | 157,147 | 567,462 |
| | 1,495,634 | 234,369 | 140,017 | 87,007 | 111,583 | 765,257 | 2,833,867 |

* Fees are paid in US dollars (US\$ 67,448).

** Represents remuneration from 1 October 2020 to 30 June 2021.

Directors' Report

Continued

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | |
|---------------------------------|-------------------------|---------------|------------------------------------|--------------------------|--------------------|----------------------|-----------|
| | Cash salary and fees \$ | Cash bonus \$ | Expatriate and other allowances \$ | Super-annuation \$ | Other \$ | Equity-settled \$ | Total \$ |
| 30 Jun 2020 | | | | | | | |
| <i>Non-Executive Directors:</i> | | | | | | | |
| 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 |
| <i>Executive Directors:</i> | | | | | | | |
| Johannes Risseuw | 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 |
| <i>Other KMP:</i> | | | | | | | |
| Chris 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 |

* Represents remuneration from 16 October 2019 to 30 June 2020. Simon Yencken's fees are paid in US dollars (US\$ 36,634).

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

| | Fixed remuneration | | At risk – STI | | At risk – LTI | |
|---------------------------------|--------------------|-------------|---------------|-------------|---------------|-------------|
| Name | 30 Jun 2021 | 30 Jun 2020 | 30 Jun 2021 | 30 Jun 2020 | 30 Jun 2021 | 30 Jun 2020 |
| <i>Non-Executive Directors:</i> | | | | | | |
| Drew Fairchild | 100% | 100% | – | – | – | – |
| Morgan Hurwitz | 100% | 100% | – | – | – | – |
| Simon Yencken | 100% | 100% | – | – | – | – |
| Sara La Mela | 100% | – | – | – | – | – |
| <i>Executive Directors:</i> | | | | | | |
| Johannes Risseuw | 53% | 46% | 12% | 12% | 35% | 42% |
| Christian Damstra | 63% | 57% | 8% | 10% | 29% | 33% |
| <i>Other KMP:</i> | | | | | | |
| Chris Scholtz | 64% | 60% | 8% | 11% | 28% | 29% |

The proportion of the cash bonus paid/payable or forfeited is as follows:

| Name | Cash bonus paid/payable | | Cash bonus forfeited | |
|--|-------------------------|-------------|----------------------|-------------|
| | 30 Jun 2021 | 30 Jun 2020 | 30 Jun 2021 | 30 Jun 2020 |
| <i>Executive Directors:</i> | | | | |
| Johannes Risseeuw | 55% | 94% | 45% | 6% |
| Christian Damstra | 44% | 100% | 56% | – |
| <i>Other Key Management Personnel:</i> | | | | |
| Chris Scholtz | 62% | 90% | 38% | 10% |

3. Service agreements

KMP are employed under individual employment agreements. The agreements are continuous (i.e. not of fixed duration) unless otherwise stated. These agreements provide for a total compensation including a base salary, superannuation contribution and incentive arrangements; variable notice and termination provisions and provisions for redundancy.

Remuneration and other terms of employment for KMP are formalised in service agreements. Details of these agreements are as follows:

| | |
|----------------------|---|
| Name: | Johannes Risseeuw |
| Title: | Executive Chairman |
| Agreement commenced: | 16 October 2017 |
| Term of agreement: | Ongoing |
| Details: | Salary of \$434,525 per annum inclusive of superannuation. Six months' notice by either party for termination of employment. |
| Name: | Christian Damstra |
| Title: | Chief Executive Officer |
| Agreement commenced: | 15 March 2016 |
| Term of agreement: | Ongoing |
| Details: | Salary of \$434,525 per annum inclusive of superannuation. Six months' notice by either party for termination of employment. |
| Name: | Drew Fairchild |
| Title: | Non-Executive Director |
| Agreement commenced: | 1 April 2016 |
| Term of agreement: | Ongoing |
| Details: | Director fees of \$99,000 per annum inclusive of superannuation. The employment period is open until a written notice of resignation is communicated by the director. |

Directors' Report

Continued

| | |
|----------------------|---|
| Name: | Morgan Hurwitz |
| Title: | Non-Executive Director |
| Agreement commenced: | 7 November 2016 |
| Term of agreement: | Ongoing |
| Details: | Director fees of \$99,000 per annum inclusive of superannuation. The employment period is open until a written notice of resignation is communicated by the director. |
| Name: | Simon Yencken |
| Title: | Non-Executive Director |
| Agreement commenced: | 1 April 2019 |
| Term of agreement: | Ongoing |
| Details: | Director fees of \$93,075 per annum inclusive of superannuation. The employment period is open until a written notice of resignation is communicated by the director. |
| Name: | Sara La Mela |
| Title: | Non-Executive Director |
| Agreement commenced: | 1 October 2020 |
| Term of agreement: | Ongoing |
| Details: | Director fees of \$82,500 per annum inclusive of superannuation. The employment period is open until a written notice of resignation is communicated by the director. |
| Name: | Chris Scholtz |
| Title: | Chief Financial Officer and Company Secretary |
| Agreement commenced: | 1 September 2016 |
| Term of agreement: | Ongoing |
| Details: | Salary of \$325,774 per annum inclusive of superannuation. Six months' notice by either party for termination of employment. |

KMP have no entitlement to termination payments in the event of removal for misconduct.

4. Share-based compensation

Issue of shares

There were no shares issued to directors and other KMP as part of compensation during the year ended 30 June 2021.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other KMP in this financial year or future reporting years are as follows:

| Name | Number of options granted | Grant date | Vesting date | Expiry date | Exercise price | Fair value per option at grant date |
|------------|---------------------------|--------------|--------------|--------------|----------------|-------------------------------------|
| J Risseeuw | 395,068 | 30 Sept 2020 | Time based* | 30 Sept 2026 | \$3.25 | \$0.290 |
| J Risseeuw | 130,193 | 30 Sept 2020 | Time based* | 30 Sept 2035 | \$0.00 | \$0.880 |
| J Risseeuw | 491,073 | 30 Sept 2020 | Time based** | 30 Sept 2026 | \$3.25 | \$0.560 |
| C Damstra | 395,068 | 30 Sept 2020 | Time based* | 30 Sept 2026 | \$3.25 | \$0.290 |
| C Damstra | 130,193 | 30 Sept 2020 | Time based* | 30 Sept 2035 | \$0.00 | \$0.880 |
| C Damstra | 491,073 | 30 Sept 2020 | Time based** | 30 Sept 2026 | \$3.25 | \$0.560 |
| C Scholtz | 202,732 | 30 Sept 2020 | Time based* | 30 Sept 2026 | \$3.25 | \$0.290 |
| C Scholtz | 66,809 | 30 Sept 2020 | Time based* | 30 Sept 2035 | \$0.00 | \$0.880 |
| C Scholtz | 88,758 | 30 Sept 2020 | Time based** | 30 Sept 2035 | \$0.00 | \$1.690 |

* Granted in arrears relating to FY20 EIP Plan. 25% of the options vest equally over four years from 30 September 2020 and 31 August 2023.

** 33.33% of the options vest equally over three years from 30 September 2021 and 30 September 2023.

Options granted carry no dividend or voting rights. Vesting of the options are subject to service condition (continuous employment) and there are no performance conditions.

The number of options over ordinary shares granted to and vested by directors and other KMP as part of compensation during the year ended 30 June 2021 are set out below:

| Name | Number of options granted during the year 30 Jun 2021 | Number of options granted during the year 30 Jun 2020 | Number of options vested during the year 30 Jun 2021 | Number of options vested during the year 30 Jun 2020 |
|-------------------|---|---|--|--|
| Johannes Risseeuw | 1,016,334 | 982,142 | 131,315 | 982,142 |
| Christian Damstra | 1,016,334 | 982,142 | 131,315 | 982,142 |
| Drew Fairchild | – | 133,333 | – | 133,333 |
| Morgan Hurwitz | – | 133,333 | – | 133,333 |
| Simon Yencken | – | 133,333 | – | 133,333 |
| Chris Scholtz | 358,299 | 111,111 | 67,385 | 111,111 |

Directors' Report

Continued

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2021 are set out below:

| Name | Value of options granted during the year \$ | Value of options exercised during the year \$ | Value of options lapsed during the year \$ | Remuneration consisting of options for the year % |
|----------------|--|--|---|--|
| J Risseeuw | 504,140 | – | – | 35% |
| C Damstra | 504,140 | – | – | 29% |
| Morgan Hurwitz | – | 60,000 | – | – |
| Simon Yencken | – | 60,000 | – | – |
| C Scholtz | 267,585 | 101,063 | – | 28% |

Performance rights

There were no performance rights over ordinary shares issued to directors and other KMP as part of compensation that were outstanding as at 30 June 2021.

5. Additional information

The earnings of the Group for the four years to 30 June 2021 are summarised below:

| | 2021 \$'000 | 2020 \$'000 | 2019 \$'000 | 2018 \$'000 |
|-----------------------|----------------|----------------|----------------|----------------|
| Sales revenue | 27,053 | 19,577 | 15,278 | 10,577 |
| Loss after income tax | (8,627) | (3,779) | (3,718) | (3,989) |

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

| | 2021 | 2020 | 2019 | 2018 |
|---|--------|--------|--------|------|
| Share price at financial year end (\$) | 0.83 | 1.31 | – | – |
| Basic earnings/(loss) per share (cents per share) | (5.00) | (3.05) | (4.14) | – |

6. Additional disclosures relating to KMP

Shareholding

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

| | Balance at the start of the year | Issued on exercise of options | Additions through on market trades | Disposals through on market trades | Balance at the end of the year |
|------------------------|----------------------------------|-------------------------------|------------------------------------|------------------------------------|--------------------------------|
| <i>Ordinary shares</i> | | | | | |
| Johannes Risseuw | 19,125,556 | – | – | – | 19,125,556 |
| Christian Damstra | 19,031,500 | – | – | – | 19,031,500 |
| Drew Fairchild | 3,662,222 | – | – | (500,000) | 3,162,222 |
| Morgan Hurwitz | 3,466,667 | 66,666 | 50,000 | – | 3,583,333 |
| Simon Yencken | 1,111,111 | 66,666 | – | – | 1,177,777 |
| Sara La Mela | – | – | – | – | – |
| Chris Scholtz | 1,310,000 | 122,257 | – | – | 1,432,257 |
| | 47,707,056 | 255,589 | 50,000 | (500,000) | 47,512,645 |

Option holding

The number of options over ordinary shares in the Company held during the financial year by each director and other members of KMP of the Group, including their personally related parties, is set out below:

| | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/other | Balance at the end of the year |
|-------------------------------------|----------------------------------|-----------|-----------|--------------------------|--------------------------------|
| <i>Options over ordinary shares</i> | | | | | |
| Johannes Risseuw | 1,182,142 | 1,016,334 | – | – | 2,198,476 |
| Christian Damstra | 1,182,142 | 1,016,334 | – | – | 2,198,476 |
| Drew Fairchild | 133,333 | – | – | – | 133,333 |
| Morgan Hurwitz | 133,333 | – | (66,666) | – | 66,667 |
| Simon Yencken | 133,333 | – | (66,666) | – | 66,667 |
| Sara La Mela | – | – | – | – | – |
| Chris Scholtz | 211,111 | 358,299 | (122,257) | – | 447,153 |
| | 2,975,394 | 2,390,967 | (255,589) | – | 5,110,772 |

| | Vested and exercisable | Vested and unexercisable | Balance at the end of the year |
|-------------------------------------|------------------------|--------------------------|--------------------------------|
| <i>Options over ordinary shares</i> | | | |
| Johannes Risseuw | 722,386 | 591,071 | 1,313,457 |
| Christian Damstra | 722,386 | 591,071 | 1,313,457 |
| Drew Fairchild | 66,666 | 66,667 | 133,333 |
| Morgan Hurwitz | – | 66,667 | 66,667 |
| Simon Yencken | – | 66,667 | 66,667 |
| Sara La Mela | – | – | – |
| Chris Scholtz | 50,683 | 105,556 | 156,239 |
| | 1,562,121 | 1,487,699 | 3,049,820 |

Directors' Report

Continued

Loans to KMP and their related parties

There is an outstanding loan to Johannes Risseuw amounting to \$114,257 as at 30 June 2021 (2020: \$105,501). 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 amounting to \$8,756 for the year ended 30 June 2021 (2020: \$13,829).

This concludes the remuneration report, which has been audited.

Shares under option

There were 9,980,477 unissued ordinary shares of Damstra Holdings Limited under option outstanding at the date of this report. These options are exercisable at a weighted average exercise price of \$1.43 per share.

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 Company or of any other body corporate.

Shares issued on the exercise of options

448,277 ordinary shares of Damstra Holdings Limited were issued on the exercise of options during the year ended 30 June 2021 and up to the date of this report. The options were exercised at an exercise price of \$0.87 per share.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

To the extent permitted by law, Damstra Holdings Limited has agreed to indemnify its auditors, PricewaterhouseCoopers, as part of its audit engagement agreement against claims by third parties arising from the audit 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. No payment has been made to indemnify PricewaterhouseCoopers during the financial year and up to the date of this report.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company 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 29 to 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 29 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 (including Independence Standards) 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 Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of PricewaterhouseCoopers

There are no officers of the Company who are former partners of PricewaterhouseCoopers.

Rounding of amounts

The Company 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



Johannes Risseuw
Executive Chairman

26 August 2021



Drew Fairchild
Director

Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the audit of Damstra Holdings Limited for the year ended 30 June 2021, 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.

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

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
26 August 2021

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

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 2021

| Consolidated | | | |
|--|----------|-----------------------|-----------------------|
| | Note | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Revenue from operations | 5 | 27,053 | 19,577 |
| Share of losses of joint ventures accounted for using the equity method | 12 | (41) | – |
| Other income | 6 | 1,674 | 3,952 |
| Interest revenue | | 54 | 142 |
| Expenses | | | |
| Employee benefits expenses | | (14,755) | (10,186) |
| Depreciation and amortisation expenses | 7 | (11,776) | (6,164) |
| Other expenses | 7 | (12,002) | (11,850) |
| Finance costs | 7 | (669) | (554) |
| Loss before income tax benefit | | (10,462) | (5,083) |
| Income tax benefit | 8 | 1,835 | 1,304 |
| Loss after income tax benefit for the year attributable to the owners of Damstra Holdings Limited | | (8,627) | (3,779) |
| Other comprehensive income/(loss) | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Foreign currency translation | | 27 | (48) |
| Other comprehensive income/(loss) for the year, net of tax | | 27 | (48) |
| Total comprehensive loss for the year attributable to the owners of Damstra Holdings Limited | | (8,600) | (3,827) |
| | | Cents | Cents |
| Basic loss per share | 37 | (5.00) | (3.05) |
| Diluted loss per share | 37 | (5.00) | (3.05) |

The above consolidated 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 2021

| | | Consolidated | |
|---|------|-----------------------|-----------------------|
| | Note | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 9 | 9,834 | 9,365 |
| Trade and other receivables | 10 | 7,321 | 4,852 |
| Inventories | | 87 | – |
| Other assets | 11 | 924 | 717 |
| Income tax receivables | 8 | 261 | 1,032 |
| Total current assets | | 18,427 | 15,966 |
| Non-current assets | | | |
| Investments accounted for using the equity method | 12 | 259 | – |
| Property, plant and equipment | 13 | 7,387 | 2,298 |
| Right-of-use assets | 14 | 2,611 | 5,277 |
| Intangible assets | 15 | 131,820 | 31,757 |
| Deferred tax assets | 8 | 4,445 | 2,366 |
| Other assets | 11 | 426 | 616 |
| Total non-current assets | | 146,948 | 42,314 |
| Total assets | | 165,375 | 58,280 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 16 | 5,923 | 3,693 |
| Contract liabilities | 17 | 5,759 | 4,581 |
| Lease liabilities | 19 | 1,203 | 2,687 |
| Derivative financial instruments | 20 | 147 | – |
| Employee benefits | 21 | 2,058 | 1,804 |
| Deferred income | 22 | 1,036 | 328 |
| Provisions | | 34 | 260 |
| Total current liabilities | | 16,160 | 13,353 |
| Non-current liabilities | | | |
| Contract liabilities | 17 | 151 | 912 |
| Borrowings | 18 | 11,553 | – |
| Lease liabilities | 19 | 1,347 | 2,540 |
| Employee benefits | 21 | 104 | 74 |
| Deferred income | 22 | 696 | 376 |
| Total non-current liabilities | | 13,851 | 3,902 |
| Total liabilities | | 30,011 | 17,255 |
| Net assets | | 135,364 | 41,025 |
| Equity | | | |
| Issued capital | 23 | 143,716 | 43,269 |
| Reserves | 24 | 11,604 | 9,085 |
| Accumulated losses | | (19,956) | (11,329) |
| Total equity | | 135,364 | 41,025 |

The above consolidated 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 2021

| Consolidated | Issued capital \$'000 | 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 benefit for the year | – | – | (3,779) | (3,779) |
| Other comprehensive loss for the year, net of tax | – | (48) | – | (48) |
| Total comprehensive loss for the year | – | (48) | (3,779) | (3,827) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs (note 23) | 40,727 | – | – | 40,727 |
| Share-based payments (note 38) | – | 2,062 | – | 2,062 |
| Acquisition reserve (note 34) | – | 750 | – | 750 |
| Balance at 30 June 2020 | 43,269 | 9,085 | (11,329) | 41,025 |

| Consolidated | Issued capital \$'000 | Reserves \$'000 | Accumulated losses \$'000 | Total equity \$'000 |
|--|--------------------------|--------------------|---------------------------------|------------------------|
| Balance at 1 July 2020 | 43,269 | 9,085 | (11,329) | 41,025 |
| Loss after income tax benefit for the year | – | – | (8,627) | (8,627) |
| Other comprehensive income for the year, net of tax | – | 27 | – | 27 |
| Total comprehensive income/(loss) for the year | – | 27 | (8,627) | (8,600) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs (note 23) | 99,697 | – | – | 99,697 |
| Share-based payments (note 38) | – | 3,242 | – | 3,242 |
| Transfer to equity on issue of shares | 750 | (750) | – | – |
| Balance at 30 June 2021 | 143,716 | 11,604 | (19,956) | 135,364 |

The above consolidated 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 2021

| | | Consolidated | |
|--|------|-----------------------|-----------------------|
| | Note | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 31,736 | 20,835 |
| Payments to suppliers and employees (inclusive of GST) | | (31,256) | (16,061) |
| Transaction costs relating to business combinations | | – | (471) |
| Cash received from government grants | | 1,373 | 420 |
| Net cash from operating activities | 36 | 1,853 | 4,723 |
| Cash flows from investing activities | | | |
| Payment for purchase of business, net of cash acquired | | – | (9,220) |
| Payments for property, plant and equipment | | (2,325) | (4,997) |
| Payments for intangibles | | (4,800) | (2,480) |
| Proceeds from related party loans (net) | | – | 214 |
| Net cash used in investing activities | | (7,125) | (16,483) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 23 | 390 | 35,000 |
| Share issue transaction costs | | (359) | (3,642) |
| Transaction costs related to issue of shares expensed | | – | (2,815) |
| Interest received | | 70 | 45 |
| Interest and other finance costs paid | | (669) | (388) |
| Proceeds from borrowings | | 13,421 | 3,398 |
| Repayment of borrowings | | (3,536) | (8,174) |
| Transaction costs related to loans and borrowings | | (359) | – |
| Repayment of lease liabilities | | (3,217) | (2,589) |
| Net cash from financing activities | | 5,741 | 20,835 |
| Net increase in cash and cash equivalents | | 469 | 9,075 |
| Cash and cash equivalents at the beginning of the financial year | | 9,365 | 290 |
| Cash and cash equivalents at the end of the financial year | 9 | 9,834 | 9,365 |

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2021

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.

Damstra Holdings Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 3, Level 3
299 Toorak Road
South Yarra VIC 3141

A description of the nature of the Group's operations and its principal activities are 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 26 August 2021. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations adopted during the year are most relevant to the Group:

Conceptual Framework for Financial Reporting (Conceptual Framework)

The Group has adopted the revised Conceptual Framework from 1 July 2020. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the Group's financial statements.

Basis of preparation

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, derivative financial instruments measured at fair value.

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.

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 33.

Notes to the Consolidated Financial Statements

Continued

Note 2. Significant accounting policies continued

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Damstra Holdings Limited ('Company' or 'parent entity') as at 30 June 2021 and the results of all subsidiaries for the year then ended. Damstra Holdings Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those 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 de-consolidated from the date that control ceases.

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

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.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Damstra Holdings Limited's functional and presentation currency.

Foreign currency transactions

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

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

The Group recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the

transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

In addition, the Group considers whether: the parties to the contract have approved the contract and are committed to perform their respective obligations; each party's rights regarding the goods or services to be transferred can be identified; the payment terms for the goods or services to be transferred can be identified; the contract has commercial substance; and it is probable that the entity will collect the consideration to which it will be entitled to, evaluating the collectability by considering the customer's ability and intention to pay.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Software service

Software service revenue primarily consists of fees that give customers access to the Group's workforce management system, which also includes related customer support and maintenance. The software service revenue is recognised over time as they are delivered and consumed concurrently over the service period, beginning on the date that the services are 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.

Rental of hardware equipment

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. The hardware rental revenue is recognised over time as customers derive the benefit from the hardware, beginning on the date that the service is made available to the customers.

Implementation and other support services

Revenue from training and other support services is recognised at a point in time following the delivery and completion of the agreed services with the Group.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other income

Other income is recognised when it is received or when the right to receive payment is established.

Government grants

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Research and development ('R&D') tax incentives are recognised in the statement of profit or loss and other comprehensive income to the extent that they relate to costs that have been expensed. For costs that have been capitalised to intangible assets, the government grants income is initially recognised as 'deferred income' and is subsequently credited to the statement of profit or loss and other comprehensive income on a straight-line basis over the expected lives of the related assets. Only the portion of the incentive that is incremental to the company tax rate is accounted for as a government grant.

Notes to the Consolidated Financial Statements

Continued

Note 2. Significant accounting policies continued

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Damstra Holdings Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

The Group is entitled to claim special tax deductions in relation to qualifying Research & Development ('R&D') expenditure. The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

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.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Customer fulfilment costs

Customer fulfilment costs are capitalised as an asset when all the following are met: (i) the costs relate directly to the contract or specifically identifiable proposed contract; (ii) the costs generate or enhance resources of the Group that will be used to satisfy future performance obligations; and (iii) the costs are expected to be recovered. Customer fulfilment costs are amortised on a straight-line basis over the term of the contract.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date.

Warrants issued by the Group in connection with borrowings are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Where the warrants do not meet the definition of equity, they are initially measured at fair value. Subsequent to initial recognition, the liability is fair valued until the warrant is exercised, with gains or losses recognised in the profit or loss.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities reduce the carrying amount of the investment.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Notes to the Consolidated Financial Statements

Continued

Note 2. Significant accounting policies continued

Property, plant and equipment

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

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

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

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

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.

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 net of any lease incentives received, any initial direct costs incurred, and 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.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Acquired software

Significant costs associated with the software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3 years.

Product development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when: it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3 years.

Customer relationships

Customer relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of between 5 to 15 years.

Brands

Brands acquired in a business combination is not amortised on the basis that it has an indefinite life. Management considers that the useful life of brand is indefinite because there is no foreseeable limit to the cash flows this asset can generate. This is reassessed every year. Instead, it is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Impairment of non-financial assets

Goodwill and other 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 non-financial assets are reviewed 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.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

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. If a rental agreement contains a substantive substitute right, it is not accounted for as a lease.

Notes to the Consolidated Financial Statements

Continued

Note 2. Significant accounting policies continued

Lease liabilities continued

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.

Finance costs

Finance costs are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. 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 reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled compensation benefits are provided to employees. Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

If an employee is rendering services for the award beginning at a date earlier than the grant date, the entity estimates the cost of the award and recognises such cost over a period starting with that earlier date. The entity then adjusts the cost estimate to the grant date fair value when approval is given and the grant date is set.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques used to measure fair value are those that are appropriate in the circumstances and which maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

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.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

Notes to the Consolidated Financial Statements

Continued

Note 2. Significant accounting policies continued

Business combinations continued

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss 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 additional ordinary shares that would have been outstanding assuming conversion of all dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the 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 tax authority is included in other receivables or other payables in the 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 tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Comparatives

Comparatives in the financial statements have been realigned to the current year presentation. There was no effect on the results of operations for the year.

Rounding of amounts

The Company 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.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2021. The adoption of these Accounting Standards and Interpretations is not expected to have any significant impact on the Group's financial statements.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Revenue recognition

In addition to the accounting policy in note 2, judgement has been exercised by the Group when evaluating whether collectability of consideration is probable, by assessing the customer's ability and intention to pay at the time contracts are entered into.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

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, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available. The allowance for expected credit losses, as disclosed in note 10, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

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 lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Notes to the Consolidated Financial Statements

Continued

Note 2. Significant accounting policies continued

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. Refer to note 15 for further information.

Recovery of deferred tax assets

Deferred tax assets including those from unrecouped tax losses are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The Group has concluded that a proportion of the deferred tax asset balance will be recoverable using estimated future taxable income based on the board approved forecasts in the relevant tax jurisdictions. Judgment and assumptions about the generation of future taxable profits depends on management's estimates of future cashflows. These assumptions are consistent with the modelling used to support the carrying value of non-current assets. They depend on estimates of future predications Judgements are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised and the amounts of other tax losses and temporary differences not yet recognised.

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.

Note 4. Operating segments

Identification of reportable operating segments

The Group is organised into one operating segment, being workforce management solutions. The determination of the operating segment is based on the information provided to the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

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

Major customers

During the year ended 30 June 2021, two customers individually contributed more than 10% of the total external revenue generated by the Group (2020: two).

Geographical information

| | Sales to external customers | | Geographical non-current assets | |
|---------------------------|-----------------------------|-----------------------|---------------------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Australia | 19,384 | 16,259 | 141,385 | 38,792 |
| International operations* | 7,669 | 3,318 | 859 | 1,156 |
| | 27,053 | 19,577 | 142,244 | 39,948 |

* A significant portion of revenue from the Group's international operations was earned in the United States of America and New Zealand.

The geographical non-current assets above are exclusive of, where applicable, financial instruments and deferred tax assets.

Note 5. Revenue from operations

| | Consolidated | |
|---------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Sales revenue | 27,053 | 19,577 |

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

| | Consolidated | |
|---|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| <i>Major product lines</i> | | |
| Software services | 18,326 | 13,348 |
| Rental of hardware equipment | 5,995 | 4,414 |
| Implementation and other support services | 2,732 | 1,815 |
| | 27,053 | 19,577 |
| <i>Timing of revenue recognition</i> | | |
| Revenue recognised over time | 23,462 | 17,762 |
| Revenue recognised at a point in time | 3,591 | 1,815 |
| | 27,053 | 19,577 |

Revenue from external customers by geographic regions is set out in note 4 operating segments.

Note 6. Other income

| | Consolidated | |
|---|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Research and development tax incentives | 1,224 | 1,408 |
| Government grants (COVID-19)* | 353 | 100 |
| Net foreign exchange gain | 36 | 205 |
| Gain from bargain purchase (note 34) | – | 451 |
| Reversal of contingent consideration in relation to prior year business combination | – | 1,463 |
| Reversal of excess provisions | – | 263 |
| Other income | 61 | 62 |
| Other income | 1,674 | 3,952 |

* During the Coronavirus ('COVID-19') pandemic, prior to the Vault acquisition, the entity has received JobKeeper and other support payments amounting to \$353,000 (2020: \$100,000) from the Australian Government which are passed on to eligible employees. These have been recognised as government grants in the financial statements and recorded as other income over the periods in which the related employee benefits are recognised as an expense.

Notes to the Consolidated Financial Statements

Continued

Note 7. Expenses

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Loss before income tax includes the following specific expenses: | | |
| <i>Depreciation</i> | | |
| Leasehold improvements | 22 | 15 |
| Plant and equipment | 705 | 378 |
| Motor vehicles | 8 | 14 |
| Right-of-use assets | 2,173 | 1,973 |
| Total depreciation | 2,908 | 2,380 |
| <i>Amortisation</i> | | |
| Software | 7,752 | 3,113 |
| Customer relationships | 720 | 267 |
| Customer fulfilment costs | 396 | 404 |
| Total amortisation | 8,868 | 3,784 |
| Total depreciation and amortisation | 11,776 | 6,164 |
| <i>Other expenses include the following:</i> | | |
| Contractor expenses | 995 | 765 |
| IT and administration expenses | 2,762 | 2,679 |
| Listing expenses | – | 2,509 |
| Outsourced services and other costs associated with service delivery | 4,023 | 2,585 |
| Advisory fees and other overhead expenses | 3,472 | 3,028 |
| Acquisition costs | 750 | 284 |
| Total other expenses | 12,002 | 11,850 |
| <i>Finance costs</i> | | |
| Interest and finance charges paid/payable on borrowings | 310 | 321 |
| Interest and finance charges paid/payable on lease liabilities | 268 | 233 |
| Interest and finance charges paid/payable on others | 91 | – |
| Finance costs expensed | 669 | 554 |
| <i>Superannuation expense</i> | | |
| Defined contribution superannuation expense | 962 | 621 |
| <i>Share-based payments expense</i> | | |
| Share-based payments expense | 3,242 | 2,062 |

Note 8. Income tax

| | Consolidated | |
|---|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| <i>Income tax benefit</i> | | |
| Current tax | (366) | – |
| Deferred tax – origination and reversal of temporary differences | (1,581) | (1,487) |
| Adjustment recognised for prior periods | 112 | 183 |
| Aggregate income tax benefit | (1,835) | (1,304) |
| <i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i> | | |
| Loss before income tax benefit | (10,462) | (5,083) |
| <i>Tax effect amounts which are not deductible/(taxable) in calculating taxable income:</i> | | |
| Tax at the statutory tax rate of 26% (2020: 27.5%) | (2,720) | (1,398) |
| Amortisation of intangibles | – | 74 |
| Share-based payments | 843 | 567 |
| Non-taxable income | (289) | (937) |
| Non-assessable R&D boost | 380 | – |
| Other non-deductible expenses | 182 | 234 |
| Sundry items | (41) | – |
| | (1,645) | (1,460) |
| Adjustment recognised for prior periods | 112 | 183 |
| Current year temporary differences not recognised | (302) | (27) |
| Income tax benefit | (1,835) | (1,304) |
| <i>Deferred tax asset</i> | | |
| Deferred tax asset comprises temporary differences attributable to: | | |
| Amounts recognised in profit or loss: | | |
| Tax losses | 3,388 | 1,815 |
| Blackhole expenditure | 872 | 1,143 |
| Leases | 447 | – |
| Accrued expenses | 681 | 598 |
| Revenue received in advance | 115 | – |
| Other | 112 | 27 |
| R&D offset | 1,269 | – |
| Right-of-use assets | (503) | – |
| Property, plant and equipment | (382) | (372) |
| Customer contracts | (117) | (162) |
| Customer relationships | (1,178) | (683) |
| Brand name | (259) | – |
| Deferred tax asset | 4,445 | 2,366 |

Notes to the Consolidated Financial Statements

Continued

Note 8. Income tax continued

| | Consolidated | |
|---|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Movements: | | |
| Opening balance | 2,366 | 56 |
| Credit to profit or loss | 2,032 | 1,487 |
| Credit to balance sheet (deferred income) | 248 | – |
| Credit to equity | – | 990 |
| Additions through business combinations (note 34) | (201) | (167) |
| Closing balance | 4,445 | 2,366 |

| | Consolidated | |
|-----------------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Income tax refund due | | |
| Income tax refund due | 261 | 1,032 |

Note 9. Cash and cash equivalents

| | Consolidated | |
|----------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Current assets | | |
| Cash at bank | 9,834 | 9,365 |

Note 10. Trade and other receivables

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Current assets | | |
| Trade receivables | 6,082 | 4,759 |
| Less: Allowance for expected credit losses | (500) | (131) |
| | 5,582 | 4,628 |
| Other receivables | 1,625 | 118 |
| Receivables from related parties | 114 | 106 |
| | 7,321 | 4,852 |

Note 10. Trade and other receivables continued**Allowance for expected credit losses**

The Group has recognised a loss of \$314,000 (2020: \$23,000) in profit or loss in respect of the expected credit losses for the year ended 30 June 2021.

The Group has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay, due to the Coronavirus (COVID-19) pandemic. As a result, the calculation of expected credit losses has been revised as at 30 June 2021.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

| Consolidated | Expected credit loss rate | | Carrying amount | | Allowance for expected credit losses | |
|-----------------------|---------------------------|------------------|-----------------------|-----------------------|--------------------------------------|-----------------------|
| | 30 Jun 2021 % | 30 Jun 2020 % | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Not overdue | 5.58% | – | 4,663 | 2,978 | 260 | – |
| 1 to 2 months overdue | 2.48% | 0.12% | 161 | 810 | 4 | 1 |
| 2 to 3 months overdue | 35.85% | 5.38% | 106 | 558 | 38 | 30 |
| 3 to 4 months overdue | 21.30% | 24.20% | 277 | 190 | 59 | 46 |
| Over 4 months overdue | 15.89% | 24.20% | 875 | 223 | 139 | 54 |
| | | | 6,082 | 4,759 | 500 | 131 |

Movements in the allowance for expected credit losses are as follows:

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Opening balance | 131 | 133 |
| Additional provisions recognised | 314 | 23 |
| Additions through business combinations | 59 | 32 |
| Receivables written off during the year as uncollectable | (4) | (57) |
| Closing balance | 500 | 131 |

Notes to the Consolidated Financial Statements

Continued

Note 11. Other assets

| | Consolidated | |
|---------------------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| <i>Current assets</i> | | |
| Prepayments | 677 | 422 |
| Security deposits | 94 | 85 |
| Other current assets | 153 | 210 |
| | 924 | 717 |
| <i>Non-current assets</i> | | |
| Customer fulfilment costs | 426 | 616 |
| | 1,350 | 1,333 |

Reconciliation of customer fulfilment costs:

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

| | Consolidated | |
|----------------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Opening balance | 616 | 659 |
| Additions | 206 | 361 |
| Amortisation expense | (396) | (404) |
| | 426 | 616 |

Note 12. Investments accounted for using the equity method

| | Consolidated | |
|-------------------------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| <i>Non-current assets</i> | | |
| Investment in SkillPASS Trust | 259 | – |

Interests in joint ventures

Interests in joint ventures are accounted for using the equity method of accounting. Information relating to joint ventures that are material to the Group are set out below:

| | | Ownership interest | |
|-----------------|--|--------------------|------------------|
| Name | Principal place of business/Country of incorporation | 30 Jun 2021 % | 30 Jun 2020 % |
| SkillPASS Trust | Australia | 50.00% | – |

Summarised financial information

| | | SkillPASS Trust | |
|--|--|-----------------------|-----------------------|
| | | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| <i>Reconciliation of the Group's carrying amount</i> | | | |
| Opening carrying amount | | – | – |
| Additions during the year | | 300 | – |
| Share of loss after income tax | | (41) | – |
| Closing carrying amount | | 259 | – |

Note 13. Property, plant and equipment

| | | Consolidated | |
|----------------------------------|--|-----------------------|-----------------------|
| | | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| <i>Non-current assets</i> | | | |
| Leasehold improvements – at cost | | 142 | 179 |
| Less: Accumulated depreciation | | (121) | (147) |
| | | 21 | 32 |
| Plant and equipment – at cost | | 13,029 | 8,136 |
| Less: Accumulated depreciation | | (5,665) | (5,885) |
| | | 7,364 | 2,251 |
| Motor vehicles – at cost | | 90 | 121 |
| Less: Accumulated depreciation | | (88) | (106) |
| | | 2 | 15 |
| | | 7,387 | 2,298 |

Notes to the Consolidated Financial Statements

Continued

Note 13. Property, plant and equipment continued

Reconciliations

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

| Consolidated | Leasehold improvements \$'000 | Plant and equipment \$'000 | Motor vehicles \$'000 | Total \$'000 |
|--|----------------------------------|-------------------------------|--------------------------|-----------------|
| Balance at 1 July 2019 | 44 | 4,776 | 29 | 4,849 |
| Additions | – | 882 | – | 882 |
| Transfer to right-of-use assets on adoption of AASB 16 | – | (3,029) | – | (3,029) |
| Exchange differences | 3 | – | – | 3 |
| Depreciation expense | (15) | (378) | (14) | (407) |
| Balance at 30 June 2020 | 32 | 2,251 | 15 | 2,298 |
| Additions | 2 | 1,212 | – | 1,214 |
| Additions through business combinations (note 34) | 11 | 164 | – | 175 |
| Exchange differences | (2) | 16 | (5) | 9 |
| Transfers in/(out) | – | 4,426 | – | 4,426 |
| Depreciation expense | (22) | (705) | (8) | (735) |
| Balance at 30 June 2021 | 21 | 7,364 | 2 | 7,387 |

Note 14. Right-of-use assets

| | Consolidated | |
|--------------------------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Non-current assets | | |
| Right-of-use assets | 3,367 | 8,541 |
| Less: Accumulated depreciation | (756) | (3,264) |
| | 2,611 | 5,277 |

The Group leases land and buildings for its offices, warehouses and retail outlets under agreements of between one to five years with, in some cases, options to extend. Refer to note 2 for accounting policy on right-of-use assets.

Reconciliations

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

| Consolidated | Properties \$'000 | Equipment \$'000 | Total \$'000 |
|---|----------------------|---------------------|-----------------|
| Balance at 1 July 2019 | – | – | – |
| Adoption of AASB 16 on 1 July 2019 | 574 | 3,029 | 3,603 |
| Additions | 69 | 3,528 | 3,597 |
| Additions through business combinations (note 34) | 48 | – | 48 |
| Exchange differences | 2 | – | 2 |
| Depreciation expense | (309) | (1,664) | (1,973) |
| Balance at 30 June 2020 | 384 | 4,893 | 5,277 |
| Additions | 2,211 | 1,111 | 3,322 |
| Additions through business combinations (note 34) | 616 | – | 616 |
| Exchange differences | (5) | – | (5) |
| Transfers in/(out) | – | (4,426) | (4,426) |
| Depreciation expense | (595) | (1,578) | (2,173) |
| Balance at 30 June 2021 | 2,611 | – | 2,611 |

For other AASB 16 lease-related disclosures refer to the following:

- note 7 for details of interest on lease liabilities and other lease expenses;
- note 19 and note 36 for details of lease liabilities at the beginning and end of the reporting period;
- note 26 for the maturity analysis of lease liabilities; and
- consolidated statement of cash flows for repayment of lease liabilities.

Note 15. Intangible assets

| | Consolidated | |
|----------------------------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| <i>Non-current assets</i> | | |
| Goodwill – at cost | 106,971 | 18,471 |
| Software – at cost | 32,888 | 18,551 |
| Less: Accumulated amortisation | (13,784) | (7,748) |
| | 19,104 | 10,803 |
| Customer relationships – at cost | 6,327 | 3,381 |
| Less: Accumulated amortisation | (1,617) | (898) |
| | 4,710 | 2,483 |
| Brands | 1,035 | – |
| | 131,820 | 31,757 |

Notes to the Consolidated Financial Statements

Continued

Note 15. Intangible assets continued

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 | Brands \$'000 | Total \$'000 |
|---|--------------------|--------------------|-------------------------------------|------------------|-----------------|
| Balance at 1 July 2019 | 14,071 | 5,206 | 2,216 | – | 21,493 |
| Additions | – | 2,524 | – | – | 2,524 |
| Disposals | – | (270) | – | – | (270) |
| Additions through business combinations (note 34) | 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 |
| Additions | – | 4,594 | – | – | 4,594 |
| Additions through business combinations (note 34) | 88,500 | 11,445 | 2,947 | 1,035 | 103,927 |
| Exchange differences | – | 14 | – | – | 14 |
| Amortisation expense | – | (7,752) | (720) | – | (8,472) |
| Balance at 30 June 2021 | 106,971 | 19,104 | 4,710 | 1,035 | 131,820 |

Impairment testing for goodwill

Goodwill and other indefinite life intangible assets acquired through business combinations have been allocated to the Group's one cash-generating unit ('CGU') being the provision of workforce management solutions to multiple industries. Goodwill arising on Vault acquisition has been integrated into the Group's CGU.

The recoverable amount of the Group's goodwill and other indefinite life intangible assets have been determined by a value-in-use ('VIU') calculation using a discounted cash flow model, based on a 5-year projection period approved by management.

Key assumptions

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model:

- (a) Post-tax discount rate 11.0% (2020: 10.2%);
- (b) Revenue growth was projected at 38% (2020: 28%) in the first year and 27% (2020: 10%) from the second to the fifth year; and
- (c) Terminal growth rate 2.5% (2020: 2.5%).

Sensitivity analysis

Management believes 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.

The calculation of value in use is most sensitive to the following assumptions:

- (a) Discount rate: The post-tax discount rate in the model is 11.0% (breakeven discount rate being 12.2%, with all other factors remaining consistent in the model).
- (b) Revenue growth rate: The projected growth rate for recurring revenue in the model is between 27% to 38% (break-even growth rate being 18.0%, with all other factors remaining consistent in the model).

Note 16. Trade and other payables

| | Consolidated | |
|-----------------------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| <i>Current liabilities</i> | | |
| Trade payables | 2,818 | 1,384 |
| Accruals and other payables | 3,105 | 2,309 |
| | 5,923 | 3,693 |

Refer to note 26 for further information on financial instruments.

Note 17. Contract liabilities

| | Consolidated | |
|--------------------------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| <i>Current liabilities</i> | | |
| Contract liabilities | 5,759 | 4,581 |
| <i>Non-current liabilities</i> | | |
| Contract liabilities | 151 | 912 |
| | 5,910 | 5,493 |

Reconciliation

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

| | | |
|---|----------|---------|
| Opening balance | 5,493 | 4,042 |
| Payments received in advance | 9,413 | 9,380 |
| Additions through business combinations (note 34) | 1,917 | 775 |
| Revenue recognised in current year | (10,913) | (8,704) |
| Closing balance | 5,910 | 5,493 |

Notes to the Consolidated Financial Statements

Continued

Note 18. Borrowings

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| <i>Non-current liabilities</i> | | |
| Loan from Partners for Growth VI, L.P. ('PFG') | 11,853 | – |
| Capitalised borrowing costs | (300) | – |
| | 11,553 | – |

Refer to note 26 for further information on financial instruments.

Loan from Partners for Growth VI, L.P. ('PFG facility')

During the financial year, the Group secured a debt facility of \$20,000,000 from Partners for Growth VI, L.P. (PFG), a well-known San Francisco Bay based specialist provider of growth funding solutions to technology companies. The Group has drawn down \$12 million of the facility during the current financial year. The remaining facility of \$3 million is available for immediate draw-down. The final tranche of \$5,000,000 can be drawn when the Group achieves \$35 million in revenue.

The PFG facility is for a 36 months period with all interest rates fixed for the life of the facility. The interest is payable for each tranche ranging from 7.85% to 11.25% per annum payable monthly in arrears. In addition, a back-end fee of 7.75% per annum of average outstanding borrowing is payable on maturity in July 2024.

The borrowings are secured by a charge on all assets of the Group. All other existing debts are subordinated to PFG loan and are repaid at closing or as PFG may determine.

Warrants:

As part of the loan agreement the Group has agreed to issue the following warrants to PFG Nominees:

- Four warrants exercisable into 602,485 ordinary shares of the Company were issued. The warrants have an exercise price of between \$1.05 per share to \$1.32 per share and is exercisable before 30 June 2028.
- Four warrants exercisable into 199,457 ordinary shares of the Company will be issued on the date the final tranche is drawn down. The warrants have an exercise price of between \$1.05 per share and \$1.32 per share and is exercisable before the expiration date.

The warrants issued under the PFG facility are treated as an embedded derivative. The grant date fair value of the derivative of \$147,000, is separated from the loan balance and included under note 20 'Derivative financial instruments'.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Total facilities | | |
| Loan from Partners for Growth VI, L.P. (PFG) | 15,000 | – |
| Used at the reporting date | | |
| Loan from Partners for Growth VI, L.P. (PFG) | 12,000 | – |
| Unused at the reporting date | | |
| Loan from Partners for Growth VI, L.P. (PFG) | 3,000 | – |

Note 19. Lease liabilities

| | Consolidated | |
|--------------------------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| <i>Current liabilities</i> | | |
| Lease liability | 1,203 | 2,687 |
| <i>Non-current liabilities</i> | | |
| Lease liability | 1,347 | 2,540 |
| | 2,550 | 5,227 |

Refer to note 26 for maturity analysis of lease liabilities.

Note 20. Derivative financial instruments

| | Consolidated | |
|----------------------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| <i>Current liabilities</i> | | |
| Warrants | 147 | – |

Refer to note 26 for further information on financial instruments.

Refer to note 27 for further information on fair value measurement.

Warrants:

A derivative was recognised in relation to the warrants issued by the Group in connection with the loan facility included in note 18. These warrants are currently exercisable for 602,485 ordinary shares in the Company for an exercise price of between \$1.05 and \$1.32 per share. The warrants were initially measured at fair value. The value of the warrant liability is remeasured at each reporting period with changes in fair value recognised in the statement of profit or loss.

Notes to the Consolidated Financial Statements

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Note 21. Employee benefits

| | Consolidated | |
|--------------------------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| <i>Current liabilities</i> | | |
| Annual leave | 1,380 | 805 |
| Long service leave | 51 | 69 |
| Other employee benefits | 627 | 930 |
| | 2,058 | 1,804 |
| <i>Non-current liabilities</i> | | |
| Long service leave | 104 | 74 |
| | 2,162 | 1,878 |

Note 22. Deferred income

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| <i>Current liabilities</i> | | |
| Deferred research and development income | 1,036 | 328 |
| <i>Non-current liabilities</i> | | |
| Deferred research and development income | 696 | 376 |
| | 1,732 | 704 |

Note 23. Issued capital

| | Consolidated | | | |
|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 30 Jun 2021 Shares | 30 Jun 2020 Shares | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Ordinary shares – fully paid | 186,813,130 | 139,482,567 | 148,178 | 43,269 |
| Less: Treasury shares | (1,603,515) | – | (4,462) | – |
| | 185,209,615 | 139,482,567 | 143,716 | 43,269 |

Movements in ordinary share capital

| Details | Date | Shares | Issue price | \$'000 |
|---|------------------|-------------|-------------|---------|
| Balance | 1 July 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 |
| Issue of shares for part consideration of APE Mobile | 28 February 2020 | 2,054,793 | \$1.10 | 2,250 |
| Share transaction costs (net of tax) | | – | \$0.00 | (2,585) |
| Balance | 30 June 2020 | 139,482,567 | | 43,269 |
| Issue of shares on the acquisition of Vault Intelligence Limited (note 34) | 8 October 2020 | 44,136,408 | \$2.25 | 99,307 |
| Issue of shares to employee share trust | 22 October 2020 | 2,060,948 | \$2.17 | 4,462 |
| Issue of shares in relation to the prior year acquisition of Applied Project Experience Pty Ltd (note 34) | 26 November 2020 | 684,930 | \$1.10 | 750 |
| Issue of shares on exercise of options | 3 December 2020 | 448,277 | \$0.87 | 390 |
| Balance | 30 June 2021 | | 186,813,130 | 148,178 |

Movements in treasury shares

| Details | Date | Shares | Issue price | \$'000 |
|---|----------------------|-------------|-------------|---------|
| Balance | 1 July 2019 | – | | – |
| Balance | 30 June 2020 | – | | – |
| Issue of shares to employee share trust | 22 October 2020 | (2,060,948) | \$2.17 | (4,462) |
| Less: allocation of shares on exercise of options | July – December 2020 | 353,766 | \$0.00 | – |
| Less: allocation of shares on exercise of options | January – June 2021 | 103,667 | \$0.00 | – |
| Balance | 30 June 2021 | (1,603,515) | | (4,462) |

Notes to the Consolidated Financial Statements

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Note 23. Issued capital continued

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the Company 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.

Treasury shares

Treasury shares comprise of 2,060,948 shares issued to the Employee Share Trust ('EST').

The Company has established the EST to deliver long-term incentives to eligible employees. The trustee of the Share Trust is controlled by the Company. The acquisition of the shares under the EST is fully funded by the Group. These shares are recorded as treasury shares representing a deduction against issued capital. The shares issued to EST is allocated to employees on successful vesting of options/awards. During the financial year, 457,433 shares were allocated to option holders on the exercise of options. As at 30 June 2021, EST held 1,603,515 shares that were unallocated. Refer to note 38 'Share-based payments' for further details.

Share buy-back

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

Capital risk management

The Group's objectives when managing capital is 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.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

The Group is subject to certain covenants on its financing arrangements and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2020 Annual Report.

Note 24. Reserves

| | Consolidated | |
|------------------------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Foreign currency reserve | (27) | (54) |
| Share-based payments reserve | 11,631 | 8,389 |
| Acquisition reserve | – | 750 |
| | 11,604 | 9,085 |

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Acquisition reserve

The reserve resulted from the acquisition of non-controlling interests in a subsidiary. The acquisition of non-controlling interests is not a business combination but is an equity transaction between owners. Accordingly, the difference between consideration paid and fair value of identifiable net assets of the non-controlling interest has been accounted for in the acquisition reserve.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

| Consolidated | Foreign currency reserve \$'000 | Share-based payments reserve \$'000 | Acquisition reserve \$'000 | Total \$'000 |
|---------------------------------------|---------------------------------------|--|----------------------------------|-----------------|
| Balance at 1 July 2019 | (6) | 6,327 | – | 6,321 |
| Foreign currency translation | (48) | – | – | (48) |
| Share-based payments | – | 2,062 | – | 2,062 |
| Acquisition reserve (note 34) | – | – | 750 | 750 |
| Balance at 30 June 2020 | (54) | 8,389 | 750 | 9,085 |
| Foreign currency translation | 27 | – | – | 27 |
| Share-based payments | – | 3,242 | – | 3,242 |
| Transfer to equity on issue of shares | – | – | (750) | (750) |
| Balance at 30 June 2021 | (27) | 11,631 | – | 11,604 |

Notes to the Consolidated Financial Statements

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Note 25. Dividends

Dividends

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

Franking credits

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Franking credits available for subsequent financial years based on a tax rate of 26% (2020: 27.5%) | 1,172 | 1,172 |

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 26. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The Group is not exposed to any significant foreign currency risk, except for the translation of financial assets and liabilities of foreign subsidiaries into the presentation currency.

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group's main interest rate risk arises from its borrowings. Borrowings issued at variable rates expose the Group to interest rate risk. Borrowings issued at fixed rates expose the Group to fair value risk.

The Group is not exposed to any significant interest rate risk as the interest rates are fixed for the life of the loan facility.

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 has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available. As disclosed in note 10, due to the Coronavirus (COVID-19) pandemic, the calculation of expected credit losses and loss rates has been revised as at 30 June 2021.

The Group has a credit risk exposure with two major customers. Even though the balance was within its terms of trade, an impairment provision of \$314,000 was made due to management assessment of a potential risk of non-recovery. There are no guarantees against this receivable but management closely monitors the receivable balance on a monthly basis and is in regular contact with this customer to mitigate risk.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

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

Financing arrangements

Unused borrowing facilities at the reporting date:

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Loan from Partners for Growth VI, L.P. (PFG) | 3,000 | – |

Notes to the Consolidated Financial Statements

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Note 26. Financial instruments continued

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| Consolidated – 30 Jun 2021 | 1 year or less \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Remaining contractual maturities \$'000 |
|--|--------------------------|------------------------------------|------------------------------------|---------------------------|--|
| Non-derivatives | | | | | |
| <i>Non-interest bearing</i> | | | | | |
| Trade payables | 2,818 | – | – | – | 2,818 |
| Other payables | 3,105 | – | – | – | 3,105 |
| <i>Interest-bearing – fixed rate</i> | | | | | |
| Loan from Partners for Growth VI, L.P. | 1,180 | 1,180 | 14,110 | – | 16,470 |
| Lease liability | 759 | 500 | 1,251 | 200 | 2,710 |
| Total non-derivatives | 7,862 | 1,680 | 15,361 | 200 | 25,103 |
| Derivatives | | | | | |
| Warrants | 147 | – | – | – | 147 |
| Total derivatives | 147 | – | – | – | 147 |

| Consolidated – 30 Jun 2020 | 1 year or less \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Remaining contractual maturities \$'000 |
|--------------------------------------|--------------------------|------------------------------------|------------------------------------|---------------------------|--|
| Non-derivatives | | | | | |
| <i>Non-interest bearing</i> | | | | | |
| Trade payables | 1,384 | – | – | – | 1,384 |
| Other payables | 2,153 | – | – | – | 2,153 |
| <i>Interest-bearing – fixed rate</i> | | | | | |
| Lease liability | 2,913 | 2,013 | 620 | – | 5,546 |
| Total non-derivatives | 6,450 | 2,013 | 620 | – | 9,083 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 27. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

| Consolidated – 30 Jun 2021 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---------------------------------|-------------------|-------------------|-------------------|-----------------|
| <i>Liabilities</i> | | | | |
| Derivatives – Warrant (note 20) | – | 147 | – | 147 |
| Total liabilities | – | 147 | – | 147 |

There were no transfers between levels during the financial year.

There were no assets or liabilities measured at fair value as at 30 June 2020.

The carrying amounts of trade and other receivables and trade and other payables approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements categorised within level 2 and level 3

Warrants are measured at fair value determined using the trinomial option-pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at the grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Note 28. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

| | Consolidated | |
|------------------------------|-------------------|-------------------|
| | 30 Jun 2021 \$ | 30 Jun 2020 \$ |
| Short-term employee benefits | 1,870,020 | 1,695,655 |
| Post-employment benefits | 87,007 | 70,468 |
| Long-term benefits | 111,583 | 65,721 |
| Share-based payments | 765,257 | 1,267,537 |
| | 2,833,867 | 3,099,381 |

Notes to the Consolidated Financial Statements

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Note 29. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Company:

| | Consolidated | |
|---|-------------------|-------------------|
| | 30 Jun 2021 \$ | 30 Jun 2020 \$ |
| <i>Audit services – PricewaterhouseCoopers</i> | | |
| Audit or review of the financial statements | 331,828 | 199,637 |
| <i>Other services – PricewaterhouseCoopers</i> | | |
| Preparation of an investigating accountant's report | – | 665,475 |
| Employee share trust | 112,135 | 7,650 |
| Other | – | 16,363 |
| | 112,135 | 689,488 |
| | 443,963 | 889,125 |

Note 30. Contingent assets and liabilities

The Group had no contingent assets or liabilities as at 30 June 2021 and 30 June 2020.

Note 31. Commitments

The Group had no capital commitments as at 30 June 2021 and 30 June 2020.

Note 32. Related party transactions

Parent entity

Damstra Holdings Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 35.

Joint ventures

Interests in joint ventures are set out in note 12.

Key management personnel

Disclosures relating to key management personnel are set out in note 28 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated | |
|---|-------------------|-------------------|
| | 30 Jun 2021 \$ | 30 Jun 2020 \$ |
| Other income: | | |
| Interest received on outstanding loan to key management personnel | 8,756 | 13,829 |
| Rental income and outgoings of office premises from related party of key management personnel | 43,056 | 7,500 |
| Payment for other expenses: | | |
| Rent paid to related party of key management personnel | – | 1,000 |
| Other transactions: | | |
| Reimbursement of office fit outs paid by related party of key management personnel | 123,420 | – |

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

| | Consolidated | |
|----------------------------------|-------------------|-------------------|
| | 30 Jun 2021 \$ | 30 Jun 2020 \$ |
| Current receivables: | | |
| Loan to key management personnel | 114,257 | 105,501 |

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Notes to the Consolidated Financial Statements

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Note 33. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

| | Parent | |
|--------------------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Loss after income tax | (3,282) | (2,840) |
| Total comprehensive loss | (3,282) | (2,840) |

Statement of financial position

| | Parent | |
|---------------------------|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Total current assets | 26,571 | 3 |
| Total assets | 141,981 | 42,390 |
| Total current liabilities | – | – |
| Total liabilities | – | – |
| Equity | | |
| Issued capital | 137,254 | 36,873 |
| Reserves | 11,631 | 9,139 |
| Accumulated losses | (6,904) | (3,622) |
| Total equity | 141,981 | 42,390 |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2021 and 30 June 2020.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2021 and 30 June 2020.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 34. Business combinations

On 8 October 2020, the Group acquired Vault Intelligence Limited ('Vault') by acquiring 100% of the ordinary shares for the total non-cash consideration transferred of \$99,307,000 on completion of the court-approved Scheme of Arrangement comprising 44,136,408 shares at an issue price of \$2.25 per share.

Vault was listed on Australian Securities Exchange (ASX: VLT) and provides the software platform for comprehensive workforce performance and protection technology. It was acquired to accelerate growth, innovation and international expansion. The goodwill of \$88,500,000 represents the profitability of the acquired business and the synergistic opportunities that will arise from the acquisition. Goodwill is not deductible for tax purposes.

The acquired business contributed revenues of \$6,841,000 and profit after tax of \$4,829,000 to the Group for the period from 8 October 2020 to 30 June 2021. The values identified in relation to the acquisition of Vault are final as at 30 June 2021.

Significant judgement regarding goodwill

The Vault purchase price of \$99,307,000 was higher than the implied value of \$58,800,000 which was disclosed in the Vault scheme booklet. The disclosure in the Scheme Booklet was based on the Company's share price on 6 July 2020 and a fixed merger ratio of 2.9:1 Vault to the Company's shares. The purchase price was higher due to the increase in the Company's share price from \$1.345 per share on 6 July 2020 to \$2.25 per share on 8 October 2020 acquisition date.

Factors that contribute to the goodwill arising from the acquisition of Vault include:

- (i) Cost synergies arising from combining resources, removal and reduction of duplication and other efficiencies in the combined Group. Costs synergies of \$4,000,000 per annum were disclosed in the Vault Scheme Booklet. These were upgraded to \$6,200,000 in accordance with the Company's announcement on 27 January 2021. Further synergies are still being assessed;
- (ii) Increased revenue from expansion and integration of Vault's innovative Solo product into the Group's platform and client base; and
- (iii) Increased revenue from combining Vault's and the Group's intellectual property, sales, marketing and technology skill and expertise to further develop existing product ranges and embrace new technologies.

There is a risk that the cost and revenue synergies of the acquisition could be adversely affected if Vault's business is not integrated effectively with the Group's business. The integration of Vault and the Group's businesses may give rise to unexpected challenges and issues, and there is risk that the integration will not be successful. The integration could take longer or cost more than anticipated, including as a result of the COVID-19 pandemic.

The directors and management have tested the goodwill arising from the Vault acquisition for impairment and have concluded that the cost and revenue synergies to be derived from the integration of Vault are expected to be delivered and that no impairment exists.

Notes to the Consolidated Financial Statements

Continued

Note 34. Business combinations continued

Significant judgement regarding goodwill continued

Details of the acquisition are as follows:

| | Vault |
|---|----------------------|
| | Fair value \$'000 |
| Cash and cash equivalents | 1,265 |
| Trade receivables and other receivables | 729 |
| Other current assets | 337 |
| Property, plant and equipment | 175 |
| Right-of-use assets | 616 |
| Separately identified intangible assets | 15,427 |
| Trade payables and other payables | (2,664) |
| Contract liabilities | (1,917) |
| Deferred tax liability | (201) |
| Employee benefits | (878) |
| Deferred income | (1,419) |
| Lease liability | (663) |
| Net assets acquired | 10,807 |
| Goodwill | 88,500 |
| Acquisition-date fair value of the total non-cash consideration transferred | 99,307 |
| Representing: | |
| Damstra Holdings Limited shares issued to vendor | 99,307 |
| Acquisition costs expensed to profit or loss | 750 |
| Cash used to acquire business, net of cash acquired: | |
| Cash paid to the vendor | – |
| Less: cash and cash equivalents acquired | (1,265) |
| Net cash received | (1,265) |

Comparative period acquisitions

During the previous financial year, the Group completed three business acquisitions, being the Scenario Advantage Workforce Business ('SAW'), Applied Project Experience Pty Ltd ('APE Mobile') and SmartAsset Software Business ('SAS').

Acquisition of Scenario Advantage Workforce Business ('SAW')

On December 2019, the Company acquired 100% of the assets of the SAW business from the Projection Group. SAW provided 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.

Acquisition of Applied Project Experience Pty Ltd ('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 \$5,500,000.

Acquisition of 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 \$455,000.

Details of the acquisition are as follows:

| | SAW Fair value \$'000 | APE Mobile Fair value \$'000 | SAS Fair value \$'000 | Total \$'000 |
|--|-----------------------------|------------------------------------|-----------------------------|-----------------|
| Plant and equipment | 8 | 14 | – | 22 |
| Right-of-use assets | – | 48 | – | 48 |
| Software | 2,384 | 2,734 | 1,338 | 6,456 |
| Customer relationships | 429 | 75 | 30 | 534 |
| Deferred tax asset | 29 | 52 | – | 81 |
| Other assets | – | 299 | – | 299 |
| Contract liabilities | (397) | (216) | (162) | (775) |
| Deferred tax liability | – | – | (231) | (231) |
| Other provisions | (178) | (99) | (69) | (346) |
| Lease liability | – | (48) | – | (48) |
| Other liabilities | – | (174) | – | (174) |
| Net assets acquired | 2,275 | 2,685 | 906 | 5,866 |
| Goodwill | 1,620 | 2,780 | – | 4,400 |
| Acquisition-date fair value of the total consideration transferred | 3,895 | 5,465 | 906 | 10,266 |
| Representing: | | | | |
| Cash paid or payable to vendor | 3,895 | 2,465 | 455 | 6,815 |
| Damstra Holdings Limited shares issued to vendor | – | 2,250 | – | 2,250 |
| Contingent consideration* | – | 750 | – | 750 |
| Gain from bargain purchase (note 6) | – | – | 451 | 451 |
| | 3,895 | 5,465 | 906 | 10,266 |
| Acquisition costs expensed to profit or loss | 177 | 97 | 10 | 284 |
| Cash used to acquire business, net of cash acquired: | | | | |
| Cash paid to vendor | 3,895 | 5,465 | 455 | 9,815 |
| Less: shares issued by Company as part of consideration | – | (750) | – | (750) |
| Less: Damstra Holdings Limited shares issued to vendor | – | (2,250) | – | (2,250) |
| Net cash used | 3,895 | 2,465 | 455 | 6,815 |

* Contingent consideration shares are settled in November 2020 (note 23).

Notes to the Consolidated Financial Statements

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Note 35. 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:

| Name | Principal place of business/ Country of incorporation | Ownership interest | |
|--|--|--------------------|------------------|
| | | 30 Jun 2021 % | 30 Jun 2020 % |
| Applied Project Experience Pty Ltd | Australia | 100% | 100% |
| Damstra Technology LLC | United States of America | 100% | 100% |
| Damstra Technology Pty Ltd | Australia | 100% | 100% |
| Damstra Technology Pty Ltd | New Zealand | 100% | 100% |
| Damstra Technology UK Limited | United Kingdom | 100% | 100% |
| EIFY Pty Limited | Australia | 100% | 100% |
| NGB Industries Pty Limited | Australia | 100% | – |
| Vault Intelligence Limited | Australia | 100% | – |
| Vault IQ Australia Pty Limited | Australia | 100% | – |
| Vault IQ NZ Limited | New Zealand | 100% | – |
| Vault IQ SG Pte Ltd | Singapore | 100% | – |
| Vault Software Technology (Shanghai) Limited | China | 100% | – |
| Applied Project Experience Ltd* | United Kingdom | – | 100% |
| Applied Project Experience Inc* | United States of America | – | 100% |

* Entity deregistered during the current financial year.

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

Note 36. Cash flow information**Reconciliation of loss after income tax to net cash from operating activities**

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Loss after income tax benefit for the year | (8,627) | (3,779) |
| Adjustments for: | | |
| Depreciation and amortisation | 11,776 | 6,164 |
| Share-based payments | 3,242 | 2,062 |
| Foreign exchange differences | 129 | (72) |
| Change in operating assets and liabilities: | | |
| Increase in trade and other receivables | (2,509) | (1,225) |
| Decrease/(increase) in income tax refund due | 772 | (449) |
| Decrease in deferred tax assets | 2,079 | 2,309 |
| Increase in other assets | 208 | 318 |
| Decrease in trade and other payables | (4,859) | (758) |
| Decrease in contract liabilities | (417) | (81) |
| Increase in other provisions | 59 | 234 |
| Net cash from operating activities | 1,853 | 4,723 |

Non-cash investing and financing activities

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Additions to the right-of-use assets | 3,322 | 3,597 |
| Shares issued in relation to business combinations | 100,057 | 2,250 |
| Shares issued on conversion of loan | – | 6,062 |
| | 103,379 | 11,909 |

Notes to the Consolidated Financial Statements

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Note 36. Cash flow information continued

Changes in liabilities arising from financing activities

| Consolidated | Loan facility \$'000 | Lease liabilities \$'000 | Total \$'000 |
|---|-------------------------|-----------------------------|-----------------|
| Balance at 1 July 2019 | – | – | – |
| Adoption on AASB 16 | – | 4,093 | 4,093 |
| Net cash used in financing activities | – | (2,589) | (2,589) |
| Acquisition of leases | – | 3,597 | 3,597 |
| Changes through business combinations (note 34) | – | 48 | 48 |
| Other changes | – | 78 | 78 |
| Balance at 30 June 2020 | – | 5,227 | 5,227 |
| Net cash from/(used in) financing activities | 12,000 | (6,753) | 5,247 |
| Acquisition of leases | – | 3,322 | 3,322 |
| Changes through business combinations (note 34) | – | 663 | 663 |
| Other changes (includes \$300,000 establishment fees) | (447) | 91 | (356) |
| Balance at 30 June 2021 | 11,553 | 2,550 | 14,103 |

Note 37. Earnings per share

| Consolidated | | |
|---|-----------------------|-----------------------|
| | 30 Jun 2021 \$'000 | 30 Jun 2020 \$'000 |
| Loss after income tax attributable to the owners of Damstra Holdings Limited | (8,627) | (3,779) |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 172,581,729 | 124,057,501 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 172,581,729 | 124,057,501 |
| | Cents | Cents |
| Basic loss per share | (5.00) | (3.05) |
| Diluted loss per share | (5.00) | (3.05) |

Due to the Group's loss position, options have been excluded from the above calculations as their inclusion would be anti-dilutive.

Note 38. Share-based payments

The share-based payment expense for the financial year was \$3,242,000 (30 June 2020: \$2,062,000).

A share option plan has been established by the Group and approved by shareholders at a general meeting, whereby the Group may, at the discretion of the Nomination and Remuneration Committee, grant options over ordinary shares in the Company to the employees of the Group. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

Set out below are summaries of options granted under the plan:

| | Number of options | |
|---|-------------------|------------------|
| | 30 Jun 2021 | 30 Jun 2020 |
| Outstanding at the beginning of the financial year | 3,818,722 | – |
| Granted | 8,093,444 | 3,857,607 |
| Forfeited | (742,402) | – |
| Exercised | (905,710) | (38,885) |
| Expired | (246,144) | – |
| Outstanding at the end of the financial year | 10,017,910 | 3,818,722 |
| Exercisable at the end of the financial year | 2,128,591 | – |

On 30 September 2020, the Group issued 4,016,109 options that vest over 3 to 4 years. The options are subject to service conditions and will be dependent on the participants satisfying employment service conditions.

On 19 October 2020, the Group issued 3,534,487 options that vest over 1 to 3 years. The options were issued to former employees of Vault Intelligence Limited in accordance with the option exchange deed. In accordance with the deed, the Group issued one option in the Company for 2.9 options held in Vault. The options are subject to service and performance conditions. The options are subject to individual and Group performance conditions that are dependent on FY2021 results and will be dependent on the participants satisfying employment service conditions.

On 16 December 2020, the Group issued 409,102 options that vest over 3 years. The options are subject to service conditions as it will be dependent on the participants satisfying employment service condition on the vesting date.

On 9 April 2021, the Group issued 133,746 options that vest over 3 years. The options are subject to service conditions as it will be dependent on the participants satisfying employment service conditions on the vesting date.

The weighted average share price during the financial year was \$1.495 (2020: \$1.053).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 10.04 years (2020: 11.76 years).

Notes to the Consolidated Financial Statements

Continued

Note 38. Share-based payments continued

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

| Grant date | Expiry date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|------------|-------------|---------------------------|----------------|---------------------|----------------|-------------------------|--------------------------|
| 30/09/2020 | 30/09/2035 | \$1.98 | \$0.00 | 57.50% | 8.00% | 0.89% | \$0.880 |
| 30/09/2020 | 30/09/2026 | \$1.98 | \$3.25 | 57.50% | 8.00% | 0.69% | \$0.290 |
| 30/09/2020 | 30/09/2035 | \$1.98 | \$0.00 | 57.50% | 8.00% | 0.97% | \$1.690 |
| 30/09/2020 | 30/09/2026 | \$1.98 | \$3.25 | 57.50% | 8.00% | 0.45% | \$0.560 |
| 19/10/2020 | 01/12/2020 | \$2.15 | \$1.45 | 73.00% | 5.00% | 0.13% | \$0.710 |
| 19/10/2020 | 31/12/2020 | \$2.15 | \$1.45 | 73.00% | 5.00% | 0.13% | \$0.730 |
| 19/10/2020 | 23/11/2021 | \$2.15 | \$1.45 | 73.00% | 5.00% | 0.13% | \$0.890 |
| 19/10/2020 | 31/12/2020 | \$2.15 | \$1.74 | 73.00% | 5.00% | 0.13% | \$0.510 |
| 19/10/2020 | 23/11/2021 | \$2.15 | \$1.74 | 73.00% | 5.00% | 0.13% | \$0.770 |
| 19/10/2020 | 01/03/2024 | \$2.15 | \$0.87 | 73.00% | 5.00% | 0.13% | \$1.280 |
| 19/10/2020 | 30/06/2024 | \$2.15 | \$0.93 | 73.00% | 5.00% | 0.13% | \$1.220 |
| 16/12/2020 | 16/12/2035 | \$1.35 | \$0.00 | 70.00% | 8.00% | 0.96% | \$1.320 |
| 09/04/2021 | 09/04/2036 | \$1.21 | \$0.00 | 70.00% | 8.00% | 0.96% | \$1.180 |

Shares issued to the Employee Share Trust ('EST')

As detailed in note 23, the Company issued 2,060,948 shares to EST. The shares issued to EST is allocated to employees on successful vesting of options/awards. During the financial year, 457,433 shares were allocated to option holders on the exercise of options. As at 30 June 2021, EST held 1,603,515 shares that were unallocated.

Note 39. Events after the reporting period

No matter or circumstance has arisen since 30 June 2021 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.

Directors' Declaration

30 June 2021

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 2021 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company 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



Johannes Risseuw
Executive Chairman

26 August 2021



Drew Fairchild
Director

Independent Auditor's Report

to the members of Damstra Holdings Limited



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 2021 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 2021
- 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 significant accounting policies and other explanatory information
- 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 & 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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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 |
|--|---|---|
| <ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$240,000, which represents approximately 1% of the Group's revenue from continuing operations adjusted downwards for revenues related to certain Vault software licences. 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 adjusted Group revenue from continuing operations 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. | <ul style="list-style-type: none"> 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. | <ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: <ul style="list-style-type: none"> Carrying value of goodwill and intangible assets Determination of amortisation periods applied to finite intangible assets Capitalisation of internally developed software Revenue recognition Accounting for business combination These are further described in the <i>Key audit matters</i> section of our report. |

Independent Auditor's Report

continued



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 |
|---|---|
| <p>Carrying value of goodwill and intangible assets <i>Refer to note 3 and 15 Intangible assets</i></p> <p>At 30 June 2021, the Group had \$132m of goodwill and intangible assets.</p> <p>At least annually, an impairment test is performed by the Group over the goodwill and intangible assets by comparing the recoverable amount to the carrying value. The carrying value was determined through a value in use discounted cash flow model (the model). No impairment of the Group's goodwill and intangible assets was identified.</p> <p>The Group has determined that there is one Cash Generating Unit ("CGU"), being Total Workforce Management Solutions.</p> <p>We considered this a key audit matter due to:</p> <ul style="list-style-type: none"> • The financial significance of the goodwill and intangible assets including those acquired during the year as a result of the Vault acquisition. • The significant judgement required by the Group in the determination of the CGU. • 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: <ul style="list-style-type: none"> - year 1 and year 2-5 growth rates in revenue - the discount rate adopted in the model - terminal growth rate | <p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> • Developed an understanding of key controls associated with the identification of impairment indicators and the preparation of the model. • 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 and the requirements of Australian Accounting Standards. • 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 forecasts used in the prior year model to the actual performance of the Group in the year to 30 June 2021. • Comparing the cash flow forecasts used in the model with the Board approved budget. • Considered the Group's sensitivity analysis on key assumptions used in the impairment model to assess whether a reasonably possible change, either individually or collectively, would result in the impairment of assets. • Re-performing a selection of calculations in the model to assess mathematical accuracy. • 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 reasonableness of disclosures in note 15, including those regarding the key assumptions in light of the requirements of Australian Accounting Standards. |



Key audit matter

Determination of amortisation periods applied to finite intangible assets

Refer to note 2, 3 and 15 Intangible assets

At 30 June 2021, the Group had \$23.8m of finite intangible assets, comprising acquired customer relationships, acquired software and internally developed software.

The assessment of the amortisation periods of intangible assets was a key audit matter due to the size of the balance and judgement involved in determining the amortisation periods 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.

Capitalisation of internally developed software

Refer to note 2 and 15 Intangible assets

During the year, the Group capitalised internally developed software costs of \$4.6m. These costs predominantly related to the development of the Damstra platform.

The capitalisation of internally developed software costs was a key audit matter due to the size of the internal costs capitalised and the judgement involved by the Group in assessing whether the criteria set out in the Australian Accounting Standards required for capitalisation of such costs had been met, particularly:

- The technical feasibility of the project
- The likelihood of the project delivering sufficient future economic benefits.

The Group's judgements also included whether capitalised costs were of a developmental rather than research or maintenance nature and whether costs were directly attributable to relevant projects.

How our audit addressed the key audit matter

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 of the amortisation expense for a sample of finite lived intangible assets.
- Evaluating the reasonableness of the disclosures made in notes 2, 3 and 15 in light of the requirements of Australian Accounting Standards.

Our audit procedures included, amongst others:

- Evaluating the Group's policy and process for calculating the time and cost spent by staff on software development activities eligible for capitalisation in accordance with Australian Accounting Standards.
- Developing an understanding of the capitalised software projects in-progress and the relevant controls over identifying, tracking and recording costs eligible for capitalisation.
- On a sample basis, agreeing capitalised costs to supporting documentation to evaluate whether they were capital in nature.
- Evaluating the reasonableness of the disclosures made in notes 2 and 15 in light of the requirements of Australian Accounting Standards.

Independent Auditor's Report

continued



| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| <p>Revenue recognition Refer to note 2 Revenue recognition and 5 Revenue from operations</p> <p>The Group recognised revenue of \$27.1m, which is predominantly comprised of the following revenue streams:</p> <ul style="list-style-type: none"> • Provision of software services (\$ 18.3m) • Rental of hardware equipment (\$6.0m) • Implementation & other support services (\$2.7m) <p>Costs to fulfil contracts totalling \$0.1m were capitalised as contract costs.</p> <p>Revenue recognition is a key audit matter due to:</p> <ul style="list-style-type: none"> • 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. | <p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> • Developing an understanding of the process undertaken by the Group to recognise revenue from the provision of software services, the rental of hardware equipment and implementation and other support services. • Testing the accuracy of key calculations over the processes for the deferral and recognition of revenue within the Group's general ledger system. • Testing the automated interface between the Group's invoicing and accounting systems by reconciling invoices raised in source systems to invoices recorded in the accounting system. • Comparing a sample of invoices created in the invoicing systems to those transferred to the general ledger system. • Agreeing a sample of revenue transactions to relevant supporting documentation. • Assessing a selection of contractual terms associated with revenue recognised in the period from certain Vault software licences, including agreeing a sample of debtor balances outstanding at 30 June 2021 to relevant customer confirmations. • Assessing the appropriateness of the amortisation period over which contract costs are amortised relative to the average contract period. • Evaluating the reasonableness of the disclosures made in notes 2 and 5 in light of the requirements of Australian Accounting Standards. |
| <p>Accounting for business combination Refer to note 34 Business combination</p> <p>The Group acquired Vault Intelligence Limited for purchase consideration of \$99.3m. The purchase consideration was in the form of the Group's shares valued at the share price on the date of acquisition. Goodwill of \$88.5m was recognised on acquisition.</p> <p>The Group has recognised the fair value of assets and liabilities for the acquired businesses.</p> <p>We considered this a key audit matter because of the significant judgement involved by Group in the following areas:</p> | <p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> • Evaluating the Group's accounting against the requirements of Australian Accounting Standards, the purchase agreements and our understanding of the business acquired. • Assessing the determination of the acquisition date against supporting documentation including regulator approval, ASX announcements, relevant share registers and the requirements of Australian Accounting Standards. • Assessing the purchase consideration by recalculating the fair value of shares transferred at acquisition date to the executed agreements. |



- determining the acquisition date
- estimating the purchase consideration
- identifying all assets and liabilities of the newly acquired business
- estimating the fair value of software, brand and customer relationship assets acquired for initial recognition by the Group.
- Together with PwC experts, assessing the fair value of acquired software, brand and customer relationship assets recognised by evaluating the valuation methodology and assessing significant assumptions.
- Evaluating the reasonableness of the disclosures made in note 34 in light of the requirements of Australian Accounting Standards.

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 2021, 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 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

Independent Auditor's Report

continued



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.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 8 to 16 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of Damstra Holdings Limited for the year ended 30 June 2021 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.

A stylized signature of the PricewaterhouseCoopers firm, written in a cursive script.

PricewaterhouseCoopers

A stylized signature of Jason Perry, written in a cursive script.

Jason Perry
Partner

Melbourne
26 August 2021

Shareholder Information

30 June 2021

The shareholder information set out below was applicable as at 5 August 2021.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

| | Ordinary shares | |
|---------------------------------------|-------------------|--------------------------|
| | Number of holders | % of total shares issued |
| 1 to 1,000 | 4,112 | 1.33 |
| 1,001 to 5,000 | 5,328 | 7.53 |
| 5,001 to 10,000 | 1,644 | 6.73 |
| 10,001 to 100,000 | 1,532 | 19.77 |
| 100,001 and over | 100 | 64.64 |
| | 12,716 | 100.00 |
| Holding less than a marketable parcel | 1,223 | – |

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

| | Ordinary shares | |
|---|-------------------|--------------------------|
| | Number of holders | % of total shares issued |
| Risjef Pty Ltd | 15,465,556 | 8.28 |
| Damstar Pty Ltd | 13,670,000 | 7.32 |
| National Nominees Limited | 11,818,208 | 6.33 |
| JP Morgan Nominees Australia Pty Limited | 9,504,015 | 5.09 |
| BNP Paribas Noms Pty Ltd | 7,489,445 | 4.01 |
| Damstra Super Pty Ltd | 5,285,000 | 2.83 |
| Roselee Ridge Resources Pty Limited | 4,580,000 | 2.45 |
| HSBC Custody Nominees (Australia) Limited | 4,566,770 | 2.44 |
| Mr John Colin Loosemore + Mrs Susan Marjory Loosemore | 3,811,277 | 2.04 |
| Chocolate Pearl Pty Ltd | 3,660,000 | 1.96 |
| CS Third Nominees Pty Limited | 3,033,994 | 1.62 |
| Fairchild Advisory Pty Ltd | 2,884,444 | 1.54 |
| Mr David Moylan | 2,349,999 | 1.26 |
| Hurwitz Family Pty Ltd | 1,885,555 | 1.01 |
| Citicorp Nominees Pty Limited | 1,604,070 | 0.86 |
| Solium Nominees (Aus) Pty Ltd | 1,580,485 | 0.85 |
| BNP Paribas Nominees Pty Ltd | 1,579,921 | 0.85 |
| Fortigen Pty Ltd | 1,500,000 | 0.80 |
| HSBC Custody Nominees (Australia) Limited | 1,326,868 | 0.71 |
| Mr Pieter Christiaan Scholtz | 1,432,257 | 0.77 |
| | 99,027,864 | 53.02 |

Shareholder Information

Continued

Unquoted equity securities

| | Number on issue | Number of holders |
|---|--------------------|----------------------|
| Unlisted options over ordinary shares issued | 9,980,477 | 47 |
| Unlisted warrants over ordinary shares issued | 602,485 | 2 |

The following persons hold 20% or more of unquoted equity securities:

| Name | Class | Number held |
|-----------------------------|---|----------------|
| Partners for Growth V, L P | Unlisted warrants over ordinary shares issued | 301,243 |
| Partners for Growth VI, L P | Unlisted warrants over ordinary shares issued | 301,242 |

Substantial holders

Substantial holders in the Company are set out below:

| | Ordinary shares | |
|-------------------|-----------------|-----------------------------|
| | Number held | % of total shares issued |
| Johannes Risseeuw | 19,125,556 | 10.24 |
| Christian Damstra | 19,031,500 | 10.19 |

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

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.

There are no other classes of equity securities.

Restricted securities

As at 30 June 2021, there are no restricted securities.

Share buy-back

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

Corporate Directory

30 June 2021

Directors

Johannes Risseuw
Christian Damstra
Drew Fairchild
Morgan Hurwitz
Simon Yencken
Sara La Mela

Company secretaries

Chris Scholtz
Carlie Hodges

Registered office and Principal place of business

Suite 3, Level 3
299 Toorak Road
South Yarra VIC 3141
Telephone: 1300 722 801

Share register

Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney NSW 2000
Telephone: 02 8234 5000

Auditor

PricewaterhouseCoopers
2 Riverside Quay
Southbank VIC 3006

Solicitors

Cottel & 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>

Business objectives

In accordance with Listing Rule 4.10.19, the Company confirms that the Group has been utilising the cash and assets in a form readily convertible to cash that it held at the time of its admission to the Official List of ASX since its admission to the end of the reporting period in a way that is consistent with its business objectives.

Corporate Governance Statement

The directors and management are committed to conducting the business of Damstra Holdings Limited in an ethical manner and in accordance with the highest standards of corporate governance. Damstra Holdings Limited has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) ('Recommendations') to the extent appropriate to the size and nature of the Group's operations.

The Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed, which is approved at the same time as the Annual Report can be found at: <http://www.damstratechnology.com/investors>.

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