

1. Company details

Name of entity:	Damstra Holdings Limited
ABN:	74 610 571 607
Reporting period:	For the half-year ended 31 December 2020
Previous period:	For the half-year ended 31 December 2019

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	19.4% to	12,091
Loss from ordinary activities after tax attributable to the owners of Damstra Holdings Limited	up	29.4% to	(5,487)
Loss for the half-year attributable to the owners of Damstra Holdings Limited	up	29.4% to	(5,487)

Dividends

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

Comments

The loss for the Group after providing for income tax amounted to \$5,487,000 (31 December 2019: \$4,241,000).

Refer to Directors' report for further commentary on the results.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(2.29)	5.40

Net tangible assets calculations exclude right-of-use assets but include lease liabilities.

The net tangible assets per ordinary security for the reporting period is calculated based on 185,105,948 (30 June 2020: 139,482,567) ordinary shares on issue (excluding 1,707,182 (30 June 2020: Nil) treasury shares).

4. Control gained over entities

On 8 October 2020, the Group acquired 100% of the shares in Vault Intelligence Limited ('Vault'). Refer note 18 of the financial statements for further details.

5. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

6. Attachments

Details of attachments (if any):

The Interim Report of Damstra Holdings Limited for the half-year ended 31 December 2020 is attached.

7. Signed

As authorised by the Board of Directors



Signed _____

Date: 26 February 2021

Johannes Risseuw
Executive Chairman
Melbourne

Damstra Holdings Limited

ABN 74 610 571 607

Interim Report - 31 December 2020

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Damstra Holdings Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2020.

Directors

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

Johannes Risseeuw
 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.

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 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 18 of the financial report for further details.

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

Review of operations

Pro forma EBITDA and EBITDA 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 half-year ended 31 December 2020, the Group reported revenue and other income of \$13,345,000 (31 December 2019: \$10,296,000).

Key operational and financial metrics for the half-year ended 31 December 2020:

31 Dec 2020 31 Dec 2019

Key financial metrics

Revenue and other income growth vs previous corresponding period ('pcp')	29.6%	35.0%
Gross margin	75.1%	68.8%
Research and development expenses as a % of revenue	(32.9%)	(28.5%)
Sales and marketing expenses as a % of revenue	(31.5%)	(26.8%)
General and administration expenses as a % of revenue	(24.7%)	(21.2%)
Pro forma EBITDA margin	20.9%	25.2%

Revenue:

The growth in revenue during the financial half-year was driven by:

- Continued new client wins: during the half-year, the Group acquired 72 new customers and had minimal client revenue churn of less than 0.5%. The Group now has 670 clients globally;
- Implementation of new projects for clients. This will continue over financial year 2021 in its core vertical market segments of infrastructure and construction;
- The impact of the Vault acquisition;
- Expansion of its channel partner strategy - the Group now has 36 partners in 12 verticals;
- Continue growth in the South East Asian sector; and
- Product innovation continues with six additional products/modules brought to market during the current half-year:
 - Lone worker solution
 - Deep ground management alerts
 - Workspace booking management
 - Damstra safety
 - Satellite offering
 - Wearable technology now includes Apple and Omate watches.

Pro forma gross margin:

For the half-year ended 31 December 2020, the Group reported a Pro forma gross margin of \$9,086,000 (31 December 2019: \$6,964,000) or 75.1% up from 68.8% demonstrating the underlying leverage that exists in the business. Gross margin is calculated based on the total revenue from business operations less directly attributable costs associated with revenue earned.

Operating expenses:

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

- The Group's sales and marketing function, which reported pro forma expenses of \$3,811,000 which represents 32% of revenue;
- Research and development of a total of \$6,094,000 (including capitalised costs), primarily due to the development of new modules and the enhancement of existing modules, which represents 50% of revenue; and
- General and administrative expenses which were \$2,992,000.

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

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
<i>Loss before tax based on statutory accounts</i>	(6,450)	(4,913)
Share-based payments	2,417	2,136
Initial public offering transaction costs	-	2,470
Acquisition costs	1,302	-
Depreciation and amortisation expenses	5,090	2,472
Net finance costs	171	391
<i>Pro forma EBITDA</i>	<u>2,530</u>	<u>2,556</u>

Financial position:

As at 31 December 2020, the Group has no debt (excluding leases) and a cash balance of \$7,551,000.

Business growth strategy and likely developments

Product offering is evolving

The Group has continued with new product releases across its platform. The Group sees continued product innovation as a key differentiator and will continue evolving its product positioning to an enterprise protection platform ('EPP'). This is a strategic pivot to reflect the breadth and depth of a rapidly expanding offering. During the financial half-year, the Group launched six new products/modules. The Group has also increased its research and development resources to accelerate its product pipeline and further differentiate it from its competitors.

Continued focus on international growth

The Group has recently appointed 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 to identify business development opportunities and accelerate the Group's organic growth in North America. Foundational Advisory Board members Tim Davis, Ray Gogel, Pam Saxton, and Ray Schiavone bring more than 120 years of extensive industry experience to the Group.

Greater usage from existing customers

The Group aims to incorporate organic growth through increasing the use of its solutions among the existing customer base and by encouraging customers to licence additional modules. The Group sees the largest opportunities in its workflow, mobility, and asset modules, while revenue from its learning and access control modules continues to grow.

Channel partners

The Group is accelerating its channel partnership strategy and now has 36 channel partners, with 10 being outside of Australia and New Zealand. The partners are categorised into five different partner types, targeting 12 different industry verticals

Vault acquisition

The Vault integration is complete with all key milestone ahead of plan. Cost synergies have been upgraded to \$5,200,000 from \$4,000,000. The technical integration is now complete across both Vault Solo and Enterprise.

- Completion of the integration provides increased revenue, diversity, greater scale and a platform for accelerating growth.
- Enhances the Group's module suite with the addition of mobile, remote, and lone worker solutions.
- Extends the Group's ability to track, manage and protect both large transient workforces and lone worker enterprises.
- Accelerates the Group's channel partner strategy.
- Cost synergies increased to \$5,200,000 from \$4,000,000, which is fully implemented, with a potential for even further upgrades.
- The Solo product is now integrated into the Group's core system and product suite.
- The Legacy Enterprise solution is now integrated, reconfigured, and relaunched as Damstra Safety, six months ahead of plan.

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Johannes Risseuw
Executive Chairman



Drew Fairchild
Director

26 February 2021



Auditor's Independence Declaration

As lead auditor for the review of Damstra Holdings Limited for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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' with a long horizontal stroke extending to the right.

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
26 February 2021

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Damstra Holdings Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2020



		Consolidated	
	Note	31 Dec 2020	31 Dec 2019
		\$'000	\$'000
Revenue from operations	4	12,091	10,127
Other income		1,105	140
Interest revenue		149	29
Expenses			
Employee benefits expenses		(8,203)	(5,736)
Depreciation and amortisation expenses		(5,090)	(2,472)
Initial public offering transaction costs		-	(2,470)
Other expenses	5	(6,294)	(4,111)
Finance costs	5	(208)	(420)
Loss before income tax benefit		(6,450)	(4,913)
Income tax benefit		963	672
Loss after income tax benefit for the half-year attributable to the owners of Damstra Holdings Limited		(5,487)	(4,241)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		102	(3)
Other comprehensive income for the half-year, net of tax		102	(3)
Total comprehensive income for the half-year attributable to the owners of Damstra Holdings Limited		(5,385)	(4,244)
		Cents	Cents
Basic earnings per share	19	(3.48)	(3.86)
Diluted earnings per share	19	(3.48)	(3.86)

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

		Consolidated	
	Note	31 Dec 2020	30 Jun 2020
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		7,551	9,365
Trade and other receivables	7	4,569	4,852
Inventories		93	-
Income tax receivables		259	1,032
Other assets	8	1,437	717
Total current assets		13,909	15,966
Non-current assets			
Property, plant and equipment	9	2,649	2,298
Right-of-use assets	10	7,712	5,277
Intangible assets	11	134,277	31,757
Deferred tax assets		3,128	2,366
Other assets	8	535	616
Total non-current assets		148,301	42,314
Total assets		162,210	58,280
Liabilities			
Current liabilities			
Trade and other payables	12	6,967	3,693
Contract liabilities		5,605	4,581
Lease liabilities		3,616	2,687
Employee benefits	13	2,184	1,804
Provisions		173	260
Deferred income		1,072	328
Total current liabilities		19,617	13,353
Non-current liabilities			
Contract liabilities		326	912
Lease liabilities		3,450	2,540
Employee benefits	13	104	74
Deferred income		959	376
Total non-current liabilities		4,839	3,902
Total liabilities		24,456	17,255
Net assets		137,754	41,025
Equity			
Issued capital	14	143,716	43,269
Reserves	15	10,854	9,085
Accumulated losses		(16,816)	(11,329)
Total equity		137,754	41,025

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

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 half-year	-	-	(4,241)	(4,241)
Other comprehensive income for the half-year, net of tax	-	(3)	-	(3)
Total comprehensive income for the half-year	-	(3)	(4,241)	(4,244)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	38,477	-	-	38,477
Share-based payments (note 20)	-	2,136	-	2,136
Balance at 31 December 2019	<u>41,019</u>	<u>8,454</u>	<u>(11,791)</u>	<u>37,682</u>
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 half-year	-	-	(5,487)	(5,487)
Other comprehensive income for the half-year, net of tax	-	102	-	102
Total comprehensive income for the half-year	-	102	(5,487)	(5,385)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 14)	99,697	-	-	99,697
Share-based payments (note 20)	-	2,417	-	2,417
Transfer to equity on issue of shares	750	(750)	-	-
Balance at 31 December 2020	<u>143,716</u>	<u>10,854</u>	<u>(16,816)</u>	<u>137,754</u>

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

		Consolidated	
	Note	31 Dec 2020	31 Dec 2019
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		14,498	9,057
Payments to suppliers and employees (inclusive of GST)		(13,240)	(7,758)
Other revenue		1,373	-
		<u>2,631</u>	<u>1,299</u>
Net cash from operating activities			
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	18	-	(3,905)
Payments for property, plant and equipment		(1,474)	(3,286)
Payments for intangibles		(2,251)	(875)
Deferred consideration payments on prior period business combinations		-	(2,196)
		<u>(3,725)</u>	<u>(10,262)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from issue of shares	14	390	35,000
Share issue transaction costs		(359)	(6,677)
Interest received		37	-
Interest and other finance costs paid		(208)	(231)
Proceeds from borrowings		992	-
Repayment of borrowings		-	(7,247)
Repayment of lease liabilities		(1,572)	(174)
		<u>(720)</u>	<u>20,671</u>
Net cash from/(used in) financing activities			
Net increase/(decrease) in cash and cash equivalents		(1,814)	11,708
Cash and cash equivalents at the beginning of the financial half-year		9,365	304
		<u>7,551</u>	<u>12,012</u>
Cash and cash equivalents at the end of the financial half-year			

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

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 half-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 February 2021.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, 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.

Net current asset deficiency

As at 31 December 2020, the Group was in a net current liability position of \$5,708,000 (30 June 2020: net current asset position of \$2,613,000) of which \$5,605,000 (30 June 2020: \$4,581,000) represents contract liabilities which are expected to be recognised as revenue in the next twelve months with no further cash outflows to the Group. Further, the deficiency is also caused by the classification of \$3,616,000 (30 June 2020: \$2,687,000) of lease commitments within current liabilities whilst the associated right-of-use asset is capitalised within non-current assets.

The directors have concluded that it is appropriate to prepare the financial statements on the going concern basis, as they believe that the Group will be able to pay its debts as and when they become due and payable for at least twelve months from the date of signing the financial statements.

Note 3. 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.

Note 3. Operating segments (continued)

Major customers

During the period ended 31 December 2020 approximately 25% (2019: 32%) of the Group's external revenue was derived from sales to two (2019: one) customers amounting to \$3,050,000 (2019: \$3,232,000).

Geographical information

	Sales to external customers		Geographical non-current assets	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Australia	9,340	7,635	143,499	38,792
International operations*	2,751	2,492	1,674	1,156
	<u>12,091</u>	<u>10,127</u>	<u>145,173</u>	<u>39,948</u>

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

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

Note 4. Revenue from operations

	Consolidated 31 Dec 2020 \$'000	31 Dec 2019 \$'000
Sales revenue	<u>12,091</u>	<u>10,127</u>

Disaggregation of revenue

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

	Consolidated 31 Dec 2020 \$'000	31 Dec 2019 \$'000
Major product lines		
Rendering of services	7,888	7,088
Leasing hardware	2,750	2,168
Implementation and other support services	1,453	871
	<u>12,091</u>	<u>10,127</u>
Timing of revenue recognition		
Revenue recognised over time	10,638	9,256
Revenue recognised at a point in time	1,453	871
	<u>12,091</u>	<u>10,127</u>

Revenue from external customers by geographic regions is set out in note 3 operating segments.

Note 5. Expenses

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Loss before income tax includes the following specific expenses:		
<i>Other expenses include the following:</i>		
Contractor expenses	678	202
IT and administration expenses	1,413	1,412
Acquisition costs (excluding employee benefits expenses)	887	-
Other overhead expenses	3,316	2,497
Total other expenses	6,294	4,111
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	73	308
Interest and finance charges paid/payable on lease liabilities	135	112
Finance costs expensed	208	420
<i>Net foreign exchange loss</i>		
Net foreign exchange loss	191	15
<i>Superannuation expense</i>		
Defined contribution superannuation expense	452	300
<i>Share-based payments expense</i>		
Share-based payments expense	2,417	2,136

Note 6. Cash and cash equivalents

	Consolidated	
	31 Dec 2020 \$'000	30 Jun 2020 \$'000
<i>Current assets</i>		
Cash at bank	7,551	9,365

Note 7. Trade and other receivables

	Consolidated	
	31 Dec 2020 \$'000	30 Jun 2020 \$'000
<i>Current assets</i>		
Trade receivables	4,458	4,759
Less: Allowance for expected credit losses	(199)	(131)
	4,259	4,628
Other receivables	200	118
Receivables from related parties	110	106
	4,569	4,852

Note 8. Other assets

	Consolidated	
	31 Dec 2020 \$'000	30 Jun 2020 \$'000
<i>Current assets</i>		
Prepayments	1,026	422
Security deposits	151	85
Other current assets	260	210
	<u>1,437</u>	<u>717</u>
<i>Non-current assets</i>		
Customer fulfilment costs	535	616
	<u>1,972</u>	<u>1,333</u>

Note 9. Property, plant and equipment

	Consolidated	
	31 Dec 2020 \$'000	30 Jun 2020 \$'000
<i>Non-current assets</i>		
Leasehold improvements - at cost	195	179
Less: Accumulated depreciation	(163)	(147)
	<u>32</u>	<u>32</u>
Plant and equipment - at cost	8,809	8,136
Less: Accumulated depreciation	(6,202)	(5,885)
	<u>2,607</u>	<u>2,251</u>
Motor vehicles - at cost	121	121
Less: Accumulated depreciation	(111)	(106)
	<u>10</u>	<u>15</u>
	<u>2,649</u>	<u>2,298</u>

Reconciliations

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

	Leasehold improve- ments \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Total \$'000
Consolidated				
Balance at 1 July 2020	32	2,251	15	2,298
Additions	5	509	-	514
Additions through business combinations (note 18)	11	164	-	175
Exchange differences	(2)	-	-	(2)
Depreciation expense	(14)	(317)	(5)	(336)
Balance at 31 December 2020	<u>32</u>	<u>2,607</u>	<u>10</u>	<u>2,649</u>

Note 10. Right-of-use assets

	Consolidated	
	31 Dec 2020	30 Jun 2020
	\$'000	\$'000
<i>Non-current assets</i>		
Right-of-use assets	11,982	8,541
Less: Accumulated depreciation	(4,270)	(3,264)
	<u>7,712</u>	<u>5,277</u>

Reconciliations

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

Consolidated	Properties	Equipment	Total
	\$'000	\$'000	\$'000
Balance at 1 July 2020	384	4,893	5,277
Additions	2,105	720	2,825
Additions through business combinations (note 18)	616	-	616
Exchange differences	26	-	26
Depreciation expense	(213)	(819)	(1,032)
Balance at 31 December 2020	<u>2,918</u>	<u>4,794</u>	<u>7,712</u>

Note 11. Intangible assets

	Consolidated	
	31 Dec 2020	30 Jun 2020
	\$'000	\$'000
<i>Non-current assets</i>		
Goodwill - at cost	106,971	18,471
Software - at cost	32,139	18,551
Less: Accumulated amortisation	(11,035)	(7,748)
	<u>21,104</u>	<u>10,803</u>
Customer relationships - at cost	6,327	3,381
Less: Accumulated amortisation	(1,160)	(898)
	<u>5,167</u>	<u>2,483</u>
Brand	1,035	-
	<u>134,277</u>	<u>31,757</u>

Note 11. Intangible assets (continued)

Reconciliations

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

Consolidated	Goodwill \$'000	Software \$'000	Customer relationships \$'000	Brand \$'000	Total \$'000
Balance at 1 July 2020	18,471	10,803	2,483	-	31,757
Additions	-	2,119	-	-	2,119
Additions through business combinations (note 18)	88,500	11,445	2,947	1,035	103,927
Exchange differences	-	4	-	-	4
Amortisation expense	-	(3,267)	(263)	-	(3,530)
Balance at 31 December 2020	106,971	21,104	5,167	1,035	134,277

Note 12. Trade and other payables

	Consolidated 31 Dec 2020 \$'000	30 Jun 2020 \$'000
<i>Current liabilities</i>		
Trade payables	3,027	1,384
Accruals and other payables	3,940	2,309
	<u>6,967</u>	<u>3,693</u>

Note 13. Employee benefits

	Consolidated 31 Dec 2020 \$'000	30 Jun 2020 \$'000
<i>Current liabilities</i>		
Annual leave	1,370	805
Long service leave	141	69
Other employee benefits	673	930
	<u>2,184</u>	<u>1,804</u>
<i>Non-current liabilities</i>		
Long service leave	104	74
	<u>2,288</u>	<u>1,878</u>

Note 14. Issued capital

	Consolidated			
	31 Dec 2020 Shares	30 Jun 2020 Shares	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Ordinary shares - fully paid	186,813,130	139,482,567	148,178	43,269
Less: Treasury shares	(1,707,182)	-	(4,462)	-
	<u>185,105,948</u>	<u>139,482,567</u>	<u>143,716</u>	<u>43,269</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2020	139,482,567		43,269
Issue of shares on the acquisition of Vault Intelligence Limited (note 18)	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 18)	26 November 2020	684,930	\$1.10	750
Issue of shares on exercise of options	3 December 2020	448,277	\$0.87	390
Balance	31 December 2020	<u>186,813,130</u>		<u>148,178</u>

Movements in treasury shares

Details	Date	Shares	Issue price	\$'000
Balance	1 July 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	Various dates	353,766	\$0.00	-
Balance	31 December 2020	<u>(1,707,182)</u>		<u>4,462</u>

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 half-year, 353,766 shares were allocated to option holders on the exercise of options. As at 31 December 2020, EST held 1,707,182 shares that were unallocated. Refer to note 20 'Share-based payments' for further details.

Note 15. Reserves

	Consolidated	
	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Foreign currency reserve	48	(54)
Share-based payments reserve	10,806	8,389
Acquisition reserve	-	750
	<u>10,854</u>	<u>9,085</u>

Note 15. Reserves (continued)

Movements in reserves

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

Consolidated	Foreign currency reserve \$'000	Share-based payments reserve \$'000	Acquisition reserve \$'000	Total \$'000
Balance at 1 July 2020	(54)	8,389	750	9,085
Foreign currency translation	102	-	-	102
Share-based payments	-	2,417	-	2,417
Transfer to equity on issue of shares	-	-	(750)	(750)
Balance at 31 December 2020	48	10,806	-	10,854

Note 16. Dividends

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

Note 17. Fair value measurement

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.

Note 18. Business combinations

On 8 October 2020, the Group acquired Vault Intelligence Limited ('Vault') by acquiring 100% of the ordinary shares for the total 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 \$2,297,000 and profit after tax of \$942,000 to the Group for the period from 8 October 2020 to 31 December 2020. The values identified in relation to the acquisition of Vault are provisional as at 31 December 2020.

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:

- 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 \$5,200,000 in accordance with the Company's announcement on 27 January 2021. Further synergies are being assessed;
- Increased revenue from expansion and integration of Vault's innovative Solo product into the Group's platform and client base; and
- 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.

Note 18. Business combinations (continued)

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.

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 consideration transferred	<u>99,307</u>
Representing:	
Damstra Holdings Limited shares issued to vendor	<u>99,307</u>
Acquisition costs expensed to profit or loss	<u>750</u>
Cash used to acquire business, net of cash acquired:	
Cash paid to the vendor	-
Less: cash and cash equivalents acquired	<u>(1,265)</u>
Net cash received	<u>(1,265)</u>

Status of business combinations completed in the prior periods

During the previous financial year, the Group completed three business combinations, being Scenario Advantage Workforce Business, Applied Project Experience Pty Ltd and SmartAsset Software Business. There have been no changes to the provisional accounting previously disclosed in the Group's 30 June 2020 annual report in respect of these acquisitions. As detailed in note 14, the Company issued ordinary shares amounting to \$750,000 to settle the deferred share consideration relating to the acquisition of Applied Project Experience Pty Ltd.

Note 19. Earnings per share

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Loss after income tax attributable to the owners of Damstra Holdings Limited	(5,487)	(4,241)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	157,543,687	109,742,819
Weighted average number of ordinary shares used in calculating diluted earnings per share	157,543,687	109,742,819
	Cents	Cents
Basic earnings per share	(3.48)	(3.86)
Diluted earnings per share	(3.48)	(3.86)

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

Note 20. Share-based payments

The share-based payment expense for the financial half-year was \$2,417,000 (31 December 2019: \$2,136,000).

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 31 Dec 2020
Outstanding at the beginning of the financial half-year	3,818,722
Granted	7,536,392
Forfeited	(10,367)
Exercised	(802,043)
Expired	(2,599)
Outstanding at the end of the financial half-year	10,540,105

On 30 September 2020, the Group issued 4,001,905 options that vest over 1 to 4 years. 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 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.

Note 20. Share-based payments (continued)

For the options granted during the current financial half-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%	\$0.88
30/09/2020	30/09/2026	\$1.98	\$3.25	57.50%	8.00%	0.69%	\$0.29
30/09/2020	30/09/2035	\$1.98	\$0.00	57.50%	8.00%	0.97%	\$1.69
30/09/2020	30/09/2026	\$1.98	\$3.25	57.50%	8.00%	0.45%	\$0.56
19/10/2020	01/12/2020	\$2.15	\$1.45	73.00%	5.00%	0.13%	\$0.71
19/10/2020	31/12/2020	\$2.15	\$1.45	73.00%	5.00%	0.13%	\$0.73
19/10/2020	23/11/2021	\$2.15	\$1.45	73.00%	5.00%	0.13%	\$0.89
19/10/2020	31/12/2020	\$2.15	\$1.74	73.00%	5.00%	0.13%	\$0.51
19/10/2020	23/11/2021	\$2.15	\$1.74	73.00%	5.00%	0.13%	\$0.77
19/10/2020	01/03/2024	\$2.15	\$0.87	73.00%	5.00%	0.13%	\$1.28
19/10/2020	30/06/2024	\$2.15	\$0.93	73.00%	5.00%	0.13%	\$1.22

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

As detailed in note 14, 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 half-year, 353,766 shares were allocated to option holders on the exercise of options. As at 31 December 2020, EST held 1,707,182 shares that were unallocated.

Note 21. Events after the reporting period

No matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial half-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.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Johannes Risseuw
Executive Chairman



Drew Fairchild
Director

26 February 2021



Independent auditor's review report to the members of Damstra Holdings Limited

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Damstra Holdings Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the statement of financial position as at 31 December 2020, the statement of changes in equity, statement of cash flows and statement of profit or loss and other comprehensive income for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

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

1. giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of management for the half-year financial report

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Auditor's responsibility for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

A stylized, handwritten signature of PricewaterhouseCoopers.

PricewaterhouseCoopers

A stylized, handwritten signature of Jason Perry.

Jason Perry
Partner

Melbourne
26 February 2021