Damstra Holdings Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Damstra Holdings Limited
ABN:	74 610 571 607
Reporting period:	For the half-year ended 31 December 2021
Previous period:	For the half-year ended 31 December 2020

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	9.1%	to	13,191
Loss from ordinary activities after tax attributable to the owners of Damstra Holdings Limited	up	920.5%	to	(55,997)
Loss for the half-year attributable to the owners of Damstra Holdings Limited	up	920.5%	to	(55,997)

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 $55,997,000 (31 December 2020: $5,487,000).

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	(3.63)	0.50

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 256,820,355 (30 June 2021: 185,209,615) ordinary shares on issue (excluding 876,033 (30 June 2021: 1,603,515) treasury shares).

4. Control gained over entities

On 15 October 2021, the Group acquired 100% of the ordinary shares in TIKS Solutions Pty Ltd ('TIKS'). Refer note 17 of the financial statements for further details.

5. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding: Reporting period %	Previous period %	Contribution to profit/(loss) (where material): Reporting period $'000	Previous period $'000
SkillPASS Trust	50.00%	-	(39)	-
Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)				
Profit/(loss) from ordinary activities before income tax			(39)	-
Income tax on operating activities			-	-

6. 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.

7. Attachments

Details of attachments (if any):

The Interim Report of Damstra Holdings Limited for the half-year ended 31 December 2021 is attached.

8. Signed

As authorised by the Board of Directors

Signed ______________________________ Date: 28 February 2022

Johannes Risseeuw
Executive Chairman
Melbourne

Damstra Holdings Limited

ABN 74 610 571 607

Interim Report - 31 December 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 half-year ended 31 December 2021.

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

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 15 October 2021, the Group acquired 100% of the ordinary shares of TIKS Solutions Pty Ltd ('TIKS') for the total consideration of $23,883,000. The consideration was partly settled by the issue of 12,000,000 ordinary shares in the Company at an issue price of $0.89 per share and payment of cash of $2,703,000. Refer to note 17 of the notes to the financial statements for further details.

During the financial half-year, the Company successfully completed capital raising of $20,020,000 (before costs) resulting in the issue of 58,883,258 ordinary shares. Refer to note 14 of the notes to the financial statements 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

The loss for the Group after providing for income tax amounted to $55,997,000 (31 December 2020: $5,487,000).

Included in the loss is an impairment of goodwill and other assets of $41,300,000. This equates in quantum to the additional goodwill of $40,507,000 recognised from the Vault acquisition in 2021 from the increase in share price from the date of announcement to the date of completion.

Pro forma EBITDA, pro forma EBITDA %, gross margin and pro forma operating expenses used in the review of operations section below are financial measures that are not prescribed by Australian Accounting Standards ('AAS') and represent the statutory loss under AAS adjusted for certain items. The directors consider loss before tax excluding other items (being the impact of impairment, 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 other costs and impairment expenses. A reconciliation between adjusted pro forma EBITDA and statutory loss is provided below.

For the half-year ended 31 December 2021, the Group reported revenue from operations of $13,191,000 (31 December 2020: $12,091,000).

Key operational and financial metrics for the half-year ended 31 December 2021:

	31 Dec 2021	31 Dec 2020
Key financial metrics[1]		
Revenue growth vs previous corresponding period ('pcp')	9.1%	19.4%
Gross margin	73.4%	75.1%
Research and development expenses as a % of revenue	(27.7%)	(32.9%)
Sales and marketing expenses as a % of revenue	(36.4%)	(31.5%)
General and administration expenses as a % of revenue	(42.9%)	(24.7%)
Proforma EBITDA margin	(1.6%)	20.9%

Note 1 - Key financial metrics are shown on a pro forma basis excluding those items reconciling between loss before tax and pro forma EBITDA shown below, being impairment of goodwill and other assets, share-based payment and acquisition and other costs.

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

	31 Dec 2021 $'000	31 Dec 2020 $'000
Loss before tax based on statutory accounts	(51,259)	(6,450)
Impairment of goodwill and other assets	41,300	-
Share-based payments	737	2,417
Acquisition and other costs	455	1,302
Depreciation and amortisation expenses	7,712	5,090
Net finance costs	850	171
Pro forma EBITDA	(205)	2,530

Revenue:
The growth in revenue during the financial half-year was driven by:
- The impact of the Vault acquisition in October 2020, and TIKS acquired in October 2021;
- The loss of a major client, Newmont with reduced revenue recognised in the half compared to the prior corresponding period;
- Improved performance from construction customers driven by new projects and increased site activity due to the relaxing of COVID restrictions;
- The acquisition of a number of new smaller clients during the period.

Gross margin:
For the half-year ended 31 December 2021, the Group reported a gross margin of $9,685,000 (31 December 2020: $9,086,000) or 6.6% up on the prior period. The gross margin percentage was 73.4%, marginally down on the 75.1% from the previous corresponding period. Gross margin is calculated based on the revenue from operations less directly attributable costs associated with revenue earned.

Pro forma operating expenses:
The key driver for operating expenses was the impact of acquisitions increasing the cost base and the Group's continued investment in future growth, in particular in the US and UK markets.
- The Group's sales and marketing function, reported pro forma expenses of $4,798,000 which represents 36.4% of revenue;
- Research and development of a total of $3,649,000 (excluding capitalised costs), primarily due to the development of new modules and the enhancement of existing modules, which represents 27.7% of revenue; and
- General and administrative expenses of $5,656,000, which represent 42.9% of revenue.

Pro forma operating expenses exclude impairment of goodwill and other assets, share-based payment and acquisition and other costs included in the reconciliation between loss before tax and pro forma EBITDA.

The increase in operating expenses is due to increased salary costs of developers and the impact of acquisitions with three months of Vault expenses included in the first half of the financial year ended 30 June 2021 ('FY 2021') compared to six months in the first half of FY2022 and three months of TIKS expenses included in the first half of FY2022 (FY 2021: nil). In addition, operating expenses include costs associated with strategic investments that have been made to scale up and build out the US and UK businesses respectively to capture significant sales opportunities in the current pipeline. The expenses are mainly attributable to sales capability and support resources.

Financial position:
As at 31 December 2021, the Group has outstanding borrowings of $10,753,000 (30 June 2021: $11,553,000). The Group has cash balance of $18,722,000 (30 June 2021: $9,834,000) and unused available borrowing facility of $4,000,000 (30 June 2021: $3,000,000).

Subsequent to 31 December 2021, an agreement has been reached with Partners for Growth VI, L.P., the Groups financier, to restructure elements of the debt facility including revising financial covenants in a way that is favourable to the Group, and cancelling a second $5,000,000 tranche of the facility which is no longer required following the equity raising in December 2021. As a result, the total facility size has been reduced from $20,000,000 to $15,000,000. Under the original facility agreement, on drawdown of the second tranche, the financier had the right to receive four warrants exercisable into a total of 199,457 shares in the Company. This right has now been cancelled.

Strategic update

The Group strategy is focused on three areas, geographic expansion, verticals and product.

1. Geographic expansion

Our products are now used in more than 20 countries globally and we have offices in six countries. ANZ is the core business, and we have a small footprint in Asia through our existing clients. Both businesses are contributing positively to the Group. Our key investment focus to date has been in North America and our sales pipeline continues to grow, with our value proposition around Enterprise Protection Platform (EPP) now well understood in the market and accepted as being internationally competitive with potential clients and partners.

2. Verticals

We now have over 750 clients globally, with the infrastructure, construction and mining verticals being the most significant revenue contributors and the core focus of our business. In North America, the sales pipeline is strongly skewed to mining, where our core capability exists, however we continue to evaluate other sectors opportunistically where there is a strong use case for our products.

We have exposure to retail and hospitality through clients such as Restaurants Brands Australia, where we are implementing our safety offering across the company’s North American operations, and we also have exposure to government through contracts with local councils in Australia, once again focused on our safety, learnings, and forms modules. We have these relationships directly and through partners such as Statecover and Technology One. We see councils as a natural growth area for Damstra due to the significant workforces deployed.

Leveraging our construction capability and with the acquisitions of TIKS, we see facilities management and particularly office management as a key opportunity for vertical extension.

3. New products

In the half to 31 December 2021 we invested a total $6.6m in R&D (31 December 2020: $6.0m), equating to 50% of revenue. We see the present gross dollar spend continuing at similar levels and as such, as revenue increases over time, spend as a percentage of revenue will reduce. While there are pressures in external markets for developer talent, we are well positioned and can redeploy existing resources as we continue to retire legacy systems.

Our focus remains on continuing to develop our EPP to differentiate ourselves from our competitors who focus only on single point solutions. The key to our EPP offering is being able to seamlessly integrate all of our modules, where clients can begin with a single module and implement additional modules over time, without requiring the setup of existing users.

Acquisitions have played a critical role in developing EPP and will remain a critical component of Damstra’s technology strategy. The development of the Damstra safety and forms/workflows modules was accelerated by acquisitions, and the recent acquisition of TIKS added a fully functioning permit to work module.

Remuneration Disclosures

While not a disclosure requirement in the half-year interim report, the directors provide the following information in relation to the Damstra Executive Incentive Plan ('EIP').

The FY 2022 EIP is described in detail in the 30 June 2021 Annual Report.

To provide further clarity, the information below describes the components of the plan, the relevant thresholds and hurdles and the vesting time periods.

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 financial year under review, as it relates to the key management personnel ('KMP'), were:

- 70% linked to the revenue and other income performance for the Group; and
- 30% linked to individual targets, which relate to strategic outcomes particular to each Executive's role in the organisation.

Each Executive has five specific individual targets to achieve for the financial year related to their specific role, which are all equally weighted these individual target (KPI'S) are focused in the following areas:

- Cost efficiency
- Staff engagement
- Product development
- M&A integration and cost targets
- Operations and client satisfaction/retention

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.

Thresholds / Gateways

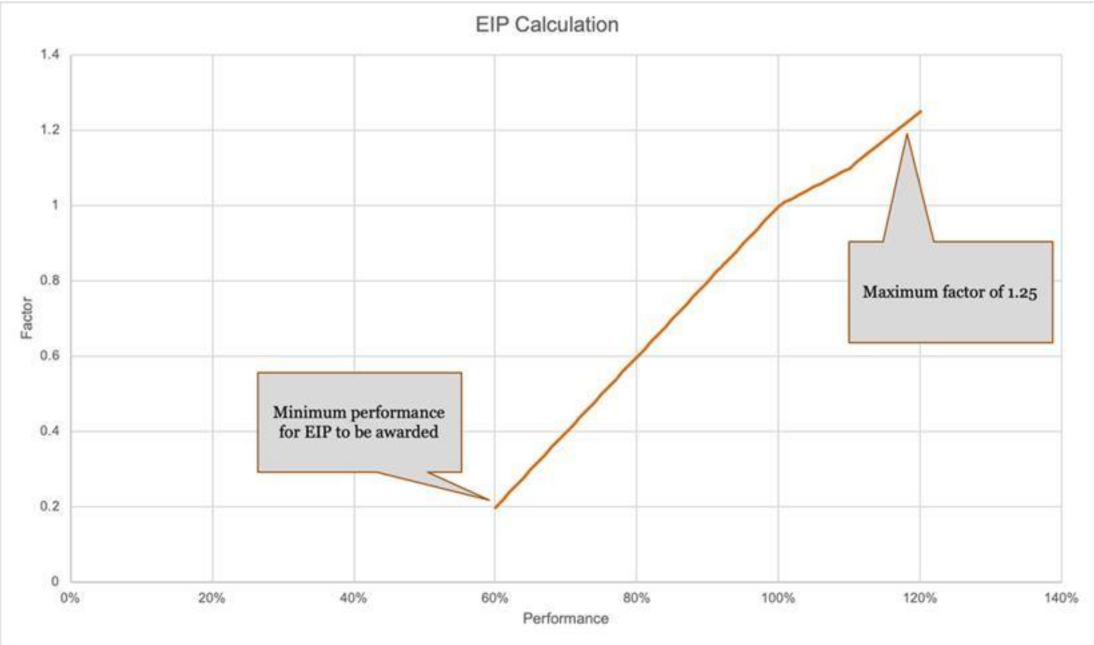
The following thresholds or gateways must all be met before an EIP award is payable:

Threshold/gateways to participate in EIP	Minimum Threshold
Group revenue target (minimum)	90% of target; and
Individual targets (minimum)	60% of target; and
Security and privacy targets	Achieved

EIP Calculation

Where at least threshold performance is achieved for both the Group and Individual KPIs, the total Incentive outcome will be calculated as follows:

The graph below illustrates how performance against target determines the relevant Multiplying Factor to be applied to the target award against the Group and Individual KPI.



Components of EIP, Hurdles and Vesting Time periods
The three components of the EIP, the hurdles to be achieved and the vesting periods are as follows:

	Cash Award	Zero Price Options	Premium Price Options	Total
% of EIP	33.0%	Total of 67% split at discretion of recipient on original award date		100%
Other requirements / hurdles:				
Continued employment	Required	Required	Required	
Vesting period	Vest once annual results and performance are approved	Vest equally over 3 years after results approved	Vest equally over 3 years after results approved	
Time period for full vesting after award issued	1 Year	4 Years	4 Years	
Premium payable over issue share price	N/A	Nil	70%	

The premium price options can be exercised at 170% of the volume-weighted average price 20 days before the award is granted. This aligns employees' interests with those of shareholders, encourage value-creating behaviours and support staff retention within the Group.

Timeline of EIP Awards and Vesting
The table below describes the timeline of vesting of each component of the EIP award, assuming continuous employment.

	% of EIP	Award Issued	End Year 1	End Year 2	End Year 3	End Year 4
Cash	33.0%		100% vested			
Zero Priced Options	33.5%	Performance Period				
1/3 Vest				33.3 % vested		
2/3 Vest					66.6% vested	
Fully vested						100% vested
Premium Priced Options	33.5%					
1/3 Vest				33.3 % vested		
2/3 Vest					66.6% vested	
Fully vested						100% vested

Matters subsequent to the end of the financial half-year

Subsequent to 31 December 2021, an agreement has been reached with Partners for Growth VI, L.P., the Groups financier, to restructure elements of the debt facility including revising financial covenants in a way that is favourable to the Group and cancelling a second $5,000,000 tranche of the facility which is no longer required following the equity raising in December 2021. As a result, the total facility size has been reduced from $20,000,000 to $15,000,000. Under the original facility agreement, on drawdown of the second tranche, the financier had the right to receive four warrants exercisable into a total of 199,457 shares in the Company. This right has now been cancelled.

No other matter or circumstance has arisen since 31 December 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.

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 Risseeuw
Executive Chairman

Drew Fairchild
Director

28 February 2022

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Auditor's Independence Declaration

As lead auditor for the review of Damstra Holdings Limited for the half-year ended 31 December 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 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.

Jon Roberts
Partner
PricewaterhouseCoopers

Melbourne
28 February 2022

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	Note	Consolidated 31 Dec 2021 $'000	31 Dec 2020 $'000
Revenue from operations	4	13,191	12,091
Share of losses of joint ventures accounted for using the equity method		(39)	-
Other income		725	1,105
Interest revenue		12	149
Expenses			
Employee benefits expenses		(7,716)	(8,203)
Depreciation and amortisation expenses		(7,712)	(5,090)
Impairment of goodwill and other assets	5	(41,300)	-
Other expenses	5	(7,558)	(6,294)
Finance costs	5	(862)	(208)
Loss before income tax (expense)/benefit		(51,259)	(6,450)
Income tax (expense)/benefit		(4,738)	963
Loss after income tax (expense)/benefit for the half-year attributable to the owners of Damstra Holdings Limited		(55,997)	(5,487)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(2)	102
Other comprehensive income/(loss) for the half-year, net of tax		(2)	102
Total comprehensive income/(loss) for the half-year attributable to the owners of Damstra Holdings Limited		(55,999)	(5,385)
		Cents	Cents
Basic loss per share	18	(28.51)	(3.48)
Diluted loss per share	18	(28.51)	(3.48)

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

	Note	Consolidated 31 Dec 2021 $'000	Consolidated 30 Jun 2021 $'000
Assets			
Current assets			
Cash and cash equivalents		18,722	9,834
Trade and other receivables	7	4,872	7,321
Inventories		87	87
Other assets		1,170	924
Income tax receivables		-	261
Total current assets		24,851	18,427
Non-current assets			
Investments accounted for using the equity method		220	259
Property, plant and equipment	8	5,652	7,387
Right-of-use assets	9	3,126	2,611
Intangible assets	10	115,910	131,820
Deferred tax assets		-	4,445
Other assets		321	426
Total non-current assets		125,229	146,948
Total assets		150,080	165,375
Liabilities			
Current liabilities			
Trade and other payables	11	6,612	5,923
Contract liabilities		5,510	5,759
Lease liabilities		839	1,203
Derivative financial instruments	13,16	60	147
Employee benefits		1,817	2,058
Deferred and contingent consideration on acquisition	12	10,500	-
Deferred income		747	1,036
Provisions		647	34
Total current liabilities		26,732	16,160
Non-current liabilities			
Contract liabilities		151	151
Borrowings	13	10,753	11,553
Lease liabilities		2,161	1,347
Employee benefits		197	104
Deferred income		363	696
Total non-current liabilities		13,625	13,851
Total liabilities		40,357	30,011
Net assets		109,723	135,364
Equity			
Issued capital	14	173,337	143,716
Reserves		12,339	11,604
Accumulated losses		(75,953)	(19,956)
Total equity		109,723	135,364

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 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/(loss) for the half-year	-	102	(5,487)	(5,385)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	99,697	-	-	99,697
Share-based payments	-	2,417	-	2,417
Transfer to equity on issue of shares	750	(750)	-	-
Balance at 31 December 2020	143,716	10,854	(16,816)	137,754

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2021	143,716	11,604	(19,956)	135,364
Loss after income tax expense for the half-year	-	-	(55,997)	(55,997)
Other comprehensive income/(loss) for the half-year, net of tax	-	(2)	-	(2)
Total comprehensive income/(loss) for the half-year	-	(2)	(55,997)	(55,999)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 14)	29,621	-	-	29,621
Share-based payments	-	737	-	737
Balance at 31 December 2021	173,337	12,339	(75,953)	109,723

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

	Note	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		14,729	14,498
Payments to suppliers and employees (inclusive of GST)		(16,980)	(13,240)
Other revenue		161	1,373
Net cash from/(used in) operating activities		(2,090)	2,631
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	17	(2,240)	-
Payments for property, plant and equipment		(484)	(1,474)
Payments for intangibles		(2,917)	(2,251)
Net cash used in investing activities		(5,641)	(3,725)
Cash flows from financing activities			
Proceeds from issue of shares	14	20,020	390
Share issue transaction costs		(1,088)	(359)
Interest received		16	37
Interest and other finance costs paid		(862)	(208)
Proceeds from borrowings		2,000	992
Repayment of borrowings		(3,171)	-
Repayment of lease liabilities		(296)	(1,572)
Net cash from/(used in) financing activities		16,619	(720)
Net increase/(decrease) in cash and cash equivalents		8,888	(1,814)
Cash and cash equivalents at the beginning of the financial half-year		9,834	9,365
Cash and cash equivalents at the end of the financial half-year		18,722	7,551

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

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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 28 February 2022.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2021 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 2021 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. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the financial half-year ended 31 December 2021 and are not expected to have any significant impact for the full financial year ending 30 June 2022.

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

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.

Major customers
During the half year ended 31 December 2021, one customer individually contributed more than 10% of the total external revenue generated by the Group (31 December 2020: two).

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Note 3. Operating segments (continued)

Geographical information

	Sales to external customers		Geographical non-current assets	
	31 Dec 2021 $'000	31 Dec 2020 $'000	31 Dec 2021 $'000	30 Jun 2021 $'000
Australia	11,945	9,340	123,708	141,385
New Zealand	472	343	603	135
International operations*	774	2,408	698	724
	13,191	12,091	125,009	142,244

* 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 2021 $'000	31 Dec 2020 $'000
Sales revenue	13,191	12,091

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

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Major product lines		
Software services	10,229	7,888
Rental of hardware equipment	2,036	2,750
Implementation and other support services	926	1,453
	13,191	12,091
Timing of revenue recognition		
Revenue recognised over time	11,987	10,638
Revenue recognised at a point in time	1,204	1,453
	13,191	12,091

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

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Note 5. Expenses

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Loss before income tax includes the following specific expenses:		
Impairment of goodwill and other assets		
Impairment of goodwill	40,000	-
Impairment of receivables and other assets	1,300	-
Total impairment of goodwill and other assets	41,300	-
Other expenses include the following:		
Outsourced services	1,282	1,113
Outsourced development contractors	323	212
IT and administration expenses	2,004	1,413
Acquisition costs (excluding employee benefits expenses)	137	887
Advisory and consultant fees	764	488
Audit expense	332	153
Other expenses	2,716	2,028
Total other expenses	7,558	6,294
Finance costs		
Interest and finance charges paid/payable on borrowings	859	73
Interest and finance charges paid/payable on lease liabilities	3	135
Finance costs expensed	862	208
Net foreign exchange loss		
Net foreign exchange loss	19	191
Superannuation expense		
Defined contribution superannuation expense	564	452
Share-based payments expense		
Share-based payments expense	737	2,417

Note 6. Cash and cash equivalents

	Consolidated	
	31 Dec 2021 $'000	30 Jun 2021 $'000
Current assets		
Cash at bank	18,722	9,834

Note 7. Trade and other receivables

	Consolidated 31 Dec 2021 $'000	Consolidated 30 Jun 2021 $'000
Current assets		
Trade receivables	5,018	6,082
Less: Allowance for expected credit losses	(1,069)	(500)
	3,949	5,582
Other receivables	804	1,625
Receivables from related parties	119	114
	4,872	7,321

Note 8. Property, plant and equipment

	Consolidated 31 Dec 2021 $'000	Consolidated 30 Jun 2021 $'000
Non-current assets		
Leasehold improvements - at cost	149	142
Less: Accumulated depreciation	(130)	(121)
	19	21
Plant and equipment - at cost	11,546	13,029
Less: Accumulated depreciation	(5,913)	(5,665)
	5,633	7,364
Motor vehicles - at cost	138	90
Less: Accumulated depreciation	(138)	(88)
	-	2
	5,652	7,387

Reconciliations

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

Consolidated	Leasehold improve-ments $'000	Plant and equipment $'000	Motor vehicles $'000	Total $'000
Balance at 1 July 2021	21	7,364	2	7,387
Additions	3	481	-	484
Additions through business combinations (note 17)	-	22	11	33
Exchange differences	3	23	-	26
Depreciation expense	(8)	(2,257)	(13)	(2,278)
Balance at 31 December 2021	19	5,633	-	5,652

Note 9. Right-of-use assets

	Consolidated 31 Dec 2021 $'000	Consolidated 30 Jun 2021 $'000
Non-current assets		
Right-of-use assets	4,438	3,367
Less: Accumulated depreciation	(1,312)	(756)
	3,126	2,611

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

Consolidated	Properties $'000
Balance at 1 July 2021	2,611
Additions	1,319
Additions through business combinations (note 17)	201
Other changes	(576)
Exchange differences	(4)
Depreciation expense	(425)
Balance at 31 December 2021	3,126

Note 10. Intangible assets

	Consolidated 31 Dec 2021 $'000	Consolidated 30 Jun 2021 $'000
Non-current assets		
Goodwill - at cost	87,127	106,971
Software - at cost	38,879	32,888
Less: Accumulated amortisation	(18,014)	(13,784)
	20,865	19,104
Customer relationships - at cost	9,113	6,327
Less: Accumulated amortisation	(2,230)	(1,617)
	6,883	4,710
Brand	1,035	1,035
	115,910	131,820

Note 10. 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 2021	106,971	19,104	4,710	1,035	131,820
Additions	-	3,139	-	-	3,139
Additions through business combinations (note 17)	20,156	2,866	2,786	-	25,808
Impairment of goodwill	(40,000)	-	-	-	(40,000)
Exchange differences	-	(18)	-	-	(18)
Amortisation expense	-	(4,226)	(613)	-	(4,839)
Balance at 31 December 2021	87,127	20,865	6,883	1,035	115,910

Impairment testing for goodwill
Goodwill and other intangible assets acquired through business combinations have been allocated to the Group's two cash-generating units (CGU) being Damstra Workforce Management Solutions, and TIKS (acquired in October 2021).

In accordance with the Group's accounting policies, each cash-generating unit (CGU) is evaluated to determine whether there are any indications of impairment. If any such indications of impairment exist, a formal estimate of the recoverable amount is performed.

At 31 December 2021, the Company's quoted market capitalisation was lower than its net asset carrying value which is considered an indicator of impairment. As a result, an impairment test was performed to determine the recoverable amount of the Damstra Workforce Management Solutions CGU. An impairment test was not performed for the TIKS CGU due to the proximity of its acquisition date and no change in the CGU's operations and revenue expectations.

Prior to the impairment test, the carrying value of intangible assets in the Damstra Workforce Management Solutions CGU were goodwill of $107,496,000 (30 June 2021: $106,971,000) and other intangible assets of $23,131,000 (30 June 2021: $24,849,000). The carrying value of intangible assets in the TIKS CGU were goodwill of $19,631,000 (30 June 2021: $nil) and other intangible assets of $5,652,000 (30 June 2021: $nil).

The recoverable amount of the Damstra Workforce Management Solutions CGU's goodwill and other intangible assets have been determined by a value-in-use ('VIU') calculation using a discounted cash flow model, based on a 5.5 year projection period approved by management. The 5.5 year projection takes into account the VIU calculation is being performed as at the half-year period ended 31 December 2021.

Key assumptions - Damstra Workforce Management Solutions CGU
Key assumptions are those to which the recoverable amount of an asset or cash-generating unit is most sensitive. The following key assumptions were used in the discounted cash flow model in relation to Damstra Workforce Management Solutions CGU:

(a) Post-tax discount rate of 11.0% (30 June 2021: 11.0%);
(b) Revenue growth was projected at 20% (30 June 2021: 38%) in the first year and between 18-19% from the second to fifth year; and
(c) Terminal growth rate 2.5% (30 June 2021: 2.5%).

As a result of these assumptions, an impairment loss of $40.0 million has been recognised in 31 December 2021 half-year results.

The $40.0 million impairment equates in quantum to the additional goodwill of $40.5 million recognised in 2021 as part of the Vault acquisition whereby the Company's share price from $1.345 on the announcement of the acquisition of Vault to $2.25 on 8 October 2020 acquisition date. This resulted in an additional $40.5 million of goodwill recognized on acquisition than would have been the case had the acquisition completed at the share price of $1.345 on the date of the announcement.

Note 10. Intangible assets (continued)

The impairment loss has resulted principally from the use of a value-in-use model reflecting compound annual revenue growth rates based on historical organic growth achieved in the last 3 years, which excludes the impact of revenue recognised as a result of acquisitions. The growth rates do not include any material short-term sales revenue growth from the existing client base from improved trading conditions post COVID-19. Whilst management believe future revenue growth prospects remain strong, a conservative growth assumption has been used until such time as revenue growth from these factors are realised, and expected international contract wins have been achieved. Management remains confident that higher growth rates can be achieved post COVID-19 and from international contract wins which are progressing well and nearing completion.

Sensitivity Analysis - Damstra Workforce Management Solutions CGU
Management believes that the growth rates disclosed above over the five-year forecast period are realistic and achievable based on the organic growth prospects 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%. A 1% increase or decrease in the discount rate has an impact on value in use of -$11.0 million/+$14.0 million respectively.
(b) Revenue growth rate: The projected growth rate for recurring revenue in the model is between 18% to 20%. A 1% increase or decrease in the growth rate has an impact on value in use of +/-$9.0 million.

Note 11. Trade and other payables

	Consolidated 31 Dec 2021 $'000	Consolidated 30 Jun 2021 $'000
Current liabilities		
Trade payables	2,829	2,818
Accruals and other payables	3,783	3,105
	6,612	5,923

Note 12. Deferred and contingent consideration on acquisition

	Consolidated 31 Dec 2021 $'000	Consolidated 30 Jun 2021 $'000
Current liabilities		
Deferred consideration	3,500	-
Contingent consideration	7,000	-
	10,500	-

Note 13. Borrowings

	Consolidated 31 Dec 2021 $'000	Consolidated 30 Jun 2021 $'000
Non-current liabilities		
Loan from Partners for Growth VI, L.P. ('PFG')	10,854	11,853
Back-end fee payable	150	-
Capitalised borrowing costs	(251)	(300)
	10,753	11,553

Note 13. Borrowings (continued)

Loan from Partners for Growth VI, L.P. ('PFG facility')
During the previous financial year ended 30 June 2021, the Group secured a debt facility from Partners for Growth VI, L.P. The PFG facility is for a 36 month period with all interest rates fixed for the life of the facility. The terms of the facility are detailed in the annual report for the year ended 30 June 2021.

During the current financial half-year, the Group made a further draw-down of $2,000,000 and repaid $3,000,000 to PFG.

The Group has been in breach of its financial covenant during the half year ended 31 December 2021 and a letter of waiver was obtained whereby the financier stipulated that they would waive these breaches. Subsequently, an agreement has been reached with the financier to restructure elements of the debt facility including revising financial covenants in a way that is favourable to the Group, and cancelling a second $5,000,000 tranche of the facility which is no longer required following the equity raising in December 2021. As a result, the total facility size has been reduced from $20,000,000 to $15,000,000. Under the original facility agreement, on drawdown of the second tranche, the financier had the right to receive four warrants exercisable into a total of 199,457 shares in the Company. This right has now been cancelled. Management expects that the Group will be able to meet all contractual obligations from borrowings on a timely basis going forward.

Warrants
The warrants issued under the PFG facility are treated as an embedded derivative. The fair value of derivative as at 31 December 2021 amounted to $60,000 (30 June 2021: $147,000).

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

	Consolidated	
	31 Dec 2021 $'000	30 Jun 2021 $'000
Total facilities		
Loan from Partners for Growth VI, L.P. ('PFG')	15,000	15,000
Used at the reporting date		
Loan from Partners for Growth VI, L.P. ('PFG')	11,000	12,000
Unused at the reporting date		
Loan from Partners for Growth VI, L.P. ('PFG')	4,000	3,000

Note 14. Issued capital

	Consolidated			
	31 Dec 2021 Shares	30 Jun 2021 Shares	31 Dec 2021 $'000	30 Jun 2021 $'000
Ordinary shares - fully paid	257,696,388	186,813,130	177,799	148,178
Less: Treasury shares	(876,033)	(1,603,515)	(4,462)	(4,462)
	256,820,355	185,209,615	173,337	143,716

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Note 14. Issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2021	186,813,130		148,178
Issue of shares on the acquisition of TIKS Solutions Pty Ltd (note 17)	14 October 2021	12,000,000	$0.89	10,680
Issue of shares	10 December 2021	40,467,598	$0.34	13,760
Issue of shares	22 December 2021	18,415,660	$0.34	6,260
Share transaction costs		-	$0.00	(1,079)
Balance	31 December 2021	257,696,388		177,799

Movements in treasury shares

Details	Date	Shares	Issue price	$'000
Balance	1 July 2021	(1,603,515)		(4,462)
Less: allocation of shares on exercise of options	July 2021	23,030	$0.00	-
Less: allocation of shares on exercise of options	September 2021	15,486	$0.00	-
Less: allocation of shares on exercise of options	October 2021	25,440	$0.00	-
Less: allocation of shares on exercise of options	November 2021	596,859	$0.00	-
Less: allocation of shares on exercise of options	December 2021	66,667	$0.00	-
Balance	31 December 2021	(876,033)		(4,462)

Note 15. Dividends

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

Note 16. Fair value measurement

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 - 31 Dec 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Derivatives - Warrant	-	60	-	60
Contingent consideration	-	-	7,000	7,000
Total liabilities	-	60	7,000	7,060

Consolidated - 30 Jun 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Derivatives - Warrant	-	147	-	147
Total liabilities	-	147	-	147

There were no transfers between levels during the financial half-year.

Note 16. Fair value measurement (continued)

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.

Contingent consideration payable on TIKS Solutions Pty Ltd acquisition is determined based on the likely settlement amount, discounted to present value. The valuation is determined using the discounted cash flow model. Significant unobservable valuation inputs in relation to contingent consideration include estimated revenue and the discount rate.

Level 3 assets and liabilities
Movements in level 3 assets and liabilities during the current financial half-year are set out below:

Consolidated	Contingent consideration $'000
Balance at 1 July 2021	-
Additions on acquisition (note 17)	7,000
Balance at 31 December 2021	7,000

The level 3 assets and liabilities unobservable inputs and sensitivity are as follows:

Description	Unobservable inputs	Amount	Sensitivity
Contingent consideration - TIKS acquisition	Revenue	Maximum agreed annual revenue target	Contingent consideration of $7,000,000 is payable on achieving the maximum annual revenue target. A 10% decrease in revenue would result in a decrease in the fair value by $2,135,000.

Note 17. Business combinations

Acquisition of TIKS Solutions Pty Ltd ('TIKS')
On 15 October 2021, the Group acquired 100% of the ordinary shares of TIKS Solutions Pty Ltd ('TIKS') for the total consideration of $23,883,000. The consideration was partly settled by the issue of 12,000,000 ordinary shares in the Company at an issue price of $0.89 per share and payment of cash of $2,703,000. The $0.89 per share issue price was lower than the deemed issue price of $1.00 that was agreed in determining the 12,000,000 ordinary shares to be issued in part settlement of the consideration.

In addition to the above, the following amounts are payable to the vendors of TIKS:
(i) Deferred consideration of $3,500,000 is payable in cash in October 2022; and
(ii) Contingent consideration of $7,000,000 is payable in ordinary shares of the Company in November 2022. The issue of shares is contingent on TIKS achieving agreed annual revenue within a target range over the 12 month period ended 31 October 2022. Contingent consideration is awarded for every dollar earned in excess of the minimum revenue target to a maximum value of $7.0 million.

TIKS is a Sydney-based software-as-a-service business operating in the workforce management industry since 2011. TIKS provides onsite safety, security and compliance capabilities for staff, contractors, and visitors while adding functionality in areas such as permit-to-work and mobile applications. Its key products are Assure (qualifications, competencies, work orders, and permit-to-work platform) and VMS (Visitor Management System).

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Note 17. Business combinations (continued)

The goodwill of $19,631,000 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 $596,000 and loss after tax of $123,000 to the Group for the period from 15 October 2021 to 31 December 2021. The values identified in relation to the acquisition of TIKS are provisional as at 31 December 2021.

Details of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	463
Trade receivables and other receivables	514
Other current assets	8
Property, plant and equipment	33
Right-of-use assets	201
Separately identified intangible assets	2,866
Customer contracts	2,786
Trade payables and other payables	(358)
Contract liabilities	(552)
Deferred tax liability	(294)
Employee benefits	(267)
Provisions	(641)
Contingent liability	(300)
Lease liability	(207)
Net assets acquired	4,252
Goodwill	19,631
Acquisition-date fair value of the total consideration transferred	23,883
Representing:	
Cash paid or payable to vendor	2,703
Damstra Holdings Limited shares issued to vendor	10,680
Contingent consideration	7,000
Deferred consideration	3,500
	23,883
Acquisition costs expensed to profit or loss	137
Cash used to acquire business, net of cash acquired:	
Cash paid to the vendor	2,703
Less: cash and cash equivalents	(463)
Net cash used	2,240

Business combinations completed in the prior periods
During the previous financial year, the Group completed the acquisition of Vault Intelligence Limited (‘Vault’). During the period in which the accounting for the business combination remained provisional, management identified and recognised a contingent liability of $700,000 and a related deferred tax asset of $175,000, resulting in an increase in goodwill of $525,000. The acquisition accounting for Vault was finalised during the period. The contingent liability relates to potential future claims, the timing and outcome of which are uncertain.

Note 18. Earnings per share

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Loss after income tax attributable to the owners of Damstra Holdings Limited	(55,997)	(5,487)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	196,413,357	157,543,687
Weighted average number of ordinary shares used in calculating diluted earnings per share	196,413,357	157,543,687
	Cents	Cents
Basic loss per share	(28.51)	(3.48)
Diluted loss per share	(28.51)	(3.48)

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

Note 19. Events after the reporting period

Subsequent to 31 December 2021, an agreement has been reached with Partners for Growth VI, L.P., the Groups financier, to restructure elements of the debt facility including revising financial covenants in a way that is favourable to the Group and cancelling a second $5,000,000 tranche of the facility which is no longer required following the equity raising in December 2021. As a result, the total facility size has been reduced from $20,000,000 to $15,000,000. Under the original facility agreement, on drawdown of the second tranche, the financier had the right to receive four warrants exercisable into a total of 199,457 shares in the Company. This right has now been cancelled.

No other matter or circumstance has arisen since 31 December 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.

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 2021 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 Risseeuw
Executive Chairman

Drew Fairchild
Director

28 February 2022

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 2021, 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 2021 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 the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

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

Auditor's responsibilities 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 2021 and of its performance for the

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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.

PricewaterhouseCoopers

Jon Roberts
Partner

Melbourne
28 February 2022