

1. Company details

Name of entity:	Damstra Holdings Limited
ABN:	74 610 571 607
Reporting period:	For the year ended 30 June 2022
Previous period:	For the year ended 30 June 2021

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	7.2% to	28,989
Loss from ordinary activities after tax attributable to the owners of Damstra Holdings Limited	up	678.4% to	(67,152)
Loss for the year attributable to the owners of Damstra Holdings Limited	up	678.4% to	(67,152)

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 \$67,152,000 (30 June 2021: \$8,627,000).

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	(3.35)	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 257,069,616 (30 June 2021: 185,209,615) ordinary shares on issue (excluding 626,772 (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 35 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		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
SkillPASS Trust	50.00%	50.00%	(38)	(41)
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			(38)	(41)
Income tax on operating activities			-	-

6. Audit qualification or review

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

The financial statements have been audited and an unmodified opinion has been issued.

7. Attachments

Details of attachments (if any):

The Directors' report and financial statements of Damstra Holdings Limited for the year ended 30 June 2022 is attached.

8. Signed

As authorised by the Board of Directors



Signed _____

Date: 25 August 2022

Johannes Risseuw
Executive Chairman
Melbourne

Damstra Holdings Limited

ABN 74 610 571 607

Directors' report and financial statements - 30 June 2022

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Damstra Holdings Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2022.

Directors

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

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

Principal activities

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

Integral to the Damstra EPP, Damstra's Workforce Management, Learning Management and Connected Worker solutions combine to ensure Protected People. In creating workplaces that are Safe, Damstra's Access Control, Digital Forms and Safety Solutions are utilised. Assets are connected into operations, through integrated Asset Management enabling Asset mobilisation and offerings in RFID and IOT. Lastly Accessible Information, Reporting BI tools and Predictive Analytics are critical to ensuring customers are making the right decisions with the right information.

Dividends

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

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 \$16,883,000. 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, payment of cash of \$2,703,000 and a deferred cash payment of \$3,500,000 payable on 15 October 2022. Refer to note 35 of the notes to the financial statements for further details.

In December 2021, 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 24 of the notes to the financial statements for further details.

During the financial year, an agreement was made with Partners for Growth VI, L.P., the Group's 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 was 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.

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

Review of operations

The loss for the Group after providing for income tax amounted to \$67,152,000 (30 June 2021: \$8,627,000).

Included in the loss is an impairment of goodwill and other assets of \$42,336,000. 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, EBITDA and gross margin 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 impairment of goodwill and other assets, restructuring costs, acquisition and other 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 impairment of goodwill and other assets, restructuring costs, acquisition and other costs and non-cash share-based payments expenses. A reconciliation between pro forma EBITDA and statutory loss is provided below.

For the year ended 30 June 2022, the Group reported revenue and other income of \$28,989,000 (30 June 2021: \$27,053,000).

Key operational and financial metrics for the financial year ended 30 June 2022:

	30 Jun 2022 %	30 Jun 2021 %
Key financial metrics¹		
Revenue growth vs previous corresponding period ('pcp')	7.2%	38.2%
Gross margin	70.0%	78.6%
Research and development expenses as a % of revenue	(27.5%)	(23.8%)
Sales and marketing expenses as a % of revenue	(30.4%)	(29.0%)
General and administration expenses as a % of revenue	(39.2%)	(28.8%)
Pro forma EBITDA margin	1.7%	24.5%

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, restructuring costs and acquisition and other costs. Research and development, sales and marketing and general administration expenses include both direct and indirect costs.

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

	30 Jun 2022 \$'000	30 Jun 2021 \$'000
<i>Loss before tax based on statutory accounts</i>	(62,414)	(10,462)
Impairment of goodwill and other assets	42,336	-
Share-based payments	1,551	3,242
Acquisition and other costs	455	1,462
Restructuring costs	350	-
Depreciation and amortisation expenses	16,281	11,776
Net finance costs	1,925	615
Pro forma EBITDA	484	6,633

Review of financial performance

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

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

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

During COVID-19, the Group's solutions enabled our SaaS customers to continue to operate seamlessly. The pandemic reinforced the significant value proposition of our Global SaaS EPP solution which provides mission-critical systems and enables the clients to work on any device, anywhere, any time and seamlessly without interruptions.

Revenue

The Group's revenue was \$28,989,000 (2021: \$27,053,000) for the financial year, up by 7.2% on the prior year. Total revenue and other income for the year was \$30,512,000 (2021: \$28,727,000). Key impacts on revenue during the year were:

- The revenue contribution from TIKS acquired in October 2021, albeit with revenue at lower levels than in previous financial years prior to the acquisition by the Group;
- The loss of a major client, Newmont with reduced revenue recognised in the year compared to the prior corresponding period;
- The impact of the Vault acquisition whereby revenue did not eventuate from existing take or pay contracts that are now in dispute. No revenue has been recognised in relation to these contracts that are in dispute;
- The negative impact on numerous customers and reduced site activity due to COVID restrictions, in particular in the first half of the financial year;
- Improved performance from construction customers driven by new projects and increased site activity when COVID restrictions were lifted; and
- The acquisition of a number of new smaller clients during the period.

In addition, the Group's notional 50% share of revenue from the SkillPASS joint venture was \$273,000 (2021: 297,000).

Gross margin:

For the year ended 30 June 2022, the Group reported a gross margin of \$20,340,000 (2021: \$21,274,000). The gross margin in 2022 was 70.0%, down from 78.6% in the prior year principally due to relatively higher direct costs from businesses acquired and a change in mix of sales revenue, with an increase in lower margin hardware sales and non-subscription revenue. The higher hardware sales were due to an increase from the TIKS business in October 2021 who sell a greater proportion of access control equipment than the historical Damstra business which rents a greater proportion of access control equipment to customers.

A cost savings program implemented in the second half of the 2022 financial year has started to contribute to a lower direct cost base, which is expected to reduce further as the full cost savings are achieved in the 2023 financial year.

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 market where a number of a number of new customer wins were achieved late in the second half of the 2022 financial year.

- The Group's sales and marketing function, reported pro forma expenses of \$8,822,000 which represents 30.4% of revenue, up from 29.0% in the prior year. Sales and marketing costs in the second half of 2022 were 27.8% lower, than the 33.6% reported in the first half;
- Research and development costs were total of \$7,970,000 (excluding costs capitalised) representing 27.5%, compared to 23.8% of revenue incurred in the prior year. Research and development costs in the second half of 2022 were 27.4% marginally lower than the 27.7% reported in the first half; and
- General and administrative expenses were \$11,374,000, which represent 39.2% of revenue, compared to 28.8% of revenue incurred in the prior year. General and administrative expenses costs in the second half of 2022 were 36.2% lower than the 42.9% reported in the first half.

Pro forma operating expenses include both direct and indirect costs but exclude impairment of goodwill and other assets, share-based payment, restructuring costs 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 nine months of Vault expenses included in the financial year ended 30 June 2021 compared to a full twelve months in the financial year ended 30 June 2022 and nine months of TIKS expenses included in the 2022 financial year following the acquisition in October 2021, compared to nil in the prior year. In addition, operating expenses include costs associated with strategic investment that has been made to scale up and build out of the US business to capture significant sales opportunities in the region, which has resulted in a number of new customer wins which were achieved late in the second half of the 2022 financial year. The expenses are mainly attributable to sales capability and support resources.

A cost savings program was implemented in the second half of the 2022 financial year and this has started to contribute to a lower direct and indirect cost base, which is expected to reduce further as the full cost savings are achieved in the 2023 financial year. Total cost savings of approximately \$8 million have been identified, of which approximately half have been realised as at 30 June 2022 on a run rate basis. The cost savings have been focused on non-revenue generating areas of the business, including infrastructure optimisation, hosting costs, software optimisation, office rationalisation, client self-configuration and organisational right sizing.

Investment in Research and Development (R&D)

The Group invested a total of \$13,560,000 in R&D this year (including capitalised costs), compared to \$11,240,000 in the prior year. This represents 46.8% of revenue (2021: 41.5%). This increase in part due to the acquisition of businesses (Vault in 2021 and TIKS in 2022) and the significant investment in product innovation to further develop the EPP platform to seamlessly incorporate the full suite of products offerings developed both organically and acquired through business acquisitions. In the second half of the financial year, the total investment in R&D was 44.3%, a reduction from 49.7% on the first half in line with our expectation trend that R&D costs will not increase in the same proportion as revenue over time, creating a leverage benefit.

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

Financial Position

As at 30 June 2022, the Group has outstanding borrowings of \$10,055,000 (30 June 2021: \$11,553,000). The Group has cash balance of \$10,095,000 (30 June 2021: \$9,834,000) and an unused borrowing facility of \$5,000,000 (30 June 2021: \$3,000,000) that is available upon meeting certain revenue and EBITDA profitability measures for three consecutive months. As at 30 June 2022 these measures had not been met. The net cash increase in cash for the year was \$261,000. Excluding net proceeds from the equity issue, net repayment of borrowings and payments for acquisitions, the net cash outflow for the year was \$13,613,000. However the cash outflow on this basis for the last quarter of the financial year was \$1,603,000, much lower than the proceeding three quarters due to cost savings implemented and a focus on cash collections.

During the year, the Group successfully refinanced its existing debt facilities, with an agreement 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 has a vision of becoming a global business, and sees continuing strong growth in the future both in local markets and internationally.

In the later stages of the financial year, the Company signed of number of North American clients that are anticipated to underpin its international growth in the 2023 financial year and beyond. All contracts are SaaS arrangements with no hardware requirements and require minimal upfront investment. These contract wins validate the significant investment and EPP product positioning which has evolved over the last two years. It reinforces the effectiveness of the strategy of offering single or multiple integrated models under the EPP to address particular client's needs without requiring bespoke software.

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. 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 EPP now well understood in the market and accepted as being internationally competitive with potential clients and partners. Recent North American contract wins during the financial year have validated this strategy.

2. Verticals

We now have over 950 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. During the financial year, the Company signed a global two-year agreement with CBRE, one of the world's largest commercial real estate services and investment firms, to provide its EPP integrated work order and permit to work modules for one of CBRE's global clients, Macquarie Group, across its ~110 offices in 30 countries.

Material business risks

The following is a summary of material business risks that could adversely affect our financial performance and growth potential in future years and how we propose to mitigate such risks.

Macroeconomic risks

The Group's financial performance can be impacted by current and future economic conditions which it cannot control, such as increases in interest rates and inflation. The Group stays abreast of these conditions, focuses on its internal debtor controls and diversifies its customer base to help manage these risks.

Competitive market and changes to market trends

The Group operates in a competitive market. Innovation is constant and superior products that may be released to the market could result in pricing pressures upon our product and result in unfavourable product positioning within the market. We manage this risk through maintaining product development teams that are highly experienced and remain abreast of the latest technological advances and implications for our current and future products. We also continue to invest in our brand which continues to be well regarded within Australia and internationally.

COVID 19

The Group continued to respond promptly and strategically to the ongoing and rapidly changing impact of COVID-19 related risks. The Group is equipped to quickly adapt to changing public health regulations and has developed better ways to continue operating in a COVID-safe manner including staff being located across multiple locations with the ability to work from home.

Loss of a Major Customer

The Group has a number of large customers that contribute to a material component of its revenue generation. The Group maintains a close relationship with these customers to ensure customer service levels are maintained and any issues are managed effectively on a timely basis. The Group is also diversifying its customer base, including across different geographic regions, to help manage these risks.

Privacy and data breach

The Group handles personal and sensitive information. The Group has strong systems and controls in place and is audited annually to ensure management systems are in place and operating effectively, including in relation to the management of customer data. The Group holds current ISO 9001 (Quality Management System), ISO 27001 (IT Security Management Systems) and SOC 2 (Service Organisation Controls) compliance accreditation. In addition, the Group is dedicated to keeping its workforce appropriately trained and updated with privacy and data breach training and initiatives. Throughout the financial year, the Group issued training to all staff in relation to privacy, cybersecurity and data breaches.

Access to Networks and Data Centres

The Group and its customers rely on access to networks and data centres to continue operations. To manage this risk, the Group engages internationally recognised network and data centre suppliers with Cloud based services and data storage that maximises the ability to continue operations.

Reliance on key personnel

The Group engaged in activities during the financial year to develop the skills and experience of potential successors as part of its succession planning initiatives.

Regulatory compliance

The Group is subject to a number of Australian laws and regulations such as privacy laws. The Group maintains sufficient internal controls to ensure continued compliance.

Cybersecurity and Information technology ('IT') infrastructure

During the year, the Group conducted a review and independent testing of its cybersecurity resilience and implemented identified improvement opportunities. The Group is dedicated to keeping its workforce appropriately trained and updated on cyber security risks.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2022 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.

Likely developments and expected results of operations

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

Environmental regulation

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

Information on directors

Name:	Johannes Risseuw
Title:	Executive Chairman
Qualifications:	Bachelor of Economics from the University of Sydney and Graduate Diploma of Applied Finance from Kaplan Professional
Experience and expertise:	Johannes joined the Group in 2012 and has held the role of Executive Chairman since 2017. He was the former Vice President, Mergers & Acquisitions, Asia Pacific at Shell, where he drove billion dollar plus transactions across Australia, Singapore, Hong Kong, Malaysia and the Middle East. He was previously the Chief Investment Officer of Questus Energy Pty Ltd, focused on the acquisition and management of oil and gas assets, and Chief Operating Officer at Skilled Group Limited. Johannes is a non-executive director of US-based entity FanPlayr Inc.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	19,847,334 ordinary shares
Interests in options:	2,169,287 options over ordinary shares
Name:	Christian Damstra
Title:	Chief Executive Officer
Qualifications:	Diploma in Electrical Engineering from TAFE New South Wales
Experience and expertise:	Christian joined the Group in 2002 as General Manager, after his father founded the Company while undertaking contract work in the mining industry. He managed the Company as a technology company as part of the Skilled Group, before leading a management buy-out of the Company in 2016 along with Johannes Risseuw. Prior to joining the Group, Christian ran his own business consulting to the mining industry and is a holder of an Open Cut Examiner Certificate of Competency.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	19,737,772 ordinary shares
Interests in options:	2,130,433 options over ordinary shares

Name: **Drew Fairchild**
Title: Non-Executive Director
Qualifications: Bachelor of Business from Monash University, Master of Applied Finance from Melbourne University, and a graduate of the Group Business Leadership Program (Insead).
Experience and expertise: Drew joined the Group as a Non-Executive Director in 2016. He has more than 20 years' experience as a Chief Financial Officer and entrepreneur, having commenced his career with Shell Australia, becoming Finance Director and a member of the Board. Prior to his appointment as the Non-Executive Director, he assisted the Company as an adviser during the buy-out of the Company from the Programmed Group. Prior to joining the Group, Drew worked as a Chief Financial Officer within both Fulton Hogan and Cleanaway, and founded an oil and gas investment fund that was sponsored by Intermediate Capital Group PLC. Drew was also the co-founder of the now ASX listed Top Shelf International, a premium Australian spirits company, where he is now the Managing Director.
Other current directorships: Managing Director of Top Shelf International Holdings Ltd (ASX: TSI) - appointed on 17 September 2017
Former directorships (last 3 years): None
Special responsibilities: Chairman of Audit and Risk Committee, member of Nomination and Remuneration Committee (ceased as a member on 28 April 2022).
Interests in shares: 3,162,222 ordinary shares
Interests in options: 133,333 options over ordinary shares

Name: **Morgan Hurwitz**
Title: Non-Executive Director
Qualifications: Bachelor of Arts from Monash University and is a graduate of the Australian Institute of Company Directors
Experience and expertise: Morgan joined the Group as a Non-Executive Director in 2016. He has over 30 years' experience in the Technology, Industrials, Oil and Gas, Aviation and Logistics industries and has extensive experience developing technology strategies and implementing technology across a range of industries in Australia and internationally. Prior to joining the Group, he was the President of Supply Chain and Chief Information Officer at Linfox, Global Chief Information Officer at Orica Limited, and held a number of senior IT roles within Shell in Melbourne and London. He is currently an investor and sits on a number of boards and provides technology advisory and mentoring. He is a Graduate of the Australian Institute of Company Directors, IMD (Switzerland) and holds a BA Degree.
Other current directorships: Non-Executive Director of Leighton O'Brien (unlisted) – appointed 1 July 2021
Former directorships (last 3 years): None
Special responsibilities: Chairman of Nomination and Remuneration Committee and member of Audit and Risk Committee
Interests in shares: 4,591,176 ordinary shares
Interests in options: Nil

Name: **Simon Yencken**
Title: Non-Executive Director
Qualifications: Bachelor of Laws from Monash University and Bachelor of Science (Mathematics) from Monash University
Experience and expertise: Simon joined the Group as a Non-Executive Director in 2019. He is the Chief Executive Officer and founder of Fanplayr Inc. which provides Customer Experience Personalization. Prior to joining the Group, he was a Director of Aconex Limited for 10 years (including Chairman between 2011 and 2014). Aconex was a provider of cloud collaboration software for the construction industry, which was acquired by Oracle in 2018 for approximately US\$1.2 billion. Simon is an active investor in various start-up technology companies, and is Chairman of Matrak Industries.
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of Nomination and Remuneration Committee and member of Audit and Risk Committee
Interests in shares: 1,244,444 ordinary shares
Interests in options: Nil

Name: **Sara La Mela**
Title: Non-Executive Director
Qualifications: Bachelor of Arts from the University of Pennsylvania and an MBA from INSEAD and a graduate of the Australian Institute of Company Directors
Experience and expertise: Sara has extensive experience as a technology executive in both Australia and North America (Silicon Valley). She is currently the Head of Operations for the Product Growth division at Canva. Prior to this, Sara held various sales and marketing roles at Google and Twitter, and served as Chief Operating Officer of Local Measure, a SaaS platform for customer communications management, for seven years.
Other current directorships: Non-Executive Director of Whispir Limited (ASX: WSP) - appointed on 1 February 2019
Former directorships (last 3 years): None
Special responsibilities: Member of Nomination and Remuneration Committee (commenced as member on 28 April 2022)
Interests in shares: Nil
Interests in options: Nil

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

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

Company secretaries

Andrew Ford and **Carlie Hodges** are both Company Secretaries of the Company.

Andrew joined the Company as the Chief Financial Officer and Company Secretary effective from 28 February 2022. Andrew has spent the majority of his 20-year career in CFO and senior finance roles, most recently as Finance Director for Infrabuild Ltd/GFG Alliance. Prior to this he was the CFO of ASX-listed Godfreys Group Ltd. Andrew has also held finance positions with Cleanaway Ltd, Skilled Group Ltd, BlueScope Ltd and professional services firm Deloitte. Andrew graduated with a commerce degree from the University of Melbourne.

Carlie has held the role of Company Secretary since June 2019. She is an Executive Director at cdPlus Corporate services, which provides outsourced corporate governance and company secretarial services to both private and public companies in Australia. In addition, she is a Senior Associate at Coghlan Duffy & Co. She is also the Company Secretary of The Hydration Pharmaceuticals Company Limited and Top Shelf International. Carlie holds a Bachelor of Science and Bachelor of Laws from Deakin University, a Master of Arts from King's College London, and is admitted as a solicitor in the state of Victoria.

Chris Scholtz was the previous Chief Financial Officer and Company Secretary of the Company until 28 February 2022. Chris assumed the Finance responsibility for the Group in 2014 when under Skilled Group ownership, and became Chief Financial Officer in 2016. He was previously the Chief Financial Officer and General Manager of Finance within the Skilled Group and was Chief Financial Officer at Thomas & Coffey Limited. Chris commenced his career within the audit division of KPMG in South Africa. Chris holds a Bachelor of Commerce (Honours) from the University of Johannesburg and is a practising member of the Institute of Chartered Accountants in South Africa, and of Chartered Accountants in Australia and New Zealand.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2022, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Johannes Risseeuw	14	14	-	-	-	-
Christian Damstra	14	14	-	-	-	-
Drew Fairchild	13	14	1	1	7	8
Morgan Hurwitz	14	14	2	2	8	8
Simon Yencken	9	14	1	2	6	8
Sara La Mela	14	14	1	1	-	-

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

Remuneration report (audited)

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

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

The remuneration report is set out under the following main headings:

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

Summary

Executive remuneration is heavily weighted towards performance-based pay, and for the 2022 financial year ('FY22') the Board set challenging Employee Incentive Plan ('EIP') targets. These targets were designed to incentivise KMP and their teams to perform for shareholders and only be rewarded for significant outperformance.

A summary of key remuneration outcomes for FY22, and those that relate to the following financial year, are as follows:

- The Executive Chairman, CEO, and CFO did not receive any EIP reward in relation to FY22, and no shares or options issued as part of remuneration compensation in relation to FY22;
- No other senior executive received any EIP rewards in relation to FY22;
- There will be no increase in the Executive Chairman, CEO's, and CFO's fixed remuneration for FY23;
- There will be no increase Non-Executive Director fees in FY23;
- Effective 1 July 2022, the Non-Executive Directors' agreed to participate in a salary sacrifice arrangement whereby they would sacrifice 20% of their Board fees, excluding Committee fees, in return for zero price options in the Company;
- Also, effective 1 July 2022, the Executive Chairman and CEO agreed to participate in a salary sacrifice arrangement whereby they would sacrifice 5% of their salary in return for zero price options in the Company;
- There were no shares or options issued to directors and other executives as part of compensation during the year ended 30 June 2022; and
- In the FY22 remuneration tables in this report, there are share based payments listed for the Executive Chairman of \$197,680 and CEO of \$190,469. These related to options granted in previous financial years, including those granted during the financial year in arrears relating to FY21 EIP Plan, which vest equally over four years from 1 September 2021 and 31 August 2024. None of grants relate to the FY22 year.

Remuneration Changes for 2023

Following the 2021 Annual General Meeting, the Group has consulted with shareholders and has had feedback from proxy advisors and other stakeholders to understand their views and concerns with regards the Group's remuneration arrangements. We have taken this feedback seriously and reflected this in remuneration outcomes for FY22, and in the Executive remuneration structure for the FY23 financial year.

The information provided in this report summarises the approach and rationale for the changes in remuneration structures for FY23, including what we believe results in improved transparency and readability of our remuneration report.

1. Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The Nomination and Remuneration Committee ('NRC') is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel.

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

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

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

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

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive Director remuneration is separate.

Non-Executive Directors' remuneration

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' fees and payments are reviewed annually by the NRC. The NRC may, from time to time, receive advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

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

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

All fees attract superannuation guarantee contributions. Mr Yencken's fees are payable in US dollars and are grossed up to reflect a pro forma superannuation guarantee contribution.

The current base fees were reviewed with effect from 1 July 2021 against a peer group of ASX technology companies. There are no changes to total Non-Executive director fees for the FY23 financial year. Non-Executive Director fees (directors' fees and committee fees) (inclusive of superannuation) are summarised as follows:

Name - Position	Fees per annum 1 Jul 21 – 31 May 22	Fees per annum 1 Jun 22 – 30 Jun 22
Drew Fairchild - Non-Executive Director	\$99,000	\$93,500
Morgan Hurwitz - Non-Executive Director	\$99,000	\$99,000
Simon Yencken - Non-Executive Director	\$93,075	\$93,075
Sara La Mela - Non-Executive Director	\$82,500	\$88,000

Effective 1 June 2022, Director fees were adjusted reflecting Ms La Mela joining the NRC replacing Mr Fairchild.

Effective 1 July 2022, the Non-Executive Directors' agreed to participate in a salary sacrifice arrangement whereby they would sacrifice 20% of their Board fees, excluding Committee fees, in return for zero price options in the Company. This arrangement is subject to shareholder approval at the 2022 Annual General Meeting. Current fees also include the increase in the superannuation guarantee contribution to 10.5% which was effective from 1 July 2022.

Executive remuneration - 2022 principles

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

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave.

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

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

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

Group performance and link to remuneration

In the 2022 financial year, the Employee Incentive Plan was consistent in design with the plan used in the prior financial year in FY21, with the purpose of incentivising staff against Company and individual targets. Remuneration for certain individuals is directly linked to the performance of the Group ('STI' or 'variable remuneration'). A portion of a cash bonus and incentive payments are dependent on defined service conditions being met.

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

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

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

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

- at least 90% achievement at revenue target and at least 60% achievement at an individual target level; and
- achievement of certain base targets regarding security and privacy.

Variable remuneration consists of both short-term and long-term incentives. In FY22, the EIP scheme was structured to pay variable remuneration based on a percentage of basic salary with outcomes determined by individual and Group KPI's as follows:

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

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

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

In relation to the FY22 EIP, the NRC and the Board have reviewed Company performance and determined that given the minimum requirement of 90% achievement of revenue target for the FY22 year was not achieved, no EIP is payable in relation to the 2022 financial year.

Approach to 2023 KMP and Executive Remuneration

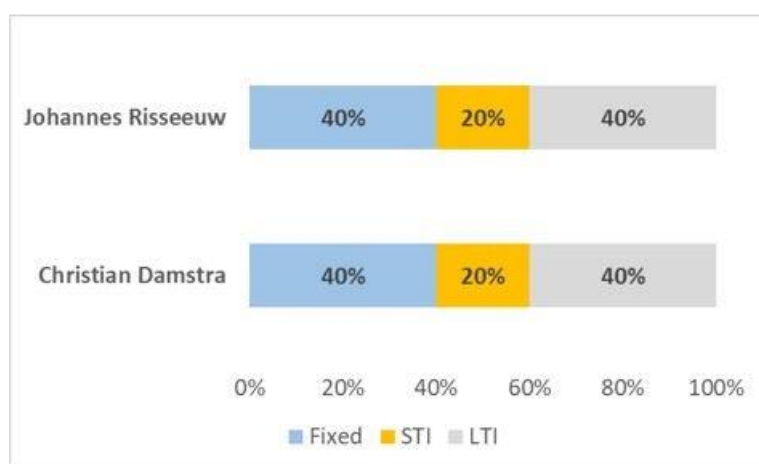
The Group has made changes to the executive remuneration frameworks for the 2023 financial year ('FY23').

The fundamental change made to the EIP is to incorporate a separate short-term incentive ('STI') program and a long-term incentive ('LTI') program, which incorporate:

- Changes in target and remuneration outcomes to more readily align remuneration outcomes of the STI program with short term outcomes, and the LTI program longer term outcomes;
- Enhancing alignment to Group strategic objectives, including free cash generation now being a key objective included in the STI program.

Executive remuneration is heavily weighted towards performance-based pay, including both cash and equity-based awards.

The Executive Chairman and Chief Executive Officer's remuneration mix (percentage of total remuneration, excluding superannuation) including fixed and on-target STI and LTI opportunities are as follows:



Threshold and stretch opportunities will also form part of the STI and LTI plans as described below.

The broader staff population are also able to participate in both the STI and LTI programs at various levels of base salary depending on the staff member.

All awards are subject to continued service with the Company under the employee incentive plan rules.

STI Program

The STI program is designed to align the targets of the business with the performance hurdles of KMP and executives.

Key principles of the plan are as follows:

- Financial measures account for 60% of the STI with free cash flow generation accounting for 25% and revenue being 35% to ensure executives are focused on sustainable growth;
- Non-financial measures form 40% of the STI scorecard with a strong focus on clients and staff outcomes which drives sustainable business outcomes;
- There is 50% deferral of any STI outcome into equity to align with the market expectations and provide shareholder alignment; and
- At the threshold level of performance there is only a 50% payout and as such the STI program does not over-reward for below target performance.

STI outcomes are available to KMP executives based on achieving specific annual targets and key performance indicators ('KPI's'). On achievement of KPI's by executives, the STI is settled 50% in cash and 50% deferred and settled the grant of zero priced options which vest one year following the grant date, subject to continued employment.

On target performance will result in 100% of the STI opportunity being paid. Threshold performance will be based on achieving 90% of the target level of performance (depending on the KPI), at which point 50% of the target opportunity will be paid. Stretch performance is achieved based on achieving 125% of the target level of performance (depending on the KPI), at which point 125% of the target opportunity will be paid.

Should the FY23 STI program targets be met, the cash component would be payable, and the options granted, following the completion of the FY23 financial results, expected to be in August 2023. The options would vest one year later, expected to be in August 2024.

STI Program timeline

	% of STI	FY23	End Year 1	End Year 2
			Aug-23	Aug-24
Cash	50%	Performance	Tested & cash paid	
Zero Priced Options	50%	Period	Tested & options granted	Options vest

The KPI's and relative weightings included in for the FY23 STI program, are as follows:

Performance Measure	Weighting	Rationale for why the performance measure was chosen
<u>Alignment with shareholders</u>		
Revenue	35%	<ul style="list-style-type: none"> * Key measure of financial performance * Ensures continued focus on growth * Aligns with other performance measures such as cash generation and customer satisfaction
Free cash generation	25%	<ul style="list-style-type: none"> * Key indicator of financial performance * Reduces reliance on other external forms of finance (equity / debt) * Aligns with the revenue performance measure to ensure a focus on cash collection to complete the Order to Cash cycle
<u>Alignment with customers</u>		
Customer satisfaction - Client surveys / NPS	10%	<ul style="list-style-type: none"> * Key measure of customer satisfaction * Ensures continued focus on customer retention and opportunities to cross sell * Aligns with the Revenue growth and cash generation objectives
<u>Alignment with employees</u>		
Employee engagement / NPS	10%	<ul style="list-style-type: none"> * Key measure of employee satisfaction * Ensures continued focus on employee engagement, and promotes the ability to attract and retain staff * Aligns with all other performance measures
<u>Individual objectives</u>	20%	<ul style="list-style-type: none"> * Ensures continued focus on individual goals aligns to the achievement of Company goals * Rewards individual performance * Provide clear direction to employees on how they can individually contribute to Company success

All awards are subject to continued service with the Company under the employee incentive plan rules.

LTI Program

The LTI program is designed to align the longer-term targets of the business with the performance hurdles of executives.

LTI outcomes are available to executives based on achieving a three-year compound annual growth rate ('CAGR') on prior year revenue. For the FY23 LTI program, the target CAGR is based on FY22 revenue, and is tested at the completion of the 2025 financial year ('FY25').

On target performance will result in 100% of the LTI opportunity being paid. Threshold performance will be based on achieving 80% of the target level of performance, at which point 20% of the target opportunity will be paid. Stretch performance is achieved based on achieving 125% of the target level of performance, at which point 125% of the target opportunity will be paid. In addition to the CAGR target, the LTI is only paid to KMP's if the share price exceeds 34 cents at the end of the three year period. The Board has discretion to modify the revenue CAGR target to include free cash flow as an additional measure.

While other measures were considered by the NRC, the Committee determined that due to the current stage of the Group's development, revenue was considered as the key metric and most appropriate indicator of both short and long term performance.

The three-year LTI performance period aligns with the market expectations and the Group's longer term outlook, and therefore, under this program, there is therefore no annual testing.

On achievement of the CAGR, it is intended that the LTI is settled in full by the grant of zero priced options. The options will vest one year following the grant date, subject to continued employment. As such, should the FY23 LTI program CAGR target be met, the options would be granted following the completion of the FY25 financial results, expected to be in August 2025, and would vest one year later, expected to be in August 2026. The board reserves the right to settle part of the LTI award in cash.

LTI Program timeline

			End Year 1	End Year 2	End Year 3	End Year 4
	% of LTI	FY23	FY24	FY25	Aug-25	Aug-26
Zero Priced Options	100%	Performance Period			Tested & options granted	Options vest

All awards are subject to continued service with the Company under the employee incentive plan rules.

KMP FY23 Base Salaries

The current KMP salaries were reviewed against a peer group of ASX technology companies with effect from 1 July 2022. There are no changes to base KMP salaries. Superannuation increases from 10% to 10.5% in line with government legislation.

Performance of FY22 EIP

Details of performance in relation to the FY22 EIP is listed below:

Name	Group revenue and other income Target %	Group revenue and other income Actual %	Individual targets Target %	Individual targets Actual %
Johannes Risseeuw – Executive Chairman	70%	-	30%	18%
Christian Damstra – Chief Executive Officer	70%	-	30%	12%
Andrew Ford – Chief Financial Officer (from 28 February 2022)	70%	-	30%	18%
Chris Scholtz – Chief Financial Officer (until 28 February 2022)	70%	-	30%	6%

The NRC and the Board have reviewed Company performance and determined that given the minimum requirement of 90% achievement of revenue target for the FY22 year was not achieved, no EIP is payable in relation to the 2022 financial year. While individual targets were achieved by KMP during the year, given the minimum revenue target was not achieved, these did not contribute to an EIP outcome.

Use of remuneration consultants

During the financial year ended 30 June 2022, the Group did not engage any remuneration consultants.

Voting and comments made at the Company's 2021 Annual General Meeting ('AGM')

At the 2021 AGM, 95.28% of shareholders voted to approve the adoption of the remuneration report for the year ended 30 June 2021.

Following the 2021 AGM, Damstra consulted with shareholders and has received feedback from proxy advisors and other stakeholders to understand their views and concerns with regards the Group's remuneration arrangements. The Group has taken this feedback seriously and reflected this in the FY22 remuneration outcomes described above, and in establishing Executive remuneration structures for the FY23 financial year.

2. Details of remuneration

Amounts of remuneration

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

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

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

And the following persons:

- Andrew Ford - Chief Financial Officer and Company Secretary (appointed on 28 February 2022)
- Chris Scholtz - Chief Financial Officer and Company Secretary (until 28 February 2022)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Cash bonus	Expatriate and other allowances	Super-annuation	Other	Equity-settled ⁽⁴⁾	Total
30 Jun 2022	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Drew Fairchild	89,583	-	-	8,958	-	-	98,541
Morgan Hurwitz	90,000	-	-	9,000	-	-	99,000
Simon Yencken ⁽¹⁾	93,075	-	-	-	-	-	93,075
Sara La Mela	75,417	-	-	7,542	-	-	82,959
<i>Executive Directors:</i>							
Johannes Risseuw	433,516	-	-	23,568	28,551	197,680	683,315
Christian Damstra	430,578	-	-	23,568	30,846	190,469	675,461
<i>Other KMP:</i>							
Andrew Ford ⁽²⁾	125,290	-	-	9,427	9,946	8,926	153,589
Chris Scholtz ⁽³⁾	224,235	-	-	17,441	(5,978)	40,032	275,730
	1,561,694	-	-	99,504	63,365	437,107	2,161,670

(1) Mr Yencken's fees are paid in US dollars (US\$ 67,700) and include a gross up to reflect a pro forma superannuation guarantee contribution.

(2) Mr Ford was a KMP from 28 February 2022.

(3) Mr Scholtz was a KMP from 1 July 2021 until 28 February 2022.

(4) Equity settled remuneration includes the fair value of options granted in relation to previous financial years. No options were granted in relation to the FY22 EIP.

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

(1) Mr Yencken's fees are paid in US dollars (US\$ 67,448) and include a gross up to reflect a pro forma superannuation guarantee contribution.

(2) Ms La Mela's fees represents remuneration from 1 October 2020 to 30 June 2021.

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	30 Jun 2022	30 Jun 2021	30 Jun 2022	30 Jun 2021	30 Jun 2022	30 Jun 2021
<i>Non-Executive Directors:</i>						
Drew Fairchild	100%	100%	-	-	-	-
Morgan Hurwitz	100%	100%	-	-	-	-
Simon Yencken	100%	100%	-	-	-	-
Sara La Mela	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
Johannes Risseeuw	71%	53%	-	12%	29%	35%
Christian Damstra	72%	63%	-	8%	28%	29%
<i>Other KMP:</i>						
Andrew Ford	94%	-	-	-	6%	-
Chris Scholtz	85%	60%	-	11%	15%	29%

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

Name	Cash bonus paid/payable		Cash bonus forfeited	
	30 Jun 2022	30 Jun 2021	30 Jun 2022	30 Jun 2021
<i>Executive Directors:</i>				
Johannes Risseeuw	-	55%	100%	45%
Christian Damstra	-	44%	100%	56%
<i>Other Key Management Personnel:</i>				
Andrew Ford	-	-	100%	-
Chris Scholtz	-	90%	100%	10%

3. Service agreements

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

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

Name:	Johannes Risseeuw
Title:	Executive Chairman
Agreement commenced:	16 October 2017
Term of agreement:	Ongoing
Details:	Salary of \$453,050 per annum inclusive of superannuation, but before any salary sacrifice arrangement. Six months' notice by either party for termination of employment.
Name:	Christian Damstra
Title:	Chief Executive Officer
Agreement commenced:	15 March 2016
Term of agreement:	Ongoing
Details:	Salary of \$453,050 per annum inclusive of superannuation, but before any salary sacrifice arrangement. Six months' notice by either party for termination of employment.

Name:	Drew Fairchild
Title:	Non-Executive Director
Agreement commenced:	1 April 2016
Term of agreement:	Ongoing
Details:	Director fees of \$93,925 per annum inclusive of superannuation, but before any salary sacrifice arrangement. The employment period is open until a written notice of resignation is communicated by the director.
Name:	Morgan Hurwitz
Title:	Non-Executive Director
Agreement commenced:	7 November 2016
Term of agreement:	Ongoing
Details:	Director fees of \$99,450 per annum inclusive of superannuation, but before any salary sacrifice arrangement. The employment period is open until a written notice of resignation is communicated by the director.
Name:	Simon Yencken
Title:	Non-Executive Director
Agreement commenced:	1 April 2019
Term of agreement:	Ongoing
Details:	Director fees of \$93,925 per annum inclusive of superannuation, but before any salary sacrifice arrangement. The employment period is open until a written notice of resignation is communicated by the director.
Name:	Sara La Mela
Title:	Non-Executive Director
Agreement commenced:	1 October 2020
Term of agreement:	Ongoing
Details:	Director fees of \$88,400 per annum inclusive of superannuation, but before any salary sacrifice arrangement. The employment period is open until a written notice of resignation is communicated by the director.
Name:	Andrew Ford
Title:	Chief Financial Officer and Company Secretary
Agreement commenced:	31 January 2022
Term of agreement:	Ongoing
Details:	Salary of \$397,800 per annum inclusive of superannuation but before any salary sacrifice arrangement. Six months' notice by either party for termination of employment.

Effective 1 July 2022, the Non-Executive Directors' agreed to participate in a salary sacrifice arrangement whereby they would sacrifice 20% of their Board fees, excluding Committee fees, in return for zero price options in the Company. Also effective 1 July 2022, the Executive Directors' agreed to participate in a salary sacrifice arrangement whereby they would sacrifice 5% of their salary in return for zero price options in the Company. These arrangements are subject to shareholder approval at the 2022 Annual General Meeting. Current fees also include the increase in the superannuation guarantee contribution to 10.5% which was effective from 1 July 2022.

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

4. Share-based compensation

Issue of shares

There were no shares issued to directors and other executives as part of compensation during the year ended 30 June 2022.

Options

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

Name	Number of options granted	Grant date	Vesting date	Expiry date	Exercise price	Fair value per option at grant date
J Risseeuw	189,390	1 Sept 2021	Time based*	1 Sept 2027	\$1.70	\$0.560
J Risseeuw	62,023	1 Sept 2021	Time based*	1 Sept 2036	\$0.00	\$1.698
C Damstra	148,441	1 Sept 2021	Time based*	1 Sept 2027	\$1.70	\$0.560
C Damstra	48,612	1 Sept 2021	Time based*	1 Sept 2036	\$0.00	\$1.698
C Scholtz	82,778	1 Sept 2021	Time based*	1 Sept 2027	\$1.70	\$0.560
C Scholtz	27,109	1 Sept 2021	Time based*	1 Sept 2036	\$0.00	\$1.698
C Scholtz	52,083	1 Sept 2021	Time based**	1 Sept 2036	\$0.00	\$0.960
A Ford	324,675	1 Feb 2022	Time based***	1 Feb 2037	\$0.00	\$0.310

* Granted in arrears relating to FY21 EIP Plan. 25% of the options vest equally over four years from 1 September 2021 and 31 August 2024.

** 33.33% of the options vest equally over the three years from 1 September 2022 to 1 September 2024.

*** 100% of the options vest three years after grant date on 1 February 2025.

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

The number of options over ordinary shares granted to and vested by directors and other KMP as part of compensation during the year ended 30 June 2022 are set out below:

Name	Number of options granted during the year 30 Jun 2022	Number of options granted during the year 30 Jun 2021	Number of options vested during the year 30 Jun 2022	Number of options vested during the year 30 Jun 2021
Johannes Risseeuw	251,413	1,016,334	62,854	131,315
Christian Damstra	197,053	1,016,334	49,263	131,315
Chris Scholtz	161,970	358,299	27,472	67,385
Andrew Ford	324,675	-	-	-

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2022 are set out below:

Name	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
Johannes Risseeuw	212,118	229,280	-	29%
Christian Damstra	166,253	202,764	-	28%
Morgan Hurwitz	-	60,000	-	-
Simon Yencken	-	60,000	-	-
Chris Scholtz	142,712	-	(100,000)	15%
Andrew Ford	100,000	-	-	6%

Options were granted to other non-KMP executives and staff throughout the period to aid in retention of key talent in the Group.

Performance rights

There were no performance rights over ordinary shares issued to directors and other KMP as part of compensation that were outstanding as at 30 June 2022.

5. Additional information

The earnings of the Group for the five years to 30 June 2022 are summarised below:

	2022 \$'000	2021 \$'000	2020 \$'000	2019 \$'000	2018 \$'000
Sales revenue	28,989	27,053	19,577	15,278	10,577
Loss after income tax	(67,152)	(8,627)	(3,779)	(3,718)	(3,989)

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

	2022	2021	2020	2019	2018
Share price at financial year end (\$)	0.11	0.83	1.31	-	-
Basic loss per share (cents per share)	(28.92)	(5.00)	(3.05)	(4.14)	-

6. Additional disclosures relating to KMP

Shareholding

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

	Balance at the start of the year	Issued on exercise of options	Additions through on market trades	Disposal through on market trades	Other movements	Balance at the end of the year
<i>Ordinary shares</i>						
Johannes Risseeuw	19,125,556	280,602	441,176	-	-	19,847,334
Christian Damstra	19,031,500	265,096	441,176	-	-	19,737,772
Drew Fairchild	3,162,222	-	-	-	-	3,162,222
Morgan Hurwitz	3,583,333	66,667	941,176	-	-	4,591,176
Simon Yencken	1,177,777	66,667	-	-	-	1,244,444
Chris Scholtz*	1,432,257	-	-	-	(1,432,257)	-
Andrew Ford**	-	-	-	-	53,362	53,362
	<u>47,512,645</u>	<u>679,032</u>	<u>1,823,528</u>	<u>-</u>	<u>(1,378,895)</u>	<u>48,636,310</u>

* Mr Scholtz ceased being a KMP on 28 February 2022 and as of this date his shareholding has been excluded from the table on the basis he no longer holds shares in his capacity as a KMP.

** Mr Ford commenced as a KMP on 28 February 2022 and as of this date his shareholding acquired prior to becoming a KMP has been added to the table.

Option holding

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

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Johannes Risseuw	2,198,476	251,413	(280,602)	-	2,169,287
Christian Damstra	2,198,476	197,053	(265,096)	-	2,130,433
Drew Fairchild	133,333	-	-	-	133,333
Morgan Hurwitz	66,667	-	(66,667)	-	-
Simon Yencken	66,667	-	(66,667)	-	-
Sara La Mela	-	-	-	-	-
Chris Scholtz*	447,153	161,970	-	(609,123)	-
Andrew Ford	-	324,675	-	-	324,675
	<u>5,110,772</u>	<u>935,111</u>	<u>(679,032)</u>	<u>(609,123)</u>	<u>4,757,728</u>

* Mr Scholtz ceased being a KMP on 28 February 2022 and as of this date his option holding has been excluded from the table on the basis he no longer holds options in his capacity as a KMP.

	Vested and exercisable	Vested and unexercisable	Not yet vested	Balance as at end of the year
<i>Options over ordinary shares</i>				
Johannes Risseuw	1,390,715	-	778,572	2,169,287
Christian Damstra	1,392,630	-	737,803	2,130,433
Drew Fairchild	133,333	-	-	133,333
Andrew Ford	-	-	324,675	324,675
	<u>2,916,678</u>	<u>-</u>	<u>1,841,050</u>	<u>4,757,728</u>

Loans to KMP and their related parties

There is an outstanding loan to Johannes Risseuw amounting to \$123,741 as at 30 June 2022 (2021: \$114,257). The loan has no agreed term and is repaid at the request of the Board of Directors. Interest is charged on the outstanding balance at 8% per annum amounting to \$9,484 for the year ended 30 June 2022 (2021: \$8,756).

This concludes the remuneration report, which has been audited.

Shares under option

There were 14,884,457 unissued ordinary shares of Damstra Holdings Limited under option outstanding at the date of this report. These options are exercisable at a weighted average exercise price of \$0.96 per share.

Grant date	Expiry date	Exercise price	Number under option
16/10/2019	16/10/2034	\$0.00	794,442
16/10/2019	16/10/2025	\$1.52	1,964,284
30/09/2020	30/09/2035	\$0.00	878,300
30/09/2020	30/09/2026	\$3.24	1,734,569
30/09/2020	30/09/2026	\$3.24	982,146
19/10/2020	30/09/2023	\$0.86	862,070
19/10/2020	30/09/2023	\$0.92	344,828
19/10/2020	1/03/2024	\$0.86	86,207
16/12/2020	16/12/2035	\$0.00	39,448
1/02/2021	28/02/2023	\$0.00	437,501
9/04/2021	9/04/2036	\$0.00	85,021
1/09/2021	1/09/2036	\$0.00	1,220,382
1/09/2021	1/09/2027	\$1.70	830,585
8/12/2021	8/12/2036	\$0.00	468,749
18/01/2022	18/01/2037	\$0.00	50,000
1/02/2022	1/02/2037	\$0.00	324,675
31/03/2022	31/03/2037	\$0.00	3,781,250
			<u>14,884,457</u>

The total shares under option includes those issued to Non-Executive Directors, KMP, other non-KMP executives and other staff under prior year EIP's and in relation to the retention of key talent in the Group.

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

Shares issued on the exercise of options

There were no ordinary shares of Damstra Holdings Limited issued on the exercise of options during the year ended 30 June 2022 and up to the date of this report.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

To the extent permitted by law, Damstra Holdings Limited has agreed to indemnify its auditors, PricewaterhouseCoopers, as part of its audit engagement agreement against claims by third parties arising from the audit arising from the Company's breach of their agreement. The indemnity stipulates that the Company will meet the full amount of any such liabilities including a reasonable amount of legal costs. No payment has been made to indemnify PricewaterhouseCoopers during the financial year and up to the date of this report.

Proceedings on behalf of the Company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 30 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 30 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

Officers of the Company who are former partners of PricewaterhouseCoopers

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

Rounding of amounts

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

Auditor's independence declaration

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

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

On behalf of the directors



Johannes Risseuw
Executive Chairman



Drew Fairchild
Director

25 August 2022



Auditor's Independence Declaration

As lead auditor for the audit of Damstra Holdings Limited for the year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read 'J. Roberts'.

Jon Roberts
Partner
PricewaterhouseCoopers

Melbourne
25 August 2022

Consolidated statement of profit or loss and other comprehensive income	27
Consolidated statement of financial position	28
Consolidated statement of changes in equity	29
Consolidated statement of cash flows	30
Notes to the consolidated financial statements	31
Directors' declaration	71
Independent auditor's report to the members of Damstra Holdings Limited	72
Shareholder information	79
Corporate directory	84

		Consolidated	
	Note	30 Jun 2022	30 Jun 2021
		\$'000	\$'000
Revenue from operations	5	28,989	27,053
Share of losses of joint ventures accounted for using the equity method	12	(38)	(41)
Other income	6	1,523	1,674
Interest revenue		43	54
Expenses			
Employee benefits expenses		(16,016)	(14,755)
Depreciation and amortisation expenses	7	(16,281)	(11,776)
Impairment of goodwill and other assets	7	(42,336)	-
Other expenses	7	(16,330)	(12,002)
Finance costs	7	(1,968)	(669)
Loss before income tax (expense)/benefit		(62,414)	(10,462)
Income tax (expense)/benefit	8	(4,738)	1,835
Loss after income tax (expense)/benefit for the year attributable to the owners of Damstra Holdings Limited		(67,152)	(8,627)
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(86)	27
Other comprehensive income/(loss) for the year, net of tax		(86)	27
Total comprehensive loss for the year attributable to the owners of Damstra Holdings Limited		(67,238)	(8,600)
		Cents	Cents
Basic loss per share	38	(28.92)	(5.00)
Diluted loss per share	38	(28.92)	(5.00)

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

	Note	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
Assets			
Current assets			
Cash and cash equivalents	9	10,095	9,834
Trade and other receivables	10	5,039	7,321
Inventories		395	87
Other assets	11	1,430	924
Income tax receivable	8	-	261
Total current assets		<u>16,959</u>	<u>18,427</u>
Non-current assets			
Investments accounted for using the equity method	12	221	259
Property, plant and equipment	13	5,194	7,387
Right-of-use assets	14	2,848	2,611
Intangible assets	15	105,214	131,820
Deferred tax assets	8	-	4,445
Other assets	11	187	426
Total non-current assets		<u>113,664</u>	<u>146,948</u>
Total assets		<u>130,623</u>	<u>165,375</u>
Liabilities			
Current liabilities			
Trade and other payables	16	6,586	5,923
Contract liabilities	17	4,565	5,759
Lease liabilities	19	1,057	1,203
Derivative financial instruments	20	19	147
Employee benefits	21	1,969	2,058
Deferred consideration on acquisition	22	3,500	-
Deferred income	23	458	1,036
Provisions		817	34
Total current liabilities		<u>18,971</u>	<u>16,160</u>
Non-current liabilities			
Contract liabilities	17	149	151
Borrowings	18	10,055	11,553
Lease liabilities	19	1,949	1,347
Employee benefits	21	187	104
Deferred income	23	-	696
Total non-current liabilities		<u>12,340</u>	<u>13,851</u>
Total liabilities		<u>31,311</u>	<u>30,011</u>
Net assets		<u>99,312</u>	<u>135,364</u>
Equity			
Issued capital	24	173,351	143,716
Reserves	25	13,069	11,604
Accumulated losses		(87,108)	(19,956)
Total equity		<u>99,312</u>	<u>135,364</u>

The above consolidated 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 year	-	-	(8,627)	(8,627)
Other comprehensive income for the year, net of tax	-	27	-	27
Total comprehensive income/(loss) for the year	-	27	(8,627)	(8,600)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 24)	99,697	-	-	99,697
Share-based payments (note 39)	-	3,242	-	3,242
Transfer to equity on issue of shares	750	(750)	-	-
Balance at 30 June 2021	143,716	11,604	(19,956)	135,364
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 year	-	-	(67,152)	(67,152)
Other comprehensive loss for the year, net of tax	-	(86)	-	(86)
Total comprehensive loss for the year	-	(86)	(67,152)	(67,238)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 24)	29,635	-	-	29,635
Share-based payments (note 39)	-	1,551	-	1,551
Balance at 30 June 2022	173,351	13,069	(87,108)	99,312

		Consolidated	
	Note	30 Jun 2022	30 Jun 2021
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		27,900	31,736
Payments to suppliers and employees (inclusive of GST)		(31,803)	(31,256)
Other revenue		340	1,373
		<u> </u>	<u> </u>
Net cash (used in)/from operating activities	37	(3,563)	1,853
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired	35	(2,240)	-
Payments for property, plant and equipment		(1,151)	(2,325)
Payments for intangibles		(6,705)	(4,800)
Proceeds from disposal of property, plant and equipment		3	-
		<u> </u>	<u> </u>
Net cash used in investing activities		(10,093)	(7,125)
Cash flows from financing activities			
Proceeds from issue of shares	24	20,020	390
Share issue transaction costs		(1,408)	(359)
Interest received		43	70
Interest and other finance costs paid		(1,410)	(669)
Proceeds from borrowings		9,000	13,421
Repayment of borrowings		(11,497)	(3,536)
Transaction costs related to loans and borrowings		-	(359)
Repayment of lease liabilities		(831)	(3,217)
		<u> </u>	<u> </u>
Net cash from financing activities		13,917	5,741
Net increase in cash and cash equivalents		261	469
Cash and cash equivalents at the beginning of the financial year		9,834	9,365
		<u> </u>	<u> </u>
Cash and cash equivalents at the end of the financial year	9	<u><u>10,095</u></u>	<u><u>9,834</u></u>

The above consolidated 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 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 25 August 2022. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

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

Going Concern

The Group has net current liabilities of \$1,911,000 (2021: net current assets of \$2,267,000) and net assets of \$99,413,000 (2021: \$135,364,000). The Group has cash and cash equivalents of \$10,095,000 as at 30 June 2022 (2021: \$9,834,000). The Group has undrawn funds of \$5,000,000 as part of the PFG facility (refer to note 18 for further details). These financial statements have been prepared on a going concern basis, which assumes the continuity of normal business activities and realisation of assets and the settlement of liabilities in the ordinary course of business. In assessing the Group's ability to continue as a going concern, the directors have considered the Group's financial forecasts and available funds. The group's forecasts are dependent on meeting and maintaining current cost reduction plans, achieving revenue targets and working within available financing facilities and their associated covenants such that they continue to remain available as required. The directors are satisfied that these actions are practical and achievable and are therefore satisfied there are reasonable grounds to conclude the Group can continue as a going concern.

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

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

Note 2. Significant accounting policies (continued)

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 34.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Damstra Holdings Limited ('Company' or 'parent entity') as at 30 June 2022 and the results of all subsidiaries for the year then ended. Damstra Holdings Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

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

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

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

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

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CEO and Chairman of the Group.

Foreign currency translation

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

Foreign currency transactions

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

Foreign operations

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

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

Note 2. Significant accounting policies (continued)

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

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

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

Software service

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

Rental of hardware equipment

Revenue from the rental of hardware equipment consists of fees that give customers access to hardware and includes (among other hardware) Alcolizers, Biometric technology login terminals and handheld devices. The hardware rental revenue is recognised over time as customers derive the benefit from the hardware, beginning on the date that the service is made available to the customers.

Implementation and other support services

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

Interest

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

Other income

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

Note 2. Significant accounting policies (continued)

Government grants

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

Income tax

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

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

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

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

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

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

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

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

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

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

Current and non-current classification

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

Note 2. Significant accounting policies (continued)

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

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

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

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

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

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

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

Customer fulfilment costs

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method.

Net realisable value represents the estimated selling price, less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Derivative financial instruments

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

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

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

Note 2. Significant accounting policies (continued)

Joint ventures

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

Property, plant and equipment

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

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

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

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

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

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

Right-of-use assets

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

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

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

Intangible assets

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

Goodwill

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

Note 2. Significant accounting policies (continued)

Acquired software

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

Product development

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

Customer relationships

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

Brands

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

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

Trade and other payables

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

Contract liabilities

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

Borrowings

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

Lease liabilities

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

Note 2. Significant accounting policies (continued)

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

Finance costs

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

Provisions

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

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

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

Share-based payments

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

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

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

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

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

Note 2. Significant accounting policies (continued)

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

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

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

Fair value measurement

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

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

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

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

Issued capital

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

Business combinations

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

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

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

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

Note 2. Significant accounting policies (continued)

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

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

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming conversion of all dilutive potential ordinary shares.

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

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

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

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

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

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2022. The adoption of these Accounting Standards and Interpretations is not expected to have any significant impact on the Group's financial statements.

Note 3. Critical accounting judgements, estimates and assumptions

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

Revenue recognition

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

Share-based payment transactions

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

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available. The allowance for expected credit losses, as disclosed in note 10, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

Estimation of useful lives of assets

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

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Refer to note 15 for further information.

Recovery of deferred tax assets

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

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Business combinations

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

Note 4. Operating segments

Identification of reportable operating segments

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

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

Major customers

During the year ended 30 June 2022, two customers individually contributed more than 10% of the total external revenue generated by the Group (2021: two).

Geographical information

	Sales to external customers		Geographical non-current assets	
	30 Jun 2022	30 Jun 2021	30 Jun 2022	30 Jun 2021
	\$'000	\$'000	\$'000	\$'000
Australia	25,347	19,384	112,449	141,385
New Zealand	2,361	916	510	135
International operations*	1,281	6,753	484	724
	<u>28,989</u>	<u>27,053</u>	<u>113,443</u>	<u>142,244</u>

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

Geographical non-current assets excludes Investments accounted for using the equity method, and Deferred tax assets.

Note 5. Revenue from operations

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Sales revenue	<u>28,989</u>	<u>27,053</u>

Note 5. Revenue from operations (continued)

Disaggregation of revenue

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

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
<i>Major product lines</i>		
Software services	21,656	18,326
Rental of hardware equipment	5,030	5,995
Implementation and other support services	2,303	2,732
	<u>28,989</u>	<u>27,053</u>
<i>Timing of revenue recognition</i>		
Revenue recognised over time	24,203	23,462
Revenue recognised at a point in time	4,786	3,591
	<u>28,989</u>	<u>27,053</u>

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

Note 6. Other income

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Research and development tax incentives	1,189	1,224
Government grants (COVID-19)*	82	353
Net foreign exchange (gain)/loss	(96)	36
Warrant fair value income	127	-
Other income	221	61
	<u>1,523</u>	<u>1,674</u>
Other income	<u>1,523</u>	<u>1,674</u>

* During the year, the Group has received JobKeeper and other support payments amounting to \$82,000 (2021 - \$353,000) from the Australian and NZ Government which were passed on to eligible employees. The amount received was recognised as government grants in the financial statements and recorded as other income over the period in which the related employee benefits were recognised as an expense.

Note 7. Expenses

Consolidated
30 Jun 2022 30 Jun 2021
\$'000 \$'000

Loss before income tax includes the following specific expenses:

Depreciation

Leasehold improvements	12	22
Plant and equipment	3,354	705
Motor vehicles	13	8
Right-of-use assets	915	2,173
Total depreciation	4,294	2,908

Amortisation

Software	10,129	7,752
Customer relationships	1,524	720
Customer fulfilment costs	334	396
Total amortisation	11,987	8,868

Total depreciation and amortisation	16,281	11,776
-------------------------------------	--------	--------

Impairment of goodwill and other assets

Goodwill	40,000	-
Receivables and other assets	2,336	-
Total impairment	42,336	-

Other expenses include the following:

Outsourced services and other costs associated with service delivery	5,054	3,889
IT and administration expenses	5,710	2,762
Advisory fees and consultant fees	1,612	3,165
Global statutory and tax audit expense	598	307
Other expenses	699	-
Contractor expenses	544	995
Acquisition costs (excluding employee benefits expenses)	137	750
Materials and hardware expenses	1,976	134
Total other expenses	16,330	12,002

Finance costs

Interest and finance charges paid/payable on borrowings	1,795	310
Interest and finance charges paid/payable on lease liabilities	59	268
Interest and finance charges paid/payable on others	114	91
Finance costs expensed	1,968	669

Superannuation expense

Defined contribution superannuation expense	1,203	962
---	-------	-----

Share-based payments expense

Share-based payments expense	1,551	3,242
------------------------------	-------	-------

Note 8. Income tax

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
<i>Income tax expense/(benefit)</i>		
Current tax	-	(366)
Deferred tax - origination and reversal of temporary differences	4,445	(1,581)
Adjustment recognised for prior periods	293	112
	<u>4,738</u>	<u>(1,835)</u>
<i>Aggregate income tax expense/(benefit)</i>		
	<u>4,738</u>	<u>(1,835)</u>
<i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Loss before income tax (expense)/benefit	(62,414)	(10,462)
<i>Tax effect amounts which are not deductible/(taxable) in calculating taxable income:</i>		
Tax at the statutory tax rate of 25% (2021: 26%)	(15,604)	(2,720)
Impairment of goodwill	10,000	-
Share-based payments	388	843
Non-assessable R&D boost	(295)	(289)
Other non-deductible expenses	290	562
Sundry items	-	(41)
	<u>(5,221)</u>	<u>(1,645)</u>
Prior year deferred tax asset derecognised	4,445	-
Current year tax losses not brought to account	5,094	-
Adjustment recognised for prior periods	420	112
Current year temporary differences not recognised	-	(302)
	<u>-</u>	<u>(302)</u>
<i>Income tax expense/(benefit)</i>	<u>4,738</u>	<u>(1,835)</u>

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	46,172	-
	<u>46,172</u>	<u>-</u>
Potential tax benefit @ 25%	11,543	-
	<u>11,543</u>	<u>-</u>

The above potential tax benefit has not been recognised in the statement of financial position due to uncertainty as to whether future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
<i>Deferred tax assets not recognised</i>		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Others	-	(302)
	<u>-</u>	<u>(302)</u>
Total deferred tax assets not recognised	<u>-</u>	<u>(302)</u>

The above potential tax benefit, which excludes tax losses, for deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

Note 8. Income tax (continued)

Changes in tax rate

The corporate tax rate applicable to base rate entities reduced from 27.5% to 26% for the 2020-21 income year and further reduces to 25% for the 2021-22 income year. The Group qualifies as a base rate entity as it has a turnover of less than \$50,000,000 and less than 80% of its assessable income is derived from base rate entity passive income. The Group has remeasured its deferred tax balances, and any unrecognised potential tax benefits arising from carried forward tax losses, based on the effective tax rate that is expected to apply in the year the temporary differences are expected to reverse or benefits from tax losses realised.

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
<i>Deferred tax asset</i>		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	800	3,388
Blackhole expenditure	908	872
Leases	527	447
Accrued expenses	788	681
Revenue received in advance	100	115
Other	136	112
R&D offset	1,545	1,269
Right-of-use assets	(552)	(503)
Property, plant and equipment	(2,560)	(382)
Financial assets at fair value through profit or loss	16	-
Inventories	88	-
Customer contracts	(47)	(117)
Customer relationships	(1,490)	(1,178)
Brand name	(259)	(259)
Deferred tax asset	-	4,445
Movements:		
Opening balance	4,445	2,366
(Debit)/credit to profit or loss	(4,445)	2,032
(Debit)/credit to balance sheet	(20)	248
Credit to equity	314	-
Additions through business combinations (note 35)	(294)	(201)
Closing balance	-	4,445
	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
<i>Income tax refund due</i>		
Income tax refund due	-	261

Note 9. Cash and cash equivalents

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
<i>Current assets</i>		
Cash at bank	10,095	9,834

Note 10. Trade and other receivables

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
<i>Current assets</i>		
Trade receivables	5,289	6,082
Less: Allowance for expected credit losses	(524)	(500)
	<u>4,765</u>	<u>5,582</u>
Other receivables	150	1,625
Receivables from related parties	124	114
	<u>5,039</u>	<u>7,321</u>

Allowance for expected credit losses

The Group has recognised a loss of \$1,863,000 (2021: \$314,000) in profit or loss in respect of the expected credit losses for the year ended 30 June 2022.

In the prior year, the Group identified an increased probability of customers delaying payment or being unable to pay principally due to the Coronavirus (COVID-19) pandemic. As a result, the calculation of expected credit losses included a higher level of loss rates than historical loss rates experienced prior to the pandemic. Given these risks remain, the higher loss rates continue to be used in the calculation of expected credit losses for the current financial year.

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

Consolidated	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	30 Jun 2022	30 Jun 2021	30 Jun 2022	30 Jun 2021	30 Jun 2022	30 Jun 2021
	%	%	\$'000	\$'000	\$'000	\$'000
Not overdue	1.23%	5.58%	3,334	4,663	41	260
1 to 2 months overdue	2.10%	2.48%	1,008	161	21	4
2 to 3 months overdue	34.04%	35.85%	209	106	71	38
3 to 4 months overdue	56.05%	21.30%	127	277	71	59
Over 4 months overdue	52.30%	15.89%	611	875	320	139
			<u>5,289</u>	<u>6,082</u>	<u>524</u>	<u>500</u>

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

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Opening balance	500	131
Additional provisions recognised	1,863	314
Additions through business combinations	-	59
Receivables written off during the year as uncollectable	(1,839)	(4)
Closing balance	<u>524</u>	<u>500</u>

Note 11. Other assets

	Consolidated	
	30 Jun 2022 \$'000	30 Jun 2021 \$'000
<i>Current assets</i>		
Prepayments	1,081	677
Security deposits	65	94
Other current assets	284	153
	<u>1,430</u>	<u>924</u>
<i>Non-current assets</i>		
Customer fulfilment costs	187	426
	<u>1,617</u>	<u>1,350</u>

Reconciliation of customer fulfilment costs:

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

	Consolidated	
	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Opening balance	426	616
Additions	95	206
Amortisation expense	(334)	(396)
	<u>187</u>	<u>426</u>

Note 12. Investments accounted for using the equity method

	Consolidated	
	30 Jun 2022 \$'000	30 Jun 2021 \$'000
<i>Non-current assets</i>		
Investment in SkillPASS Trust	221	259

Interests in joint ventures

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		30 Jun 2022 %	30 Jun 2021 %
SkillPASS Trust	Australia	50.00%	50.00%

Note 12. Investments accounted for using the equity method (continued)

Summarised financial information

	SkillPASS Trust	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
<i>Reconciliation of the Group's carrying amount</i>		
Opening carrying amount	259	-
Additions during the year	-	300
Share of loss after income tax	(38)	(41)
	<u>221</u>	<u>259</u>

Note 13. Property, plant and equipment

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
<i>Non-current assets</i>		
Leasehold improvements - at cost	152	142
Less: Accumulated depreciation	(133)	(121)
	<u>19</u>	<u>21</u>
Plant and equipment - at cost	11,982	13,029
Less: Accumulated depreciation	(6,807)	(5,665)
	<u>5,175</u>	<u>7,364</u>
Motor vehicles - at cost	138	90
Less: Accumulated depreciation	(138)	(88)
	<u>-</u>	<u>2</u>
	<u><u>5,194</u></u>	<u><u>7,387</u></u>

Reconciliations

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

Consolidated	Leasehold improve- ments \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Total \$'000
Balance at 1 July 2020	32	2,251	15	2,298
Additions	2	1,212	-	1,214
Transfers in/(out)	-	4,426	-	4,426
Additions through business combinations (note 35)	11	164	-	175
Exchange differences	(2)	16	(5)	9
Depreciation expense	(22)	(705)	(8)	(735)
Balance at 30 June 2021	21	7,364	2	7,387
Additions	10	1,144	-	1,154
Additions through business combinations (note 35)	-	22	11	33
Exchange differences	-	(1)	-	(1)
Depreciation expense	(12)	(3,354)	(13)	(3,379)
Balance at 30 June 2022	<u>19</u>	<u>5,175</u>	<u>-</u>	<u>5,194</u>

Note 14. Right-of-use assets

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
<i>Non-current assets</i>		
Right-of-use assets	4,646	3,367
Less: Accumulated depreciation	(1,798)	(756)
	<u>2,848</u>	<u>2,611</u>

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

Reconciliations

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

Consolidated	Properties \$'000	Equipment \$'000	Total \$'000
Balance at 1 July 2020	384	4,893	5,277
Additions	2,211	1,111	3,322
Additions through business combinations (note 35)	616	-	616
Exchange differences	(5)	-	(5)
Transfers in/(out)	-	(4,426)	(4,426)
Depreciation expense	(595)	(1,578)	(2,173)
Balance at 30 June 2021	2,611	-	2,611
Additions	971	-	971
Additions through business combinations (note 35)	201	-	201
Exchange differences	(20)	-	(20)
Transfers in/(out)	-	-	-
Depreciation expense	(915)	-	(915)
Balance at 30 June 2022	<u>2,848</u>	<u>-</u>	<u>2,848</u>

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

- note 7 for details of interest on lease liabilities and other lease expenses;
- note 19 and note 37 for details of lease liabilities at the beginning and end of the reporting period;
- note 27 for the maturity analysis of lease liabilities; and
- consolidated statement of cash flows for repayment of lease liabilities.

Note 15. Intangible assets

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
<i>Non-current assets</i>		
Goodwill - at cost	119,999	106,971
Less: Impairment	(40,000)	-
	<u>79,999</u>	<u>106,971</u>
Software - at cost	41,908	32,888
Less: Accumulated amortisation	(23,700)	(13,784)
	<u>18,208</u>	<u>19,104</u>
Customer relationships - at cost	9,113	6,327
Less: Accumulated amortisation	(3,141)	(1,617)
	<u>5,972</u>	<u>4,710</u>
Brand	1,035	1,035
	<u>105,214</u>	<u>131,820</u>

Reconciliations

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

Consolidated	Goodwill	Software	Customer	Brand	Total
	\$'000	\$'000	relationships	\$'000	\$'000
	\$'000	\$'000	\$'000		
Balance at 1 July 2020	18,471	10,803	2,483	-	31,757
Additions	-	4,594	-	-	4,594
Additions through business combinations (note 35)	88,500	11,445	2,947	1,035	103,927
Exchange differences	-	14	-	-	14
Amortisation expense	-	(7,752)	(720)	-	(8,472)
Balance at 30 June 2021	106,971	19,104	4,710	1,035	131,820
Additions	-	6,367	-	-	6,367
Additions through business combinations * (note 35)	13,028	2,866	2,786	-	18,680
Impairment of goodwill	(40,000)	-	-	-	(40,000)
Amortisation expense	-	(10,129)	(1,524)	-	(11,653)
Balance at 30 June 2022	<u>79,999</u>	<u>18,208</u>	<u>5,972</u>	<u>1,035</u>	<u>105,214</u>

Note 15. Intangible assets (continued)

* Goodwill acquired through business combinations included an adjustment of \$525,000 in relation to Vault Intelligence Limited ('Vault') acquisition during the provisional period. Refer to note 35 for further details.

Impairment testing for goodwill

Goodwill and other intangible assets acquired through business combinations have been allocated to the Damstra Workforce Management Solutions cash-generating unit (CGU) following the integration of the TIKS business since its acquisition in October 2021. As at 31 December 2021, goodwill and other intangible assets were allocated to two CGU's being Damstra Workforce Management Solutions, and TIKS (acquired in October 2021, and prior to any integration).

The goodwill of \$12,503,000 through the acquisition of TIKS represents the expected synergies from merging this business with the existing workforce management solutions business.

In accordance with the Group's accounting policies, indefinite life assets are allocated to CGUs in order to determine the recoverable amount for the annual impairment test.

At 31 December 2021, 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.

As a result of the impairment test performed as at 31 December 2021, an impairment loss of \$40.0 million was 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.

The impairment loss 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 excluded the impact of revenue recognised as a result of acquisitions. The growth rates did not include any material short-term sales revenue growth from the existing client base from improved trading activity post COVID-19 lockdowns.

The Group has re-assessed its CGU allocation post 31 December 2021 and have re-allocated the recently acquired goodwill from TIKS to the Damstra Workforce Management Solutions CGU. The change in CGU allocation was a result of the integration of TIKS within the Damstra Group following its acquisition.

As at 30 June 2022, the Group had one CGU which was the whole of its consolidated operations. A further impairment test was therefore performed on the whole CGU, being the Damstra Workforce Management Solutions CGU including TIKS.

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 year projection period approved by management.

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 11.0% (30 June 2021: 11.0%);
- (b) Revenue growth was projected at 18.1% (30 June 2021: 38.0%) in the first year and between 17-20% from the second to fifth year;
- (c) Cost savings net of re-investment to support growth of \$2m in the first year increasing to \$4m in the second to fifth year; and
- (d) Terminal growth rate 2.5% (30 June 2021: 2.5%).

As a result of these assumptions, no further impairment loss was required in addition to the \$40.0 million loss that had been recognised in the 31 December 2021 half-year results. As such, the total impairment loss for the 30 June 2022 financial year is \$40.0m million.

Note 15. Intangible assets (continued)

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% (breakeven rate being 11.8% with all other factors remaining consistent in the model).
- (b) Revenue growth rate: the projected growth rate for recurring revenue in the model is between 17% to 20% (breakeven growth rate being between 16 to 18%, with all other factors remaining consistent in the model).
- (c) Cost savings: cost savings net of re-investment to support growth of \$2m in the first year increasing to \$4m in the second to fifth year have been included in the model (breakeven savings being \$3m in the second to fifth years, with all other factors remaining consistent in the model).

Note 16. Trade and other payables

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	2,664	2,818
Accruals and other payables	3,922	3,105
	<u>6,586</u>	<u>5,923</u>

Refer to note 27 for further information on financial instruments.

Note 17. Contract liabilities

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
<i>Current liabilities</i>		
Contract liabilities	4,565	5,759
<i>Non-current liabilities</i>		
Contract liabilities	149	151
	<u>4,714</u>	<u>5,910</u>

Reconciliation

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

Opening balance	5,910	5,493
Payments received in advance	10,202	9,413
Additions through business combinations (note 35)	552	1,917
Revenue recognised in current year	(11,950)	(10,913)
Closing balance	<u>4,714</u>	<u>5,910</u>

Unsatisfied performance obligations

There were no unsatisfied performance obligations as at 30 June 2022 and 30 June 2021.

Note 18. Borrowings

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
<i>Non-current liabilities</i>		
Loan from Partners for Growth VI, L.P. ('PFG')	10,000	12,000
Back-end fee payable	354	-
Capitalised borrowing costs	(299)	(447)
	<u>10,055</u>	<u>11,553</u>

Refer to note 27 for further information on financial instruments.

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

The PFG facility is a \$15,000,000, three year secured debt facility with a redemption date of 30 June 2024. As at 30 June 2022, \$10,000,000 of the facility was drawn, with \$5,000,000 undrawn. The interest rate on the facility is 11.25% per annum, payable monthly in arrears, with back end fees payable on redemption calculated at 7.75% of the average outstanding borrowing across the facility term, plus a fee ranging from \$nil to \$465,000 depending on the Damstra share price on redemption.

As part of the loan agreement the Group issued PFG Nominees four warrants exercisable into 602,485 ordinary shares of the Company. The warrants have an exercise price of between \$1.05 per share to \$1.32 per share and are exercisable before 30 June 2028.

The warrants issued under the PFG facility are treated as an embedded derivative. The fair value of the derivative as at 30 June 2022 amounted to \$19,000 (30 June 2021: \$147,000).

During the year, an agreement was reached with PFG to restructure elements of the original 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 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.

The renegotiation also included the requirement to meet certain revenue and EBITDA profitability measures for three consecutive months prior to the remaining \$5,000,000 tranche being available for draw down and included the addition of an additional back end fee ranging from \$nil to \$465,000 depending on the Damstra share price on redemption. As at the reporting date, these profitability measures had not been met.

During the current financial year, the Group made a further draw-down of \$9,000,000 and repaid \$11,000,000 to PFG.

Financing arrangements

As at the reporting date, the following lines of credit were in place:

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
Total facilities		
Loan from Partners for Growth VI, L.P. (PFG)	<u>15,000</u>	<u>15,000</u>
Used at the reporting date		
Loan from Partners for Growth VI, L.P. (PFG)	<u>10,000</u>	<u>12,000</u>
Unused at the reporting date		
Loan from Partners for Growth VI, L.P. (PFG)	<u>5,000</u>	<u>3,000</u>

Note 18. Borrowings (continued)

The availability of the unused facility of \$5,000,000 is subject to meeting certain revenue and EBITDA profitability measures for three consecutive months, which had not been met as at the reporting date.

Note 19. Lease liabilities

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
<i>Current liabilities</i>		
Lease liability	1,057	1,203
<i>Non-current liabilities</i>		
Lease liability	1,949	1,347
	<u>3,006</u>	<u>2,550</u>

Refer to note 27 for maturity analysis of lease liabilities.

Note 20. Derivative financial instruments

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
<i>Current liabilities</i>		
Warrants	19	147

Refer to note 27 for further information on financial instruments.

Refer to note 28 for further information on fair value measurement.

Warrants:

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

Note 21. Employee benefits

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
<i>Current liabilities</i>		
Annual leave	1,595	1,380
Long service leave	277	51
Other employee benefits	97	627
	<u>1,969</u>	<u>2,058</u>
<i>Non-current liabilities</i>		
Long service leave	187	104
	<u>2,156</u>	<u>2,162</u>

Note 22. Deferred consideration on acquisition

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
<i>Current liabilities</i>		
Deferred consideration	3,500	-

Refer to note 35 for further details.

Note 23. Deferred income

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
<i>Current liabilities</i>		
Deferred research and development income	458	1,036
<i>Non-current liabilities</i>		
Deferred research and development income	-	696
	458	1,732

Note 24. Issued capital

	30 Jun 2022 Shares	Consolidated 30 Jun 2021 Shares	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Ordinary shares - fully paid	257,696,388	186,813,130	177,813	148,178
Less: Treasury shares	(626,772)	(1,603,515)	(4,462)	(4,462)
	257,069,616	185,209,615	173,351	143,716

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 35)	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 35)	26 November 2020	684,930	\$1.10	750
Issue of shares on exercise of options	3 December 2020	448,277	\$0.87	390
Balance	30 June 2021	186,813,130		148,178
Issue of shares on the acquisition of TIKS Solutions Pty Ltd (note 35)	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	(1,065)
Balance	30 June 2022	257,696,388		177,813

Note 24. Issued capital (continued)

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	July - December 2020	353,766	\$0.00	-
Less: allocation of shares on exercise of options	January - June 2021	103,667	\$0.00	-
Balance	30 June 2021	(1,603,515)		(4,462)
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	-
Less: allocation of shares on exercise of options	March 2022	22,387	\$0.00	-
Less: allocation of shares on exercise of options	April 2022	107,201	\$0.00	-
Less: allocation of shares on exercise of options	May 2022	119,673	\$0.00	-
Balance	30 June 2022	<u>(626,772)</u>		<u>(4,462)</u>

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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

Treasury shares

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

The Company has established the EST to deliver long-term incentives to eligible employees. The trustee of the Share Trust is controlled by the Company. The acquisition of the shares under the EST is fully funded by the Group. These shares are recorded as treasury shares representing a deduction against issued capital. The shares issued to EST is allocated to employees on successful vesting of options/awards. During the financial year, 976,743 shares were allocated to option holders on the exercise of options. As at 30 June 2022, EST held 626,772 (2021:1,603,515) shares that were unallocated. Refer to note 39 'Share-based payments' for further details.

Share buy-back

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

Capital risk management

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

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

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

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

Note 24. Issued capital (continued)

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

The capital risk management policy remains unchanged from the 30 June 2021 Annual Report.

Note 25. Reserves

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
Foreign currency reserve	(113)	(27)
Share-based payments reserve	13,182	11,631
	<u>13,069</u>	<u>11,604</u>

Foreign currency reserve

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

Share-based payments reserve

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

Acquisition reserve

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

Movements in reserves

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

Consolidated	Foreign currency reserve \$'000	Share-based payments reserve \$'000	Acquisition reserve \$'000	Total \$'000
Balance at 1 July 2020	(54)	8,389	750	9,085
Foreign currency translation	27	-	-	27
Share-based payments	-	3,242	-	3,242
Transfer to equity on issue of shares	-	-	(750)	(750)
Balance at 30 June 2021	(27)	11,631	-	11,604
Foreign currency translation	(86)	-	-	(86)
Share-based payments	-	1,551	-	1,551
Balance at 30 June 2022	<u>(113)</u>	<u>13,182</u>	<u>-</u>	<u>13,069</u>

Note 26. Dividends

Dividends

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

Note 26. Dividends (continued)

Franking credits

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 25% (2021:26%)	1,172	1,172

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

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

Note 27. Financial instruments

Financial risk management objectives

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

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

Market risk

Foreign currency risk

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

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

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

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

Credit risk

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

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Note 27. Financial instruments (continued)

The Group has a credit risk exposure to two major customers (2021: two major customers) due to the size of the customer relationship. In the prior year, even though the receivables balance was within its terms of trade, an impairment provision of \$314,000 was made due to management assessment of potential risk of non-recovery. As assessment in the current financial year determined no such impairment provision was required as at 30 June 2022. Management closely monitors the receivable balances of these customers on a monthly basis and is in regular contact with the customer to mitigate risk.

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

Liquidity risk

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

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

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
Loan from Partners for Growth VI, L.P. (PFG)	5,000	3,000

Under the revised facility agreement, certain revenue and EBITDA profitability measures must be met for three consecutive months before the unused borrowing facility can be drawn down. As at the reporting date, these profitability measures had not been met.

Remaining contractual maturities

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

Consolidated - 30 Jun 2022	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives					
<i>Non-interest bearing</i>					
Trade payables	2,664	-	-	-	2,664
Accruals and other payables	3,922	-	-	-	3,922
<i>Interest-bearing - fixed rate</i>					
Lease liability	1,136	882	1,239	-	3,257
Loan from Partners for Growth VI, L.P.	1,125	12,520	-	-	13,645
Total non-derivatives	8,847	13,402	1,239	-	23,488
Derivatives					
Warrants	19	-	-	-	19
Total derivatives	19	-	-	-	19

Note 27. Financial instruments (continued)

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

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

Note 28. Fair value measurement

Fair value hierarchy

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

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

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

Level 3: Unobservable inputs for the asset or liability

Consolidated - 30 Jun 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Liabilities				
Derivatives - Warrant (note 20)	-	19	-	19
Contingent consideration	-	-	923	923
Total liabilities	-	19	923	942
Consolidated - 30 Jun 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Liabilities				
Derivatives - Warrant (note 20)	-	147	-	147
Total liabilities	-	147	-	147

There were no transfers between levels during the financial year.

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

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

Note 28. Fair value measurement (continued)

Contingent consideration payable on business acquisitions 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. As at the reporting date no contingent consideration payable was recognised. For further information refer note 35 Business Combinations.

Note 29. Key management personnel disclosures

Compensation

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

	Consolidated 30 Jun 2022 \$	30 Jun 2021 \$
Short-term employee benefits	1,561,694	1,870,020
Post-employment benefits	99,504	87,007
Long-term benefits	63,365	111,583
Share-based payments	437,107	765,257
	<u>2,161,670</u>	<u>2,833,867</u>

Note 30. Remuneration of auditors

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

	Consolidated 30 Jun 2022 \$	30 Jun 2021 \$
<i>Audit services - PricewaterhouseCoopers</i>		
Audit or review of the financial statements	<u>539,480</u>	<u>331,828</u>
<i>Other services - PricewaterhouseCoopers</i>		
Employee share trust	<u>9,584</u>	<u>112,135</u>
	<u>549,064</u>	<u>443,963</u>

Note 31. Contingent assets and liabilities

The Group has recorded total contingent liability of \$923,000. This consist of an outstanding balance of \$623,000 from the acquisition of Vault and \$300,000 on acquisition of TIKS Solutions Pty Ltd. In the half year end report, an additional \$7,000,000 was recorded as contingent consideration for the acquisition of TIKS Solutions Pty Ltd. As the annual revenue target that would result in a contingent consideration payment is not expected to be met, this amount has been reversed to nil in this financial report. Refer to note 35 for further details.

Other than as disclosed above, the Group had no other contingent assets or liabilities as at 30 June 2022 and 30 June 2021.

Note 32. Commitments

The Group had no capital commitments as at 30 June 2022 and 30 June 2021.

Note 33. Related party transactions

Parent entity

Damstra Holdings Limited is the parent entity.

Note 33. Related party transactions (continued)

Subsidiaries

Interests in subsidiaries are set out in note 36.

Joint ventures

Interests in joint ventures are set out in note 12.

Key management personnel

Disclosures relating to key management personnel are set out in note 29 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$	\$
Other income:		
Interest on outstanding loan to key management personnel	9,483	8,756
Rental income and outgoings of office premises from related party of key management personnel	103,290	43,056
Other transactions:		
Reimbursement of office fit outs paid by related party of key management personnel	-	123,420

Receivable from and payable to related parties

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

Loans to/from related parties

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

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$	\$
Current receivables:		
Loan to key management personnel	123,741	114,257

Terms and conditions

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

Note 34. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Loss after income tax	(1,304)	(3,282)
Total comprehensive loss	(1,304)	(3,282)

Note 34. Parent entity information (continued)

Statement of financial position

	Parent 30 Jun 2022 \$'000	30 Jun 2021 \$'000
Total current assets	43,765	26,571
Total assets	176,020	141,981
Total current liabilities	3,416	-
Total liabilities	3,416	-
Equity		
Issued capital	167,955	137,254
Reserves	12,857	11,631
Accumulated losses	(8,208)	(6,904)
Total equity	172,604	141,981

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

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2022 and 30 June 2021.

Contingent liabilities

The parent entity has recorded total contingent liability of \$923,000 as at year end. This consist of an outstanding balance of \$623,000 from the acquisition of Vault and \$300,000 on acquisition of TIKS Solutions Pty Ltd. In the half year end report, an additional \$7,000,000 was recorded as contingent consideration for the acquisition of TIKS Solutions Pty Ltd. As the annual revenue target that would result in a contingent consideration payment is not expected to be met, this amount has been reversed to nil in this financial report. Refer to note 35 for further details.

Other than as disclosed above, the parent entity had no other contingent assets or liabilities as at 30 June 2022 and 30 June 2021.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2022 and 30 June 2021.

Significant accounting policies

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

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

Note 35. Business combinations

Acquisition of TIKS Solutions Pty Ltd ('TIKS') (acquisition in the current year)

On 15 October 2021, the Group acquired 100% of the ordinary shares of TIKS Solutions Pty Ltd ('TIKS') for the total consideration of \$16,883,000. 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 and a deferred cash payment of \$3,500,000 to be paid on 15 October 2022. 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.

Note 35. Business combinations (continued)

In addition to the above, contingent consideration of up to \$7,000,000 may be payable to the vendors of TIKS in ordinary shares of the Company in November 2022. The issue of shares is contingent on TIKS achieving an annual revenue target over the 12 month period ending 31 October 2022.

At acquisition date, the fair value of the contingent consideration was \$7,000,000. As at 30 June 2022, the fair value has been determined to be \$nil since the revenue targets per the sale agreement are not expected to be met.

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).

The goodwill of \$12,503,000 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 \$2,263,000 and incurred a loss after tax of \$1,175,000 to the Group for the period from 15 October 2021 to 30 June 2022. The values identified in relation to the acquisition of TIKS are provisional as at 30 June 2022.

Note 35. Business combinations (continued)

Details of the acquisition are as follows:

	Fair value \$'000
Cash and cash equivalents	463
Trade receivables and other receivables	713
Other current assets	8
Property, plant and equipment	33
Right-of-use assets	201
Software	2,866
Customer relationships	2,786
Trade payables and other payables	(429)
Contract liabilities	(552)
Deferred tax liability	(294)
Employee benefits	(267)
Provisions	(641)
Contingent liability	(300)
Lease liability	(207)
	<hr/>
Net assets acquired	4,380
Goodwill	12,503
	<hr/>
Acquisition-date fair value of the total consideration transferred	16,883
	<hr/> <hr/>
Representing:	
Cash paid or payable to vendor	2,703
Damstra Holdings Limited shares issued to vendor	10,680
Deferred consideration	3,500
	<hr/>
	16,883
	<hr/> <hr/>
Acquisition costs expensed to profit or loss	137
	<hr/> <hr/>
Cash used to acquire business, net of cash acquired:	
Cash paid to the vendor	2,703
Less: cash and cash equivalents	(463)
	<hr/>
Net cash used	2,240
	<hr/> <hr/>

Vault Intelligence Limited (acquisition in the prior year)

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

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 36. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		30 Jun 2022 %	30 Jun 2021 %
Applied Project Experience Pty Ltd	Australia	100%	100%
Damstra Technology LLC	United States of America	100%	100%
Damstra Technology Pty Ltd	Australia	100%	100%
Damstra Technology Pty Ltd	New Zealand	100%	100%
Damstra Technology UK Limited	United Kingdom	100%	100%
EIFY Pty Limited	Australia	100%	100%
NGB Industries Pty Limited	Australia	100%	100%
Vault Intelligence Limited	Australia	100%	100%
Vault IQ Australia Pty Limited	Australia	100%	100%
Vault IQ NZ Limited	New Zealand	100%	100%
Vault IQ SG Pte Ltd	Singapore	100%	100%
Vault Software Technology (Shanghai) Limited	China	100%	100%
TIKS Solutions Pty Ltd	Australia	100%	-

The Group acquired TIKS Solutions Pty Ltd during the year. Refer to note 35 for further details.

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

Note 37. Cash flow information

Reconciliation of loss after income tax to net cash (used in)/from operating activities

	Consolidated	
	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Loss after income tax (expense)/benefit for the year	(67,152)	(8,627)
Adjustments for:		
Depreciation and amortisation	16,281	11,776
Impairment of goodwill	40,000	-
Share of loss - associates	38	41
Share-based payments	1,551	3,242
Foreign exchange differences	(86)	129
Finance costs	1,968	669
Interest revenue	(43)	(54)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	2,994	(2,509)
Decrease/(increase) in other assets	63	208
Decrease/(increase) in tax balances (net)	4,900	2,851
Decrease in trade and other payables	(577)	(4,859)
Decrease in contract liabilities	(1,748)	(417)
(Decrease)/increase in provisions	(294)	59
(Decrease)/increase in other liabilities	(1,458)	(656)
Net cash (used in)/from operating activities	<u>(3,563)</u>	<u>1,853</u>

Note 37. Cash flow information (continued)

Note – prior year disclosures have been reclassified to be consistent with current year disclosures.

Non-cash investing and financing activities

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
Additions to the right-of-use assets	971	3,322
Shares issued in relation to business combinations	10,680	100,057
	<u>11,651</u>	<u>103,379</u>

Changes in liabilities arising from financing activities

Consolidated	Loan facility \$'000	Lease liabilities \$'000	Total \$'000
Balance at 1 July 2020	-	5,227	5,227
Net cash from/(used in) financing activities	12,000	(6,753)	5,247
Acquisition of leases	-	3,322	3,322
Changes through business combinations (note 35)	-	663	663
Other changes (includes back end fees amortisation \$353K & establishment fees amortisation \$99K)	(447)	91	(356)
Balance at 30 June 2021	11,553	2,550	14,103
Net cash used in financing activities	(2,000)	(1,280)	(3,280)
Acquisition of leases	-	2,180	2,180
Changes through business combinations (note 35)	-	207	207
Lease termination and other changes	-	(651)	(651)
Back end fee amortisation	354	-	354
Establishment fee amortisation and other	148	-	148
Balance at 30 June 2022	<u>10,055</u>	<u>3,006</u>	<u>13,061</u>

Note 38. Earnings per share

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
Loss after income tax attributable to the owners of Damstra Holdings Limited	<u>(67,152)</u>	<u>(8,627)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	232,211,499	172,581,729
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>232,211,499</u>	<u>172,581,729</u>
	Cents	Cents
Basic loss per share	(28.92)	(5.00)
Diluted loss per share	(28.92)	(5.00)

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

Note 39. Share-based payments

The share-based payment expense for the financial year was \$1,551,000 (30 June 2021: \$3,242,000).

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

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

	Number of options	
	30 Jun 2022	30 Jun 2021
Outstanding at the beginning of the financial year	10,017,910	3,818,722
Granted	7,931,085	8,093,444
Forfeited	(1,472,719)	(742,402)
Exercised	(976,743)	(905,710)
Expired	(514,876)	(246,144)
Outstanding at the end of the financial year	<u>14,984,657</u>	<u>10,017,910</u>
Exercisable at the end of the financial year	<u>4,888,662</u>	<u>2,128,591</u>

On 1 September 2021, the Group issued 2,327,243 options that vest over 3 years. The options are subject to service conditions and will be dependent on the participants satisfying employment service conditions.

On 8 December 2021, the Group issued 781,249 options that vest over 3 years. The options are subject to service conditions and will be dependent on the participants satisfying employment service conditions.

On 8 December 2021, the Group issued 666,668 options to the US Advisers that vest over 2 years from the original date of the agreement of 1 February 2021. First fifty percent (50%) of the options shall vest on 31 January 2022 and the remaining fifty percent (50%) of the options shall vest in four (4) equal instalments on the last day of April 2022, July 2022, October 2022 and January 2023. The options are subject to service conditions and will be dependent on the participants satisfying the service conditions.

On 18 January 2022, the Group issued 50,000 options that vest on the third year from the grant date. The options are subject to service conditions and will be dependent on the participants satisfying employment service conditions.

On 1 February 2022, the Group issued 324,675 options that vest on the third year from the grant date. The options are subject to service conditions and will be dependent on the participants satisfying employment service conditions.

On 31 March 2022, the Group issued 3,781,250 options that vest on the third year from the grant date. The options are subject to service conditions and will be dependent on the participants satisfying employment service conditions.

The weighted average share price during the financial year was \$0.541 (2021: \$1.495).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 12.34 years (2021: 10.04 years).

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

Note 39. Share-based payments (continued)

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
01/09/2021	01/09/2027	0.96	1.70	57.50%	0%	0.97%	\$0.56*
01/09/2021	01/09/2036	0.96	-	57.50%	0%	0.45%	\$1.70*
01/09/2021	01/09/2036	0.96	-	70.00%	0%	1.10%	\$0.96
08/12/2021	08/12/2036	0.36	-	70.00%	0%	1.10%	\$0.36
08/12/2021	28/02/2023	0.36	-	70.00%	0%	1.10%	\$0.36
18/01/2022	18/01/2037	0.33	-	70.00%	0%	1.10%	\$0.33
01/02/2022	01/02/2037	0.31	-	70.00%	0%	1.10%	\$0.31
31/03/2022	31/03/2037	0.19	-	70.00%	0%	1.10%	\$0.19

* The fair value was determined on the date the options were offered on 1 September 2020 when the share price was \$1.77. At this time, the options were subject to performance conditions. The options were granted on 1 September 2021 when the performance conditions were satisfied.

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

As detailed in note 24, the Company issued 2,060,948 shares to EST. The shares issued to EST is allocated to employees on successful vesting of options/awards. During the financial year, 976,743 shares were allocated to option holders on the exercise of options. As at 30 June 2022, EST held 626,772 (2021: 1,603,515) shares that were unallocated.

Note 40. Events after the reporting period

No matter or circumstance has arisen since 30 June 2022 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, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the directors



Johannes Risseuw
Executive Chairman



Drew Fairchild
Director

25 August 2022



Independent auditor's report

To the members of Damstra Holdings Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2022
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

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

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

Independence

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

Our audit approach

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

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



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$288,000, which represents approximately 1% of the Group's revenue from continuing operations. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose Group revenue from continuing operations because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds. 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: <ul style="list-style-type: none"> Carrying value of goodwill and intangible assets Capitalisation of internally developed software Revenue recognition Accounting for business combination These are further described in the <i>Key audit matters</i> section of our report.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Carrying value of goodwill and intangible assets Refer to note 3 and 15 Intangible assets</p> <p>At 31 December 2021, following the identification of impairment triggers, the Group assessed the carrying value of the assets based on a value-in-use model (the model) using forecast future cash flows, discounted to present value. The impairment assessment resulted in impairment losses of \$40m, as disclosed in note 15.</p> <p>At 30 June 2022, the Group had \$105.2m of goodwill and intangible assets. Under Australian Accounting Standards, the Group is required to assess goodwill and indefinite life intangibles for impairment at least annually.</p> <p>A further impairment assessment was performed at 30 June 2022 based on a value-in-use model which did not result in any additional impairment losses.</p> <p>We considered this a key audit matter due to:</p> <ul style="list-style-type: none"> • The financial significance of the goodwill and intangible assets including those acquired during the year as a result of the TIKS acquisition. • The significant judgement required by the Group in the determination of the CGU. • The significant judgement required by the Group to estimate the key assumptions in the model to determine the recoverable amount of the goodwill and intangible assets. The key assumptions applied by the Group include: <ul style="list-style-type: none"> – Post-tax discount rate – Revenue growth in year 1 and years 2-5 – Terminal growth rate 	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> • Assessing whether the allocation of goodwill and intangible assets to one CGU was consistent with our knowledge of the Group's operations and internal Group reporting and the requirements of Australian Accounting Standards. • Assessing whether the CGU appropriately included all directly attributable assets, liabilities, corporate overheads and cash flows. • Assessing the forecast growth assumptions used in the models based on our understanding of the key drivers for future growth, with reference to third party information. • Comparing the terminal growth rate used in the models to external economic forecasts. • Assessing the Group's historical ability to forecast future cash flows by comparing forecasts used in the prior year model to the actual performance of the Group in the year to 30 June 2022. • Comparing the cash flow forecasts used in the model with the Board approved budget. • Considering the Group's sensitivity analysis on key assumptions used in the impairment model to assess whether a reasonably possible change, either individually or collectively, would result in the impairment of assets.

Key audit matter	How our audit addressed the key audit matter
<p>Capitalisation of internally developed software <i>Refer to note 2 and 15 Intangible assets</i></p> <p>During the year, the Group capitalised internally developed software costs of \$6.4m. These costs predominantly related to the development of the Damstra platform.</p> <p>The capitalisation of internally developed software costs was a key audit matter due to the size of the internal costs capitalised and the judgement involved by the Group in assessing whether the criteria set out in the Australian Accounting Standards required for capitalisation of such costs had been met, particularly:</p> <ul style="list-style-type: none"> • The technical feasibility of the project. • The likelihood of the project delivering sufficient future economic benefits. <p>The Group's judgements also included whether capitalised costs were of a developmental rather than research or maintenance nature and whether costs were directly attributable to relevant projects.</p>	<ul style="list-style-type: none"> • Re-performing a selection of calculations in the model to assess mathematical accuracy. • Together with PwC valuation experts evaluating whether the discount rate and terminal growth rate used in the model appropriately reflected the risks of the CGU by considering relevant industry and market factors. • Considering the reasonableness of disclosures in note 3 and 15, including those regarding the key assumptions in light of the requirements of the Australian Accounting Standards. <p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> • Evaluating the Group's policy and process for calculating the time and cost spent by staff on software development activities eligible for capitalisation in accordance with Australian Accounting Standards. • Developing an understanding of the capitalised software projects in-progress and assessing whether the costs meet the criteria for capitalisation in accordance with Australian Accounting Standards. • On a sample basis, agreeing capitalised costs to supporting documentation to evaluate whether they were capital in nature. • Evaluating the reasonableness of the disclosures made in notes 2 and 15 in light of the requirements of Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition <i>Refer to note 2 and 5 Revenue from operations</i></p> <p>The Group recognised revenue of \$29.0m, which is predominantly comprised of the following revenue streams:</p> <ul style="list-style-type: none"> • Provision of software services (\$21.7m) • Rental of hardware equipment (\$5.0m) • Implementation & other support services (\$2.3m) <p>Revenue recognition is a key audit matter due to:</p> <ul style="list-style-type: none"> • The significance of revenue to the Group's financial results. • The extent of deferred revenue and contract assets recognised by the Group and the related revenue recognised during the year. • The level of judgement applied in the capitalisation and determination of the period over which to amortise contract costs. 	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> • Developing an understanding of the process undertaken by the Group to recognise revenue from the provision of software services, the rental of hardware equipment and implementation and other support services. • Testing the accuracy of key calculations over the processes for the deferral and recognition of revenue within the Group's general ledger system. • Testing the automated interface between the Group's invoicing and accounting systems by reconciling invoices raised in source systems to invoices recorded in the accounting system. • Comparing a sample of invoices created in the invoicing systems to those transferred to the general ledger system. • Agreeing a sample of revenue transactions to relevant supporting documentation.
<p>Accounting for business combination <i>Refer to note 35 Business combinations</i></p> <p>The Group acquired TIKS Solutions Pty Ltd ('TIKS') for purchase consideration of \$16.9m. The purchase consideration was in the form of the Group's shares of \$10.7m and cash of \$6.2m. Goodwill of \$12.5m was recognised on acquisition.</p> <p>We considered this a key audit matter because of the significant judgement involved by Group in the following areas:</p> <ul style="list-style-type: none"> • Identifying the assets and liabilities acquired and determining their fair value. • Estimating contingent consideration based on the likelihood of achieving revenue targets. • Identifying all assets and liabilities of the newly acquired business. • Estimating the fair value of software, brand and customer relationship assets each intangible 	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> • Evaluating the Group's accounting against the requirements of Australian Accounting Standards, the purchase agreements and our understanding of the business acquired. • Assessing the purchase consideration by recalculating the fair value of shares transferred at acquisition date to the executed agreements, and assessing the annual revenue forecast and fair value of contingent consideration. • Evaluating the reasonableness of the disclosures made in note 35 in light of the requirements of Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter
asset acquired for initial recognition by the Group.	

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 9 to 22 of the directors' report for the year ended 30 June 2022.

In our opinion, the remuneration report of Damstra Holdings Limited for the year ended 30 June 2022 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'J. Roberts'.

Jon Roberts
Partner

Melbourne
25 August 2022

The shareholder information set out below was applicable as at 26 July 2022.

Substantial holders

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

Holder Name	Date of interest	Number of ordinary shares ¹	% of issued capital ²
Johannes Risseeuw	10/12/2021	19,831,828	8.29%
Christian Damstra	10/12/2021	19,737,772	8.25%
Acorn Capital Limited	10/12/2021	12,901,736	5.39%
National Nominees Ltd ACF Australia Ethical Investment Limited	10/12/2021	15,041,364	6.29%
Regal Funds Management Pty Ltd	03/06/2022	15,628,629	6.09%

¹ As disclosed in the last notice lodged with the ASX by the substantial shareholder.

² The percentage set out in the notice lodged with the ASX is based on the total issued capital of the Company at the date of interest.

Number of Security Holders

Securities	Number of Holders
Ordinary Shares	10,933
Unlisted options over ordinary shares (Options)	78
Unlisted warrants over ordinary shares (Warrants)	2

Voting rights

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

Distribution schedule

The distribution schedule for Ordinary Shares is as follows:

Spread of Holdings	Holders	Ordinary Shares	% of Total Ordinary Shares
1 - 1,000	3,335	1,964,763	0.76%
1,001 - 5,000	4,213	11,033,134	4.28%
5,001 - 10,000	1,424	10,804,312	4.19%
10,001 - 100,000	1,768	49,116,618	19.06%
100,001 - 9,999,999,999	193	184,777,561	71.70%
Totals	10,933	257,696,388	100.00%*

*Rounding 0.01

The distribution schedule for Options is as follows:

Spread of Holdings	Holders	Options	% of Total Options
1 - 1,000	0	0	0.00%
1,001 - 5,000	1	4,117	0.03%
5,001 - 10,000	1	9,829	0.07%
10,001 - 100,000	32	1,480,759	9.91%
100,001 - 9,999,999,999	44	13,446,253	90.00%
Totals	78	14,940,958	100.00%

The distribution schedule for Warrants is as follows:

Spread of Holdings	Holders	Warrants	% Of Total Warrants
1 - 1,000	2	8	100.00%
1,001 - 5,000	0	0	0.00%
5,001 - 10,000	0	0	0.00%
10,001 - 100,000	0	0	0.00%
100,001 - 9,999,999,999	0	0	0.00%
Totals	0	8	100.00%

Holders of Non-Marketable Parcels

Date	Closing price of shares	Number of holders
26 July 2022	\$0.2200	5,371

Top 20 Shareholders

The top 20 largest fully paid ordinary shareholders together hold 53.56% of the securities in this class and are listed below:

Rank	Holder Name	Securities	%
1	NATIONAL NOMINEES LIMITED	15,172,412	5.89
2	DAMSTAR PTY LTD <C AND N DAMSTRA FAMILY A/C>	14,111,176	5.48
3	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	13,937,683	5.41
4	CHOCOLATE PEARL PTY LTD <THE CINJAN A/C>	10,980,000	4.26
5	CITICORP NOMINEES PTY LIMITED	10,822,382	4.20
6	BNP PARIBAS NOMS PTY LTD <DRP>	9,125,658	3.54
7	RISJEF PTY LTD <J & C RISSEEUW S/FUND A/C>	8,586,732	3.33
8	S&A MARCIANO PTY LTD	8,160,000	3.17
9	UBS NOMINEES PTY LTD	6,644,922	2.58
10	MR PHILIP WEINMAN & MS ROCHELLE WEINMAN & MR DEAN WEINMAN <WEINMAN SUPER FUND A/C>	5,709,228	2.22
11	DAMSTRA SUPER PTY LTD <C&N DAMSTRA FAMILY SUPER A/C>	5,285,000	1.88
12	MR MING HEI TANG	4,833,292	1.96
13	ROSELEE RIDGE RESOURCES PTY LIMITED <ROSELEE RIDGE INVESTMENT AC>	4,580,000	1.78
14	MR JOHN COLIN LOOSEMORE & MRS SUSAN MARJORY LOOSEMORE <LOOSEMORE SUPER FUND A/C>	3,486,503	1.35
15	HB TECHNOLOGY PTY LTD	3,480,000	1.35
16	FAIRCHILD ADVISORY PTY LTD	2,884,444	1.12
17	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,753,462	1.07
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	2,682,632	1.04
19	HURWITZ FAMILY PTY LTD <THE HURWITZ FAMILY A/C>	2,437,025	0.95
20	MR DAVID MOYLAN	2,349,999	0.91
	Total	138,022,550	53.56%

Restricted securities

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

The following securities are subject to voluntary escrow restrictions:

Class	Date of Expiry	Number of Securities
Ordinary shares subject to voluntary escrow restrictions until 15 October 2023	15/10/2023	8,160,000
Ordinary shares subject to voluntary escrow restrictions until 15 October 2022	15/10/2022	3,480,000

Unquoted Securities - options

The following unlisted options are on issue (which are subject to vesting conditions):

Date of Expiry	Exercise Price	Number of Options	Number of Holders
01/03/2024	\$0.8575	86,207	1
30/09/2023	\$0.8575	862,070	3
30/09/2023	\$0.9155	344,828	1
16/10/2034	\$0.00	816,664	23
16/10/2034	\$1.5175	1,964,284	2
30/09/2026	\$3.2375	2,725,377	28
30/09/2035	\$0.00	881,154	43
16/12/2035	\$0.00	39,448	1
09/04/2036	\$0.00	85,021	5
01/09/2027	\$1.6975	832,039	26
01/02/2037	\$0.00	324,675	1
01/09/2036	\$0.00	974,999	29
28/02/2023	\$0.00	458,334	4
08/12/2036	\$0.00	468,749	7
18/01/2037	\$0.00	50,000	1
01/09/2036	\$0.00	245,859	25
31/03/2037	\$0.00	3,781,250	34
		14,940,958	78*

* Number of individual option holders

There are no holders outside of the Company's employee incentive plan that hold more than 20% of the Options on issue.

Unquoted Securities - warrants

The following unlisted Warrants are on issue:

Class	Date of Expiry	Exercise Price	Number of Warrants	Number of Holders
Unlisted Warrants exercisable into 104,404 Ordinary Shares	30/06/2028	\$1.0375	2	2
Unlisted Warrants exercisable into 96,373 Ordinary Shares	30/06/2028	\$1.1275	2	2
Unlisted Warrants exercisable into 178,979 Ordinary Shares	30/06/2028	\$1.2175	2	2
Unlisted Warrants exercisable into 222,729 Ordinary Shares	30/06/2028	\$1.3075	2	2
			8	2

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

Holder Name	Securities	% of Issued Warrants
Partners for Growth V L P	4	50.00%
Partners for Growth VI L P	4	50.00%

Share buy-backs

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

Directors	Johannes Risseeuw Christian Damstra Drew Fairchild Morgan Hurwitz Simon Yencken Sara La Mela
Company secretaries	Andrew Ford Carlie Hodges
Registered office and Principal place of business	Suite 3, Level 3 299 Toorak Road South Yarra VIC 3141 Telephone: 1300 722 801
Share register	ComputerShare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney. NSW 2000 Telephone: 02 8234 5000
Auditor	PricewaterhouseCoopers 2 Riverside Quay Southbank VIC 3006
Solicitors	Cottel & Co Level 31, 120 Collins St Melbourne, VIC 3000
Stock exchange listing	Damstra Holdings Limited shares are listed on the Australian Securities Exchange (ASX code: DTC)
Website	https://www.damstratechnology.com
Business objectives	In accordance with Listing Rule 4.10.19, the Company confirms that the Group has been utilising the cash and assets in a form readily convertible to cash that it held at the time of its admission to the Official List of ASX since its admission to the end of the reporting period in a way that is consistent with its business objectives.
Corporate Governance Statement	<p>The directors and management are committed to conducting the business of Damstra Holdings Limited in an ethical manner and in accordance with the highest standards of corporate governance. Damstra Holdings Limited has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) ('Recommendations') to the extent appropriate to the size and nature of the Group's operations.</p> <p>The Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed, which is approved at the same time as the Annual Report can be found at: http://www.damstratechnology.com/investors</p>