

1. Company details

Name of entity:	Damstra Holdings Limited
ABN:	74 610 571 607
Reporting period:	For the half-year ended 31 December 2022
Previous period:	For the half-year ended 31 December 2021

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	12.0% to	14,780
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	>100.0% to	2,031
Loss from ordinary activities after tax attributable to the owners of Damstra Holdings Limited	down	85.2% to	(8,276)
Loss for the half-year attributable to the owners of Damstra Holdings Limited	down	85.2% to	(8,276)

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 \$8,276,000 (31 December 2021: \$55,997,000).

Pro forma EBITDA below is a financial measure that is not prescribed by Australian Accounting Standards ('AAS') and represents the statutory loss under AAS adjusted for certain items. The directors consider loss before tax excluding other items (being the impact of impairment, acquisition costs, restructuring and share-based payments expenses) to reflect the core earnings of the Group. Pro forma EBITDA refers to Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') adjusted for non-cash share-based payments, acquisition costs and other costs and impairment expenses.

A reconciliation between adjusted pro forma EBITDA and statutory loss is provided below:

	Consolidated 31 Dec 2022 \$'000	31 Dec 2021 \$'000
Loss before tax based on statutory accounts	(8,276)	(51,259)
Impairment of goodwill and other assets	-	41,300
Share-based payments	1,121	737
Acquisition and other costs	81	455
Depreciation and amortisation expenses	8,089	7,712
Net finance costs	1,016	850
Pro forma EBITDA	<u>2,031</u>	<u>(205)</u>

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	<u>(5.00)</u>	<u>(3.63)</u>

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 257,387,914 (31 December 2021: 256,820,355) ordinary shares on issue excluding 308,474 (31 December 2021: 876,033) treasury shares.

4. 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%	(45)	(39)
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			(45)	(39)
Income tax on operating activities			-	-

5. Audit qualification or review

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

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

6. Attachments

Details of attachments (if any):

The Interim Report of Damstra Holdings Limited for the half-year ended 31 December 2022 is attached.

7. Signed

As authorised by the Board of Directors



Signed _____

Date: 24 February 2023

Johannes Risseuw
Executive Chairman
Melbourne

Damstra Holdings Limited

ABN 74 610 571 607

Interim Report - 31 December 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 half-year ended 31 December 2022.

Directors

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

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

During the financial half year there was a change in one of the Group's Company Secretaries with Paul Burrows appointed as a Company Secretary on 28 November 2022.

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 (radio-frequency identification) and IOT (internet of things). Lastly Accessible Information, Reporting BI tools and Predictive Analytics are critical to ensuring customers are making the right decisions with the right information.

Significant changes in the state of affairs

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

Review of operations

The loss for the Group after providing for income tax amounted to \$8,276,000 (31 December 2021: \$55,997,000).

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

For the half-year ended 31 December 2022, the Group reported revenue of \$14,780,000 (31 December 2021: \$13,191,000), when added to the \$163,000 (31 December 2021: \$136,000) of revenue for the equity-accounted joint venture in SkillPass total revenue earned was 14,943,000 (31 December 2021: \$13,327,000).

Key operational and financial metrics for the half-year ended 31 December 2022:

31 Dec 2022 31 Dec 2021

Key financial metrics¹

Revenue growth vs previous corresponding period ('pcp')	12.0%	9.1%
Gross margin	78.3%	73.4%
Research and development expenses as a % of revenue	(18.2%)	(27.7%)
Sales and marketing expenses as a % of revenue	(31.6%)	(36.4%)
General and administration expenses as a % of revenue	(37.8%)	(42.9%)
Proforma EBITDA margin	13.8%	(1.6%)

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 proforma EBITDA is provided below.

	31 Dec 2022 \$'000	31 Dec 2021 \$'000
<i>Loss before tax based on statutory accounts</i>	(8,276)	(51,259)
Impairment of goodwill and other assets	-	41,300
Share-based payments	1,121	737
Acquisition and other costs	81	455
Depreciation and amortisation expenses	8,089	7,712
Net finance costs	1,016	850
<i>Pro forma EBITDA</i>	<u>2,031</u>	<u>(205)</u>

Revenue:

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

- The increased contribution from North America from the implementation of recent contract wins for the EPP solution;
- New Australian contract wins including UGL, CBRE Group, and Gamuda Australia;
- The impact of the TIKS acquired in October 2021, contributing to part of the comparative period; and
- The loss of a major client, Newmont with reduced revenue recognised in the half compared to the corresponding prior period.

Gross margin:

For the half-year ended 31 December 2022, the Group reported a gross margin of \$ 11,567,000 (31 December 2021: \$9,685,000) or 19% up on the prior period. The gross margin percentage was 78.3%, an improvement on the 73.4% from the previous corresponding period, resulting from cost-saving initiatives reducing the cost of sales by \$837,876 while continuing to increase revenue. Gross margin is calculated based on the revenue from operations less directly attributable costs associated with revenue earned.

Pro forma operating expenses:

The key driver for operating expenses was the impact of cost saving initiatives to reset the cost base for the integration of recent acquisitions whilst continuing the Group's continued investment in future growth, particularly in the US market.

- The Group's sales and marketing function reported pro forma expenses of \$4,664,000, which represents 31.6% of revenue, down from \$4,798,000 or 36.4% of revenue in the prior period;
- Research and development of a total of \$2,689,000 (excluding capitalised costs), primarily due to the development of new EPP functions and the enhancement of existing modules, which represents 18.2%% of revenue, down from \$3,649,000 or 27.7% of revenue in the prior period; and
- General and administrative expenses of \$5,584,000, which represent 37.8% of revenue, consistent with \$5,656,000 in the prior year but down as a percentage of revenue of 42.9% in the prior period.

Pro forma operating expenses exclude share-based payments and other costs in the reconciliation between loss before tax and pro forma EBITDA.

The decrease in operating expenses has resulted from various cost-saving initiatives from the integration and rationalisation of the cost base from the impact of past acquisitions and business improvements whilst continuing to invest in growth markets including costs associated with strategic investments to continue the scale-up of the US businesses.

Other expenses

Depreciation and amortisation expense have resulted from investments in plant and equipment, internal software development, and acquired intangible assets. The 4.8% increase in depreciation and amortisation reflects the timing and the useful life of these investments.

Share-based payments expense relates to the potential benefit associated with the Group's equity incentive plans. To realise the benefits of these incentive plans, employees need to meet targets as approved at the FY22 Annual General meeting and past plans that remain active. The FY23 Equity Incentive Plans including, long term and short term incentives, require the achievement of minimum hurdles and KPI targets for revenue, free cash generation, employee and customer promoter scores and individual targets. In addition, the long term incentive has a 3 year achievement hurdle of the share price being above 34c before any incentive becomes payable. Refer to note 15 for more details.

Financial position:

As at 31 December 2022, the Group has outstanding borrowings of \$15,387,000 (30 June 2022: \$10,055,000). The Group has cash balance of \$8,133,000 (including term deposits) (30 June 2022: \$10,095,000) and has utilised its borrowing facility.

The Group has undertaken a cost savings program, along with increased forecast revenue, expects to be cashflow positive in the second half of FY23.

The Group has an improving free cash outflow position of Q1 FY23 of (\$1.8m) and Q2 FY23 of (\$1.2m) compared to the quarterly average of FY22 of (\$3.4m). This improved cash outflow is the result of the achieved annualised \$8m cost-saving target, which has reset the cost base, and together with increasing revenue, is driving our improved cash outflow position, which, if revenue targets are achieved, will result in the Group becoming free cashflow positive in the second half of FY23.

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.

Late in FY22, the Company signed a number of North American clients that have contributed to the revenue growth in the 2023 financial year and will drive growth into future financial periods. These and other sales of our EPP SaaS platform validate the significant investment into the EPP product over the last two years and reinforce 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, which has been underpinned by the successful implementation of recent client wins and agreement to expand our services with our existing clients. 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.

2. Verticals

We have a diverse global customer base across 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 our safety offering is used across the company's North American operations, and we also have exposure to the 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. Late in FY22, 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.

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 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.

Rounding of amounts

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

Auditor's independence declaration

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

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Johannes Risseuw
Executive Chairman

24 February 2023



Drew Fairchild
Director

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF DAMSTRA HOLDINGS LIMITED

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2022 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

William Buck

William Buck Audit (Vic) Pty Ltd
ABN: 59 116 151 136

A. A. Finnis

A. A. Finnis
Director
Melbourne, 24 February 2023

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		Consolidated	
	Note	31 Dec 2022	31 Dec 2021
		\$'000	\$'000
Revenue from operations	4	14,780	13,191
Other income		295	725
Interest revenue		66	12
Expenses			
Employee benefits expenses		(8,697)	(7,716)
Depreciation and amortisation expenses	5	(8,089)	(7,712)
Impairment of goodwill and other assets	5	-	(41,300)
Share of losses of joint ventures accounted for using the equity method		(45)	(39)
Other expenses	5	(5,504)	(7,558)
Finance costs	5	(1,082)	(862)
Loss before income tax expense		(8,276)	(51,259)
Income tax expense		-	(4,738)
Loss after income tax expense for the half-year attributable to the owners of Damstra Holdings Limited		(8,276)	(55,997)
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		13	(2)
Other comprehensive income/(loss) for the half-year, net of tax		13	(2)
Total comprehensive loss for the half-year attributable to the owners of Damstra Holdings Limited		<u>(8,263)</u>	<u>(55,999)</u>
		Cents	Cents
Basic loss per share	14	(3.21)	(28.51)
Diluted loss per share	14	(3.21)	(28.51)

		Consolidated	
	Note	31 Dec 2022	30 Jun 2022
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		7,775	9,738
Trade and other receivables	6	3,990	5,039
Inventories		103	395
Other assets		1,391	1,430
Total current assets		13,259	16,602
Non-current assets			
Investments accounted for using the equity method		176	221
Property, plant and equipment		5,231	5,194
Right-of-use assets		2,643	2,848
Intangible assets	7	102,397	105,214
Term deposits		358	357
Other assets		419	187
Total non-current assets		111,224	114,021
Total assets		124,483	130,623
Liabilities			
Current liabilities			
Trade and other payables		5,184	6,586
Contract liabilities		4,788	4,565
Lease liabilities		1,462	1,057
Derivative financial instruments		23	19
Employee benefits		2,640	1,969
Deferred consideration on acquisition	9	-	3,500
Deferred research and development income		229	458
Provisions		629	817
Total current liabilities		14,955	18,971
Non-current liabilities			
Contract liabilities		167	149
Borrowings	8	15,387	10,055
Lease liabilities		1,687	1,949
Employee benefits		122	187
Total non-current liabilities		17,363	12,340
Total liabilities		32,318	31,311
Net assets		92,165	99,312
Equity			
Issued capital	10	173,351	173,351
Reserves		14,198	13,069
Accumulated losses		(95,384)	(87,108)
Total equity		92,165	99,312

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 2021	143,716	11,604	(19,956)	135,364
Loss after income tax expense for the half-year	-	-	(55,997)	(55,997)
Other comprehensive loss for the half-year, net of tax	-	(2)	-	(2)
Total comprehensive loss for the half-year	-	(2)	(55,997)	(55,999)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	29,621	-	-	29,621
Vesting charge for share-based payments (note 15)	-	737	-	737
Balance at 31 December 2021	<u>173,337</u>	<u>12,339</u>	<u>(75,953)</u>	<u>109,723</u>
Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2022	173,351	13,069	(87,108)	99,312
Loss after income tax expense for the half-year	-	-	(8,276)	(8,276)
Other comprehensive income for the half-year, net of tax	-	13	-	13
Total comprehensive income/(loss) for the half-year	-	13	(8,276)	(8,263)
<i>Transactions with owners in their capacity as owners:</i>				
Vesting charge for share-based payments (note 15)	-	1,121	-	1,121
Exercise of cash settled Share Based Payments	-	(5)	-	(5)
Balance at 31 December 2022	<u>173,351</u>	<u>14,198</u>	<u>(95,384)</u>	<u>92,165</u>

Consolidated
31 Dec 2022 31 Dec 2021
\$'000 \$'000

Cash flows from operating activities

Receipts from customers (inclusive of GST)	17,273	14,729
Payments to suppliers and employees (inclusive of GST)	(15,132)	(16,980)
Other revenue	-	161
	<hr/>	<hr/>
Net cash from/(used in) operating activities	2,141	(2,090)

Cash flows from investing activities

Payment for purchase of subsidiary, net of cash acquired	(3,500)	(2,240)
Payments for property, plant and equipment	(720)	(484)
Payments for intangibles	(3,524)	(2,917)
	<hr/>	<hr/>
Net cash used in investing activities	(7,744)	(5,641)

Cash flows from financing activities

Proceeds from issue of shares	-	20,020
Share issue transaction costs	-	(1,088)
Interest received	66	16
Interest and other finance costs paid	(782)	(862)
Proceeds from borrowings	5,000	2,000
Repayment of borrowings	(121)	(3,171)
Repayment of lease liabilities	(522)	(296)
	<hr/>	<hr/>

Net cash from financing activities	3,641	16,619
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(1,962)	8,888
Cash and cash equivalents at the beginning of the financial half-year	10,095	9,834
	<hr/>	<hr/>
Cash and cash equivalents at the end of the financial half-year (including Term deposits)	<u>8,133</u>	<u>18,722</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 half-year. The financial statements are presented in Australian dollars, which is Damstra Holdings Limited's functional and presentation currency.

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 24 February 2023.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2022 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the financial half-year ended 31 December 2022 and are not expected to have any significant impact for the full financial year ending 30 June 2023.

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

Note 2. Significant accounting policies (continued)

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

Going concern

The interim financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity, and the realisation of assets and the settlement of liability in the ordinary course of business.

The Group has net current liabilities of \$1,696,000 as at 31 December 2022 (30 June 2022: net current liabilities of \$2,369,000), which are impacted by non-cash liabilities and deferred R&D income of \$5,021,000. The Group has net assets of \$92,165,000 (30 June 2022: \$99,312,000). The Group has cash and cash equivalents of \$7,775,000 as at 31 December 2022 (30 June 2022: \$9,738,000). The Group recently achieved its third quarter of being Operating Cashflow positive and is forecasting to be Free Cashflow (Net of acquisitions, drawdown and repayment of debts, other funding transactions and one-off restructuring costs) positive in the second half of FY23.

In assessing the Group's ability to continue as a going concern, the directors have considered the Group's financial forecasts, available funds, and that they are in compliance with all banking covenants at 31 December 2022. The Group's forecasts reflect the improved Operating Cashflow resulting from the achieved cost reduction program. The forecasts also rely on 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.

Comparatives

Certain comparatives have been reclassified to conform with current half-year presentation. This has not had any impact on the financial position of the Group as at 30 June 2022 or the results for the year then ended.

Note 3. Operating segments

Identification of reportable operating segments

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

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

Major customers

During the half-year ended 31 December 2022, two customers individually contributed more than 10% of the total external revenue generated by the Group (31 December 2021: one).

Geographical information

	Sales to external customers		Geographical non-current assets	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	30 Jun 2022
	\$'000	\$'000	\$'000	\$'000
Australia	11,646	11,945	109,837	112,806
New Zealand	1,689	472	446	510
United States of America	1,185	521	353	480
International operations	260	253	413	4
	<u>14,780</u>	<u>13,191</u>	<u>111,049</u>	<u>113,800</u>

Geographical non-current assets excludes Investments accounted for using the equity method.

Note 4. Revenue from operations

	Consolidated	
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
Sales revenue	14,780	13,191

Sales revenue for the current period includes \$276,000 of revenue gained via Newmont returning hardware it had purchased back to Damstra at no cost. The hardware relates to the Group's core business operations and its value has been assessed based on its realisable value which is lower than the replacement cost, resulting in a gain.

Disaggregation of revenue

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

	Consolidated	
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
<i>Major product lines</i>		
Software services	12,118	11,155
Rental and hardware equipment sales	2,662	2,036
	14,780	13,191
<i>Timing of revenue recognition</i>		
Revenue recognised over time	10,640	11,987
Revenue recognised at a point in time	4,140	1,204
	14,780	13,191

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

Note 5. Expenses

Consolidated
31 Dec 2022 31 Dec 2021
\$'000 \$'000

Loss before income tax includes the following specific expenses:

Depreciation

Leasehold improvements	2	8
Plant and equipment	1,164	2,257
Motor vehicles	-	13
Buildings right-of-use assets	582	425
Total depreciation	1,748	2,703

Amortisation

Customer contracts	902	613
Software and website cost	5,357	4,226
Customer fulfilment costs	82	170
Total amortisation	6,341	5,009

Total depreciation and amortisation	8,089	7,712
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Impairment of goodwill and other assets

Impairment of goodwill	-	40,000
Impairment of receivables and other assets	-	1,300
Total impairment of goodwill and other assets	-	41,300

Other expenses include the following:

Outsourced services	1,205	1,282
Outsourced development contractors	273	323
IT and administration expenses	2,659	2,004
Materials and hardware expenses	281	139
Acquisition costs (excluding employee benefits expenses)	-	137
Advisory and consultant fees	589	764
Audit expense	125	332
Other expenses	372	2,577

Total other expenses	5,504	7,558
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Finance costs

Interest and finance charges paid/payable on borrowings	968	859
Interest and finance charges paid/payable on lease liabilities	114	3

Finance costs expensed	1,082	862
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Net foreign exchange loss

Net foreign exchange loss	124	19
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Superannuation expense

Defined contribution superannuation expense	581	564
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Share-based payments expense

Share-based payments expense	1,121	737
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Note 6. Trade and other receivables

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
<i>Current assets</i>		
Trade receivables	4,306	5,289
Less: Allowance for expected credit losses	(546)	(524)
	<u>3,760</u>	<u>4,765</u>
Other receivables	103	150
Receivables from related parties	<u>127</u>	<u>124</u>
	<u><u>3,990</u></u>	<u><u>5,039</u></u>

Note 7. Intangible assets

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
<i>Non-current assets</i>		
Goodwill - at cost (net of historical impairment)	79,999	119,999
Less: Impairment	-	(40,000)
	<u>79,999</u>	<u>79,999</u>
Software and website costs - at cost	45,352	41,908
Less: Accumulated amortisation	(29,059)	(23,700)
	<u>16,293</u>	<u>18,208</u>
Customer relationships - at cost	9,113	9,113
Less: Accumulated amortisation	(4,043)	(3,141)
	<u>5,070</u>	<u>5,972</u>
Brand	<u>1,035</u>	<u>1,035</u>
	<u><u>102,397</u></u>	<u><u>105,214</u></u>

Reconciliations

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

Consolidated	Goodwill	Software and	Customer	Brand	Total
	\$'000	website costs	relationships	\$'000	\$'000
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2022	79,999	18,208	5,972	1,035	105,214
Additions	-	3,444	-	-	3,444
Exchange differences	-	(2)	-	-	(2)
Amortisation expense	-	(5,357)	(902)	-	(6,259)
Balance at 31 December 2022	<u>79,999</u>	<u>16,293</u>	<u>5,070</u>	<u>1,035</u>	<u>102,397</u>

With the exclusion of Goodwill and Brand, intangible assets have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Note 7. Intangible assets (continued)

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.

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, in June each year.

At 31 December 2022, an assessment of indicators of impairment was completed. As the current market value of the Group was less than the carrying amount of the net assets, an additional test for impairment of the balances of Goodwill was required at 31 December 2022.

The testing assessed the recoverable amount of the Damstra Workforce Management Solutions CGU's goodwill and other intangible assets 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 of 13.75% (30 June 2022: 11.0%);
- (b) Revenue growth of compound annual growth rate (CAGR) of 17.5%;
- (c) Terminal growth rate of 3.5% (30 June 2022: 2.5%).

The discount rate was estimated based on the CGU's weighted average cost of capital.

The revenue growth rate reflects historical growth rates and forecast growth rates over the 5 year period. The terminal growth rate was determined based on management's estimate of a conservative long term compound EBITDA growth rate, consistent with what a market participant would make.

Based on the above, the recoverable amount of the CGU exceeded the carrying amount and therefore no impairment was required for the half-year period.

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 and as such Management believes that the carrying amount is fairly stated.

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 13.75% (breakeven rate being 14.9% with all other factors remaining consistent in the model).
- (b) Revenue growth rate: the projected growth rate for recurring revenue on average in the model is 17.5% (breakeven average growth rate being between 16.2%, with all other factors remaining consistent in the model).

Note 8. Borrowings

Non-current liabilities

Loan from Partners for Growth VI, L.P. ('PFG')
Back-end fee payable
Capitalised borrowing costs

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
Loan from Partners for Growth VI, L.P. ('PFG')	15,000	10,000
Back-end fee payable	611	354
Capitalised borrowing costs	(224)	(299)
	<u>15,387</u>	<u>10,055</u>

Note 8. Borrowings (continued)

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 31 December 2022, the total facility of \$15,000,000 was drawn. 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 derivative as at 31 December 2022 amounted to \$23,000 (30 June 2022: \$19,000).

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 been cancelled during the financial year ended 30 June 2022.

During the half-year 31 December 2022, the Group made a further draw-down of \$5,000,000 to make the total balance drawn to be \$15,000,000.

Financing arrangements

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

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
Total facilities		
Loan from Partners for Growth VI, L.P. ('PFG')	15,000	15,000
Used at the reporting date		
Loan from Partners for Growth VI, L.P. ('PFG')	15,000	10,000
Unused at the reporting date		
Loan from Partners for Growth VI, L.P. ('PFG')	-	5,000

Note 9. Deferred consideration on acquisition

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

During the financial year ended 30 June 2022, 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 cash payment of \$6,203,000, of which \$3,500,000 was deferred and paid during the current half-year 31 December 2022.

Note 10. Issued capital

	31 Dec 2022 Shares	30 Jun 2022 Shares	Consolidated 31 Dec 2022 \$'000	30 Jun 2022 \$'000
Ordinary shares - fully paid	257,696,388	257,696,388	174,019	174,708
Less: Treasury shares issued	(2,060,948)	(2,060,948)	(4,462)	(4,462)
Add back: Treasury shares allocated	1,752,474	1,434,176	3,794	3,105
	<u>257,387,914</u>	<u>257,069,616</u>	<u>173,351</u>	<u>173,351</u>

There was no movement in issued capital during the interim period.

Treasury shares

Treasury shares comprise of 2,060,948 shares issued to the Employee Share Trust ('EST'). Treasury shares have been reallocated to issued and allocated. There is no overall change in the share capital position.

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. As at 31 December 2022, EST held 308,474 (30 June 2022: 626,772) shares that were unallocated. Refer to note 15 'Share-based payments' for further details.

Note 11. Dividends

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

Note 12. Fair value measurement

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

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

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

Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 Dec 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivatives - Warrants	-	23	-	23
Total liabilities	-	23	-	23
Consolidated - 30 Jun 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivatives - Warrants	-	19	-	19
Total liabilities	-	19	-	19

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

Note 12. Fair value measurement (continued)

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

The fair value of the warrants 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 13. Contingent liabilities

The Group had no contingent liabilities at 31 December 2022 with the exception of term deposits pledged as security for rental properties.

Note 14. Earnings per share

	Consolidated	
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
Loss after income tax attributable to the owners of Damstra Holdings Limited	(8,276)	(55,997)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	257,696,388	196,413,357
Weighted average number of ordinary shares used in calculating diluted earnings per share	257,696,388	196,413,357
	Cents	Cents
Basic loss per share	(3.21)	(28.51)
Diluted loss per share	(3.21)	(28.51)

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

Note 15. Share-based payments

The share-based payment expense for the half financial year was \$1,121,000 (31 December 2021: \$737,000).

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, based on the achievement of gateway hurdles and performance thresholds within the approved plan rules. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

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

	Number of options	
	31 Dec 2022	30 Jun 2022
Outstanding at the beginning of the financial half-year	14,984,657	10,017,910
Granted	11,090,658	7,931,085
Forfeited	(729,230)	(1,472,719)
Exercised	(318,298)	(976,743)
Expired	(126,896)	(514,876)
Outstanding at the end of the financial half-year	24,900,891	14,984,657
Exercisable at the end of the financial period	6,637,126	4,888,662

Note 15. Share-based payments (continued)

On 1 October 2022, the Group issued 2,825,000 options that vest over 2 years, relate to staff retention for critical roles. The options are subject to service conditions and will be dependent on the participants satisfying employment service conditions of 2 years.

On 10 October 2022, the Group issued 100,000 options that vest over 2 years, relate to staff retention for critical roles. The options are subject to service conditions and will be dependent on the participants satisfying employment service conditions of 2 years.

On 17 October 2022, the Group issued 4,446,228 options that vest over 3 years. The options relate to the Employee Incentive Plan and are subject to service conditions, including a hurdle rate of the share price being at 34c and KPI target performance obligation. Vesting is also dependent on the participants satisfying employment service conditions of 3 years.

On 24 October 2022, the Group issued 125,000 options that vest over 1 year, relate to staff retention for critical roles. The options are subject to service conditions and will be dependent on the participants satisfying employment service conditions of 1 year.

On 28 November 2022, the Group issued 100,000 options that vest over 2 years, relate to staff retention for critical roles. The options are subject to service conditions and will be dependent on the participants satisfying employment service conditions of 2 years.

On 30 November 2022, the Group issued 3,125,000 options that vest over 3 years. The options relate to the Employee Incentive Plan and are subject to service conditions, including a hurdle rate of the share price being at 34c and KPI target performance obligation. Vesting is also dependent on the participants satisfying employment service conditions of 3 years.

On 30 November 2022, the Group issued 369,430 options for Director's and CEO's salary sacrifice that vested on the quarter ended 31 December 2022.

The weighted average share price during the financial year was \$0.187 (30 June 2022: \$0.541).

The weighted average remaining contractual life of options outstanding at the end of the half financial year was 13.68 years (30 June 2022: 12.34 years).

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

Grant date	Expiry date	Share price at grant date	Exercise price	Fair value at grant date
01/10/2022	01/10/2037	\$0.18	\$0.00	\$0.18
10/10/2022	10/10/2037	\$0.14	\$0.00	\$0.14
17/10/2022	17/10/2037	\$0.15	\$0.00	\$0.15
24/10/2022	24/10/2037	\$0.14	\$0.00	\$0.14
28/11/2022	28/11/2037	\$0.16	\$0.00	\$0.16
30/11/2022	30/11/2037	\$0.16	\$0.00	\$0.16

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

As detailed in note 10, 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 current half financial year, 318,298 shares were allocated to option holders on the exercise of options. As at 31 December 2022, EST held 308,474 (30 June 2022: 626,772) shares that were unallocated.

Note 16. Events after the reporting period

No matter or circumstance has arisen since 31 December 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, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Johannes Risseuw
Executive Chairman

24 February 2023



Drew Fairchild
Director

Damstra Holdings Limited

Independent auditor's review report

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Damstra Holdings Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half year (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- a. giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half year ended on that date; and
- b. complying with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of Management for the Financial Report

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

Auditor's Responsibilities for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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



William Buck Audit (Vic) Pty Ltd
ABN: 59 116 151 136



A. A. Finnis
Director
Melbourne, 24 February 2023