Damstra Holdings Pty Ltd

ACN 610 571 607

Consolidated Annual Report

For the year ended 30 June 2018

Table of contents

Directors' Report

The Directors of Damstra Holdings Pty Ltd and its controlled entity present their report for the year ended 30 June 2018.

Directors

The following persons held office as a Director during the period and up to the date of this report, except as otherwise noted:

	Appointed
Christian William Damstra	04/02/2016
Drew Fairchild	01/04/2016
Johannes Risseeuw	01/04/2016
Morgan Hurwitz	21/11/2016

Principal activities

Damstra Holdings Pty Ltd is a for-profit company limited by shares, incorporated and domiciled in Australia. Damstra Holdings Pty Ltd and its controlled entities principal activities during the financial period was the provision of IT based workforce management solutions to diverse array of industries.

Review and results of operations - the Group

A summary of revenues and results for the period is set out below:

	2018	**2017**
	$	**$**
Sales revenue	11,050,219	9,280,998
Cost of sales	(3,069,691)	(1,503,311)
Gross profit	**7,980,528**	**7,777,687**
Earnings before interest, tax, depreciation, amortisation and share based payment expense [1]	3,460,828	5,012,522
(Loss) / Profit before income tax expense	(3,675,716)	2,315,003
Income tax expense	(126,204)	(865,810)
(Loss) / Profit after tax	**(3,801,920)**	**1,449,193**

1. Earnings before interest, tax, depreciation, amortisation and share based payment expense is a non-IFRS based measure however has been derived from audited numbers contained in the financial statements. The directors believe that this information is useful to the needs of the users of the financial statements.

Events occurring after the reporting date

On 12 July 2018, 5,500,000 convertible notes were issued to investors raising $5,500,000. On 3rd August, Damstra agreed to acquire the assets of Velpic Limited for $1,000,000 payable plus a maximum deferred consideration of $2.8m based on the total annual revenue obtained from the assets acquired over the three years following the settlement date. On 2 October 2018, Damstra purchased 100% of the share capital of Eify Pty Limited for $9 million, plus an earnout based on revenue targets being exceeded. On 6 November 2018, Damstra obtained an increase of $6m on the Westpac facility and extended the term until 20 October 2020. Other than noted, there are no matters or circumstances that have arisen since 30 June 2018 that has significantly affected or may significantly affect in future years:

(a) the Group's operations;
(b) the results of those operations; or
(c) the state of affairs of the Group.

Directors' report (continued)

Likely developments and expected results of operations

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or State or Territory of Australia.

Dividends

A dividend of $696,280 was declared and paid to shareholders on 13 October 2017.

Indemnification and insurance of officers

Indemnification

During the financial period, the Group has indemnified all Directors and officeholders in respect of liabilities to other persons (other than the Group) that may arise from their position as Directors and officeholders of the Group except where the liability arises out of conduct involving the lack of good faith.

Insurance

During the year, the Group has paid a premium to insure the Directors and officeholders of Damstra Holdings Pty Ltd. The confidentiality clause of the contract of insurance prohibits disclosure of the nature of the liabilities insured against and the amount of the premium.

Indemnification of auditors

To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit. No payment has been made to indemnify Ernst & Young during or since the financial period.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

J Risseeuw **C Damstra**

8 May 2019

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2018

	Note	2018 $	2017 $
Sales revenue	5	11,050,219	9,280,998
Other income		240,234	316,607
Employee expenses *		(9,044,358)	(3,368,598)
Operating expenses		(3,843,971)	(2,220,930)
Operating profit		**(1,597,876)**	**4,008,077**
Depreciation and amortisation	6	(2,042,806)	(1,611,785)
Finance costs		(35,034)	(81,289)
(Loss) / Profit before income tax expense		**(3,675,716)**	**2,315,003**
Income tax expense	7	(126,204)	(865,810)
(Loss) / Profit for the period		**(3,801,920)**	**1,449,193**
Other comprehensive income for the year, net of tax		-	-
Total Comprehensive (loss) / income attributable to the owners of the Parent		**(3,801,920)**	**1,449,193**

** Includes $5,058,704 (2017: $1,004,455) in share-based payment expenses*

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

Consolidated statement of financial position

As at 30 June 2018

	Note	2018 $	2017 $
Current assets			
Cash and cash equivalents	**8**	683,513	196,425
Trade and other receivables	**9**	1,422,755	1,088,241
Other assets		356,280	53,759
Total current assets		**2,462,548**	**1,338,425**
Non-current assets			
Property, plant and equipment	**10**	2,223,005	1,222,415
Intangible assets	**11**	6,218,652	6,411,754
Total non-current assets		**8,441,657**	**7,634,169**
Total assets		**10,904,205**	**8,972,594**
Current liabilities			
Trade and other payables	**12**	1,269,232	827,750
Interest bearing liabilities	**13**	1,090,356	-
Provisions	**14**	280,573	471,795
Income tax payable		502,367	1,378,333
Total current liabilities		**3,142,528**	**2,677,878**
Non-current liabilities			
Provisions	**14**	177,032	124,140
Interest bearing liabilities	**13**	687,533	97,085
Deferred tax liabilities	**7**	436,590	525,810
Total non-current liabilities		**1,301,155**	**747,035**
Total liabilities		**4,443,683**	**3,424,913**
Net assets		**6,460,522**	**5,547,681**
Equity			
Issued capital	**15**	2,541,608	2,182,378
Reserves		6,056,266	1,004,455
Retained losses		(2,137,352)	2,360,848
Total equity		**6,460,522**	**5,547,681**
Equity attributable to the owners of the Parent		**6,460,522**	**5,547,681**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes to the Financial Statements.

Consolidated statement of changes in equity

For the year ended 30 June 2018

Consolidated	***Note***	**Issued capital** **$**	**Retained earnings** **$**	**Other reserves** **$**	**Share based payment reserve** **$**	**Total equity** **$**
Balance as at 1 July 2016	**15**	2,182,378	911,655	-	-	3,094,033
Profit for the period		-	1,449,193	-	-	1,449,193
Shares issued		-	-	-	1,004,455	1,004,455
Balance at 30 June 2017		**2,182,378**	**2,360,848**	**-**	**1,004,455**	**5,547,681**
Loss for the year		-	(3,801,920)	-	-	**(3,801,920)**
Shares issued	**15**	359,230	-	-	5,058,704	**5,417,934**
Foreign Currency Translation Reserve		-	-	(6,893)	-	**(6,893)**
Dividends		-	(696,280)	-	-	**(696,280)**
Balance at 30 June 2018		**2,541,608**	**(2,137,352)**	**(6,893)**	**6,063,159**	**6,460,522**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes to the Financial Statements.

Consolidated statement of cash flows

For the year ended 30 June 2018

	Note	2018 $	2017 $
Cash flows from operating activities			
Cash receipts from customers		11,518,206	10,360,587
Payment to suppliers and employees		(8,615,784)	(4,954,174)
Interest paid		(39,402)	(64,682)
Interest received		7,733	-
Tax paid		(1,091,390)	-
Net cash from operating activities	**22**	**1,779,363**	**5,341,731**
Cash flows from investing activities			
Acquisition of subsidiary		(352,032)	-
Acquisition of intangible assets net of deferred tax		(761,377)	(1,051,845)
Purchase of property, plant and equipment		(1,725,541)	(495,330)
Proceeds from disposal of assets		229,976	-
Net cash flows used in investing activities		**(2,608,974)**	**(1,547,175)**
Cash flows from financing activities			
Proceeds from share capital (net of expenses)		359,230	-
Dividends paid		(696,280)	-
Proceeds from long term borrowings		1,653,749	-
Repayment of borrowings		-	(3,835,044)
Net cash flows from / (used in) financing activities		**1,316,699**	**(3,835,044)**
Net increase in cash and cash equivalents		487,088	(40,488)
Cash at the beginning		196,425	236,913
Cash and cash equivalents at end of period	**8**	**683,513**	**196,425**

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

1. Corporate Information

Damstra Holdings Pty Ltd is a for-profit company limited by shares, incorporated and domiciled in Australia. Damstra Holdings Pty Ltd and its controlled entities' (collectively, the Group) principal activities during the financial period were provision of web-based workforce management solutions to diverse array of industries.

The Group's principal place of business is 50 George St, Singleton, NSW 2330.

The consolidated financial statements of the Group for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 8 May 2019.

2. 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'), 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').

The consolidated financial report has been prepared on a historical cost basis, except where otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

The Group has positive net asset position of $6.4m and producing positive cash flows from operations. The net current asset position is negative $0.7m mainly due to the interest bearing liabilities. However, the Group has undrawn facilities of $870k available at year-end date. On 12 July 2018, 5,500,000 convertible notes were issued to investors raising $5,500,000 and also, on 6 November 2018, Damstra obtained an increase of $6m on the Westpac facility and extended the term until 20 October 2020. Therefore, the Group expects to continue to meet its obligations as and when they fall due on the basis of the current cash balance, the financing facilities available and that the Group forecasts positive operating cash flows.

(a) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency. The financial report is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at fair value. Amounts in the financial report are presented in Australian dollars and have been rounded off to the nearest the nearest dollar.

(b) Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the respective notes.

(c) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.*
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

3. Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

(a) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(b) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the parent has control. The Group controls an entity when it 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 relevant activities of the entity. The consolidated financial statements include the financial position and performance of controlled entities from the date on which control commences until the date on which control ceases.

(c) Transactions eliminated in group consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

4. Summary of Significant Accounting Policies

(a) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise of cash at bank.

(b) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement in no more than 90 days. Collectability of trade receivables is reviewed on an ongoing basis. A reduction to the carrying amount of trade receivables is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of this reduction is the difference between the carrying amount of the trade receivable and the estimated future cash flows.

(c) Foreign Currency

(i) Foreign currency translation reserve

Transaction in foreign currencies are translated at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Australian dollars at the foreign exchange rate ruling at the balance sheet date.

(ii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The assets and liabilities of foreign operations are translated to Australian dollars at the exchange rate at reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

(d) Financial instruments

The Group classifies its financial assets and liabilities in the following categories: financial assets and liabilities at fair value through profit or loss and other financial assets and liabilities. The Group determines the classification of its financial assets and liabilities at initial recognition and re-evaluates this designation at each reporting date.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables issued on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets – measurement

Loans and receivables

These assets are initially recognised at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, 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, and bank overdrafts. Bank overdrafts are shown within 'Loans and borrowings' on the consolidated statement of financial position.

(iii) Non-derivative financial liabilities – measurement

Other financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

(iv) Derivative financial instruments

The Group may from time to time hold derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivatives are recognised initially at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are generally recognised in profit or loss.

(v) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(e) Impairment of Non-Financial Assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The Group performs annual impairment reviews in respect of goodwill and intangible fixed assets with indefinite lives. The Group carries out impairment reviews in respect of other fixed assets, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated to reduce the carrying amount of assets in the CGU on a pro rata basis. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers; and
- the disappearance of an active market for a security.

(ii) Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets measured at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

(f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the good or service 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 taxation authority is included with receivables or payables in the statement of financial position.

(g) Income Tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

(i) When the deferred income tax 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 profit nor taxable profit or loss; and

(ii) When the taxable temporary difference is associated with investments in subsidiaries or associates, and the timing of the reversal of the temporary difference 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.
Current and deferred tax is recognised in the consolidated statement of profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(h) Property, Plant and Equipment

All property, plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of profit and loss during the financial period in which they are incurred.

Depreciation of other assets is calculated using the reducing balance method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Asset class	**Useful life**
Plant and equipment	1-7 years
Motor vehicles	2-6 years
Leasehold improvements	1-6 years

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

An asset's carrying amount is written down immediately to its recoverable amount if it is determined that the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of profit and loss.

(i) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the lesser of the lease term or the estimated useful life of the improvement.

(ii) Maintenance and repairs

Maintenance, repair costs and minor renewals are charged as expenses to the consolidated statement of profit and loss as incurred.

(i) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

(i) Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

(ii) Group as a lessee

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(j) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(k) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carries at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Development costs
Initial capitalisation of costs is based on management's judgment that technological and economic feasibility is confirmed and when the preliminary research phase has been completed. These costs are analysed on a monthly basis to determine what amount is to be capitalised. Only costs directly relating to the development phase (design, construction and testing) are capitalised, excluding research and general project administrative costs.

The Company's policy is to capitalise expenditure for new product development or product development that significantly enhances existing software that is expected to result in significant commercial benefits. After initial recognition, development costs are to be carried at their cost less accumulated amortisation and any accumulated impairment losses on the statement of financial position. The capitalised development costs are to be amortised over the useful life of the developed software. The estimated useful life is 3 years and amortized on a straight-line basis.

At least annually, an assessment is to be performed to ensure that both the amortisation period and amortisation methods are still appropriate. The written down value of capitalised development costs is to be reviewed for impairment indicators at least annually, in accordance with AASB 136 Impairment of Assets, or sooner if circumstances indicate that the carrying amount might not be recoverable.

(i) Goodwill
Goodwill arising on the acquisition of subsidiaries or business combination is measured at cost less accumulated impairment losses.

(ii) Software
Software is either acquired externally or internally added/completed by the Group.

(iii) Customer relationships
Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

(iv) Amortisation
Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the reducing balance method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised, but it tested for impairment annually of more frequently if events or changes in circumstances indicate that it might be impaired. The estimated useful lives are as follows:

Asset class	Useful life
Customer relationships	15 years
Software	3 years

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

(l) Other Assets
Other assets mostly pertain to prepayments include costs paid relating to subsequent financial periods and are measured at cost.

(m) Trade and Other Payables
These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30-60 days of recognition.

(n) Interest Bearing Liabilities

Interest bearing liabilities are initially recognised at fair value, net of transactions costs incurred. After initial recognition, the liabilities are carried at amortised cost using the effective interest method.

Interest bearing liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(o) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

(p) Employee Benefits

(i) **Short-term employee benefit obligations**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and rostered days off expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) **Other long-term employee benefit obligations**

The liability for long service leave is not expected to be settled wholly within 12 months after the end of the reporting period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of the expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the consolidated statement of financial position if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) **Retirement benefit obligations**

All employees of the Group are entitled to benefits on retirement, disability or death from a qualifying superannuation plan. Contributions to the defined contribution section of the fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) **Short term incentive scheme**

A provision and an expense are recognised for bonuses payable under the short-term incentive (STI) scheme based on meeting the target earnings before income tax, depreciation and amortisation (EBITDA). A provision is recognised when a contractual obligation exists or where there is a past practice that has created a constructive obligation.

(v) **Share-based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the period.

(q) Current Versus Non-Current Classification

Assets and liabilities presented in the consolidated statement of financial position based on current or non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in the normal operation cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in the normal operation cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities as non-current. Deferred tax assets/liabilities are classified as non-current.

(r) Issued Capital

Ordinary shares are classified as issued capital.

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

(s) Revenue Recognition and Other Income

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade discounts and volume rebates. Revenue is recognised for the major business activities as follows:

(i) Rendering of services

Revenue recognition relating to the provision of services (processing and development) is determined with reference to the stage of completion of the transaction at the end of the reporting period and where the outcome of the contract services can be estimated reliably. State of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

In certain contracts an amount of processing service revenue derived is deferred over 12-month period in line with the portal access period.

(ii) Hardware rental

Hardware rental fee is charged and invoiced monthly in advance. Revenue is recognised on a monthly basis.

(t) Finance Income and Costs

The Group's finance income and finance costs include:
interest income;
interest expense;
impairment losses recognised on financial assets (other than trade receivables); and
amortisation of borrowing costs.

Interest income or expense is recognised using the effective interest method, taking into account the effective yield on the financial asset or liability.

(u) Adoption of New and Revised Accounting Standards

In the current period, the entity has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2017. The adoption of these new and revised Standards and Interpretations has resulted in no material changes to the Group's accounting policies.

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were on issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments' and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020

The Directors are still assessing if the above amendments and interpretations will have a material impact on the financial report of the Group in the year of initial application. In addition to the standards issued above, other standards have been issued by the AASB, however these standards are not relevant to the operations of the Group.

5. Revenue

	2018 $	2017 $
Revenue from rendering of services	9,669,539	8,069,973
Revenue from leasing hardware	1,380,680	1,211,025
Total revenue	**11,050,219**	**9,280,998**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

6. Depreciation and Amortisation

	2018 $	2017 $
Depreciation	(724,951)	(617,659)
Amortisation of intangible assets	(1,317,855)	(994,126)
Total depreciation and amortization	**(2,042,806)**	**(1,611,785)**

7. Income Taxes

(a) Amounts recognised in profit or loss	2018 $	2017 $
Current tax expenses	(502,693)	(886,657)
Over provision from prior year	294,511	6,836
Effect of change in tax rates	-	40,202
Deferred tax relating to origination and reversal of temporary differences	81,978	(26,191)
Tax expense recognised in profit or loss	**(126,204)**	**(865,810)**

(b) Deferred tax assets and liabilities		
Deferred tax assets relate to the following:		
Trade and other payables	90,473	16,500
Provisions	240,300	246,761
Other assets	-	20,979
Total deferred tax assets	**330,773**	**284,240**
Deferred tax liability relates to the following:		
Intangible assets	161,858	661,097
Plant, plant and equipment	605,505	148,953
Total deferred tax liabilities	**767,363**	**810,050**
Net deferred tax liabilities	**436,590**	**525,810**

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate for 2018 and 2017:

	2018 $	2017 $
Accounting (loss) / profit before tax	(3,675,716)	2,315,003
Amounts that are not deductible/(taxable) in calculating taxable income	(5,503,693)	1,004,445
Taxable income	**1,827,977**	**3,319,448**
Tax at the statutory rate of 27.5% (2017: 27.5%)	502,693	912,848
Effect of rate change	-	(40,202)
Prior year adjustment to deferred tax	-	(338,572)
Prior year adjustment to current tax	(294,511)	331,736
Other adjustments	(81,978)	-
Income tax expense	**126,204**	**865,810**

Critical accounting judgements, estimates and assumptions
Deferred tax assets relating to temporary differences are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

8. Cash and Cash Equivalents

	2018 $	2017 $
Cash at bank	**683,513**	**196,425**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

9. Trade and Other Receivables

	2018 $	2017 $
Trade receivables and other receivables	1,221,425	1,111,617
Less: Allowance for doubtful debts	-	(23,376)
Receivables from other related parties	201,330	-
	1,422,755	**1,088,241**

Amounts received from customers and other debtors are non-interest bearing and are generally on 30- to 62-day credit terms.

Ageing of trade receivable

	2018		2017	
	$	Provision	$	Provision
Current balances	**892,672**	-	938,875	-
31 – 60 days	**179,138**	-	55,963	(4,147)
61 – 90 days	**47,237**	-	21,449	(6,062)
Over 90 days	**102,378**	-	95,330	(13,167)
	1,221,425	-	**1,111,617**	**(23,376)**

As at 30 June 2018 there were no debtors past due that were not impaired.

Financial risk management

Objective

Management assesses the risks arising from trade and other receivables in order to ensure that the consolidated entity's cash flows are not adversely impacted by credit risk.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity's risk related to trade receivables is managed by credit control assessing the credit worthiness of customers on an individual customer basis.

Concentrations of credit risk

The consolidated entity provides services to a wide range of customers in Australia. There is no significant concentration of credit risk that management believes presents a significant risk to the consolidated entity's operational income. Management is satisfied that these concentrations are within acceptable limits based on its stage of development and of the industry it operates in.

Fair value of financial instrument

Carrying value of trade and other receivables reflect their fair value.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

10. Property, plant and equipment

A reconciliation of the carrying amount of each class of property, plant and equipment are set out below:

	Plant and equipment $	Motor vehicles $	Leasehold improvements $	Total $
Cost				
Balance at 30 June 2017	1,876,441	64,190	35,942	1,976,573
Additions	1,666,448	-	59,093	1,721,542
Disposals	-	-	-	-
Balance at 30 June 2018	**3,542,889**	**64,190**	**95,035**	**3,702,114**
Accumulated depreciation and impairment losses				
Balance at 30 June 2017	(729,103)	(16,330)	(8,725)	(754,158)
Depreciation for the year	(693,376)	(13,772)	(17,803)	(724,951)
Balance at 30 June 2018	**(1,422,479)**	**(30,102)**	**(26,528)**	**(1,479,109)**
At 30 June 2018	**2,120,410***	**34,088**	**68,507**	**2,223,005**

*contains assets that are leased to customers

	Plant and equipment $	Motor vehicles $	Leasehold improvements $	Total $
Cost				
Balance at 30 June 2016	1,435,952	21,190	24,101	1,481,243
Additions	440,489	47,484	11,841	499,814
Disposals	-	(4,484)	-	(4,484)
Balance at 30 June 2017	**1,876,441**	**64,190**	**35,942**	**1,976,573**
Accumulated depreciation and impairment losses				
Balance at 30 June 2016	(132,540)	(2,618)	(1,426)	(136,584)
Depreciation for the year	(596,563)	(13,712)	(7,299)	(617,574)
Balance at 30 June 2017	**(729,103)**	**(16,330)**	**(8,725)**	**(754,158)**
At 30 June 2017	**1,147,338***	**47,860**	**27,217**	**1,222,415**

*contains assets that are leased to customers

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

11. Intangible Assets

Reconciliation of the carrying amounts of intangible assets are set out below:

	Customer contract $	Goodwill $	Software $	Total $
Cost				
Balance at 30 June 2017	2,614,950	2,024,301	2,985,422	7,624,673
Acquired as part of business combination	-	63,376	300,000	363,376
Other additions	-	-	761,377	761,377
Balance at 30 June 2018	**2,614,950**	**2,087,677**	**4,046,799**	**8,749,426**
Accumulated amortisation and impairment losses				
Balance at 30 June 2017	(210,956)	-	(1,001,963)	(1,212,919)
Amortisation for the year	(202,158)	-	(1,115,697)	(1,317,855)
Balance at 30 June 2018	**(413,114)**	**-**	**(2,117,660)**	**(2,530,774)**
At 30 June 2018	**2,201,836**	**2,087,677**	**1,929,139**	**6,218,652**

	Customer contract $	Goodwill $	Software $	Total $
Cost				
Balance at 30 June 2016	2,406,243	1,965,614	2,143,577	6,515,434
Acquired as part of business combination	208,707	58,687	190,000	457,394
Other additions	-	-	651,845	651,845
Balance at 30 June 2017	**2,614,950**	**2,024,301**	**2,985,422**	**7,624,673**
Accumulated amortisation and impairment losses				
Balance at 30 June 2016	(40,104)	-	(178,688)	(218,792)
Amortisation for the year	(170,852)	-	(823,275)	(994,127)
Balance at 30 June 2017	**(210,956)**	**-**	**(1,001,963)**	**(1,212,919)**
At 30 June 2017	**2,403,994**	**2,024,301**	**1,983,459**	**6,411,754**

12. Trade and other payables

	2018 $	2017 $
Current		
Trade payables	299,549	224,104
Deferred revenue	222,839	222,839
Sundry payables and accrued expenses	746,844	380,807
	1,269,232	**827,750**

Financial risk management

Objective

Management assesses the risks arising from trade and other payables to ensure that the consolidated entity is able to meet its obligations as they fall due, in order that operations are not adversely impacted.

Liquidity risk

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and access to funding by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. All trade and other payables as at 30 June 2018 are payable within 12 months.

Fair value of financial instruments

Carrying amounts of trade and other payables reflect their fair value.

13. Interest bearing liability

	2018 $	2017 $	Maturity	Interest rate
Current				
Westpac Facility	610,000	-	30 June 2019	1.84%
Finance leases	51,154	-	15 January 2019	5.5%
Finance leases	429,202	-	30 June 2019	5.5% - 6.0%
	1,090,356	**-**		
Non-current				
Finance leases	-	124,140	15 January 2019	5.5%
Finance leases	687,533	-	11 April 2021	5.5% - 6.0%
	687,533	**124,140**		
Total interest-bearing liabilities	**1,777,889**	**124,140**		

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility using bank overdrafts, bank loans and finance leases.

Fair value of financial instruments

Carrying amounts of interest bearing liabilities reflect their fair value.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

14. Provisions

	2018 $	2017 $
Short term		
Other	26,340	257,606
Provision for annual leave	203,584	135,974
Provision for long service leave	50,649	78,215
Balance at 30 June 2018	**280,573**	**471,795**
Long term		
Provision for long service leave	**177,032**	**97,085**

15. Capital and reserves

a. Issued capital

	Number of Shares	$
On issue at 30 June 2018	4,488	2,541,608

Ordinary Shares

The Company does not have authorised capital or par value in respect of its issued shares. The holders of these units are entitled to receive distributions as declared from time to time, and are entitled to one vote per share at general meetings of the Company. The shares entitle the holder to proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

b. Dividends

A dividend of $696,280 was declared and paid to shareholders on 13 October 2017.

c. Reserves

	2018 $	2017 $
Balance at 1 July	**1,004,455**	-
Share based payment expenses for the year	**5,058,704**	1,004,455
Foreign Currency Translation Reserve	**(6,893)**	-
Balance at 30 June	**6,056,266**	**1,004,455**

Nature and Purpose of Reserves

The reserve is used to record the value of equity instruments issued to employees and directors as part of their remuneration, and other parties as part of compensation for their services.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

Share based payments

During the year, the Company entered into several agreements that included the issue of Company shares to employees.

Shares issued to directors and employees were issued at the fair value of $14,548 per share. The fair value was based on the Company valuation.

Capital risk management

The consolidated entity's objectives when managing capital are 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.

16. List of Subsidiaries

Subsidiaries includes all entities (including structured entities) over which the parent, Damstra Holdings Pty Ltd, has control. Control is established when the parent 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 relevant activities of the entity.

		Ownership interest	
Name	**Principal place of business**	**2018**	**2017**
Damstra Technology Pty Ltd	Australia	100%	100%
Damstra Technology Pty Ltd – a branch of an overseas registered company	New Zealand	100%	100%
Damstra Technology LLC	USA	100%	-

17. Parent Entity Information

	2018 $	2017 $
Total assets	8,084,010	6,505,206
Total liabilities	5,627,500	(4,513,545)
Issued capital	2,512,394	2,248,151
Accumulated losses	(55,884)	256,490

a) The parent entity has not entered into any guarantees in relation to the debts of its subsidiaries.

b) The parent entity has no contingent liabilities.

c) The parent entity has no contractual commitments for the acquisition of plant or equipment.

18. Business Combinations

Acquisition of Worksafe Management Systems business

During December 2017, Damstra Holding Pty Ltd acquired the business of Worksafe Management Systems from Worksafe Management Systems Pty Ltd Pty Ltd in exchange for a total purchase consideration of $350,000. The acquisition has been accounted for using the acquisition method. No cash was acquired as part of the acquisition. The fair values of the identifiable assets and liabilities of Worksafe Management Systems as the date of acquisition were:

	Provisional 2018 $
Cash and other monetary consideration transferred	352,032
Customer contracts and relationship	-
Property, plant and equipment	-
Software	300,000
Employee provisions	(11,344)
Other payables	-
Net deferred tax liability	-
Net assets acquired	**288,656**
Goodwill on acquisition	**63,376**

Acquisitions in 2017

Acquisition of safeSTAX business

On 28 February 2017, Damstra Holding Pty Ltd acquired the assets of safeSTAX from SGS Australia Pty Ltd in exchange for a total purchase consideration of $400,000. The acquisition has been accounted for using the acquisition method.

	2017 $
Cash and other monetary consideration transferred	400,000
Customer contracts and relationship	208,707
Property, plant and equipment	-
Software	190,000
Employee provisions	-
Other payables	-
Net deferred tax liability	(57,394)
Net assets acquired	**341,313**
Goodwill on acquisition	**58,687**

19. Related Party Disclosures

Compensation of key management personnel of the Group

Key Management Personnel (KMP) are persons having the authority and responsibility for planning, directing and controlling the Group's activities directly or indirectly, including Directors of the Group. The information shown is for the Group:

	2018 $	2017 $
Short term employment benefits	1,351,910	721,518
Post-employment benefits	79,637	62,939
Rent revenue from related parties	17,160	-
Share based payments	5,058,704	650,566
Employee Loans	201,330	-
Total key management personnel expense	**6,708,741**	**1,435,023**

The employee loans as at 30 June 2018 are interest free loans.

20. Commitments for Expenditure

(i) Operating lease commitments - Group as a Lessee

At 30 June 2018 and 2017, the future minimum lease payments under non-cancellable leases were payable as follows.

	2018 $	2017 $
Future operating lease rentals payable:		
Less than one year	135,596	94,888
Between one and five years	94,921	-
	230,517	**94,888**

(ii) Amounts recognised in profit or loss

	2018 $	2017 $
Lease expenses	165,108	79,842

(iii) Operating lease commitments - Group as a Lessor

At 30 June 2018 and 2017, the future minimum rentals receivable under non-cancellable leases were as follows.

	2018 $	2017 $
Future operating lease rentals receivable:		
Less than one year	905,518	619,338
Between one and five years	2,076,811	238,781
	2,982,329	**858,119**

21. Contingent liabilities

The consolidated entity has no contingent liabilities as at 30 June 2018 or 30 June 2017.

22. Reconciliation of Cash Flows from Operating Activities

	2018 $	2017 $
Cash flows from operating activities		
Profit for the period	(3,801,920)	1,449,193
Add/(less) non-cash Items:		
Depreciation	724,951	617,659
Amortisation	1,317,855	994,126
Cost of shares issued	5,058,704	1,004,455
Other income	-	(300,000)
Unrealised (gain) loss on foreign exchange	(6,893)	-
Change in assets and liabilities during the financial period:		
Change in trade receivables	(334,514)	151,489
Change in other assets	(302,521)	(43,615)
Change in trade and other payables	467,822	268,685
Change in provisions	(148,959)	334,013
Change in tax assets/liabilities	(965,186)	865,726
Proceeds from disposal of assets	(229,976)	-
Net cash from operating activities	**1,779,363**	**5,341,731**

23. Auditors Remuneration

	2018 $	2017 $
Amounts received or due and receivable by Ernst & Young Australia for audit of the financial report of the entity and any other entity in the consolidated entity	60,000	45,000
Tax services	-	-
	60,000	**45,000**

24. Events Occurring After the Reporting Date

On 12 July 2018, 5,500,000 convertible notes were issued to investors. On 3rd August, Damstra agreed to acquire the assets of Velpic Limited for $1,000,000. On 2 October 2018, Damstra purchased 100% of the share capital of Eify Pty Limited for $9 million, plus an earnout based on revenue targets being exceeded. On 6 November 2018, Damstra obtained an increase of $6m on the Westpac facility and extending the term until 20 October 2020 Other than noted there are no matters or circumstances that have arisen since 30 June 2018 that has significantly affected or may significantly affect in future years:

(a) the Group's operations;
(b) the results of those operations; or
(c) the state of affairs of the Group.

Directors' Declaration

In accordance with a resolution of the directors of Damstra Holdings Pty Ltd and its controlled entity, I state that:

1. In the opinion of the directors:

   (a) the financial statements and notes of Damstra Holdings Pty Ltd and its controlled entity for the financial year ended 30 June 2018 are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporation Regulation 2001*;

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the board

J Risseeuw **C Damstra**

8 May 2019

Building a better
working world

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Independent Auditor's Report to the Members of Damstra Holdings Pty Ltd

Opinion

We have audited the financial report of Damstra Holdings Pty Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report presents fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Australian Accounting Standards.

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 are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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.

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

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, 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 and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young
Melbourne
8 May 2019