Damstra Holdings Pty Ltd

ACN 610 571 607

Annual report
For the year ended 30 June 2019

Damstra Holdings Pty Ltd ACN 610 571 607
Annual report - 30 June 2019

Contents

Your directors present their report on the consolidated entity consisting of Damstra Holdings Pty Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2019. Throughout the report, the consolidated entity is referred to as the Group.

Directors

The following persons were directors of Damstra Holdings Pty Ltd during the whole of the financial year and up to the date of this report:

Christian William Damstra
Drew Fairchild
Johannes Risseeuw
Morgan Hurwitz

Principal activities

Damstra is a leading Australian provider of workplace management solutions to multiple industry segments across the globe. We develop, sell and implement integrated hardware and software-as-a-service (SaaS) solutions in industries where compliance and safety is of utmost importance. Our solutions assist our clients to better track, manage and protect their staff, contractors and their organisations, and reduce the risks associated with worker health, safety and regulatory compliance. We pride ourselves on playing a role in helping our clients meet the increasing demands of health, safety and environmental (HSE) regulations. The Group has been operating since 2002, and has grown from a single office in Singleton, New South Wales, to having a presence in 8 countries, with greater than 350 clients and over 330,000 registered licences across our platform. Our solutions help our clients deal with multiple aspects of their organisations, including workforce management, access control, asset management, learning management and HSE management. We are operating in a US$15.6 billion market with significant opportunity for global expansion going forward.

Our ethos is to help our clients to better track, manage and protect their people and their organisations and collect and analyse critical data to help them with their compliance obligations and inform decision making. This ethos runs true in everything that we do, including our innovation and product development framework. The Damstra team is constantly seeking ways in which our solution can give our clients better visibility over their workforce and their assets, better ways to interact with both, and better ways in which to protect them from internal and external risks. For example, our development team has recently implemented, and is exploring the use of artificial intelligence to predict circumstances in which breaches may happen based on real-time data from client sites. In FY2019, over 40% of our workforce was engaged in improving and extending Damstra’s solutions, and over 1,000 separate product development releases were made. These statistics reflect our long-term vision of building a technology business which delivers best-in-class solutions which constantly respond to the changing needs of our clients.

Dividends - Damstra Holdings Pty Ltd

An ordinary dividend of $169 per fully paid share was declared and paid to shareholders on 13 October 2017. No dividends have been declared or paid to shareholders for the year ended 30 June 2019. Since the end of the financial year the directors have not recommended the declaration or payment of dividends.

Review of operations

In this financial year, Damstra signed its first contract in the United States with Newmont Goldcorp, one of the world’s leading gold mining companies, who are using Damstra’s solutions across multiple sites in the United States, South America, Australia and Africa. In addition, we have recently signed up our first pilot program in the United Kingdom. Consequently, we have now established operations in the United Kingdom with the registration of “Damstra Technology UK”. Strategically, whilst Australia is the core of our operations, the international expansion is what will drive longer term value for shareholders. International revenue was 11% in FY19 and strategically, we are positioning the US and UK growth being a potential “game changer” for the company, with the strategic intent that international revenue over time will be more significant than domestic revenue. Apart from our core mining clients, Australian East Coast construction will be one of our core focus areas due to committed capital expenditure by federal and state government.

Review of operations (continued)

Integration of past acquisitions has proceeded at levels exceeding expectation, and has demonstrated that the company has the ability to integrate acquisitions in a seamless manner. These acquisitions have added significant value to the business not just in terms of acquisition of clients, but also driving product enhancements that have accelerated the ongoing development in our infrastructure, global databases, code modernisation and continued product innovation.

Certain financial information in the review of operations section below referencing Statutory Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) has been derived from the audited financial statements. Pro forma EBITDA and pro forma operating expenses are non-IFRS financial information and as such have not been audited in accordance with Australian Accounting Standards. For the full year ended 30 June 2019, Damstra reported pro forma revenue of $15.3m (FY2018: $10.6m).

- Revenue growth was 44.5%
- Recurring revenue was 90.4%;
- Hardware as % of total revenue of 13.1%
- Positive net cash flow from operating activities
- Increased investment in Damstra sales and marketing team;
- Increased investment and traction in new and existing modules with a doubling of cash spend on research and development.

Reconciliation of EBITDA	**Year ended 30 June 2019 $m**
EBIT based on statutory accounts	(-2.6)
LESS AFFECT	
Amortisation	1.2
Deprecation	2.9
EBITDA	1.5

Damstra has a proven growth strategy, which is based on six key elements:

- Increasing penetration of existing clients, which incorporates natural organic growth as clients add new active users, increases in functionality or the number of modules and products that existing users have access to, and increases in revenue generated per active user as a result of price increases;
- Expanding to new clients in global markets through the rollout of new projects for certain construction and development clients who mandate the use of Damstra's solution for these new projects (resulting in an increase in the number of active users);
- Winning new clients from competitors, or as a result of new clients who have not previously used an automated or software-based workplace management solution in their organisation, resulting in increased penetration of the Company's core global market including an expansion of our sales channel strategy;
- Increasing our channel partners globally and across modules, be it via a sales partnership, implementation in remote locations or consulting;
- Expanding our platform through relentless product development and investment in high-demand offerings. The potential to monetise Damstra's significant (and growing) collection of workforce data by providing real-time and predictive insights about a client's workplace to help to improve efficiency and reduce the risk of compliance breaches or workplace injury; and
- Selectively pursuing value enhancing acquisitions which may accelerate expansion into adjacent markets, accelerated entry into new markets or geographies, or consolidate existing markets as appropriate.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows.

- On 12 July 2018, 5,500,000 convertible notes were issued to investors with a face value of $1.00 per note, an interest rate of 10% per annum and a maturity date of 30 June 2020. Details of the convertible notes issue are outlined in note 17(b)' Convertible notes'.

- The Group agreed to acquire the assets of Perth-based learning management software companies, Velpic Limited and Velpic Australia Pty Ltd (together 'Velpic') and purchase 100% of the share capital of eify Pty Limited (eify), an Australian provider of workforce management tools, on 3 August 2018 and 2 October 2018 respectively. Details of the purchase consideration, the net assets acquired and goodwill are included in note 31 'Business combinations'.

- During the year the Group incorporated a subsidiary in the United Kingdom. The Group now services clients located throughout Australia, the United States of America, South America, Africa, New Zealand and the United Kingdom.

There have been no other significant changes in the state of affairs of the Group during the year.

Event since the end of the financial year

No matter or circumstance has arisen since 30 June 2019 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

Likely developments and expected results of operations

The directors expect that the Group will continue to carry out its principal activities as detailed above. There are no other known or likely developments which the directors foresee which they wish to disclose at this time.

Environmental regulation

The Group is not affected by any significant environmental regulation in respect of its operations.

Shares under option

No options were granted to the directors or any of the five highest remunerated officers of the Group since the end of the financial year.

Insurance of officers and indemnities

(a) Insurance of officers

During the year, the Group 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.

(b) Indemnity of auditors

Damstra Holdings Pty Ltd has agreed to indemnify their auditors, PwC Australia, to the extent permitted by law, against any claim by a third party arising from Damstra Holdings Pty Ltd's breach of their agreement. The indemnity stipulates that Damstra Holdings Pty Ltd will meet the full amount of any such liabilities including a reasonable amount of legal costs.

This report is made in accordance with a resolution of directors.

Drew Fairchild
Director

Johannes Risseeuw
Director

Melbourne
29 August 2019

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These financial report are the consolidated financial report of the consolidated entity consisting of Damstra Holdings Pty Ltd and its subsidiaries. A list of subsidiaries is included in note 32. The financial report are presented in Australian dollars ($).

Damstra Holdings Pty Ltd is a Group limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 1
38-40 Garden Street
South Yarra VIC 3141

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report on page 1, which is not part of these financial report.

The financial report were authorised for issue by the directors on 29 August 2019. The directors have the power to amend and reissue the financial report.

	Notes	Consolidated entity 2019 $	Restated * 2018 $
Revenue from continuing operations	6	**15,278,260**	10,576,751
Other income	7	**726,408**	240,234
Employee benefits expense		**(6,545,906)**	(8,756,427)
Depreciation and amortisation expense	8	**(4,127,898)**	(2,145,869)
Other expenses	8	**(7,945,150)**	(3,843,971)
Finance costs		**(1,008,152)**	(35,034)
Loss before income tax		**(3,622,438)**	(3,964,316)
Income tax (expense)	9	**(95,984)**	(24,308)
Loss for the year		**(3,718,422)**	(3,988,624)
Other comprehensive income			
Item that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	25(a)	**1,526**	(6,893)
Other comprehensive income/(loss) for the year, net of tax		**1,526**	(6,893)
Total comprehensive (loss) for the year		**(3,716,896)**	(3,995,517)
Loss is attributable to:			
Owners of Damstra Holdings Pty Ltd		**(3,718,422)**	(3,988,624)
Total comprehensive loss for the year is attributable to:			
Owners of Damstra Holdings Pty Ltd		**(3,716,896)**	(3,995,517)

* See note 2 for details about the restatement for changes in accounting policies.

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	Notes	**Consolidated entity** **2019** **$**	Restated * 2018 $
ASSETS			
Current assets			
Cash and cash equivalents	10	**303,887**	683,513
Trade and other receivables	11	**3,572,513**	1,422,755
Costs to fulfil contracts		**242,917**	123,235
Current tax receivables		**583,081**	-
Other current assets	12	**834,826**	356,280
Total current assets		**5,537,224**	2,585,783
Non-current assets			
Property, plant and equipment	13	**4,848,622**	2,223,005
Deferred tax assets	14	**56,479**	241,109
Intangible assets	15	**21,491,955**	6,218,652
Costs to fulfil contracts		**416,777**	124,740
Total non-current assets		**26,813,833**	8,807,506
Total assets		**32,351,057**	11,393,289
LIABILITIES			
Current liabilities			
Trade and other payables	16	**5,626,168**	1,013,541
Borrowings	17	**10,268,729**	1,090,356
Deferred income	18	**232,897**	222,839
Current tax liabilities		**-**	524,898
Provisions	19	**1,902,707**	280,573
Contract liabilities		**3,476,706**	2,326,687
Total current liabilities		**21,507,207**	5,458,894
Non-current liabilities			
Other payables	20	**1,335,021**	-
Borrowings	21	**7,240,328**	687,533
Deferred income	23	**390,329**	-
Provisions	22	**-**	177,032
Contract liabilities		**565,454**	303,716
Total non-current liabilities		**9,531,132**	1,168,281
Total liabilities		**31,038,339**	6,627,175
Net assets		**1,312,718**	4,766,114
EQUITY			
Contributed equity	24	**2,541,608**	2,541,608
Other reserves	25(a)	**6,321,292**	6,056,266
(Accumulated losses)	25(b)	**(7,550,182)**	(3,831,760)
Total equity		**1,312,718**	4,766,114

* See note 2 for details about the restatement for changes in accounting policies.

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

		Attributable to owners of Damstra Holdings Pty Ltd			
Consolidated entity	Notes	**Contributed equity $**	**Other reserves $**	**(Accumulated losses) $**	**Total equity $**
Balance at 1 July 2017		2,182,378	1,004,455	2,360,848	5,547,681
Change in accounting policy	2	-	-	(1,507,704)	(1,507,704)
Restated total equity at the beginning of the financial year		**2,182,378**	**1,004,455**	**853,144**	**4,039,977**
(Loss) for the year (restated*)		-	-	(3,988,624)	(3,988,624)
Other comprehensive income		-	(6,893)	-	(6,893)
Total comprehensive (loss) for the year		**-**	**(6,893)**	**(3,988,624)**	**(3,995,517)**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	24	359,230	-	-	359,230
Dividends provided for or paid	26	-	-	(696,280)	(696,280)
Share based payment	25(a)	-	5,058,704	-	5,058,704
		359,230	5,058,704	(696,280)	4,721,654
Balance at 30 June 2018		**2,541,608**	**6,056,266**	**(3,831,760)**	**4,766,114**

* See note 2 for details about the restatement for changes in accounting policies.

Balance at 1 July 2018 (Restated)		2,541,608	6,056,266	(3,831,760)	4,766,114
(Loss) for the year		-	-	(3,718,422)	(3,718,422)
Other comprehensive income		-	1,526	-	1,526
Total comprehensive income/(loss) for the year		**-**	**1,526**	**(3,718,422)**	**(3,716,896)**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	26	-	-	-	-
Share based payment	25(a)	-	263,500	-	263,500
		-	263,500	-	263,500
Balance at 30 June 2019		**2,541,608**	**6,321,292**	**(7,550,182)**	**1,312,718**

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

	Notes	Consolidated entity 2019 $	Restated * 2018 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**15,297,929**	11,518,206
Payments to suppliers and employees (inclusive of GST)		**(13,326,987)**	(8,615,784)
		1,970,942	2,902,422
Costs to fulfil a contract		**(585,278)**	-
Transaction costs relating to acquisitions		**(54,066)**	-
Interest received		**89,745**	7,733
Interest paid		**(526,478)**	(39,402)
Income taxes paid		**(354,675)**	(1,091,390)
Net cash inflow from operating activities	34	**540,190**	1,779,363
Cash flows from investing activities			
Payment for acquisitions, net of cash acquired	31	**(8,745,032)**	(352,032)
Payments for property, plant and equipment	13	**(3,760,108)**	(1,725,541)
Payments for intangible assets		**-**	(761,377)
Payment of software development costs	15	**(1,973,364)**	-
(Repayment)/proceeds from related party loans (net)		**(115,549)**	-
Proceeds from sale of property, plant and equipment		**-**	229,976
Net cash (outflow) from investing activities		**(14,594,053)**	(2,608,974)
Cash flows from financing activities			
Proceeds from issues of shares		**-**	359,230
(Repayment)/proceeds from borrowings (net)		**14,549,621**	1,653,749
Payment principal elements of finance lease payments	34(b)	**(888,546)**	-
Dividends paid to company's shareholders		**-**	(696,280)
Net cash inflow from financing activities		**13,661,075**	1,316,699
Net (decrease) increase in cash and cash equivalents		**(392,788)**	487,088
Cash and cash equivalents at the beginning of the financial year		**683,513**	196,425
Cash and cash equivalents at end of year	10	**290,725**	683,513

See note 2 for details about the restatement for changes in accounting policies.

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

Contents of the notes to the consolidated financial statements

1 Summary of significant accounting policies

This note provides a list of all significant accounting policies adopted in the preparation of these consolidated financial report. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report are for the Group consisting of Damstra Holdings Pty Ltd and its subsidiaries.

(a) Basis of preparation

These general purpose financial report have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board. Damstra Holdings Pty Ltd is a for-profit entity for the purpose of preparing the financial report.

(i) Compliance with IFRS

The consolidated financial report of the Damstra Holdings Pty Ltd Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

The financial report have been prepared on a historical cost basis.

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time in their annual reporting period commencing 1 July 2018:

- AASB 9 *Financial Instruments*
- AASB 15 *Revenue from Contracts with Customers*
- AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions

The Group changed its accounting policies and make certain retrospective adjustments following the adoption of AASB 15. This is disclosed in note 2. The other amendments listed above did not have any impact on the amounts recognised in prior years and are not expected to significantly affect the current or future years.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 16 *Leases*

Nature of change
AASB 16 was issued in February 2016. The Group will apply the standard effective 1 July 2019 and will be adopting the modified retrospective approach. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact
The group has reviewed all of the group's leasing arrangements over the last year in light of the new lease accounting rules in AASB 16. The standard will affect primarily the accounting for the group's operating leases.

As at the reporting date, the group has non-cancellable operating lease commitments of $856,582, see note 29. For these lease commitments the group expects to recognise right-of-use assets of approximately $999,000 on 1 July 2019, lease liabilities of $1,051,274 (after adjustments for prepayments and accrued lease payments recognised as at 30 June 2019) and deferred tax assets of $14,375.

Overall net assets will be approximately $37,899 lower, and net current assets will be $15,604 lower due to the presentation of a portion of the liability as a current liability. The group expects that net profit after tax will decrease by approximately $10,455 for 2020 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately $210,254 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting years and on foreseeable future transactions.

(v) Going Concern

The Group has a positive net asset position of $1,312,718 (2018: $4,766,114) and is producing positive cash flows from operations. As at 30 June 2019 the Group had reported net current liabilities of $15,969,983 (2018: $2,850,580) due to the current classification of the convertible notes of $5,898,940 and the current portion of the Westpac facility. In addition, there is an amount of $3,476,706 (2018: $2,326,687) of contract liabilities representing revenue received in advance. This reflects the value of outstanding performance obligation but is not expected to settle in cash outflows. The Group has undrawn facilities of $1,272,058 (2018: $870,000). Current liabilities also includes deferred income of $232,897 (2018: $222,839) which will be realised in the ordinary course of business and is therefore not expected to be settled in cash. Similarly, current liabilities include contract liabilities representing revenue received in advance of $3,476,706 (2018: $2,326,687) which is not expected to settle in cash. 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, potential of raising capital and forecast positive cash flows, and as such the directors consider it appropriate for the Group's financial statements to be prepared on a going concern basis.

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation

Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(h)).

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial report of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial report are presented in Australian dollars ($), which is Damstra Holdings Pty Ltd's functional and presentation currency.

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within other gains/(losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

1 Summary of significant accounting policies (continued)

(c) Foreign currency translation (continued)

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position
- income and expenses for each consolidated income statement and consolidated statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

(d) Revenue recognition

Revenue

The Group recognises revenue predominantly from the provision of software services (processing and development) and the rental of hardware equipment.

Software services revenue primarily consists of fees that give customers access to the Total Workforce Management System (TWMS), which also includes related customer support and maintenance. These revenues are recognised over time as they are delivered and consumed concurrently over the service period, beginning on the date the service is made available to the customer. Software services typically have a term of 12 months duration and are subject to penalties for early termination by the customer.

Revenue from the rental of hardware equipment consists of fees that give customers access to hardware (which drives the TWMS) and includes (amongst other hardware) alcolizers, Biometric technology, login terminals, hand held devices. These revenues are recognised over time as customers derive the benefit from the hardware, beginning on the date the service is made available to the customer. Hardware rental contracts typically have a term of 12 months duration.

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Other Income

Other income comprises Australian research and development grants and other income earned from third parties

Revenue Recognition

To determine whether to recognise revenue, the Group follows a five-step process:

(1) Identifying the contract with a customer

(2) Identifying the performance obligations within the customer contract

(3) Determining the transaction price

(4) Allocating the transaction price to the performance obligations

(5) Recognising revenue when/as performance obligation(s) are satisfied.

1 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

Contract liabilities

Where consideration is received for subscription revenue in advance of the Group satisfying the corresponding performance obligations, a contract liability is recognised in the Consolidated Balance Sheet and will be subsequently released into the Consolidated Statement of Comprehensive Income when control of the promised service is transferred to the customer.

(e) Government grants

Grants from governments are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. In relation to research and development ('R&D') government grants, to the extent that these relate to costs which have been expensed as incurred, the government grant income is recognised as 'R&D tax incentive income'. To the extent that these relate to costs which have been capitalised to intangible assets, the government grant income is initially included in current and non-current liabilities as deferred income and is subsequently credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

(f) Income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year in the countries where the Group and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial report. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting year and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or 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.

1 Summary of significant accounting policies (continued)

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease year so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 29). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration will be recognised in the profit or loss.

1 Summary of significant accounting policies (continued)

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting year.

(j) Cash and cash equivalents (excluding bank overdrafts)

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 borrowings in current liabilities in the consolidated statement of financial position.

(k) Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value.

The Group holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. The company applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

(l) Investments and other financial assets

(i) Classification

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

1 Summary of significant accounting policies (continued)

(l) Investments and other financial assets (continued)

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments as amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the consolidated income statement as applicable.

(iv) Impairment

From 1 July 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 1(k) for further details.

(v) Accounting policies applied until 30 June 2018

The Group has applied AASB 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Classification

Until 30 June 2018, the Group classified its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

1 Summary of significant accounting policies (continued)

(l) Investments and other financial assets (continued)

(v) Accounting policies applied until 30 June 2018 (continued)

Classification (continued)

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

Reclassification

Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Group could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

Subsequent measurement

The measurement at initial recognition did not change on adoption of AASB 9.

Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest method.

Financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognised as follows:

- for financial assets at FVPL - in profit or loss within other gains/(losses)

Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

(m) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting year in which they are incurred.

1 Summary of significant accounting policies (continued)

(m) Property, plant and equipment (continued)

Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

- Plant and equipment: 3-5 years
- Leasehold improvements: 4-5 years
- Motor Vehicles: 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(n) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 1(h). Goodwill on acquisitions is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (note 5).

(ii) Customer contracts

The customer contracts were acquired as part of multiple business combinations (which occurred in this financial year and historical financial years). They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over their estimated useful lives.

(iii) Software

Software consists of capitalised development costs being an internally generated intangible asset and externally acquired software.

(iv) Development costs

In relation to the Group's internally generated intangible assets, the 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 Group’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 consolidated 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 amortised on a straight-line basis.

1 Summary of significant accounting policies (continued)

(n) Intangible assets (continued)

(iv) Development costs (continued)

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.

(v) Amortisation methods and useful lives

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight line 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:

- Customer contracts: 5 - 15 years
- Software: 3 years

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

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30-60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the year of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the year of the facility to which it relates.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings 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 year.

(q) Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the year of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial year of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the year in which they are incurred.

1 Summary of significant accounting policies (continued)

(r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting year. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(s) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the year in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting year using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting year of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

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 twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) 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 Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group 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.

1 Summary of significant accounting policies (continued)

(t) Contributed equity

Ordinary shares are classified as equity.

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

(u) 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 asset or as part of the expense.

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

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

(v) Parent entity financial information

The financial information for the parent entity, Damstra Holdings Pty Ltd, disclosed in note 36 has been prepared on the same basis as the consolidated financial report, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial report of Damstra Holdings Pty Ltd.

2 Changes in accounting policies

This note explains the impact of the adoption of AASB 9 *Financial Instruments* and AASB *15 Revenue from Contracts with Customers* on the Group's financial report.

(a) AASB 9 Financial Instruments

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities derecognition of financial instruments, impairment of financial assets and hedge accounting. While the adoption of AASB 9 Financial Instruments from 1 July 2018 resulted in changes in accounting policies the application of the new standard did not have a material impact on the classification, recognition and measurement of the Group's financial instruments. The new accounting policies are set out in note 1.

Impairment of financial assets

The Group has the following type of financial assets that are subject to AASB 9's new expected credit loss model:

- Receivables - Trade receivables
- Receivables - Receivables from related parties
- Cash and cash equivalents

The Group was required to revise its impairment methodology under AASB 9 for each of these assets. There was no material impact as a result of the change in impairment methodology. While cash and cash equivalents are also subject to the impairment requirements of AASB 9, an impairment loss was not required. The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. There was no material impact noted.

(b) AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 *Revenue from contracts with customers* from 1 July 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in AASB 15, the Group had adopted the new rules retrospectively and has restated comparatives for the 2018 financial year. In summary, the following adjustments were made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 July 2018) and the beginning of the earliest period presented (1 July 2017).

The main differences for the Group related to the revenue recognition for software services revenue. These revenues are recognised over time as they are delivered and consumed concurrently over the service term, beginning on the date the service is made available to the customer. Historically approximately 90% of this revenue was recognised up-front with 10% being recognised over the service term.

The total impact of the transition adjustments on 30 June 2018 reported consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of changes in equity are as follows:

2018

Consolidated statement of comprehensive income (extract)	**AASB 118 30 June 2018 $**	**Remeasurements $**	**AASB 15 30 June 2018 $**
Extract			
Revenue	**11,050,219**	**(473,468)**	**10,576,751**
Employee benefits expense	**(9,044,358)**	**287,931**	**(8,756,427)**
Amortisation expense	**(1,317,855)**	**(103,063)**	**(1,420,918)**
Income tax benefit/(expense)	**(126,204)**	**101,896**	**(24,308)**

2 Changes in accounting policies (continued)

(b) AASB 15 Revenue from Contracts with Customers (continued)

Consolidated statement of financial position (extract)	AASB 118 30 June 2018 $	Remeasurements $	AASB 15 Carrying amount 30 June 2018 $
Extract			
Costs to fulfil contracts	**-**	**247,975**	**247,975**
Contract liabilities	**(222,839)**	**(2,407,564)**	**(2,630,403)**
Deferred tax assets/(liabilities)	**(436,590)**	**632,637**	**196,047**

2017

Consolidated statement of comprehensive income (extract)	AASB 118 30 June 2017 $	Remeasurements $	AASB 15 30 June 2017 $
Extract			
Revenue	**9,280,998**	**(1,052,684)**	**8,223,314**
Employee benefits expense	**(3,368,598)**	**81,773**	**(3,286,825)**
Amortisation expense	**(994,126)**	**(18,667)**	**(1,012,793)**
Income tax benefit/(expense)	**(865,810)**	**553,271**	**(312,539)**

Consolidated statement of financial position (extract)	AASB 118 30 June 2017 $	Remeasurements $	AASB 15 Carrying amount 1 July 2017 $
Extract			
Costs to fulfil contracts	**-**	**63,106**	**63,106**
Contract liabilities	**(222,839)**	**(1,852,163)**	**(2,075,002)**
Deferred tax assets/(liabilities)	**(525,810)**	**553,271**	**27,461**

The impact on the Group’s accumulated losses as at 1 July 2018 and 1 July 2017 is as follows:

	2018 $	2017 $
Accumulated profit/(losses) – Prior to AASB 15 restatement	**(2,137,362)**	2,360,848
Adjustment to accumulated losses from adoption of AASB 15	**(2,349,576)**	(2,060,976)
Restated (accumulated losses)	**(4,486,938)**	**299,872**

Accounting for costs to fulfil a contract

In 2018, costs amounting to $287,931 related to employee benefits were expensed as they did not qualify for recognition as an asset under any of the other accounting standards. However, the costs relate directly to the Group's contracts and generate resources used in satisfying the contract and are expected to be recovered. They were therefore capitalised as costs to fulfil a contract following the adoption of AASB 15 and included in other assets in the balance sheet on 30 June 2018. The assets are amortised on a straight line basis over the term of the specific contracts they relate to, consistent with the pattern of recognition of the associated revenue.

3 Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US$. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant Group entity. The risk is measured through a forecast of highly probable US$ expenditures.

The Group manages its foreign exchange risk by monitoring overseas operations closely. Foreign exchange risk is currently not significant and therefore hedging instruments are not required.

Exposure

The Group's exposure to foreign currency risk at the end of the reporting year, expressed in Australian dollar, was as follows:

Consolidated entity	**30 June 2019**		30 June 2018	
	USD	**NZD**	USD	NZD
	$	**$**	$	$
Trade receivables	**650,951**	**45,761**	-	2,891
Trade payables	**-**	**6,564**	13,352	6,791

(ii) Interest rate risk

The Group's main interest rate risk arises from short term borrowings with variable rates, which expose the Group to cash flow interest rate risk.

The Group manages its cash flow interest rate risk by minimising the amount of external debt that it draws on.

Group sensitivity

Sensitivity on the consolidated statement of comprehensive income relating to material exposures are set out below:

	Impact on other components of equity	
Consolidated entity	**2019** **$**	2018 $
USD Debtor balances		
USD/AUD exchange rate – increase 10%	**45,651**	-
USD/AUD exchange rate – decrease 10%	**(45,651)**	-
Borrowings		
Floating interest rate – increase 10%	**(22,613)**	(2,098)
Floating interest rate – decrease 10%	**22,613**	2,098

3 Financial risk management (continued)

(b) Credit risk

Management assesses the risks arising from trade and other receivables in order to ensure that the Group's cash flows are not adversely impacted by 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 Group's risk related to trade receivables is managed by credit control assessing the credit worthiness of customers on an individual customer basis.

The Group 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 Group'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.

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

(i) Impairment of financial assets

- Receivables - Trade receivables
- Receivables - Receivables from related parties
- Cash and cash equivalents

There was no material impairment loss recognised on receivables from related parties or cash and cash equivalents.

Trade receivables

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

(c) Liquidity risk

The Group 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.

(i) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting year:

	Consolidated entity	
	2019	2018
	$	$
Variable rate		
- Expiring within one year (Bank Overdraft)	**463**	-
- Expiring beyond one year (Bank Bill Business Loan and Finance Lease)	**1,272,058**	870,000
	1,272,521	870,000

The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.

3 Financial risk management (continued)

(c) Liquidity risk (continued)

(ii) Maturities of financial liabilities

The following table analyses the Groups' financial liabilities based on their contractual maturities. The balances are equal to their carrying value as the impact of discounting is not significant.

Contractual maturities of financial liabilities	**Up to 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total contractual cash flows**	**Carrying amount (assets)/ liabilities**
At 30 June 2019	**$**	**$**	**$**	**$**	**$**
Non-derivatives					
Trade payables	**3,302,083**	**-**	**-**	**3,302,083**	**3,302,083**
Contingent consideration	**2,360,848**	**1,335,021**	**-**	**3,695,869**	**3,695,869**
Bank overdraft	**13,162**	**-**	**-**	**13,162**	**13,162**
Convertible notes	**5,898,940**	**-**	**-**	**5,898,940**	**5,898,940**
Borrowings (excluding finance leases)	**2,873,813**	**1,348,800**	**3,875,938**	**8,098,551**	**8,098,551**
Finance lease liabilities	**1,482,814**	**2,015,590**	**-**	**3,498,404**	**3,498,404**
Total non-derivatives	**15,931,660**	**4,699,411**	**3,875,938**	**24,507,009**	**24,507,009**
At 30 June 2018					
Trade payables	1,046,393	-	-	1,046,393	1,046,393
Borrowings (excluding finance leases)	610,000	687,533	-	1,297,533	1,297,533
Finance lease liabilities	480,356	-	-	480,356	480,356
Total non-derivatives	2,136,749	687,533	-	2,824,282	2,824,282

(d) Fair value measurements

Fair value hierarchy AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy: a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1); b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3). The following table presents the Group’s financial assets and financial liabilities measured and recognised at fair value at 30 June 2019, on a recurring basis:

At 30 June 2019	**Level 2 $**
Convertible note	**5,898,940**
Contingent consideration	**3,695,869**

4 Critical estimates, judgements and errors

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 15. The recoverable amount of the cash-generating unit has been determined based on management's value in use model. The value in use model contains significant judgements and estimates made by management in the discounted cash flow including: growth in revenue, overhead costs, estimate capital expenditure and discount rate. At 30 June 2019 management have concluded that there are no reasonable changes in the key assumptions that would cause an impairment. There is a significant risk that changes in some of the assumptions could result in material adjustments to the carrying amounts of assets.

(ii) Estimated fair value of assets or liabilities acquired in a business combination including goodwill & intangibles

Detailed information about each of these estimates and judgements is included in note 31 together with information about the basis of calculation for each critical accounting estimate and assumption used by management in determining the estimated fair value of certain assets or liabilities acquired in the business combinations.

(iii) Estimated fair value of share-based payments

The Group recognised a prorated expense of $263,510 in the year ended 30 June 2019 in relation to 36 options which were granted to select directors' and employees and have a variable vesting period. At a similar time to grant date of the options, Damstra was in negotiations to introduce three new institutional investors to the company. At the same time, the institutional investors purchased options from existing shareholders at a value of $14,548 per option. In the absence of market prices, management deemed this valuation technique to determine the fair value of the options to be an appropriate arms-length means by which to determine the valuation.

5 Segment information

(a) Identification of reportable operating segments

The Group has determined there is one operating segment, being the operation of workforce management solutions. The determination of the operating segment is based on the information provided to the chief operating decision maker, who is the CEO, to assess performance and determine the allocation of resources. Consideration has been given to the manner in which services are provided to customers, the organisational structure and the nature of the Group's customer base.

(b) Major customers

During the year ended 30 June 2019, there was no external revenue greater than 10% to any one customer (2018: nil).

(c) Disaggregation of revenue and non-current assets by geographical regions

The consolidated entity operates in Australia and internationally. Revenue is attributable to the country where the service was transacted.

	Consolidated entity	
	2019	Restated 2018
	$	$
Total revenue and other income from continuing operations		
Australia	**13,324,633**	10,553,593
International operations	**1,953,627**	23,158
Total	**15,278,260**	10,576,751
Total non-current assets		
Australia	**26,577,319**	8,487,830
International operations	**236,514**	78,567
Total	**26,813,833**	8,566,397

6 Revenue from contract with customers

	Consolidated entity	
		Restated
	2019	2018
	$	$
From continuing operations		
Revenue from rendering of services - Over time	**13,269,419**	9,196,071
Revenue from leasing hardware - Over time	**2,008,841**	1,380,680
Total revenue from continuing operations	**15,278,260**	10,576,751

Assets and liabilities related to contracts with customers

Costs to fulfil contracts and contract liabilities relate solely to the rendering of services in relation to subscription income.

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

	Consolidated entity	
		Restated
	2019	2018
	$	$
Opening contract liabilities	**(2,630,403)**	(2,075,002)
Revenue recognised that was included in the contract liability balance at the beginning of the period	**2,320,912**	1,829,491
Add: Revenue deferred in current period	**(3,732,669)**	(2,384,892)
Closing contract liabilities	**(4,042,160)**	(2,630,403)

7 Other income

	Consolidated entity	
	2019	2018
	$	$
Net gain/(loss) on disposal of property, plant and equipment	**212**	229,976
Interest income	**21,566**	731
R&D tax incentive income	**636,451**	-
Other income	**68,179**	9,527
	726,408	240,234

8 Expenses

	Consolidated entity	
		Restated
	2019	2018
	$	$
(Loss) before income tax includes the following specific expenses:		
Depreciation	**1,228,431**	724,951
Amortisation of intangible assets	**2,899,446**	1,420,918
IT and administration expenses	**1,733,135**	1,025,897
Contractor expenses	**1,054,752**	467,525

9 Income tax expense

(a) Income tax expense

	Consolidated entity	
	2019	2018
	$	$
Current tax		
Current tax on profits for the year	**285,792**	502,693
Adjustments for current tax of prior periods	**220,579**	(396,407)
Total current tax expense	**506,371**	106,286
Deferred income tax		
Decrease/(increase) in deferred tax assets (note 14)	**(292,752)**	(39,291)
(Decrease)/increase in deferred tax liabilities (note 14)	**(117,635)**	(42,687)
Total deferred tax (benefit)	**(410,387)**	(81,978)
Income tax expense	**95,984**	24,308
Income tax expense is attributable to:		
(Loss) from continuing operations	**95,984**	24,308

9 Income tax expense (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated entity	
	2019	2018
	$	$
(Loss) from continuing operations before income tax	**(3,622,438)**	(3,964,316)
Tax at the Australian tax rate of 27.5% (2018 - 27.5%)	**(996,170)**	(1,090,187)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Stamp duty	**40,154**	-
Overseas operation losses	**222,097**	29,961
Entertainment	**20,208**	-
Non-taxable income	**(21,375)**	-
Adjustments for current tax of prior periods	**342,650**	(294,511)
Share based payments	**72,465**	1,391,143
Other items - Net	**251,525**	(157,490)
Amortisation of customer contracts	**59,774**	55,593
Other non-deductible expenses	**104,656**	89,799
Income tax expense	**95,984**	24,308

(c) Unrecognised temporary differences

Temporary differences relating to investments in subsidiaries for which deferred tax assets have not been recognised:

	Consolidated entity	
	2019	2018
	$	$
Temporary difference relating to investments in subsidiaries for which deferred tax liabilities have not been recognised:		
Foreign currency translation	**(1,526)**	(6,893)
Unrecognised deferred tax liabilities relating to the above temporary differences	**(420)**	(1,896)

Temporary differences of $1,526 (2018: $6,893) have arisen as a result of the translation of the financial statements of the Group's overseas subsidiaries. However, a deferred tax asset has not been recognised as the liability will only crystallise in the event of disposal of the subsidiaries, and no such disposals are expected in the foreseeable future.

10 Current assets - Cash and cash equivalents (excluding bank overdrafts)

	Consolidated entity	
	2019	2018
	$	$
Cash at bank and in hand	**303,887**	683,513

(a) Reconciliation to cash flow statement

The above figures reconcile to the amount of cash shown in the consolidated statement of cash flows at the end of the financial year as follows:

		Consolidated entity	
		2019	2018
	Notes	**$**	$
Balances as above		**303,887**	683,513
Bank overdraft	17	**(13,162)**	-
Balances per consolidated statement of cash flows		**290,725**	683,513

(b) Classification as cash equivalents

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours notice with no loss of interest. See note 1(j) for the Group’s other accounting policies on cash and cash equivalents.

11 Current assets - Trade and other receivables

		Consolidated entity	
		2019	2018
	Notes	**$**	$
Trade receivables		**3,374,778**	1,221,425
Provision for impairment (a)		**(132,919)**	-
		3,241,859	1,221,425
Receivables from related parties	30	**305,802**	201,330
Other receivables		**24,852**	-
		3,572,513	1,422,755

11 Current assets - Trade and other receivables (continued)

(a) Provision for impairment of receivables

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 30 June 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 30 June 2019 on adoption of AASB 9 was determined as follows for trade receivables:

30 June 2019	**Not past due**	**0 - 30 Days**	**31 - 59 Days**	**60 - 89 Days**	**90 - 120 Days**	**120+ Days**	**Total**
Expected loss rate	0.00%	0.00%	0.06%	0.63%	0.97%	2.27%	3.94%
Gross carrying amount - trade receivables	908,390	1,315,872	529,523	136,148	209,558	275,287	3,374,778
Loss allowance	132	132	2,167	21,142	32,770	76,575	132,919

There were no impaired trade receivables as at 30 June 2018.

(b) Risk exposure

Information about the Group’s financial risk management can be found in note 3.

12 Current assets - Other current assets

	Consolidated entity 2019 $	2018 $
Prepayments	**372,067**	356,280
Other current assets	**422,779**	-
Rental deposit	**39,980**	-
	834,826	356,280

13 Non-current assets - Property, plant and equipment

Consolidated entity	**Plant and equipment $**	**Motor vehicles $**	**Leasehold improvements $**	**Total $**
At 1 July 2017				
Cost	1,876,441	64,190	35,942	1,976,573
Accumulated depreciation	(729,103)	(16,330)	(8,725)	(754,158)
Net book amount	1,147,338	47,860	27,217	1,222,415
Year ended 30 June 2018				
Opening net book amount	1,147,338	47,860	27,217	1,222,415
Additions	1,666,448	-	59,093	1,725,541
Depreciation charge	(693,376)	(13,772)	(17,803)	(724,951)
Closing net book amount	2,120,410	34,088	68,507	2,223,005
At 30 June 2018				
Cost	3,542,889	64,190	95,035	3,702,114
Accumulated depreciation	(1,422,479)	(30,102)	(26,528)	(1,479,109)
Net book amount	2,120,410	34,088	68,507	2,223,005

Consolidated entity				
Year ended 30 June 2019				
Opening net book amount	2,120,410	34,088	68,507	2,223,005
Additions	3,762,670	600	(3,162)	3,760,108
Acquired through Business Combinations	89,502	4,438	-	93,940
Depreciation charge	(1,196,849)	(10,098)	(21,484)	(1,228,431)
Closing net book amount	4,775,733	29,028	43,861	4,848,622
At 30 June 2019				
Cost	9,410,059	121,312	233,247	9,764,618
Accumulated depreciation	(4,634,326)	(92,284)	(189,386)	(4,915,996)
Net book amount	4,775,733	29,028	43,861	4,848,622

Plant and equipment contains assets that are leased to customers.

14 Non-current - Deferred tax assets/(liabilities)

	Consolidated entity	
	2019	2018
	$	$
The balance comprises temporary differences attributable to:		
Contract liabilities	**1,070,088**	723,361
Other	**52,011**	112,917
Accruals and provisions	**247,231**	240,300
Total deferred tax assets	**1,369,330**	1,076,578

The balance comprises temporary differences attributable to:		
Costs to fulfil customer contracts	**181,416**	68,106
Property, plant and equipment	**522,232**	605,505
Intangible assets	**609,203**	161,858
Total deferred tax liabilities	**1,312,851**	835,469

Movement in deferred tax assets/(liabilities)		
Opening balance	**241,109**	27,461
Charged/(credited) to comprehensive income	**410,387**	213,648
Charged/(credited) to amounts recognised on acquisition	**(595,017)**	-
Closing balance	**56,479**	241,109

A deferred tax asset in respect of unutilised tax losses in foreign jurisdictions for $222,097 has not been raised. Future taxable income earned in those jurisdictions will likewise not have a tax impact until those losses are fully utilised.

15 Non-current assets - Intangible assets

Consolidated entity	**Goodwill $**	**Software $**	**Customer contracts $**	**Total $**
At 1 July 2017				
Cost	2,024,301	2,985,422	2,614,950	7,624,673
Accumulated amortisation and impairment	-	(1,001,963)	(210,956)	(1,212,919)
Net book amount	2,024,301	1,983,459	2,403,994	6,411,754
Year ended 30 June 2018				
Opening net book amount	2,024,301	1,983,459	2,403,994	6,411,754
Additions	-	761,377	-	761,377
Acquisition of business	63,376	300,000	-	363,376
Amortisation charge	-	(1,115,697)	(202,158)	(1,317,855)
Closing net book amount	2,087,677	1,929,139	2,201,836	6,218,652
At 30 June 2018				
Cost	2,087,677	4,046,799	2,614,950	8,749,426
Accumulated amortisation and impairment	-	(2,117,660)	(413,114)	(2,530,774)
Net book amount	2,087,677	1,929,139	2,201,836	6,218,652
Consolidated entity				
Year ended 30 June 2019				
Opening net book amount	2,087,677	1,929,139	2,201,836	6,218,652
Additions	-	1,973,395	-	1,973,395
Acquisition of business	11,981,390	3,826,738	230,808	16,038,936
Amortisation charge	-	(2,521,667)	(217,361)	(2,739,028)
Closing net book amount	14,069,067	5,207,605	2,215,283	21,491,955
At 30 June 2019				
Cost	14,069,067	9,842,813	2,845,759	26,757,639
Accumulated amortisation and impairment	-	(4,635,208)	(630,476)	(5,265,684)
Net book amount	14,069,067	5,207,605	2,215,283	21,491,955

(a) Impairment tests for goodwill

Goodwill is allocated to the Group’s one cash generating unit being the provision of workforce management solutions to multiple industries.

The recoverable amount is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

15 Non-current assets - Intangible assets (continued)

(b) Key assumptions used for value-in-use calculations

Growth rate in revenue	Discount rate	Terminal growth rate
Year 1 growth rate: 42% Year 2 growth rate: 19% Year 3 growth rate: 9% Year 4 growth rate: 5%	11.43%	2%

At 30 June 2019 management have concluded that there are no reasonable changes in the key assumptions that would cause an impairment.

16 Current liabilities - Trade and other payables

	Consolidated entity	
	2019	2018
	$	$
Trade payables	**1,250,199**	299,549
Accruals and other payables	**2,051,885**	713,992
Contingent consideration (a)	**2,324,084**	-
	5,626,168	1,013,541

(a) Contingent consideration

Refer to note 31 'Business combinations' for further details of the contingent consideration which relates to the two current year acquisitions.

(b) Risk exposures

Details of the Group's exposure to risks are set out in note 3.

17 Current liabilities - Borrowings

	Consolidated entity	
	2019	2018
	$	$
Secured		
Bank overdraft	**13,162**	-
Bank bill business loan	**1,348,800**	610,000
Finance lease liabilities	**1,482,814**	480,356
Total secured current borrowings	**2,844,776**	1,090,356
Unsecured		
Deferred consideration	**1,525,013**	-
Convertible notes	**5,898,940**	-
Total unsecured current borrowings	**7,423,953**	-
Total current borrowings	**10,268,729**	1,090,356

(a) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 3.

17 Current liabilities - Borrowings (continued)

(b) Convertible notes

On 12 July 2018, 5,500,000 convertible notes were issued to investors with a face value of $1.00 per note. Key terms of the convertible notes are as follows:

Ranking

The notes are unsecured and rank equally with other unsecured debt.

Interest

The notes have an interest rate of 10% per annum (calculated daily).

Conversion

These notes can be converted via an exit event (IPO or trade sale), or on redemption (private conversion).

Redemption

Redemption occurs in the event of a Redemption Event (insolvency or a breach), or on the Maturity Date (30 June 2020). Notes cannot be redeemed in any other circumstances prior to the maturity date of 30 June 2020. Where the notes are redeemed on maturity, the Group must pay to the investor a redemption amount. The redemption amount is an amount that ensures that the investors realise at least 20% internal rate of return on the principal amount. If the redemption amount is not paid by the company on maturity, the investors may elect to convert the notes at a private conversion price. If an election to convert the notes at the private conversion price has not been made within 20 business days of the Redemption Date, the conversion rights will lapse.

	Consolidated entity	
	2019	2018
	$	$
Face value of notes issued	**5,367,022**	-
Interest expense	**531,918**	-
	5,898,940	-

(c) Debt covenants

The Group's borrowing facilities contain certain covenants to be complied with and the facilities are subject to half-yearly reviews. Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants:

- The Financial Debt / EBITDA Ratio in respect of the Group was at all times less than 2.50 times by 30 June 2019, reducing to less than 2.00 x by 30 June 2020, then reducing to less than 1.75 times by 30 June 2021
- The Capital Ratio of the Group was at all times not less than 40% by 30 June 2019, increasing to 45% by 30 June 2020, increasing to 50.0% by 330 June 2021
- The Debt Service Cover Ratio for the Group was at all times not less than 1.75 times by 30 June 2019, increasing to 2.00 times by 30 June 2020
- The leverage ratio [Gross Total Debt / LTM EBITDA] must not be increased above a maximum of 1.5 times

The Group has been in breach of its financial covenants during the financial year ended 30 June 2019 and a letter of waiver was obtained whereby the financier stipulated that they would defer their right to demand repayment as a result of the breaches for a period of at least 12 months from the reporting date (the reporting date being 30 June 2019). Management expects that the Group will be able to meet all contractual obligations from borrowings on a timely basis going forward.

18 Current liabilities - Deferred income

	Consolidated entity	
	2019	2018
	$	$
Deferred income	**232,897**	222,839

19 Current liabilities - Provisions

	Consolidated entity	
	2019	2018
	$	$
Employee benefit obligations (a)	**810,337**	280,573
Provision for claim	**856,757**	-
Other provisions	**235,613**	-
	1,902,707	280,573

(a) Employee benefit obligations

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.

	Consolidated entity	
	2019	2018
	$	$
Current leave obligations expected to be settled after 12 months	**132,065**	78,215

20 Non-current liabilities - Other payables

	Consolidated entity	
	2019	2018
	$	$
Contingent consideration	**1,335,021**	-

Contingent consideration

Refer to note 31 'Business combinations' for further details of the contingent consideration which relates to the two current year acquisitions.

21 Non-current liabilities - Borrowings

	Consolidated entity 2019 $	2018 $
Secured		
Bank bill business loan	**5,224,738**	-
Finance lease liabilities	**2,015,590**	687,533
Total secured non-current borrowings	**7,240,328**	687,533

(a) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 3.

(b) Debt covenants

Refer to note 17(c) Debt covenants.

22 Non-current liabilities - Provisions

	Consolidated entity 2019 $	2018 $
Employee benefit obligations	**-**	177,032

23 Non-current liabilities - Deferred income

	Consolidated entity 2019 $	2018 $
Other deferred income	**390,329**	-

24 Contributed equity

(a) Share capital

	2019 Shares	2018 Shares	2019 $	2018 $
Ordinary shares				
Fully paid	**4,488**	4,488	**2,541,608**	2,541,608

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Group does not have a limited amount of authorised capital.

25 Other reserves and accumulated losses

(a) Other reserves

	Consolidated entity	
	2019	2018
	$	$
Share-based payments	**6,326,659**	6,063,159
Foreign currency translation	**(5,367)**	(6,893)
	6,321,292	6,056,266

	Consolidated entity	
	2019	2018
	$	$
Movements:		
Share-based payments		
Opening balance	**6,063,159**	1,004,455
Employee share plan expense	**263,500**	5,058,704
Balance 30 June	**6,326,659**	6,063,159
Foreign currency translation		
Opening balance	**(6,893)**	-
Currency translation differences arising during the year	**1,526**	(6,893)
Balance 30 June	**(5,367)**	(6,893)

Nature and purpose of other 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.

Share-based payments

During the year, the Group entered into several agreements that included the issue of Group options to employees. Options issued to directors and employees were issued at the fair value of $14,548 per option. The fair value was based on the Group valuation.

Capital risk management

The Group'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.

Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(c) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

25 Other reserves and accumulated losses (continued)

(b) Retained earnings

Movements in retained earnings were as follows:

	Consolidated entity	
	2019	2018
	$	$
Balance 1 July	**(3,831,760)**	2,360,848
Net (loss) for the year	**(3,718,422)**	(3,988,624)
Dividends	**-**	(696,280)
Adoption of new accounting standard	**-**	(1,507,704)
Balance 30 June	**(7,550,182)**	(3,831,760)

26 Dividends

(a) Ordinary shares

	Consolidated entity	
	2019	2018
	$	$
No final ordinary dividend for the year ended 30 June 2019 (2018: $155.14 per fully paid share)	**-**	696,280

(b) Franked dividends

The final dividends recommended after 30 June 2019 will be fully franked out of existing franking credits, or out of franking credits arising from the payment of income tax in the year ending 30 June 2019.

	Consolidated entity	
	2019	2018
	$	$
Franking credits available for subsequent reporting periods based on a tax rate of 27.5% (2018 - 27.5%)	**588,453**	1,319,226

The above amounts are calculated from the balance of the franking account as at the end of the reporting year, adjusted for franking credits and debits that will arise from the settlement of liabilities or receivables for income tax and dividends after the end of the year.

27 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the consolidated group, its related practices and non-related audit firms:

(a) PwC Australia

(i) Audit and other assurance services

	Consolidated entity	
	2019	2018
	$	$
Audit of financial statements	**75,500**	-
Total remuneration for audit and other assurance services	**75,500**	-

(ii) Other services

	Consolidated entity	
	2019	2018
Advice in relation to employee equity services	**70,000**	-
Preparation of an investigating accountant's report	**20,000**	-
Total remuneration for other services	**90,000**	-
Total remuneration of PwC Australia	**165,500**	-

(b) Non PwC Australia audit firms

(i) Audit and other assurance services

	Consolidated entity	
	2019	2018
	$	$
Audit of financial statements	**-**	60,000
Total remuneration for audit and other assurance services	**-**	60,000

(ii) Taxation services

	Consolidated entity	
	2019	2018
Tax compliance services	**40,235**	100
Total remuneration for taxation services	**40,235**	100
Total remuneration of Non-PwC Australia audit firms	**40,235**	60,100

28 Contingent liabilities and contingent assets

The Group had no contingent liabilities at 30 June 2019 (2018: nil).

29 Commitments

(a) Capital commitments

The Group had no capital commitments at 30 June 2019 (2018: nil).

(b) Lease commitments: Group as lessee

(i) Non-cancellable operating leases

	Consolidated entity	
	2019	2018
	$	$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**352,676**	135,596
Later than one year but not later than five years	**444,406**	94,921
Later than five years	**59,500**	-
	856,582	230,517

The Group leases various offices under non-cancellable operating leases expiring within one to seven years. The leases have varying terms, with rent payable monthly in advance.

(ii) Finance leases

	Consolidated entity	
	2019	2018
	$	$
Commitments in relation to finance leases are payable as follows:		
Within one year	**1,648,307**	532,274
Later than one year but not later than five years	**2,112,617**	732,185
Later than five years	**-**	-
Minimum lease payments	**3,760,924**	1,264,459
Future finance charges	**(262,520)**	(92,032)
Total lease liabilities	**3,498,404**	1,172,427

The Group rents hardware equipment with rent payable monthly.

(c) Lease commitments: Group as lessor

	Consolidated entity	
	2019	2018
	$	$
Commitments for minimum lease payments in relation to non-cancellable operating leases are receivable as follows:		
Within one year	**2,605,191**	905,518
Later than one year but not later than five years	**5,586,648**	2,076,811
	8,191,839	2,982,329

30 Related party transactions

(a) Key management personnel compensation

	Consolidated entity	
	2019	2018
	$	$
Short-term employee benefits	**1,206,855**	1,351,910
Post-employment benefits	**-**	79,637
Rental income	**17,550**	17,160
Loan to key management personnel	**305,802**	201,330
Share-based payments	**196,584**	5,058,704
Interest charged on loan to key management personnel	**18,732**	-

(b) Transactions with other related parties

The following transactions occurred with related parties:

	Consolidated entity	
	2019	2018
	$	$
Rent paid during the year	**101,684**	91,260

(c) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the end of the reporting year in relation to transactions with related parties:

	Consolidated entity	
	2019	2018
	$	$
Current payables (Rent payable as at 30 June 2019)	**8,182**	-

(d) Loans to/from related parties

	Consolidated entity	
	2019	2018
	$	$
Loans to key management personnel		
Beginning of the year	**136,513**	-
Loans advanced	**454,000**	133,000
Loans repayments received	**(303,443)**	3,513
Interest charged	**18,732**	-
End of year	**305,802**	136,513

(e) Terms and conditions

The loan to the key management personnel is unsecured and accrues interest at the rate of 8% per annum computed from the date of each advance.

31 Business combinations

Summary of acquisitions

The Group agreed to acquire the assets of Perth-based learning management software companies, Velpic Limited and Velpic Australia Pty Ltd (together 'Velpic') and purchase 100% of the share capital of eify Pty Limited (eify), an Australian provider of workforce management tools, on 3 August 2018 and 2 October 2018 respectively.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	eify **$**	**Velpic** **$**	**Total** **$**
Purchase consideration (refer to (b) below):			
Cash consideration	7,000,000	804,268	**7,804,268**
Deferred consideration	2,000,000	-	**2,000,000**
Contingent consideration	1,463,161	2,565,010	**4,028,171**
Total purchase consideration	10,463,161	3,369,278	**13,832,439**

The assets and liabilities recognised as a result of the acquisition are as follows:

	eify **$**	**Velpic** $	**Total** **$**
Cash	25,902	-	**25,902**
Trade and other receivables	136,993	-	**136,993**
Plant and equipment	79,526	9,976	**89,502**
Deferred tax asset	496,210	-	**496,210**
Intangible assets - software	2,787,172	1,039,566	**3,826,738**
Intangible assets - customer contracts	218,055	12,753	**230,808**
Lease incentives	-	141,363	**141,363**
Trade and other payables	(138,024)	-	**(138,024)**
Other liabilities	(856,762)	-	**(856,762)**
Contract liabilities	(541,280)	(195,732)	**(737,012)**
Deferred tax liability	(766,472)	(324,755)	**(1,091,227)**
Employee benefit obligations	(273,442)	-	**(273,442)**
	1,167,878	683,171	**1,851,049**
Add: Goodwill	9,295,283	2,686,107	**11,981,390**
Net identifiable assets acquired	**10,463,161**	**3,369,278**	**13,832,439**

The Goodwill is attributable to the workforce and the fact that the businesses are highly complementary with aligned business models. The acquisitions will unlock revenue opportunities and operational synergies. The combined development team will increase overall capability and depth of talent in the Group. The goodwill will not be deductible for tax purposes.

Significant estimate: contingent consideration

eify

In the event that certain pre-determined revenue amounts are achieved by the subsidiary for the 18 months after acquisition date, additional consideration will be payable by the Group.

31 Business combinations (continued)

Summary of acquisitions (continued)

Significant estimate: contingent consideration (continued)

Specifically, if revenue exceeds $3,000,000 the earn-out amount is equal to 1.5 x (earn-out revenue - $3,000,000). Based on a review of eify's revenue for the period ended 30 June 2019 and management forecasts performed for the remaining 10 months of the earn-out period, management have estimated that the undiscounted contingent consideration will be $1,463,161 payable in the year ended 30 June 2020.

As at 30 June 2019, the contingent consideration has not been adjusted, as forecast revenue continues to be appropriate.

Velpic

In the event that certain predetermined revenue amounts are achieved by the assets acquired for the three years after the acquisition date, additional consideration of up to $2,800,000 will be payable by the Group.

Specifically, consideration of 3 times total revenue earned over the three year period is payable up to a limit of $2,800,000. Based on a review of Velpic's revenue for the period ended 30 June 2019 and management forecasts for the remaining 25 months of the earn-out period, management have estimated that the discounted contingent consideration will be $2,565,010, which has been determined using a discount rate of 5.5%.

As at 30 June 2019 the contingent consideration calculations continue to be appropriate. It is estimated that full payment of contingent consideration will be made.

Transaction costs

Acquisition-related costs of $54,066 that were not directly attributable to the issue of share are included in the administrative expenses in profit or loss and in operating cash flows in the statement of cash flows.

Revenue and profit contribution

eify

The acquired business contributed revenues of $1,843,299 and net loss before tax of $504,877 to the group for the period from acquisition to 30 June 2019.

If the acquisition had occurred on 1 July 2018, consolidated pro-forma revenue and loss before tax for the year ended 30 June 2019 would have been $2,457,732 and $673,170 respectively.

Velpic

The acquired assets contributed revenues of $693,614 and net loss before tax of $446,940 to the group for the period from acquisition to 30 June 2019.

If the acquisition had occurred on 1 July 2018, consolidated pro-forma revenue and loss before tax for the year ended 30 June 2019 would have been $756,670 and $487,571 respectively.

Purchase consideration - cash outflow

	eify $	Velpic $	Total $
Cash consideration	7,000,000	804,268	7,804,268
Vendor finance	500,000	-	500,000
Contingent consideration	-	466,666	466,666
Less: Balances acquired Cash	(25,902)	-	(25,902)
Net outflow of cash - investing activities	7,474,098	1,270,934	8,745,032

31 Business combinations (continued)

Summary of acquisitions (continued)

Transaction costs (continued)

(continued)

Acquisition-related costs

Acquisition-related costs of $54,066 that were not directly attributable to the issue of share are included in the administrative expenses in profit or loss and in operating cash flows in the statement of cash flows.

Prior period acquisitions

In the prior year, in December 2017, the Group acquired the business of Worksafe Management Systems (WMS) from Worksafe Management Systems Pty Ltd Pty Ltd in exchange for a total purchase consideration of $350,000. The acquisition was accounted for using the acquisition method and no cash was acquired as part of the acquisition.

	WMS $
Purchase consideration (refer to () below):	
Cash paid	**352,032**

	Fair value $
Intangible assets - Software	**300,000**
Employee benefit obligations	**(11,344)**
Net identifiable assets acquired	**288,656**
Add: goodwill	**63,376**
Net assets acquired	**352,032**

32 Subsidiaries

Significant investments in subsidiaries

The consolidated financial report incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 1(b):

Entity	**Country of incorporation**	**Equity holding**	
		2019%	**2018%**
Damstra Technology Pty Ltd	Australia	100%	100%
Damstra Technology Pty Ltd	New Zealand	100%	100%
Damstra Technology LLC	United States of America	100%	100%
Damstra Technology UK Limited	United Kingdom	100%	-
EIFY Pty Limited	Australia	100%	-

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

33 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

34 Cash flow information

(a) Reconciliation of loss after income tax to net cash inflow from operating activities

	Consolidated entity	
		Restated
	2019	2018
	$	$
Loss for the year	**(3,718,422)**	(3,988,624)
Adjustments for		
Depreciation and amortisation	**4,127,898**	2,145,869
Non-cash employee benefits expense - share-based payments	**263,500**	5,058,704
Net (gain) on sale of non-current assets	**(212)**	(229,976)
Net exchange differences	**1,526**	(6,893)
Change in operating assets and liabilities:		
(Increase) in trade and other receivables	**(2,011,758)**	(149,645)
(Increase) in costs to fulfil contracts	**(411,719)**	(184,869)
Decrease (increase) in deferred tax assets	**757,116**	(101,896)
(Increase) in other assets	**(478,546)**	(302,521)
Increase (decrease) in trade and other payables	**1,483,374**	(1,198,804)
Increase in contract liabilities	**1,297,983**	1,852,163
(Decrease) in income tax payables	**(1,085,448)**	(875,966)
(Decrease) in deferred tax liabilities	**-**	(89,220)
Increase (decrease) in other provisions	**314,898**	(148,959)
Net cash inflow from operating activities	**540,190**	1,779,363

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

	Consolidated entity	
	2019	2018
Net debt	**$**	$
Cash and cash equivalents	**303,887**	683,513
Borrowings - repayable within one year (including overdraft)	**(10,268,729)**	(1,090,356)
Borrowings - repayable after one year	**(7,240,328)**	(687,533)
Net debt	**(17,205,170)**	(1,094,376)
Cash and liquid investments	**303,887**	683,513
Gross debt - fixed interest rates	**(10,935,519)**	(1,167,889)
Gross debt - variable interest rates	**(6,573,538)**	(610,000)
Net debt	**(17,205,170)**	(1,094,376)

34 Cash flow information (continued)

(b) Net debt reconciliation (continued)

	Other assets	Liabilities from financing activities				
Consolidated entity	**Cash $**	**Finance leases due within 1 year $**	**Finance leases due after 1 year $**	**Borrowings due within 1 year $**	**Borrowings due after 1 year $**	**Total $**
Net debt as at 1 July 2017	**196,425**	**-**	**(124,140)**	**-**	**-**	**72,285**
Cash flows	487,088	(480,356)	(563,393)	(610,000)	-	(1,166,661)
Net debt as at 30 June 2018	683,513	(480,356)	(687,533)	(610,000)	-	(1,094,376)
Net debt as at 1 July 2018	683,513	(480,356)	(687,533)	(610,000)	-	(1,094,376)
Cash flows	(379,626)	(1,002,458)	(1,328,057)	(8,175,915)	(5,224,738)	(16,110,794)
Net debt as at 30 June 2019	303,887	(1,482,814)	(2,015,590)	(8,785,915)	(5,224,738)	(17,205,170)

35 Share-based payments

Employee Option Plan

The issue of share options to employees is designed to provide long-term incentives for senior managers and above (including executive directors) to deliver long-term shareholder returns.

The participants were granted options which will vest at a pre-determined date in the future, or on the date the company lists on an Australia or international stock exchange, whichever is earlier.

The options were issued at the remuneration committee's discretion, and no individual has a contractual right to receive any guaranteed benefits.

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

Consolidated entity	**2019** Average exercise price per share option	**2019** Number of options	2018 Average exercise price per share option	2018 Number of options
As at 1 July	**-**	**-**	-	-
Granted during the year	**14,548**	**36**	14,548	347
Exercised during the year	**-**	**-**	(14,548)	(347)
As at 30 June	**14,548**	**36**	-	-
Vested and exercisable at 30 June 2019	**-**	**-**	14,548	347

No options expired during the years covered by the above tables.

36 Parent entity financial information

(a) Summary financial information

The individual financial report for the parent entity show the following aggregate amounts:

	2019 $	2018 $
Balance sheet		
Current assets	**500**	457,500
Non-current assets	**17,062,352**	7,721,497
Total assets	**17,062,852**	8,178,997
Current liabilities	**9,225,194**	5,634,360
Non-current liabilities	**5,898,940**	-
Total liabilities	**15,124,134**	5,634,360
Net assets	**1,938,718**	2,544,637
Shareholders' equity		
Contributed equity	**2,607,381**	2,607,381
Reserves	**6,326,669**	6,063,159
Accumulated losses	**(6,995,332)**	(6,125,903)
	1,938,718	2,544,637
(Loss)/profit for the year	**(869,429)**	193,746
Total comprehensive (loss)/income	**(869,429)**	193,746

(b) Guarantees entered into by the parent entity

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

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2019 or 30 June 2018.

(d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity did not have any contractual commitments as at 30 June 2019 or 30 June 2018.

In the directors' opinion:

(a) the financial report and notes set out on pages 5 to 54 are:

  (i) complying with Accounting Standards and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date, and

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

Note 1 confirms that the financial report also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of directors.

Drew Fairchild
Director

Johannes Risseeuw
Director

Melbourne
29 August 2019

Independent auditor's report

To the members of Damstra Holdings Pty Ltd

Our opinion

In our opinion the accompanying financial report presents fairly, in all material respects, the financial position of Damstra Holdings Pty (the Company) and its controlled entities (together the Group) as at 30 June 2019 and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2019
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

We are independent of the Group in accordance with the 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.

Emphasis of matter - basis of accounting and restriction on use

We draw attention to Note 1 in the financial report, which describes the basis of accounting. The financial report has been prepared for internal purposes to assist Damstra Holdings Pty and it's members. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for Damstra Holdings Pty and its members and should not be used by parties other than Damstra Holdings Pty and its members. Our opinion is not modified in respect of this matter.

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Independent auditor's report (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

Auditor's responsibilities for the audit of the financial report

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

Independent auditor's report (continued)

Auditor's responsibilities for the audit of the financial report (continued)

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

Jason Perry
Partner

Melbourne
29 August 2019