DAMSTRA HOLDINGS LIMITED

(FORMERLY DAMSTRA HOLDINGS PTY LTD)

ACN: 610 571 607
ASX CODE: DTC

APPENDIX 4D

AND REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Reporting period	**Half-year ended 31 December 2019 "H1 FY20"**
Previous corresponding periods	**Half-year ended 31 December 2018 "H1 FY19" and year-ended 30 June 2019 "FY19"**

APPENDIX 4D
HALF-YEAR REPORT
HALF-YEAR ENDED 31 DECEMBER 2019

RESULTS FROM OPERATIONS				H1 FY20 ($'000)	H1 FY19 ($'000)
Revenue from operations	Increased	44%	to	10,127	7,022
Profit before Initial public offering transaction costs, depreciation, amortisation, finance costs and tax (non-IFRS information)	Decreased	28%	to	420	582
Loss before tax	Increased	>100%	to	(4,913)	(1,920)
Loss after tax	Increased	>100%	to	(4,241)	(1,759)

				H1 FY20 Cents	H1 FY19 Cents
Basic / diluted loss per share	Increased	95%	to	(3.9)	(2.0)
Net tangible asset backing per ordinary security	Increased	>100%	to	5.4	(21.9)

DIVIDENDS (DISTRIBUTIONS)

No dividends have been declared in respect of H1 FY20 or H1 FY19

A review of the results for Damstra Holdings Limited (**"Damstra"** or **"the Company"**) and its consolidated entities (collectively, **"the Group"** or **"we"** or **"our"**) is included in the attached Directors' Report.

It is recommended that this Interim Financial Report for the half-year ended 31 December 2019 (**"Half-Year Report"**) be read in conjunction with the Annual Report for the year ended 30 June 2019 and be considered together with any public announcements made by Damstra up to 27 February 2020 in accordance with Damstra's continuous disclosure obligations (a copy of which is available on the Company's website (https://www.damstratechnology.com/investors).

This Half-Year Report is prepared in accordance with International Financial Reporting Standards (**"IFRS"**). This Half-Year Report has been reviewed by the Group's auditors, PricewaterhouseCoopers (**"PwC"**) and PwC's independent auditor's review report is attached.

The Group has adopted AASB 16 Leases (AASB 16) for the half-year ended 31 December 2019, using the modified retrospective approach (simplified method) and as such the comparatives have not been restated.

Unless otherwise stated, all currencies are denominated in Australian dollars.

Note regarding non-IFRS financial information

1. Throughout this Half-Year Report, Damstra has included certain non-IFRS financial information, including gross margin, profit before initial public offering transaction costs, depreciation, amortisation, finance costs and tax and EBITDA;
2. This information is presented to assist readers in making appropriate comparisons with prior periods and to assess the performance of the Group. EBITDA is a measure frequently quoted in the industry and forms the basis upon which many investors, financiers and analysts are briefed.
3. Non-IFRS information is not reviewed by PwC.

INTERIM FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Directors' Report

Your Directors submit their report for the half-year ended 31 December 2019.

Directors

The following persons were Directors of Damstra during the half-year and up to the date of this Half-Year Report. All directors held their position as Director throughout the entire half-year unless otherwise stated;

Christian Damstra
Drew Fairchild
Johannes Risseeuw
Morgan Hurwitz
Simon Yencken (appointed 1 August 2019)

Company Secretaries

Pieter Christiaan Scholtz and Carlie Hodges were Joint Company Secretaries for the half-year and up to the date of this Half-Year Report.

OPERATING AND FINANCIAL REVIEW

Principal activities

Damstra is an Australian-based provider of integrated workplace management solutions to multiple industry segments across the globe. The Company develops, sells and implements integrated hardware and software-as-a-service (SaaS) solutions in industries where compliance and safety are of utmost importance. These solutions assist Damstra's clients to better track, manage and protect their staff, contractors and their organisations and to reduce the risks associated with worker health, safety and regulatory compliance.

The Company has been operating since 2002 and has grown from providing an Australian mining contractor management solution to an integrated workplace management solution provider with a growing client base in international markets.

Significant changes to the business

Damstra completed the acquisition of Scenario Advantage Workforce on 20 December 2019, an Australian-based provider of integrated workplace management solutions to the mining and utilities industries, predominantly on the east coast of Australia.

Review of operations during the year

Certain financial information in the review of operations section below referencing Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") has been derived from the reviewed financial statements. The pro forma EBITDA, pro forma revenue and pro forma operating expenses are non-IFRS financial information and as such have not been reviewed in accordance with Australian Accounting Standards.

For the half-year ended 31 December 2019 (H1 FY20), Damstra reported statutory revenue of $10.1m, compared to $7m for the half-year ended 31 December 2018 (H1 FY19). Damstra's loss after transaction costs of listing and share-based payments, but before income tax, depreciation and amortisation and finance cost was $2.1m (H1 FY19: profit of $0.6m).

Key operational and financial metrics for the half-year ended 31 December 2019

- Revenue of $10.1m
  - Growth of 44% over prior comparative period vs. Prospectus forecast of 39%
- Statutory loss before tax of $4.2m (Loss of $1.8m)
  - Included within statutory loss before tax is share-based payments, IPO costs, depreciation and amortisation and finance costs totalling $7.469m (see a reconciliation of statutory loss before tax to pro-forma EBITDA on the following page)
- International revenue was 25% of total revenue (FY19: 13%)
  - 127% increase from FY19
- Gross margin 68.8% of total revenue
  - Increase of 10.6% on FY19 gross margin of 58.2%
- Pro forma EBITDA $2.6m (H1 FY19: $0.7m)
  - Representing 60% of full year FY20 Prospectus forecast of $4.3m
- Pro forma EBITDA margin 25.2%
  - Increase of 15.9% on H1 FY19 of 9.3%
  - Increase of 15.4% on FY19 of 9.8%
  - Increase of 4.9% on Prospectus forecast of 20.3%
- R&D expenses 28% of revenue[1]
  - Increase of 18% on Prospectus forecast
  - Year on year growth in employees of 60%

Pro forma financial performance

For H1 FY20 Damstra's pro forma EBITDA before IPO costs, share-based payments, income tax, finance expenses, depreciation and amortisation was $2.6m (H1 FY19: $0.7m).

Pro forma financial information reflects Damstra's statutory financial statements adjusted for the impacts of IPO costs, debt repayment, share-based payments and the expenses associated with the acquisitions.

Revenue

The growth in revenue during the period was driven by:

- Implementation of numerous client contracts across various projects and operating sites across Australia;
- International market revenue was comprising 25% of total revenue in H1 FY20. International revenue performance demonstrates the ongoing implementation of Damstra's international strategic plan;
- Excellent progress achieved in relation to the Newmont rollout with new sites continuing to be brought online. Newmont sites in Australia, North America, Suriname, Ghana and Peru are currently operational with over 14,000 Newmont users on the Damstra platform and in excess of 200 hardware devices in the field;
- The securing of several new clients which will see the solution deployed across various sites and projects in Australia and New Zealand;
- Continued growth in new customers deploying Damstra's eLearning solutions;
- Continued cross-selling of products across our existing clients;
- Increased investment in R&D and development of new and existing modules; and
- Enhanced brand awareness and reputation of Damstra and its product offering.

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[1] *The Group's R&D expenditure for the purposes of the directors' report encompasses a broad range of expenditure, which includes product design and development. Only a portion of this R&D expenditure is expected to classify as eligible expenditure for the purpose of the Australian Government's R&D tax incentive programme.*

Pro-forma gross margin

For H1 FY20, Damstra reported pro forma gross margin of $7.0m (H1 FY19: $3.8m).

Gross margin is calculated based on the total revenue from business operations less directly attributable costs associated with revenue earned. Based on the statutory presentation of the Groups consolidated comprehensive income gross margin constitutes non-IFRS information.

A reconciliation of gross margin is provided below.

Reconciliation of gross margin	**Half-year ended 31 Dec 2019 $000's**	**Half-year ended 31 Dec 2018 $000's**
Revenue based on statutory accounts	10,127	7,022
Less		
Cost of sales included in statutory employment benefits expenses	(893)	(1,430)
Cost of sales included in statutory other expenses	(2,270)	(1,772)
Pro forma gross margin	**6,964**	**3,820**

Pro forma EBITDA

For H1 FY20, Damstra reported pro forma operating expenses[2], excluding depreciation and amortisation of $7.7m (H1 FY19: $6.9m).

The key driver for operating expenses was Damstra continued investment in future growth. There was increased investment in:

- Damstra's sales and marketing function, which reported pro forma expenses of $2.7m. This represents 27% of revenue, which is 48% increase on Prospectus forecast;
- Increased investment in research and development of $2.9m; primarily the development of new modules and enhancement of existing modules. This represents 28% of revenue, which is 280% increase on Prospectus forecast; and
- General and administrative expenses $2.1m.

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

Reconciliation of pro-forma EBITDA	**Half-year ended 31 Dec 2019 $000's**	**Half-year ended 31 Dec 2018 $000's**
Loss before tax based on statutory accounts	(4,913)	(1,920)
Add net effects of:		
Share-based payments	2,136	79
IPO costs	2,470	-
Depreciation and amortisation costs	2,472	2,434
Finance costs	391	68
Pro forma EBITDA	**2,556**	**661**

Financial position

As at 31 December 2019, Damstra has no debt (excluding finance leases) and a cash balance of $12m. The consolidated entity's strong cash position is due to Damstra's SaaS-based revenue model whereby clients typically enter into multiple year contracts and pay annual license fees in advance.

[2] *Operating expenses are calculated as the sum of 'Other expenses' and 'Employment benefits expenses' less 'Share-based payment expenses'*

The consolidated entity's working capital, being current assets less current liabilities was positive by $8m as at 31 December 2019 (FY19: negative $16m).

As a result of the above, the Directors believe the consolidated entity is in a strong and stable position to expand and grow its current operations.

Business growth strategy and likely developments

- ***Greater usage from existing customers***

  Damstra aims to increase usage of its solutions amongst the existing customer base by encouraging customers to subscribe to additional modules. This 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.

- ***Increasing international growth***

  Damstra plans to accelerate its market penetration across North America and the United Kingdom by increasing investment into its sales and marketing capabilities and initiatives to drive new client wins.

- ***Expand product offering and data analytics***

  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.

- ***Channel partners***

  Damstra launched a channel partner strategy, whereby we will look to increase our channel partners globally and across modules, be it via a sales partnership, or implementation partners in remote locations.

- ***Acquisitions***

  Damstra believes that there is an opportunity to gain additional market share and acquire adjacent technology through targeted acquisitions of other workplace management software companies.

Subsequent events

On 26 February 2019 Damstra acquired all of the issued shares in APE Mobile Pty Ltd ("APE Mobile"), a leading provider of digital form and workflow management solutions to the civil construction and mining industries, for purchase consideration of $5.5m. The consideration is comprised of:

- $2.5m funded from existing cash reserves; and
- $3.0m placement of Damstra shares to vendors.

The provisionally determined fair value of the net identifiable assets of APE Mobile at the date of acquisition has not been determined as at the date of this interim financial report. The financial effects of the above transaction have not been brought to account at 31 December 2019. The operating results and assets and liabilities of the company will be brought to account from 26 February 2019.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Rounding

The amounts contained in this report and in the financial report have been rounded (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

Auditor's Independence

The Group has received the Auditor's Independence Declaration dated 27 February 2020.

Signed in accordance with a resolution of the directors.

Drew Fairchild
Director

Johannes Risseeuw
Director
Melbourne
27 February 2020

Auditor's Independence Declaration

As lead auditor for the review of Damstra Holdings Limited (formerly Damstra Holdings Pty Ltd) for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
27 February 2020

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2019

	Note	31-Dec-19 $'000s	31-Dec-18 $'000s
Revenue from operations		10,127	7,022
Other Income		140	583
Employment benefits expenses	4	(5,736)	(3,226)
Depreciation and amortisation expenses		(2,472)	(2,434)
Other expenses		(4,111)	(3,797)
Initial public offering transaction costs		(2,470)	-
Finance costs		(391)	(68)
Loss before tax		(4,913)	(1,920)
Income tax benefit	5	672	161
Net loss for the period		(4,241)	(1,759)
Other Comprehensive Income			
Items that may be reclassified subsequently to profit and loss			
Foreign currency translation		(3)	(4)
Total comprehensive loss for the period		(4,244)	(1,763)
Earnings per share ("EPS") attributable to ordinary equity holders			
- basic / diluted EPS for the half-year ended (cents)		(3.9)	(2.0)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	31-Dec-19 $'000s	30-Jun-19 $'000s
ASSETS			
Current Assets			
Cash and cash equivalents		12,012	304
Trade and other receivables		5,883	3,573
Costs to fulfill contracts		283	243
Current tax receivable		439	583
Other current assets		626	835
Total Current Assets		**19,243**	**5,538**
Non-Current Assets			
Plant and equipment		3,667	4,849
Right-of-use assets	8	3,748	-
Deferred tax assets	5	1,363	56
Intangible assets		25,859	21,492
Costs to fulfill contracts		417	417
Total non-current assets		**35,054**	**26,814**
TOTAL ASSETS		**54,297**	**32,352**
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables		2,907	5,626
Lease liabilities	8	2,203	-
Borrowings		-	10,269
Deferred income		312	233
Contract liabilities		4,126	3,477
Provisions		2,107	1,903
Total Current Liabilities		**11,655**	**21,508**
Non-Current Liabilities			
Other payables		1,463	1,335
Lease liabilities	8	2,489	-
Borrowings		-	7,240
Deferred income		155	391
Provisions		153	-
Contract liabilities		700	565
Total Non-Current Liabilities		**4,960**	**9,531**
TOTAL LIABILITIES		**16,615**	**31,039**
NET ASSETS		**37,682**	**1,313**
Equity			
Contributed equity	6	41,019	2,542
Other reserves	7	8,454	6,321
Accumulated losses		(11,791)	(7,550)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**37,682**	**1,313**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2019

	Contributed equity $'000s	Other reserves $'000s	Accumulated losses $'000s	Total equity $'000s
At 1 July 2018	**2,542**	**6,056**	**(3,832)**	**4,766**
Loss for the half-year	-	-	(1,759)	(1,759)
Currency translation differences	-	(4)	-	(4)
Total comprehensive loss for the period	**-**	**(4)**	**(1,759)**	**(1,763)**
Transactions with owners in their capacity as owners				
Cost of share-based payments and options	-	82	-	82
At 31 December 2018	**2,542**	**6,134**	**(5,591)**	**3,085**
At 1 July 2019	**2,542**	**6,321**	**(7,550)**	**1,313**
Loss for the half-year	-	-	(4,241)	(4,241)
Currency translation differences	-	(3)	-	(3)
Total comprehensive loss for the period	**-**	**(3)**	**(4,241)**	**(4,244)**
Transactions with owners in their capacity as owners				
Issue of shares (net of transaction costs)	38,477	-	-	38,477
Cost of share-based payments and options	-	2,136	-	2,136
At 31 December 2019	**41,019**	**8,454**	**(11,791)**	**37,682**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2019

	Note	31-Dec-19 $'000s	31-Dec-18 $'000s
Operating activities			
Receipts from customers (inclusive of GST)		9,057	8,244
Payments to suppliers and employees (inclusive of GST)		(7,758)	(6,878)
Net cash inflows from operating activities		**1,299**	**1,366**
Investing activities			
Purchase of plant and equipment		(3,286)	(2,605)
Payment for acquisitions of businesses, net of cash acquired	10	(3,905)	(8,745)
Deferred consideration payments on prior period business combinations		(2,196)	-
Payment for intangible assets		(84)	-
Payment of software development costs		(791)	(1,609)
Net cash outflow from investing activities		**(10,262)**	**(12,959)**
Financing activities			
Proceeds from issue of shares	6	35,000	-
Finance costs paid		(231)	(78)
Transaction costs associated with the initial public offering		(6,677)	-
(Repayment) / proceeds from borrowings (net)		(7,247)	11,881
Repayment of lease liabilities		(174)	-
Net cash inflow from financing activities		**20,671**	**11,803**
Net increase in cash held and cash equivalents		11,708	210
Cash and cash equivalents at beginning of period		304	683
Cash and cash equivalents at end of the period		**12,012**	**893**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Damstra Holdings Limited ("Damstra" or "the Company") and its subsidiaries (collectively, "the Group") are an Australian incorporated group limited by shares that are publicly traded on the Australian Securities Exchange (ASX) with the code DTC.

The nature of the operations and principal activities of the Group are described in the Directors' report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and new accounting standards

This consolidated financial report for the half-year ended 31 December 2019 (**"the Half-Year Report"**) has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The Half-Year Report does not include all notes of the type normally included within the annual general-purpose financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the Group's Annual Report.

It is recommended that the Half-Year Report be read in conjunction with the Annual Report for the year ended 30 June 2019 and considered together with any public announcements made by the Company in accordance with the Group's continuous disclosure obligations under ASX listing rules (a copy of which is available on the Company's website https://www.damstratechnology.com/).

The Half-Year Report has been prepared on a going concern basis, which assumes the normal continuity of business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

From 1 July 2019 the Group adopted AASB16 *Leases*. The impact of this standard has been described in Note 8. The Groups accounting policy has been updated as described below

(b) Changes in accounting policies

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting AASB 16 *Leases*.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 8. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Lease Accounting

The Group leases various offices and equipment. Rental contracts are typically made for fixed periods of 3 to 7 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the financial year ended June 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight -line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain

(b) Changes in accounting policies (continued)

an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs; and
- restoration costs.

At each reporting date the Group records a deferred tax asset or liability on the differential between the right-of-use asset and corresponding liability.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

New accounting policies for the Group

Following the initial public offering of the Company the following new accounting policies were adopted by the Group.

Contributed equity

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

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(c) Change in accounting estimates

There were no significant changes in accounting estimates for the half-year ended 31 December 2019.

(d) Significant accounting judgments, estimates and assumptions

The preparation of the Half- Year Report requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. The Half-Year Report does not include any adjustments relating to the recoverability and classification of recorded asset amounts that might be necessary should the Group's judgments differ from future circumstances.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made at 31 December 2019. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

NOTES TO THE FINANCIAL STATEMENTS

(d) Significant accounting judgments, estimates and assumptions (continued)

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with its accounting policy. The recoverable amount of the cash-generating unit ("CGU") has been determined based on management's value in use model. The value in use model contains significant judgment and estimation made by management in the discounted cash flow including growth in revenue, overhead costs, estimated capital expenditure and discount rate. At 31 December 2019 management has 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 amount of an asset.

Estimation of fair value of assets or liabilities acquired in a business combination including goodwill and intangibles

Detailed information about each of these estimates and judgements is included in Note 10 together with information about the basis of calculations 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.

Determination of lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Estimated fair value of share-based payments

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

For the long term incentive plans the fair value of the rights at grant date is determined using the Binomial pricing model and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest.

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, where the change is unrelated to market conditions, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the employee share plans reserve.

Taxation

The Group's accounting policy for taxation requires management's judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits with the Group.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of profit or loss.

3 SEGMENT INFORMATION

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.

Major customers

During the period ended 31 December 2019, there was one customer who contributed to generating more than 10% of the Groups revenue being $3,232,113 (31 December 2018: no customers greater than 10% of revenue).

Disaggregation of revenue and non-current assets by Geographical regions

The Group entity operates in Australia and Internationally. Revenue is attributed to the country where the service was transacted.

	31-Dec-19 $'000s	31-Dec-18 $'000s
Total revenue and other income		
Australia	7,635	6,885
International operations	2,492	137
Total	**10,127**	**7,022**

	31-Dec-19 $'000s	30 Jun-19 $'000s
Total non-current assets		
Australia	34,319	26,577
International operations	735	237
Total	**35,054**	**26,814**

4 EMPLOYMENT BENEFITS EXPENSES

Employment expenses for the half-year ended 31 December 2019 and 31 December 2018 are as follows;

	31-Dec-19 $'000	31-Dec-18 $'000
Wages and salaries	(2,535)	(2,368)
Payroll benefits	(595)	(259)
Superannuation	(300)	(253)
Payroll taxes	(150)	(132)
Share-based payment expenses	(2,136)	(79)
Other payroll related expenses	(20)	(135)
	(5,736)	**(3,226)**

5 TAXATION

The major components of income tax expense for the years ended 31 December 2019 and 31 December 2018 are:

	31-Dec-19 $'000	31-Dec-18 $'000
Current tax expense / (benefit) movement	635	249
Deferred tax movement	(1,307)	(410)
Income tax (benefit) reported in the consolidated statement of comprehensive income	**(672)**	**(161)**

5 TAXATION (CONTINUED)

A reconciliation between tax expense and the product of accounting loss multiplied by Australia's domestic tax rate for the half-years ended 31 December 2019 and 31 December 2018 is as follows:

	31-Dec-19 $'000	31-Dec-18 $'000
Accounting loss before income tax	(4,913)	(1,920)
At the statutory income tax rate of 27.5% (H1 FY19: 27.5%)	(1,351)	(528)
Share issue costs	588	696
Stamp Duty	34	20
Entertainment	20	10
Nontaxable income	(160)	(10)
Other permanent adjustments	197	(349)
Income tax benefit reported in the consolidated statement of comprehensive income	**(672)**	**(161)**

A summary of the deferred tax charge is displayed below;

	Consolidated Statement of Financial Position		Consolidated Statement of Comprehensive Income
	31-Dec-19 $'000	30-Jun-19 $'000	31-Dec-19 $'000
(i) Deferred tax liabilities			
Customer contracts	694	609	
Fixed assets	760	522	
R&D reversal	360	-	
Other	177	182	
Gross deferred tax liabilities	**1,991**	**1,313**	
(ii) Deferred tax assets			
Employee entitlements	216	137	
Accruals and provisions	347	147	
Blackhole expenditure	1,467	10	
Revenue received in advance	1,249	1,070	
Other	75	5	
Gross deferred tax assets	**3,354**	**1,369**	
Deferred tax movement			**1,307**

During the period a deferred tax asset of $981,000 was recognised directly into equity. The deferred tax asset created was in respect of the tax effect of transaction costs incurred as part of the initial public offering of the Company.

6 CONTRIBUTED EQUITY

Ordinary shares on issue

	Consolidated	
	31-Dec-19 Number	30-Jun-19 Number
Ordinary shares issued and fully paid	137,427,774	4,488

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company 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 Company does not have a limited amount of authorised capital.

Movement in ordinary shares on issue

Date	Detail	Number	Issue price $	$'000s
1 July 2019	**Opening balance**	4,488		2,542
6 September 2019	Cancellation of previously issued shares on exercise of share-based payments	(4,488)	-	-
6 September 2019	Conversion of issued shares at a ratio of 1:20,000 (4,488 options)	89,760,000	-	-
6 September 2019	Conversion of issued shares at a ratio of 1:20,000 (3 options)	60,000	-	-
16 October 2019	Issue of shares on initial public offering ("IPO")	38,888,889	0.90	35,000
16 October 2019	Issue of employee gift shares*	38,885	-	-
16 October 2019	Issue of shares on conversion of convertible notes	8,680,000	0.70	6,062
	Share issuance costs			(2,585)
31 December 2019	**Closing balance**	**137,427,774**		**41,019**

*As part of the Initial public offering completed on 16 October 2019 the Company issued 38,885 gift shares to employees of the Company. Each eligible employee received 1,111 shares at an issue price of $0.90.

7 OTHER RESERVES

	31-Dec-19 $'000s	30 Jun-19 $'000s
Share-based payments	8,463	6,327
Foreign currency translation	(9)	(6)
	8,454	**6,321**

7 OTHER RESERVES (CONTINUED)

Movement in share-based payments during the period

Date	Detail	$'000s
1 July 2019	**Opening balance**	6,327
16 October 2019	Issue of employee gift shares*	35
16 October 2019	Issue of share options to CEO and Executive Chairman (Issue 1)	550
16 October 2019	Issue of share options to non-executive Directors (issue 2)	360
16 October 2019	Issue of share options to senior management (issue 3)	735
16 October 2019	Proposed issue of share options to the CEO, Executive Chairman and senior management (issue 4)	73
16 October 2019	Proposed issue of share options to the CEO, Executive Chairman and senior management (issue 5)	73
31 December 2019	Cost of share-based payments issued in prior periods	310
		8,463

* As part of the Initial public offering completed on 16 October 2019 the Company issued 38,885 gift shares to employees of the Company. Each eligible employee received 1,111 shares at an issue price of $0.90.

The dollar value for each tranche noted above represents the expenses for the period recognized in the statement of profit or loss and other comprehensive income in employment expenses for the period to 31 December 2019.

Issue of share options (Issue 1 – Issue 3)

As part of the IPO share options were issued to the Group CEO, Executive Chairman and Senior Management. All tranches of options noted above have been valued by an independent expert. The options have been valued using the binomial option valuation model to enable the restriction periods to be factored into the valuation.

The options were issued under the following terms and assumptions;

	Options issued to CEO and Executive Chairman (issue 1)	Options issued to non-executive Directors (Issue 2)	Options issued to senior management (Issue 3)
Number of options issued	1,964,284	399,999	816,661
Grant date	16 October 2019	16 October 2019	16 October 2019
Expiry date	16 October 2025	16 October 2034	16 October 2034
Price on issue date	$0.90	$0.90	$0.90
Exercise price	$1.53	$nil	$nil
Volatility	65%	50%	50%
Risk free rate	0.95%	1.18%	1.18%
Dividend yield	0% for first 2 years, 8% for subsequent years	0% for first 2 years, 8% for subsequent years	0% for first 2 years, 8% for subsequent years
Fair value of option at grant date	$0.28	$0.90	$0.90
Vesting conditions	Options will immediately vest upon successful IPO on the ASX, subject to an employee or Directors remaining employed by the Company. Upon vesting 50% of the options will be subject to a 12-month exercise restriction and the remaining 50% will be subject to a 24-month exercise restriction period.		

7 OTHER RESERVES (CONTINUED)

Issue of share options (Issue 4 – Issue 5)

Following the completion of the IPO the Company has proposed to issue share options to Key Management Personnel and staff under the Equity Incentive Plan ("EIP"). In total two tranches are proposed to be issued. Both tranches of options have been valued by an independent expert as part of the process. The proposed options have been valued using the binomial option valuation model to enable expected early exercise of the options to be factored into the valuation. The Group has begun to accrue for these options in advance of the proposed grant date as the terms have been mutually agreed between the parties on the IPO date, so from an accounting perspective the grant date has been reflected as 16 October 2019.

The options are proposed to be issued under the following terms and assumptions;

	EIP Options (Issue 4)	EIP Options (Issue 5)
Number of options to be issued	754,397	2,246,042
Grant date	16 October 2019	16 October 2019
Expiry date	16 October 2034	16 October 2025
Price on issue date	$0.90	$0.90
Exercise price	$nil	$1.53
Volatility	50%	65%
Risk free rate	1.18%	0.95%
Dividend yield	0% for first 2 years, 8% for subsequent years	0% for first 2 years, 8% for subsequent years
Fair value of option at grant date	$0.77	$0.26
Vesting conditions	The holder is required to remain employed by the Company. Assuming the vesting condition is satisfied the options will vest in four equal tranches following release of the annual report for the years ending 30 June 2020, 30 June 2021, 30 June 2022 and 30 June 2023.	

8 LEASE ACCOUNTING

This note explains the impact of the adoption of AASB 16 *Leases* on the Group's financial statements.

The Group has adopted AASB 16 retrospectively from 1 July 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4.44%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of AASB 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

NOTES TO THE FINANCIAL STATEMENTS

8 LEASE ACCOUNTING (CONTINUED)

	1-Jul-19
	$'000s
Operating lease commitments disclosed as at 30 June 2019	857
Discounted using the lessee's incremental borrowing rate at the date of initial application	756
Add: finance lease liabilities recognised as at 30 June 2019	3,498
Less: adjustments as a result of a different treatment of extension and termination options	(161)
Lease liability recognised as at 1 July 2019	**4,093**
Of which are:	
Current lease liabilities	1,844
Non-current lease liabilities	2,249

The associated right-of-use assets for property leases were measured as if the lease commenced on 1 July 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets;

	31-Dec-19	1 Jul-19
	$'000s	$'000s
Properties	424	574
Equipment	3,324	3,029
Total right-of-use assets	3,748	3,603

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right-of-use assets - increase by $3,603,000
- deferred tax assets - no change in balance
- borrowings - decrease by $3,498,404
- lease liabilities - increase by $4,093,000

There was no impact to retained earnings as a result of the change in this standard.

Practical expedients applied
In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease.

9 SUBSEQUENT EVENTS

On 26 February 2019 Damstra acquired all of the issued shares in APE Mobile Pty Ltd ("APE Mobile"), a leading provider of digital form and workflow management solutions to the civil construction and mining industries, for purchase consideration of $5.5m. The consideration is comprised of:

- $2.5m funded from existing cash reserves; and
- $3.0m placement of Damstra shares to vendors.

The provisionally determined fair value of the net identifiable assets of APE Mobile at the date of acquisition has not been determined as at the date of this interim financial report. The financial effects of the above transaction have not been brought to account at 31 December 2019. The operating results and assets and liabilities of the company will be brought to account from 26 February 2019.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

10 BUSINESS COMBINATIONS

Acquisition of the Scenario Advantage Workforce Business ("SAW")

On 20 December 2019 the Company acquired 100% of the assets of the SAW business from the Projection Group. SAW provides workplace management solutions to the mining and utilities industries predominantly on the east coast of Australia. The assets were purchased for a cash consideration of $3,904,991.

The financial statements include the results of SAW for the period since acquisition. The accounting for the SAW acquisition has been provisionally determined as at 31 December 2019, as the process of determining the fair value of SAWs' net assets is still in progress. Under AASB 3 *Business Combinations*, management has 12 months to finalise the fair value of net assets.

Identifiable assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of SAW as at the date of the acquisition have been provisionally determined as follows:

	20 Dec 2019 $'000s
Intangible assets – software	2,347
Intangible assets – customer contracts	418
Deferred tax liability	(490)
Plant and equipment	8
Contract liabilities	(397)
Provisions	(171)
Net identifiable assets acquired	1,715
Purchase consideration transferred including working capital adjustment (cash)	3,905
Goodwill arising on acquisition*	2,190

*Goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of SAW with those of the Company. The Goodwill is not deductible for tax purposes.

Acquisition costs

Transactions costs of approximately $46,000 associated with the acquisition have been expensed and are included within other expenses in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

10 BUSINESS COMBINATIONS (CONTINUED)

Contingent Assets and Contingent Liabilities

No contingent assets or liabilities were assumed by the Group as a result of the acquisition of SAW.

Profit contribution

Since the date of acquisition revenue and profit contributed by SAW was $334,000 and $177,000 respectively. Based on the nature of the asset acquisition it was not possible to determine the revenue and profit impact to the Group if the acquisition had occurred on 1 July 2019.

Status of business combinations completed in prior periods

In the prior period the Group completed the acquisitions of Velpic Limited (which includes Velpic Australia Pty Ltd) and eify Pty Ltd on 3 August 2018 and 2 October 2018 respectively. There have been no changes to the provisional accounting previously disclosed in the Groups 30 June 2019 annual report in respect of these acquisitions.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Damstra Holdings Limited, I state that:

In the opinion of the directors,

(a) The interim financial report of the consolidated entity is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the financial position as at 31 December 2019 and of its performance;

  (ii) complying with Accounting Standards AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001; and

(b) As detailed in Note 2(a) of the interim financial report, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Drew Fairchild
Director

Johannes Risseeuw
Director

Melbourne
27 February 2020

pwc

Independent auditor's review report to the members of Damstra Holdings Limited (formerly Damstra Holdings Pty Ltd)

Report on the interim financial report

We have reviewed the accompanying interim financial report of Damstra Holdings Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Damstra Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Independent auditor's review report to the members of Damstra Holdings Limited (formerly Damstra Holdings Pty Ltd) (continued)

Conclusion

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

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Jason Perry
Partner

Melbourne
27 February 2020