

**Elmo Software Limited**  
**Appendix 4E**  
**Preliminary final report**

**Company details**

|                   |                                 |
|-------------------|---------------------------------|
| Name of entity:   | Elmo Software Limited           |
| ABN:              | 13 102 455 087                  |
| Reporting period: | For the year ended 30 June 2017 |
| Previous period:  | For the year ended 30 June 2016 |

**Results for announcement to the market**

|                                                                                             |      |           | <b>\$'000</b> |
|---------------------------------------------------------------------------------------------|------|-----------|---------------|
| Revenues from ordinary activities                                                           | up   | 36% to    | 16,564        |
| Loss from ordinary activities after tax attributable to the owners of Elmo Software Limited | down | 1,157% to | (920)         |
| Loss for the year attributable to the owners of Elmo Software Limited                       | down | 1,157% to | (920)         |

*Dividends*

No dividend was paid during the financial year ended 30 June 2017 (2016: \$nil).

The loss for the year amounted to \$0.9 million is due to increased employee costs in an expanding business but also one-off IPO costs of \$1.6 million. Refer to the Operating and Financial Review included within the Directors' Report for further commentary on the year's results, financial position and likely developments in future years.

**Net tangible assets**

|                                           | <b>Reporting<br/>period<br/>Cents</b> | <b>Previous<br/>period<br/>Cents</b> |
|-------------------------------------------|---------------------------------------|--------------------------------------|
| Net tangible assets per ordinary security | <u>32.85</u>                          | <u>(7.45)</u>                        |

The net tangible asset per ordinary security is calculated based on 54,171,584 ordinary shares on issue at 30 June 2017 and 39,966,054 shares that would have been in existence at 30 June 2016.

**Control gained over entities**

|                     |                                                                     |
|---------------------|---------------------------------------------------------------------|
| Group of entities   | Techni Works Pty Limited<br>Techniworks Action Learning Pty Limited |
| Date control gained | 7 <sup>th</sup> October 2016                                        |

|                                                                                                                                                    | <b>\$'000</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Contribution of such entities' profit to the reporting entity's loss from ordinary activities before income tax during the period (where material) | 256           |

**Loss of control over entities**

Not applicable.

**Elmo Software Limited**  
**Appendix 4E**  
**Preliminary final report**

Other information requiring disclosure to comply with ASX listing rule 4.3A is contained in, and should be read in conjunction with the Financial Statements, the notes to the Financial Statements and the Directors' Report for the year ended 30 June 2017 attached to this report.

This report is based on the Consolidated Financial Statements and Notes of Elmo Software Limited which have been audited by Deloitte Touche Tohmatsu with an unqualified opinion issued.

**Signed**



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Danny Lessem  
Director



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Trevor Lonstein  
Director

30 August 2017  
Sydney

# **Elmo Software Limited**

**ABN 13 102 455 087**

**Annual Report - 30 June 2017**

**Elmo Software Limited**  
**Corporate directory**  
**30 June 2017**

|                                |                                                                                                                                                               |
|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Directors                      | James McKerlie<br>Danny Lessem<br>David Hancock<br>Trevor Lonstein                                                                                            |
| Company secretary              | Anna Sandham                                                                                                                                                  |
| Registered office              | Level 12<br>680 George Street<br>Sydney NSW 2000<br>Phone: 02 8280 7100                                                                                       |
| Principal place of business    | Suite 2502<br>Level 25 Westfield Tower One<br>520 Oxford Street<br>Bondi Junction NSW 2022<br>Phone: 02 8305 4600                                             |
| Share register                 | Link Market Services Pty Limited<br>Level 12<br>680 George Street<br>Sydney NSW 2000<br>Phone: 02 8280 7100                                                   |
| Auditor                        | Deloitte Touche Tohmatsu<br>Grosvenor Place<br>225 George Street<br>Sydney NSW 2000                                                                           |
| Solicitors                     | Norton Rose Fulbright Australia<br>Level 18<br>Grosvenor Place<br>225 George Street<br>Sydney NSW 2000                                                        |
| Financial Adviser              | Blackpeak Capital Pty Ltd<br>Level 5<br>55 Harrington Street<br>The Rocks NSW 2000                                                                            |
| Lead Manager & Underwriter     | Wilsons<br>Level 32 Governor Macquarie Tower<br>1 Farrer Place<br>Sydney NSW 2000                                                                             |
| Stock exchange listing         | Elmo Software Limited shares are listed on the Australian Securities Exchange (ASX code: ELO)                                                                 |
| Website                        | <a href="http://www.elmotalent.com.au">www.elmotalent.com.au</a>                                                                                              |
| Corporate Governance Statement | <a href="http://investors.elmotalent.com.au/Investors/?page=Corporate-Governance">http://investors.elmotalent.com.au/Investors/?page=Corporate-Governance</a> |

**Elmo Software Limited**  
**Directors' report**  
**30 June 2017**

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Elmo Software Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017.

**Directors**

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

James David McKerlie (appointed on 5 June 2017)  
Danny Isaac Lessem  
David Charles Hancock (appointed on 5 June 2017)  
Trevor Rael Lonstein (appointed on 6 March 2017)  
Manuel Garber (resigned on 5 June 2017)

**Dividends**

No dividend was paid during the financial year ended 30 June 2017 (2016: \$nil).

**Operating and financial review**

*Principal activities*

ELMO is one of Australia and New Zealand's leading providers of Software-as-a-Service (SaaS), cloud-based talent management software solutions.

ELMO's talent management software solutions enable organisations to manage the lifecycle of an employee from hire to retire on a single integrated platform. The Company develops, sells and implements a range of modular software applications to efficiently manage human resource (HR) related processes including recruitment, onboarding, performance management, learning and development and succession planning. ELMO also provides HR Core, a software module which organisations use for people management and employee self-service. ELMO's solutions assist organisations to better address and adapt to the complexities of the Human Capital Management (HCM) industry while increasing their productivity and reducing costs.

*Significant changes to the business*

On 7 October 2016 the company acquired 100% of the ordinary shares of Techni Works Pty Ltd for a total consideration of \$2.1m (see note 15). Techni Works is an Australian-based online learning solutions company specialising in the provision of off-the-shelf and custom-built eLearning courses developed specifically for the Australian work environment. The strategic rationale underpinning the acquisition of Techni Works included:

- EBITDA margin expansion from synergy cost savings;
- Low integration risk;
- Increased market share and enlarged customer base; and
- Expansion of ELMO's eLearning course library.

On 29 June 2017, ELMO commenced trading on the ASX after successfully completing an Initial Public Offer (IPO) of 12.5m new shares to raise \$25.0m. Proceeds raised from the IPO will provide funding to support ELMO's growth strategies through increased investment towards new product development and sales and marketing as well as exploring future acquisition opportunities. In addition, ELMO anticipates that the IPO will increase brand value and raise the profile of the company.

During the 2016 financial year, ELMO's management made the decision to discontinue its Registered Training Organisation (RTO) operations following a strategic decision to apply greater focus towards growing the Company's core offering, being the delivery of cloud-based talent management software solutions. ELMO's RTO operations ceased during the second half of the 2017 financial year.

**Elmo Software Limited**  
**Directors' report**  
**30 June 2017**

*Review of operations during the year*

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. The pro forma EBITDA, pro forma revenue 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 2017, ELMO reported statutory revenue of \$16.6m (FY2016: \$12.2m). ELMO's statutory earnings before income tax, finance expenses, depreciation and amortisation (excluding discontinued operations) was \$0.7m (FY2016: \$1.7m) and its statutory net loss after tax (including discontinued operations) was \$0.9m (FY2016: profit \$0.1m).

These statutory results include significant expenses relating to the ASX IPO listing. In the ASX listing prospectus, ELMO reported financial results and forecasts on a pro forma basis. Pro forma adjustments reflect the impact of the acquisition of Techni Works, the RTO discontinued operations, IPO offer costs, standalone public company costs and other non-recurring items. For the full year ended 30 June 2017, ELMO's pro forma revenue was \$17.0m (FY2016: \$13.5m), which is 3.7% ahead of Prospectus forecast of \$16.4m. ELMO's pro forma earnings before income tax, finance expenses, depreciation and amortisation was \$1.2m (FY2016: \$1.6m), which is 42% ahead of Prospectus forecast of \$0.9m. ELMO's pro forma net loss after tax was \$0.1m (FY2016: net profit after tax of \$0.2m).

The growth in revenue during the period was being driven by:

- Expansion of ELMO's customer base to 524 organisations (including Techni Works customers);
- Increased investment into ELMO's sales and marketing team;
- Enhanced brand awareness and reputation of ELMO and its product offering;
- Increased traction in new modules, resulting in more cross-sell and upsell opportunities amongst ELMO's customer base;
- Continued expansion of ELMO's operations in New Zealand;
- Strong recurring revenues of 93% and high revenue dollar retention rates of 113%.

For the full year ended 30 June 2017, ELMO reported statutory operating expenses (excluding discontinued operations) of \$16.8m (2016: \$10.8m) and adjusting for the impact of the acquisition of Techni Works, one-off IPO costs, standalone public company costs and non-recurring items the total pro forma operating expenses were \$14.1m (FY2016: \$10.7m). The key driver for the increase in operating expenses was ELMO's continued investment in future growth. There was increased investment into:

- ELMO's sales and marketing, which reported expenses of \$6.4m (statutory and pro forma), reflecting a 45% increase compared to pro forma FY2016;
- An increase in general and administrative expenses for the period driven by an increase in employment costs to \$1.9m (FY2016: \$1.1m) due to ELMO's decision to strengthen its infrastructure to scale operations by recruiting middle and senior management.

A reconciliation between statutory EBITDA and pro forma EBITDA is provided below.

| <b>Reconciliation of EBITDA</b>                      | <b>Year Ended 30 June 2017</b> | <b>Year Ended 30 June 2016</b> |
|------------------------------------------------------|--------------------------------|--------------------------------|
|                                                      | <b>\$'000</b>                  | <b>\$'000</b>                  |
| Statutory EBITDA (excluding discontinued operations) | 656                            | 1,696                          |
| Add/(less) net effects of:                           |                                |                                |
| Acquisition of Techni Works                          | 275                            | 1,234                          |
| One-off IPO costs                                    | 1,635                          | -                              |
| Additional listed company cost                       | (1,115)                        | (1,135)                        |
| Other non-recurring items                            | (229)                          | (229)                          |
| <b>Pro forma EBITDA</b>                              | <b>1,222</b>                   | <b>1,566</b>                   |

**Elmo Software Limited**  
**Directors' report**  
**30 June 2017**

*Financial position*

As at 30 June 2017, ELMO has no debt and a net cash balance of \$26.6m. ELMO's pro forma cash receipts for the full year ended 30 June 2017 was \$19m, representing 112.2% of pro forma revenue for the period. The consolidated entity's strong cash position is due to the following factors:

- *IPO*: The listing of ELMO in June 2017 resulted in an injection of \$25 million cash (less IPO costs)
- *Favourable payment terms resulting in positive cashflow*: ELMO operates its business under a SaaS-based revenue model whereby customers typically enter into three year contracts and pay annual license fees in advance.

The consolidated entity's working capital, being current assets less current liabilities was a positive position of \$17.3 million (2016: net current liabilities of \$2.8 million).

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**  
ELMO aims to increase usage of its solutions amongst the existing customer base by encouraging customers to subscribe to additional modules. ELMO plans to support this via further investment into sales and marketing and broadening its talent management software offering.
- **Increasing market penetration in Australia and New Zealand**  
ELMO plans to accelerate its market penetration across Australia and New Zealand by increasing investment into its sales and marketing capabilities and initiatives to drive new customer wins.
- **Expand product offering**  
ELMO recently launched its succession and HR administration module (HR Core) to expand its solutions offering and aims to launch two new modules within the next two years.
- **Acquisitions**  
ELMO believes that there is an opportunity to gain additional market share and/or acquire complementary technology through targeted acquisitions of other HR management software companies.
- **Geographic expansion**  
ELMO's platform has been designed and built on a globally scalable infrastructure which offers a multi-lingual and multi-jurisdictional compatible eLearning course library. This provides ELMO with opportunities to potentially expand into other overseas geographic regions.

*Matters subsequent to the end of the financial year*

No other matter or circumstance has arisen since 30 June 2017 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.

**Environmental regulation**

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

**Elmo Software Limited**  
**Directors' report**  
**30 June 2017**

**Information on directors**

|                                      |                                                                                                                                                                                                                                                                                                                                             |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name:                                | James (Jim) McKerlie                                                                                                                                                                                                                                                                                                                        |
| Title:                               | Chairman and Independent Non-Executive Director                                                                                                                                                                                                                                                                                             |
| Qualifications:                      | Bachelor of Economics (B.Ec) and a Diploma in Financial Management from the University of New England. He is a fellow of the Institute of Chartered Accountants, Australian Institute of Company Directors and Institute of Management Consultants.                                                                                         |
| Experience and expertise:            | Jim has over 30 years of experience across digital, media, technology, energy and professional services industries. Jim has held senior roles as Partner in Charge at Deloitte Touche Tohmatsu, Managing Partner at KPMG, Chairman of onthefhouse.com.au, Executive Chairman of Bullseye and Chairman of Acer Energy and Ambassador Energy. |
| Other current directorships:         | Chairman of Manalto Limited, Lithium Consolidated Minerals Exploration Limited and Bambu Digital. Independent Non-Executive Director of Beach Energy                                                                                                                                                                                        |
| Former directorships (last 3 years): | Chairman of Drillsearch Energy prior to it being acquired by Beach Energy (BPT.ASX)                                                                                                                                                                                                                                                         |
| Special responsibilities:            | Chairman of the Nomination and Remuneration Committee and Member of the Audit and Risk Management Committee                                                                                                                                                                                                                                 |
| Interests in shares:                 | 50,000 fully paid ordinary Shares                                                                                                                                                                                                                                                                                                           |
| Interests in options:                | None                                                                                                                                                                                                                                                                                                                                        |
| Contractual rights to shares:        | None                                                                                                                                                                                                                                                                                                                                        |

|                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name:                                | Danny Lessem                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Title:                               | Executive Director and Chief Executive Officer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Qualifications:                      | Bachelor of Laws (LL.B) and Bachelor of Arts and Law from the University of Witwatersrand, South Africa                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Experience and expertise:            | <p>Danny is responsible for leading the development and execution of the Company's long term strategy and delivering on growth objectives for the business. Danny also plays a key part in the day-to-day management of the Company's operations and has been critical to the success of ELMO, including the strategy underpinning the development of the Company's full suite of talent management software solutions.</p> <p>Danny has extensive experience in the technology industry having led SaaS companies for over 15 years in senior roles, including Compu Technologies where he was the CEO and was responsible for overseeing the transition of the Company's primary business from a digital agency to an eLearning content provider.</p> |
| Other current directorships:         | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Former directorships (last 3 years): | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Special responsibilities:            | Member of the Audit and Risk Management Committee                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Interests in shares:                 | 11,989,816 ordinary shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Interests in options:                | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Contractual rights to shares:        | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

**Elmo Software Limited**  
**Directors' report**  
**30 June 2017**

|                                      |                                                                                                                                                                                                                                                                                      |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name:                                | David Hancock                                                                                                                                                                                                                                                                        |
| Title:                               | Independent Non-Executive Director                                                                                                                                                                                                                                                   |
| Qualifications:                      | Bachelor of Business from the Queensland University of Technology (QUT) and a member of the Australian Institute of Company Directors (GAICD)                                                                                                                                        |
| Experience and expertise:            | David has over 25 years' experience in financial services and a variety of governance roles. David has been an Executive General Manager at the Commonwealth Bank (CBA:ASX) and was Managing Director and Head of Asia/Australia/Japan Equities for JP Morgan                        |
| Other current directorships:         | Chairman of Freedom Insurance Group Limited (FIG.ASX), Chairman of Finclear Pty Limited, an ASX general and clearing participant, Non-executive Director at Tower Insurance (TWR.ASX) and Non-Executive Director and Chairman of the Audit and Risk Committee at Afterpay (AFY.ASX). |
| Former directorships (last 3 years): | Chief Executive Officer at Tower Insurance (TWR.ASX/NZX)                                                                                                                                                                                                                             |
| Special responsibilities:            | Member of the Nomination and Remuneration Committee and the Chairman of Audit and Risk Management Committee                                                                                                                                                                          |
| Interests in shares:                 | None                                                                                                                                                                                                                                                                                 |
| Interests in options:                | None                                                                                                                                                                                                                                                                                 |
| Contractual rights to shares:        | None                                                                                                                                                                                                                                                                                 |

|                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name:                                | Trevor Lonstein                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Title:                               | Executive Director and Chief Financial Officer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Qualifications:                      | Bachelor of Commerce (B.Com) in Accounting and Finance from University of Cape Town, South Africa and is a Fellow of the Institute of Chartered Accountants in England and Wales.                                                                                                                                                                                                                                                                                                                                                                                                  |
| Experience and expertise:            | <p>Trevor is responsible for all aspects of the accounting and finance function, from ensuring efficient, controlled and timely recording and reporting systems, to budgeting, forecasting, and cash flow analysis.</p> <p>Prior to joining ELMO, Trevor owned and operated Adrite Digital Colour Printing and held senior roles as Senior IT Project Manager at Allens Arthur Robinson, Ships Financial Controller at Orient Cruise Lines – MV Marco Polo and a career of over eight years in auditing with Deloitte Touche Tohmatsu's member firms in England and Australia.</p> |
| Other current directorships:         | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Former directorships (last 3 years): | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Special responsibilities:            | Member of the Nomination and Remuneration Committee                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Interests in shares:                 | 420,695 ordinary shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Interests in options:                | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Contractual rights to shares:        | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

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

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

**Elmo Software Limited**  
**Directors' report**  
**30 June 2017**

**Company secretary**

Anna Sandham has held the role of Company Secretary since 1 May 2017. Anna is an experienced company secretary and governance professional with over 20 years' experience in various large and small, public and private, listed and unlisted companies. Anna has previously worked for companies including AMP Financial Services, Westpac Banking Corporation, BT Financial Group and NRMA Limited. Anna holds a Bachelor of Economics (University of Sydney) and a Graduate Diploma of Applied Corporate Governance (Governance Institute of Australia) and is a Chartered Secretary and a Fellow of the Governance Institute of Australia.

**Meetings of directors**

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each director were:

|                 | Attended | Held |
|-----------------|----------|------|
| James McKerlie  | 1        | 1    |
| Danny Lessem    | 2        | 2    |
| David Hancock   | 1        | 1    |
| Trevor Lonstein | 1        | 1    |
| Manuel Garber   | 1        | 1    |

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

The Nomination and Remuneration Committee and the Audit Committee were formed upon listing and no meetings held prior to the year ended 30 June 2017.

**Remuneration report (audited)**

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

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

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

- Principles used to determine the nature and amount of remuneration
- Employee incentive arrangements
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

***Principles used to determine the nature and amount of remuneration***

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

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

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

**Elmo Software Limited**  
**Directors' report**  
**30 June 2017**

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

- achieving entity forecasts as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of growth in share price, delivering constant or increasing return on assets, dividends, when deemed appropriate, and as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

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

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

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

*Non-executive directors remuneration*

Each of the Non-executive Directors has entered into appointment letters with ELMO, confirming the terms of their appointment and their roles and responsibilities.

Under the Constitution, the Board decides the total amount paid to each Non-executive Director as remuneration for their services as a Director. However, under the ASX Listing Rules, the total amount of fees paid to all Directors for their services (excluding, for these purposes, the salary of any Executive Director) must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting.

This amount has been fixed by the Company at \$750,000 per annum (inclusive of superannuation). Any change to that aggregated annual sum needs to be approved by the Shareholders. The aggregate sum does not include any special and additional remuneration for special exertions and additional services performed by a Director as determined appropriate by the Board.

Annual aggregate Non-executive Directors' fees currently agreed to be paid by the Company are \$250,000 per annum. Chairman and independent Non-executive Director, Jim McKerlie, will receive \$150,000 (inclusive of superannuation) per annum and independent Non-executive Director, David Hancock, will receive \$100,000 (inclusive of superannuation) per annum.

Directors may also be reimbursed for expenses properly incurred by the Directors in connection with the affairs of the Company including travel and other expenses in attending to the Company's affairs. The Directors' fees do not include a commission on, or a percentage of, profits or income.

If a Director renders or is called on to perform extra services or to make any special exertions in connection with the affairs of the Company, the Directors may arrange for special remuneration to be paid to that Director, either in addition to or in substitution for that Director's remuneration set out above.

There are no contractual redundancy or retirement benefit schemes for Non-executive Directors, other than statutory superannuation contributions.

*Executive remuneration*

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

The executive remuneration and reward framework for the current year included:

- cash salary and fees
- sales commission and bonus where relevant to specified individuals
- superannuation

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

Fixed remuneration, consisting of base salary, fees and superannuation will be reviewed annually by the Nomination and Remuneration Committee based on individual and business performance, the overall performance of the consolidated entity and comparable market remunerations.

**Details of remuneration**

*Amounts of remuneration*

Details of the remuneration of key management personnel of the consolidated entity during the financial year are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of Elmo Software Limited:

- James McKerlie - Chairman and Independent Non-Executive Director
- Danny Lessem - Executive Director and Chief Executive Officer
- David Hancock - Independent Non-Executive Director
- Trevor Lonstein - Executive Director and Chief Financial Officer
- Manuel Garber - Executive Director (resigned 5 June 2017)

And the following persons:

- Gordon Starkey – Chief Operating Officer
- Xin Sun - Chief Technology Officer
- Monica Watt - General Manager – Human Resources
- Darryl Garber – Head of Corporate Development and Strategy

The table below provides remuneration for key management personnel for the 12 months ended 30 June 2017. Due to the company listing in June 2017 with no remuneration report required for the year ended 30 June 2016 no comparatives for the year ended 30 June 2016 have been disclosed.

|                                        | Short-term benefits  |                  |               | Post-employment benefits |                  |
|----------------------------------------|----------------------|------------------|---------------|--------------------------|------------------|
|                                        | Cash salary and fees | Sales commission | Cash bonus    | Super-annuation          | Total            |
| <b>2017</b>                            | \$                   | \$               | \$            | \$                       | \$               |
| <i>Non-Executive Directors:</i>        |                      |                  |               |                          |                  |
| James McKerlie (Chairman)              | 12,500               | -                | -             | -                        | 12,500           |
| David Hancock                          | 8,333                | -                | -             | -                        | 8,333            |
| <i>Executive Directors:</i>            |                      |                  |               |                          |                  |
| Danny Lessem                           | 500,000              | -                | -             | -                        | 500,000          |
| Manuel Garber                          | 272,500              | -                | -             | -                        | 272,500          |
| Trevor Lonstein                        | 76,923               | -                | 30,000        | 7,308                    | 114,231          |
| <i>Other Key Management Personnel:</i> |                      |                  |               |                          |                  |
| Trevor Lonstein                        | 139,401              | -                | -             | 13,243                   | 152,644          |
| Gordon Starkey                         | 220,899              | 158,208          | 45,662        | 38,151                   | 462,920          |
| Xin Sun                                | 256,833              | -                | -             | 24,399                   | 281,232          |
| Monica Watt                            | 150,685              | -                | -             | 14,315                   | 165,000          |
| Darryl Garber                          | 74,063               | -                | -             | 6,997                    | 81,060           |
|                                        | <u>1,712,137</u>     | <u>158,208</u>   | <u>75,662</u> | <u>104,413</u>           | <u>2,050,420</u> |

It should be noted that on 5 June 2017 the Non-Executive Directors, James McKerlie and David Hancock were only appointed as Directors of the Company and Manuel Garber resigned as an Executive Director, and the remuneration has thereby been disclosed as appropriate from/until this date.

Sales commission and bonus for the year ended 30 June 2017 were only recognized in the following cases:

- Gordon Starkey, Chief Operating Officer who has an agreed benefits package including a sales commission of 2% received on new business and a cash bonus based on revenue targets as agreed by the Board
- Trevor Lonstein, Chief Financial Officer who received the bonus of \$30,000 upon the successful listing of the company. Trevor was appointed as Director on 6 March 2017, before which time he was a member of other key management personnel.

***Additional disclosures relating to key management personnel***

***Shareholding***

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

|                                       | As at 1 July<br>2016 | Share<br>subdivision<br>(Note 1) | Issued<br>during<br>the year | Post share split<br>(Note 2) | Purchased<br>during IPO | As at 30 June<br>2017 |
|---------------------------------------|----------------------|----------------------------------|------------------------------|------------------------------|-------------------------|-----------------------|
| <i>Non-executive Directors</i>        |                      |                                  |                              |                              |                         |                       |
| Jim McKelvie                          | -                    | -                                | -                            | -                            | 50,000                  | 50,000                |
| David Hancock                         | -                    | -                                | -                            | -                            | -                       | -                     |
| <i>Executive Directors</i>            |                      |                                  |                              |                              |                         |                       |
| Danny Lessem                          | 12                   | 285                              | -                            | 11,989,816                   | -                       | 11,989,816            |
| Trevor Lonstein                       | -                    | -                                | 10                           | 420,695                      | -                       | 420,695               |
| Manuel Garber                         | 12                   | 285                              | -                            | - (Note 3)                   | -                       | -                     |
| <i>Other Key Management Personnel</i> |                      |                                  |                              |                              |                         |                       |
| Gordon Starkey                        | -                    | -                                | 10                           | 420,695                      | 90,250                  | 510,945               |
| Xin Sun                               | -                    | -                                | 10                           | 420,695                      | 5,000                   | 425,695               |
| Monica Watt                           | -                    | -                                | -                            | -                            | 1,250                   | 1,250                 |
| Darryl Garber                         | -                    | -                                | 10                           | 420,695                      | 40,250                  | 460,945               |

*Note 1. The Company undertook a share subdivision with a ratio of 23.75 for each of its ordinary shares.*

*Note 2. The Company undertook a share split with a ratio of 42,069.53 for each of its ordinary shares.*

*Note 3. No further disclosures have been made with regard to Manuel Garber as he resigned as director on 5 June 2017 prior to the IPO taking place.*

***Option holding***

Nil options are held by directors or other members of key management personnel of the consolidated entity, including their personally related parties.

***Voting and comments to be made at the company's Annual General Meeting ('AGM')***

As the Company only converted to a public company in March and only listed on the ASX on 27 June 2017, no public AGM was held in the previous financial year. The 2017 AGM is expected to be held in November 2017 at which time shareholders will have the opportunity to vote on this remuneration report and provide feedback regarding its remuneration practices.

***Issue of shares and options***

No shares or options have been issued in the last financial year as a part of share-based compensation.

For the financial years ended 30 June 2017 and 30 June 2016 there was no link between Company performance and KMP remuneration with the exception of those individuals disclosed separately above. However, two of the executive members of the KMP (Danny Lessem the CEO and Trevor Lonstein the CFO) continue to hold a substantial shareholding thereby providing a significant alignment of interests with company performance. Each of these executive KMP have had their executive service agreements, particularly their base pay, amended to reflect their roles in the Group. For the year ended 30 June 2017, the earnings per share were -2.20 cents (2016: 0.21 cents). Shares in the company closed on 30 June 2017 at \$2.50.

***Other transactions with key management personnel and their related parties***

During the financial year, there were no other transactions with key management personnel and their related parties.

**This concludes the section of the remuneration report which has been audited.**

***Expected changes to remuneration for key management personnel for the year ending 30 June 2018 (unaudited)***

***Service agreements***

Following the listing of ELMO in June 2017 the remuneration and other terms of employment for the following directors are detailed as follows:

|          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name:    | Danny Lessem                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Title:   | Executive Director and Chief Executive Officer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Details: | Base salary for the year ending 30 June 2018 of \$500,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 6 month termination notice by either party. It has been agreed with the Board that for FY18 Danny has elected with Board approval not to participate in any short term incentive plan or long term incentive program. Following this time the Nomination and Remuneration Committee will approve appropriate incentive arrangements under the new incentive schemes. |
| Name:    | Trevor Lonstein                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Title:   | Executive Director and Chief Financial Officer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Details: | Base salary for the year ending 30 June 2018 of \$300,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee. 6 month termination notice by either party. Trevor will be eligible for a cash bonus to be determined by the Nomination and Remuneration Committee dependent on financial performance of the company and KPI achievement as agreed by the Board. Trevor is also eligible to participate in the long term incentive programs for the year ending 30 June 2018.              |
| Name:    | Gordon Starkey                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Title:   | Chief Operating Officer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Details: | Base salary for the year ending 30 June 2018 of \$330,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee. 1 month termination notice by either party. Gordon will be eligible for short term and long term incentive benefits under the schemes listed below as per Nomination and Remuneration Committee approval and KPI achievement, non-solicitation and non-compete clauses.                                                                                                    |
| Name:    | Xin Sun                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Title:   | Chief Technology Officer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Details: | Base salary for the year ending 30 June 2018 of \$300,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee. 30 day termination notice by either party. Xin will be eligible for short term and long term incentive benefits under the schemes listed below as per Nomination and Remuneration Committee approval and KPI achievement, non-solicitation and non-compete clauses.                                                                                                        |
| Name:    | Monica Watt                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Title:   | General Manager – Human Resources                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Details: | Base salary for the year ending 30 June 2018 of \$175,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee. 30 day termination notice by either party. Monica will be eligible for short term and long term incentive benefits under the schemes listed below as per Nomination and Remuneration Committee approval and KPI achievement, non-solicitation and non-compete clauses.                                                                                                     |

**Elmo Software Limited**  
**Directors' report**  
**30 June 2017**

Name: Darryl Garber  
Title: Head of Corporate Development and Strategy  
Details: Base salary for the year ending 30 June 2018 of \$200,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee. 6 month termination notice by either party. Darryl will be eligible for short term and long term incentive benefits under the schemes listed below as per Nomination and Remuneration Committee approval and KPI achievement, non-solicitation and non-compete clauses.

ELMO has established a short term incentive plan and long term incentive program for the year ending 30 June 2018.

*Short term incentive plan (STI Plan)*

ELMO has established a short term incentive plan under which employees may be provided with a cash bonus for achievement against key performance metrics.

Participation in the STI Plan will be determined at the discretion of the Board. Key performance metrics will generally relate to conditions that are within the control of the employee, for example divisional profit targets, strategic measures or other such conditions as ELMO may decide. Subject to the discretion of the Board, the STI Plan has been structured based on the overall remuneration structure to be adopted by ELMO such that 60% of an employee's total package will consist of fixed pay and 40% as performance pay, with the performance pay component divided such that 60% will be based on short term performance and 40% of long term performance. The quantum of any reward will be determined by the Board.

Amounts to be paid to employees under the STI Plan will typically be paid after the release of full financial year audited results, and in accordance with the annual review process.

*Long-term incentive program (LTI Program)*

ELMO has established both a Senior Executive Equity Plan (**SEEP**) and a High Performer Equity Plan (**HPEP**) as part of its LTI Program.

Equity incentives under the SEEP or the HPEP may be granted to employees (or such other person that the Board determines is eligible to participate) in respect of FY18 and beyond. Offers will be made at the discretion of the Board. The terms of the incentives granted under these plans will be determined by the Board at grant and may therefore vary over time. ELMO will regularly assess the appropriateness of its incentive plans and may amend or replace, suspend or cease using either or both of the SEEP or HPEP if considered appropriate by the Board.

*The Senior Executive Equity Plan (SEEP)*

The SEEP is intended to align the interests of the senior executives with Shareholders. Awards under the SEEP will be structured as an option to receive Shares at a future date subject to the recipient paying the exercise price (**SEEP Option**). The rules of the SEEP will provide the Board with the flexibility to award restricted shares, performance rights and options, and to cash settle any award, at the discretion of the Board.

Grants under the SEEP are expected to be made annually and will be made to the senior executive team and such other executives as the Board may determine from time to time. Any grants will be made subject to the ASX Listing Rules, to the extent applicable.

**Shares under option**

There are nil unissued ordinary shares of Elmo Software Limited under option at the date of this report.

**Shares issued on the exercise of options**

There were nil ordinary shares of Elmo Software Limited issued during the year ended 30 June 2017 and up to the date of this report on the exercise of options.

### **Indemnity and insurance of officers**

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

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

### **Indemnity and insurance of auditor**

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

### **Proceedings on behalf of the company**

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

### **Non-audit services**

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 26 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 26 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

### **Officers of the company who are former partners of Deloitte Touche Tohmatsu**

James McKerlie, Chairman and Non-Executive Director, is a former partner of Deloitte Touche Tohmatsu but not at a time when the audit firm undertook an audit of the company.

### **Rounding of amounts**

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

### **Auditor's independence declaration**

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

### **Auditor**

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the Corporations Act 2001.

**Elmo Software Limited**  
**Directors' report**  
**30 June 2017**

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

On behalf of the directors



---

Danny Lessem  
Director



---

Trevor Lonstein  
Director

30 August 2017  
Sydney

30 August 2017

The Board of Directors  
Elmo Software Limited  
Westfield Tower One  
Level 25, Suite 2502  
520 Oxford Street  
Bondi Junction NSW 2022

Dear Board Members

**Elmo Software Limited**

I am pleased to provide the following declaration of independence to the directors of Elmo Software Limited.

As lead audit partner for the audit of the financial statements of Elmo Software Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



Joshua Tanchel  
Partner  
Chartered Accountants

**Elmo Software Limited**  
**Contents**  
**30 June 2017**

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**General information**

The financial statements cover Elmo Software Limited as a consolidated entity consisting of Elmo Software Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Elmo Software Limited's functional and presentation currency.

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

**Registered office**

Level 12  
680 George Street  
Sydney NSW 2000

**Principal place of business**

Suite 2502  
Level 25 Westfield Tower One  
520 Oxford Street  
Bondi Junction NSW 2022

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on August 2017. The directors have the power to amend and reissue the financial statements.

**Elmo Software Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2017**

|                                                                                                                         | <b>Note</b> | <b>Consolidated<br/>2017<br/>\$'000</b> | <b>2016<br/>\$'000</b> |
|-------------------------------------------------------------------------------------------------------------------------|-------------|-----------------------------------------|------------------------|
| Revenue from rendering of services                                                                                      | 3           | 16,564                                  | 12,179                 |
| Cost of sales                                                                                                           |             | <u>(1,679)</u>                          | <u>(1,190)</u>         |
| Gross profit                                                                                                            |             | 14,885                                  | 10,989                 |
| Interest income                                                                                                         |             | 31                                      | 49                     |
| Other income                                                                                                            | 4           | 125                                     | 22                     |
| Sales and marketing expenses                                                                                            | 5           | (6,397)                                 | (4,434)                |
| Research and development expenses                                                                                       |             | (338)                                   | (437)                  |
| General and administrative expenses                                                                                     | 5           | <u>(10,031)</u>                         | <u>(5,927)</u>         |
| <b>(Loss)/profit before income tax benefit from continuing operations</b>                                               |             | (1,725)                                 | 262                    |
| Income tax benefit                                                                                                      | 6           | <u>978</u>                              | <u>275</u>             |
| <b>(Loss)/profit after income tax benefit from continuing operations</b>                                                |             | (747)                                   | 537                    |
| Loss after income tax benefit from discontinued operations                                                              | 7           | (173)                                   | (450)                  |
| <b>(Loss)/profit after income tax benefit</b>                                                                           |             | <u>(920)</u>                            | <u>87</u>              |
| Other comprehensive income for the year, net of tax                                                                     |             | -                                       | -                      |
| <b>Total (comprehensive loss)/comprehensive income for the year attributable to the owners of Elmo Software Limited</b> |             | <u><u>(920)</u></u>                     | <u><u>87</u></u>       |
| <b>Earnings per share</b>                                                                                               |             |                                         |                        |
| From continuing operations                                                                                              |             | <b>Cents</b>                            | <b>Cents</b>           |
| Basic earnings                                                                                                          | 33          | (1.79)                                  | 1.34                   |
| Diluted earnings                                                                                                        | 33          | (1.79)                                  | 1.34                   |
| <b>Earnings per share</b>                                                                                               |             |                                         |                        |
| From discontinued operations                                                                                            |             | <b>Cents</b>                            | <b>Cents</b>           |
| Basic earnings                                                                                                          | 33          | (0.41)                                  | (1.13)                 |
| Diluted earnings                                                                                                        | 33          | (0.41)                                  | (1.13)                 |

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

**Elmo Software Limited**  
**Statement of financial position**  
**As at 30 June 2017**

|                                                            | <b>Note</b> | <b>Consolidated<br/>2017<br/>\$'000</b> | <b>2016<br/>\$'000</b> |
|------------------------------------------------------------|-------------|-----------------------------------------|------------------------|
| <b>Assets</b>                                              |             |                                         |                        |
| <b>Current assets</b>                                      |             |                                         |                        |
| Cash and cash equivalents                                  | 8           | 26,601                                  | 3,017                  |
| Trade and other receivables                                | 9           | 3,568                                   | 2,227                  |
| Income tax and R&D refundable                              | 10          | 503                                     | 536                    |
| Other current assets                                       | 11          | 372                                     | 244                    |
| <b>Total current assets</b>                                |             | <b>31,044</b>                           | <b>6,024</b>           |
| <b>Non-current assets</b>                                  |             |                                         |                        |
| Deferred tax                                               | 18          | 99                                      | -                      |
| Property, plant and equipment                              | 12          | 506                                     | 385                    |
| Intangible assets and capitalised costs                    | 13          | 5,971                                   | 2,951                  |
| <b>Total non-current assets</b>                            |             | <b>6,576</b>                            | <b>3,336</b>           |
| <b>Total assets</b>                                        |             | <b>37,620</b>                           | <b>9,360</b>           |
| <b>Liabilities</b>                                         |             |                                         |                        |
| <b>Current liabilities</b>                                 |             |                                         |                        |
| Trade and other payables                                   | 14          | 3,014                                   | 1,446                  |
| Business combination liability                             | 15          | 1,000                                   | -                      |
| Employee benefits                                          | 16          | 654                                     | 454                    |
| Revenue received in advance                                | 17          | 9,072                                   | 6,966                  |
| <b>Total current liabilities</b>                           |             | <b>13,740</b>                           | <b>8,866</b>           |
| <b>Non-current liabilities</b>                             |             |                                         |                        |
| Deferred tax                                               | 18          | -                                       | 408                    |
| Employee benefits                                          | 19          | 115                                     | 114                    |
| <b>Total non-current liabilities</b>                       |             | <b>115</b>                              | <b>522</b>             |
| <b>Total liabilities</b>                                   |             | <b>13,855</b>                           | <b>9,388</b>           |
| <b>Net assets/(liabilities)</b>                            |             | <b>23,765</b>                           | <b>(28)</b>            |
| <b>Equity</b>                                              |             |                                         |                        |
| Issued capital                                             | 21          | 25,110                                  | 350                    |
| Accumulated losses                                         | 22          | (1,298)                                 | (378)                  |
| Reserves                                                   | 24          | (47)                                    | -                      |
| Equity attributable to the owners of Elmo Software Limited |             | <b>23,765</b>                           | <b>(28)</b>            |
| <b>Total equity/(Total deficit)</b>                        |             | <b>23,765</b>                           | <b>(28)</b>            |

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

**Elmo Software Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2017**

| <b>Consolidated</b>                                 | <b>Issued<br/>capital<br/>\$'000</b> | <b>Foreign<br/>currency<br/>translation<br/>reserves<br/>\$'000</b> | <b>Accumulated<br/>losses<br/>\$'000</b> | <b>Total deficit<br/>\$'000</b> |
|-----------------------------------------------------|--------------------------------------|---------------------------------------------------------------------|------------------------------------------|---------------------------------|
| Balance at 1 July 2015                              | 350                                  | -                                                                   | (465)                                    | (115)                           |
| Profit after income tax benefit for the year        | -                                    | -                                                                   | 87                                       | 87                              |
| Other comprehensive income for the year, net of tax | -                                    | -                                                                   | -                                        | -                               |
| Total comprehensive income for the year             | -                                    | -                                                                   | 87                                       | 87                              |
| Balance at 30 June 2016                             | 350                                  | -                                                                   | (378)                                    | (28)                            |

| <b>Consolidated</b>                                          | <b>Issued<br/>capital<br/>\$'000</b> | <b>Foreign<br/>currency<br/>translation<br/>reserves<br/>\$'000</b> | <b>Retained<br/>profits<br/>\$'000</b> | <b>Total<br/>(deficit)/<br/>equity<br/>\$'000</b> |
|--------------------------------------------------------------|--------------------------------------|---------------------------------------------------------------------|----------------------------------------|---------------------------------------------------|
| Balance at 1 July 2016                                       | 350                                  | -                                                                   | (378)                                  | (28)                                              |
| Loss after income tax benefit for the year                   | -                                    | -                                                                   | (920)                                  | (920)                                             |
| Other comprehensive income for the year, net of tax          | -                                    | -                                                                   | -                                      | -                                                 |
| Total comprehensive loss for the year                        | -                                    | -                                                                   | (1,298)                                | (948)                                             |
| <i>Transactions with owners in their capacity as owners:</i> |                                      |                                                                     |                                        |                                                   |
| Issue of shares to the public on IPO (net of issue costs)    | 23,515                               | -                                                                   | -                                      | 23,515                                            |
| Issue of employees gift shares                               | 45                                   | -                                                                   | -                                      | 45                                                |
| Issue of F Class share capital                               | 1,200                                | -                                                                   | -                                      | 1,200                                             |
| Reserves                                                     | -                                    | (47)                                                                | -                                      | (47)                                              |
| Balance at 30 June 2017                                      | 25,110                               | (47)                                                                | (1,298)                                | 23,765                                            |

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

**Elmo Software Limited**  
**Statement of cash flows**  
**For the year ended 30 June 2017**

|                                                                  |             | <b>Consolidated</b>    |                        |
|------------------------------------------------------------------|-------------|------------------------|------------------------|
|                                                                  | <b>Note</b> | <b>2017<br/>\$'000</b> | <b>2016<br/>\$'000</b> |
| <b>Cash flows from operating activities</b>                      |             |                        |                        |
| Receipts from customers (inclusive of GST)                       |             | 18,527                 | 14,693                 |
| Payments to suppliers and employees (inclusive of GST)           |             | (15,529)               | (12,086)               |
|                                                                  |             | 2,998                  | 2,607                  |
| Interest and other finance costs paid                            |             | (21)                   | (23)                   |
| Income taxes refunded                                            |             | 578                    | 705                    |
| Net cash from operating activities                               | 32          | 3,555                  | 3,289                  |
| <b>Cash flows from investing activities</b>                      |             |                        |                        |
| Interest received                                                |             | 31                     | 49                     |
| Payments for property, plant and equipment                       |             | (308)                  | (251)                  |
| Payments for intangibles                                         |             | (2,764)                | (2,259)                |
| Advances to related party                                        |             | -                      | (7)                    |
| Payment for purchase of Techni Works Group, net of cash acquired |             | (1,046)                | -                      |
| Net cash used in investing activities                            |             | (4,087)                | (2,468)                |
| <b>Cash flows from financing activities</b>                      |             |                        |                        |
| Proceeds from issue of shares                                    |             | 26,200                 | -                      |
| Share issue transaction costs                                    |             | (2,084)                | -                      |
| Dividends paid                                                   | 23          | -                      | -                      |
| Repayment of related party advances                              |             | -                      | (500)                  |
| Net cash from/(used in) financing activities                     |             | 24,116                 | (500)                  |
| Net increase in cash and cash equivalents                        |             | 23,584                 | 321                    |
| Cash and cash equivalents at the beginning of the financial year |             | 3,017                  | 2,696                  |
| Cash and cash equivalents at the end of the financial year       | 8           | 26,601                 | 3,017                  |

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

## **Note 1. Significant accounting policies**

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

### **New or amended Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

### **Basis of preparation**

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

### *Historical cost convention*

The financial statements have been prepared under the historical cost convention.

### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

### **Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 29.

### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Elmo Software Limited ('company' or 'parent entity') as at 30 June 2017 and the results of all subsidiaries for the year then ended. Elmo Software Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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 consolidated entity. They are de-consolidated from the date that control ceases.

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

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

### **Operating segments**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

### **Foreign currency translation**

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

**Note 1. Significant accounting policies (continued)**

*Foreign currency transactions*

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

*Foreign operations*

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

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

*Rendering of services*

Services revenue is predominantly from recurring revenues associated with the cloud-based Talent Management Software Solutions. The agreements with customers do not include general rights of return and do not provide customers with the right to take possession of the software supporting the services being provided. As such, revenue is recognized in equal monthly amounts over the life of the agreement, usually a 3 year term, when all of the following criteria are achieved:

- There is persuasive evidence of an agreement;
- The service has been provided to the customer;
- Collection of the fees is reasonably assured; and
- The amount of fees to be paid by the customer is fixed or determinable.

*Interest*

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

*Other revenue*

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

*Government grants*

Government grants, including non-monetary grants at fair value, are only recognised when there is reasonable assurance that:

- (a) all conditions attaching to the Government grant will be complied with;
- (b) the value of the grant can be determined with reasonable certainty;
- (c) the grant will be received.

Government grants are recognised as revenue during the period, or periods in which the expenses for which the grants are intended to compensate are recognised.

If the Government grant cannot be determined with reasonable certainty, then the grant is recognised as revenue when it is received.

**Cost of sales**

Cost of sales includes wages, salaries and other expenses of employees who carry out implementation, training and support of software for customers. Cost of sales also includes third party hosting costs.

**Income tax**

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

**Note 1. Significant accounting policies (continued)**

The major impact on the income tax expense is the benefit obtained from the Research & Development Tax Incentive that is being received as a tax refund.

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

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

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

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

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

**Current and non-current classification**

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

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

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

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

**Cash and cash equivalents**

Cash and cash equivalents includes cash at bank.

**Trade and other receivables**

Trade receivables are initially recognised at cost being their carrying value which is a reasonable approximation of their fair value. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

**Note 1. Significant accounting policies (continued)**

**Property, plant and equipment**

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

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

|                        |            |
|------------------------|------------|
| Leasehold improvements | 3-10 years |
| Plant and equipment    | 3-7 years  |
| Computer equipment     | 2-4 years  |

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

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

**Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

**Intangible assets**

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

**Goodwill**

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

**Software development costs - Research and development**

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably.

Software development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the 3 year useful life of the software.

**Note 1. Significant accounting policies (continued)**

*Capitalised sales commission costs*

Commission costs paid to employees as a remuneration for securing a new contract are amortised on a straight-line basis over the period of the contract (1-3 years).

*Customer list*

The acquired customer list is amortised over management's best estimate of its useful life over 7 years on a straight-line basis.

**Trade and other payables**

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

**Borrowings**

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

**Finance costs**

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

**Employee benefits**

*Short-term employee benefits*

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

*Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date 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 reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**Fair value measurement**

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

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

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

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

**Note 1. Significant accounting policies (continued)**

**Issued capital**

Ordinary shares are classified as equity.

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

**Dividends**

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

**Business combinations**

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

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

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

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

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

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

**Earnings per share**

*Basic earnings per share*

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

*Diluted earnings per share*

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

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

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

**Note 1. Significant accounting policies (continued)**

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

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

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

**Rounding of amounts**

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

**New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

*AASB 9 Financial Instruments*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customer s in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

**Note 1. Significant accounting policies (continued)**

*AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

**Note 2. Critical accounting judgements, estimates and assumptions**

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

*Estimation of useful lives of assets*

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

*Goodwill and other indefinite life intangible assets*

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on the fair value less costs to sell calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

*Impairment of non-financial assets other than goodwill and other indefinite life intangible assets*

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

*Capitalisation of Software Development costs*

As discussed in Note 1 internally generated Software development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably.

**Note 2. Critical accounting judgements, estimates and assumptions (continued)**

*Business combinations*

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

**Note 3. Revenue from rendering of services**

*Identification of reportable operating segments*

The Group operates in one segment, based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers (CODM)) in assessing performance and in determining the allocation of resources.

As a result, the operating segment information is disclosed in the statements and notes to the financial statements.

*Geographical information*

|             | Revenue from external customers |                | Geographical non-current assets |                |
|-------------|---------------------------------|----------------|---------------------------------|----------------|
|             | 2017<br>\$'000                  | 2016<br>\$'000 | 2017<br>\$'000                  | 2016<br>\$'000 |
| Australia   | 16,396                          | 12,097         | 6,439                           | 3,330          |
| New Zealand | -                               | -              | 32                              | -              |
| Singapore   | 168                             | 82             | 6                               | 6              |
|             | <u>16,564</u>                   | <u>12,179</u>  | <u>6,477</u>                    | <u>3,336</u>   |

The majority of the Group's revenue is generated from sales contracts with Australian, Singapore and New Zealand companies. The geographic split of this revenue across all companies is: a) Australia (93.3%, 2016: 96.3%); b) New Zealand (5.3%, 2016: 2.7%); c) Singapore (1.0%, 2016: 0.7%); and d) Other (0.4%, 2016: 0.3%).

The geographical non-current assets above are exclusive of, where applicable, financial instruments, deferred tax assets, post-employment benefits assets and rights under insurance contracts.

**Note 4. Other income**

|                                                    | Consolidated   |                |
|----------------------------------------------------|----------------|----------------|
|                                                    | 2017<br>\$'000 | 2016<br>\$'000 |
| Government grants                                  | 72             | -              |
| Rent received from temporary sub-leasing of office | -              | 3              |
| Other income                                       | <u>53</u>      | <u>19</u>      |
|                                                    | <u>125</u>     | <u>22</u>      |

**Note 5. Expenses**

|                                                                                   | <b>Consolidated</b> |               |
|-----------------------------------------------------------------------------------|---------------------|---------------|
|                                                                                   | <b>2017</b>         | <b>2016</b>   |
|                                                                                   | <b>\$'000</b>       | <b>\$'000</b> |
| (Loss)/profit before income tax benefit includes the following specific expenses: |                     |               |
| <i>Sales and marketing expenses</i>                                               |                     |               |
| Advertising                                                                       | 1,142               | 1,453         |
| Sales and marketing related – Wages, commissions and oncost                       | 4,354               | 2,138         |
| Seminars and sponsorships                                                         | 901                 | 843           |
|                                                                                   | <u>6,397</u>        | <u>4,434</u>  |
| <i>General and administrative expenses</i>                                        |                     |               |
| Accounting and secretarial expenses                                               | 98                  | 49            |
| Amortisation expenses                                                             | 2,225               | 1,392         |
| Audit fees                                                                        | 142                 | 36            |
| Bad debt expenses                                                                 | 101                 | 178           |
| Bank charges                                                                      | 28                  | 22            |
| Bookkeeping expenses                                                              | 19                  | 84            |
| Depreciation expenses                                                             | 187                 | 91            |
| Directors fees                                                                    | 835                 | 772           |
| Employment expenses                                                               | 1,927               | 1,117         |
| IPO related costs                                                                 | 1,635               | -             |
| Rental expenses                                                                   | 553                 | 428           |
| Subcontractors                                                                    | 108                 | 35            |
| Subscriptions                                                                     | 235                 | 130           |
| Telephone & internet expenses                                                     | 205                 | 105           |
| Travelling expenses                                                               | 734                 | 694           |
| Other expenses                                                                    | 999                 | 794           |
|                                                                                   | <u>10,031</u>       | <u>5,927</u>  |

**Note 6. Income tax benefit**

|                                                                                      | <b>Consolidated</b> |               |
|--------------------------------------------------------------------------------------|---------------------|---------------|
|                                                                                      | <b>2017</b>         | <b>2016</b>   |
|                                                                                      | <b>\$'000</b>       | <b>\$'000</b> |
| <i>Income tax benefit</i>                                                            |                     |               |
| Current tax                                                                          | 422                 | 505           |
| Deferred tax - origination and reversal of temporary differences                     | 630                 | (37)          |
| <b>Aggregate income tax benefit</b>                                                  | <b>1,052</b>        | <b>468</b>    |
| Income tax benefit is attributable to:                                               |                     |               |
| Loss from continuing operations                                                      | 978                 | 275           |
| Loss from discontinued operations                                                    | 74                  | 193           |
| <b>Aggregate income tax benefit</b>                                                  | <b>1,052</b>        | <b>468</b>    |
| Deferred tax included in income tax expense comprises:                               |                     |               |
| Increase in deferred tax assets/(increase in deferred tax liabilities) (note 18)     | 630                 | (37)          |
| Deferred tax - origination and reversal of temporary differences                     | 630                 | (37)          |
| <i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>  |                     |               |
| (Loss)/profit before income tax benefit from continuing operations                   | (1,725)             | 262           |
| Loss before income tax benefit from discontinued operations                          | (247)               | (643)         |
| Loss before income tax benefit                                                       | (1,972)             | (381)         |
| Tax at the statutory tax rate of 30%                                                 | 592                 | 114           |
| Tax effect amounts which are (not deductible)/taxable in calculating taxable income: |                     |               |
| Effect of expenses that are not deductible in determining taxable profit             | (1,070)             | (643)         |
| Effect of tax concession (Research and Development Tax Incentives)                   | 900                 | 996           |
| Adjustment recognised for prior periods                                              | 422                 | 467           |
|                                                                                      | -                   | 38            |
| <b>Income tax benefit</b>                                                            | <b>1,052</b>        | <b>468</b>    |

**Note 7. Discontinued operations**

The Company completed the wind down of its Registered Training Organisation (RTO) division on 13 January 2017. The division has been disclosed as a discontinued operation.

**Results of discontinued operations**

|                                                                | <b>Consolidated</b> |               |
|----------------------------------------------------------------|---------------------|---------------|
|                                                                | <b>2017</b>         | <b>2016</b>   |
|                                                                | <b>\$'000</b>       | <b>\$'000</b> |
| Revenue from rendering of services (2017: refund to customers) | (10)                | 423           |
| Cost of sales                                                  | (101)               | (354)         |
| (Gross loss)/gross profit                                      | (111)               | 69            |
| Sales and marketing expenses                                   | (35)                | (489)         |
| General and administrative expenses                            | (101)               | (223)         |
| Operating loss from discontinued operation                     | (247)               | (643)         |
| Income tax benefit                                             | 74                  | 193           |
| Loss after income tax benefit from discontinued operations     | (173)               | (450)         |

The loss after income tax benefit from the discontinued operation of \$173,193 (2016: loss of \$450,024) is attributable entirely to the owners of the Company.

**Note 8. Current assets - cash and cash equivalents**

|              | <b>Consolidated</b> |               |
|--------------|---------------------|---------------|
|              | <b>2017</b>         | <b>2016</b>   |
|              | <b>\$'000</b>       | <b>\$'000</b> |
| Cash at bank | 26,601              | 3,017         |

**Note 9. Current assets - trade and other receivables**

|                              | <b>Consolidated</b> |               |
|------------------------------|---------------------|---------------|
|                              | <b>2017</b>         | <b>2016</b>   |
|                              | <b>\$'000</b>       | <b>\$'000</b> |
| Trade receivables            | 4,402               | 3,013         |
| Allowance for doubtful debts | (914)               | (851)         |
|                              | 3,488               | 2,162         |
| Other receivables            | 80                  | 65            |
|                              | 3,568               | 2,227         |

**Impairment of receivables**

The consolidated entity has recognised a loss of \$101,816 (2016: \$177,797) in profit or loss in respect of impairment of receivables for the year ended 30 June 2017.

**Note 9. Current assets - trade and other receivables (continued)**

The ageing of the impaired receivables provided for above are as follows:

|                       | <b>Consolidated</b> |               |
|-----------------------|---------------------|---------------|
|                       | <b>2017</b>         | <b>2016</b>   |
|                       | <b>\$'000</b>       | <b>\$'000</b> |
| 0 to 3 months overdue | 515                 | 684           |
| 3 to 6 months overdue | 399                 | 167           |
|                       | <u>914</u>          | <u>851</u>    |

Movements in the provision for impairment of receivables are as follows:

|                                      | <b>Consolidated</b> |               |
|--------------------------------------|---------------------|---------------|
|                                      | <b>2017</b>         | <b>2016</b>   |
|                                      | <b>\$'000</b>       | <b>\$'000</b> |
| Opening balance                      | 851                 | 14            |
| Additional net provisions recognised | 63                  | 837           |
| Closing balance                      | <u>914</u>          | <u>851</u>    |

**Note 10. Current assets - income tax and R&D refundable**

|                                             | <b>Consolidated</b> |               |
|---------------------------------------------|---------------------|---------------|
|                                             | <b>2017</b>         | <b>2016</b>   |
|                                             | <b>\$'000</b>       | <b>\$'000</b> |
| Income tax and R&D tax incentive refundable | <u>503</u>          | <u>536</u>    |

The company expects the R&D tax incentive related to the financial year 2017 will be available to the company. Further, the company intends to submit the 2017 R&D tax incentive application and has recorded those amounts in the financial statements for the year ended 30 June 2017 although the company will lodge the R&D tax incentive application to the AusIndustry after 30 June 2017. An estimate of the 2017 R&D credits have been included as it is expected that the company will receive these in line with previous claims made with AusIndustry.

**Note 11. Current assets - other**

|               | <b>Consolidated</b> |               |
|---------------|---------------------|---------------|
|               | <b>2017</b>         | <b>2016</b>   |
|               | <b>\$'000</b>       | <b>\$'000</b> |
| Prepayments   | 259                 | 179           |
| Other debtors | 113                 | 65            |
|               | <u>372</u>          | <u>244</u>    |

**Note 12. Non-current assets - property, plant and equipment**

|                                  | <b>Consolidated</b> |                   |
|----------------------------------|---------------------|-------------------|
|                                  | <b>2017</b>         | <b>2016</b>       |
|                                  | <b>\$'000</b>       | <b>\$'000</b>     |
| Plant and equipment - at cost    | 396                 | 253               |
| Less: Accumulated depreciation   | (243)               | (202)             |
|                                  | <u>153</u>          | <u>51</u>         |
| Computer equipment – at cost     | 606                 | 536               |
| Less: Accumulated depreciation   | (436)               | (321)             |
|                                  | <u>170</u>          | <u>215</u>        |
| Leasehold improvements – at cost | 233                 | 138               |
| Less: Accumulated depreciation   | (50)                | (19)              |
|                                  | <u>183</u>          | <u>119</u>        |
|                                  | <u><u>506</u></u>   | <u><u>385</u></u> |

*Reconciliations*

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

| <b>Consolidated</b>     | <b>Plant and<br/>equipment<br/>\$'000</b> | <b>Computer<br/>equipment<br/>\$'000</b> | <b>Leasehold<br/>improvements<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|-------------------------|-------------------------------------------|------------------------------------------|----------------------------------------------|-------------------------|
| Balance at 1 July 2015  | 62                                        | 118                                      | 45                                           | 225                     |
| Additions               | 10                                        | 159                                      | 82                                           | 251                     |
| Depreciation expense    | (21)                                      | (62)                                     | (8)                                          | (91)                    |
|                         | <u>51</u>                                 | <u>215</u>                               | <u>119</u>                                   | <u>385</u>              |
| Balance at 30 June 2016 | 51                                        | 215                                      | 119                                          | 385                     |
| Additions               | 143                                       | 70                                       | 95                                           | 308                     |
| Depreciation expense    | (41)                                      | (115)                                    | (31)                                         | (187)                   |
|                         | <u>153</u>                                | <u>170</u>                               | <u>183</u>                                   | <u>506</u>              |
| Balance at 30 June 2017 | <u><u>153</u></u>                         | <u><u>170</u></u>                        | <u><u>183</u></u>                            | <u><u>506</u></u>       |

**Note 13. Non-current assets - intangibles**

|                                                        | <b>Consolidated</b> |               |
|--------------------------------------------------------|---------------------|---------------|
|                                                        | <b>2017</b>         | <b>2016</b>   |
|                                                        | <b>\$'000</b>       | <b>\$'000</b> |
| Software development costs                             | 6,293               | 4,069         |
| Less: Accumulated amortisation                         | (3,521)             | (1,828)       |
|                                                        | <u>2,772</u>        | <u>2,241</u>  |
| Capitalised sales commission costs                     | 1,692               | 1,153         |
| Less: Accumulated amortisation                         | (930)               | (443)         |
|                                                        | <u>762</u>          | <u>710</u>    |
| Customer list (acquired through business combinations) | 410                 | -             |
| Less: Accumulated amortisation                         | (44)                | -             |
|                                                        | <u>366</u>          | <u>-</u>      |
| Goodwill (acquired through business combinations)      | 2,071               | -             |
|                                                        | <u>5,971</u>        | <u>2,951</u>  |

*Reconciliations*

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

|                                                   | Software<br>development<br>costs<br>\$'000 | Capitalised<br>commission<br>costs<br>\$'000 | Customer<br>list<br>\$'000 | Goodwill<br>\$'000 | Total<br>\$'000 |
|---------------------------------------------------|--------------------------------------------|----------------------------------------------|----------------------------|--------------------|-----------------|
| <b>Consolidated</b>                               |                                            |                                              |                            |                    |                 |
| Balance at 1 July 2015                            | 1,677                                      | 407                                          | -                          | -                  | 2,084           |
| Additions                                         | 1,663                                      | 596                                          | -                          | -                  | 2,259           |
| Amortisation expense                              | <u>(1,099)</u>                             | <u>(293)</u>                                 | <u>-</u>                   | <u>-</u>           | <u>(1,392)</u>  |
| Balance at 30 June 2016                           | 2,241                                      | 710                                          | -                          | -                  | 2,951           |
| Additions                                         | 2,225                                      | 539                                          | -                          | -                  | 2,764           |
| Additions through business combinations (note 15) | -                                          | -                                            | 410                        | 2,071              | 2,481           |
| Amortisation expense                              | <u>(1,694)</u>                             | <u>(487)</u>                                 | <u>(44)</u>                | <u>-</u>           | <u>(2,225)</u>  |
| Balance at 30 June 2017                           | <u>2,772</u>                               | <u>762</u>                                   | <u>366</u>                 | <u>2,071</u>       | <u>5,971</u>    |

Goodwill is acquired through the acquisition of Techni Works Pty Limited, please refer to Note 15 for further details.

An impairment loss, if any, is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is determined on a Fair Value Less Cost to Sell and as at 30 June 2017 there are no indicators to suggest that an impairment would occur.

**Note 14. Current liabilities - trade and other payables**

|                            | <b>Consolidated</b> |               |
|----------------------------|---------------------|---------------|
|                            | <b>2017</b>         | <b>2016</b>   |
|                            | <b>\$'000</b>       | <b>\$'000</b> |
| Trade payables & accruals  | 2,390               | 614           |
| Other payables             | 599                 | 807           |
| Loans from a related party | 25                  | 25            |
|                            | <u>3,014</u>        | <u>1,446</u>  |

**Note 15. Business combinations**

On 7 October 2016, Elmo Software Ltd acquired 100% of the ordinary shares of Techni Works Pty Ltd and its controlled subsidiary, Techni Works Action Learning Pty Ltd for the total consideration transferred of \$2,062,360.

Techni Works is an Australian eLearning company specialising in the provision of Australian focused cloud based eLearning courses. The strategic rationale underpinning the acquisition of Techni Works and resulting in goodwill on acquisition included:

- Margin expansion from synergy cost savings as a result of a significant reduction in operational costs;
- Low integration risk and ability to extract significant operational efficiencies from leveraging ELMO's existing infrastructure;
- Increasing market share with an enlarged customer base of 82 additional customer. This allows ELMO account managers to leverage existing Techni Works customer relationships to establish new contracts from upselling and cross-selling of ELMO's full suite of talent management software solutions; and
- Expanding ELMO's learning module platform with the addition of new eLearning courses.

Details of the acquisition are as follows:

|                                                                    | <b>Fair value</b>   |
|--------------------------------------------------------------------|---------------------|
|                                                                    | <b>\$'000</b>       |
| Plant and equipment                                                | 22                  |
| Customer list intangible                                           | 410                 |
| Other assets                                                       | 147                 |
| Deferred tax liability                                             | (123)               |
| Deferred revenue                                                   | (465)               |
| Net identifiable liabilities acquired                              | (9)                 |
| Goodwill on acquisition                                            | <u>2,071</u>        |
| Acquisition-date fair value of the total consideration transferred | <u><u>2,062</u></u> |

Of the total consideration, \$1,062,360 was paid in cash and \$1,000,000 is shown as a Business Combination liability within current liabilities.

The business combination liability is based on the directors' best estimate of Techni Works revenues during the contractual earn out period of one year from the acquisition date.

**Note 16. Current liabilities - employee benefits**

|                   | Consolidated |        |
|-------------------|--------------|--------|
|                   | 2017         | 2016   |
|                   | \$'000       | \$'000 |
| Employee benefits | 654          | 454    |

*Amounts not expected to be settled within the next 12 months*

The current provision for employee benefits includes 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 is presented as current, since the consolidated entity does not have an unconditional right to defer settlement.

**Note 17. Current liabilities - revenue received in advance**

|                             | Consolidated |        |
|-----------------------------|--------------|--------|
|                             | 2017         | 2016   |
|                             | \$'000       | \$'000 |
| Revenue received in advance | 9,072        | 6,966  |

**Note 18. Non-current assets/liabilities - deferred tax**

|                                                | As at 1 July 2016 | Recognised in profit or loss (Note 6) | Acquired in business combinations (Note 15) | As at 30 June 2017 |
|------------------------------------------------|-------------------|---------------------------------------|---------------------------------------------|--------------------|
| Share issue expenses                           | 27                | (7)                                   | -                                           | 20                 |
| Provision for doubtful debts                   | 58                | 77                                    | -                                           | 135                |
| Prepayments                                    | 9                 | (9)                                   | -                                           | -                  |
| Property, plant and equipment                  | 37                | (3)                                   | -                                           | 34                 |
| Intangibles                                    | (885)             | (175)                                 | -                                           | (1,060)            |
| Black hole expenses - IPO costs                | -                 | 738                                   | -                                           | 738                |
| Customer list                                  | -                 | -                                     | (123)                                       | (123)              |
| Less: Accumulated depreciation – Customer list | -                 | 13                                    | -                                           | 13                 |
| Superannuation payables                        | 54                | 17                                    | -                                           | 71                 |
| Accruals                                       | 122               | (82)                                  | -                                           | 40                 |
| Provision for employee benefits                | 170               | 61                                    | -                                           | 231                |
| Deferred tax asset/(deferred tax liability)    | (408)             | 630                                   | (123)                                       | 99                 |

**Note 19. Non-current liabilities - employee benefits**

|                   | Consolidated |        |
|-------------------|--------------|--------|
|                   | 2017         | 2016   |
|                   | \$'000       | \$'000 |
| Employee benefits | 115          | 114    |

**Note 20. Financial risk management**

*Credit risk*

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount of the customer outstanding balances less any provision for impairment of those assets, as disclosed in the Consolidated statement of financial position. These predominantly relate to trade receivables (see note 9).

*Liquidity risk*

Liquidity risk is the risk that the consolidated entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by cash or other financial asset. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

*Market risk: Currency risk*

ELMO's financial statements are presented in Australian Dollars with only a small proportion of sales denominated in overseas currencies as denoted under note 3 Revenue from rendering of services. At the current time therefore the risk due to foreign exchange movements is determined to be immaterial; however this risk will continue to be assessed in future years.

**Note 21. Equity - issued capital**

|                              | 2017<br>Shares | Consolidated<br>2016<br>Shares | 2017<br>\$'000 | 2016<br>\$'000 |
|------------------------------|----------------|--------------------------------|----------------|----------------|
| Ordinary shares - fully paid | 54,171,584     | 40                             | 25,110         | 350            |

*Movements in ordinary share capital*

| Details                              | Note | Date              | Shares     | F class<br>shares | Issue price | \$'000  |
|--------------------------------------|------|-------------------|------------|-------------------|-------------|---------|
| Opening balance                      |      | 1 July 2016       | 40         | -                 | -           | 350     |
| Shares subdivision                   | 1    | 20 September 2016 | 910        | -                 | -           | -       |
| F class issued                       |      |                   |            | 40                | \$30,000    | 1,200   |
| F class converted to ordinary shares |      |                   | 40         | (40)              | -           | -       |
| Balance pre share split and IPO      |      |                   | 990        | -                 |             | 1,550   |
| Share split under IPO                | 2    | 5 June 2017       | 41,648,834 | -                 | -           | -       |
| Issue of shares to the public on IPO |      | 22 June 2017      | 12,500,000 | -                 | \$2.00      | 25,000  |
| Less: Capitalised IPO costs          |      | 22 June 2017      | -          | -                 | -           | (1,485) |
| Issue of employees gift shares       |      | 22 June 2017      | 22,750     | -                 | \$2.00      | 45      |
| Balance                              |      | 30 June 2017      | 54,171,584 |                   |             | 25,110  |

*Note 1. The Company undertook a 23.75 for 1 share split of its ordinary shares*

*Note 2. The existing 990 shares at this time were split on a ratio of 42,069.53*

*Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

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

*Share buy-back*

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

*Capital risk management*

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

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

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

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

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

The capital risk management policy remains unchanged from the 30 June 2016 Annual Report.

**Note 22. Equity - accumulated losses**

|                                                           | <b>Consolidated</b> |               |
|-----------------------------------------------------------|---------------------|---------------|
|                                                           | <b>2017</b>         | <b>2016</b>   |
|                                                           | <b>\$'000</b>       | <b>\$'000</b> |
| Accumulated losses at the beginning of the financial year | (378)               | (465)         |
| (Loss)/profit after income tax benefit for the year       | (920)               | 87            |
| Accumulated losses at the end of the financial year       | <u>(1,298)</u>      | <u>(378)</u>  |

**Note 23. Equity - dividends**

There were no dividends paid or proposed for the year ended 30 June 2017 (2016 \$nil).

**Note 24. Equity - reserves**

|                                      | <b>Consolidated</b> |               |
|--------------------------------------|---------------------|---------------|
|                                      | <b>2017</b>         | <b>2016</b>   |
|                                      | <b>\$'000</b>       | <b>\$'000</b> |
| Foreign exchange translation reserve | (47)                | -             |
|                                      | <u>(47)</u>         | <u>-</u>      |

**Note 25. Key management personnel disclosures**

*Compensation*

The aggregate compensation made to directors and key management personnel of the consolidated entity is set out below:

|                              | <b>Consolidated</b> |               |
|------------------------------|---------------------|---------------|
|                              | <b>2017</b>         | <b>2016</b>   |
|                              | <b>\$'000</b>       | <b>\$'000</b> |
| Short-term employee benefits | 1,946               | 1,634         |
| Post-employment benefits     | 104                 | -             |
| Long-term benefits           | -                   | 50            |
|                              | <u>2,050</u>        | <u>1,684</u>  |

**Note 26. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the company, its network firms and unrelated firms:

|                                                                                              | <b>Consolidated</b> |               |
|----------------------------------------------------------------------------------------------|---------------------|---------------|
|                                                                                              | <b>2017</b>         | <b>2016</b>   |
|                                                                                              | <b>\$</b>           | <b>\$</b>     |
| <i>Audit services - Deloitte Touche Tohmatsu</i>                                             |                     |               |
| Audit of the financial statements                                                            | 148,000             | -             |
| <i>Other services - Deloitte Touche Tohmatsu</i>                                             | 325,000             | -             |
|                                                                                              | <u>473,000</u>      | <u>-</u>      |
| <i>Audit services - UHY Haines Norton</i>                                                    |                     |               |
| Audit of the financial statements                                                            | 75,000              | 30,000        |
| <i>Other services - UHY Haines Norton</i>                                                    |                     |               |
| Assistance in preparation of financial statements, tax return and other consultancy services | 96,000              | 35,000        |
|                                                                                              | <u>171,000</u>      | <u>65,000</u> |

During the financials year the following fees are payable for services provided by Mann & Associates PAC, the accountants and auditors of the Elmo Talent Management Software Pte Limited:

|                                                                                   |               |               |
|-----------------------------------------------------------------------------------|---------------|---------------|
| <i>Audit services - unrelated firms</i>                                           |               |               |
| Audit of the financial statements for Elmo Talent Management Software Pte Limited | 3,000         | 6,000         |
| <i>Other services</i>                                                             |               |               |
| Accountancy fees for Elmo Talent Management Software Pte Limited                  | 9,000         | 14,000        |
|                                                                                   | <u>12,000</u> | <u>20,000</u> |

**Note 27. Commitments**

|                                                                             | <b>Consolidated</b> |               |
|-----------------------------------------------------------------------------|---------------------|---------------|
|                                                                             | <b>2017</b>         | <b>2016</b>   |
|                                                                             | <b>\$'000</b>       | <b>\$'000</b> |
| <i>Lease commitments - operating</i>                                        |                     |               |
| Committed at the reporting date but not recognised as liabilities, payable: |                     |               |
| Within one year                                                             | 530                 | 220           |
| One to five years                                                           | 571                 | 31            |
|                                                                             | <u>1,101</u>        | <u>251</u>    |

Operating lease commitments includes contracted amounts for various retail outlets, warehouses, offices and plant and equipment under non-cancellable operating leases expiring within one to ten years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

**Note 28. Related party transactions**

*Parent entity*

Elmo Software Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 30.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 25 and the remuneration report included in the directors' report.

*Loans to/from related parties*

There were no loans to or from related parties at the current reporting date. The Company had a loan payable of \$24,564 with one of its shareholders in the 2017 and 2016 financial year.

*Other related party transactions*

|                                             | <b>Transactions during the year</b> |               | <b>Balance as at 30 June</b> |               |
|---------------------------------------------|-------------------------------------|---------------|------------------------------|---------------|
|                                             | <b>2017</b>                         | <b>2016</b>   | <b>2017</b>                  | <b>2016</b>   |
|                                             | <b>\$'000</b>                       | <b>\$'000</b> | <b>\$'000</b>                | <b>\$'000</b> |
| Elmo Talent Management Software Pte Limited | 45                                  | 74            | 623                          | 578           |
| Techniworks Action Learning Pty Limited     | 479                                 | -             | 479                          | -             |
| Elmo Software Limited                       | 198                                 | -             | 198                          | -             |

During the year an amount of \$134,642 was written off from the receivable due from the Singapore subsidiary, Elmo Talent Management Software Pte Limited. All transactions and outstanding balances are on an arm's length basis and unsecured basis.

*Terms and conditions*

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

**Note 29. Parent entity information**

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

*Statement of profit or loss and other comprehensive income*

|                                        | <b>Parent</b> |               |
|----------------------------------------|---------------|---------------|
|                                        | <b>2017</b>   | <b>2016</b>   |
|                                        | <b>\$'000</b> | <b>\$'000</b> |
| (Loss)/profit after income tax benefit | (927)         | 143           |
| Total comprehensive (loss)/income      | (927)         | 143           |

*Statement of financial position*

|                                       | <b>Parent</b> |               |
|---------------------------------------|---------------|---------------|
|                                       | <b>2017</b>   | <b>2016</b>   |
|                                       | <b>\$'000</b> | <b>\$'000</b> |
| Total current assets                  | 30,317        | 5,983         |
| Total assets                          | 37,911        | 9,938         |
| Total current liabilities             | 13,412        | 8,865         |
| Total liabilities                     | 13,527        | 9,387         |
| Equity                                |               |               |
| Issued capital                        | 25,110        | 350           |
| (Accumulated losses)/retained profits | (726)         | 201           |
| Total equity                          | 24,384        | 551           |

*Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2017 and 30 June 2016.

*Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2017 and 30 June 2016.

*Significant accounting policies*

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

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

**Elmo Software Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 30. Interests in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

| Name                                        | Principal place of business /<br>Country of incorporation | Ownership interest |           |
|---------------------------------------------|-----------------------------------------------------------|--------------------|-----------|
|                                             |                                                           | 2017<br>%          | 2016<br>% |
| Elmo Talent Management Software Pte Limited | Singapore                                                 | 100.00%            | 100.00%   |
| Elmoaccredited Pty Limited                  | Australia                                                 | 100.00%            | 100.00%   |
| Elmo Talent Management Software Pty Limited | Australia                                                 | 100.00%            | 100.00%   |
| International Colleges Pty Limited          | Australia                                                 | 100.00%            | 100.00%   |
| Studywell College Pty Limited               | Australia                                                 | 100.00%            | 100.00%   |
| Techni Works Pty Limited                    | Australia                                                 | 100.00%            | -         |
| Techniworks Action Learning Pty Limited     | Australia                                                 | 100.00%            | -         |
| Elmo Software Limited                       | New Zealand                                               | 100.00%            | -         |

**Note 31. Events after the reporting period**

There is no other matter or circumstance has arisen since 30 June 2017 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.

**Note 32. Reconciliation of profit after income tax to net cash from operating activities**

|                                                     | Consolidated   |                |
|-----------------------------------------------------|----------------|----------------|
|                                                     | 2017<br>\$'000 | 2016<br>\$'000 |
| (Loss)/profit after income tax benefit for the year | (920)          | 87             |
| Adjustments for:                                    |                |                |
| Bad debt expense                                    | 101            | 178            |
| Depreciation and amortisation                       | 2,412          | 1,483          |
| (Foreign exchange gain)/foreign exchange loss       | (47)           | 30             |
| IPO costs                                           | 1,635          | -              |
| Other costs                                         | (11)           | -              |
| Interest received                                   | (31)           | (49)           |
| Change in operating assets and liabilities:         |                |                |
| Increase in trade and other receivables             | (1,442)        | (67)           |
| (Increase)/decrease in other assets                 | (128)          | 102            |
| Increase in intangibles                             | (424)          | -              |
| Decrease in income tax refundable                   | 33             | 200            |
| (Decrease)/increase in deferred tax liabilities     | (507)          | 37             |
| Increase in trade and other payables                | 577            | 252            |
| Increase in employee benefits                       | 201            | 154            |
| Increase in revenue received in advance             | 2,106          | 882            |
| Net cash from operating activities                  | <u>3,555</u>   | <u>3,289</u>   |

**Note 33. Earnings per share**

|                                                                                           | <b>Consolidated</b> |                   |
|-------------------------------------------------------------------------------------------|---------------------|-------------------|
|                                                                                           | <b>2017</b>         | <b>2016</b>       |
|                                                                                           | <b>\$'000</b>       | <b>\$'000</b>     |
| <i>Earnings per share for profit from continuing operations</i>                           |                     |                   |
| (Loss)/profit after income tax                                                            | <u>(747)</u>        | <u>537</u>        |
|                                                                                           | <b>Cents</b>        | <b>Cents</b>      |
| Basic earnings per share                                                                  | (1.79)              | 1.34              |
| Diluted earnings per share                                                                | (1.79)              | 1.34              |
|                                                                                           | <b>Consolidated</b> |                   |
|                                                                                           | <b>2017</b>         | <b>2016</b>       |
|                                                                                           | <b>\$'000</b>       | <b>\$'000</b>     |
| <i>Earnings per share for profit from discontinued operations</i>                         |                     |                   |
| Loss after income tax                                                                     | <u>(173)</u>        | <u>(450)</u>      |
|                                                                                           | <b>Cents</b>        | <b>Cents</b>      |
| Basic earnings per share                                                                  | (0.41)              | (1.13)            |
| Diluted earnings per share                                                                | (0.41)              | (1.13)            |
|                                                                                           | <b>Number</b>       | <b>Number</b>     |
| Weighted average number of ordinary shares used in calculating basic earnings per share   | 41,699,592          | 39,966,054        |
| Adjustments for calculation of diluted earnings per share:                                |                     |                   |
| Options over ordinary shares                                                              | <u>-</u>            | <u>-</u>          |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>41,699,592</u>   | <u>39,966,054</u> |

The weighted average number of ordinary shares used in calculating the earnings per share for 2016 has been amended to reflect the share split as detailed in note 21.

**Elmo Software Limited**  
**Directors' declaration**  
**30 June 2017**

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

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

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

On behalf of the directors



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Danny Lessem  
Director



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Trevor Lonstein  
Director

30 August 2017  
Sydney

## Independent Auditor's Report to the Members of Elmo Software Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Elmo Software Limited (the "Company") and its subsidiaries (the "Group"), which comprises the Consolidated Statement of Financial Position as at 30 June 2017, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) Complying with Australian Standards and the *Corporations Regulation 2001*.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | How the scope of our audit responded to the Key Audit Matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Revenue Recognition – rendering of services (\$16.6m)</b></p> <p><i>Refer to the description of accounting principles and Note 3.</i></p> <p>For the year ended 30 June 2017, \$16.6 million was recognised by the Group from rendering of services.</p> <p>As the Group continues to expand, and its software offering evolves, there is a considerable risk associated with recognizing its services revenue.</p> <p>A significant level of judgment is required in complying with applicable accounting standards relevant to revenue recognition. This judgment along with the manual nature of the calculations, could affect the timing and quantum of revenue recognized in each period.</p> | <p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the revenue streams and the appropriateness of the Group's principles in determining that the revenue recognized is in accordance with the criteria outlined in the applicable accounting standards;</li> <li>• Assessing the key controls in relation to the recognition and measurement of revenue;</li> <li>• Testing on a sample basis, revenue transactions by assessing management's calculations against the relevant criteria and tracing to agreements with clients;</li> <li>• Testing journal entries posted to revenue accounts to identify any unusual items;</li> <li>• Testing on a sample basis the completeness of credit notes issued post year end; and</li> <li>• Reconciling the deferred revenue balance as at 30 June 2017 using the invoice amortisation schedule, noting any exceptions.</li> </ul> <p>We also assessed the appropriateness of the disclosures in note 3 to the financial statements.</p> |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Recoverability of Trade Receivables</b></p> <p><i>Refer to the description of accounting policies and Note 9.</i></p> <p>As at 30 June 2017 the Group's trade receivables total \$4.4 million.</p> <p>The Group has a customer base of 524 customers, deployed across a wide range of industries, most of which are small and medium sized businesses, which makes the assessment of impairment of trade receivables inherently difficult to track.</p> <p>Significant judgment is exercised by management in determining whether a provision should be recognized.</p>                                                                                                                                                                     | <p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Assessing the design and effectiveness of the key controls in relation to trade receivables approval process and aging of overdue trade receivable balances;</li> <li>• Evaluating management's billing process in relation to automatic renewal/rollover of client subscription contracts and assessing the recoverability of outstanding receivables and whether any of these were cancelled/reversed/credit noted or written off post year end;</li> <li>• Testing on a sample basis trade receivables to subsequent cash collections and customer contracts; and</li> <li>• Evaluating the adequacy of the provisions recorded against trade receivable balances after factoring subsequent cash received and assessing all outstanding debtor balances over 60 days for recoverability.</li> </ul> <p>We also assess the appropriateness of the disclosures in note 9 to the financial statements.</p> |
| <p><b>Software development costs – Research &amp; development</b></p> <p><i>Refer to the description of the accounting policies and Note 13.</i></p> <p>As at 30 June 2017 the Group recognised \$2.8 million relating to software development costs.</p> <p>The Group capitalises internal software development costs if it can demonstrate the technical feasibility of completing the intangible asset, reliably measure the costs attributable to the intangible asset during its development and estimate future economic benefits.</p> <p>Judgment is involved in determining whether the costs are directly attributable to develop the Group's product suite and new software and the appropriateness of the costs to be capitalised.</p> | <p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Assessing whether the technical and commercial feasibility of the product has been achieved;</li> <li>• Testing the amortisation charge for the year in accordance with the Group's accounting policy and the applicable accounting standards;</li> <li>• Assessing the nature of the services performed by the employees and challenged/considered whether such services were appropriately capitalised as software development costs;</li> <li>• Reconciling capitalised hours to internal timesheets and assessed the distinction between the research and development stages;</li> <li>• Assessing the reasonableness of the percentage used by the Group for capitalisation of internal software development costs in relation to the Group's accounting policy.</li> </ul> <p>We also assess the appropriateness of the disclosures in note 13 to the financial statements.</p>                       |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Business combinations</b></p> <p><i>Refer to Note 15.</i></p> <p>The Group on 7 October 2016 acquired 100% of the ordinary shares of Techni Works Pty Ltd and its controlled subsidiary, Techni Works Action Learning Pty Ltd for a total consideration of \$2.1 million.</p> <p>The accounting for a business combination can be complex and involves a number of significant judgments and estimates including:</p> <ul style="list-style-type: none"> <li>• The determination of the fair value of the contingent consideration; and</li> <li>• The identification and measurement of the fair value of the identifiable assets and liabilities acquired including the valuation of customer relationships and goodwill.</li> </ul> | <p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Understanding the sales and purchase agreement terms and conditions of the acquisition and evaluating management's application in accordance with the relevant accounting standard;</li> <li>• Evaluating the methodology and assumptions utilised to identify and determine the fair value of separately identified intangible assets. This primarily included consideration of the reasonableness of revenue growth assumptions and discount rates underlying the valuation of the separately identifiable customer list intangible;</li> <li>• Assessing the useful economic life of the customer list intangible acquired; and</li> <li>• Confirming the estimation of the contingent consideration was in accordance with the sale and purchase agreement terms and conditions and challenging the key assumptions such as revenue growth rates used in the forecasts;</li> </ul> <p>We also assess the appropriateness of the disclosures in note 15 to the financial statements.</p> |
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## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and ASX Additional Information, which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the annual report (but does not include the financial report and our auditor's report thereon): Company Description, Chairman's message, CEO's overview and other Company information, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and 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.

When we read the Company Description, Chairman's message, CEO's overview and other Company information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

## **Responsibilities of the Directors for the Financial Report**

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

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

## **Auditor's Responsibilities for the Audit of the Financial Report**

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on the Remuneration Report**

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 7 to 10 of the Directors' Report for the year ended 30 June 2017.

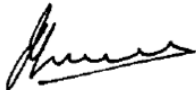
In our opinion, the Remuneration Report of Elmo Software Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

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

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Joshua Tanchel  
Partner, Chartered Accountants  
Sydney, 30 August 2017