



# **ELMO Software Limited**

**ABN 13 102 455 087**

**Consolidated financial statements  
For the Financial year ended 30 June 2021**

**ELMO Software Limited**  
**Corporate directory**  
**For the year ended 30 June 2021**

Directors	Barry Lewin Danny Lessem Kate Hill Leah Graeve
Company secretaries	Anna Sandham James Haslam
Registered office	Level 12 680 George Street Sydney NSW 2000 Phone: 02 8280 7100
Principal place of business	Level 27 580 George Street Sydney NSW 2000 Phone: 02 8305 4600
Share register	Link Market Services Pty Limited Level 12 680 George Street Sydney NSW 2000 Phone: 02 8280 7100
Auditor	Deloitte Touche Tohmatsu Grosvenor Place 225 George Street Sydney NSW 2000
Solicitors	Mills Oakley Level 7 151 Clarence Street 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.ELMOsoftware.com.au">www.ELMOsoftware.com.au</a>
Corporate governance statement	<a href="http://investors.ELMOsoftware.com.au/Investors/?page=Corporate-Governance">http://investors.ELMOsoftware.com.au/Investors/?page=Corporate-Governance</a>
Key dates	Closing date for the receipt of Director nominations: 5 October 2021 2020 Annual General Meeting: 23 November 2021

**ELMO Software Limited**  
**Directors' report**  
**For the year ended 30 June 2021**

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 'Group', 'Company' or 'Parent Entity') and the entities it controlled at the end of, or during, the year ended 30 June 2021.

**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:

Barry Lewin  
Danny Lessem  
Kate Hill  
Leah Graeve

**Dividends**

No dividend was paid during the financial year ended 30 June 2021 (2020: \$nil).

**Operating and financial review**

*Principal activities*

ELMO is a leading provider of Software-as-a-Service (SaaS), cloud-based Human Resources (HR), payroll and expense management solutions in Australia, New Zealand and more recently the United Kingdom (UK). With over 500 employees the ELMO Group primarily operates in two segments, mid-market through the ELMO platform, and small business through the Breathe platform.

In the mid-market, ELMO's HR, payroll and expense management software solutions enable organisations to manage the lifecycle of an employee from hire to retire on a single integrated platform. The Group develops, sells and implements a range of modular software applications to efficiently manage HR, payroll and expense management related processes.

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 during the year*

ELMO has enhanced its mid-market offering with the acquisition of UK based Webexpenses in December 2020. Webexpenses is an expense management point solution which adds to ELMO's revenue, customer base and market opportunity. The acquisition opens up a significant two-way cross-sell opportunity by offering expense management to ELMO customers and HR modules to Webexpenses customers. The addition of Webexpenses has increased the estimated size of the total addressable market to \$10.6 billion.

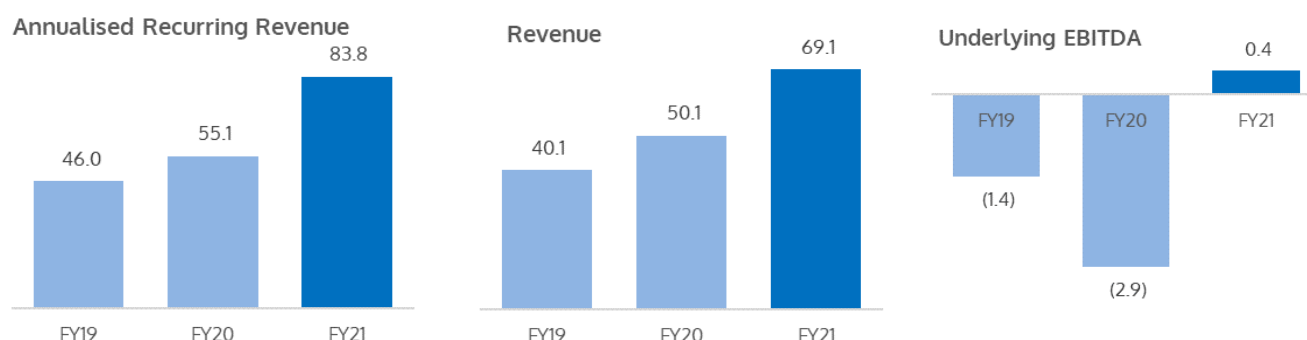
ELMO has completed the integration of Webexpenses and commenced the cross-sell of expense management to existing ELMO customers as well as including the solution in sales to new customers. Commencing in FY22, ELMO will leverage Webexpenses' operational footprint in the UK to launch ELMO's mid-market HR solution there.

ELMO also entered the small business segment during FY21 through the acquisition of UK based Breathe in October 2020. Breathe is a market leading self-service HR solution for small business, with over 9,000 customers and growing rapidly. Breathe presents significant new revenue opportunities for the Group in Australia, New Zealand and the UK.

ELMO has added additional modules to the Breathe platform in the UK which provides new revenue streams and cross-sell opportunities. Breathe was introduced into the Australian market during 2H21 and the company will be ramping up activities in the region through FY22. The total addressable market of the small business segment is estimated to be \$2.2 billion.

## Financial and operational performance for the year

### Highlights



The ELMO Group has seen significant growth across the key metrics of Annualised Recurring Revenue (ARR), revenue and underlying EBITDA through FY21 when compared to FY20. The statutory loss after tax for the year was \$37.6 million and is reconciled to the underlying EBITDA on page 4.

### ARR and Revenue

The Group achieved ARR of \$83.8 million, an increase of 52.1% compared to the prior year (FY20: \$55.1 million). The growth in ARR was driven by the return of business confidence and the increase in remote based working as a result of COVID-19 which is resulting in businesses increasingly adopting cloud-based HR technology to help with the management of the workforce. This has resulted in:

- organic growth of 26.0% across both the mid-market and small business operations, primarily through the increase in the number of customers and cross-sell to existing customers; and
- the contribution from the acquisitions of both Webexpenses and Breathe.

Within the organic ARR growth the mid-market solution is returning towards pre-COVID growth rates, recording organic growth of 21.4% through the year and the small business segment saw accelerated growth of 51.8% on an annualised basis.

Organic growth in the mid-market reflected a temporary decrease in customer retention as some customers in more affected sectors suffered hardship as a result of COVID-19, particularly in 1H21.

The growth in ARR translated to revenue increasing to \$69.1 million, an increase of 38.1% compared to the prior year (FY20: \$50.1 million). The gross profit margin has remained high at 86.6%, a 130-basis point increase compared to FY20.

### Underlying EBITDA

ELMO achieved an underlying EBITDA of \$0.4 million, an improvement of \$3.3 million compared to the prior period (FY20: loss of \$2.9 million). The growth in underlying EBITDA was due to revenue growth coupled with increased operating cost leverage across sales & marketing, research & development (R&D) and general & administrative expenses.

Underlying EBITDA reflects the receipt of government stimulus payments of \$1.8 million, which were invested into employee retention and hiring. In addition, underlying EBITDA reflects a temporary increase in the impairment of trade receivables reflecting the hardship on some customers more acutely affected by the pandemic.

The net loss before significant items was \$26.7 million, compared with a loss of \$17.2 million in the prior year. The increase in the loss was driven by the factors outlined above coupled with the additional amortisation expense relating to the investment in R&D through this year and prior years.

**ELMO Software Limited**  
**Directors' report**  
**For the year ended 30 June 2021**

**Consolidated income statement summary**

<b>A\$m</b>	<b>FY21</b>	<b>FY20</b>
<b>Revenue</b>	<b>69.1</b>	<b>50.1</b>
Gross profit <sup>1</sup>	59.9	42.8
Gross profit %	86.6%	85.3%
<b>Underlying EBITDA<sup>2</sup></b>	<b>0.4</b>	<b>(2.9)</b>
Underlying EBITDA %	0.6%	(5.7%)
Depreciation and amortisation	(27.4)	(15.7)
Net finance cost	(0.3)	(0.2)
Taxation	0.6	1.6
<b>Net loss before significant items</b>	<b>(26.7)</b>	<b>(17.2)</b>
Net loss before significant items %	(38.6%)	(34.3%)
Significant items <sup>3</sup>	(10.9)	(1.4)
<b>Net loss after tax attributable to equity owners</b>	<b>(37.6)</b>	<b>(18.6)</b>
<b>Cents per share</b>		
Loss per share pre significant items	(30.56)	(23.51)
Loss per share	(42.89)	(25.42)

1. Gross profit stated above excludes non-cash share-based payments of \$0.2 million and sales commission amortisation of \$2.3 million which are included within cost of sales in the statutory cost of sales on page 24.
2. Underlying EBITDA is a key measure of the underlying performance of the Group.
3. Significant items relate to changes in the fair value of contingent consideration of \$3.9 million (FY20: nil), non-recurring transaction costs of \$1.9 million (FY20: \$0.3 million) and non-cash share-based payments of \$5.2 million (FY20: \$1.1 million).

**Basis of preparation**

This report includes Annualised Recurring Revenue and underlying EBITDA, measures used by the Directors and management in assessing the on-going performance of the ELMO Group. Annualised Recurring Revenue and underlying EBITDA are non-IFRS measures and have not been audited or reviewed in accordance with Australian Accounting Standards.

Annualised Recurring Revenue is calculated at a point in time and, in this report, reflects the annualisation of revenue at 30 June 2021 and 30 June 2020.

Underlying EBITDA is calculated as profit/(loss) before interest, taxes, depreciation of plant and equipment, amortisation of intangibles, changes in the fair value of contingent consideration, share based payments and significant non-recurring transactions. Underlying EBITDA, which is reconciled in the above table is a measure used by management and the Directors in assessing the performance of the Group. It provides information on the Group's performance excluding significant transactions and non-cash items which are not representative of the Group's on-going operations.

**Capital management**

ELMO is well capitalised to fund future growth initiatives and as at 30 June 2021 held a cash balance of \$81.9 million, which includes a term deposit of \$15 million with a maturity date of 15 March 2022.

The total cash receipts through FY21 totalled \$79.8 million reflecting a 38.8% increase compared to FY20 (FY20: \$57.5m).

On 15 March 2021 ELMO secured a three-year debt facility with the Commonwealth Bank of Australia for \$34.5 million to provide additional balance sheet flexibility and to support future growth initiatives. As at 30 June 2021 the majority of this facility was drawn.

***Matters subsequent to the end of the financial year***

On 1 July 2021, ELMO entered into a forward contract to buy £4.4m with a maturity date of 30 September 2021 to economically hedge the FX exposure on contingent consideration payments as noted in the financial statements.

COVID-19 has not substantially impacted the operations of the Group and its core operations and is not likely to compromise the ability of the Group to continue operating for the foreseeable future. However, the extent of the future impact of COVID-19 on the Group's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak locally and globally, the impact of protracted lockdowns and other regulations imposed by governments with respect to further outbreaks and the resulting impact on customers, employees and vendors all of which are uncertain and cannot be predicted at this time.

Other than disclosed above, no other matter or circumstance has arisen since 30 June 2021 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**  
**For the year ended 30 June 2021**

**Information on directors**

Name:	Barry Lewin
Title:	Chairman and Independent Non-executive Director
Qualifications:	Bachelor of Commerce (B.Com) and Bachelor of Laws (LLB) from University of Cape Town, MBA, Swinburne University of Technology, Melbourne.
Experience and expertise:	Barry is the founder and Managing Director of Melbourne-based corporate advisory firm SLM Corporate Pty Limited, where he advises public and private companies on mergers, acquisitions, transaction structuring, debt and equity issues, business sales and all aspects of corporate governance. Prior to establishing SLM Corporate in 1999, Barry spent 12 years as an in-house counsel to a number of ASX-listed companies.
Other current directorships:	Non-Executive Chairman of Praemium Limited (ASX:PPS), Non-Executive Chairman of Quickfee Ltd (ASX:QFE).
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Nomination and Remuneration Committee and Member of the Audit and Risk Committee
Interests in shares:	15,000 fully paid ordinary shares
Interests in options:	None
Contractual rights to shares:	None

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Name:	Danny Lessem
Title:	Chief Executive Officer, Executive Director and Co-Founder of ELMO
Qualifications:	Bachelor of Laws (LL.B) and Bachelor of Arts and Law from the University of Witwatersrand, South Africa
Experience and expertise:	Danny is responsible for leading the development and execution of the Group'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 Group's operations and has been critical to the success of ELMO, including the strategy underpinning the development of the Group's full suite of software solutions.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	10,823,149 fully paid ordinary shares
Interests in options:	None
Contractual rights to shares:	None

**ELMO Software Limited**  
**Directors' report**  
**For the year ended 30 June 2021**

Name:	Kate Hill
Title:	Independent Non-Executive Director, Chair of the Audit and Risk Committee
Qualifications:	Bachelor of Science – Honours, Mathematics and Statistics from the University of Bristol, England, a member of the Institute of Chartered Accountants in Australia and New Zealand, and a graduate of the Australian Institute of Company Directors.
Experience and expertise:	Kate has over 20 years' experience as a former audit partner with Deloitte Touche Tohmatsu, advising privately owned and small cap ASX listed clients. She has worked extensively in regulated environments including assisting with Initial Public Offerings, capital raising and general compliance, as well as operating in an audit environment.
Other current directorships:	Non-Executive Director of Countplus Limited (ASX: CUP), Chair of their Audit and Risk Committee and a member of the Acquisitions Committee. Non-Executive Chair of Seeing Machines Limited (AIM: SEE), a member of the Audit, Finance and Risk Committee and a member of the People and Culture Committee.
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Audit and Risk Committee and Member of the Nomination and Remuneration Committee
Interests in shares:	24,132 (includes 9,262 restricted shares acquired under the NED equity plan)
Interests in options:	None
Contractual rights to shares:	3,666 share rights under the NED equity plan

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Name:	Leah Graeve
Title:	Independent Non-Executive Director, Chair of the Nomination and Remuneration Committee
Qualifications:	Bachelor of Arts and Law from Monash University and a graduate of the Australian Institute of Company Directors
Experience and expertise:	Leah is currently Global Lead Strategic Sourcing & Procurement at Afterpay Ltd and is also a Board Member of Rare Cancers Australia (not-for-profit). Leah has over 16 years experience as a successful commercial and contracts negotiator in a range of organisations and industries. She has held roles as Head of Procurement, IT & Digital at Qantas Airways, Senior Manager at Jetstar Airways, Legal Counsel at Engonet, IT Commercial Manager at BHP Limited and was a former Policy Advisor to the Animal Law Institute, a not-for-profit community legal centre.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Nomination and Remuneration Committee and member of the Audit and Risk Committee
Interests in shares:	1,531
Interests in options:	None
Contractual rights to shares:	None

**ELMO Software Limited**  
**Directors' report**  
**For the year ended 30 June 2021**

**Chief Financial Officer**

James Haslam has held the roles of Chief Financial Officer and Joint Company Secretary since 4 February 2019. James is a Chartered Accountant and fellow of the Institute of Chartered Accountants in England and Wales (ICAEW). James has over 20 years in accounting and finance including 15 years professional services for KPMG and Deloitte. In 2017 James founded and operated Financial Agility Consulting, which specialised in financial analysis, due diligence, accounting, mergers and acquisitions, and capital markets advice, primarily, focussing on the technology sector.

**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 directors' meetings (including meetings of the committees of directors) and number of meetings attended by each of the Directors of the Group during the year ended 30 June 2021 were:

	Board meeting		Audit and Risk Committee		Nomination and Remuneration Committee	
	A	B	A	B	A	B
Barry Lewin	12	12	-	-	3	3
Danny Lessem	12	12	4	4	-	-
Kate Hill	12	12	4	4	3	3
Leah Graeve	12	12	4	4	3	3

**A** – Number of meetings attended during the time the Director held the office during the year

**B** – Number of meetings held when the Director was eligible to attend during the year

**Directors' interests**

The relevant interest of each director and officer as KMP in the shares, options and rights over such instruments issued by the Group, at the date of this report is as follows:

Directors	Fully paid ordinary shares Number	Share options Number	Performance rights Number	Share rights Number
Danny Lessem	10,823,149	-	-	-
Barry Lewin	15,000	-	-	-
Kate Hill	24,132(i)	-	-	3,666
Leah Graeve	1,531	-	-	-
<i>Officer</i>				
James Haslam	13,590	24,407	36,705	-

(i) Includes 9,262 restricted shares issued as part of the Non-Executive Director equity plan.

**ELMO Software Limited**  
**Directors' report**  
**For the year ended 30 June 2021**

*Shares under option/right (see note 39 for further detail)*

Issuing entity	Number of shares/rights under option	Class of shares	Exercise price of rights/options	Expiry date of options
<b>Share options</b>				
<b>Executive</b>				
ELMO Software Limited	279,877	Ordinary shares	\$2.51	17 October 2027
ELMO Software Limited	31,373	Ordinary shares	\$2.51	7 December 2027
ELMO Software Limited	207,831	Ordinary shares	\$5.50	29 October 2028
ELMO Software Limited	24,407	Ordinary shares	\$5.50	27 March 2029
<b>Employee</b>				
ELMO Software Limited	72,465	Ordinary shares	\$2.51	17 October 2027
ELMO Software Limited	250,468	Ordinary shares	\$5.50	5 November 2028
ELMO Software Limited	7,885	Ordinary shares	\$5.50	25 February 2029
<b>Performance rights</b>				
<b>Executive</b>				
ELMO Software Limited	58,001	Ordinary shares	\$6.74	
ELMO Software Limited	105,556	Ordinary shares	\$5.29	
<b>Employee</b>				
ELMO Software Limited	225,609	Ordinary shares	\$5.29	
ELMO Software Limited	268,868	Ordinary shares	\$6.55	

Upon vesting, the rights immediately convert to shares so no expiry date applies.

**Indemnity and insurance of officers**

The Group has indemnified the directors and executives of the Group 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 Group paid a premium in respect of a contract to insure the directors and executives of the Group 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 Group has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor.

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

**Proceedings on behalf of the Group**

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

**ELMO Software Limited**  
**Directors' report**  
**For the year ended 30 June 2021**

**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 32 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 32 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 Group, acting as advocate for the Group or jointly sharing economic risks and rewards.

**Officers of the Group who are former partners of Deloitte Touche Tohmatsu**

No officer of the Group was an audit partner of Deloitte Touche Tohmatsu, being the auditors during the financial year, at a time when the audit firm undertook an audit of the Group.

**Rounding of amounts**

The Group 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 on page 22.

**Auditor**

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

## **Remuneration report (audited)**

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

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

- Remuneration governance
- Key management personnel
- Human resource strategy and remuneration policy
- Remuneration payments and link between performance and reward
- Remuneration of key management personnel
- Key terms of employment contracts
- Long term incentive plan
- Key management personnel equity holdings

### ***Remuneration governance***

The Nomination and Remuneration Committee is responsible for reviewing the remuneration arrangements for its Directors and Executives and making recommendations to the Board. The Nomination and Remuneration Committee has two key functions:

- The purpose of the nomination function is to review and make recommendations to the Board with respect to identifying nominees for directorships and key executive appointments; considering the composition of the Board, ensuring that effective induction and education procedures exist for new Board appointees, key executives and senior management; ensuring that appropriate procedures exist to assess and review the performance of the Chairman, Non-executive Directors and senior executives. The responsibility for the Group's remuneration policy rests with the full Board notwithstanding the establishment of the Committee.
- The purpose of the remuneration function is to provide advice, recommendations and assistance to the Board in relation to the Group's remuneration policies and remuneration packages of senior executives, Executive Directors and Non-executive Directors.

Further information regarding the Committee's responsibilities is set out in the Nomination and Remuneration Committee Charter available at <http://investors.elmosoftware.com.au/Investors/?page=Corporate-Governance>.

**ELMO Software Limited**  
**Directors' report**  
**For the year ended 30 June 2021**

**Remuneration report (audited)**

***Key management personnel***

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

For the year ended 30 June 2021 and since the end of the financial year KMP are as follows:

**Executive KMP**

Danny Lessem  
James Haslam

Chief Executive Officer  
Chief Financial Officer and Joint Company Secretary

***Human resource strategy and remuneration policy***

The framework encourages executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to be based on 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

***Remuneration payments and link between performance and reward***

ELMO's remuneration strategy is designed to assist ELMO to achieve its corporate objectives through appropriate fixed and performance-based remuneration as detailed below:

***Executive KMP remuneration***

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

The Executive KMP remuneration and reward framework for the current year included:

- cash salary
- superannuation
- short-term incentive
- long-term incentive including share options and performance rights (LTI) although the CEO does not participate in the LTI due to his status as a founder and significant shareholder.

The combination of these comprises the Executive KMP's total remuneration as detailed under 'Key terms of employment contracts'.

Fixed remuneration, consisting of base salary, fees and superannuation is 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.

The Group did not engage any remuneration consultants during the years ended 30 June 2021 and 30 June 2020.

**Remuneration report (audited)**

*Short term incentive plan (STI Plan)*

ELMO has established a short term incentive plan under which employees may be provided with a cash or equity bonus for achievement against objectives and key results (OKR's).

Participation in the STI Plan is determined at the discretion of the Board. OKR's to Executive KMP will generally relate to conditions that are within the control of the employee, for example group revenue and profit targets, strategic measures or other such conditions, including both quantitative and qualitative as ELMO may decide as relevant to the specific executive role. Subject to the discretion of the Board, the STI Plan has been structured based on the overall remuneration structure adopted by ELMO such that 60% of an employee's total package consists of fixed pay and 40% as performance pay, with the performance pay component divided such that 60% is based on short term performance and 40% of long term performance (excluding the CEO where only the STI element will apply for the performance pay). The quantum of any reward is 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.

*Employee Salary Sacrifice Scheme (ESS)*

During FY21 ELMO introduced an employee share scheme whereby individuals eligible for a short term incentive could elect to opt in to the scheme (required by 30 June 2021) and convert the STI into ELO ordinary shares, which was undertaken by the Executive KMP.

*Long-term incentive program (LTI Plan)*

ELMO has both a Senior Executive Equity Plan (SEEP) and a High Performer Equity Plan (HPEP) as part of its LTI Plan for the year ended 30 June 2021. During the year Executive KMP (except the CEO) received awards granted in accordance with the SEEP only. ELMO will regularly assess the appropriateness of its incentive plans and may amend or replace, suspend or cease using the SEEP if considered appropriate by the Board.

*The Senior Executive Equity Plan (SEEP)*

Equity incentives under the SEEP were granted to executive employees (or such other person that the Board determines is eligible to participate) in respect of FY20 and FY21; with offers made at the discretion of the Board. Grants under the SEEP are made annually and are made to the Executive KMP (except the CEO) as the Board may determine from time to time. Any grants are made subject to the ASX Listing Rules, to the extent applicable. The terms of the incentives granted under this plan were determined by the Board at grant.

*Share options*

The SEEP is intended to align the interests of the senior executives with Shareholders. Awards under the SEEP prior to FY20 were structured as an option to receive shares at a future date subject to the recipient paying the exercise price (SEEP Option) with the performance period commencing on 1 July of the year of grant and concluding on 30 June three years later.

*Performance rights*

From FY20 onward, to ensure alignment and retention of key executives as the Group matures, awards under the SEEP are issued as performance rights rather than share options. If the performance rights vest they will be automatically converted to shares; one share will be received for each performance right vested and no cash alternative.

**Remuneration report (audited)**

The following table details the fixed, variable, short and long term incentives in relation to executive remuneration and the link to the Group's performance.

<b>Component</b>	<b>Performance measures</b>	<b>Strategic objective/Performance link</b>
Fixed remuneration	<p>The position description of each Executive KMP includes a set of individual performance measures which are reviewed and evaluated each financial year.</p> <p>Remuneration is set competitively in order to:</p> <ul style="list-style-type: none"> <li>Recruit: Attract the best talent to ELMO to ensure sustainable growth</li> <li>Retain: Ensure talent is not poached by larger technology organisations or direct competitors.</li> </ul>	<p>Each Executive KMP's individual performance measures is specifically designed to ensure alignment with the Group's strategic plans for the year.</p> <p>Fixed remuneration is based on:</p> <ul style="list-style-type: none"> <li>Role and responsibility</li> <li>Capability and competencies</li> <li>Comparable market remunerations</li> </ul>
<p><b>Performance-based remuneration (STI's and LTI's)</b></p> <p>ELMO's performance pay consists of short and long-term incentives which are designed to:</p> <ul style="list-style-type: none"> <li>Motivate: to achieve financial and non-financial corporate objectives</li> <li>Reward: create performance culture that recognises and rewards outstanding performance</li> <li>Retain: through the Senior Executive Equity Plan (SEEP) and the subsequent tenure required for options and rights to vest</li> </ul>		
Short-term incentive plan (STI) being cash or equity award	<p>The personal OKR's of each Executive KMP relate to conditions that are within the control of the employee including quantitative and qualitative targets, strategic initiatives and such other conditions as the Group requires. Quantitative targets include material achievement of Group guidance*.</p> <p>STI's are cash or equity-based payments</p> <ul style="list-style-type: none"> <li>Quantum of STI = % of performance relative to an individual's OKR's.</li> </ul>	<p>Ensures each Executive KMP is held accountable for the outcomes that are under his control. These outcomes are designed to support the overall Group objectives.</p> <p>STI's motivate individuals, create a high-performance culture and increase employee engagement.</p>
Long-term incentive plan (LTI) under the (SEEP)	<p><b>Share options</b></p> <p>Share options are tested in three tranches over a three year period in the following proportions:</p> <ul style="list-style-type: none"> <li>Year 1 – 20%</li> <li>Year 2 – 30%</li> <li>Year 3 – 50%</li> </ul> <p>Participants must be employed on vesting date for the options to vest. Performance will be tested at the end of each vesting period (years 1, 2, and 3) to determine the extent to which the Group has satisfied the Total Shareholder Return (TSR) performance condition.</p> <p>Vesting against this target will apply if the following is met:</p> <ul style="list-style-type: none"> <li>100% of the Options will vest if the Group ranks at or above the 75th percentile;</li> <li>Straight line vesting will occur if the Group ranks between the 50th percentile and the 75th percentile;</li> <li>65% of the Options will vest if the Group ranks at the 50th percentile;</li> <li>0% of the Options will vest if the Group ranks below the 50th percentile.</li> </ul> <p>Performance will be tested relative to a peer group comprising the constituent companies of the S&amp;P/ASX 300 excluding mining and energy companies.</p>	<p>Ensures a direct link between the performance of the Executive KMP and their departments with the creation of shareholder value.</p>

**Remuneration report (audited)**

Long-term incentive plan (LTI) under the (SEEP)	<p><i>Performance Rights</i></p> <p>The performance rights will vest in three tranches over a three-year period from the grant date in the following proportions:</p> <ul style="list-style-type: none"><li>• Year 1 – 20%</li><li>• Year 2 – 30%</li><li>• Year 3 – 50%</li></ul> <p>Performance will be tested as to 50% against relative TSR (RTSR Hurdle), 50% material achievement of Group guidance* and continued employment. The TSR of each Group will be measured from the start of the performance period to the end of the performance period with the following vesting proportions applying:</p> <table><tr><td><i>Group's RTSR percentile rank against comparator group</i></td><td><i>Vesting percentage</i></td></tr><tr><td>Less than 50th</td><td>Nil</td></tr><tr><td>At 50th</td><td>65%</td></tr><tr><td>Between 50<sup>th</sup> to 75<sup>th</sup></td><td>66-99% on a straight-line basis</td></tr><tr><td>At or above 75<sup>th</sup></td><td>100%</td></tr></table>	<i>Group's RTSR percentile rank against comparator group</i>	<i>Vesting percentage</i>	Less than 50th	Nil	At 50th	65%	Between 50 <sup>th</sup> to 75 <sup>th</sup>	66-99% on a straight-line basis	At or above 75 <sup>th</sup>	100%	
<i>Group's RTSR percentile rank against comparator group</i>	<i>Vesting percentage</i>											
Less than 50th	Nil											
At 50th	65%											
Between 50 <sup>th</sup> to 75 <sup>th</sup>	66-99% on a straight-line basis											
At or above 75 <sup>th</sup>	100%											

\* Group guidance for FY21 was:

<b>Annual recurring revenue (ARR)</b>	\$83m - \$85m
<b>Revenue</b>	\$68m - \$70m
<b>EBITDA</b>	(\$2.5m) – (\$3.5m)

For FY21 the STI's were based on quantitative and qualitative performance measures for each Executive KMP with individual performance reviews conducted at the end of the year. ELMO is committed to continually evolving the OKR's for Executives KMP's ensuring meaningful shareholder value aligned targets on which to be assessed.

In considering the Group's performance and benefits for shareholder wealth, the Nomination and Remuneration Committee have regard to the following indices in respect of the current financial year and the previous four financial years.

	<b>FY21</b>	<b>FY20</b>	<b>FY19</b>	<b>FY18</b>	<b>FY17</b>
ARR (\$'m)	83.8	55.1	46.0	31.1	19.1
Revenue (\$'m)	69.1	50.1	40.1	26.5	16.6
Revenue growth (%)	38.1	25.0	51.3	60.0	36.0
Closing share price (\$)	4.26	7.16	7.29	5.50	2.50
Change in the share price from beginning of year (%)	(40.5%)	(2%)	33%	120%	N/A

No dividends have been paid in the financial years disclosed above.

**Remuneration report (audited)**

*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 of the Non-Executive Directors as remuneration for their services as a Director, guided by remuneration benchmarking. 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 Group in the general meeting.

This amount has been fixed by the Group 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 remuneration for special exertions and additional services performed by a Non-Executive Director in addition to their agreed roles. Any additional fees will be approved by the Board when determined to be appropriate.

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

The Non-Executive Directors do not receive performance-related compensation, and there are no contractual redundancy or retirement benefit schemes for Non-Executive Directors, other than statutory superannuation contributions.

There is however a Non-Executive Director (NED) equity plan in place under which a Non-Executive Director may choose to sacrifice some or all of their salary in share rights (non-performance). The share rights vest on the first business day of the financial quarter beginning after each grant date. Upon vesting, restricted shares will be allocated subject to the restriction period being the earlier of 15 years or upon cessation as a Non-Executive Director.

Chair and independent Non-Executive Director, Barry Lewin's annual directors' fee was \$200,000.

Kate Hill's annual fee was \$110,000 per annum for her role as a Non-Executive director, Chair of the Audit and Risk Committee and a member of the Nomination and Remuneration Committee. In accordance with the rules of the NED equity plan Kate salary sacrifices 32% of her salary to be transferred into the equity plan from which the share rights are purchased and valued at the grant date.

Leah Graeve's annual fee was \$110,000 per annum (inclusive of superannuation) for her role as a Non-Executive director, Chair of the Nomination and Remuneration Committee and a member of the Audit and Risk Committee.

**ELMO Software Limited**  
**Directors' report**  
**For the year ended 30 June 2021**

**Remuneration report (audited)**

**Remuneration of key management personnel**

The following tables below detail remuneration of key management personnel based on the policies previously discussed for the years ended 30 June 2021 and 30 June 2020.

**Year ended 30 June 2021**

	Cash salary and fees	Fees sacrificed under NED equity plan	STI (equity- settled) (ii)	Equity- settled share- based payment (LTI) (iii)	Super- annuation	Annual leave	Long service leave	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive Directors:</b>								
Barry Lewin (Chairman)	200,000	-	-	-	-	-	-	200,000
Kate Hill (i)	75,000	35,000	-	-	-	-	-	110,000
Leah Graeve	100,457	-	-	-	9,543	-	-	110,000
<b>Executive KMP:</b>								
Danny Lessem	833,000	-	679,250	-	25,000	22,671	41,987	1,601,908
James Haslam	454,160	-	239,580	59,153	25,000	17,603	4,198	799,694
	1,662,617	35,000	918,830	59,153	59,543	40,274	46,185	2,821,602

**Notes in relation to Non-Executive Directors' and Executive KMP remuneration table**

- (i) During the current year Kate Hill salary sacrificed 32% of her annual salary under the rules of the NED equity plan detailed previously (2020: 25%) and received during the financial year as \$30,000 in restricted shares and \$17,500 in share rights, of which \$35,000 related to salary sacrifice in FY21 and \$12,500 related to FY20.
- (ii) The STI bonus is for performance during the financial year using the performance criteria set out on page 14 after performance reviews were completed and approved by the Nomination and Remuneration Committee. Short-term incentives were approved by the Board post year-end but accrued in the financial statements for the year ended 30 June 2021 and were therefore disclosed. Following the introduction of the ESS scheme (page 14) 100% of STI will be awarded and equity-settled.
- (iii) The respective values of awards granted under the long-term incentive plan (LTI) are calculated as follows:
- For share options issued prior to FY20, using a Monte Carlo simulation approach subject to the relative total shareholder returns performance conditions, and allocated to each reporting period evenly over the period from grant date to vesting date.
  - For performance rights issued in FY20 and FY21, using a Monte-Carlo simulation approach.

**Key terms of employment contracts for the year ended 30 June 2021**

Name: Danny Lessem  
Title: Executive Director and Chief Executive Officer  
Details: Base salary for the year ending 30 June 2021 of \$858,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 6 month termination notice by either party. Danny was eligible for a short term incentive benefit. He does not participate in the LTI.

Name: James Haslam  
Title: Chief Financial Officer  
Details: Base salary for the year ending 30 June 2021 of \$479,160 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 6 month termination notice by either party. James was eligible for both short term and long term incentive benefit.

**ELMO Software Limited**  
**Directors' report**  
**For the year ended 30 June 2021**

**Year ended 30 June 2020**

	Cash salary and fees	Fees sacrificed under NED equity plan	STI (ii)	Equity- settled share- based payment (iii)	Super- annuation	Annual leave	Long service leave	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive Directors:</b>								
Barry Lewin (Chairman)	150,000	-	-	-	-	-	-	150,000
Kate Hill (i)	73,303	26,697	-	-	-	-	-	100,000
Leah Graeve	90,500	-	-	-	9,500	-	-	100,000
<b>Executive KMP:</b>								
Danny Lessem	690,000	-	465,000	-	25,000	22,369	14,384	1,216,753
James Haslam	371,000	-	158,400	60,860	25,000	24,189	-	639,449
	1,374,803	26,697	623,400	60,860	59,500	46,558	14,384	2,206,202

**Notes in relation to Non-Executive Directors' and Executive KMP remuneration table**

- (i) Kate Hill salary sacrificed 25% of her annual salary under the rules of the NED equity plan detailed previously and received during the financial year as \$25,218 in restricted shares and \$7,350 in share rights, of which \$12,121 related to salary sacrifice in FY19 and \$20,447 related to FY20.
- (ii) The STI bonus is for performance during the financial year using the performance criteria set out on page 14 after performance reviews were completed and approved by the Nomination and Remuneration Committee. Short-term incentives were approved by the Board post year-end but accrued in the financial statements for the year ended 30 June 2020 and were therefore disclosed.
- (iii) The respective values of awards granted under the long-term incentive plan (LTI) are calculated as follows:
- For share options issued prior to FY20, using a Monte Carlo simulation approach subject to the relative total shareholder returns performance conditions, and allocated to each reporting period evenly over the period from grant date to vesting date.
  - For performance rights issued in FY20, using the Monte-Carlo simulation approach.

**Remuneration report (audited)**

***Long term incentive plan***

***Rights and options over equity instruments granted as compensation***

Details on performance rights and options over ordinary shares in the Group that were granted as compensation to KMP during the reporting period and details on options that vested during the reporting period are as follows:

<b>Performance rights</b>	<b>No of performance rights granted during FY21</b>	<b>Vesting condition</b>	<b>Grant date</b>	<b>Weighted Average Fair value at grant date</b>
James Haslam	24,172	TSR & Material achievement of group guidance (p15)	14 Sep 2020	\$3.81

<b>NED share rights</b>	<b>No of share rights granted during FY21</b>	<b>Grant date</b>	<b>Fair value at grant date</b>
Kate Hill	1,663	30 Sep 2020	\$5.26
	1,342	31 Dec 2021	\$6.52
	1,743	31 Mar 2021	\$5.02
	1,923	30 Jun 2021	\$4.55

***Options and rights over equity instruments***

	<b>Held at 1 July 2020</b>	<b>Granted as compensation</b>	<b>Vested &amp; converted to shares(i)</b>	<b>Cancelled</b>	<b>Held at 30 June 2021</b>	<b>Vested</b>
<b><i>Options</i></b>						
James Haslam	24,614	-		(207)(i)	24,407	12,100
<b><i>Performance rights</i></b>						
James Haslam	15,667	24,172	(3,090)	(44)(ii)	36,705	
<b><i>Share rights(iii)</i></b>						
Kate Hill	2,302	6,671	(5,307)	-	3,666	

(i) Following testing of vesting conditions 97.2% year 2 options vested;

(ii) Following testing of vesting conditions 98.6% year 1 rights vested;

(iii) The NED share rights vest on the first business day of the next financial quarter which will be the first available date post the trading black-out window.

***Details of equity incentives affecting current and future remuneration***

In addition to a continuing employment service condition, vesting is conditional on the Group achieving certain performance hurdles. Details of the performance criteria are including in the long-term incentives discussion on page 13.

For performance rights granted in the current year, the earliest vesting and exercisable date are:

- Year 1 – 20%
- Year 2 – 30%
- Year 3 – 50%

The fair value of the performance rights is calculated using a Monte-Carlo simulation approach.

**ELMO Software Limited**  
**Directors' report**  
**For the year ended 30 June 2021**

**Remuneration report (audited)**

**Key management personnel equity holdings**

**Year ended 30 June 2021**

	Balance as at 1 July 2020	Purchases during the year (i)	Shares acquired under the SEEP equity plan	Shares acquired under NED equity plan	Balance as at 30 June 2021	
	Number	Number		Number	Ordinary Shares Number	Restricted shares Number
<i>Non-Executive Directors</i>						
Barry Lewin	15,000	-	-	-	15,000	-
Kate Hill	8,955	9,870	-	5,307	14,870	9,262
Leah Graeve	-	1,531	-	-	1,531	-
<i>Executive KMP</i>						
Danny Lessem	10,823,149	-	-	-	10,823,149	-
James Haslam	8,500	2,000	3,090	-	13,590	-

(i) The following purchases of ordinary shares were made during the year:

- On 17 February 2021 Leah Graeve purchased 1,531 shares at a price of \$6.48 per share;
- On 1 April 2021 Kate Hill purchased 9,870 shares at a price of \$5.06 per share;
- On 8 March 2021 James Haslam purchased 2,000 shares at a price of \$5.00 per share.

**Year ended 30 June 2020**

	Balance as at 1 July 2019	Purchase/sold during the year (i)	Shares acquired under NED equity plan	Balance as at 30 June 2020	
	Number	Number	Number	Ordinary Shares Number	Restricted shares Number
<i>Non-Executive Directors</i>					
Barry Lewin	10,000	5,000	-	15,000	-
Kate Hill	-	5,000	3,955	5,000	3,955
Leah Graeve	-	-	-	-	-
<i>Executive KMP</i>					
Danny Lessem	11,989,816	(1,166,667)	-	10,823,149	-
James Haslam	5,000	3,500	-	8,500	-

(i) On 18 September 2019 Danny Lessem sold 1,166,667 ordinary shares at a share price of \$6.00 per share.

This concludes the remuneration report (audited).

**ELMO Software Limited**  
**Directors' report**  
**For the year ended 30 June 2021**

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



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Barry Lewin  
Chairman



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Danny Lessem  
Director

31 August 2021  
Sydney

31 August 2021

The Board of Directors  
Elmo Software Limited  
Level 27, 580 George Street  
SYDNEY, NSW 2000

Dear Board Members

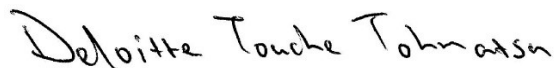
## Elmo Software Limited

In accordance with section 307C of the *Corporations Act 2001*, 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 report of Elmo Software Limited for the financial year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Carlo Pasqualini  
Partner  
Chartered Accountants

**ELMO Software Limited**  
**Contents**  
**For the year ended 30 June 2021**

Consolidated Statement of profit or loss and other comprehensive income	24
Consolidated Statement of financial position	25
Consolidated Statement of changes in equity	26
Consolidated Statement of cash flows	27
Notes to the financial statements	28
Directors' declaration	65
Independent auditor's report to the members of ELMO Software Limited	66

**General information**

The financial statements cover ELMO Software Limited as a consolidated entity consisting of the parent company ELMO Software Limited ('Company') and the entities it controlled at the end of, or during, the year ended 30 June 2021 ('Group'). The financial statements are presented in Australian dollars, which is ELMO Software Limited's functional and presentation currency.

The ELMO Group is a for-profit entity and its principal business is providing Software-as-a-Service (SaaS), cloud-based human resources and payroll solutions.

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**

Level 27  
580 George Street  
Sydney NSW 2000

The financial statements were authorised for issue, in accordance with a resolution of directors, on 31 August 2021. The directors have the power to amend and reissue the financial statements.

**ELMO Software Limited**  
**Consolidated Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2021**

	<b>Note</b>	<b>Consolidated 2021 \$'000</b>	<b>2020 \$'000</b>
Revenue from contracts with customers	4	69,106	50,051
Cost of sales		(11,693)	(7,980)
Gross profit		57,413	42,071
Other income	5	1,826	2,006
Sales and marketing expenses		(30,921)	(22,589)
Research and development expenses		(12,271)	(6,102)
General and administrative expenses		(22,674)	(18,100)
Depreciation and amortisation expense		(25,140)	(15,041)
Impairment loss on trade receivables		(2,010)	(2,109)
Net gain on derecognition of right-of-use asset measured at cost		134	17
Changes to fair value of contingent consideration	27	(3,866)	-
Finance income	7	452	770
Finance costs	8	(744)	(1,006)
Share of loss from joint venture	16	(461)	(182)
<b>Loss before income tax expense from continuing operations</b>		<b>(38,262)</b>	<b>(20,265)</b>
Income tax benefit	9	636	1,649
<b>Loss after income tax expense for the year</b>		<b>(37,626)</b>	<b>(18,616)</b>
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		767	94
<b>Total comprehensive loss for the year attributable to the owners of ELMO Software Limited</b>		<b>(36,859)</b>	<b>(18,522)</b>
<b>Loss per share</b>		<b>Cents</b>	<b>Cents</b>
From continuing operations			
Basic loss	38	(42.89)	(25.42)
Diluted loss	38	(42.89)	(25.42)

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

**ELMO Software Limited**  
**Consolidated Statement of financial position**  
**As at 30 June 2021**

	<b>Note</b>	<b>Consolidated 2021 \$'000</b>	<b>2020 \$'000</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	81,944	139,887
Trade and other receivables	11	13,724	10,386
Derivative financial instruments	27	400	-
Other current assets	13	3,567	1,636
Income tax refundable	12	-	81
Finance lease receivable	18	82	206
<b>Total current assets</b>		<b>99,717</b>	<b>152,196</b>
<b>Non-current assets</b>			
Investment in jointly controlled entity	16	1,037	1,498
Property, plant and equipment	14	8,422	4,589
Intangible assets and capitalised costs	15	188,595	72,961
Right-of-use assets	17	18,774	14,991
Finance lease receivable	18	-	83
<b>Total non-current assets</b>		<b>216,828</b>	<b>94,122</b>
<b>Total assets</b>		<b>316,545</b>	<b>246,318</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	20	14,644	10,842
Deferred and contingent consideration	27	35,234	6,208
Lease liabilities	19	4,041	2,741
Employee benefits	23	4,494	3,273
Current tax liabilities	12	441	-
Contract liabilities	24	32,545	26,098
<b>Total current liabilities</b>		<b>91,399</b>	<b>49,162</b>
<b>Non-current liabilities</b>			
Loans and borrowings	21	30,000	-
Deferred and contingent consideration	27	313	500
Lease liabilities	19	20,155	16,006
Employee benefits	26	799	436
Deferred tax	25	5,002	450
Contract liabilities	24	2,031	516
<b>Total non-current liabilities</b>		<b>58,300</b>	<b>17,908</b>
<b>Total liabilities</b>		<b>149,699</b>	<b>67,070</b>
<b>Net assets</b>		<b>166,846</b>	<b>179,248</b>
<b>Equity</b>			
Share capital	28	235,695	214,156
Reserves	28	5,565	1,880
Accumulated losses	29	(74,414)	(36,788)
<b>Equity attributable to the owners of ELMO Software Limited</b>		<b>166,846</b>	<b>179,248</b>
<b>Total equity</b>		<b>166,846</b>	<b>179,248</b>

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

**ELMO Software Limited**  
**Consolidated Statement of changes in equity**  
**For the year ended 30 June 2021**

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Foreign currency reserves \$'000</b>	<b>Share option reserves \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2019	72,733	5	831	(18,172)	55,397
Loss after income tax benefit for the year	-	-	-	(18,616)	(18,616)
Other comprehensive income for the year, net of tax	-	94	-	-	94
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>94</b>	<b>-</b>	<b>(18,616)</b>	<b>(18,522)</b>
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued under institutional placement	125,000	-	-	-	125,000
Shares issued under share purchase plan	17,801	-	-	-	17,801
Exercise of unlisted options	669	-	-	-	669
Less: share placement costs (net of tax)	(3,047)	-	-	-	(3,047)
Issue of shares under business combinations (net of cost)	1,000	-	-	-	1,000
<i>Reserves:</i>					
Equity settled share-based payment	-	-	1,086	-	1,086
Exercise of unlisted options	-	-	(136)	-	(136)
<b>Balance at 30 June 2020</b>	<b>214,156</b>	<b>99</b>	<b>1,781</b>	<b>(36,788)</b>	<b>179,248</b>

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Foreign currency reserves \$'000</b>	<b>Share option reserves \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2020	214,156	99	1,781	(36,788)	179,248
Loss after income tax benefit for the year	-	-	-	(37,626)	(37,626)
Other comprehensive income for the year, net of tax	-	767	-	-	767
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>767</b>	<b>-</b>	<b>(37,626)</b>	<b>(36,859)</b>
<i>Transactions with owners in their capacity as owners:</i>					
Issue of shares under business combinations (see note 22)	21,223	-	-	-	21,223
Vesting of performance rights and exercise of options	316	-	(254)	-	62
<i>Reserves:</i>					
Shares purchased by Trust	-	-	(2,000)	-	(2,000)
Equity settled share-based payment	-	-	5,172	-	5,172
<b>Balance at 30 June 2021</b>	<b>235,695</b>	<b>866</b>	<b>4,699</b>	<b>(74,414)</b>	<b>166,846</b>

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

**ELMO Software Limited**  
**Consolidated Statement of cash flows**  
**For the year ended 30 June 2021**

	<b>Note</b>	<b>Consolidated 2021 \$'000</b>	<b>2020 \$'000</b>
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		79,819	57,498
Payments to suppliers and employees (inclusive of GST)		(77,673)	(53,200)
		2,146	4,298
Other income received		3,898	1,736
Income taxes refunded		59	35
<b>Net cash generated from operating activities</b>	<b>37</b>	<b>6,103</b>	<b>6,069</b>
<b>Cash flows from investing activities</b>			
Interest received		467	746
Payment for investment in jointly controlled entity		-	(1,180)
Payment of deferred consideration from acquisitions in the prior period		(5,839)	(3,770)
Payments for property, plant and equipment		(5,875)	(1,785)
Payments for intangibles		(30,554)	(21,423)
Payment for acquisitions of businesses and subsidiaries, net of cash acquired		(46,216)	(2,255)
<b>Net cash used in investing activities</b>		<b>(88,017)</b>	<b>(29,667)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		-	142,801
Shares purchased by trust (ESS)		(2,000)	-
Proceeds from exercise of share options		60	511
Share issue transaction costs (net of tax)		(328)	(4,356)
Proceeds from borrowings		30,000	-
Repayment of lease liabilities		(5,116)	(3,259)
Receipt for lease incentives		1,338	-
<b>Net cash generated from financing activities</b>		<b>23,954</b>	<b>135,697</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(57,960)</b>	<b>112,099</b>
Cash and cash equivalents at the beginning of the financial year		139,887	27,698
Effect of exchange differences on cash balances		17	90
<b>Cash and cash equivalents at the end of the financial year</b>	<b>10</b>	<b>81,944</b>	<b>139,887</b>

*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 Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. This includes amendments to AASB 3 Definition of a business, AASB 101 and AASB 108 Definition of material. There was no significant impact from the application of these amendments. The impact of the IFRIC Agenda decision regarding Cloud Computing Arrangements has been deemed to have a insignificant effect on current or previous financial years.

### **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. The consolidated financial statements also comply with International Financial Reporting Standards ('IFRS') and interpretations ('IFRICs') adopted by the International Accounting Standards Board ('IASB').

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial assets, contingent consideration payables and share-based payment transactions which are stated at their fair value.

### **Rounding of amounts**

The Group 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.

### **Going concern**

The Consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations as and when they fall due. As at 30 June 2021 the Group has a cash balance of \$81.9 million with net current assets of \$8.3 million but this includes non-cash elements of contract liabilities for deferred subscription revenue of \$32.5 million and contingent consideration to be settled in shares of \$7.3 million.

### **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 34.

### **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.

Changes in these judgements, estimates and assumptions could result in outcomes that require a material adjustment in future periods.

### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ELMO Software Limited ('Group', 'Company' or 'parent entity') as at 30 June 2021 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**

Subsidiaries are all those entities over which the parent entity has control. The parent entity controls an entity when the parent entity is exposed to, or has rights to, variable returns from its involvement with the entity and can affect those returns through its power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the parent entity. They are de-consolidated from the date that control ceases.

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

*Transactions eliminated upon consolidation*

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.

*Business combinations*

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

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, except if related to the issue of equity securities.

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.

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. Any goodwill that arises is tested annually for impairment. 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.

*Interests in equity-accounted investees*

The Group's interest in equity-accounted investees comprises an interest in a jointly controlled investment. A jointly controlled investment is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than the rights to its assets and obligations for its liabilities.

The interest in the jointly controlled investment is accounted for using the equity accounting method. The interest is initially recognised at cost; subsequent to initial recognition, the consolidated financial statements include the Group's share of profit or loss and other comprehensive income ('OCI') of the equity-accounted investment until the date on which joint control ceases.

**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**

*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 currency differences are generally recognised in profit or loss and presented within finance costs.

**Note 1. Significant accounting policies (continued)**  
**Foreign currency translation**

*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.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the Consolidated statement of financial position. The cumulative amount of these differences is reclassified into profit or loss in the period in which the operation is disposed of.

**Revenue recognition from contracts with customers**

The Group applies the following five steps in recognising revenue from contracts with customers:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to performance obligations based on their relative standalone selling price; and
5. Recognise revenue when, or as, performance obligations are satisfied.

The group has two primary revenue streams:

- Software solution services; and
- Professional services

*(i) Identification of distinct elements and separate performance obligations*

Software solution services

In the case where the customer contract includes a license and additional integration services provided including implementation and integration ("software solution services") the assessment has been performed as to whether a separate performance obligation exists for each element. These additional services provided with the licence are not distinct or separately identifiable and therefore the contract includes only one performance obligation under AASB 15.

Professional services

These services can be provided at any point during the life of the licence contract and are therefore classified as a separate performance obligation.

*(ii) Revenue recognition*

The Group recognises revenue from the following major sources as below:

<b>Revenue Stream</b>	<b>Performance Obligation</b>	<b>Timing of Recognition</b>
"Software solution services" - software licences, implementation and integration services	Access to software	Over the life of the contract as the customer simultaneously receives and consumes the benefits of accessing the software
Professional services – one-off services including but not limited to training workshops and onsite consultations.	As defined in the contract but typically at completion of the service	Recognised over time, but because time delivered is minimal, point in time recognition has been applied.

*(iii) Contract balances*

The timing of revenue recognition, customer invoicing and cash collections results in trade receivables and deferred revenue (contract liabilities) recognised on the Group's Consolidated statement of financial position.

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

*Other income*

Other income 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 in the profit or loss over the periods in which the Group recognises related expenses. Where government grants relate to costs which have been capitalised as non-current assets these are recognised as a reduction to the related non-current asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Finance income and finance costs**

The Group's finance income and finance costs include:

- Interest income;
- Interest expense;
- Foreign currency gain or loss on financial assets or financial liabilities.

Interest income 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. Interest income includes interest for the lease receivable in relation to the sub-lease held.

Interest expense includes interest based on cash products and interest in relation to lease liabilities calculated based on the default interest rate implicit in the lease contract.

**Cost of sales**

Cost of sales includes wages, salaries, capitalised commission amortisation 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.

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

**Income tax**

Income tax comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

*Tax consolidation*

Elmo Software Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group where it is probable that taxable income will be generated.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

*Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable for the previous years. The amount of current tax payable or receivable is the best estimate of the tax expected to be paid or received. It is measured using tax rates enacted or substantively enacted at the reporting date.

*Deferred tax*

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, unused tax credits and unused tax losses to the extent 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.

**Note 1. Significant accounting policies (continued)**  
**Current and non-current classification (continued)**

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 and short term deposits.

**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.

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

**Property, plant and equipment**

*(i) Recognition and measurement*

Property, 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.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items of property, plant and equipment.

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.

*(ii) Subsequent expenditure*

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

*(iii) Depreciation*

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 and is recognised in profit or loss.

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.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

Leasehold improvements	3-8 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.

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

*(i) Recognition and measurement*

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.

*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.

*Capitalised sales commission costs*

Commission costs are those amounts paid to business development employees as remuneration for securing new contracts based on a discretionary fixed percentage of revenue.

*Customer lists*

Upon acquisition of a new business, customer lists which are acquired including active revenue contracts are amortised over management's best estimate of their useful life.

*Trademark*

The trademark is treated as having an indefinite useful life because it is expected to contribute to net cash flows indefinitely and thus the trademark is not amortised until its useful life is determined to be finite. It will be tested for impairment annually and whenever there is an indication that it may be impaired.

*(ii) Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits of the specific asset to which it relates. All other expenditure including any expenditure for internally generated goodwill or brands is recognised in the profit or loss as incurred.

*(iii) Amortisation*

Amortisation is calculated to write off the cost of the intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill and trademarks are not amortised and are tested for impairment.

The estimated useful lives for current and comparative periods are as follows:

Software development costs	3-5 years
Capitalised sales commission costs	1-3 years
Customer lists	7-10 years

**Note 1. Significant accounting policies (continued)**  
**Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently, if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash of other assets or cash generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or a group of CGUs that are expected to benefit from the synergies of the consolidation.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of the asset or CGU is the higher of the asset's fair value less costs to sell and value in use.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of other assets in the CGU or on a pro-rata basis.

An impairment in respect of goodwill is not reversed. For other assets, an impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

With respect to trade receivables an 'expected credit loss' ('ECL') model will be used 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. Any impairment losses on other financial assets are presented under 'finance costs' and not presented separately in the statement of profit or loss and other comprehensive income.

**Loans and borrowings**

Bank loans are initially recorded at fair value less directly attributable transaction cost. Subsequent accounting is amortised cost.

**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.

**Employee benefits**

*Short-term employee benefits*

Short-term benefits are expensed as the relative service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*Share-based payment arrangements*

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, to the share-based payment reserve, over the vesting period of the awards. The fair value of the share options and performance rights has been determined as detailed in note 39.

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

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

*Other long-term employee benefits*

The Group's obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the high quality corporate bonds at the statement of financial position date, the maturity of which approximates to the terms of the Group's obligations.

**Leases**

*Definition of a lease*

The determination of whether a contract contains a lease is on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration and holds substantially all of the output of the asset. The Group has applied this definition to all lease contracts currently held

*Lessee accounting*

For all contracts determined to constitute a lease, right-of-use assets and lease liabilities are recognised in the consolidated statement of financial position, initially measured at the present value of the minimum future lease payments. When measuring these lease liabilities, the Group discounted lease payments using the interest rate implicit in the lease contract.

Right-of-use assets are tested for impairment in accordance with AASB 136 *Impairment of assets*. Lease incentives are recognised as part of the measurement of the right-of-use assets and lease liabilities. Depreciation is expensed on right-of-use assets and interest expense on lease liabilities, both recognised in the consolidated statement of profit or loss.

For presentation purposes, the total amount of cash paid in relation to leases is separated into a principal portion (presented within financial activities) and interest on lease liabilities, both recognised in the consolidated statement of profit or loss.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis. This expense is presented within other expenses in the consolidated statement of profit or loss.

*Lessor accounting*

The Group assesses the classification of the sub-lease commenced during the financial year with reference to the right-of-use asset, not the underlying asset. Upon commencement of the sub-lease the right-of-use asset held by the Group as the intermediate lessor is derecognised, recognising a lease receivable being the present value of sub-lease payments to be received with any gain or loss being recognised in the profit or loss.

**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)**  
**Share 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.

**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. In the case that the Group is in a loss position for the period no effect will be applied in relation to dilutive factors.

**Standards issued but not yet effective**

From the new standards effective for annual periods beginning on or after 1 July 2020 and the standards and interpretations issued but not yet effective, the Group has assessed that there will be no significant impact on the financial statements.

**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.

*Revenue recognition*

Judgement is required as to whether revenue is recognised over time or at a point in time (see note 4).

*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.

There is significant judgement involved including determining the fair value of consideration and critically valuing the intangible assets for each business combination. Several factors are taken into consideration in valuing intangibles including replacement cost for software and revenue growth assumptions and discount rates underlying the valuation of customer lists and software (see note 22).

*Contingent consideration*

There is uncertainty around the actual payments that will be made in relation to contingent consideration for acquisitions that will be subject to the performance of the acquired entity subsequent to the reporting date for which a fair value assessment is made at the reporting date based on information available (see note 27).

*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.

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

*Impairment of goodwill*

The consolidated entity assesses impairment of goodwill and other indefinite life intangible assets annually by performing a value in use calculation, which incorporate a number of key estimates and assumptions. In determining the ELMO CGU's fair value significant judgement is used in considering the appropriate comparable companies, and consequently the appropriate revenue multiple to determine ELMO's fair value (see note 15).

*Credit risk*

During the current challenging economic environment, credit risk is assessed to be a critical accounting judgement regarding estimations and assumptions over the expected credit loss allowance (see note 27).

*Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses (see note 25).

**Note 3. Operating segments**

Operating segments, are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive management team.

A change has been made to ELMO's operating segments since FY20 following consideration of the acquisitions made during the year. The acquisition of Breathe introduced a new solution aimed at small business creating a new target market which has been identified as a separate operating segment – Small business solution.

The acquisition of Webexpenses provides an additional module to the current range of ELMO software applications serving the mid-market and has therefore been included within the Mid-market solution.

For FY21 the Group operated in two distinct segments being:

- Small business solution providing a self-service HR platform;
- Mid-market solution providing a range of modular software applications to efficiently manage HR and pay.

These segments are managed and reported separately because the operating markets in which the product is sold are fundamentally different.

Segment underlying EBITDA is the measure used by the CODM to measure the segment results. Segment underlying EBITDA is defined as earnings before interest, tax, depreciation and amortisation and excludes share-based payments and long-term incentives, fair value adjustments to contingent consideration and other significant items identified to be one-off in nature.

<b>2021</b>	<b>Small business solution \$'000</b>	<b>Mid-market Solution \$'000</b>	<b>Total \$'000</b>
<b>Segment Revenue</b>	<b>5,498</b>	<b>63,608</b>	<b>69,106</b>
Share of loss from joint venture	-	(461)	(461)
<b>Segment Underlying EBITDA</b>	<b>(1,194)</b>	<b>1,599</b>	<b>405</b>
Net finance costs			(292)
Depreciation and amortisation			(27,409)
Share-based payments			(5,172)
Fair value adjustment to contingent consideration			(3,866)
Significant one-off items			(1,928)
<b>Loss before tax</b>			<b>(38,262)</b>

In the previous financial statements for the year ended 30 June 2020 there was only one operating segment and the prior year segment disclosure corresponded to the primary statements and notes.

*Major customers*

During the years ended 30 June 2021 and 30 June 2020 no single customer contributed 10% or more to the Group's external revenue.

**Note 3. Operating segments (continued)**  
*Geographical information*

	Revenue from external customers		Geographical non-current assets	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Australia	52,963	45,512	96,771	78,599
New Zealand	5,465	4,333	13,403	13,853
United Kingdom	10,526	206	105,287	89
Rest of the world	152	-	330	-
	69,106	50,051	215,791	92,541

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; specifically for the current year excludes the investment in jointly controlled entity of \$1,037,000 (2020: investment in jointly controlled entity and finance lease receivable of \$1,581,000). Segment assets and liabilities are not regularly reported to the CODM.

**Note 4. Revenue from contracts with customers**

<i>Timing of revenue recognition</i>	Small business solution		Mid-market solution		Total	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Revenue recognised at a point in time: professional fees	-	-	2,280	1,181	2,280	1,181
Revenue recognised over time: software solution services	5,498	-	61,328	48,870	66,826	48,870
Total revenue	5,498	-	63,608	50,051	69,106	50,051

**Note 5. Other income**

	Consolidated	
	2021 \$'000	2020 \$'000
COVID-related government stimulus	1,716	2,005
Other income	110	1
	1,826	2,006

**Note 6. Expenses**

<i>Included in the consolidated statement of profit or loss</i>	Consolidated	
	2021 \$'000	2020 \$'000
<i>Employment expenses</i>		
Sales and marketing	19,711	17,646
Research and development	10,241	5,263
General and administrative	10,563	9,866
	40,515	32,775

**ELMO Software Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2021**

**Note 7. Finance income**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest on lease receivable	12	23
Other interest income	440	747
	452	770

**Note 8. Finance costs**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest on bank loan	165	-
Interest on lease liability	1,177	950
Net foreign exchange (gain)/loss	(598)	56
	744	1,006

**Note 9. Income tax benefit**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Income tax expense</i>		
Current tax expense	(342)	50
Deferred tax - origination and reversal of temporary differences	978	1,909
Adjustment recognised for prior periods – current tax	-	(201)
Adjustment recognised for prior periods – deferred tax	-	(109)
<i>Aggregate income tax benefit</i>	636	1,649
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax expense	(38,262)	(20,265)
Tax at the statutory tax rate of 30%	11,479	6,080
Tax effect amounts which are not deductible in calculating taxable income:		
Tax rate difference in overseas tax jurisdictions	(1,930)	-
Effect of expenses that are not deductible in determining taxable profit	(873)	(657)
Non-deductible R&D costs (R&D tax offset not booked)	(328)	(578)
Tax losses not recognised	(8,034)	(2,886)
Adjustment for prior income year	-	(201)
Benefit of tax losses not previously recognised	332	-
Other	(10)	-
	636	1,758
Adjustment to opening deferred tax asset	-	(109)
Income tax benefit	636	1,649

**ELMO Software Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2021**

**Note 10. Cash and cash equivalents**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank	66,944	139,887
Term deposit	15,000	-
Cash and cash equivalents	81,944	139,887

The term deposit is a security deposit of \$15 million with a maturity date of 15 March 2022, relating to the loan facility.

**Note 11. Trade and other receivables**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	16,466	12,888
Loss allowance	(2,742)	(2,502)
	13,724	10,386

The consolidated entity has recognised an expense of \$2.0 million in profit or loss in respect of impairment of receivables for the year ended 30 June 2021, (2020: \$2.1 million).

Information about the Group's exposure to credit and market risks, including expected credit losses for trade receivables is included in note 27.

**Note 12. Current tax**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Income tax (payable)/refundable	(441)	81

**Note 13. Other current assets**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Prepayments	3,504	531
Other debtors	63	1,105
	3,567	1,636

**Note 14. Property, plant and equipment**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Plant and equipment - at cost	1,023	859
Accumulated depreciation	(565)	(455)
	<u>458</u>	<u>404</u>
Computer equipment – at cost	4,028	2,776
Accumulated depreciation	(2,525)	(1,841)
	<u>1,503</u>	<u>935</u>
Leasehold improvements – at cost	9,557	4,993
Accumulated depreciation	(3,096)	(1,743)
	<u>6,461</u>	<u>3,250</u>
	<u>8,422</u>	<u>4,589</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 equipment \$'000</b>	<b>Computer equipment \$'000</b>	<b>Leasehold improvements \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2019	266	458	3,525	4,249
Additions	265	858	662	1,785
Additions through business combinations	-	13	-	13
Disposals	(8)	-	-	(8)
Depreciation expense	(119)	(396)	(942)	(1,457)
Effects of movements in exchange rates	-	2	5	7
Balance at 30 June 2020	404	935	3,250	4,589
Additions	127	935	4,885	5,947
Additions through business combinations	38	327	325	690
Disposals	-	(9)	(644)	(653)
Depreciation expense	(110)	(684)	(1,353)	(2,147)
Effects of movements in exchange rates	(1)	(1)	(2)	(4)
Balance at 30 June 2021	458	1,503	6,461	8,422

**ELMO Software Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2021**

**Note 15. Intangibles assets and capitalised costs**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Software development costs	81,888	42,724
Accumulated amortisation	(39,142)	(20,513)
	<u>42,746</u>	<u>22,211</u>
Capitalised sales commission costs	11,952	6,673
Accumulated amortisation	(5,398)	(3,131)
	<u>6,554</u>	<u>3,542</u>
Customer lists (acquired through business combinations)	19,084	9,829
Accumulated amortisation	(4,717)	(2,825)
	<u>14,367</u>	<u>7,004</u>
Goodwill	117,650	39,625
Trademarks (acquired through business combinations)	7,278	579
	<u>188,595</u>	<u>72,961</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>Software development costs \$'000</b>	<b>Capitalised Commission costs \$'000</b>	<b>Customer list \$'000</b>	<b>Goodwill \$'000</b>	<b>Trademarks \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2019	13,613	1,401	7,216	36,051	579	58,860
Additions	17,459	3,182	-	-	-	20,641
Additions through business combinations (note 22)	525	-	1,013	3,541	-	5,079
Amortisation expense	(9,428)	(1,043)	(1,225)	-	-	(11,696)
Effects of movements in exchange rates	42	2	-	33	-	77
Balance at 30 June 2020	22,211	3,542	7,004	39,625	579	72,961
Additions	26,079	5,279	-	-	-	31,358
Additions through business combinations (note 22)	12,916	-	9,100	76,738	6,582	105,336
Amortisation expense (i)	(18,688)	(2,267)	(1,892)	-	-	(22,847)
Revalue/Effects of movements in exchange rates	228	-	155	1,287	117	1,787
Balance at 30 June 2021	42,746	6,554	14,367	117,650	7,278	188,595

(i) Amortisation for capitalised commission costs is recognised under cost of sales within the consolidated statement profit or loss.

**Note 15. Intangibles assets and capitalised costs (continued)**

Goodwill arose during the current financial year through the acquisition of Breathe and Webexpenses (2020: Vocam); refer to Note 22 for further details.

Goodwill and intangible assets with indefinite useful lives are allocated to a CGU and tested annually for impairment.

During FY21 a change has been made to ELMO's operating segments following consideration of the acquisitions made during the year. The acquisition of Breathe introduced a new solution aimed at small business creating a new target market which has been identified as a separate operating segment – Small business solution. This new segment has also been identified as a separate CGU this year. Goodwill in relation to the Breathe acquisition has been allocated to the Small business solution CGU.

The acquisition of Webexpenses provides an additional module to the current range of ELMO software applications serving the mid-market and therefore including within the existing CGU. Goodwill in relation to the Webexpenses acquisition has been allocated to the Mid-market solution CGU.

Following the determination of the two CGUs being small business and mid-market solutions the goodwill and trademarks as indefinite useful live assets have been allocated as follows:

	<b>Consolidated</b>			
	<b>2021</b>		<b>2020</b>	
	<b>Trademarks</b>	<b>Goodwill</b>	<b>Trademarks</b>	<b>Goodwill</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Small business solution	2,678	31,475	-	-
Mid-market business solution	4,600	86,175	579	39,625
	<b>7,278</b>	<b>117,650</b>	<b>579</b>	<b>39,625</b>

The recoverable amounts of the CGUs to which the assets have been allocated have been determined based on value-in-use calculations using a five-year cash flow forecast from internal budgets and long-term management forecasts. A terminal growth factor that estimates the long-term growth for the CGU is applied to the year 5 cash flows into perpetuity. The terminal growth rates do not exceed the long term expected industry growth rates. These calculations are performed based on cash flow projections and require the adoption of assumptions and estimates.

The key assumptions used in the estimation of the recoverable amounts are set out below. Each of these assumptions and estimates is based on a best estimate at the time of performing the valuation. The values assigned to the key assumptions represent management's assessment of future trends and based on historical data from both external and internal sources.

	<b>2021</b>	
	<b>Small business solution</b>	<b>Mid-market business solution</b>
Pre-tax discount rate	14.56%	11.12%
Terminal value growth rate	3.0%	3.0%

Based on the impairment assessment conducted, no impairment losses have been identified or recognised for the year ended 30 June 2021. The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount of goodwill and has determined that any reasonably possible change in any of the key assumptions on which the recoverable amount is based will not cause the carrying amount of the CGUs to be impaired.

**Note 16. Investment in jointly controlled entity**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	1,498	1,680
Group's share of losses for the year	(461)	(182)
Carrying amount as at 30 June	1,037	1,498

On 13 December 2019, ELMO acquired joint control in Hero Brands Pty Ltd with a 50% ownership interest.

Hero Brands expands ELMO's research and development capacity and capability. ELMO's initial investment consists of a \$1.18 million capital injection plus deferred consideration of \$0.3 million.

The following table summarises the financial information of Hero Brands Pty Ltd as included in its own financial statements:

	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Current assets	1,390	1,416
Non-current assets	-	-
Current liabilities	(420)	(323)
Non-current liabilities	-	-
Net assets	970	1,092
Revenue	4,282	1,951
(Loss)/Profit (100%)	(122)	12
(Loss)/Profit (50%)	(61)	6
Elimination of unrealised profits	(400)	(188)
Group share of losses	(461)	(182)
<i>Reconciliation of net assets</i>		
Opening net assets as at acquisition	1,092	1,080
(Loss)/Profit for the period	(122)	12
Closing net assets	970	1,092
50% ownership interest	485	546
Elimination of unrealised profit	(588)	(188)
Goodwill	1,140	1,140
Carrying amount of jointly controlled entity	1,037	1,498

**Note 17. Right of use assets**

The Group holds leases for several properties with lease terms ranging from 3 to 5 years.

*Right-of-use assets: property*

	<b>Consolidated \$'000</b>
Net carrying amount as at 1 July 2019	8,173
Additions	9,538
Derecognition of right-of-use asset	(151)
Depreciation	(2,569)
Net carrying amount as at 30 June 2020	14,991
Additions	7,775
Depreciation	(3,992)
Net carrying amount as at 30 June 2021	18,774

	<b>2021 \$'000</b>	<b>2020 \$'000</b>
<i>Amounts recognised in profit or loss in relation to leases</i>		
Interest expense	1,177	950
Expense relating to low value assets	184	57
Expense relating to variable lease payments not included in the measurement of the lease liability	547	561
<i>Cash flow from leases</i>		
Total cash outflow as a lessee	4,654	3,469
Income from sub-leasing of right-of-use asset	226	210

**Note 18. Finance lease receivable**

	<b>Consolidated 2021 \$'000</b>	<b>2020 \$'000</b>
Current finance lease receivable (recoverable within 12 months)	82	206
Non-current finance lease receivable (recoverable after 12 months)	-	83

**Note 19. Lease liabilities**

	<b>Consolidated 2021 \$'000</b>	<b>2020 \$'000</b>
Amounts due for settlement in less than 12 months (current)	4,041	2,741
Amounts due for settlement in more than 12 months (non-current)	20,155	16,006

**Note 19. Lease liabilities (continued)**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Maturity analysis</i>		
Not later than 1 year	4,041	2,741
Later than 1 year but not later than 5 years	18,771	11,879
Later than 5 years	1,384	4,127
	24,196	18,747

The lease liabilities are interest bearing at an average rate of 6% based on the interest rates implicit in the lease contract. There are options to extend included in several of the lease contracts held. As at 30 June 2021 any options to extend leases which have not been or expected to be exercised based on current business operations and needs of the individual locations have not been included in the lease calculations. There would be no significant impact on the financial statements in relation to these options. There are no other future cash flows anticipated in relation to leases held which have not been disclosed in the financial statements.

**Note 20. Trade and other payables**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade payables and accruals	10,259	7,579
Other payables	4,385	3,263
	14,644	10,842

**Note 21. Loans and borrowings**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Non-current liabilities</i>		
Secured bank loans	30,000	-

On 15 March 2021 the Group secured a three-year \$34.5 million multi-purpose debt facility from the Commonwealth Bank of Australia comprising of a \$30.0 million acquisition facility with an interest rate of BBSY + 2.6% and a \$4.5 million bank guarantee facility with an effective interest rate of 2%. As of 30 June 2021 the acquisition facility was fully drawn and \$3.4 million of the bank guarantee facility was drawn.

During the year ended 30 June 2021 borrowing costs of \$271,000 were expensed to the profit or loss.

**Note 22. Business combinations and acquisitions of business assets**

During the year the Group acquired interests in Breathe and Webexpenses entities, (2020: Vocam). Key information on the acquisitions is summarised in the table below:

	<b>Acquired in the year ended 30 June 2021</b>		<b>Acquired in the year ended 30 June 2020 Vocam</b>
	<b>Breathe \$'000</b>	<b>Webexpenses \$'000</b>	<b>\$'000</b>
Net tangible assets	95	609	13
Cash	-	954	-
Customer list	4,089	5,011	1,013
Software	4,925	7,991	525
Trademark	2,678	3,904	-
Other assets	658	2,597	-
Contract liability	(724)	(1,136)	(966)
Deferred tax liability	(2,237)	(3,293)	(304)
Other liabilities	(956)	(3,051)	(79)
Net identifiable assets acquired	8,528	13,586	202
Goodwill on acquisition	31,475	45,263	3,248
Fair value of the total consideration at acquisition comprising:	40,003	58,849	3,500
Cash	29,058	18,112	2,500
Shares	3,669	17,554	1,000
Contingent consideration	7,276	23,183	-

The purchase price allocation for the acquisitions of Breathe and Webexpenses during the year ended 30 June 2021 have now been finalised. As at 30 June 2021 there was a net fair value adjustment to the contingent consideration for Breathe and Webexpenses of \$4.1 million (see note 27) to reflect the expected performance of the entities compared to expectations at the acquisition date, which has been recognised in the profit or loss statement.

**Deferred consideration paid**

<b>Acquired entity</b>	<b>Consideration settled in shares \$'000</b>	<b>Consideration settled in cash \$'000</b>
<i>Settled in FY21</i>		
BoxSuite	-	105
HROnboard	-	5,234
Vocam	-	500
<i>Settled in FY20</i>		
Sky Payroll	-	400
BoxSuite	-	435
HROnboard	-	2,935

As at 30 June 2021, consideration has been settled in final in relation to BoxSuite, HROnboard and Vocam with a resulting gain to the profit or loss of \$368,518.

**Note 22. Business combinations and acquisitions of business assets (continued)**

***FY21 Acquisitions***

***Breathe***

On 7 October 2020, ELMO completed the purchase of 100% of the shares and voting rights in Centurion Management Systems Limited (trading as Breathe) for a purchase consideration of GBP £18.0 million (\$16 million cash and \$2 million scrip) and an estimated earnout consideration payable in October 2021 based on an ARR multiple fixed in August 2021 of £10.8 million (\$20 million) including an adjustment in fair value from the estimated contingent consideration at the acquisition date.

The acquisition of Breathe has provided entry into a new market segment being the small business market. Goodwill is generated through the transaction in presenting significant new revenue opportunities for the Group. ELMO has added additional modules to the Breathe platform in the UK which provides new revenue streams and cross-sell opportunities. Breathe was introduced into the Australian market during 2H21 and the company will be ramping up activities in the region through FY22.

***Webexpenses***

On 16 December 2020, ELMO completed the purchase of 100% of the shares and voting rights in Webexpenses entities (including Signifo Ltd (UK), Webexpenses Inc. (US) and Webexpenses Pty Ltd (AU) for a purchase consideration of £20.0 million (\$10.2 million cash and \$9.8 million scrip) and an estimated earnout consideration based on an ARR multiple fixed in March 2022 of £8.1 million (\$15 million) including an adjustment in fair value from the estimated contingent consideration at the acquisition date.

Goodwill is generated through the transaction by adding to ELMO's revenue, customer base and market opportunity. The acquisition of Webexpenses opens up a significant two-way cross-sell opportunity for ELMO by offering expense management to ELMO customers and HR modules to Webexpenses customers.

***FY 20 Acquisitions***

***Vocam (Vocam Pty Ltd (AU) and Safety Learning Ltd (UK))***

On 27 February 2020 the Group completed the purchase of 100% of the shares in Vocam group entities (Vocam) for a total consideration of \$3.5 million to be funded by \$2.5 million cash and \$1 million shares of the parent company, which is subject to a 12 month voluntary escrow plus a cash balance repaid of \$0.3 million.

Vocam is a leader in HR and safety video e-learning content with offices in Australia and the United Kingdom. The acquisition also gives ELMO access to cutting edge video production and post-production facilities in Melbourne and the Philippines. This will enable ELMO to expand and update video content according to changing customer and industry requirements.

***BoxSuite***

On 31 January 2019 the Group completed the purchase of Get BoxSuite Pty Limited ('BoxSuite'), a SaaS, cloud-based specialist in workplace rostering and time and attendance for casual and shift-based employees, for a total consideration of \$1.4 million with an initial amount of \$1.0 million paid on completion and \$0.4 million deferred based on agreed milestones.

BoxSuite's rostering module enables organisations to schedule shifts and monitor staff costs while its time and attendance modules enable organisations to efficiently record and manage employee hours, calculate appropriate remuneration rates, and seamlessly integrate with external payroll platforms. The acquisition of BoxSuite is firmly in line with ELMO's growth strategy to supplement the Group's strong organic growth with complementary technology to offer customers an integrated product suite of HR and payroll solutions.

Results for the entities acquired included in the consolidated statement of comprehensive income for the current and prior reporting period since the appropriate acquisition date for each transaction as stated above are as follows:

**ELMO Software Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2021**

**Note 22. Business combinations and acquisitions of business assets (continued)**

	<b>Revenue \$'000</b>	<b>Loss before tax \$'000</b>
<b>Year ended 30 June 2021</b>		
Breathe	5,497	(1,717)
Webexpenses	5,452	(2,326)
<b>Year ended 30 June 2020</b>		
Vocam	687	137

If the acquisition date for all acquisitions that occurred during the year had been as of the beginning of the annual reporting period, the results for ELMO Software Limited, being the combined entity including a full year of results for Breathe and Webexpenses (2020: Vocam) would have been:

	<b>2021 \$'000</b>	<b>2020 \$'000</b>
Revenue	74,500	51,500
Loss before tax	(38,000)	(20,200)

The Group incurred costs of \$1.9 million (2020: \$0.3 million) in relation to all acquisitions made during the year. These costs have been included in business acquisition expenses.

**Note 23. Employee benefits: current liabilities**

	<b>Consolidated</b>	
	<b>2021 \$'000</b>	<b>2020 \$'000</b>
Employee benefits	4,494	3,273

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 24. Contract liabilities**

	<b>Consolidated</b>	
	<b>2021 \$'000</b>	<b>2020 \$'000</b>
<i>Current</i>	32,545	26,098
<i>Non-current</i>	2,031	516

**ELMO Software Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2021**

**Note 25. Deferred tax: non-current liabilities**  
**Year ended 30 June 2021**

	As at 1 July 2020	Recognised in profit or loss	Recognised in equity	Acquired in business combinations	As at 30 June 2021
	\$'000	\$'000	\$'000	\$'000	\$'000
Provision for doubtful debts	590	71	-	-	661
Property, plant and equipment	326	127	-	-	453
Intangibles	(1,053)	(2,351)	-	-	(3,404)
Right-of-use assets	(4,482)	5,770	-	-	1,288
Government grant	(299)	223	-	-	(76)
Blackhole expenses	1,522	(578)	-	-	944
<i>Acquired on business combination:</i>					
Customer list	(2,100)	500	-	(1,758)	(3,358)
Capitalised software development costs	1,636	1,898	-	(2,499)	1,035
Trademarks	(174)	1	-	(1,273)	(1,446)
Superannuation payables	258	97	-	-	355
Accruals	774	(278)	-	-	496
Provision for employee benefits	1,112	444	-	-	1,556
Contract liabilities	20	-	-	-	20
Lease liabilities	5,606	(5,278)	-	-	328
FX derivatives	-	(116)	-	-	(116)
Deferred tax timing differences not booked	(4,186)	448	-	-	(3,738)
Deferred tax liabilities	(450)	978	-	(5,530)	(5,002)

**Year ended 30 June 2020**

	As at 1 July 2019	Recognised in profit or loss	Recognised in equity	Acquired in business combinations	As at 30 June 2020
	\$'000	\$'000	\$'000	\$'000	\$'000
Provision for doubtful debts	216	374	-	-	590
Prepayments	(1)	1	-	-	-
Property, plant and equipment	8	318	-	-	326
Intangibles	(2,402)	1,349	-	-	(1,053)
Right-of-use assets	(3,464)	(1,018)	-	-	(4,482)
Government grant	-	(299)	-	-	(299)
Blackhole expenses	733	(518)	1,307	-	1,522
<i>Acquired on business combination:</i>					
Customer list	(2,271)	(133)	-	304	(2,100)
Capitalised software development costs	(693)	2,329	-	-	1,636
Trademarks	(174)	-	-	-	(174)
Superannuation payables	184	74	-	-	258
Accruals	604	170	-	-	774
Provision for employee benefits	548	564	-	-	1,112
Contract liabilities	152	(132)	-	-	20
Lease liabilities	3,583	2,023	-	-	5,606
Deferred tax timing differences not booked	-	(4,186)	-	-	(4,186)
Deferred tax liabilities	(2,977)	916	1,307	304	(450)

**Note 25. Deferred tax: non-current liabilities (continued)**

The Group has decided not to book \$3.7 million of deferred tax temporary differences in excess of deferred tax liabilities in this financial year until there is reasonable certainty that sufficient future taxable income will be available. The Group will continue to monitor this assessment in FY22 as the Group continues to scale and grow.

The Group has also decided not to book the deferred tax impact from tax losses and carry forward R&D tax concessions of \$13.0 million (2020: \$5.3 million), until there is reasonable certainty that sufficient taxable income will be generated. The Group will continue to monitor this assessment in FY22 as the Group continues to scale and grow.

**Note 26. Employee benefits: non-current liabilities**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee benefits	799	436

**Note 27. Financial risk management**

The Group has exposure to the following risks arising from financial assets and liabilities:

- Credit risk
- Liquidity risk
- Market risk

*Risk management framework*

The Group's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board of directors has established the Audit and Risk Committee, which includes responsibility for developing and monitoring the Group's risk management policies. The Committee reports regularly to the board of directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The role of the Audit and Risk Committee for the Group is to:

- Provide oversight of the integrity of internal financial reporting and the external financial statements;
- Review the effectiveness of the internal financial controls;
- Review the independence, objectivity and performance of the external auditors; and
- Provide guidance on risk management,

The Group maintains a comprehensive risk exposure matrix which is regularly reviewed, monitored and updated. As part of the risk management strategy the Group constantly evaluates risk and risk acceptance.

**Note 27. Financial risk management (continued)**

*Accounting classifications and fair values*

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	<b>FX gains/(losses) during the year 2021 \$'000</b>	<b>Carrying amount: Fair value through P&amp;L</b>		<b>Fair value hierarchy</b>
		<b>2021 \$'000</b>	<b>2020 \$'000</b>	
Contingent consideration	(386)	43,881	6,102	3
Forward exchange contracts	400	400	-	2
Net FX gain	<u>14</u>			
			<b>Consolidated</b>	
			<b>2021 \$'000</b>	<b>2020 \$'000</b>
<i>Reconciliation of Level 3 fair values: Contingent consideration</i>				
Opening balance as at 1 July			6,102	5,602
Investment in Hero Brands joint venture			-	500
Settlement of HROnboard			(5,603)	-
Acquisition of Breathe			7,276	-
Acquisition of Webexpenses			23,183	-
Changes to fair value in contingent consideration (i)			3,866	-
Changes to foreign exchange rate			723	-
Closing balance as at 30 June (ii)			35,547	6,102
Due in less than 1 year			35,234	5,602
Due in more than 1 year			313	500

(i) Changes to the fair value include adjustments of \$12.4m for Breathe, (\$8.3 million) for Webexpenses and (\$0.2m) adjustment to Hero Brands.

(ii) Includes \$7.3 million to be settled in shares for Webexpenses contingent consideration.

<b>Type</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between significant unobservable inputs and fair value measurement</b>
Contingent consideration	The fair value is based on a multiple of ARR for each acquisition at a future point in time.	Expected ARR	The estimated fair value would increase/(decrease) if the ARR were higher/(lower).
Forward exchange contracts	The fair value is based on fluctuation in exchange rates since the inception of the forward contract.	Not applicable.	Not applicable.

**Note 27 Financial risk management (continued)**

*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; related to trade receivables and lease receivables for the Group.

The average credit period on sales of products and services is 30 days. No interest is charged on outstanding trade receivables. The Group always measures the loss allowance for trade receivables at an amount equal to 12 month expected credit losses. The expected credit losses on trade receivables are estimated by reference to past default experience of the debtor and an analysis of the debtors current financial position, adjusted for factors that are specific to the debtor, general economic conditions of the industry and an assessment of both current and forecast conditions.

New customers are typically invoiced in advance of their contract commencing with annual renewals also being due for payment in advance of the renewal anniversary. Receivables held are monitored on an ongoing basis to minimise the Group's exposure. The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables (see note 11) and lease receivables (note 18).

In the light of the COVID-19 pandemic and the potential risk for increased credit losses, the allowance for expected credit losses was reviewed analysing the trade debtors balance by industry. The Group holds receivables from a broad range of industries including those that have been significantly affected by COVID-19.

Expected credit loss rates and allowances for expected credit losses are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2021 %	2020 %	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Neither past due nor impaired	1%	-	10,870	6,361	109	-
0 to 3 months overdue	7%	5%	2,545	3,655	186	198
Over 3 months overdue	81%	80%	3,051	2,872	2,447	2,304
<b>Total</b>			<b>16,466</b>	<b>12,888</b>	<b>2,742</b>	<b>2,502</b>

*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 the current conditions impacted by COVID-19, without incurring unacceptable losses or risking damage to the consolidated entity's reputation. This risk is managed through constant monitoring of cash resources and future obligations.

**ELMO Software Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2021**

**Note 27 Financial risk management (continued)**

*Liquidity risk*

The following are the remaining contractual maturities of financial liabilities at the reporting date:

<b>Maturity profile</b>	<b>Loans and borrowings</b>	<b>Trade and other payables</b>	<b>Deferred and contingent consideration</b>	<b>Lease liabilities</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Within 1 year	-	14,644	27,958	4,041
1-2 years	-	-	-	4,255
2-5 years	-	-	313	14,516
Over 5 years	30,000	-	-	1,384

The Group has a cash balance of \$81.9m at 30 June 2021, which includes a security deposit of \$15 million in the form of a term deposit, relating to the loan facility. This strengthens the Group's financial liquidity in the current market and will allow the Group to not only weather the current crisis but continue to invest in the business. In the event that further resources are required the Group has the potential to raise additional funds through a capital raising and/or acquire further debt.

*Interest rate risk*

The Group entered into a bank loan during the year which is subject to interest rate risk as well as lease liabilities held. The interest rate will be the average bid rate in addition to a margin applied. The interest charged on the lease liabilities is implicit in the lease and is fixed for all leases currently held and committed.

*Market risk: Currency risk*

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency) and the Group's net investment in foreign subsidiaries.

During the current financial year the following forward contracts have been taken out to economically manage the currency exposure on contingent consideration included as part of the Breathe and Webexpenses acquisitions:

<b>Inception date of forward</b>	<b>Amount (£'000)</b>	<b>Currency</b>	<b>Maturity date</b>
30 March 2021	4,000	GBP	30 September 2021
30 March 2021	6,500	GBP	30 March 2022

Hedge accounting is not required due to both the derivative on the forward contract and contingent consideration being recorded at fair value through the profit or loss.

ELMO's financial statements are presented in Australian Dollars with only a small proportion of sales denominated in overseas currencies as denoted under note 4 *Revenue from contracts with customers* and these transactions are conducted at spot rates as necessary in normal operations.

The Group's assets and liabilities held at the balance date denominated in foreign currencies

	<b>New Zealand Dollar</b>	<b>Singapore Dollar</b>	<b>British Pound Sterling</b>	<b>United States Dollar</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>£'000</b>	<b>Dollar £'000</b>
<b>Assets</b>				
Current	6,380	524	3,008	130
Non-current	5,736	-	57,408	252
<b>Liabilities</b>				
Current	(3,901)	(1)	2,875	(30)
Non-current	(6,107)	(1,061)	55,750	(333)

**ELMO Software Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2021**

**Note 27 Financial risk management (continued)**

*Market risk: Currency risk (continued)*  
*Sensitivity analysis*

If the exchange rates of the above foreign currencies strengthened or weakened with a fluctuation of 5% the effect on the consolidated results of the Group due to changing net asset values with a corresponding effect on the foreign exchange translation reserve would be as follows:

<b>Currency</b>	<b>Sensitivity in Group results \$'000</b>
<b>NZD</b>	+/-98
<b>SGD</b>	+/-26
<b>GBP</b>	+/-164
<b>USD</b>	+/-1

**Note 28. Equity - share capital and reserves**

**Ordinary shares issued and fully paid**

	<b>Shares</b>	<b>\$'000</b>
<b>At 1 July 2019</b>	<b>63,232,459</b>	<b>72,733</b>
Issue of shares – Institutional Placement	19,166,667	125,000
Issue of Shares – Share Purchase Plan	2,931,012	17,801
Issue of shares – Business Combination	141,443	1,000
Exercise of unlisted options	187,533	669
Less transaction costs	-	(3,047)
<b>At 30 June 2020</b>	<b>85,659,114</b>	<b>214,156</b>
Issue of shares – Breathe Business Combination (note 22)	699,765	3,669
Issue of shares – Webexpenses Business Combination (note 22)	2,805,650	17,554
Vesting of Performance Rights and exercise of options	58,786	316
<b>At 30 June 2021</b>	<b>89,223,315</b>	<b>235,695</b>

*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. For the current and prior periods, no dividends have been paid or proposed.

**ELMO Software Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2021**

**Note 28. Equity - share capital and reserves (continued)**

*Capital risk management (continued)*

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 capital risk management policy remains unchanged from the 30 June 2020 Annual Report.

**Nature and purpose of reserves**

*Reserves*

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Foreign exchange translation reserve	866	99
Share-based payment reserve	4,699	1,781
	5,565	1,880

*(i) Foreign exchange translation reserve*

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

*(ii) Share-based payment reserve*

The share options reserve comprises the value of the share-based payment arrangements recognised in equity.

**Note 29. Equity - accumulated losses**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Accumulated losses at the beginning of the financial year	(36,788)	(18,172)
Loss after income tax benefit for the year	(37,626)	(18,616)
Accumulated losses at the end of the financial year	(74,414)	(36,788)

**Note 30. Equity - dividends**

There were no dividends paid or proposed for the year ended 30 June 2021 (2020: \$nil).

**Note 31. 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>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Short-term employee benefits	1,749	2,059
Post-employment benefits	60	60
Share-based payment (including NED equity plan and equity-settled STI)	1,013	87
	2,822	2,206

Further details of the compensation made to directors and other key management personnel are included in the remuneration report within the Directors' report.

**Note 32. 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 Group, its network firms and unrelated firms:

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit of the financial statements	280,000	255,000
<i>Other services - Deloitte Touche Tohmatsu</i>		
Tax compliance	87,000	80,000
Advisory and consulting	118,000	-
	485,000	335,000

During the financial year the following fees are payable for services provided by Mann & Associates PAC as auditors and accountants for ELMO Talent Management Software Pte Limited:

<i>Audit services - unrelated firms</i>		
Audit of the financial statements for ELMO Talent Management Software Pte Limited	6,824	7,083
<i>Other services – unrelated firms</i>		
Accountancy fees for ELMO Talent Management Software Pte Limited	10,292	5,300
	17,116	12,383

**Note 33. Related party transactions**

*Parent entity*

ELMO Software Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 35.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 31 and the remuneration report included in the directors' report.

*Other related party transactions*

In the current year amounts of \$4,266,089 were paid to the Group's jointly controlled entity, Hero Brands Pty Ltd in relation to development costs (2020: \$1,358,634).

*Terms and conditions*

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

**ELMO Software Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2021**

**Note 34. 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>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax benefit	(29,415)	(18,442)
Total comprehensive loss	(29,415)	(18,422)

*Statement of financial position*

	<b>Parent</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Total current assets	82,598	143,731
Total assets	249,202	239,459
Total current liabilities	(37,571)	(37,177)
Total liabilities	(93,766)	(57,230)
Equity		
Issued capital	214,472	214,156
Reserves	4,042	1,736
Accumulated losses	(63,078)	(33,663)
Total equity	155,436	182,229

*Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2021 and 30 June 2020.

*Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

*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.

**ELMO Software Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2021**

**Note 35. 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 / Country of incorporation	Ownership interest	
		2021 %	2020 %
ELMO Accredited Pty Limited	Australia	100%	100%
ELMO Talent Management Software Pty Limited	Australia	100%	100%
International Colleges Pty Limited	Australia	100%	100%
Studywell College Pty Limited	Australia	100%	100%
Techni Works Pty Limited	Australia	100%	100%
Techniworks Action Learning Pty Limited	Australia	100%	100%
Quinntessential Marketing Consulting Pty Limited	Australia	100%	100%
ELMO Talent Management Software Pte Limited	Singapore	100%	100%
ELMO Software Limited	New Zealand	100%	100%
ELMO New Zealand Holdings Limited	New Zealand	100%	100%
Pivot Remesys Group Holdings Limited	New Zealand	100%	100%
Pivot Remesys IP Limited	New Zealand	100%	100%
Pivot Remesys Limited	New Zealand	100%	100%
Pivot Remesys Pty Limited	Australia	100%	100%
HROnboard Pty Limited	Australia	100%	100%
Get BoxSuite Pty Limited	Australia	100%	100%
Vocam Pty Limited	Australia	100%	100%
Rose Class Unit Trust	Australia	100%	100%
Safety Business Learning Limited	United Kingdom	100%	100%
Informed Business Outsourcing Clark, Inc	Philippines	100%	-
ELMO Software UK Holdings Limited	United Kingdom	100%	-
Centurion Management Systems Limited	United Kingdom	100%	-
ELMO Software Limited	United Kingdom	100%	-
Breathe Software Pty Limited	Australia	100%	-
Signifo Limited	United Kingdom	100%	-
ELMO Software US Holdings Inc.	United States	100%	-
Webexpenses Inc.	United States	100%	-
Webexpenses Pty Limited	Australia	100%	-

**Note 36. Events after the reporting period**

On 1 July 2021, ELMO entered into a forward contract to buy £4.4 million with a maturity date of 30 September 2021 to economically hedge the FX exposure on contingent consideration payments as noted in the financial statements.

COVID-19 has not substantially impacted the operations of the Group and its core operations and is not likely to compromise the ability of the Group to continue operating for the foreseeable future. However, the extent of the future impact of COVID-19 on the Group's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak locally and globally, the impact of protracted lockdowns and other regulations imposed by governments with respect to further outbreak and the resulting impact on customers, employees and vendors all of which are uncertain and cannot be predicted at this time.

Other than stated above, no other matter or circumstance has arisen since 30 June 2021 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.

**ELMO Software Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2021**

**Note 37. Reconciliation of loss after income tax to net cash from operating activities**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax benefit for the year	(37,626)	(18,616)
Adjustments for:		
Amortisation and depreciation	28,987	15,671
Bad debt expense	2,010	2,109
Interest received	(440)	(746)
Share based payment	3,172	1,109
Net finance cost	1,166	931
Other	490	(4)
Change in operating assets and liabilities:		
Increase in trade and other receivables	(2,492)	(3,290)
Increase in other assets	(3,211)	(13)
Decrease in income tax refundable	522	40
Decrease in deferred tax liabilities	(317)	(1,682)
Increase in trade and other payables	4,055	4,085
Increase in employee benefits	1,584	1,545
Increase in contract liabilities	8,203	4,930
Net cash from operating activities	6,103	6,069

**Note 38. Earnings per share**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Loss per share for profit from continuing operations</i>		
Loss after income tax	(37,626)	(18,616)
	<b>Cents</b>	<b>Cents</b>
Basic loss per share	(42.89)	(25.42)
Diluted loss per share	(42.89)	(25.42)

The calculation of EPS has been based on the following loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

There are no adjustments in relation to the effects of all dilutive potential ordinary shares due to the current loss-making position of the Group for the current financial year.

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating earnings per share	87,730,404	73,225,709

**Note 39. Share-based payment arrangement**

***Description of share-based payment arrangement***

As at 30 June 2021 the Group had the following share-based payment arrangements in place.

***Long term incentive plan (LTI)***

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

***Share options (equity-settled)***

For the financial years up to and including FY19 equity incentives under the SEEP or the HPEP were granted to employees (or such other person that the Board determines is eligible to participate) in the form of share options. The options are structured to receive shares at a future date subject to the recipient paying the exercise price.

***Performance rights (equity settled)***

From FY20 onward, to ensure alignment and retention of key executives as the Group matures, awards under the SEEP or the HPEP are issued as performance rights rather than share options. If the performance rights vest they will be automatically converted to shares and one share will be received for each performance right vested and no cash alternative.

***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.

***The High Performer Equity Plan (HPEP)***

The Plan is designed to link to performance, encourage retention, reward tenure and provide High Performers with participation in the Group.

Awards under the Plan will be structured as an option to receive shares on a certain date in the future subject to the participant paying the exercise price. The Plan rules will provide the Board the flexibility to award restricted shares, performance rights and options, and to cash settle any Award. Grants will be made to the High Performers and such other executives as the Board may determine.

**Note 39. Share-based payment arrangement (continued)**

Grant date	Outstanding as at 30 June 2020	Granted	Exercise of options/ Conversion of rights	Cancelled	No of options/rights outstanding as at 30 June 2021
<b>Granted to executives</b>					
<i>Share options</i>					
17 October 2017	284,689	-	-	(4,812)	279,877
7 December 2017	31,373	-	-	-	31,373
29 October 2018	209,709	-	-	(1,878)	207,831
27 March 2019	24,614	-	-	(207)	24,407
	550,385	-	-	(6,897)	543,488
<i>Performance Rights</i>					
17 December 2019	72,504	-	(14,298)	(205)	58,001
14 September 2020	-	105,556	-	-	105,556
	72,504	105,556	14,298	(205)	163,557
<b>Granted to employees</b>					
<i>Share options</i>					
17 October 2017	72,465	-	-	-	72,465
11 December 2017	8,735	-	(8,735)	-	-
9 March 2018	22,260	-	-	(22,260)	-
5 November 2018	326,834	-	-	(76,366)	250,468
25 February 2019	7,885	-	-	-	7,885
	438,179	-	(8,735)	(98,626)	330,818
<i>Performance rights</i>					
19 September 2019	43,401	-	(43,401)	-	-
14 September 2020	-	243,115	-	(17,506)	225,609
22 January 2021	-	268,868	-	-	268,868
	43,401	511,983	(43,401)	(17,506)	494,477

There were no share options granted under the SEEP and HPEP during the current financial year. There is a vesting condition relevant to all share options under the SEEP and HPEP that the participant must be employed at the vesting date.

The fair value of the employee share options under the SEEP has been measured using the Monte Carlo simulation approach subject to the total shareholder returns (TSR) performance criteria.

The fair value of the employee share options under the HPEP has been measured using the Binomial option pricing model. Non-market performance conditions attached to the arrangements were not taken into account in measuring fair value in accordance with accounting standards.

Based on performance criteria and pro-rated for number of days employed during the year performance rights awarded during FY21 will be granted in September 2021 and valued at this date based on the 10-day VWAP. As at 30 June 2021 with a fair value based on the year-end share price of \$4.26 (2020: \$7.16), achievement of performance criteria and probability of continued employment the number of performance rights is estimated to be 396,197 (2020: 174,691).

**Note 39. Share-based payment arrangement (continued)**

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows:

**Share options**

FY19 Valuation assumptions	Share options plans				
	SEEP			HPEP	
	Tranche 1	Tranche 2	Tranche 3	5 Nov 2018	25 Feb 2019
Fair value at grant date	\$1.18	\$1.50	\$1.76	\$1.64	\$1.64
Share price at grant date	\$5.50	\$5.50	\$5.50	\$5.50	\$5.50
Exercise price	\$5.50	\$5.50	\$5.50	\$5.50	\$5.50
Expected volatility (weighted-average)	37%	37%	37%	37%	37%
Expected life	2.7 years	3.7 years	4.7 years	3.5 years	3.5 years
Expected dividends	0%	0%	0%	0%	0%
Risk-free interest rate	2.05%	2.14%	2.25%	2.11%	2.11%

**Performance rights (SEEP)**

Valuation assumptions	FY20			FY21		
	Tranche 1	Tranche 2	Tranche 3	Tranche 1	Tranche 2	Tranche 3
Fair value at grant date	\$1.73	\$3.65	\$3.65	\$1.03	\$3.03	\$3.03
Share price at grant date	\$6.19	\$6.19	\$6.19	\$4.98	\$4.98	\$4.98
Exercise price	N/A	N/A	N/A	N/A	N/A	N/A
Expected volatility (weighted-average)	41%	41%	41%	46%	46%	46%
Expected life	0.75 years	1.75 years	2.75 years	1.0 years	2.0 years	3.0 years
Expected dividends	0%	0%	0%	0%	0%	0%
Risk-free interest rate	0.79%	0.75%	0.72%	0.19%	0.22%	0.24%

Volatility is a measure of price variation of a financial instrument over the life of the award. Since ELMO is newly listed on the ASX, there is no sufficient market data to measure the historical volatility and there are no publicly traded options over the Group's ordinary shares. Therefore, this valuation has based the expected volatility on average annualised historical volatility of constituents in S&P/ASX 300 Software & Services Industry Index over the three-year period to the valuation date.

ELMO's current policy is not to distribute dividends but rather reinvest in the growth of the Group hence zero dividend yield is used in this valuation report.

Upon exercise of performance rights each participant is entitled to one ordinary share for each performance right vested with no cash alternative, therefore the performance rights are deemed to be equity-settled.

An expense of \$5.2 million (2020: \$1.1 million) in relation to share-based payments has been recognised in the statement of profit or loss with a corresponding increase to the share-based payment reserve.

**ELMO Software Limited**  
**Directors' declaration**  
**For the year ended 30 June 2021**

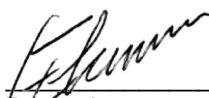
1. In the opinion of the directors of ELMO Software Limited (the 'Company'):
  - a) The consolidated financial statements and notes that are set out on pages 24 to 64 and the Remuneration Report on pages 11 to 20 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2021 and its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
  - b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2020.
3. The directors draw attention to Note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



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Barry Lewin  
Chairman



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Danny Lessem  
Director

31 August 2021  
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 2021, 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 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:

- Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the 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</b></p> <p>For the year ended 30 June 2021, \$69.1 million was recognised by the Group from rendering of software solution services as disclosed in Note 4.</p> <p>A significant level of judgment is required in ensuring the revenue recognition criteria is met as per the relevant accounting standard.</p> <p>In the current financial year revenue has been recognised automatically for new contracts and manually for legacy contracts. This judgment and the manual nature of the legacy contracts could affect the timing and quantum of revenue recognised in each period.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of the significant revenue streams and the appropriateness of the Group's principles applied in determining that revenue recognised is in accordance with the criteria outlined in the relevant accounting standards;</li> <li>• Assessed the design and implementation of key controls in relation to the recognition of and measurement of revenue;</li> <li>• Reconciled the deferred revenue schedule to the trial balance as at 30 June 2021 and testing journal entries to identify unusual items;</li> <li>• Tested on a sample basis, revenue transactions by agreeing the revenue recognised during the year to the signed customer contract and the related invoice;</li> <li>• Obtained a listing of all invoices raised during the year and verified the completeness of the deferred revenue listing;</li> <li>• Recalculated revenue expected to be recognised in the current year for a sample of contracts and compared this to the amounts included in the deferred revenue schedule; and</li> <li>• Tested on a sample basis, the completeness of credit notes issued post year end.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Note 4 to the financial statements.</p>
<p><b>Acquisition of subsidiaries</b></p> <p>During the financial year, the Group acquired Breathe and Webexpenses as disclosed in Note 22.</p> <p>Accounting for these transactions is complex and judgmental, requiring management to determine:</p> <ul style="list-style-type: none"> <li>• The appropriate purchase price allocation, including the fair value assessment of the identifiable tangible and intangible assets, specifically software, customer relationships and trademarks/brand names;</li> <li>• The appropriateness of the fair value assessment of the value of the contingent considerations; and</li> <li>• The completeness and appropriateness of disclosures pertaining to the transactions and associated accounting.</li> </ul>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Evaluated management's assessment of the transactions in accordance with AASB 3: <i>Business Combinations</i>;</li> <li>• Obtained a detailed understanding of the terms and conditions of the relevant purchase agreements;</li> <li>• Assessed, in conjunction with our valuation specialists, management's purchase price allocation in relation to the acquisitions including relevant information that management obtained from valuation experts in relation to the methodology and assumptions applied to identify and determine the fair value of separately identified intangible assets;</li> <li>• In conjunction with our valuation specialists challenged the work performed by management's expert by: <ul style="list-style-type: none"> <li>– Assessing the competence and capability of management's expert;</li> <li>– Assessing the appropriateness of the models utilised in the valuation of identifiable assets acquired by management's expert; and</li> <li>– Performing sensitivity analysis on key assumptions.</li> </ul> </li> <li>• Evaluated the assumptions utilised to determine the value of the contingent consideration.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Note 22 to the financial statements.</p>

## *Other Information*

The directors are responsible for the other information. The other information comprises the Directors' Report, which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the Group's 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 and ASX Additional 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 and will 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 identified above 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, other Company information and ASX Additional Information which is expected to be made available to us after that date, 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 Company 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's 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, actions taken to eliminate threats or safeguards applied.

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

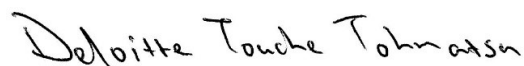
### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 11 to 20 of the Directors' Report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Elmo Software Limited, for the year ended 30 June 2021, 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



Carlo Pasqualini  
Partner  
Chartered Accountants  
Sydney, 31 August 2021