ELMO

ANNUAL REPORT 2022

Contents

AGM DETAILS

ELMO Software Limited (ELMO) advises that it will hold its 2022 Annual General Meeting on Tuesday, 22 November 2022 at 2.00pm (Sydney time). Further details about the AGM will be provided to shareholders in October 2022.

The ELMO Group is a leading provider of Human Capital Management (‘HCM’) solutions across Australia, New Zealand and the United Kingdom.

CHAIRMAN'S & CEO'S MESSAGE

The ELMO consolidated Group achieved record annualised recurring revenue (ARR) of $108.2 million, representing organic growth of 29% when compared to 30 June 2021

Dear Shareholder

We are pleased to report that FY22 was a successful year for ELMO Software Limited. We experienced continued strong organic growth through both business segments and geographies.

Our operating cash burn improved significantly since FY21 as we continue to experience operating leverage as we scale. We remain well capitalised and sufficiently funded to reach cashflow breakeven which we expect to deliver in FY23.

As a leading provider of cloud Human Capital Management (HCM) solutions, ELMO is in prime position to benefit from businesses increased adoption of people management technology to effectively manage a remote or hybrid workforce.

The breadth of the ELMO's solution is our competitive advantage, addressing a wide variety of customer needs all in a single integrated platform. The business operates on a robust Software-as-a-Service (SaaS) model based on recurrent subscription revenue.

ELMO's offering has multiple modules or revenue streams, and the Company utilises a land and expand strategy to grow revenue from both new and existing customers. At 30 June, we had grown to over 570 employees with offices across Australia, New Zealand and the United Kingdom.

The ELMO consolidated Group achieved record annualised recurring revenue (ARR) of $108.2 million, representing organic growth of 29% when compared to 30 June 2021. Revenue also rose to $91.4 million, up 32% pcp. Underlying EBITDA came in at positive $7.1 million, up $6.5 million pcp.

Cash burn decreased significantly, improving 34% from negative $26.4 million in FY21 to a negative $17.4 million in FY22. This reduction reflects the move to generating operating leverage as a result of scale and through various restructuring initiatives which we have launched during the year.

The mid-market ELMO business continues to perform well with ARR growth of 29% to $96.1 million. We continue to see operating leverage emerge across key cost categories resulting in the generation of $8.1 million of underlying EBITDA. We also saw the gross profit margin improve to 89.4%, up 60 basis points from FY21.

In addition, net dollar retention returned to 100%. This was a reflection of the upsell of additional modules to existing customers, inflationary price increases passed to a number of customers and a significant reduction in the rate of churn to 8.8%.

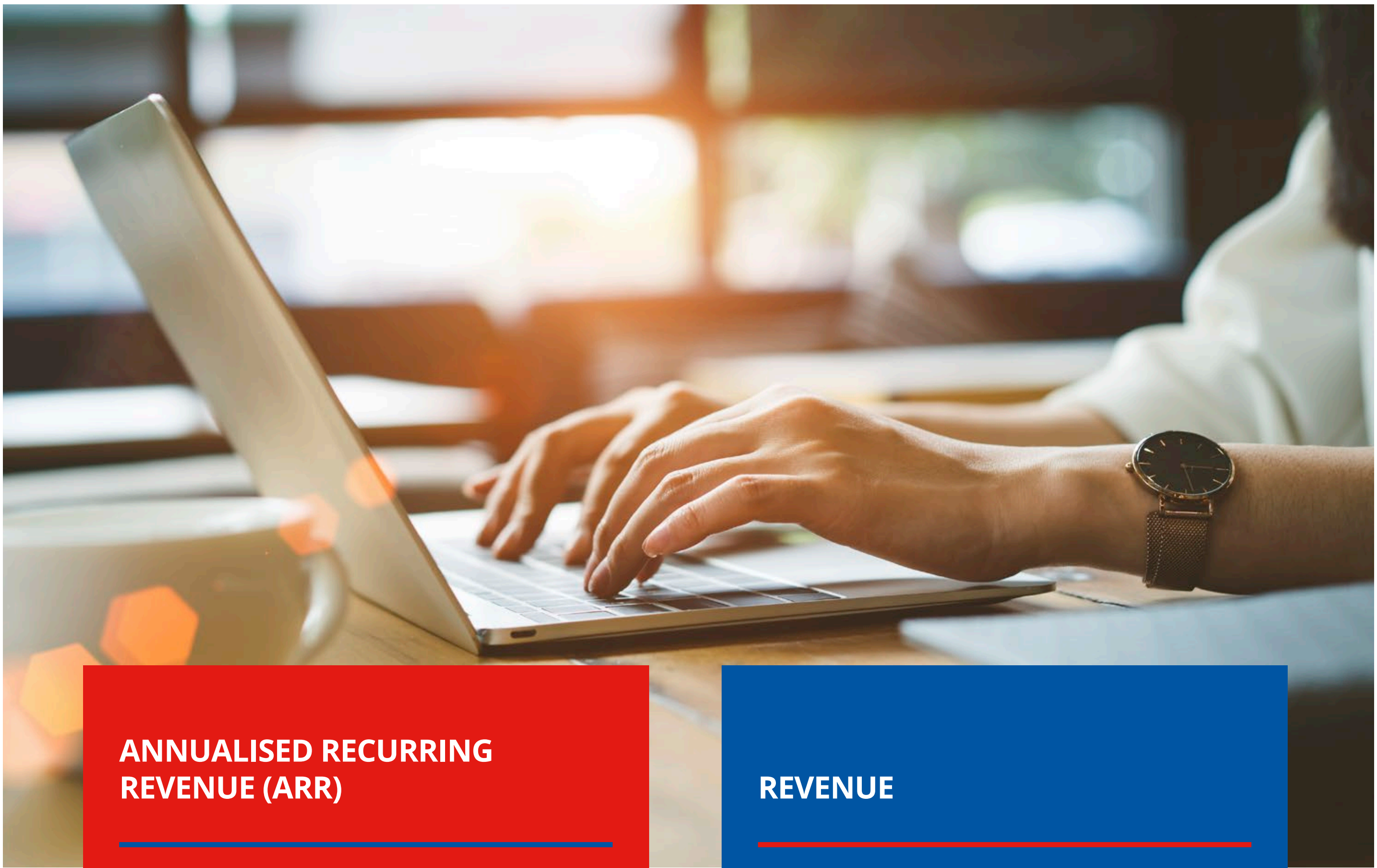
The upsell combined with the new business sales has driven the increase in the average module per customer from 2.3 to 2.9 modules over the last 12 months.

In the small business segment, we continue to experience high growth with organic ARR growing 34% to $12.1 million. We added over 3,000 new customers to a total of 11,198.

Net dollar retention increased to 106.1% which reflects the increasing cross sell to existing customers, price increases across the majority of the customer base and a reduction in the churn rate to less than 0.8% per month.

In addition, we have seen expansion in the gross profit margin which grew to 94.3% in FY22, up 480 basis points from FY21. This demonstrates how profitable this segment can be at scale.

To complement the strong growth there has also been a number of initiatives kicked off during FY22 to support the acceleration of achieving operating cash flow breakeven.



ANNUALISED RECURRING REVENUE (ARR)

$108.2m

29% organic growth compared to 30 June 2021

REVENUE

$91.4m

32% growth from FY21

We've promoted two UK senior leaders to the ELMO Group executive team. This reflects our global footprint and will enable us to expedite and streamline decision-making.

In client services, the delivery model has been evolved to incorporate outsourced and offshore support to lower costs and accelerate customer onboarding.

Our go-to-market approach in the mid-market has been optimised to focus on the more mature and mission critical modules in the first instance and then to expand into the number of complementary and ancillary modules depending on the client's individual requirements.

The R&D investment and development of new modules that we've undertaken over the last few years has been completed. This coupled with the utilisation of lower cost offshore support through our Hero Teams joint venture provides us with operating leverage in our R&D spend going into FY23 and beyond.

We've also been able to reduce our office space requirements from the adoption of hybrid working practices within our teams and expect savings from this to come through FY23 as we look to rationalise our footprint.

Finally, cashflow breakeven is not far away, it's unlikely we require our current levels of drawn debt for the foreseeable future. A reduction in this will benefit future and ongoing funding costs.

We've entered FY23 with great momentum as a result of the many years of investment in our product and people, coupled with the mission critical nature of people management software to manage remote and hybrid workforces.

This trend is supported by our strong pipeline. We expect to achieve 24% to 29% growth through the year to reach between $134 and $140 million in ARR. As a result of this growth and a stabilising of the cost base, we expect EBITDA to continue to accelerate and expect this to fall in the range of between $20 to $25 million.

We expect to reach breakeven across the year and expect to generate positive cash flows in the subsequent years that follow.

Thank you to our employees, customers and shareholders for your continued ongoing support.

Yours sincerely,

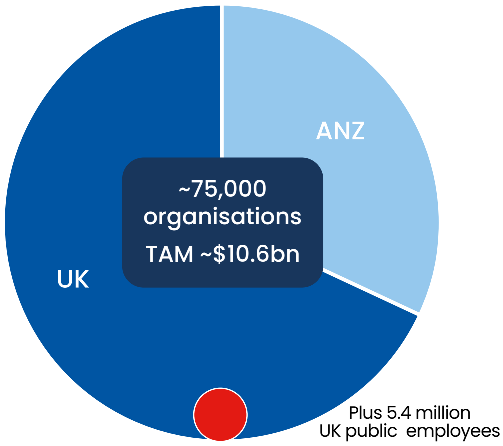
Barry Lewin
Chairman

Danny Lessem
Co-founder and CEO

ELMO GROUP TOTAL ADDRESSABLE MARKET (TAM)

Large market opportunity and headroom for growth

Mid-market TAM[1,2] (50+ employees)



ELMO

Market penetration <5% organisations

Small business TAM[1,2] (<50 employees)

breathe

Market penetration <1% organisations

Fit-for-purpose solution for each market segment

ELMO's Total Addressable Market (TAM) has expanded to $12.8bn

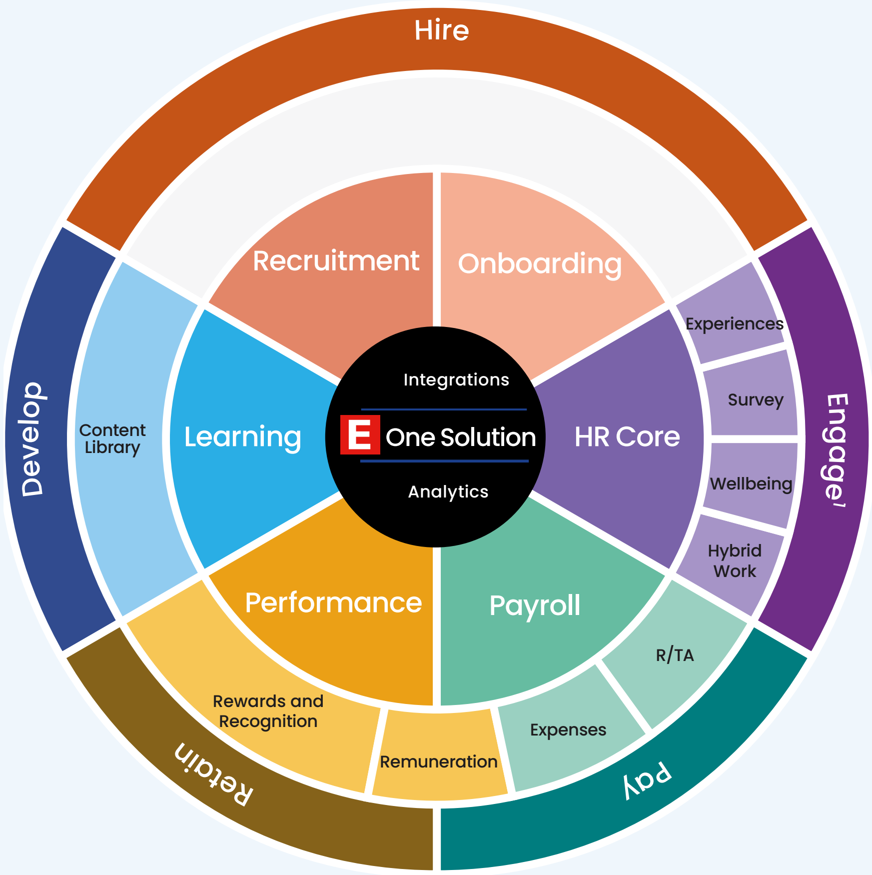
1. Frost & Sullivan independent market report 2019/2020.
2. Assumes full penetration of ELMO & Breathe platform.

OVERVIEW OF THE ELMO SOLUTION

One-stop-shop to manage people, process and pay for mid-market and small business

Mid-market
50-2,000 employees

- 'Inner ring' comprises of six 'Lead' products representing the core ELMO HCM & Payroll solution
- 'Outer ring' represents the suite of 'Add-on' modules which complement 'Lead' products, helping differentiate ELMO's value proposition



Small business
<50 employees

- HR is the core of the small business platform
- 'Outer ring' represents additional complementary products to the core HR module

Note:
1. Other products in the ELMO mid-market 'Engage' product family include Connect and COVIDsecure.

THE E NUMBERS

THE ELMO GROUP CONSOLIDATED NUMBERS

Setting the platform for reaching operating cash flow breakeven in FY23

ANNUALISED RECURRING REVENUE (ARR)

$108.2m

29% organic growth compared to 30 June 2021

REVENUE

$91.4m

32% growth from FY21

CASH RECEIPTS

$116.9m

46% growth from FY21

UNDERLYING EBITDA

$7.1m

$6.5 million growth from FY21

> "Key highlights include continued high levels of organic growth in both segments and a significant improvement in operating cash burn compared to FY21 as we continue to experience operating leverage as we scale.

FY22 mid-market dashboard

Annualised ARR growth of 29% and reduced churn

ANNUALISED RECURRING REVENUE (ARR)

$96.1m

29% growth from 30 June 2021

GROSS PROFIT MARGIN

89.4%

Up 60 bps from FY21

CUSTOMER BASE

3,472

Includes 788 new customers from 30 June 2021

FY22 REVENUE

$80.5m

27% growth from FY21

NET CUSTOMER DOLLAR RETENTION

100.1%

Customer retention rate 86.8%

MODULES PER CUSTOMER AT 30 JUNE 2022

2.9

up from 2.3 at 30 June 2021

UNDERLYING EBITDA

$8.1m

up $6.3m from FY21

LIFETIME VALUE (LTV) OF CUSTOMER BASE AT 30 JUNE 2022

$980m

up $410m from 30 June 2021

AVERAGE ARR PER CUSTOMER AT 30 JUNE 2022

$27.7k

up $3.7k from 30 June 2021

FY22 small business dashboard

Annualised ARR growth of 34% and reduced churn

ANNUALISED RECURRING REVENUE (ARR)

$12.1m

34% growth from 30 June 2021

GROSS PROFIT MARGIN

94.3%

Up 480 bps from FY21

CUSTOMER BASE

11,198

Includes 3,241 new customers from 30 June 2021

FY22 REVENUE

$10.9m

98.4% growth from FY21

NET CUSTOMER DOLLAR RETENTION

106.1%

Customer retention rate 87.8%

MODULES PER CUSTOMER AT 30 JUNE 2022

1.3

up from 1.2 at 30 June 2021

UNDERLYING EBITDA

$(1.0)m

up $0.2m from FY21

LIFETIME VALUE (LTV) OF CUSTOMER BASE AT 30 JUNE 2022

$120m

up $60m from 30 June 2021

CUSTOMER BASE

$1.1k

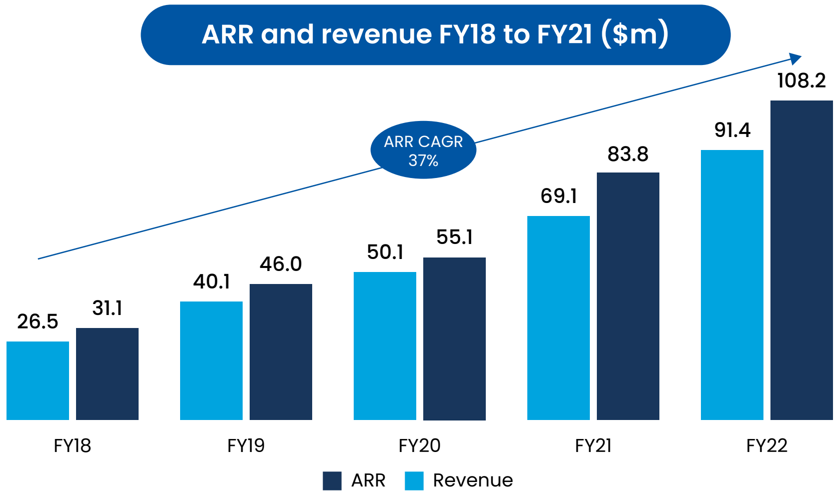
Up 8.7% from 30 June 2021

The E NUMBERS

GROUP ANNUALISED RECURRING REVENUE GROWTH

ARR CAGR of 37% since FY18

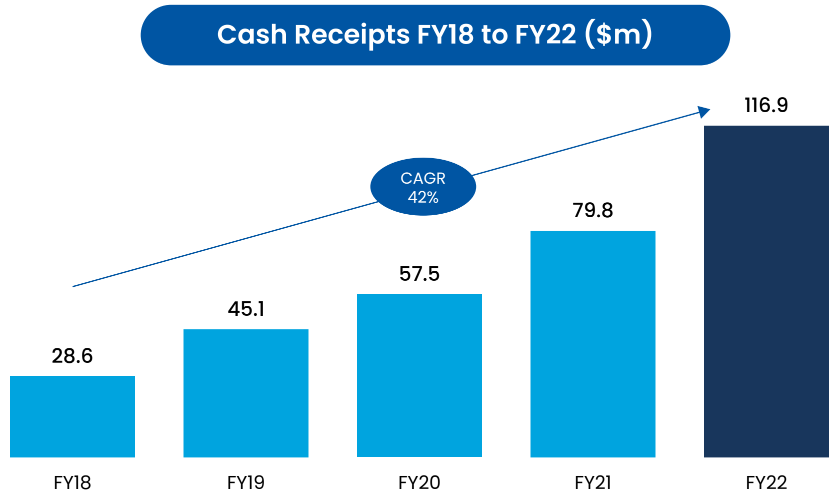
- ARR $108.2 million at June 2022
- Organic ARR CAGR growth 38% from FY18
- Revenue CAGR growth 36% from FY18

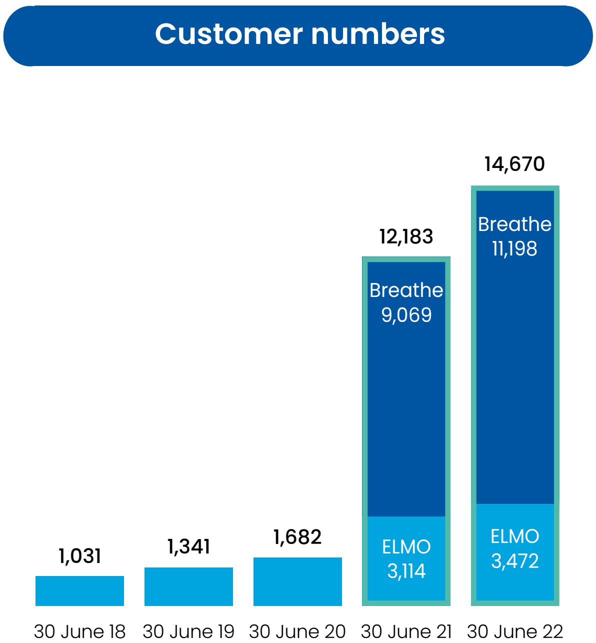


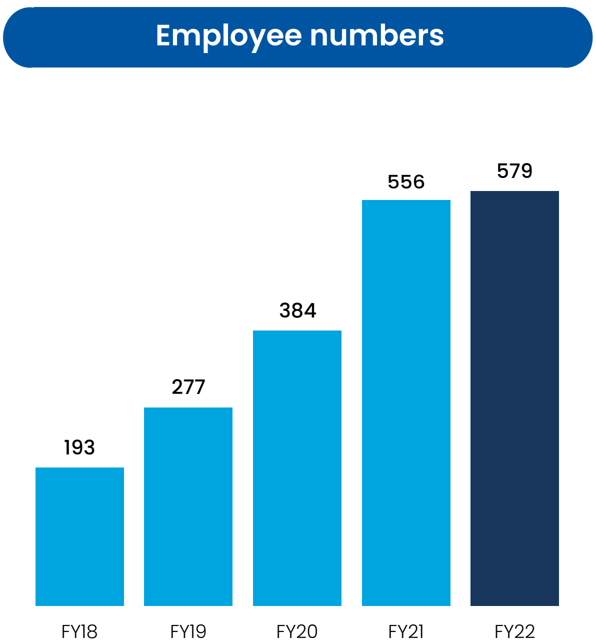
GROUP CASH RECEIPTS

Strong quarterly cash profile heading into FY23

- Cash receipts in FY22 of $116.9 million, up 46% on FY21

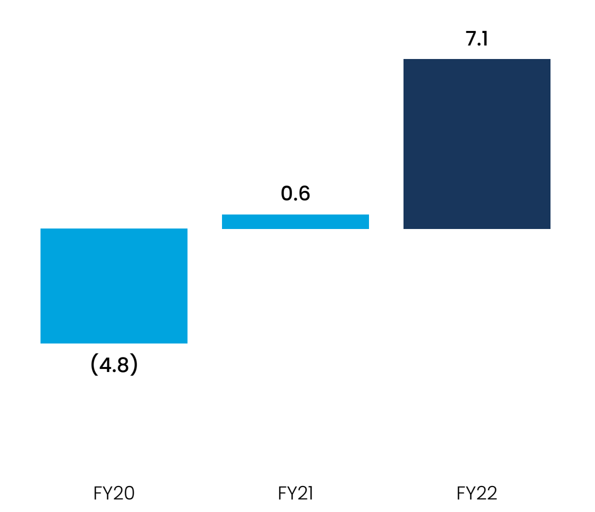




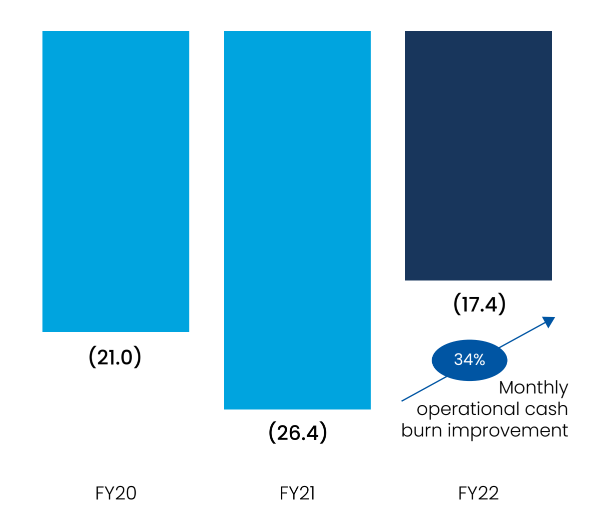


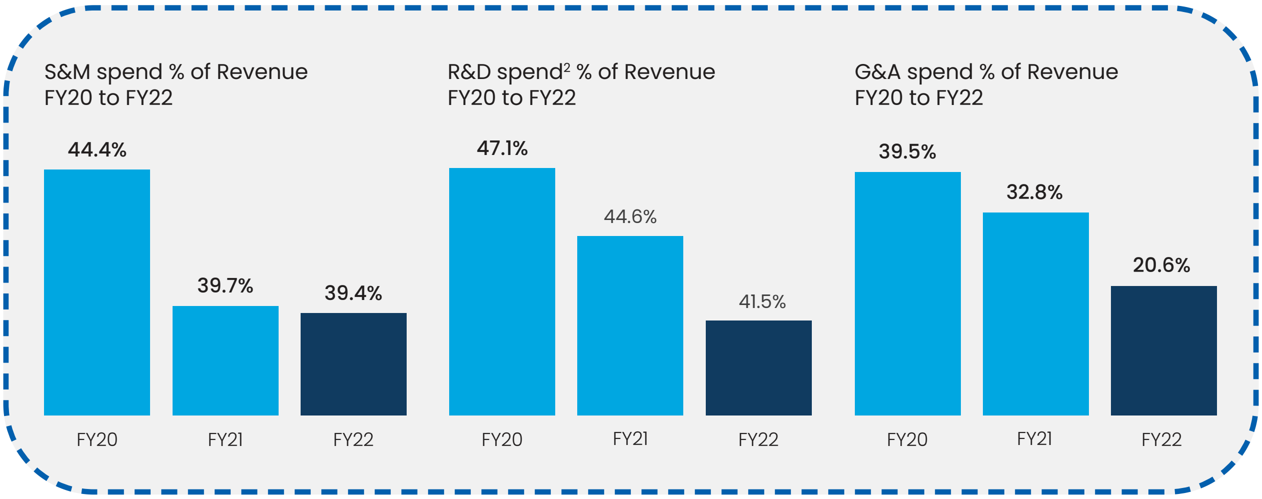
Operating cost leverage accelerating, driving increased EBITDA and paving the path for cashflow breakeven

Underlying EBITDA FY20 to FY22 ($m)



Operating cash flow[1] FY20 to FY22 ($m)





1. Operating cash flow includes capitalised expenses and BAU capex.
2. R&D spend includes the income statement expense and capitalised costs in the reference period.

ELMO AT A GLANCE

SNAPSHOT

579 employees

Offices in Australia, New Zealand and the UK

HCM platforms

3,000+ mid-market customers

11,000+ small businesses

Scalable cloud-based platforms

Total Addressable Market $12.8bn[1]

1. Frost & Sullivan independent market report 2019/2020.

GROUP OVERVIEW

The ELMO Group provides human capital management ('HCM') solutions to small business and mid-market organisations across Australia, New Zealand and the United Kingdom.

The ELMO mid-market business has more than 3,000 customers and targets organisations with 50 to 2,000 employees. The Breathe small business platform has more than 11,000 customers and focuses on organisations with fewer than 50 employees.

Customers benefit by automating fragmented people management processes with an all-in-one platform to manage the employee lifecycle from hire-to-retire.

With a wide variety of modules available to manage critical HR processes, customers can rely on one provider to automate their people, process and pay functions.

These solutions assist businesses to operate efficiently by automating manual processes while providing insightful analytics to make strategic business decisions.

The ELMO Group has a customer centric focus, and continually invests in enhancing and growing the solution to meet businesses' evolving HR needs.

The ELMO Group employs 579 employees in offices across Australia, New Zealand and the UK who share a joint vision to create best-in-class technology to assist mid-market and small businesses better manage their people and shape the workplace of tomorrow.

Fit-for-purpose platforms for small business and mid-market organisations

BUSINESS MODEL

ELMO's cloud-based people management needs solutions are targeted to the people management needs of mid-market organisations (50 – 2,000 employees) and small business (<50 employees). The ELMO Group operates on a Software-as-a-Service (SaaS) business model predicated on recurrent subscription license fees.

ELMO believes a large underserviced market has emerged, which is growing as organisations are increasingly compelled to adopt a cloud-based HCM solution to manage a hybrid or remote-based workforce. ELMO is well placed to take advantage of the opportunity by having the widest convergent platform in the regions that it operates in.

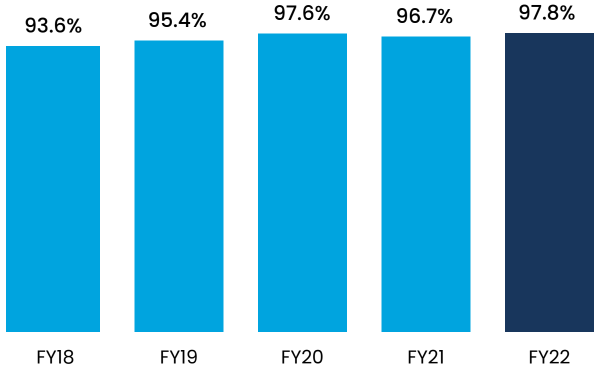
ELMO's go-to-market is focused on landing mission critical people management modules such as recruitment, onboarding, learning, performance, HR Core and payroll. Customers can then expand their solution modules into a variety of other complementary and adjacent areas to further streamline their people management processes.

ELMO's HCM solutions are industry agnostic

Customers from a wide variety of industries

Construction and mining	Hospitality	Professional services	Education
Industrials	Finance	Information technology telecommunications and media	Retail
Government	Logistics	Healthcare and Pharmaceuticals	Not for profit

ELMO's subscription revenue as a percentage of total revenue



Through FY22 over 97.8% per cent of revenue related to recurring revenue streams.

ELMO's expansion into new segments, new module adjacencies and new geographies, has expanded its Total Addressable Market to $12.8 billion. With <5% penetration in the mid-market and <1% penetration in small business, ELMO has plenty of headroom for growth for many years to come.

In addition, the Company is well poised to expand its margins after leveraging many years of investment into product and people.

Multi-jurisdictional and industry agnostic

ELMO's cloud HR, payroll and expense management solutions are designed to be scalable and industry-agnostic. ELMO currently provides solutions to customers based primarily in Australia, New Zealand and the United Kingdom.

Revenue generation

ELMO generates revenue through both licence fees and professional services relating to its people management solutions. Revenue is categorised as recurring and non-recurring.

Through FY22 over 97.8% per cent of revenue related to recurring revenue streams, with the balance being non-recurring.

Mid-market ELMO customers

Typically, a new ELMO customer will enter into a three-year licence agreement for access to its solutions. It is customary for ELMO to be paid license fees annually in advance by the customer. The amount of the annual license is dependent on the number of modules subscribed to by the customer and the number of users on the platform.

Following the initial contract period customers typically move to an annual recurring contract.

In addition to license fees, ELMO also generates revenue from charging professional service fees for providing non-standard implementation, configuration, consultancy, training and integration services.

Typically, a small business Breathe customer will enter into a monthly licence agreement for access to its solutions. It is customary for Breathe to be paid licence fees monthly in advance by the customer. The amount of the licence fee is dependent on the number of modules subscribed to by the customer and the number of users on the platform.

THE ELMO SOLUTION

ELMO product offering

Leading integrated cloud-based people management solutions for the mid-market (50 - 2,000 employees).

	Hire	Engage	Develop	Retain	Pay
Key module	**Recruitment Onboarding**	**HR core**	**Learning Management**	**Performance Management**	**Payroll**
Description and core module	• ELMO Recruitment is a highly configurable system that helps streamline the hiring process from job requisition approval through to offer acceptance • ELMO Onboarding helps organisations create great remote or on-site pre-boarding & employee onboarding experiences that eliminates paper-work	• Allows staff to find information anywhere, anytime. It enables employees to apply for leave and check their leave balances, and for managers to oversee absentees and manage critical employee information	• Manage employee training requirements, course completion rates and compliance requirements. Automatic prompts to renew training at regular intervals. Ensure high compliance rates of key employee training	• Optimise organisational performance. Leverage a range of pre-built goals and development objectives, which can be utilised to create a library of performance management content for use across the business	• Cloud-based, fit-for-purpose connected payroll system ensures that your data is always up to date, in real time and you can access it anywhere, anytime on any device
Technology	• Organically developed by ELMO	• Organically developed by ELMO	• Organically developed by ELMO	• Organically developed by ELMO	• Payroll is delivered through partners, embedded through the ELMO platform
Complementary modules		• Survey • Connect • Experiences • COVIDsecure • Hybrid Work • Wellbeing	• Course Builder • Course Library • Video Library	• Rewards and Recognition • Remuneration	• Rostering / Time & Attendance • Expenses

THE BREATHE SOLUTION

breathe

Breathe product offering

Breathe is an intuitive, easy-to-use cloud-based software for small businesses (<50 employees).

	Description	Key features
HR – People Management	• Allows businesses to manage critical HR administration with an easy-to-use online HR system, which includes the ability to manage holiday requests, employee leave, store documents safely in the cloud, plan appraisals, recognise achievements and run insightful HR reports	• Centralised employee database • Secure cloud document storage • Holiday/sick day workflows with automated entitlement handling • Manage performance • Employee self-service
Recruitment	• Recruitment supports the business in managing end to end staff hiring	• Track applicants • Create and share new vacancies, assign applicants to recruiters • Effortlessly collect important candidate details
Expenses	• The expense management module allows businesses to seamlessly manage and have visibility of their employee expenses. This includes automated claims, uploading of receipts, and approvals	• Input expense claims, upload receipts, and submit for approval • Instantly view expenses history • Greater expense visibility, control and efficiency
Rostering	• Breathe's cloud-based Rostering ("RTA") software makes creating and accessing a schedule quick and easy. Businesses can manage their roster to budget, share it with employees instantly, record start and finish times and allow teams to manage shift swaps	• Time tracking – store time sheets electronically • Timeclock – Effortlessly record start/ finish times • Receive weekly scheduling updates • Centralised shift swap and reporting
Learn	• The Learn add-on provides a number of courses designed to build on people's soft skills with courses covering topics such as business ethics, workplace mental health, information security and much more	• Streamline onboarding process with ready-made courses • Secure centralised courses • Track progress and achievements

GROWTH STRATEGY

Three pillar strategy driving expansion

Executing on the growth strategy

ELMO has a three-pillar growth strategy comprised of segment expansion, module expansion and geographic expansion.

ELMO's expansion strategy is underpinned by three key pillars, which will continue to drive growth into FY23 and beyond. Firstly, segment expansion, secondly, module expansion, and finally, geographic expansion.

ELMO has two distinct market segments that the Company addresses with two fit-for-purpose platforms. The growth opportunities across each of these two segments are large. The ELMO mid-market business, focuses on organisations with 50 to 2,000 employees. ELMO currently has over 3,000 mid- market customers with substantial upside as it continues to further penetrate this market segment.

Breathe's self-service platform caters for businesses who typically have fewer than 50 employees. Currently Breathe has over 11,000 customers and is growing rapidly. There is still substantial room to grow the small business segment as these organisations are still early in their adoption of people management software.

The second pillar of the Company's growth strategy is module expansion. ELMO operates on a land and expand model. The breadth of ELMO's integrated solution provides a competitive advantage in attracting new customers. It also enables value add cross-sell of additional modules to their existing customer base. Recently, ELMO brought two new modules to market including Hybrid Work and Wellbeing. These two new modules respond to the changing nature of the workplace environment and assists customers to navigate the new way of working.

The last pillar of ELMO's growth strategy is geographic expansion. After successfully expanding into the United Kingdom in late 2020, ELMO now has significant revenue opportunities there in both the mid-market and small business segments. The addressable market in the UK is c2.8x the size of that in Australia and New Zealand.

Since expanding to the UK, ELMO has added a number of HR modules to the mid-market platform and has been able to successfully win new customers there. The Company has also added a number of new modules to the small business platform with good take up from new and existing customers.

As a result of our expansion into new market segments, module adjacencies and geographies, our total addressable market has expanded considerably to $12.8 billion. With less than 5% penetration in the mid-market, and less than 1% in the small business segment, there is still plenty headroom for ELMO to continue their growth trajectory into the FY23 and beyond.

ELMO is also benefitting from the tailwinds in the adoption of Human Capital Management (HCM) software due to an increasingly remote or hybrid workforce.

ENVIRONMENT, SOCIAL AND GOVERNANCE

ELMO's Core Values

ELMO's core values of integrity, innovation, collaboration and results remain pillars of the organisation's culture. ELMO's values have played a critical role in aligning the organisation as it grows into new geographies and market segments. The values have been instrumental in aligning an increasingly dispersed workforce to the fundamental attributes of an ELMO employee. Each employee's alignment with the core values contributes to ELMO producing high quality outcomes for customers, shareholders and the community.

Employee Value Proposition (EVP)

ELMO participated in the 2022 Work+ Best Place to Work Study and was successful in being recognised as one of Australia's best places to work. ELMO scored highly in employee engagement and enabling employees to do their best work. This recognition has enabled us to validate our employee value proposition with a truly great culture that enhances our ability to attract and retain our talent.

In addition, we also provide:

- Competitive compensation and benefits
- Career pathways and development opportunities
- Mental Health and Wellbeing Initiatives
- Flexible work and remote work practices
- Progressive policies to support family and caring responsibilities.

A significant portion of ELMO employees are shareholders of the business.

Diversity and Inclusion (D&I)

ELMO recognises that creating an inclusive workplace will encourage diversity. It is the responsibility of the organisation through talent acquisition, career progression and flexible work practices to facilitate D&I activity and conversation. ELMO's approach to D&I has been endorsed by the Board in its Diversity Policy to create a diverse workplace composed of individuals with a wide array of skills, backgrounds and experiences. The Board is responsible for establishing and monitoring ELMO's overall diversity strategy and policy.

ELMO understands that it's important that people are able to balance their career, family and personal needs and obligations. Empowering employees to actively integrate important facets of their life is an essential part of ELMO's approach to D&I.

To the extent practicable, Group wide policies have been implemented to support employees in achieving greater work-life balance.

ELMO is committed to gender diversity initiatives, including options for job share working arrangements and working from home arrangements. At 30 June 2022, 37 percent of ELMO's overall workforce was female. ELMO's board consists of 50 per cent female directors.

Environment, Social and Governance

Wellbeing and Engagement

At ELMO, we take proactive measures to ensure we assisted our people to manage their wellbeing and remain engaged with the business. The health and wellbeing of our employees is critical to our success as an organisation.

Towards the end of the financial year ELMO commenced an employee engagement initiative to provide employees with greater input into how the organisation can actualise opportunities for its people, customers and the company.

This year, ELMO has run a broad range of initiatives for its employees including:

- Yoga, meditation, Pilates
- Toastmasters
- Quarterly Milestone events
- Flexible working arrangements,
- Healthy food initiatives
- Run club, cycle club, movie club
- 10,000 steps club
- Hackathons
- Morning teas and shared lunches
- Job sharing
- Professional development
- Care packages sent to employees during lockdowns in ANZ
- Gratitude practice including badges, employee awards and CEO awards
- Financial Wellness Initiatives
- Bring your child to work days
- Wellness days
- Connecting Families Policy
- Bring your dog to work days

Professional Development

Organisation-wide learning and development starts at the top. ELMO is committed to the sustained growth of our business through the development of senior leadership and management teams, and to all teams in our organisation. ELMO's objective is to upskill, cross skill and reskill employees to protect and sustain the business globally. This includes specialised training from the following providers:

AHRI Australian HR Institute · aws · CISSP Certified Information Systems Security Professional

ELMO's Human Resources function identifies opportunities for growth and solve problems using Agile methodology to test, hypothesise and iterate. Developing a strong capability framework which leverages talent in the emerging leaders program and builds individual and team skills to assist in succession planning activities.

To support individual and team development, ELMO invests in various development opportunities, including:

- AHRI National Convention and State Conferences
- HR & L&D Tech Fest
- HR Leaders' Summit
- Reimagine HR
- The Association of Payroll Specialists (TAPS)
- HR Congress
- PeopleMatters APAC
- Toastmasters
- R&D Summits
- Stories From The Front Line (Sales)
- ELMO Sales Conferences
- Monthly Product Showcases
- Emerging Leaders Program
- Leadership Coaching

ELMO in the Community

ELMO is committed to an active role in our communities. We recognise the benefits for our employees and the community when we work together on shared initiatives. In the last year, ELMO supported:

- Youth Off The Streets
- Movember
- Dry July
- Steptember
- Cancer Council
- RUOK Day morning tea
- Jeans for Genes Day
- United Against Domestic Violence

Data Privacy and Security

Security controls are in place to protect the confidentiality, integrity and availability of ELMO's platform/system, people and customer information.

ELMO complies with ISO 27001:2013. This standard covers the requirements for privacy information management and ELMO's Data Privacy Protection Policy is maintained on the following website https://bit.ly/ELO-data-privacy.

ELMO has a fully published and implemented Information Security Management System (ISMS).

In addition, ELMO has a Security Awareness Training Program that covers all aspects of data security and privacy.

Environment

ELMO has progressed in its activity to reduce its carbon emissions.

ELMO has recently launched a Carbon Zero Initiative and a commitment to become carbon neutral. Part of this initiative will include review of procurement, supply chain and suppliers to ensure alignment with our commitment to carbon neutrality. Currently, all major infrastructure contracts (including office facilities and cloud service providers) are with organisations which share ELMO's commitment to sustainability and achieving net carbon zero. Some key examples include:

- ELMO head offices has achieved carbon neutral status under NABERS and Climate Active, and in alignment with the international Greenhouse Gas Protocol
- ELMO's Cloud Service provider has committed to achieving 100% renewable energy usage for global infrastructure and achieving net carbon zero

ELMO's Green Team, an employee-led committee, ensures environmental education, awareness and leads various environmental initiatives.

Corporate Governance

ELMO values high levels of corporate governance. Our compliance with the Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council is described in our Corporate Governance Statement, which is available from our website or at https://bit.ly/ELO-governance.

ELMO's core values of integrity, innovation, collaboration and results remain pillars of the organisation's culture. ELMO's values have played a critical role in aligning the organisation as it grows into new geographies and market segments.

BOARD OF DIRECTORS

Danny Lessem

CEO and Executive Director

Mr Danny Lessem is the CEO, Executive Director, and co-founder of ELMO. He is also a member of the Audit and Risk Management Committee.

Danny is responsible for leading the development and execution of the Company's long-term strategy and delivering on growth objectives for the business. Danny also plays a key part in the day-to-day management of the Company's operations and has been critical to the success of ELMO, including the strategy underpinning the development of the Company's full suite of solutions and expansion into new markets.

Danny has extensive experience in the technology industry having led SaaS companies for over 20 years in senior roles, including Compu Technologies where he was the CEO and was responsible for overseeing the transition of the Company's primary business from a digital agency to an eLearning content provider.

Danny holds a Bachelor of Arts and a Bachelor of Laws (LL.B.) from the University of Witwatersrand, South Africa.

Barry Lewin

Independent Non-Executive Chairman

Mr Barry Lewin is the Independent Non-Executive Chairman of ELMO, having been appointed to the position on 10 October 2018. Barry is the founder and Managing Director of Melbourne- based corporate advisory firm SLM Corporate Pty Ltd where he advises public and private companies on mergers, acquisitions, transaction structuring, debt and equity issues, business sales and on 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.

Barry is Non-Executive Chairman of ASX-listed Praemium Limited (ASX:PPS) and ASX-listed QuickFee Limited (ASX: QFE), and has held previous directorships at ASX-listed Senetas Corporation Limited (ASX:SEN) and Clean TeQ Holdings Limited (ASX:CLQ), where he also served as Chairman of the Audit Committee.

He has degrees in Commerce and Law and holds a MBA from Swinburne University.

Kate Hill

Independent Non-Executive Director

Ms Kate Hill is an Independent Non-Executive Director of ELMO, Chair of the Audit and Risk Committee and member of Nomination and Remuneration Committee. She has over 20 years' experience as an audit partner with Deloitte Touche Tohmatsu and held a variety of leadership and executive roles in Deloitte, including serving on the Board of Partners of the Australian firm.

Kate is an Independent Non-Executive Director of CountPlus Limited (ASX:CUP), and Chair of the Audit and Risk Committee. She is also the independent Non-Executive Chair of Seeing Machines Limited (LON:SEE).

Kate holds a Bachelor of Science (Hons) from Bristol University, is a member of the Institute of Chartered Accountants in Australia and New Zealand, and a graduate of the Australian Institute of Company Directors.

Leah Graeve

Independent Non-Executive Director

Ms Leah Graeve is an Independent Non-Executive Director of ELMO and Chair of the Remuneration and Nomination Committee. Leah has enjoyed a career as a successful commercial and contracts negotiator in a range of organisations and industries.

Leah is currently Head of Strategic Sourcing and Procurement at Afterpay and is also a Board member of the not-for-profit Rare Cancers Australia. Leah previously held roles as Portfolio Senior Manager and Head of Procurement at Qantas Group, Senior Manager at Jetstar Airways, Legal Counsel at Engonet and IT Commercial Manager at BHP Group.

She holds a Bachelor of Arts & Law from Monash University and is a graduate of the Australian Institute of Company Directors.

CONSOLIDATED FINANCIAL STATEMENTS 2022

For the year ended 30 June 2022

ELMO Software Limited
ABN 13 102 455 087

Contents

DIRECTORS' REPORT

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 2022.

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 2022 (2021: $nil).

Review of operations

Principal activities

ELMO Software Limited ('ELMO' or 'Group') 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 the United Kingdom (UK) employing over 570 employees.

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.

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.

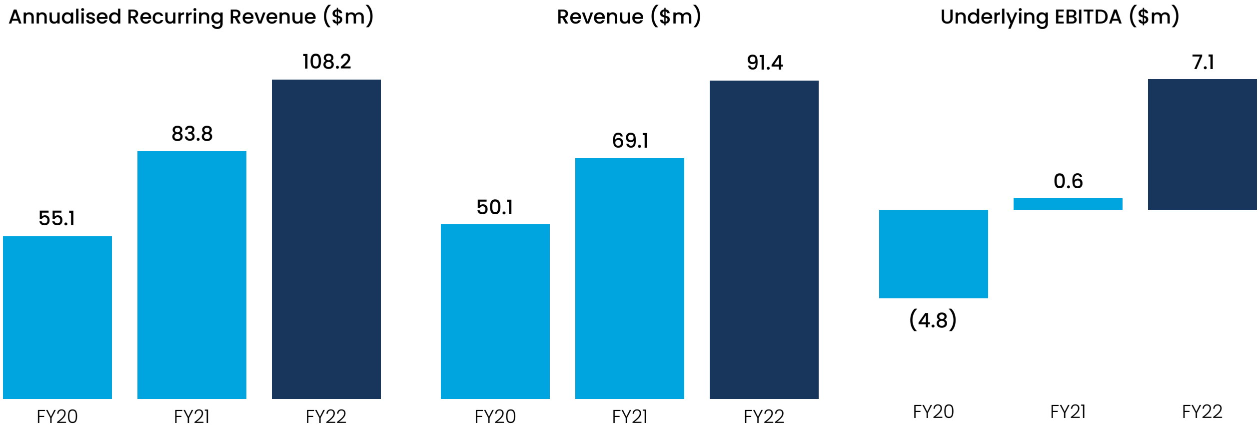
During FY22 the ELMO Group launched core HCM modules into the UK mid-market, leveraging the operating footprint acquired as part of the Webexpenses acquisition in December 2020. Initial sales have been achieved through the second half of FY22.

Small business operations have continued to grow strongly in the UK region with over 11,000 active customers by 30 June 2022. The ANZ small business platform represents a significant growth opportunity and with infrastructure in place the Group expects to begin to increase the revenue contribution through FY23.

The ELMO Group is well capitalised and positioned for continued sustainable organic growth. This growth can be achieved through leveraging the investment made across the last three years in both the people and product. Through leveraging the existing cost infrastructure, the Group is expected to achieve operating cash flow break even through FY23.

Financial and operational performance for the year

Highlights



The ELMO Group has experienced significant growth across the key metrics of Annualised Recurring Revenue (ARR), revenue and underlying EBITDA through FY22 when compared to FY21.

Annualised Recurring Revenue (ARR) and Revenue

The Group achieved a record ARR of $108.2 million, an increase of 29% compared to the prior year (FY21: $83.8 million). The growth in ARR was driven by small and medium sized businesses continuing to adopt hybrid and remote based working practices. This shift in businesses operating models is driving an increase in rate of digitisation of HR systems and the adoption of cloud-based HR technology to help with the management of the workforce. This shift is contributing to the organic growth driven across both the mid-market (ELMO) and small business (Breathe) operations.

Mid-market growth rates continue to increase with ARR growth of 29% achieved through the year to 30 June 2022. Key drivers to the growth included securing new customers, the upsell of additional modules to existing customers, price increases and a reduction in the rate of lost customers.

The small business segment has continued to experience a high growth rate of 34% for the year. The majority of growth was driven through winning over 3,200 new customers and this was complimented through the cross sell of additional modules which have been introduced since the acquisition in October 2020, price increases and a reduction in the rate of lost customers.

Underlying EBITDA

ELMO achieved an underlying EBITDA of $7.1 million, an improvement of $6.5 million compared to the prior year (FY21: $0.6 million). The growth in underlying EBITDA was driven by the revenue growth, coupled with increased operating cost leverage across sales & marketing, research & development (R&D) and general & administrative expenses.

Net loss

The net loss before significant items was $37.5 million, compared with a loss of $28.1 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 capitalised costs from prior years.

The total net loss for the period, including the items above was $76.8 million (FY21: $37.6 million) which included the increase in fair value for equity based earn out payments of $23.8 million and non-cash share-based payments of $11.2 million.

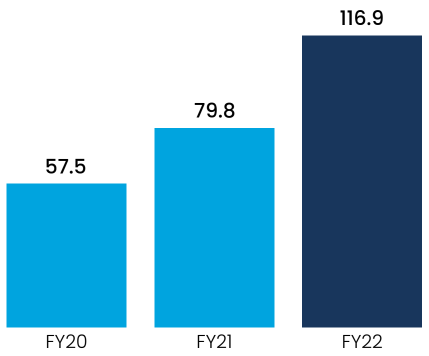
Directors' Report

Capital management and cash flow

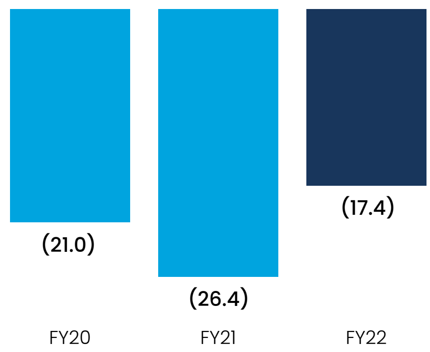
ELMO is well capitalised to fund future growth and the achievement of cash flow breakeven. As at 30 June 2022 the Group held cash and term deposits of $47.9 million, which included a drawn debt facility of $40.5 million.

During FY22, ELMO enhanced its capital structure through securing an additional debt facility of $11.0 million with the Commonwealth Bank of Australia and converting the cash component of contingent consideration from a cash-based payment to equity settled.

Cash Receipts FY20 to FY22 ($m)



Operating cash flow FY20 to FY22 ($m)



The total cash receipts from customers through FY22 totalled $116.9 million reflecting a 46% increase compared to the prior year (FY21: $79.8 million). The cash burn, reflecting the receipts less the underlying operating cash payments, reduced by 34% from $26.4 million in FY21 to $17.4 million in FY22.

Consolidated results summary

A$ million	FY22	FY21
Revenue	91.4	69.1
Gross profit[1]	82.2	61.4
Gross profit %	*90.0%*	*88.9%*
Underlying EBITDA[2]	**7.1**	**0.6**
Depreciation and amortisation[3]	(40.3)	(29.0)
Net finance cost[4]	(5.3)	(0.3)
Taxation	1.0	0.6
Net loss before significant items	**(37.5)**	**(28.1)**
Significant items[5]	(39.3)	(9.5)
Net loss after tax attributable to equity owners	**(76.8)**	**(37.6)**
Cents per share		
Loss per share pre significant items	*(41.72)*	*(31.95)*
Loss per share	*(85.48)*	*(42.89)*

1. Gross profit shown above excludes non-cash share-based payments of $0.7 million (FY21: $0.2 million) and amortisation of $7.9 million (FY21: $3.8 million) which are included within cost of sales in the statutory cost of sales on page 40.
2. Underlying EBITDA is a key measure of the underlying performance of the Group.
3. Depreciation and amortisation includes amortisation of contract cost assets within cost of sales.
4. Net finance cost includes foreign exchange losses of $2.7 million (FY21: gain of $0.6 million), interest relating to leases of $1.3 million (FY21: $1.2 million), interest on the CBA debt facility of $0.7 million (FY21: $0.2 million) and other unrealised/realised losses ($0.6 million).
5. Significant items relate to changes in fair value of contingent consideration of $23.8 million (FY21: $3.9 million), share-based payment expense of $11.2 million (FY21: $5.2 million), restructuring costs of $1.7 million (FY21: $nil), right-of-use asset impairment of $0.6 million (FY21: $nil) and other net one-off costs of $2.0 million (FY21: $0.4 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 2022 and 30 June 2021.

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 non-cash items and non-recurring significant transactions.

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

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:	10,972,477 fully paid ordinary shares (including 149,328 restricted shares)
Interests in options:	None
Contractual rights to shares:	None

Directors' Report

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:	33,637 (includes 18,767 restricted shares acquired under the NED equity plan)
Interests in options:	None
Contractual rights to shares:	9,167 share rights under the NED equity plan

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

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, focusing 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	11	11	4	4	3	3
Danny Lessem	11	11	–	–	–	–
Kate Hill	11	11	4	4	3	3
Leah Graeve	11	11	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**
Barry Lewin	15,000	–	–	–
Danny Lessem	10,972,477(i)	–	–	–
Kate Hill	33,637(ii)	–	–	9,167
Leah Graeve	1,531	–	–	–

(i) Includes 149,328 restricted shares issued under the FY21 salary sacrifice scheme; restrictions released in August 2022.

(ii) Includes 18,767 restricted shares issued as part of the Non-Executive Director equity plan.

Directors' Report

Rights and Options as at 30 June 2022

Issuing entity	Number of shares/rights under option	Class of shares	Exercise price of rights/options	Expiry date of options
Share options				
Executive				
ELMO Software Limited	187,347	Ordinary shares	$2.51	17 October 2027
ELMO Software Limited	96,209	Ordinary shares	$5.50	29 October 2028
ELMO Software Limited	12,100	Ordinary shares	$5.50	27 March 2029
Employee				
ELMO Software Limited	283,697	Ordinary shares	$5.50	5 November 2028
ELMO Software Limited	7,885	Ordinary shares	$5.50	25 February 2029
Performance rights				
Executive				
ELMO Software Limited	36,251	Ordinary shares	$6.74	
ELMO Software Limited	84,442	Ordinary shares	$5.29	
ELMO Software Limited	123,241	Ordinary shares	$4.98	
Employee				
ELMO Software Limited	215,079	Ordinary shares	$5.29	
ELMO Software Limited	316,637	Ordinary shares	$4.98	

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 part of those proceedings.

Officers of the Group who are former partners of Grant Thornton Audit Pty Ltd

No officer of the Group was an audit partner of Grant Thornton Audit Pty Ltd, being the auditors during the financial year, at a time when the audit firm undertook an audit of the Group.

Rounding off amounts

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

Auditor's independence declaration

A copy of the auditor's independence declaration is set out immediately after this directors' report.

Auditor

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

Environmental regulation

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

Matters subsequent to the end of the financial year

Subsequent to the year ended 30 June 2022 the earn-out period with respect to the Webexpenses acquisition concluded finalising the contingent consideration at $37.0 million resulting in an adjusting subsequent event. There is additionally a material impact from changes to foreign currency rates which would result in a reduction in the contingent consideration of $2.2 million from 30 June 2022 to date of approval of these financial statements but this is non-adjusting subsequent event.

No other matter or circumstance has arisen since 30 June 2022 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.

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.

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.

During FY22 a restructure of the senior leadership team was undertaken to meet the needs of a growing global group operating across multiple jurisdictions. A global executive team was established with a focus on strategy development and to enable streamlined decision making.

For the year ended 30 June 2022 and since the end of the financial year the KMP included the non-executive directors and the global executive team as follows:

Executive KMP	
Danny Lessem	Chief Executive Officer and Executive Director
James Haslam	Chief Financial Officer and Joint Company Secretary
Gordon Starkey	Chief Revenue Officer
Samuel Sun	Chief Technology Officer

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 2022 and 30 June 2021.

Short term incentive plan (STI Plan)

ELMO has established a short term incentive plan under which KMP were awarded with an 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.

Remuneration report (audited)

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.

The SEEP is intended to align the interests of the senior executives with Shareholders. 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.

Any grants will be made subject to the ASX Listing Rules, to the extent applicable.

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 the SEEP if considered appropriate by the Board.

Share options (equity-settled)

For the financial years up to and including FY19 equity incentives under the SEEP 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 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 following table details the fixed, variable, short and long term incentives in relation to executive remuneration and the link to the Group's performance.

Component	Performance measures	Strategic objective/Performance link
Fixed remuneration	The position description of each Executive KMP includes a set of individual performance measures which are reviewed and evaluated each financial year. Remuneration is set competitively in order to: • Recruit: Attract the best talent to ELMO to ensure sustainable growth • Retain: Ensure talent is not poached by larger technology organisations or direct competitors.	Each Executive KMP's individual performance measures is specifically designed to ensure alignment with the Group's strategic plans for the year. Fixed remuneration is based on: • Role and responsibility • Capability and competencies • Comparable market remunerations
Performance-based remuneration (STI's and LTI's) ELMO's performance pay consists of short and long-term incentives which are designed to: • Motivate: to achieve financial and non-financial corporate objectives • Reward: create performance culture that recognises and rewards outstanding performance • Retain: through the Senior Executive Equity Plan (SEEP) and the subsequent tenure required for options and rights to vest		
Short-term incentive plan (STI) being cash or equity award	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*. STI's are cash or equity-based payments • Quantum of STI = % of performance relative to an individual's OKR's.	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. STI's motivate individuals, create a high-performance culture and increase employee engagement.

<table>
<tr><th>Component</th><th>Performance measures</th><th>Strategic objective/Performance link</th></tr>
<tr><td>Long-term incentive plan (LTI) under the (SEEP)</td><td>Share options
Share options are vested in three tranches over a three year period in the following proportions:
Year 1 – 20%
Year 2 – 30%
Year 3 – 50%
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.
Vesting against this target will apply if the following is met:
100% of the Options will vest if the Group ranks at or above the 75th percentile;
Straight line vesting will occur if the Group ranks between the 50th percentile and the 75th percentile;
65% of the Options will vest if the Group ranks at the 50th percentile;
0% of the Options will vest if the Group ranks below the 50th percentile.
Performance will be tested relative to a peer group comprising the constituent companies of the S&P/ ASX 300 excluding mining and energy companies.</td><td>Ensures a direct link between the performance of the Executive KMP and their departments with the creation of shareholder value.</td></tr>
<tr><td>Long-term incentive plan (LTI) under the (SEEP)</td><td>Performance Rights
The performance rights will vest in three tranches over a three-year period from the grant date in the following proportions:
Year 1 – 20%
Year 2 – 30%
Year 3 – 50%
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:<table><tr><th>Group's RTSR percentile rank against comparator group</th><th>Vesting percentage</th></tr><tr><td>Less than 50th</td><td>Nil</td></tr><tr><td>At 50th</td><td>65%</td></tr><tr><td>Between 50th to 75th</td><td>66-99% on a straight-line basis</td></tr><tr><td>At or above 75th</td><td>100%</td></tr></table></td><td></td></tr>
</table>

Remuneration report (audited)

*Group guidance for FY22 was:

Annual recurring revenue (ARR) ($m)	107.0 – 113.0
Revenue ($m)	91.0 – 96.0
Underlying EBITDA ($m)	1.5 – 6.5

For FY22 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.

	FY22	FY21	FY20	FY19	FY18
ARR ($m)	108.2	83.8	55.1	46.0	31.1
Revenue ($m)	91.4	69.1	50.1	40.1	26.5
Revenue growth (%)	32.3	37.9	25.0	51.3	60.0
Share price ($)	2.25	4.26	7.16	7.29	5.50
Change in the share price from beginning of year (%)	(47.2)	(40.5)	(1.8)	32.5	120.0

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

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 $220,000.

Kate Hill's annual fee was $130,000 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 for FY22 sacrifices 42% 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 $130,000 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.

Name:	Danny Lessem
Title:	Executive Director and Chief Executive Officer
Details:	Base salary for the year ending 30 June 2022 of $861,918 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 2022 of $527,076 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.
Name:	Gordon Starkey
Title:	Chief Revenue Officer
Details:	Base salary for the year ending 30 June 2022 of $527,076 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 6 month termination notice by either party. Gordon was eligible for both short term and long term incentive benefit.
Name:	Samuel Sun
Title:	Chief Technology Officer
Details:	Base salary for the year ending 30 June 2022 of $479,160 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 6 month termination notice by either party. Sam was eligible for both short term and long term incentive benefit.

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 2022 and 30 June 2021:

Year ended 30 June 2022	**Cash salary and fees $**	**Fees sacrificed under NED equity plan $**	**STI (cash settled)[ii] $**	**STI (equity-settled)[ii] $**	**Equity-settled share-based payment (LTI)[iii] $**	**Super-annuation $**	**Annual leave $**	**Long service leave $**	**Totals $**
Non-Executive Directors									
Barry Lewin	220,000	–		–	–	–	–	–	220,000
Kate Hill[i]	75,000	55,000		–	–	–	–	–	130,000
Leah Graeve	118,182	–		–	–	11,818	–	–	130,000
Executive KMP									
Danny Lessem	836,918	–	572,000	75,000	–	25,000	41,842	14,453	1,565,213
James Haslam	502,076	–	–	210,830	76,748	25,000	18,427	7,470	840,551
Gordon Starkey[iv]	503,508	–	–	210,830	77,795	23,568	22,113	15,201	853,015
Samuel Sun[iv]	451,660	–	–	191,664	70,723	27,500	1,872	17,969	761,388
	2,707,344	**55,000**	**572,000**	**688,324**	**225,266**	**112,886**	**84,254**	**55,093**	**4,500,167**

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

(i) During the current year Kate Hill salary sacrificed 42% of her annual salary under the rules of the NED equity plan detailed previously (2021: 32%) and received during the financial year as $50,000 in restricted shares and $13,750 in share rights, of which $55,000 related to salary sacrifice in FY22 and $8,750 related to FY21.

(ii) The STI bonus is for performance during the financial year using the performance criteria set out on page 31 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 2022 and were therefore disclosed. STI equity settled is awarded in ordinary shares based on a 10-day VWAP prior to issue.

Remuneration report (audited)

(iii) Equity-settled share-based payment includes performance rights only. 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 onward, using a Monte-Carlo simulation approach.

(iv) Gordon Starkey and Samuel Sun were identified as key management personnel following the restructuring of the global leadership team during FY22 and therefore no comparatives disclosed for FY21.

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 $	Totals $
Non-Executive Directors								
Barry Lewin	200,000	–	–	–	–	–	–	200,000
Kate Hill(i)	75,000	35,000	–	–	–	–	–	110,000
Leah Graeve	100,457	–	–	–	9,543	–	–	110,000
Executive KMP								
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 31 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. This will now be settled as a share-based bonus.

(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.

Long term incentive plan

Rights and options over equity instruments granted as compensation

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

Performance rights	Performance rights granted during FY22	Vesting conditions	Grant date	Weighted average fair value at grant date	Total fair value at grant date
James Haslam	28,222	TSR & Material achievement of group guidance (p32)	14 Sep 2021	$3.95	111,477
Gordon Starkey	28,222		14 Sep 2021	$3.95	111,477
Samuel Sun	25,656		14 Sep 2021	$3.95	101,341

NED share rights	No. of share rights granted during FY22	Grant date	Fair value at grant date
Kate Hill	2,983	1 Oct 21	$4.61
	2,856	1 Jan 22	$4.81
	3,372	1 Apr 22	$4.08
	5,795	30 Jun 22	$2.37

Options and rights over equity instruments

	Held at 1 July 2021	Granted as compensation	Exercised/Vested & converted to shares(i)	Forfeited	Held at 30 June 2022	Vested
Options						
James Haslam	24,407	–	–	(12,307)	12,100	12,100
Gordon Starkey	108,414	–	–	(33,846)	74,568	74,568
Samuel Sun	178,604	–	(31,373)	(30,768)	116,463	116,463
Performance rights						
James Haslam	36,705	28,222	(4,767)	(4,768)	55,392	–
Gordon Starkey	37,959	28,222	(5,002)	(5,003)	56,176	–
Samuel Sun	34,508	25,656	(4,548)	(4,548)	51,068	–
Share rights						
Kate Hill(ii)	3,666	15,006	(9,505)	–	9,167	–

(i) Following testing of vesting conditions 50% of performance rights vested.

(ii) 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 33.

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.

Remuneration report (audited)

Key management personnel equity holdings

Year ended 30 June 2022

	Balance as at 1 July 2021	Purchases during the year[(i)]	Share-based bonus[(ii)]	Shares acquired under the SEEP equity plan	Shares acquired under NED equity plan	Balance as at 30 June 2022	
						Ordinary Shares	Restricted shares
Non-Executive Directors							
Barry Lewin	15,000	–		–	–	15,000	
Kate Hill	24,132	–		–	9,505	14,870	18,767
Leah Graeve	1,531	–		–	–	1,531	–
Executive KMP							
Danny Lessem	10,823,149	–	149,328	–	–	10,823,149	149,328
James Haslam	13,590	7,142	52,670	4,767	–	20,732	52,670
Gordon Starkey	424,093	–	52,670	5,002	–	429,095	52,670
Samuel Sun	472,796	–	47,882	35,921	–	508,717	47,882

(i) The following purchases of ordinary shares were made during the year:
- On 14 June 2022 James Haslam purchased 7,142 shares at a price of $2.81 per share.

(ii) Share-based bonus was settled in shares in relation to FY21 based on a 10-day VWAP prior to the date of issue.

(iii) Gordon Starkey and Samuel Sun were identified as key management personnel following the restructuring of the global leadership team during FY22 and therefore no comparatives disclosed for FY21.

This concludes the remuneration report (audited).

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.

Barry Lewin
Chairman

Danny Lessem
Director

30 September 2022
Sydney

AUDITOR'S INDEPENDENCE DECLARATION

Grant Thornton

Grant Thornton Audit Pty Ltd
Level 17
383 Kent Street
Sydney NSW 2000
Locked Bag Q800
Queen Victoria Building NSW
1230

T +61 2 8297 2400

Auditor's Independence Declaration

To the Directors of ELMO Software Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of ELMO Software Limited for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

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

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

S M Coulton
Partner – Audit & Assurance

Sydney, 30 September 2022

www.grantthornton.com.au
ACN-130 913 594

Consolidated Statement of Profit or Loss and Other Comprehensive Income or Loss

For the year ended 30 June 2022

	Note	Consolidated 2022 $'000	Consolidated 2021 $'000
Revenue from contracts with customers	4	91,385	69,106
Cost of sales		(17,828)	(11,693)
Gross profit		73,557	57,413
Other income	5	23	1,826
Sales and marketing expenses		(42,307)	(32,813)
Research and development expenses		(45,361)	(29,379)
General and administrative expenses		(33,121)	(28,814)
Impairment loss on trade receivables		(620)	(2,010)
Impairment on right-of-use asset		(625)	–
Net gain on derecognition of right-of-use asset measured at cost		–	134
Changes to fair value of contingent consideration	21	(23,808)	(3,866)
Finance income	7	51	452
Finance costs	7	(5,339)	(744)
Share of loss from joint venture	17	(234)	(461)
Loss before income tax benefit		(77,784)	(38,262)
Income tax benefit	8	950	636
Loss after income tax benefit for the year attributable to the owners of ELMO Software Limited		(76,834)	(37,626)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences		44	767
Total comprehensive loss for the year attributable to the owners of ELMO Software Limited		**(76,790)**	**(36,859)**
Loss per share		**Cents**	**Cents**
From continuing operations			
Basic earnings	9	(85.48)	(42.89)
Diluted earnings	9	(85.48)	(42.89)

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

Consolidated Statement of Financial Position

As at 30 June 2022

		Consolidated	
	Note	30 June 2022 $'000	30 June 2021 $'000
Assets			
Current assets			
Cash and cash equivalents	10	27,605	66,944
Term deposit	11	20,250	15,000
Trade and other receivables	12	18,934	13,724
Derivative financial instruments		–	400
Contract cost assets	4	10,737	6,192
Other current assets	14	2,479	3,567
Finance lease receivable	18	–	82
Total current assets		80,005	105,909
Non-current assets			
Investment in jointly controlled entity	17	803	1,037
Property, plant and equipment	15	7,778	8,422
Intangible assets	16	167,166	177,217
Contract cost assets	4	7,863	5,186
Right-of-use assets	18	21,665	18,774
Total non-current assets		205,275	210,636
Total assets		**285,280**	**316,545**
Liabilities			
Current liabilities			
Trade and other payables	19	14,452	14,644
Deferred and contingent consideration	24	36,967	35,234
Lease liabilities	18	5,825	4,041
Employee benefits	22	4,812	4,494
Current tax liabilities	13	369	441
Contract liabilities	4	47,366	32,545
Total current liabilities		109,791	91,399
Non-current liabilities			
Loans and borrowings	20	40,500	30,000
Deferred and contingent consideration	24	313	313
Lease liabilities	18	22,540	20,155
Employee benefits	22	1,126	799
Deferred tax	23	4,138	5,002
Contract liabilities	4	5,013	2,031
Total non-current liabilities		73,630	58,300
Total liabilities		**183,421**	**149,699**
Net assets		**101,859**	**166,846**
Equity			
Share capital	25	239,317	235,695
Reserves	25	13,790	5,565
Accumulated losses	26	(151,248)	(74,414)
Total equity		**101,859**	**166,846**

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2022

	Issued capital $'000	Foreign currency reserves $'000	Share-based payment reserve $'000	Accumulated losses $'000	Total equity $'000
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 loss for the year	–	767	–	–	767
Total comprehensive loss for the year	–	767	–	(37,626)	(36,859)
Transactions with owners in their capacity as owners					
Shares issued under business combinations	21,223	–	–	–	21,223
Vesting of performance rights and options	316	–	(254)	–	62
Reserves					
Equity-settled share-based payment	–	–	5,172	–	5,172
Shares purchased by trust	–	–	(2,000)	–	(2,000)
Balance at 30 June 2021	235,695	866	4,699	(74,414)	166,846
Balance at 1 July 2021	235,695	866	4,699	(74,414)	166,846
Loss after income tax benefit for the year	–	–	–	(76,834)	(76,834)
Other comprehensive loss for the year		44			44
Total comprehensive loss for the year	–	44	–	(76,834)	(76,790)
Transactions with owners in their capacity as owners					
Vesting of performance rights and exercise of options	3,622		(3,026)	–	596
Reserves					
Equity-settled share-based payment	–	–	11,207	–	11,207
Balance at 30 June 2022	**239,317**	**910**	**12,880**	**(151,248)**	**101,859**

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

Consolidated Cash Flow Statement

For the year ended 30 June 2022

	Note	Consolidated 30 June 2022	Consolidated 30 June 2021
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		116,878	79,819
Payments to suppliers and employees (inclusive of GST)		(111,675)	(77,673)
Other income received		74	3,898
Income taxes refunded		139	59
Net cash from operating activities		**5,416**	**6,103**
Cash flows from investing activities			
Interest received		56	467
Payment of deferred consideration from acquisitions in the prior period	24	(21,273)	(5,839)
Payment for acquisition of businesses, net of cash acquired		–	(46,216)
Payments for property, plant and equipment		(2,931)	(5,875)
Payments for intangibles		(18,454)	(30,554)
Net cash used in investing activities		**(42,602)**	**(88,017)**
Cash flows from financing activities			
Proceeds from exercise of share options		419	60
Share issue transaction costs		(97)	(328)
Proceeds from borrowings		10,500	30,000
Transfer to term deposit		(5,250)	(15,000)
Loan interest and transaction costs		(886)	–
Shares purchased by trust		–	(2,000)
Receipt for lease incentives		37	1,338
Interest on lease liabilities		(1,326)	(1,177)
Repayment of lease liabilities		(5,322)	(3,939)
Net cash generated (used in)/from financing activities		**(1,925)**	**8,954**
Net decrease in cash and cash equivalents		(39,111)	(72,960)
Cash and cash equivalents at the beginning of the year		66,944	139,887
Effect of exchange differences on cash balances		(228)	17
Cash and cash equivalents		**27,605**	**66,944**
Term deposits		**20,250**	**15,000**
Cash and term deposits		**47,855**	**81,944**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022

Note 1. Basis of Preparation

ELMO Software Limited is a for-profit entity for the purpose of preparing the financial report for the year ended 30 June 2022.

This general purpose financial report for FY22:

- is for the consolidated entity consisting of ELMO Software Limited and its controlled entities;
- has 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 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').
- is presented in Australian dollars, with all values rounded to the nearest thousand dollars or in certain cases to the nearest dollar in accordance with the Australian Securities and Investment Commission Corporations Instrument 2016/191;
- has been prepared on a historical cost basis except for derivative financial assets, contingent consideration liabilities and share-based payment transactions which are stated at their fair value.

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.

Standards issued but not yet effective

From the new standards effective for annual periods beginning on or after 1 July 2021 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.

Prior year restatement

For FY22 contract cost assets of $18.6 million have been recognised and presented in accordance with AASB 15, Revenue from customer contracts, in relation to implementation costs and sales commissions which were previously presented as intangible assets. Consequently the presentation for the prior year period has been restated by $11.4 million in order for presentation to be consistent. With the exception of the above restatement, accounting policies adopted are consistent with those of the previous financial year.

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 2022 the Group has a cash and term deposit balance of $47.9 million with net current liabilities of $29.8 million but this includes non-cash elements of contract liabilities for deferred subscription revenue of $47.4 million and contingent consideration to be settled in shares of $36.3 million.

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 2022 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.

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.

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.

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.

Current and non-current classification

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

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, whether POs are distinct, when POs are satisfied, determining life of customers and determining the amount to be recognised for contract cost assets (see note 4).

Business combinations

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 21).

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 24).

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.

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 cash generating units (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 16).

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 24).

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 23).

Note 3. Operating segments

Accounting policy

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.

For FY22 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.

FY22	Small business solution $'000	Mid-market solution $'000	Total $'000
Segment revenue	**10,912**	**80,473**	**91,385**
Share of loss from joint venture	–	(234)	(234)
Segment underlying EBITDA	**(998)**	**8,117**	**7,119**
Net finance cost			(5,288)
Depreciation and amortisation(i)			(40,301)
Share-based payments			(11,158)
Fair value adjustment to contingent consideration			(23,808)
Impairment on lease			(625)
Share of loss from joint venture			(234)
Significant one-off items			(3,489)
Loss before tax			(77,784)
Segment assets	45,295	239,985	285,280
Segment liabilities	(5,313)	(178,108)	(183,421)

(i) Includes amortisation of contract cost assets recognised in cost of sales.

Major customers

During the years ended 30 June 2022 and 30 June 2021 no single customer contributed 10% or more to the Group's external revenue.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 3. Operating segments continued

FY21	Small business solution $'000	Mid-market solution $'000	Total $'000
Segment revenue	**5,498**	**63,608**	**69,106**
Share of loss from joint venture	–	(461)	(461)
Segment underlying EBITDA	**(1,194)**	**1,840**	**646**
Net finance cost			(292)
Depreciation and amortisation			(28,989)
Share-based payments			(5,172)
Fair value adjustment to contingent consideration			(3,866)
Share of loss from joint venture			(461)
Significant one-off items			(128)
Loss before tax			**(38,262)**
Segment assets	45,972	270,573	316,545
Segment liabilities	(7,249)	(142,450)	(149,699)

	Revenue from external customers		Geographical non-current assets	
Geographical information	**30 June 2022 $'000**	**30 June 2021 $'000**	**30 June 2022 $'000**	**30 June 2021 $'000**
Australia	63,308	52,963	94,826	90,579
New Zealand	6,622	5,465	11,897	13,403
United Kingdom	21,131	10,526	97,443	105,287
Others	324	152	306	330
	91,385	**69,106**	**204,472**	**209,599**

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 $803,000 (2021: investment in jointly controlled entity and finance lease receivable of $1,037,000). Segment assets and liabilities are not regularly reported to the CODM.

Note 4. Revenue from contracts with customers

Accounting policy

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 have been identified as being distinct from others in the contract as they are not dependent on or interrelated with other obligations in the contract and are therefore classified as a separate performance obligation.

(ii) Revenue recognition

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

Revenue Stream	Performance Obligation	Timing of Recognition
"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 as services provided.

(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. Contract cost assets are recognised for implementation costs and sales commissions incurred to fulfil and obtain customer contracts and amortised over the life of the contract.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 4. Revenue from contracts with customers continued

	Small business solution		Mid-market solution		Total	
Revenue	**2022 $'000**	**2021 $'000**	**2022 $'000**	**2021 $'000**	**2022 $'000**	**2021 $'000**
Revenue recognised at a point in time	–	–	2,007	2,280	2,007	2,280
Revenue recognised over time	10,912	5,498	78,466	61,328	89,378	66,826
Total revenue	**10,912**	**5,498**	**80,473**	**63,608**	**91,385**	**69,106**

	Current		Non-Current		Total	
Contract balances	**2022 $'000**	**2021 $'000**	**2022 $'000**	**2021 $'000**	**2022 $'000**	**2021 $'000**
Contract cost assets	10,737	6,192	7,863	5,186	18,600	11,378
Contract liabilities	**(47,366)**	**(32,545)**	**(5,013)**	**(2,031)**	**(52,379)**	**(34,576)**

During FY22, $32.5 million was recognised in revenue included in FY21 contract liabilities balance.

The increase in contract liabilities to FY22 is related to the growth in billings and timing of invoices raised.

Reconciliations

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

Consolidated	**Implementation costs $'000**	**Sales commission $'000**	**Total $'000**
Balance at 1 July 2020	–	3,542	3,542
Additions	6,404	5,279	11,683
Amortisation expense	(1,580)	(2,267)	(3,847)
Balance at 30 June 2021	4,824	6,554	11,378
Additions	7,444	7,668	15,112
Amortisation expense	(3,721)	(4,162)	(7,883)
Foreign exchange movement	2	(9)	(7)
Balance at 30 June 2022	**8,549**	**10,051**	**18,600**

Note 5. Other income

Accounting policy

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.

	Consolidated	
	2022 $'000	**2021 $'000**
COVID-related government stimulus	–	1,716
Other income	23	110
	23	**1,826**

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 6. Expenses

Included in the consolidated statement of profit and loss

	Consolidated 2022		Consolidated 2021	
	$'000	$'000	$'000	$'000
	Depreciation and amortisation	**Employment expenses**	**Depreciation and amortisation**	**Employment expenses**
Sales and marketing	2,168	24,905	1,892	19,711
Research and development	21,682	18,843	17,108	10,241
General and administrative	8,568	10,974	6,139	10,563
	32,418	**54,850**	**25,139**	**40,515**

Depreciation and amortisation comprises of the following elements:

		Consolidated	
	Note	2022 $'000	2021 $'000
Depreciation			
Right of use assets	18	5,209	3,992
Property, plant and equipment	15	3,359	2,147
Amortisation			
Intangible assets	16	23,850	19,000
		32,418	25,139

Note 7. Finance income and costs

Accounting policy

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.

Finance income

	Consolidated 2022 $'000	Consolidated 2021 $'000
Interest on lease receivables	1	12
Other interest income	50	440
	51	**452**

Finance costs

	Consolidated 2022 $'000	Consolidated 2021 $'000
Interest on bank loan	701	165
Interest on lease liability	1,326	1,177
Loss on financial derivative	520	–
Net foreign exchange loss/(gain)	2,792	(598)
	5,339	**744**

Note 8. Income tax benefit

Accounting policy

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 8. Income tax benefit continued

Accounting policy continued

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.

	Consolidated	
	2022 $'000	**2021 $'000**
Income tax expense		
Current tax expense	(344)	(342)
Deferred tax – origination and reversal of temporary differences	1,294	978
Aggregate income tax benefit	950	636
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax expense	(77,784)	(38,262)
Tax at the statutory tax rate of 30%	23,335	11,479
Tax effect amounts which are not deductible in calculating taxable income:		
Tax rate difference in overseas tax jurisdictions	(3,155)	(1,930)
Effect of expenses that are not deductible in determining taxable profit	(7,449)	(873)
Non-deductible R&D costs (R&D tax offset not booked)	(273)	(328)
Tax losses not recognised	(11,775)	(7,702)
Adjustment for prior income year	393	–
Other	(126)	(10)
Income tax benefit	**950**	**636**

Note 9. Loss per share

Accounting policy

Basic loss per share

Basic loss per share is calculated by dividing the 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 loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss 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.

	Consolidated	
	2022 $'000	**2021 $'000**
Loss after income tax	(76,834)	(37,626)

	Cents	**Cents**
Basic loss per share	(85.48)	(42.89)
Diluted loss per share	(85.48)	(42.89)

The calculation of EPS has been based on the 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 year.

	2022 $'000	**2021 $'000**
Weighted average number of ordinary shares used in calculating loss per share	89,883,491	87,730,404

Note 10. Cash and cash equivalents

Accounting policy

Cash and cash equivalents includes cash at bank and short term deposits.

	Consolidated	
	2022 $'000	**2021 $'000**
Cash and cash equivalents	27,605	66,944

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 11. Term deposit

	Consolidated	
	2022 $'000	**2021 $'000**
Term deposit	20,250	15,000

The term deposit is a security deposit of $20.25 million relating to the loan facility.

Note 12. Trade and other receivables

Accounting policy

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.

	Consolidated	
	2022 $'000	**2021 $'000**
Trade receivables	21,305	16,466
Loss allowance	(2,371)	(2,742)
	18,934	**13,724**

The consolidated entity has recognised an expense of $0.6 million in profit or loss in respect of impairment of receivables for the year ended 30 June 2022, (2021: $2.0 million).

Information about the Group's exposure to credit and market risks, including expected credit losses for trade receivables is included in note 24.

Note 13. Current tax

	Consolidated	
	2022 $'000	**2021 $'000**
Income tax payable	(369)	(441)

Note 14. Other current assets

	Consolidated	
	2022 $'000	2021 $'000
Prepayments	2,437	3,504
Other debtors	42	63
	2,479	**3,567**

Note 15. Property, plant and equipment

Accounting policy

(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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 15. Property, plant and equipment continued

	Consolidated	
	2022 $'000	**2021 $'000**
Plant and equipment at cost	1,169	1,023
Accumulated depreciation	(829)	(565)
	340	458
Computer equipment at cost	5,143	4,028
Accumulated depreciation	(3,806)	(2,525)
	1,337	1,503
Leasehold improvements at cost	11,382	9,557
Accumulated depreciation	(5,281)	(3,096)
	6,101	6,461
	7,778	**8,422**

Reconciliations

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

	Plant and equipment $'000	**Computer equipment $'000**	**Leasehold improvements $'000**	**Total $'000**
Balance at 1 July 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)
Effect of movements in exchange rates	(1)	(1)	(2)	(4)
Balance at 30 June 2021	458	1,503	6,461	8,422
Additions	47	849	1,779	2,675
Disposals	(3)	–	–	(3)
Depreciation expense	(158)	(997)	(2,204)	(3,359)
Effect of movements in exchange rates	(4)	(18)	65	43
Balance at 30 June 2022	**340**	**1,337**	**6,101**	**7,778**

Note 16. Intangible assets

Accounting policy

(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.

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
Customer lists	7-10 years

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 16. Intangible assets continued

Accounting policy 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 of CGU is the higher of the assets 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.

	Consolidated	
	2022 $'000	**2021 $'000**
Software development costs	92,558	75,484
Less: Accumulated amortisation	(58,771)	(37,562)
	33,787	37,922
Customer list (acquired through business combinations)	18,675	19,084
Less: Accumulated amortisation	(6,858)	(4,717)
	11,817	14,367
Goodwill (acquired through business combinations)	114,583	117,650
Trademarks (acquired through business combinations)	6,979	7,278
	167,166	**177,217**

Reconciliations

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

Consolidated	Software development costs $'000	Customer list $'000	Goodwill $'000	Trademarks $'000	Total $'000
Balance at 1 July 2020	22,211	7,004	39,625	579	69,419
Additions	19,675	–	–	–	19,675
Additions through business combinations	12,916	9,100	76,495	6,582	105,093
Amortisation expense	(17,108)	(1,892)	–	–	(19,000)
Effect of movements in exchange rates	228	155	1,530	117	2,030
Balance at 30 June 2021	37,922	14,367	117,650	7,278	177,217
Additions	17,761	–	–	–	17,761
Amortisation expense	(21,682)	(2,168)	–	–	(23,850)
Effect of movements in exchange rates	(214)	(382)	(3,067)	(299)	(3,962)
Balance at 30 June 2022	**33,787**	**11,817**	**114,583**	**6,979**	**167,166**

Goodwill and intangible assets with indefinite useful lives are allocated to the two CGUs being Small business solution and Mid-market business solution as follows and tested annually for impairment.

	Consolidated			
	2022		2021	
Consolidated	Trademark $'000	Goodwill $'000	Trademark $'000	Goodwill $'000
Small business solution	2,579	30,766	2,678	31,475
Mid-market business solution	4,400	83,817	4,600	86,175
	6,979	**114,583**	**7,278**	**117,650**

The recoverable amounts of the CGUs to which the assets have been allocated and 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 16. Intangible assets continued

	2022		2021	
	Small business solution %	**Mid-market solution %**	**Small business solution %**	**Mid-market solution %**
Pre-tax discount rate	14.4	11.3	14.56	11.12
Terminal value growth rate	2.5	2.5	3.0	3.0

Revenue growth assumptions

- Mid-market solution: 30% growth in FY23 reducing over the 5-year cash flow period to 20%
- Small business solution: 38% growth in FY23 reducing over the 5-year cash flow period to 26%

Based on the impairment assessment conducted, no impairment losses have been identified or recognised for the year ended 30 June 2022.

Sensitivity analysis

If the assumptions for WACC, terminal growth rate and revenue growth applied to the impairment model were adjusted with a fluctuation of 5% the effect on the headroom variance would be as follows with no risk of impairment to either segment identified.

		Sensitivity in assumptions		
Operating segment	**Headroom ($m)***	**WACC ($m)**	**Terminal Growth ($m)**	**Revenue Growth ($m)**
Small business solution	19	-3.1/+3.4	-2.2/+2.4	-7.6/+8.1
Mid-market solution	179	-24.3/+23.2	-18.9/+21.1	-66.6/+83.4

* Headroom based on management's assumptions and forecasts in impairment analysis.

Note 17. Investment in jointly controlled entity

Accounting policy

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.

	Consolidated	
	2022 $'000	**2021 $'000**
Opening balance	1,037	1,498
Group's share of losses for the year	(234)	(461)
Carrying amount as at 30 June	**803**	**1,037**

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

	2022 $'000	**2021 $'000**
Current assets	1,963	1,390
Non-current assets	–	–
Current liabilities	(365)	(420)
Non-current liabilities	–	–
Net assets	1,598	970
Revenue	6,575	4,282
Profit/(Loss) (100%)	668	(122)
Profit/(Loss) (50%)	334	(61)
Elimination of unrealised profits	(568)	(400)
Group share of losses	(234)	(461)
Reconciliation of net assets		
Opening net assets as at acquisition	970	1,092
Profit/(loss) for the year	668	(122)
Closing net assets	1,598	970
50% ownership interest	799	485
Elimination of unrealised profit	(1,136)	(588)
Goodwill	1,140	1,140
Carrying amount of jointly controlled entity	**803**	**1,037**

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 18. Leases

Accounting policy

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 purp`oses, 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.

Right-of-use assets

	Consolidated $'000
Net carrying amount as at 1 July 2020	14,991
Additions	7,641
Derecognition of right-of-use asset	134
Depreciation	(3,992)
Net carrying amount as at 30 June 2021	18,774
Additions	8,725
Impairment	(625)
Depreciation	(5,209)
Net carrying amount as at 30 June 2022	**21,665**

	2022 $'000	2021 $'000
Amounts recognised in profit or loss in relation to leases		
Interest expense	1,326	1,177
Expense relation to low value assets	76	184
Expense relating to variable lease payments not included in the measurement of the lease liability	1,008	547
Depreciation	5,209	3,992
Cash flow from leases		
Total cash outflow as a lessee	6,648	5,116
Income from sub-leasing of right-of-use-assets	85	226

Finance lease receivable

	Consolidated	
	2022 $'000	2021 $'000
Current finance lease receivable (recoverable within 12 months)	–	82
Non-current finance lease receivable (recoverable after 12 months)	–	–

Lease liabilities

	Consolidated	
	2022 $'000	2021 $'000
Amounts due for settlement in less than 12 months (current)	5,825	4,041
Amounts due for settlement in more than 12 months (non-current)	22,540	20,155

Maturity analysis (undiscounted)

	Consolidated	
	2022 $'000	2021 $'000
Not later than 1 year	6,362	4,041
Later than 1 year but not later than 5 years	24,656	18,771
Later than 5 years	–	1,384
	31,018	**24,196**

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 2022 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 19. Trade and other payables

Accounting policy

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.

	Consolidated	
	2022 $'000	**2021 $'000**
Trade payables and accruals	9,282	10,259
Other payables	5,170	4,385
	14,452	**14,644**

Note 20. Loans and borrowings

Accounting policy

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

	Consolidated	
	2022 $'000	**2021 $'000**
Non-current liabilities		
Secured bank loans	40,500	30,000

On 14 December 2021 the Group secured an increase in the existing debt facility with the Commonwealth Bank of Australia (CBA) of $11.0 million, of which $10.5 million had been drawn down as at 30 June 2022.

Security is held in the form of a term deposit of $20.25 million being 50% of the drawn-down debt and a fixed/floating charge over the Group's assets.

Note 21. Business combinations and acquisition of business assets

There were no acquisitions during the year ended 30 June 2022. In the prior year the Group acquire interests in the Breathe and Webexpenses entities as summarised in the table below:

	Breathe $'000	Webexpenses $'000
Net tangible assets	95	609
Cash	–	954
Customer list	4,089	5,011
Software	4,925	7,991
Trademark	2,678	3,904
Other assets	658	2,597
Contract liability	(724)	(1,136)
Deferred tax liability	(2,237)	(3,293)
Other liability	(956)	(3,051)
Net identifiable assets acquired	8,528	13,586
Goodwill on acquisition	31,475	45,263
Fair value of the total consideration at acquisition comprising:	40,003	58,849
Cash	29,058	18,112
Shares	3,669	17,554
Contingent consideration	7,276	23,183

For FY22 there was a net fair value adjustment to the contingent consideration for Webexpenses of $23.8 million (FY21: Breathe ($12.4 million uplift) and Webexpenses ($8.3 million reduction) plus $1.4 million foreign exchange effect since acquisition 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 (note 24).

Deferred/contingent consideration paid

Acquired entity	Consideration settled in shares $'000	Consideration settled in cash $'000
Settled in FY22		
Breathe	–	21,273
Settled in FY21		
BoxSuite	–	105
HROnboard	–	5,234
Vocam	–	500

As at 30 June 2022, consideration has been settled in final in relation to Breathe.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 22. Employee benefits

Accounting policy

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.

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.

Employee benefits

	Consolidated	
	2022 $'000	**2021 $'000**
Current	4,812	4,494
Non-current	1,126	799

Note 23. Deferred tax: non-current liabilities

Year ended 30 June 2022	**As at 1 July 2021 $'000**	**Recognised in profit or loss $'000**	**Recognised in equity $'000**	**As at 30 June 2022 $'000**
Provision for doubtful debts	661	(29)	–	632
Property, plant and equipment	453	(141)	–	312
Intangibles	(3,404)	(2,147)	–	(5,551)
Right-of-use assets	1,288	380	–	1,668
Government grants	(76)	62	–	(14)
Blackhole expenses	944	(395)	–	549
Customer list	(3,358)	624	–	(2,734)
Capitalised software development costs	1,035	8,012	–	9,047
Trademarks	(1,446)	57	–	(1,389)
Superannuation payables	355	55	–	410
Accruals	496	(291)	–	205
Provision for employee benefits	1,556	189	–	1,745
Contract liabilities	20	(20)	–	–
Lease liabilities	328	–	–	328
FX derivatives	(116)	116	–	–
Unutilised C/F R&D tax offsets	–	351	–	351
Deferred tax timing differences not booked	(3,738)	(5,959)	–	(9,697)
Deferred tax liabilities	**(5,002)**	**864**	**–**	**(4,138)**

Year ended 30 June 2021	As at 1 July 2020 $'000	Recognised in profit or loss $'000	Recognised in equity $'000	Acquired in business combination $'000	As at 30 June 2021 $'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 grants	(299)	223	–	–	(76)
Blackhole expenses	1,522	(578)	–	–	944
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)**

The Group has decided not to book $9.7 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 FY23 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 $18.5 million (2021: $13.0 million), until there is reasonable certainty that sufficient taxable income will be generated. The Group will continue to monitor this assessment in FY23 as the Group continues to scale and grow.

Note 24. 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 24. Financial risk management continued

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.

Accounting policy

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.

Contingent consideration

The consideration transferred in a business combination 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.

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 are recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Accounting classifications and fair values

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Group has no other contingent liabilities, except for the acquisition related contingent consideration disclosed above.

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.

	Carrying amount: Fair value through P&L		Fair value hierarchy
	2022 $'000	**2021 $'000**	
Contingent consideration	37,280	35,547	3
Forward exchange contracts	–	400	2

	Consolidated	
	2022 $'000	**2021 $'000**
Opening balance as at 1 July	35,547	6,102
Settlement of HROnboard	–	(5,603)
Acquisition of Breathe	–	7,276
Acquisition of Webexpenses	–	23,183
Settlement of Breathe	(21,273)	–
Changes to fair value in contingent consideration[i]	23,808	3,866
Changes in foreign exchange rate	(802)	723
Closing balance[ii]	37,280	35,547
Due in less than 1 year	36,967	35,234
Due in more than 1 year	313	313

(i) The earn-out is calculated based on a multiple of ARR and changes to fair value are as a result for FY22 in uplift to ARR. The earn-out period has concluded and no further changes will occur to the contingent consideration.

(ii) Includes $36.3 million to be settled in shares for Webexpenses contingent consideration.

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter-relationship between significant unobservable inputs and fair value measurement**
Contingent consideration	The fair value is based on a multiple of ARR for each acquisition at a future point in time.	Expected Annual Recurring Revenue (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

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, with no significant financing element, at an amount equal to lifetime 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 12).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 24. Financial risk management continued

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

	Expected credit loss rate		Carrying amounts		Allowance for expected credit losses	
	2022 %	**2021 %**	**2022 $'000**	**2021 $'000**	**2022 $'000**	**2021 $'000**
Not overdue	1	4	13,184	10,870	25	109
1 to 90 days overdue	11	7	5,506	2,545	253	186
Over 90 days overdue	88	89	2,615	3,051	2,093	2,447
Total	**100**	**100**	**21,305**	**16,466**	**2,371**	**2,742**

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, 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.

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

Maturity profile	Loans and borrowings(i) $'000	Trade and other payables $'000	Deferred and contingent consideration $'000	Lease liabilities $'000
Within 1 year	2,000	14,451	36,967	6,362
1-2 years	42,107	–	313	24,656
2-5 years	–	–	–	–

(i) Includes interest due on the CBA loan is determined by the average bid rate on the drawn balance plus a margin of 1.8%.

The Group has a cash and deposits balance of $47.9 million at 30 June 2022, which includes a security deposit of $20.25 million in the form of a term deposit, relating to the loan facility. This strengthens the Group's financial liquidity in the current market. 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 holds a bank loan 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. A fluctuation in the variable interest rate of 100bp upwards would result in additional interest of $692,000 over the life of the loan.

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.

Forward contracts which were taken out in the prior financial year in order to manage the currency exposure in relation to acquisition earn-outs have been settled during the current year following the finalisation of the Breathe earn-out and conversion of the Webexpenses earn-out to primarily share-based settlement.

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.

Market risk: Currency risk (continued)

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

Maturity profile	New Zealand Dollar NZD	Singapore Dollar SGD	British Pound Sterling GBP	United States Dollar USD
Assets				
Current	5,870	174	3,524	59
Non-current	5,424	–	55,393	219
Liabilities				
Current	(6,558)	(7)	(26,027)	(673)
Non-current	(732)	–	(3,440)	–

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:

Currency	Sensitivity in Group Results $'000
NZD	+/-181
SGD	+/-9
GBP	+/-2,596
USD	+/-303

Note 25. Equity: share capital and reserves

Accounting policy

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.

Ordinary shares issued and fully paid	Shares	$'000
As at 1 July 2020	**85,659,114**	**214,156**
Issue of shares – Breathe Acquisition	699,765	3,669
Issue of shares – Webexpenses Acquisition	2,805,650	17,554
Vesting of Performance Rights and exercise of options	58,786	316
As at 30 June 2021	**89,223,315**	**235,695**
Vesting of performance rights and exercise of options	460,302	3,622
Issue of shares to employees	443,599	–
Issue of shares to third party provider	65,775	–
At 30 June 2022	**90,192,991**	**239,317**

Notes to the Consolidated Financial Statements

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Note 25. Equity: share capital and reserves continued

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.

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 2021 Annual Report.

Nature and purpose of reserves

	Consolidated	
	2022 $'000	**2021 $'000**
Foreign exchange translation reserve[i]	910	866
Share-based payment reserve[ii]	12,880	4,699
	13,790	**5,565**

(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 26. Equity – accumulated losses

	Consolidated	
	2022 $'000	2021 $'000
Accumulated losses at the beginning of the financial year	(74,414)	(36,788)
Loss after income tax benefit for the year	(76,834)	(37,626)
	(151,248)	**(74,414)**

Note 27. Equity – dividends

There were no dividends paid or proposed for the year ended 30 June 2022 (2021: $nil).

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

Note 28. Key management personnel

Compensation

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

	Consolidated	
	2022 $'000	2021 $'000
Short-term employee benefits	3,418,691	1,749,076
Post-employment benefits	112,886	59,543
Share-based payment (including NED equity plan and equity-settled STI)	968,590	1,012,983
	4,500,167	**2,821,602**

Key management personnel includes two additional members of the executive team for FY22 (see remuneration report).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 29. Remuneration of auditors

	2022 $	2021 $
Audit or review services		
Deloitte Touche Tohmatsu	–	280,000
Grant Thornton Audit Pty Ltd	248,000	–

There were no non-audit services provided by the current auditor, Grant Thornton Audit Pty Ltd, during the current financial year. In the prior year there were non-audit services amounting to $205,000 (tax and advisory) related to the previous auditor, Deloitte Touche Tohmatsu.

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:

	2022 $	2021 $
Audit services – unrelated firms		
Audit of the financial statements for ELMO Talent Management Software Pte Limited	6,850	6,824
Other services – unrelated firms		
Accountancy fees for ELMO Talent Management Software Pte Limited	8,164	10,292
	15,014	**17,116**

Note 30. Related party transactions

Parent entity

ELMO Software limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 32.

Key management personnel

Disclosures relating to key management personnel are set out in note 28 and the remuneration report included in the directors' report.

Other related party transactions

In the year ended 30 June 2022 amounts of $6,348,248 were paid to the Group's jointly controlled entity, Hero Brands Pty Limited in relation to development costs (2021: $4,266,089).

Terms and conditions

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

Note 31. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2022 $'000	**2021 $'000**
Loss after income tax benefit	(44,868)	(29,415)
Total comprehensive loss	(44,868)	(29,415)
Statement of financial position		
Total current assets	53,984	82,598
Total assets	243,844	249,202
Total current liabilities	(51,828)	(37,571)
Total liabilities	(123,876)	(93,766)
Equity		
Issued capital	218,094	214,472
Share-based payment reserve	9,819	4,042
Accumulated losses	(107,945)	(63,078)
Total equity	**119,968**	**155,436**

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2022 and 30 June 2021.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2022 and 30 June 2021.

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:

- Investment 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 32. 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:

		Ownership interest	
Name	**Principal place of business/ Country of incorporation**	**2022 %**	**2021 %**
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	Australia	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 Pty Limited	New Zealand	100	100
HROnboard Pty Limited	Australia	100	100
Get BoxSuite Pty Limited	Australia	100	100
Vocam 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	100
ELMO Software UK Holdings Limited	United Kingdom	100	100
Centurion Management Systems Limited	United Kingdom	100	100
ELMO Software Limited	United Kingdom	100	100
Breathe Software Pty Limited	United Kingdom	100	100
Signifo Limited	United Kingdom	100	100
ELMO Software US Holdings Inc.	United States	100	100
Webexpenses Inc.	United States	100	100
Webexpenses Pty Limited	United States	100	100

Note 33. Events after the reporting period

Subsequent to the year ended 30 June 2022 the earn-out period with respect to the Webexpenses acquisition concluded finalising the contingent consideration at $37.0 million resulting in an adjusting subsequent event. There is additionally a material impact from changes to foreign currency rates which would result in a reduction in the contingent consideration of $2.2 million from 30 June 2022 to date of approval of these financial statements but this is a non-adjusting event.

No other matter or circumstance which has arisen since 30 June 2022 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 34. Reconciliation of loss after income tax to net cash from operating activities

	Consolidated	
Name	**2022 $'000**	**2021 $'000**
Loss after income tax benefit for the year	(76,834)	(37,626)
Adjustments for:		
Amortisation and depreciation	40,301	28,987
Bad debt expense	620	2,010
Impairment on right-of-use asset	625	–
Change in fair value	23,808	3,866
Share-based payment	11,158	5,172
Net finance cost	5,689	726
Share of loss in joint venture	234	461
Other	336	3,376
Change in operating assets and liabilities:		
Increase in trade and other receivables	(4,838)	(2,492)
Increase in contract assets	(14,629)	(9,213)
Increase in other assets	1,488	(3,211)
Decrease in income tax refundable	68	522
Decrease in deferred tax liabilities	(865)	(317)
Increase in trade and other payables	(194)	4,055
Increase in employee benefits	646	1,584
Increase in contract liabilities	17,803	8,203
Net cash from operating activities	**5,416**	**6,103**

Note 35. Share-based payments

Description of share-based payments

As at 30 June 2022 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. The SEEP is intended to align the interests of the senior executives with Shareholders. 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. Any grants will be made subject to the ASX Listing Rules, to the extent applicable.

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

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 35. Share-based payments continued

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.

Share-based bonus

For FY22 in relation to HPEP a share-based bonus has been introduced to replace the previously awarded STI and LTI linked to performance objectives for the individual.

FY22	Outstanding as at 30 June 2021	Granted	Exercise of options/ Conversion of rights	Forfeited	No. of options/ rights outstanding as at 30 June 2022
Granted to executives					
Share options					
17 October 2017	279,877	–	(92,530)	–	187,347
7 December 2017	31,373	–	(31,373)	–	–
29 October 2018	207,831	–	–	(111,622)	96,209
27 March 2019	24,407	–	–	(12,307)	12,100
	543,488	**–**	**(123,903)**	**(123,929)**	**295,656**
Performance Rights					
17 December 2019	58,001	–	(10,875)	(10,875)	36,251
14 September 2020	105,556	–	(10,556)	(10,558)	84,442
14 September 2021	–	123,241	–	–	123,241
	163,557	**123,241**	**(21,431)**	**(21,433)**	**243,934**
Granted to employees					
Share options					
17 October 2017	72,465	–	(43,479)	(28,986)	–
5 November 2018	283,697	–	–	–	283,697
25 February 2019	7,885	–	–	–	7,885
	364,047	**–**	**(43,479)**	**(28,986)**	**291,582**
Performance rights					
14 September 2020	225,609		(206,595)	(19,014)	–
22 January 2021	268,868		(53,789)	–	215,079
14 September 2021	–	556,927	–	(240,290)	316,637
	494,477	**556,927**	**(260,384)**	**(259,304)**	**531,716**

All share options have vested and are exercisable; all performance rights have yet to vest.

FY21	Outstanding as at 30 June 2020	Granted	Exercise of options/ Conversion of rights	Forfeited	No.of options/rights outstanding as at 30 June 2021
Granted to executives					
Share options					
17 October 2017	284,689	–	–	(4,182)	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**
Performance Rights					
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**
Granted to employees					
Share options					
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	–	–	(43,137)	283,697
25 February 2019	7,885	–	–	–	7,885
	438,179	**–**	**(8,735)**	**(65,397)**	**364,047**
Performance rights					
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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

Note 35. Share-based payments 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

	Share option plans				
	SEEP			HPEP	
FY19 Valuation assumptions	**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)

	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%

Valuation assumptions

	FY22		
	Tranche 1	**Tranche 2**	**Tranche 3**
Fair value at grant date	$3.33	$3.00	$3.00
Share price at grant date	$4.83	$4.83	$4.83
Exercise price	N/A	N/A	N/A
Expected volatility (weighted-average)	46%	46%	46%
Expected life	1 year	2 years	3 years
Expected dividends	0%	0%	0%
Risk-free interest rate	0.003%	0.005%	0.156%

Volatility is a measure of price variation of a financial instrument over the life of the award. This valuation has been 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 $11.2 million (2021: $5.2 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.

Note 36. Reconciliation of Appendix 4E to Financial Statements

Between the release of the Appendix 4E and the finalisation of this report the earn-out in relation to the Webexpenses acquisition has been finalised resulting in the following adjustment:

	Changes to FV of contingent consideration (P&L) $'000	**Contingent consideration (SOFP) $'000**
Appendix 4E	26,319	39,478
Adjustment	(2,511)	(2,511)
Audited financial statements	23,808	36,967

DIRECTORS' DECLARATION

In the opinion of the directors of ELMO Software Limited (the 'Company'):

1. (a) The consolidated financial statements and notes that are set out on pages 40 to 83 and the Remuneration Report on pages 30 to 38 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Company's financial position as at 30 June 2022 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 Company 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 2022.

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:

Barry Lewin
Chairman

Danny Lessem
Director

30 September 2022
Sydney

INDEPENDENT AUDITOR'S REPORT

Grant Thornton Audit Pty Ltd
Level 17
383 Kent Street
Sydney NSW 2000
Locked Bag Q800
Queen Victoria Building NSW
1230

T +61 2 8297 2400

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 2022, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

a giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the year ended on that date; and

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

Independent Auditor's Report

For the year ended 30 June 2022

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 of 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 our audit addressed the key audit matter
Revenue recognition (Note 4)	
For the year ended 30 June 2022, $91,385,000 was recognised by the Group from rendering software solution services and professional services. Significant management judgement is required to recognise revenue in accordance with AASB 15 *Revenue from Contracts with Customers*, including identification of performance obligations in contracts, allocation of the transaction price to performance obligations and the determination of the appropriate timing of revenue recognition as performance obligations are satisfied. In addition, management's processes to recognise revenue in the financial statements includes manual calculations and analysis of relatively large amounts of data. This area is a key audit matter given the risks associated with the complexity of application of AASB 15 to the Group's revenue streams, management judgement involved in developing and applying appropriate accounting policies that comply with AASB 15 and the manual processes involving large amounts of data.	Our procedures included, amongst others: • obtaining and documenting an understanding of the Group's processes and controls around capturing contract information, billing and revenue recognition; • assessing the Group's revenue recognition accounting policy for compliance with AASB 15; • performing revenue data analytics over significant revenue streams; • selecting a sample of transactions from significant revenue streams and vouching to supporting information to assess whether revenue was recognised in accordance with the Group's revenue recognition accounting policy and AASB 15; and • assessing the adequacy of the Group's disclosures in respect of the requirements of AASB 15.
Capitalised software development costs (Note 16)	
The Group capitalises costs related to the development of software products. Software development is core to the Group's operations and requires judgement as to whether relevant costs meet the capitalisation criteria of AASB 138 *Intangible Assets*. During the year ended 30 June 2022, software development costs of $17,761,000 were capitalised. The capitalisation of software development costs is a key audit matter due to the significant judgements required by management in complying with the requirements of AASB 138, including: • whether software development costs incurred relate to research costs that should be expensed or development costs that are eligible for capitalisation; • the assessment of future economic benefits and the technical feasibility of the software products; and • the timing of amortisation and the useful lives for projects.	Our procedures included, amongst others: • obtaining and documenting an understanding of the Group's processes and controls relating to the capitalisation of software development costs; • reviewing management's accounting papers and supporting workpapers that document the nature of the costs capitalised to assess whether the capitalised expenditure meets the criteria in AASB 138 for recognition as an intangible asset; • testing a sample of additions during the year by vouching these to underlying support; • assessing the amortisation rates applied to the capitalised development costs with reference to the estimated lives of these assets; and • evaluating the adequacy of the accounting policy and disclosures made in the Group's financial statements in respect of the requirements of AASB 138.

Impairment of non-current assets (Note 16)	
As at 30 June 2022, the Group's intangible assets of $167,166,000 consist of goodwill, software development costs, acquired customer lists and trademarks. No impairment expense has been recognised during the year. Management has assessed that the group has two cash-generating units (CGUs) and has allocated the goodwill and other intangible assets to these CGUs. Management has tested the CGUs for impairment by comparing their carrying amounts with recoverable amounts. The recoverable amounts were determined using value-in-use models. This is a key audit matter due to the significant judgements required to determine the appropriate CGUs and the inherent estimation uncertainty in calculating the recoverable amount.	Our procedures included, amongst others: • obtaining and documenting an understanding of the Group's processes and controls related to the assessment of impairment, including identification of CGUs and the calculation of the recoverable amount for each CGU; • evaluating the value-in-use models against the requirements of AASB 136 *Impairment of Assets*, including consultation with our auditor's experts; • obtaining management's value-in-use calculations and: - testing the mathematical accuracy of the model; - evaluating management's ability to forecast future cash flows; - assessing management's forecast of cash flows to be derived by the CGUs' assets; - reviewing discount rates applied to forecast future cash flows; - performing a sensitivity analysis on the significant inputs used in preparing the calculation; and • assessing the adequacy of the Group's disclosures in respect of the requirements of AASB 136.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

Independent Auditor's Report

For the year ended 30 June 2022

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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf.This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the remuneration report included in pages 12 to 22 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of ELMO Software Limited, for the year ended 30 June 2022 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.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

S M Coulton
Partner – Audit & Assurance

Sydney, 30 September 2022

SHAREHOLDER INFORMATION

As at 7 October 2022

Shareholder Information required by the Australian Securities Exchange Limited (ASX) Listing Rules and not disclosed elsewhere in the Report is set out below.

Substantial shareholders

The number of securities held by substantial shareholders and their associates (as disclosed to the ASX) are set out below:

Name	Number	%*	Date lodged
Lessem Trading Pty Ltd	10,998,146	11.04	16/09/2022
JLAB Investments (No. 2) Pty Limited	13,656,865	13.71	16/09/2022
Bessie Garber and Manuel Garber as trustees of the Garber Family Trust	9,656,482	9.70	16/09/2022
Michael Richards	9,099,190	9.14	4/10/2022
Cooper Investors Pty Limited	7,672,910	8.396	26/07/2022
AustralianSuper Pty Ltd	6,590,839	7.31	10/08/2022

* % of issued capital as at the date the notice was lodged.

Number of security holders and securities on issue

ELMO Software Limited has issued the following securities: 99,610,986 fully paid ordinary shares held by 9,740 shareholders.

Voting rights

Ordinary shares

In accordance with the EMLO Software Limited Constitution and subject to any rights or restrictions attached to any class of shares, at a meeting of members:

- on a show of hands, each shareholder has 1 vote; and
- on a poll, each fully paid share held by a shareholder has 1 vote.

Distribution of security holders – quoted securities

Range	Securities	%	No. of holders	%
100,001 and Over	83,733,586	84.06	26	0.27
10,001 to 100,000	4,744,148	4.76	204	2.09
5,001 to 10,000	2,644,471	2.65	365	3.75
1,001 to 5,000	5,776,808	5.80	2,490	25.56
1 to 1,000	2,711,973	2.72	6,655	68.33
Total	**99,610,986**	**100.00**	**9,740**	**100.00**

Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 2,126 based on ELMO Software Limited's closing share price of $2.24, on 7 October 2022.

Twenty largest shareholders of quoted equity securities

Rank	Name	07 Oct 2022	%IC
1	JLAB INVESTMENTS (NO. 2) PTY LTD	13,655,865	14.11
2	LESSEM TRADING PTY LTD	10,823,149	11.18
3	NATIONAL NOMINEES LIMITED	10,673,549	11.03
4	MR MANUEL GARBER & MRS BESSIE GARBER	9,656,482	9.98
5	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	9,348,654	9.66
6	CITICORP NOMINEES PTY LIMITED	9,328,362	9.64
7	MICHAEL RICHARDS	6,441,606	6.65
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,271,211	3.38
9	PACIFIC CUSTODIANS PTY LIMITED	2,829,611	2.92
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	731,351	0.76
11	MR XIN SUN	592,963	0.61
12	BNP PARIBAS NOMINEES PTY LTD	585,800	0.61
13	BNP PARIBAS NOMS PTY LTD	423,888	0.44
14	GORDON STARKEY	420,695	0.43
15	MR DARRYL JUSTIN GARBER	407,495	0.42
16	UBS NOMINEES PTY LTD	378,615	0.39
17	BNP PARIBAS NOMS(NZ) LTD	223,434	0.23
18	ADAM REYNOLDS	173,161	0.18
19	DMX CAPITAL PARTNERS LIMITED	170,000	0.18
20	DAVID GARETH BURROWS	155,120	0.16
	Total	**80,291,011**	**82.94**
	Balance of register	**16,514,325**	**17.06**
	Grand total	**96,805,336**	**100.00**

The following number of securities are subject to voluntary escrow:

- 2,805,650 Fully Paid Ordinary Shares which are scheduled to be released from escrow on 17 December 2022.

Unquoted securities

Details of the unquoted securities on issue are as follows:

a. Restricted securities

There are currently 6,037 restricted securities on issue.

b. Performance Rights

There are currently 514,968 unquoted Performance Rights on issue.

c. Options

There are currently 514,840 unquoted Options on issue.

On-market purchases

During the reporting period, securities were purchased on-market for the purpose of the employee incentive scheme or to satisfy the entitlements of the holders of options or Performance Rights to acquire securities granted under an employee incentive scheme. The following information is provided:

- A total number of 7,185 securities were purchased during the reporting period; and
- The average price per security at which the securities were purchased during the reporting period was $4.863.

CORPORATE DIRECTORY

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

Grant Thornton Audit Pty Ltd
Level 17 383 Kent 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

www.ELMOsoftware.com.au

Corporate governance statement

http://investors.ELMOsoftware.com.au/Investors/?page=Corporate-Governance

Key dates

Closing date for the receipt of Director nominations: 4 October 2022

2022 Annual General Meeting: 22 November 2022

ELMO

ELMOsoftware.com.au