Prophecy

PROPHECY INTERNATIONAL HOLDINGS LTD

ACN 079 971 618

Appendix 4E - Preliminary Final Report

For the Year Ended 30 June 2017

Prophecy International Holdings Limited and Controlled Entities
ABN: 16 079 971 618

Results for announcement to the market
For the Year Ended 30 June 2017

Summary of results	% change	Direction	$
Revenue from continuing ordinary activities	26%	down	9,188,005
Loss from continuing ordinary activities before tax attributable to members	118%	down	(610,585)
Profit from continuing and discontinued ordinary activities after tax attributable to members	19%	down	1,955,759
Profit from continuing and discontinued ordinary activities attributable to members (after non controlling interests)	18%	down	1,975,519

No dividend has been proposed for the full year.

Explanatory Information

The 2016-2017 financial year was a challenging one for the group and one where a substantial amount of change has occurred.

Total revenue for FY17 was $14.113 million including revenue from the sale of the basis2 business. Revenue from continuing normal business operations fell across the group to $9.188M from $12.334M with after tax profits falling from $2.416M to $1.955M.

After tax profit from ordinary discontinued operations in FY17 was $.369M, and the after tax gain from the sale of business was $1.807M.

Overall EBITDA was $3.682 million which also includes the profits from the sale of the basis2 business.

Cash on hand was $3.317M against $1.869M previously and the company remains debt free. As a result of the decline in revenue and profit a dividend will not be paid this year.

The overall sales revenue result in FY17 has been disappointing.

The transition of the eMite business from large perpetual license deals to smaller, higher volume subscription license sales and a pivot towards the contact centre segment with Interactive Intelligence and then Genesys had a significant slowing impact on the eMite revenues, with a corresponding flow on to the group profit. Significant time and resource was invested in this business model shift and this had a significant negative impact on eMite sales.

The acquisition of Interactive Intelligence by Genesys did slow down the generation of revenue from this channel by eMite but has increased the size of the market opportunity now that this has completed.

The eMite result was the primary factor in the overall decline in sales revenue and profit of the company.

Sales revenue from Snare was also slightly weaker than anticipated partially due to a lack of new product releases into the market during the period. The Snare business did return a profit during FY17.

The legacy business of basis2 was divested in the FY17 allowing the company to focus on our growth opportunities with Snare and eMite and improving the cash position of the group.

The legacy e-Foundation business has been retained and is profitable and will be run out over time with no new investment.

In March FY17 the board appointed me as CEO and since then several changes have been made to address the revenue decline for Snare including accelerated development of new product capability, most notably release of V5 of the Agent software and new capability for Agent Management Console and improvements to Snare Central with a major update release in H1 FY18. The integration of eMite and Snare continues with Snare Analytics due for beta release later this calendar year.

Results for announcement to the market

For the Year Ended 30 June 2017

The change to subscription licensing model by eMite will have a positive impact over the medium term as the compounding effect becomes apparent. New customer acquisition for these deals has increased steadily since eMite was been included in the Genesys price book in May 2017.

Additionally, eMite has completed agreements with Genesys that enable Genesys sales and their partners to resell the eMite dashboards for contact centres to their 10,000 customers globally. Other major partnerships are in the pipeline for the FY18 financial year that will see increased revenue opportunity for eMite.

The global sales organisation has been reorganised and plans for increased sales resources globally have been activated. Recruitment for additional sales resources for both Snare and eMite are in place and new resources for sales and marketing have already commenced in North America and APAC which is envisaged will deliver increased sales in FY18.

The group has a clear growth strategy based on optimising sales and marketing globally, strong product innovation, improving customer experience and operational efficiency that will return the business to growth in FY18 and contribute to an improved profit position.

Brad Thomas OAM
CEO

Other Information

For the Year Ended 30 June 2017

1 Dividends

No dividends have been declared or paid in respect of the financial year 30 June 2017.

2 Retained Profits

	Consolidated Group	
	2017	2016
	$	$
Opening balance	(10,561,166)	(10,274,988)
Profit attributable to members of parent entity	1,975,519	2,402,233
Dividends paid	(1,280,196)	(2,688,411)
Reserve transfer	-	-
Closing balance	**(9,865,843)**	**(10,561,166)**

3 Net Tangible Assets per Security

	2017	2016
	$	$
Net Tangible Assets	864,531	(184,054)
Number of Securities	64,009,784	64,009,784
Net Tangible Assets per Security	0.01	(0.003)

4 Changes in Controlled Entities

None.

5 Audit Statement

The attached financial statements are currently in the process of being audited.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2017

Revenue from continuing operations	2	**9,188,005**	12,333,897
Other income		**20,013**	316,271
Employee benefits expense		**(6,028,419)**	(5,585,230)
Depreciation and amortisation	3	**(1,218,425)**	(1,091,424)
Other expenses	3	**(2,567,591)**	(2,586,501)
Finance costs		**(4,168)**	(603)
Profit / (Loss) before income tax		**(610,585)**	3,386,410
Income tax expense	4	**389,449**	(1,235,126)
Profit / (Loss) from continuing operations		**(221,136)**	2,151,284
Profit from discontinued operations	5	**2,176,895**	264,754
Profit for the year		**1,955,759**	2,416,038
Other comprehensive income, net of income tax			
Items that will be reclassified to profit or loss when specific conditions are met			
Exchange differences on translating foreign controlled entities		**(4,493)**	(104,870)
Other comprehensive income for the year, net of tax		**(4,493)**	(104,870)
Total comprehensive income for the year		**1,951,266**	2,311,168
Profit attributable to:			
Members of the parent entity		**1,975,519**	2,402,233
Non-controlling interest		**(19,760)**	13,805
		1,955,759	2,416,038
Total comprehensive income attributable to:			
Members of the parent entity		**1,971,026**	2,297,363
Non-controlling interest		**(19,760)**	13,805
		1,951,266	2,311,168
Earnings / (Loss) per share			
From continuing and discontinued operations:			
Basic earnings per share (cents)		**3.09**	3.80
Diluted earnings per share (cents)		**3.09**	3.80
From continuing operations:			
Basic earnings per share (cents)	10	**(0.31)**	3.38
Diluted earnings per share (cents)	10	**(0.31)**	3.38
From discontinued operations:			
Basic earnings per share (cents)		**3.40**	0.42
Diluted earnings per share (cents)		**3.40**	0.42

The accompanying notes form part of these financial statements.

Prophecy International Holdings Limited and Controlled Entities
ABN: 16 079 971 618

Consolidated Statement of Financial Position
As At 30 June 2017

	Note	2017 $	2016 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	11	**3,316,579**	1,869,140
Trade and other receivables	12	**1,899,750**	3,281,692
Work in progress	13	**30,300**	30,959
Other assets	17	**125,498**	126,628
Non-current assets held for sale	6	**121,625**	-
TOTAL CURRENT ASSETS		**5,493,752**	5,308,419
NON-CURRENT ASSETS			
Trade and other receivables	12	**7,320**	7,581
Property, plant and equipment	15	**265,976**	334,949
Deferred tax assets	27	**316,444**	373,921
Intangible assets	16	**17,284,972**	17,662,487
TOTAL NON-CURRENT ASSETS		**17,874,712**	18,378,938
TOTAL ASSETS		**23,368,464**	23,687,357
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	18	**891,643**	836,740
Current tax liabilities	27	**129,717**	614,723
Employee benefits	20	**757,113**	880,390
Deferred income	19	**2,723,042**	3,387,079
Liabilities directly associated with Non-current assets classified as held for sale	6	**125,001**	-
TOTAL CURRENT LIABILITIES		**4,626,516**	5,718,932
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	**496,615**	429,898
Employee benefits	20	**95,830**	60,094
TOTAL NON-CURRENT LIABILITIES		**592,445**	489,992
TOTAL LIABILITIES		**5,218,961**	6,208,924
NET ASSETS		**18,149,503**	17,478,433
EQUITY			
Issued capital	21	**28,469,564**	28,469,564
Reserves		**(229,219)**	(224,726)
Retained earnings		**(9,865,843)**	(10,561,166)
Total equity attributable to equity holders of the Company		**18,374,502**	17,683,672
Non-controlling interest		**(224,999)**	(205,239)
TOTAL EQUITY		**18,149,503**	17,478,433

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2017

2017

	Issued Capital	Retained Earnings	Foreign Currency Translation Reserve	Option Reserve	Non-controlling Interests	Total
	$	$	$	$	$	$
Balance at 1 July 2016	**28,469,564**	**(10,561,166)**	**(349,551)**	**124,825**	**(205,239)**	**17,478,433**
Profit attributable to members of the parent entity	**-**	**1,975,519**	**-**	**-**	**-**	**1,975,519**
Profit attributable to non-controlling interests	**-**	**-**	**-**	**-**	**(19,760)**	**(19,760)**
Total other comprehensive income for the year	**-**	**-**	**(4,493)**	**-**	**-**	**(4,493)**
Dividends paid or provided for	**-**	**(1,280,196)**	**-**	**-**	**-**	**(1,280,196)**
Balance at 30 June 2017	**28,469,564**	**(9,865,843)**	**(354,044)**	**124,825**	**(224,999)**	**18,149,503**

2016

	Issued Capital	Retained Earnings	Foreign Currency Translation Reserve	Option Reserve	Non-controlling Interests	Total
	$	$	$	$	$	$
Balance at 1 July 2015	18,959,464	(10,274,988)	(244,681)	124,825	(219,044)	8,345,576
Profit attributable to members of the parent entity	-	2,402,233	-	-	-	2,402,233
Profit attributable to non-controlling interests	-	-	-	-	13,805	13,805
Total other comprehensive income for the year	-	-	(104,870)	-	-	(104,870)
Dividends provided for or paid	-	(2,688,411)	-	-	-	(2,688,411)
Shares issued during the year	2,454,100	-	-	-	-	2,454,100
Shares issued in consideration of business combinations	7,056,000	-	-	-	-	7,056,000
Balance at 30 June 2016	28,469,564	(10,561,166)	(349,551)	124,825	(205,239)	17,478,433

The accompanying notes form part of these financial statements.

Prophecy International Holdings Limited and Controlled Entities
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Consolidated Statement of Cash Flows
For the Year Ended 30 June 2017

	Note	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		**12,577,105**	16,323,586
Payments to suppliers and employees		**(9,976,909)**	(10,516,307)
Interest received		**5,991**	41,488
Income taxes (paid)/refunded		**(785,471)**	(949,725)
Net cash provided by operating activities	24	**1,820,716**	4,899,042
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of plant and equipment		**1,934**	-
Purchase of property, plant and equipment		**(62,600)**	(208,212)
Payment in respect of business combinations, net of cash acquired		**-**	(7,526,230)
Development expenditure		**(733,095)**	(693,518)
Proceeds from sale of basis2 division		**1,835,095**	-
Net cash provided/(used) by investing activities		**1,041,334**	(8,427,960)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of shares		**-**	2,530,000
Payments for capital raise		**-**	(75,900)
Dividends paid by parent entity		**(1,280,196)**	(2,688,411)
Net cash used by financing activities		**(1,280,196)**	(234,311)
Effects of foreign exchange rates on overseas cash holdings		**(110,166)**	29,557
Net increase/(decrease) in cash and cash equivalents held		**1,471,688**	(3,733,672)
Cash and cash equivalents at beginning of year		**1,869,140**	5,602,812
Cash and cash equivalents at end of financial year	11	**3,340,828**	1,869,140

The accompanying notes form part of these financial statements.

Notes to the Financial Statements
For the Year Ended 30 June 2017

This financial report covers the consolidated financial statements and notes of Prophecy International Holdings Limited and Controlled Entities(the 'group'). Prophecy International Holdings Limited and Controlled Entities is a for profit Company domiciled in Australia.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

1 Summary of Significant Accounting Policies

(a) Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

These financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated.

The financial statements are based on historical costs, except for the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(b) Principles of Consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a June financial year end.

A list of controlled entities is contained in Note 14 to the financial statements.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the parent has control. Control is established when the parent is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

1 Summary of Significant Accounting Policies continued

(c) Business Combinations

Business combinations are accounted for by applying the acquisition method which requires an acquiring entity to be identified in all cases. The acquisition date under this method is the date that the acquiring entity obtains control over the acquired entity.

The fair value of identifiable assets and liabilities acquired are recognised in the consolidated financial statements at the acquisition date.

Goodwill or a gain on bargain purchase may arise on the acquisition date, this is calculated by comparing the consideration transferred and the amount of non-controlling interest in the acquiree with the fair value of the net identifiable assets acquired. Where consideration is greater than the net assets acquired, the excess is recorded as goodwill. Where the net assets acquired are greater than the consideration, the measurement basis of the net assets are reassessed and then a gain from bargain purchase recognised in profit or loss.

All acquisition-related costs are recognised as expenses in the periods in which the costs are incurred except for costs to issue debt or equity securities.

Any contingent consideration which forms part of the combination is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity then it is not remeasured and the settlement is accounted for within equity. Otherwise subsequent changes in the value of the contingent consideration liability are measured through profit or loss.

(d) Income Tax

The tax expense recognised in the consolidated statement of profit or loss and other comprehensive income comprises of current income tax expense plus deferred tax expense.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax is provided on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Deferred tax is not provided for the following:

- The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- Taxable temporary differences arising on the initial recognition of goodwill.
- Temporary differences related to investment in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

1 Summary of Significant Accounting Policies continued

(d) Income Tax continued

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

The Company and its wholly-owned Australian controlled entities have formed a tax-consolidated group under the legislation and as a consequence these entities are taxed as a single entity.

(e) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment.

Where the cost model is used, the asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and restoring the asset, where applicable.

Depreciation

Property, plant and equipment, is depreciated on a reducing balance basis over the assets useful life to the Company, commencing when the asset is ready for use.

Leased assets and leasehold improvements are amortised over the shorter of either the unexpired period of the lease or their estimated useful life.

The depreciation rates used for each class of depreciable asset are shown below:

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

1 Summary of Significant Accounting Policies continued

(f) Non-current assets held for sale and discontinued operations

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

Assets classified as held for sale are not amortised or depreciated.

Non-current assets classified as held for sale and any associated liabilities are presented separately in the consolidated statement of financial position.

A discontinued operation is a component of an entity, being a cash-generating unit (or a group of cash-generating units), that either has been disposed of, or is classified as held for sale, and: represents a separate major line of business or geographical area of operations; is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with the view to resale.

Impairment losses are recognised for any initial or subsequent write-down of an asset (or disposal group) classified as held for sale to fair value less costs to sell. Any reversal of impairment recognised on classification as held for sale or prior to such classification is recognised as a gain in profit or loss in the period in which it occurs.

(g) Leases

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

1 Summary of Significant Accounting Policies continued

(h) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is the equivalent to the date that the Company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

(a) the amount at which the financial asset or financial liability is measured at initial recognition;

(b) less principal repayments;

(c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and

(d) less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The classification of financial instruments depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and at the end of each reporting period for held-to-maturity assets.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

1 Summary of Significant Accounting Policies continued

(h) Financial Instruments continued

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting year.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to be realised within 12 months after the end of the reporting period, which will be classified as current assets.

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to be sold within 12 months after the end of the reporting period.

(v) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Fees payable on the establishment of loan facilities are recognised as transaction costs of the loan.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

All of the Group's derivative financial instruments that are not designated as hedging instruments in accordance with the strict conditions explained in AASB 139 are accounted for at fair value through profit or loss.

1 Summary of Significant Accounting Policies continued

(h) Financial Instruments continued

Impairment

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Financial guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:

– the likelihood of the guaranteed party defaulting during the next reporting period;

– the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and

– the maximum loss exposure if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised in accordance with AASB 118.

1 Summary of Significant Accounting Policies continued

(i) Impairment of Non-financial Assets

At the end of each reporting period the Group determines whether there is an evidence of an impairment indicator for non-financial assets.

Where this indicator exists and regardless for goodwill, indefinite life intangible assets and intangible assets not yet available for use, the recoverable amount of the asset is estimated.

Where assets do not operate independently of other assets, the recoverable amount of the relevant cash-generating unit (CGU) is estimated.

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss.

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

(j) Intangible Assets

Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

i) the consideration transferred;

ii) any non-controlling interest; and

iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired in a business combination.

The value of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the aforementioned non-controlling interest. The Group can elect to measure the non-controlling interest in the acquiree either at fair value ('full goodwill method') or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets ('proportionate interest method'). The Group determines which method to adopt for each acquisition.

Under the 'full goodwill method', the fair values of the non-controlling interests are determined using valuation techniques which make the maximum use of market information where available.

1 Summary of Significant Accounting Policies continued

(j) Intangible Assets continued

Patents and trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life which is estimated to be 7 year or 15 years, depending on the product.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and accumulated impairment losses.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the projects which are between 5 years.

Impairment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. to determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

1 Summary of Significant Accounting Policies continued

(k) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are recorded at the spot rate on the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value are translated using the rate at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in prior reporting periods are recognised through profit or loss, except where they relate to an item of other comprehensive income or whether they are deferred in equity as qualifying hedges.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period where the average rate approximates the rate at the date of the transaction; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the consolidated statement of financial position. These differences are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which the operation is disposed.

1 Summary of Significant Accounting Policies continued

(l) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be wholly settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits expected to be settled more than one year after the end of the reporting period have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Cashflows are discounted using market yields on high quality corporate bond rates incorporating bonds rated AAA or AA by credit agencies, with terms to maturity that match the expected timing of cashflows. Changes in the measurement of the liability are recognised in profit or loss.

Defined contribution schemes

All employees of the Group other than those that receive defined benefit entitlements receive defined contribution superannuation entitlements, for which the Group pays the fixed superannuation guarantee contribution (currently 9.5% of the employee’s average ordinary salary) to the employee’s superannuation fund of choice. All contributions in respect of employees’ defined contribution entitlements are recognised as an expense when they become payable. The Group’s obligation with respect to employees’ defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Group’s statement of financial position.

Termination benefits

When applicable, the Group recognises a liability and expense for termination benefits at the earlier of: (a) the date when the Group can no longer withdraw the offer for termination benefits; and (b) when the Group recognises costs for restructuring pursuant to AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the costs include termination benefits. In either case, unless the number of employees affected is known, the obligation for termination benefits is measured on the basis of the number of employees expected to be affected. Termination benefits that are expected to be settled wholly before 12 months after the annual reporting period in which the benefits are recognised are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as other long-term employee benefits.

1 Summary of Significant Accounting Policies continued

(m) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period.

(n) Cash and Cash Equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(o) Revenue and Other Income

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the Group and specific criteria relating to the type of revenue as noted below, has been satisfied.

Revenue is measured at the fair value of the consideration received or receivable and is presented net of returns, discounts and rebates.

Sale of Goods

Sales of the consolidated group's products are structured around initial licence fees plus annual licence fees. Initial licence fees together with time and materials consulting services contracts are recognised as income in the year of invoicing. A percentage of annual licence fees is recognised as income in the year of invoicing, the balance covers forward maintenance and support commitments and is brought to account on a pro-rata basis.

Rendering of Services

Revenue in relation to rendering of services is recognised depending on whether the outcome of the services can be estimated reliably. If the outcome can be estimated reliably then the stage of completion of the services is used to determine the appropriate level of revenue to be recognised in the period.

If the outcome cannot be reliably estimated then revenue is recognised to the extent of expenses recognised that are recoverable.

For fixed price consulting service contracts, revenue is recognised on a stage of completion basis and measured using the proportion of actual hours spent on a contract compared to the total expected hours to complete the contract.

The recoverable amount of trade receivables is reviewed on an ongoing basis. Where there is reasonable doubt that the full amount of a trade receivable will not be recovered, a provision for impairment is recognised.

Interest Revenue

Interest is recognised using the effective interest method.

All revenue is stated net of the amount of goods and services tax (GST).

1 Summary of Significant Accounting Policies continued

(p) Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(h) for further discussion on the determination of impairment losses.

(q) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(r) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

(s) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payable are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the consolidated statement of financial position.

Cash flows in the consolidated statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(t) Comparative Amounts

Comparatives are consistent with prior years, unless otherwise stated.

Where a change in comparatives has also affected the opening retained earnings previously presented in a comparative period, an opening consolidated statement of financial position at the earliest date of the comparative period has been presented.

1 Summary of Significant Accounting Policies continued

(u) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

Key estimates - impairment of tax losses

Deferred tax assets include amounts related to unused tax losses. At each balance date the directors review the likelihood that the Group be able to generate sufficient future taxable profits to utilise these tax losses, and adjusts deferred tax assets accordingly. Further information regarding the conditions under which these tax losses may be utilised can be found in Note 27.

Key estimates - impairment of goodwill and intellectual property

Included in non-current intangible assets of the Group is goodwill and intellectual property. At each balance date the directors review whether goodwill and intellectual property has suffered any impairment in accordance with the accounting policy stated in Note 1(j).

Key judgments - provision for impairment of receivables

The value of the provision for impairment of receivables is estimated by considering the ageing of receivables, communication with the debtors and prior history.

(v) Adoption of new and revised accounting standards

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2016. Information on the more significant standards is presented below.

AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e. a revenue-based amortisation method might be appropriate) only in two (2) limited circumstances:

1 The intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or

2 When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

AASB 2014-4 is applicable to annual reporting periods beginning on or after 1 January 2016.

The adoption of these amendments has not had a material impact on the transactions and balances recognised in the financial statements.

1 Summary of Significant Accounting Policies continued

(v) Adoption of new and revised accounting standards continued

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project.

The amendments:

- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- remove potentially unhelpful guidance in AASB 101 for identifying a significant accounting policy

AASB 2015-2 is applicable to annual reporting periods beginning on or after 1 January 2016.

The adoption of these amendments has not had a material impact on the transactions and balances recognised in the financial statements.

(w) New Accounting Standards issued but not yet effective and not been adopted early by the Group

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

1 Summary of Significant Accounting Policies continued

(w) New Accounting Standards issued but not yet effective and not been adopted early by the Group continued

AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods commencing on or after 1 January 2017).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 16 Leases (1 January 2019)

AASB 16:

- replaces AASB 117 Leases and some lease-related Interpretations
- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases
- provides new guidance on the application of the definition of lease and on sale and lease back accounting
- largely retains the existing lessor accounting requirements in AASB 117
- requires new and different disclosures about leases

The Group is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the Group's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ending 30 June 2020 includes:

- there will be a significant increase in lease assets and financial liabilities recognised on the balance sheet
- the reported equity will reduce as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities
- EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operating expenses
- operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities.

1 Summary of Significant Accounting Policies continued

(w) New Accounting Standards issued but not yet effective and not been adopted early by the Group continued

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 (1 January 2017)

AASB 2016-2 amends AASB 107 Statement of Cash Flows to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

When these amendments are first adopted for the year ending 30 June 2018, there will be no material impact on the financial statements.

AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle (1 January 2017)

This Standard clarifies the scope of AASB 12 Disclosure of Interests in Other Entities by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale, held for distribution to owners in their capacity as owners or discontinued operations in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations.

When these amendments are first adopted for the year ending 30 June 2018, there will be no material impact on the financial statements.

Interpretation 22 Foreign Currency Transactions and Advance Consideration (1 January 2018)

Interpretation 22 looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income.

Although AASB 121 The Effects of Changes in Foreign Exchange Rates sets out requirements about which exchange rate to use when recording a foreign currency transaction on initial recognition in an entity's functional currency, the IFRS Interpretations Committee had observed diversity in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognised.

Interpretation 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

When this interpretation is adopted for the year ending 30 June 2019, there will be no material impact on the financial statements.

	2017	2016
	$	$

2 Revenue and Other Income

	2017 $	2016 $
Revenue from continuing operations		
Sales revenue		
- sale of goods	**7,491,660**	10,659,854
- provision of services	**1,690,354**	1,632,557
	9,182,014	12,292,411
Finance income		
- interest received	**5,991**	41,486
Total Revenue	**9,188,005**	12,333,897

(a) Sale of Licences

Revenue generated from the sale of goods represents revenue from the sale of computer software licences. It is not possible to develop a meaningful cost of sales figure attributable to this revenue and accordingly none has been disclosed.

3 Result for the Year

	2017 $	2016 $
The result for the year includes the following specific expenses:		
Salaries and wages	**4,334,122**	3,650,328
Commissions	**545,648**	868,401
Superannuation contributions	**328,159**	279,765
Depreciation and amortisation expense comprises:		
- Depreciation - plant and equipment	**121,208**	128,210
- Amortisation - intellectual property	**902,858**	902,858
- Amortisation - development costs	**194,359**	60,356
	1,218,425	1,091,424
Other Expenses:		
Accounting fees	**128,621**	126,147
Consulting and professional fees	**1,145,309**	1,307,773
Filing fees	**91,391**	87,098
Insurance	**146,008**	121,683
Marketing	**239,170**	174,462
Rent expense	**278,841**	255,047
Communications expense	**161,713**	85,152
Travel and accommodation	**217,784**	103,078
Other expenses	**158,754**	326,061
	2,567,591	2,586,501

Notes to the Financial Statements
For the Year Ended 30 June 2017

	2017	2016
	$	$

3 Result for the Year

Research and Development Expenses

Research and Development costs of $49,793 are included in the total expenses for the Group and include salaries and wages and on-costs. Research and development costs for 2016 of $115,045 are included in the total expenses for the Group and include salaries and wages and on-costs.

Development costs for Intersect Alliance for 2017 of $733,095 (2016 of $693,518) have been capitalised and shown in the statement of financial position as an intangible asset.

4 Income Tax Expense

(a) The major components of tax expense (income) comprise:

	2017 $	2016 $
Current tax expense	**(156,624)**	1,168,168
Foreign income tax withholding	**23,903**	566
Deferred tax expense	**(7,654)**	75,635
Change in tax rate	**(17,028)**	-
Adjustments for current tax of prior periods	**(232,046)**	(9,243)
Total income tax expense	**(389,449)**	1,235,126

(b) Reconciliation of income tax to accounting profit / (Loss):

	2017 $	2016 $
Profit	**(610,585)**	3,386,410
Tax	**30%**	30%
	(183,176)	1,015,922
Add:		
Tax effect of:		
- non-deductible depreciation and amortisation	**34,875**	40,500
- non-deductible expenses	**3,434**	34,807
- tax losses not recognised	**-**	21,847
	(144,867)	1,113,076
Less:		
Tax effect of:		
- over provision for income tax in prior year	**232,046**	-
- other	**12,537**	(122,050)
Income tax expense	**(389,450)**	1,235,126
Weighted average effective tax rate from continuing operations	**63%**	36%

The increase in the weighted average effective consolidated tax rate for 2017 is a result of an adjustment to the current period tax expense due to a prior period Research & Development tax claim.

(c) Income tax relating to each component of other comprehensive income:

	2017 $	2016 $
Timing differences on unrealised foreign exchange gains/(losses)	**48,896**	46,763

Notes to the Financial Statements
For the Year Ended 30 June 2017

	2017	2016
	$	$

5 Discontinued Operations

On 4 May 2017 the Group announced its decision to sell the basis2 product, thereby discontinuing its operations in the Legacy business segment.

The division was sold on 25 May 2017 and the product disposed of is reported in these consolidated financial statements as a discontinued operation.

The group also disposed of the company Promadis Pty Ltd on 1 July 2017, thereby discontinuing its operations in the Legacy business segment.

Financial information relating to the discontinued operations to the date of disposal is set out below.

The financial performance of the discontinued operation to the date of sale which is included in profit / (loss) from discontinued operations is as follows:

	2017 $	2016 $
Revenue	**2,156,697**	2,338,667
Expenses	**(1,622,573)**	(1,972,262)
Profit before income tax	**534,124**	366,405
Profit attributable to members of the parent entity	**534,124**	366,405
Income tax expense	**(164,671)**	(101,651)
Total profit after tax attributable to the discontinued operation	**369,453**	264,754
Gain on sale of the division before income tax	**2,506,702**	-
Income tax expense	**(699,260)**	-
Gain on sale of the division after income tax	**1,807,442**	-
Total profit from discontinued operations	**2,176,875**	-

The net cash flows of the discontinuing division which have been incorporated into the consolidated statement of cash flows are as follows:

	2017 $	2016 $
Details of the sale		
Consideration received	**2,078,393**	-
Net cash flow	**2,078,393**	-
Carrying amount of non-cash assets sold	**671,607**	-
	2,750,000	-

Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017	2016
	$	$

6 Assets and liabilities held for sale

The group disposed of the company Promadis Pty Ltd on 1 July 2017. The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 30 June 2017.

	2017 $	2016 $
Non-current assets held for sale		
Property, plant and equipment	**496**	-
Trade and other receivables	**73,488**	-
Cash	**24,249**	
Other assets	**23,392**	-
Total non-current assets held for sale	**121,625**	-

The liabilities associated with non-current assets held for sale are:

	2017 $	2016 $
Associated liabilities		
Trade creditors	**230**	-
Employee benefits	**23,371**	-
Other liabilities	**101,400**	-
Total	**125,001**	-

7 Key Management Personnel Disclosures

Key management personnel remuneration included within employee expenses for the year is shown below:

	2017 $	2016 $
Short-term employee benefits	**1,312,892**	1,407,022
Post-employment benefits	**106,809**	100,898
	1,419,701	1,507,920

8 Remuneration of Auditors

	2017 $	2016 $
Remuneration of the auditor of the parent entity, Grant Thornton, for:		
- auditing or reviewing the financial statements	**81,800**	77,500
- taxation services	**28,300**	24,325
Remuneration of other auditors of subsidiaries for:		
- auditing or reviewing the financial statements of subsidiaries	**10,082**	12,233
Total	**120,182**	114,058

Notes to the Financial Statements

For the Year Ended 30 June 2017

		2017	2016
		$	**$**
9	**Dividends**		
	Total dividends per share declared and paid	**2.00**	4.20
	Final 2016 unfranked ordinary dividend of 2.0 (2015: 2.2 fully franked) cents per share paid 8 November 2016	**1,280,196**	1,408,215

No proposed final dividend for 2017 has been declared.

	2017	2016
Franking account		
The franking credits available for subsequent financial years at a tax rate of 30%	**209,818**	(78,131)

The above available balance is based on the dividend franking account at year-end adjusted for:

(a) Franking credits that will arise from the payment of the current tax liabilities;
(b) Franking debits that will arise from the payment of dividends recognised as a liability at the year end;
(c) Franking credits that will arise from the receipt of dividends recognised as receivables at the end of the year.

The impact on the franking credit of the dividends proposed after the end of the reporting period is to reduce it by zero (2016: zero).

The ability to use the franking credits is dependent upon the Company's future ability to declare dividends.

10 Earnings per Share

	2017	2016
(a) Reconciliation of earnings to profit or loss from continuing operations		
Profit after income tax	**(221,136)**	2,174,578
Non-controlling interest	**19,760**	(13,805)
Profit after income tax attributable to the owners of Prophecy International Holdings Limited	**(201,376)**	2,160,773
(b) Reconciliation of earnings to profit or loss from discontinuing operations		
Profit from discontinuing operations	**2,176,895**	264,754
Profit attributable to non-controlling equity interest	**-**	-
Earnings used to calculated basic EPS from discontinuing operations	**2,176,895**	241,460

(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	**64,009,784**	63,204,866
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	**64,009,784**	63,204,866

Notes to the Financial Statements
For the Year Ended 30 June 2017

	2017	2016
	$	$

11 Cash and Cash Equivalents

	2017 $	2016 $
Cash at bank in hand	**3,140,105**	1,704,657
Short-term bank deposits	**176,474**	164,483
	3,316,579	1,869,140

Reconciliation of cash

Cash and Cash equivalents reported in the consolidated statement of cash flows are reconciled to the equivalent items in the consolidated statement of financial position as follows:

	2017 $	2016 $
Cash and cash equivalents	**3,316,579**	1,869,140
Cash included in assets held for sale	**24,249**	-
Balance as per consolidated statement of cash flows	**3,340,828**	1,869,140

12 Trade and Other Receivables

	2017 $	2016 $
CURRENT		
Trade receivables	**1,825,176**	3,157,018
Accrued revenue	**65,434**	59,964
Other receivables	**9,140**	64,710
Total current trade and other receivables	**1,899,750**	3,281,692

	2017 $	2016 $
NON-CURRENT		
Deposits	**24**	24
Other receivables	**7,296**	7,557
Total non-current trade and other receivables	**7,320**	7,581

	2017	2016
	$	$

12 Trade and Other Receivables continued

The following table details the Group's trade and other receivables exposure to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, within the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there is objective evidence indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross amount	Past due and impaired	< 30	31-60	61-90	> 90	Within initial trade terms
	$	$	$	$	$	$	$
2017							
Trade and other receivables	**1,907,070**	**-**	**540,542**	**99,355**	**166,547**	**33,114**	**1,067,512**
2016							
Trade and other receivables	3,289,273	-	637,073	160,698	229,995	92,745	2,168,762

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

The other classes of receivables do not contain impaired assets.

(a) Collateral held as security

The Group does not hold any collateral over any receivables balances.

(b) Financial assets classified as loans and receivables

	2017	2016
Trade and other receivables		
- total current	**1,899,750**	3,281,692
- total non-current	**7,320**	7,581
Financial assets	**1,907,070**	3,289,273

13 Inventories

	2017	2016
At cost:		
Work in progress	**30,300**	30,959

Notes to the Financial Statements

For the Year Ended 30 June 2017

14 Interests in Subsidiaries

Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 2017	Percentage Owned (%)* 2016
Subsidiaries:			
Promadis Pty Ltd	Australia	**100.0**	100.0
Intersect Alliance International Pty Ltd	Australia	**100.0**	100.0
Prophecy International Pty Ltd as trustee for CSP Unit Trust	Australia	**100.0**	100.0
Prophecy R&D Pty Ltd	Australia	**100.0**	100.0
Prophecy Americas' Inc	United States	**93.1**	93.1
Prophecy Europe Limited	United Kingdom	**100.0**	100.0
eMite Pty Ltd	Australia	**100.0**	100.0

*The percentage of ownership interest held is equivalent to the percentage voting rights for all subsidiaries.

Significant judgements and assumptions

The Group holds 93.1% of the ordinary shares and voting rights in Prophecy Americas Inc. One other investor holds 6.9%.

Management has reassessed its involvement in Prophecy Americas' Inc in accordance with AASB 10's revised control definition and guidance. It has concluded that they have control over Prophecy Americas' Inc. In making its judgement, management considered the Group's voting rights, the relative size and dispersion of the voting rights held by the other shareholder and the extent of recent participation by this shareholder in general meetings.

Notes to the Financial Statements
For the Year Ended 30 June 2017

	2017	2016
	$	$

15 Property, plant and equipment

	2017 $	2016 $
Plant and equipment		
At cost	**843,257**	793,577
Accumulated depreciation	**(640,834)**	(518,427)
Total plant and equipment	**202,423**	275,150
Furniture, fixtures and fittings		
At cost	**228,748**	210,359
Accumulated depreciation	**(165,195)**	(150,560)
Total furniture, fixtures and fittings	**63,553**	59,799
Total property, plant and equipment	**265,976**	334,949

Movements in carrying amounts of property, plant and equipment

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant and Equipment	Furniture, Fixtures and Fittings	Total
	$	$	$
Year ended 30 June 2017			
Balance at the beginning of year	**275,150**	**59,799**	**334,949**
Additions	**43,427**	**19,173**	**62,600**
Disposals	**(10,303)**	**-**	**(10,303)**
Depreciation expense	**(105,819)**	**(15,389)**	**(121,208)**
Foreign exchange movements	**(32)**	**(30)**	**(62)**
Balance at the end of the year	**202,423**	**63,553**	**265,976**
Year ended 30 June 2016			
Balance at the beginning of year	119,120	59,643	178,763
Additions	197,362	10,850	208,212
Additions through acquisition of entity	73,988	2,536	76,524
Depreciation expense	(115,400)	(13,229)	(128,629)
Foreign exchange movements	80	(1)	79
Balance at the end of the year	275,150	59,799	334,949

Notes to the Financial Statements
For the Year Ended 30 June 2017

16 Intangible Assets

	2017 $	2016 $
Goodwill		
Cost	**6,128,270**	6,128,270
Accumulated impairment losses	**(1,020,000)**	(1,020,000)
Net carrying value	**5,108,270**	5,108,270
Intellectual property		
Cost	**12,945,000**	13,364,132
Accumulated amortisation and impairment	**(2,433,575)**	(1,936,456)
Net carrying value	**10,511,425**	11,427,676
Development costs		
Cost	**1,975,252**	1,242,157
Accumulated amortisation and impairment	**(309,975)**	(115,616)
Net carrying value	**1,665,277**	1,126,541
Total Intangibles	**17,284,972**	17,662,487

(a) Movements in carrying amounts of intangible assets

	Intellectual property $	Goodwill - at cost $	Development costs $	Total $
Year ended 30 June 2017				
Balance at the beginning of the year	**11,427,676**	**5,108,270**	**1,126,541**	**17,662,487**
Additions	**-**	**-**	**733,095**	**733,095**
Amortisation	**(916,251)**	**-**	**(194,359)**	**(1,110,610)**
Closing value at 30 June 2017	**10,511,425**	**5,108,270**	**1,665,277**	**17,284,972**
Year ended 30 June 2016				
Balance at the beginning of the year	362,677	2,126,815	493,379	2,982,871
Additions	12,000,000	2,981,455	693,518	15,674,973
Amortisation	(935,001)	-	(60,356)	(995,357)
Closing value at 30 June 2016	11,427,676	5,108,270	1,126,541	17,662,487

	2017	2016
	$	$

16 Intangible Assets continued

Intangible assets, other than goodwill have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense in the profit or loss. Goodwill has an indefinite life and is not amortised.

Intellectual property with a carrying value of $111,426 (2016: $214,284) relates to copyright in Intersect Alliance International Pty Ltd's software products. These products have a remaining amortisation period of approximately 1 year.

Intellectual property with a carrying value of $10,400,000 (2016: $11,200,000) relates to copyright in eMite Pty Ltd's software products. These products have a remaining amortisation period of 13 years.

Goodwill with a carrying value of $2,126,815 (2016: $2,126,815), has been assessed on a value in use basis has been allocated to the Intersect Alliance International Pty Ltd segment. Value in use has been determined by reference to the net present value of cash flow projections over the next 5 years, discounted at a rate of 12%. It is assumed that revenue will grow at 10% per annum over the 5 years of the model, and this will result in 5% per annum profit growth over the cycle. Management has based these assumptions on the targets set for the business.

Goodwill with a value of $2,981,455 (2016: $2,981,455), has been assessed on a value in use basis has been allocated to the eMite Pty Ltd segment. Value in use has been determined by reference to the net present value of cash flow projections over the next 4 years, discounted at a rate of 12%. It is assumed revenue growth averaging 90% per annum over the 4 years, as the business achieves the compounding revenue effect of monthly recurring subscription revenue. This results in the eMite business forecasting a reduced loss in 2018, and forecasting increasing profits from 2019 onwards until the end of the 4 year cycle. Management has based these assumptions on the targets set for the business.

17 Other Non-financial Assets

	2017 $	2016 $
Prepayments	**125,498**	126,628

18 Trade and Other Payables

	2017 $	2016 $
Unsecured liabilities		
Trade payables	**167,103**	163,483
Sundry payables and accrued expenses	**721,881**	670,599
Other payables	**2,659**	2,658
	891,643	836,740

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days. The carrying amounts are considered to be a reasonable approximation of fair value.

Financial liabilities at amortised cost classified as trade and other payables

	2017 $	2016 $
Trade and other payables:		
- total current	**889,955**	775,745
Financial liabilities as trade and other payables	**889,955**	775,745

19 Deferred Income

	2017 $	2016 $
Deferred income	**2,723,042**	3,387,079

Notes to the Financial Statements
For the Year Ended 30 June 2017

	2017	2016
	$	$
20 Employee Benefits		
CURRENT		
Long service leave	**292,760**	400,668
Annual leave	**464,353**	479,722
	757,113	880,390
NON-CURRENT		
Long service leave	**95,830**	60,094
21 Issued Capital		
64,009,784 (2016: 64,009,784) Ordinary shares	**28,469,564**	28,469,564

(a) Ordinary shares

	No.	No.
At the beginning of the reporting period	**64,009,784**	55,409,784
Shares issued during the year	**-**	8,600,000
At the end of the reporting period	**64,009,784**	64,009,784

The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Company. On a show of hands at meetings of the Company, each holder of ordinary shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote.

The Company does not have authorised capital or par value in respect of its shares.

(b) Capital Management

The key objectives of the Company when managing capital is to safeguard its ability to continue as a going concern and maintain optimal benefits to stakeholders. The Company defines capital as its equity and net debt.

There has been no change to capital risk management policies during the year.

The Company manages its capital structure and makes funding decisions based on the prevailing economic environment and has a number of tools available to manage capital risk. These include the ability to adjust the size and timing of dividends paid to shareholders and the issue of new shares.

The Board monitors a range of financial metrics including return on capital employed and gearing ratios.

22 Capital and Leasing Commitments

	2017 $	2016 $
Operating Leases		
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	**385,014**	226,834
- between one year and five years	**414,097**	628,738
	799,111	855,572

Operating leases have been taken out for premises in Adelaide, Sydney and America.

The Adelaide lease terminates on 30 June 2020.

The Sydney lease terminates on 30 September 2018.

The Prophecy Americas' Inc. lease terminates on 28 February 2019.

23 Contingencies

Contingent Liabilities

Prophecy International Pty Ltd, a controlled entity, has provided guarantees to third parties in respect of property lease rentals. The maximum amount payable is $144,618 (2016: $146,473).

Details of leases can be found in Note 22. The guarantees are secured by a fixed charge over Prophecy International Pty Ltd's bank balances.

No material losses are anticipated in respect to this contingency.

Notes to the Financial Statements

For the Year Ended 30 June 2017

24 Cash Flow Information

	2017 $	2016 $
(a) Reconciliation of result for the year to cashflows from operating activities		
Profit for the year	**1,955,759**	2,416,038
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	**1,218,425**	1,091,424
- depreciation and amortisation from discontinued operations	**14,092**	32,562
- net (gain)/loss on sale of division	**(1,835,095)**	-
- foreign exchange (gain)/loss	**75,257**	(218,549)
- foreign exchange differences arising on transalation of foreign subsidiaries	**38,148**	189,262
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase)/decrease in trade and other receivables	**1,382,203**	414,175
- (increase)/decrease in other assets	**(96,246)**	31,349
- (increase)/decrease in inventories	**659**	53,542
- (increase)/decrease in deferred tax asset	**57,477**	1,337
- increase/(decrease) in income in advance	**(664,037)**	1,278,333
- increase/(decrease) in trade and other payables	**54,903**	(564,975)
- increase/(decrease) in income taxes payable	**(485,006)**	(22,711)
- increase/(decrease) in deferred tax liability	**66,717**	219,164
- increase/(decrease) in other liabilities	**125,001**	-
- increase/(decrease) in employee benefits	**(87,541)**	(21,909)
Cashflows from operations	**1,820,716**	4,899,042

	2017 $	2016 $
(b) Credit standby arrangements with banks		
Credit facility	**40,000**	30,000
Amount utilised	**(3,772)**	(4,811)
	36,228	25,189

The major facilities are summarised as follows:

Credit cards:
Prophecy International Pty Ltd, Intersect Alliance Pty Ltd, Promadis Pty Ltd and eMite Pty Ltd, controlled entities, have credit card facilities.

	2017	2016
	$	$

25 Events Occurring After the Reporting Date

The group disposed of the company Promadis Pty Ltd on 1 July 2017 thereby discontinuing its operations in the Legacy business segment. Its assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 30 June 2017. There was no cash consideration received for this disposal, however the company is due a royalty stream dependent on future sales. For more details refer to Notes 5 & 6.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

26 Reserves and retained surplus

(a) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income - foreign currency translation reserve. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(b) Share option reserve

This reserve records the cumulative value of employee service received for the issue of share options. When the option is exercised the amount in the share option reserve is transferred to share capital.

27 Tax

	2017	2016
Current Tax Liability		
Income tax payable	**129,717**	614,723
Recognised deferred tax assets and liabilities		
Deferred tax assets	**316,444**	373,921
Deferred tax liabilities	**496,615**	429,898

Unrecognised deferred tax assets

	2017	2016
Deferred tax assets have not been recognised in respect of the following:		
Tax losses	**4,743,730**	4,225,513

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therein.

Notes to the Financial Statements
For the Year Ended 30 June 2017

27 Tax continued

Deferred Tax Assets

	Opening Balance $	Charged to Income $	Charged directly to Equity $	Transferred to asset held for sale $	Closing Balance $
Property, plant and equipment					
- tax allowance	1,961	(821)	-	-	1,140
Provisions - employee benefits	234,573	43,542	-	-	278,115
Unrealised foreign exchange	(73,700)	(88,346)	46,763	-	(115,283)
Accruals	100,991	(2,033)	-	-	98,958
Deferred tax assets attributable to tax losses	110,106	-	-	-	110,106
s40-880 deduction	1,327	(442)	-	-	885
Balance at 30 June 2016	375,258	(48,100)	46,763		373,921
Property, plant and equipment					
- tax allowance	**1,140**	**210**	**-**	**-**	**1,350**
Provisions - employee benefits	**278,115**	**(50,861)**	**-**	**(6,465)**	**220,789**
Unrealised foreign exchange	**(115,283)**	**(44,161)**	**48,896**	**-**	**(110,548)**
Accruals	**98,958**	**(4,616)**	**-**	**-**	**94,342**
Deferred tax assets attributable to tax losses	**110,106**	**-**	**-**	**-**	**110,106**
s40-880 deduction	**885**	**(480)**	**-**	**-**	**405**
Balance at 30 June 2017	**373,921**	**(99,908)**	**48,896**	**(6,465)**	**316,444**

Deferred Tax Liabilities

	Opening Balance $	Charged to Income $	Charged directly to Equity $	Transferred to asset held for sale $	Closing Balance $
Work in progress	28,711	(24,826)	-	-	3,885
Prepayments	2,335	3,186	-	-	5,521
Other current assets	167,402	184,267	-	-	351,669
Unrealised foreign currency gains	74,361	(5,538)	-	-	68,823
Balance at 30 June 2016	272,809	157,089	-		429,898
Work in progress	**3,885**	**14,767**	**-**	**-**	**18,652**
Prepayments	**5,521**	**(1,344)**	**-**	**(1,864)**	**2,313**
Other current assets	**351,669**	**103,534**	**-**	**-**	**455,203**
Unrealised foreign currency gains	**68,823**	**(48,376)**	**-**	**-**	**20,447**
Balance at 30 June 2017	**429,898**	**68,581**	**-**	**(1,864)**	**496,615**

Notes to the Financial Statements
For the Year Ended 30 June 2017

28 Company Details

The registered office of and principal place of business of the company is:

Prophecy International Holdings Limited and Controlled Entities
Level 1
76 Waymouth Street
Adelaide SA 5000