Prophecy

PROPHECY INTERNATIONAL HOLDINGS LTD

ACN 079 971 618

Appendix 4E - Preliminary Final Report

For the Year Ended 30 June 2018

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Results for announcement to the market

For the Year Ended 30 June 2018

Summary of results	% change	Direction	$
Revenue from continuing ordinary activities	16%	up	10,676,203
Profit from continuing ordinary activities before tax attributable to members	38%	down	(841,060)
Profit from continuing and discontinued ordinary activities after tax attributable to members	140%	down	(791,386)
Profit from continuing and discontinued ordinary activities attributable to members (after non controlling interests)	137%	down	(730,194)

No dividend has been proposed for the full year.

Explanatory Information

The 2017-2018 financial year has been encouraging for the Prophecy Group as we continue our journey into a single integrated company. Further progress has been made with our strategy of organic growth through an increased focus on sales & marketing including expansion through partners and indirect channels, accelerated product innovation, improving our customer experience and delivering operational efficiency across the group.

During the year we continued to have two main active product lines - Snare in the logging and log management market, eMite primarily focussed on the contact centre market and eFoundation which is our only remaining legacy product.

Results

The results this year did not include any revenue or costs from either Promadis or Basis2. Total revenue was $10.676M up from $9.188M in last fiscal year. This was primarily driven by an improved result from eMite.

After tax profit from continuing operations decreased from ($221,136) to ($793,837) as a result of additional investments made in product development and sales and marketing resources.

EBITDA for the financial year was $512,397.

Cash on hand was $2.599M against $3.317M previously and the company remains debt free.

Comments

Despite the full year revenue growth, the investment required to expand our sales and marketing coverage and to invest in new product development has meant that the full year has not delivered sufficient profit to enable the business to pay a dividend.

The last financial year has however demonstrated that our strategy is starting to deliver the result that we need to return to sustained profitability. This is particularly true in the eMite CX (Customer Experience) Intelligence business as our relationships with Genesys and Telstra have delivered strong sales growth over last year.

Key statistics

- eMite sales up from 47 transactions to 110 transactions in FY18 – a 134% increase.
- Value of sales contracts up from AUD$1.016M in FY17 to AUD$3.092M in FY18 - a 204% increase.
- Contact Centre agent licenses sold for eMite grew from 1,340 in FY17 to 6,060 in FY18 – a 352% increase.
- Only one large Enterprise deal signed in FY18.

The number and type of sales transaction were as forecast however the average deal size was smaller than expected and that contributed to the overall profit result.

Results for announcement to the market

For the Year Ended 30 June 2018

The nature of subscription software also plays into the result as revenue is only recognised on a monthly basis as its billed and a sale may only be recognised as revenue for a portion of the total contract value. Many of our subscription sales occurred in the second half and we also did not sign any significant Enterprise Perpetual licensing deals in the second half. A large perpetual license deal was done in the first half with a large bank in Asia and this resulted in the first half eMite revenue being higher than the second half.

FY18 also saw the eMite business release Advanced Analytics for PureConnect and Advanced Analytics for PureEngage to complete our product offerings in the Genesys partner ecosystem. In FY18 we also won Genesys AppFoundry partner of the year for PureCloud.

We also continued to increase our Value Added Reseller coverage across USA, APAC and EMEA adding partnerships with CPI.Solutions, ConvergeOne in the US, QPC, Datacom and UCA in Australia, Acrinax, Wren Data, Advania and Foehn in Europe.

In the contact centre market we are now seeing an increase in the average deal size against the same time last year and an increase in contract term. In this financial year are seeing 50% of all new deals being for 24 or 36 months. We are also beginning to see renewals for the initial customers brought onto the eMite CX Intelligence platform and have not experienced any significant churn to date.

In the Snare business we have seen a further commoditisation of the core logging products and significant effort has gone into increasing the value in the core Snare product by including File Integrity Monitoring, delivering binary distribution capability for simpler software deployment and updates and obtaining Veracode certification giving our customer comfort that our software is secure and does not contain vulnerabilities. We have a strong pipeline of new product features that will be released over the course of the next 12 months.

In FY18 we had a significant focus on expanding the overall Snare product line and I am pleased to announce that our new platform of Snare Analytics and Snare Advanced Threat Intelligence were launched early in FY19. These offerings contain a combination of the Snare and eMite product capability and are specifically designed for large corporate and government customers to manage their cyber security posture and to detect cyber threats.

These are both subscription based offerings with a higher dollar sales value that will enable us to enter and compete in the SIEM and Security Operations market instead of just selling a small piece of a complete SIEM solution. The global SIEM market is worth approximately USD$2.9B per annum.

- Snare log management sales transactions up from 462 in FY17 to 547 new business sales in FY18
- New business sales contract values up by 1.94% for Snare year on year from AUD$4.658M to AUD$4.748M

An increase in the number of sales transaction along with a decrease in the average deal size is indicative of the commoditisation of the log transport software market and an increase in adoption of either open source software or a full SIEM solution that has log transport included at no additional cost.

An increased focus on the MSSP segment is also key driver of growth for Snare with sales through the MSSP channels increasing by 65% in FY18. New MSSP partners like Virtual Armour and Carbon Helix who were both signed in FY18 will be critical to our success going forward.

As we increase our product lines across both Snare and eMite, transition to new subscription based services and enable our partners to take our offerings to market globally, we are confident that we will see further increases in revenue growth in FY19 and a return to profit.

Brad Thomas OAM

CEO

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2018

	Note	2018 $	2017 $
Revenue	2	**10,676,203**	9,188,005
Other income		**90,481**	20,013
Employee benefits expense		**(6,853,557)**	(6,028,419)
Depreciation and amortisation	3	**(1,353,457)**	(1,218,425)
Other expenses	3	**(3,395,871)**	(2,567,591)
Finance costs		**(4,859)**	(4,168)
Profit before income tax		**(841,060)**	(610,585)
Income tax expense	4	**47,223**	389,449
Profit from continuing operations		**(793,837)**	(221,136)
Profit from discontinued operations	5	**2,451**	2,176,895
Profit for the year		**(791,386)**	1,955,759
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		**(33,448)**	(4,493)
Other comprehensive income for the year, net of tax		**(33,448)**	(4,493)
Total comprehensive income for the year		**(824,834)**	1,951,266
Profit attributable to:			
Members of the parent entity		**(730,194)**	1,975,519
Non-controlling interest		**(61,192)**	(19,760)
		(791,386)	1,955,759
Total comprehensive income attributable to:			
Members of the parent entity		**(763,642)**	1,971,026
Non-controlling interest		**(61,192)**	(19,760)
		(824,834)	1,951,266
Earnings per share			
From continuing and discontinued operations:			
Basic earnings per share (cents)		**(1.14)**	3.09
Diluted earnings per share (cents)		**(1.14)**	3.09
From continuing operations:			
Basic earnings per share (cents)	10	**(1.14)**	(0.31)
Diluted earnings per share (cents)	10	**(1.14)**	(0.31)
From discontinued operations:			
Basic earnings per share (cents)		**0.00**	3.40
Diluted earnings per share (cents)		**0.00**	3.40

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As At 30 June 2018

	Note	2018 $	2017 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	11	**2,599,684**	3,316,579
Trade and other receivables	12	**2,745,098**	1,899,750
Current tax assets	27	**347,132**	-
Work in progress	13	**9,000**	30,300
Other assets	17	**325,040**	125,498
Non-current assets held for sale	6	**-**	121,625
TOTAL CURRENT ASSETS		**6,025,954**	5,493,752
NON-CURRENT ASSETS			
Trade and other receivables	12	**7,617**	7,320
Property, plant and equipment	15	**242,198**	265,976
Deferred tax assets	27	**421,386**	316,444
Intangible assets	16	**16,734,346**	17,284,972
TOTAL NON-CURRENT ASSETS		**17,405,547**	17,874,712
TOTAL ASSETS		**23,431,501**	23,368,464
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	18	**1,068,306**	891,643
Current tax liabilities	27	**-**	129,717
Employee benefits	20	**696,760**	757,113
Deferred Income	19	**3,552,711**	2,723,042
Liabilities directly associated with Non-current assets classified as held for sale	6	**-**	125,001
TOTAL CURRENT LIABILITIES		**5,317,777**	4,626,516
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	**669,717**	496,615
Employee benefits	20	**119,338**	95,830
TOTAL NON-CURRENT LIABILITIES		**789,055**	592,445
TOTAL LIABILITIES		**6,106,832**	5,218,961
NET ASSETS		**17,324,669**	18,149,503
EQUITY			
Issued capital	21	**28,469,564**	28,469,564
Reserves		**(262,667)**	(229,219)
Retained earnings		**(10,596,037)**	(9,865,843)
Total equity attributable to equity holders of the Company		**17,610,860**	18,374,502
Non-controlling interest		**(286,191)**	(224,999)
TOTAL EQUITY		**17,324,669**	18,149,503

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2018

2018

	Ordinary Shares	Retained Earnings	Foreign Currency Translation Reserve	Option Reserve	Non-controlling Interests	Total
	$	$	$	$	$	$
Balance at 1 July 2017	**28,469,564**	**(9,865,843)**	**(354,044)**	**124,825**	**(224,999)**	**18,149,503**
Profit attributable to members of the parent entity	**-**	**(730,194)**	**-**	**-**	**-**	**(730,194)**
Profit attributable to non-controlling interests	**-**	**-**	**-**	**-**	**(61,192)**	**(94,640)**
Total other comprehensive income for the year	**-**	**-**	**(33,448)**	**-**	**-**	**-**
Transactions with owners in their capacity as owners						
Dividends paid or provided for	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 30 June 2018	**28,469,564**	**(10,596,037)**	**(387,492)**	**124,825**	**(286,191)**	**17,324,669**

2017

	Ordinary Shares	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)
Transactions with owners in their capacity as owners						
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

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2018

	Note	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		**10,759,775**	12,577,105
Payments to suppliers and employees		**(10,352,469)**	(9,976,909)
Interest received		**7,409**	5,991
Income taxes (paid)/refunded		**(366,339)**	(785,471)
Net cash provided by operating activities	26	**48,376**	1,820,716
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of plant and equipment		**-**	1,934
Purchase of property, plant and equipment		**(74,216)**	(62,600)
Development expenditure		**(703,120)**	(733,095)
Proceeds from sale of discontinued operations		**-**	1,835,095
Cash disposed of through sale of Promadis		**(24,249)**	-
Net cash provided/(used) by investing activities		**(801,585)**	1,041,334
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid by parent entity		**-**	(1,280,196)
Net cash used by financing activities		**-**	(1,280,196)
Effects of foreign exchange rates on overseas cash holdings		**12,065**	(110,166)
Net increase/(decrease) in cash and cash equivalents held		**(741,144)**	1,471,688
Cash and cash equivalents at beginning of year		**3,340,828**	1,869,140
Cash and cash equivalents at end of financial year	11	**2,599,684**	3,340,828

The accompanying notes form part of these financial statements.

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:

Fixed asset Class	Depreciation rate
Plant and Equipment	10% - 40%
Furniture, Fixture & Fittings	1.8% - 30%

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.

(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.

1 Summary of Significant Accounting Policies continued

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

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.

(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.

1 Summary of Significant Accounting Policies continued

(h) Financial Instruments continued

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.

(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.

1 Summary of Significant Accounting Policies continued

(h) Financial Instruments continued

(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.

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.

Notes to the Financial Statements

For the Year Ended 30 June 2018

1 Summary of Significant Accounting Policies continued

(h) Financial Instruments continued

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.

(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.

1 Summary of Significant Accounting Policies continued

(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.

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.

1 Summary of Significant Accounting Policies continued

(j) Intangible Assets continued

Impairment continued

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.

(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.

1 Summary of Significant Accounting Policies continued

(k) Foreign Currency Transactions and Balances continued

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.

(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.

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.

(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.

1 Summary of Significant Accounting Policies continued

(u) Critical Accounting Estimates and Judgments continued

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

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

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

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Group has decided not to early adopt these Standards. The following table summarises those future requirements, and their impact on the Group where the standard is relevant:

Pronouncement	Interpretation 23 Uncertainty over Income Tax Treatments and AASB 2017 – 4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments
Nature of the Change in Accounting Policy	Interpretation 23 applies to income taxes within the scope of AASB 112 only, which are those based on profits, such as, company tax. Taxes that are not based on profits (for example GST or mining royalties) are outside the scope of this Interpretation. Interpretation 23 should be applied consistently to the recognition of both current and deferred taxes. Interpretation 23 clarifies how to apply the recognition and measurement requirements in AASB 112 where there is uncertainty over the appropriate income tax treatment of a transaction or class of transactions, and about whether a treatment will be accepted by a tax authority.
Effective Date	Annual reporting periods beginning on or after 1 January 2019
Expected Impact on the Financial Statements	The basis for recognising tax liabilities and associated disclosures may change based on the assessment of whether it is likely that the proposed tax treatment to be included in the entity's tax return would be accepted by the appropriate authority.

1 Summary of Significant Accounting Policies continued

Pronouncement	AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements Cycle 2015 – 2017 Cycle
Nature of the Change in Accounting Policy	This standard make the following amendments to existing standards: AASB 3 – clarifies that an entity remeasures its previously held interest in a joint operation when it obtains control of the business AASB 11 -clarifies that an entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business AASB 112 – clarifies that an entity accounts for all income tax consequences of dividend payments according to where the entity originally recognised the past transactions or events that generated the distributable profits and AASB 123 – clarifies that an entity treats any borrowing originally made to develop a qualifying asset as part of generally borrowings when the asset is ready for its intended use or sale.
Effective Date	Annual reporting periods beginning on or after 1 January 2019.
Expected Impact on the Financial Statements	No impact expected.

Pronouncement	AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments [AASB 1, AASB 128, AASB 140]
Nature of the Change in Accounting Policy	This standard makes the following amendments to existing standards: AASB 1 - deletes some short-term exemptions for first-time adopters that were available only for reporting periods that have passed and to add exemptions arising from AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration; AASB 128 - clarify that: (i) a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, can measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture; and (ii) an entity that is not an investment entity may elect to retain the fair value measurement applied by its associates and joint ventures that are investment entities when applying the equity method. This choice is available separately for each investment entity associate or joint venture; and AASB 140 - reflects the principle that an entity transfers a property to, or from, investment property when, and only when, there is a change in use of the property supported by evidence that a change in use has occurred.
Effective Date	Annual reporting periods beginning on or after 1 January 2018
Expected Impact on the Financial Statements	No impact expected.

1 Summary of Significant Accounting Policies continued

Pronouncement	AASB 15 Revenue from contracts with customers AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 AASB 2015–8 Amendments to Australian Accounting Standards – Effective date of AASB 15 AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for NFP entities AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for NFP entities
Nature of the Change in Accounting Policy	AASB 15 introduces a five step process for revenue recognition with the core principle of the new Standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. Accounting policy changes will arise in timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element. AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.
Effective Date	Annual reporting periods beginning on or after 1 January 2018
Expected Impact on the Financial Statements	The changes in revenue recognition requirements in AASB 15 is not likely to cause changes to the timing and amount of revenue recorded in the financial statements. No impact expected.

Pronouncement	AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
Nature of the Change in Accounting Policy	This standard amends AASB 9 to permit entities to measure at amortised cost or fair value through other comprehensive income certain financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet the condition only a result of prepayment feature (subject to meeting other conditions, such as nature of the business model relevant to the financial asset). Otherwise the financial asset would be measured at fair value through profit or loss.
Effective Date	Annual reporting periods beginning on or after 1 January 2019
Expected Impact on the Financial Statements	No impact expected.

1 Summary of Significant Accounting Policies continued

Pronouncement	AASB 9 Financial Instruments AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2009) AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transitional Disclosures AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments AASB 2014-1 Amendments to Australian Accounting Standards AASB 2014–7 Amendments to Australian Accounting Standards arising from AASB 9 AASB 2014-8 Amendments to Australian Accounting Standards arising from AASB 9
Nature of the Change in Accounting Policy	Significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using AASB 9 are to be measured at fair value. Amends measurement rules for financial liabilities that the entity elects to measure at fair value through profit and loss. Changes in fair value attributable to changes in the entity's own credit risk are presented in other comprehensive income. AASB 9 includes a new approach to hedge accounting that is intended to more closely align hedge accounting with risk management activities undertaken by entities when hedging financial and non-financial risks. Some of the key changes from AASB 139 are as follows: to allow hedge accounting of risk components of non-financial items that are identifiable and measurable (many of which were prohibited from being designated as hedged items under AASB 139); changes in the accounting for the time value of options, the forward element of a forward contract and foreign-currency basis spreads designated as hedging instruments; and modification of the requirements for effectiveness testing (including removal of the 'bright-line' effectiveness test that offset for hedging must be in the range 80-125%). Revised disclosures about an entity's hedge accounting have also been added to AASB 7 Financial Instruments: Disclosures. Impairment of assets is now based on expected losses in AASB 9 which requires entities to measure: the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument.
Effective Date	Annual reporting periods beginning on or after 1 January 2018
Expected Impact on the Financial Statements	No impact expected.

1 Summary of Significant Accounting Policies continued

Pronouncement	AASB 2016-6 Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts
Nature of the Change in Accounting Policy	This Standard amends AASB 4 Insurance Contracts to permit issuers of insurance contracts to: a) choose to apply the 'overlay approach' that involves applying AASB 9 Financial Instruments and also applying AASB 139 Financial Instruments: Recognition and Measurement to eligible financial assets to calculate a single line item adjustment to profit or loss so that the overall impact on profit or loss is the same as if AASB 139 had been applied; or b) choose to be temporarily exempt from AASB 9 when those issuers' activities are predominantly connected with insurance, provided they make additional disclosures to enable users to make comparisons with issuers applying AASB 9.
Effective Date	Annual reporting periods beginning on or after 1 January 2018
Expected Impact on the Financial Statements	No impact expected.

Pronouncement	AASB 2017 – 3 Amendments to Australian Accounting Standards – Clarifications to AASB 4
Nature of the Change in Accounting Policy	This Standard amends AASB 4 to confirm that in Australia compliance with AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts ensures simultaneous compliance with AASB 4 There are also amendments to AASB 4 to ensure that the relief available to issuers of insurance contracts set out in AASB 2016 – 6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts can be applied by an entity applying either AASB 1023 or AASB 1038 if the entity otherwise meets the qualifying criteria.
Effective Date	Annual reporting periods beginning on or after 1 January 2018
Expected Impact on the Financial Statements	No impact expected.

Pronouncement	AASB 17 Insurance Contracts
Nature of the Change in Accounting Policy	This standard will change insurance accounting in Australia, the level of impact will vary depending on the type of insurance entity and the current systems in place. AASB 17 treats insurance products with similar risks in the same manner, regardless of whether they are labelled as 'general', 'life' or 'health' insurance. Some products offered by life insurance entities may now qualify for a simpler way of determining their insurance liabilities. AASB 17 requires an insurer to recognise profits as it delivers insurance services (rather than when it receives premiums) and to provide information about insurance contract profits the company expects to recognise in the future. Insurer will reflect the time value of money in expected payments to settle incurred claims and will measure their insurance contracts based only on the obligations created by these contracts.
Effective Date	Annual reporting periods beginning on or after 1 January 2021
Expected Impact on the Financial Statements	No impact expected.

1 Summary of Significant Accounting Policies continued

Pronouncement	Interpretation 22 Foreign Currency Transactions and Advance Consideration
Nature of the Change in Accounting Policy	This Interpretation addresses how to determine 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) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency
Effective Date	Annual reporting periods beginning on or after 1 January 2018
Expected Impact on the Financial Statements	This interpretation provides clarification in relation to advance consideration paid on the purchase of an asset and should be applied if an entity has this transaction. There is an option for prospective application and therefore unlikely to have any impact on previously report financial position or performance.

Pronouncement	AASB 16 Leases
Nature of the Change in Accounting Policy	AASB 16 will cause the majority of leases of an entity to be brought onto the statement of financial position. There are limited exceptions relating to short-term leases and low value assets which may remain off-balance sheet. The calculation of the lease liability will take into account appropriate discount rates, assumptions about lease term and increases in lease payments. A corresponding right to use asset will be recognised which will be amortised over the term of the lease. Rent expense will no longer be shown, the profit and loss impact of the leases will be through amortisation and interest charges.
Effective Date	Annual reporting period beginning on or after 1 January 2019
Expected Impact on the Financial Statements	Whilst the impact of AASB 16 has not yet been fully quantified, the entity currently has $415,250 worth of operating leases which we anticipate will be brought onto the statement of financial position through the recognition of a right to use asset and associated lease liability. Interest and amortisation expense will increase and rental expense will decrease.

Pronouncement	AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement [AASB 119]
Nature of the Change in Accounting Policy	This standard amends AASB 119 to specify how an entity accounts for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments require an entity to use the assumptions used for the remeasurement of the net defined benefit liability or asset to determine the current service cost and the net interest for the remainder of the reporting period after a plan event occurs. The standard also clarifies that, when a plan event occurs, an entity recognises the past service costs or a gain or loss on settlement separately from its assessment of the asset ceiling.
Effective Date	Annual reporting period beginning on or after 1 January 2019
Expected Impact on the Financial Statements	No impact expected.

Notes to the Financial Statements
For the Year Ended 30 June 2018

2 Revenue and Other Income

	2018 $	2017 $
Revenue from continuing operations		
Sales revenue		
- sale of goods	**8,940,777**	7,491,660
- provision of services	**1,728,017**	1,690,354
	10,668,794	9,182,014
Finance income		
- interest received	**7,409**	5,991
Total Revenue	**10,676,203**	9,188,005

(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.

Notes to the Financial Statements
For the Year Ended 30 June 2018

	2018 $	2017 $

3 Result for the Year

The result for the year includes the following specific expenses:

	2018 $	2017 $
Salaries and wages	**4,940,001**	4,334,122
Commissions	**817,339**	545,648
Superannuation contributions	**415,836**	328,159
Payroll taxes	**326,849**	272,830
Depreciation and amortisation expense comprises:		
- Depreciation - plant and equipment	**99,711**	121,208
- Amortisation - intellectual property	**902,858**	902,858
- Amortisation - development costs	**350,888**	194,359
Total impairment of receivables	**1,353,457**	1,218,425
Other Expenses:		
Accounting fees	**145,772**	128,621
Consulting and professional fees	**1,420,026**	1,145,309
Filing fees	**68,701**	91,391
Insurance	**152,644**	146,008
Marketing	**206,533**	239,170
Rent expense	**321,983**	278,841
Communications expense including cloud services	**390,301**	161,713
Software including annual maintenance	**272,110**	97,731
Travel and accommodation	**313,309**	217,784
Other expenses	**104,492**	61,023
	3,395,871	2,567,591

Research and Development Expenses

Research and Development costs of $36,924 are included in the total expenses for the Group and include salaries and wages and on-costs. Research and development costs for 2017 of $49,793 are included in the total expenses for the Group and include salaries and wages and on-costs.

Development costs for Intersect Alliance for 2018 of $703,120 (2017 of $733,095) 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:

	2018 $	2017 $
Current tax expense	**(47,014)**	(156,624)
Foreign income tax withholding	**30,404**	23,903
Deferred tax expense	**68,161**	(7,654)
Change in tax rate	**-**	(17,028)
Adjustments for current tax of prior periods	**(98,774)**	(232,046)
Total income tax expense	**(47,223)**	(389,449)

	2018	2017
	$	$

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:

	2018	2017
Revenue	-	2,156,697
Expenses	-	(1,622,573)
Profit before income tax	-	534,124
Profit attributable to members of the parent entity	-	534,124
Income tax expense	-	(164,671)
Total profit after tax attributable to the discontinued operation	-	369,453

	2018	2017
Gain on sale of the division before income tax	**3,125**	2,506,702
Income tax expense	**(674)**	(699,260)
Gain on sale of the division after income tax	**2,451**	1,807,442

	2018	2017
Total profit from discontinued operations	**2,451**	2,176,895

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

Details of the sale

	2018	2017
Consideration received	-	2,078,393
Acquisition costs	-	(243,298)
Net proceeds from basis2 sale	-	1,835,095

	2018	2017
	$	$

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.

	2018 $	2017 $
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:

	2018 $	2017 $
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:

	2018 $	2017 $
Short-term employee benefits	**1,742,861**	1,312,892
Post-employment benefits	**140,927**	106,809
	1,883,788	1,419,701

8 Remuneration of Auditors

	2018 $	2017 $
Remuneration of the auditor of the parent entity, Grant Thornton, for:		
- auditing or reviewing the financial statements	**92,732**	81,800
- taxation services	**29,300**	28,300
Remuneration of other auditors of subsidiaries for:		
- auditing or reviewing the financial statements of subsidiaries	**10,419**	10,082
Total	**132,451**	120,182

Notes to the Financial Statements
For the Year Ended 30 June 2018

		2018	2017
		$	$
9	**Dividends**		
	Total dividends per share declared and paid	**-**	2.00
	No Final 2017 dividend paid (2016: 2.0 cents)	**-**	1,280,196

No proposed final dividend for 2018 has been declared.

Franking account

	2018	2017
The franking credits available for subsequent financial years at a tax rate of 27.5%	**111,024**	209,818

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 (2017: zero).

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

10 Earnings per Share

(a) Reconciliation of earnings to profit or loss from continuing operations

	2018	2017
Profit after income tax	**(793,837)**	(221,136)
Non-controlling interest	**61,192**	19,760
Profit after income tax attributable to the owners of Prophecy International Holdings Limited	**(732,645)**	(201,376)

(b) Reconciliation of earnings to profit or loss from discontinuing operations

	2018	2017
Profit from discontinuing operations	**2,451**	2,176,895
Profit attributable to non-controlling equity interest	**-**	-
Earnings used to calculated basic EPS from discontinuing operations	**2,451**	2,176,895

(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**	64,009,784
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	**64,009,784**	64,009,784

Notes to the Financial Statements
For the Year Ended 30 June 2018

		2018	2017
		$	$
11	**Cash and Cash Equivalents**		
	Cash at bank in hand	**2,420,325**	3,140,105
	Short-term bank deposits	**179,359**	176,474
		2,599,684	3,316,579

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:

	2018	2017
Cash and cash equivalents	**2,599,684**	3,316,579
Cash included in assets held for sale	**-**	24,249
Balance as per consolidated statement of cash flows	**2,599,684**	3,340,828

		2018	2017
12	**Trade and Other Receivables**		
	CURRENT		
	Trade receivables	**2,666,034**	1,825,176
	Accrued revenue	**73,336**	63,127
	Other receivables	**5,728**	11,447
	Total current trade and other receivables	**2,745,098**	1,899,750
	NON-CURRENT		
	Deposits	**24**	24
	Other receivables	**7,593**	7,296
	Total non-current trade and other receivables	**7,617**	7,320
13	**Inventories**		
	At cost:		
	Work in progress	**9,000**	30,300

Notes to the Financial Statements
For the Year Ended 30 June 2018

14 Interests in Subsidiaries

Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 2018	Percentage Owned (%)* 2017
Subsidiaries:			
Promadis Pty Ltd	Australia	**-**	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.

15 Property, plant and equipment

	2018 $	2017 $
PLANT AND EQUIPMENT		
Plant and equipment		
At cost	**918,987**	843,257
Accumulated depreciation	**(724,830)**	(640,834)
Total plant and equipment	**194,157**	202,423
Furniture, fixtures and fittings		
At cost	**230,889**	228,748
Accumulated depreciation	**(182,848)**	(165,195)
Total furniture, fixtures and fittings	**48,041**	63,553
Total property, plant and equipment	**242,198**	265,976

Notes to the Financial Statements
For the Year Ended 30 June 2018

	2018	2017
	$	$

16 Intangible Assets

	2018	2017
Goodwill		
Cost	**5,108,270**	6,128,270
Accumulated impairment losses	**-**	(1,020,000)
Net carrying value	**5,108,270**	5,108,270
Intellectual property		
Cost	**12,720,000**	12,945,000
Accumulated amortisation and impairment	**(3,111,433)**	(2,433,575)
Net carrying value	**9,608,567**	10,511,425
Development costs		
Cost	**2,678,372**	1,975,252
Accumulated amortisation and impairment	**(660,863)**	(309,975)
Net carrying value	**2,017,509**	1,665,277
Total Intangibles	**16,734,346**	17,284,972

Movements in carrying amounts of intangible assets

	Intellectual property	Goodwill	Development costs	Total
	$	$	$	$
Year ended 30 June 2018				
Balance at the beginning of the year	**10,511,425**	**5,108,270**	**1,665,277**	**17,284,972**
Additions	**-**	**-**	**703,120**	**703,120**
Amortisation	**(902,858)**	**-**	**(350,888)**	**(1,253,746)**
Closing value at 30 June 2018	**9,608,567**	**5,108,270**	**2,017,509**	**16,734,346**

	Intellectual property	Goodwill	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

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 consolidated statement of profit or loss and other comprehensive income. Goodwill has an indefinite life and is not amortised.

Intellectual property with a carrying value of $8,567 (2017: $111,426) relates to copyright in Intersect Alliance International Pty Ltd's software products.

Intellectual property with a carrying value of $9,600,000 (2017: $10,400,000) relates to copyright in eMite Pty Ltd's software products. These products have a remaining amortisation period of 12 years.

Goodwill with a carrying value of $2,126,815 (2017: $2,126,815), determined 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 4 years, discounted at a rate of 12%. It is assumed that revenue will continue to grow at 5% rates over the four years of the model, and this will result in 2% 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 (2017: $2,981,455), determined 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 that revenue will grow by 35% in 2018/19, and then by 65-75% per annum for the remaining years of the projection as the compounding effect of annual subscription software revenue is accounted for as revenue. Management has based these assumptions on the targets set for the business.

	2018 $	2017 $
17 Other Non-financial Assets		
Prepayments	**325,040**	125,498

	2018 $	2017 $
18 Trade and Other Payables		
Current		
Trade payables	**552,655**	167,103
Sundry payables and accrued expenses	**512,997**	721,881
Other payables	**2,656**	2,659
	1,068,308	891,643

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days. The carrying value of trade and other payables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

Financial liabilities at amortised cost classified as trade and other payables

	2018 $	2017 $
Trade and other payables:		
- total current	**1,068,308**	889,955
Financial liabilities as trade and other payables	**1,068,308**	889,955

	2018 $	2017 $
19 Deferred Income		
Deferred income	**3,552,711**	2,723,042

Notes to the Financial Statements
For the Year Ended 30 June 2018

	2018 $	2017 $
20 Employee Benefits		
CURRENT		
Long service leave	**234,403**	292,760
Annual leave	**462,357**	464,353
	696,760	757,113
NON-CURRENT		
Long service leave	**119,338**	95,830
21 Issued Capital		
64,009,784 (2017: 64,009,784) Ordinary shares	**28,469,564**	28,469,564

(a) Ordinary shares

	No.	No.
At the beginning and 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 maintaining a diversified debt portfolio, 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. A key objective of the Company's capital risk management is to maintain compliance with the covenants attached to the Company's debts. Throughout the year, the Company has complied with these covenants.

22 Capital and Leasing Commitments

Operating Leases

	2018 $	2017 $
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	**252,962**	385,014
- between one year and five years	**162,288**	414,097
	415,250	799,111

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 (2017: $144,618).

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.

24 Events Occurring After the Reporting Date

No 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.

25 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.

Notes to the Financial Statements

For the Year Ended 30 June 2018

26 Cash Flow Information

	2018 $	2017 $
Reconciliation of result for the year to cashflows from operating activities		
Profit for the year	**(730,194)**	1,955,759
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	**1,353,457**	1,218,425
- depreciation and amortisation from discontinued operations	**-**	14,092
- net gain on disposal of property, plant and equipment	**967**	-
- net (gain)/loss on sale of division	**2,451**	(1,835,095)
- foreign exchange (gain)/loss	**(61,751)**	75,257
- foreign exchange differences arising on translation of foreign subsidiaries	**(43,342)**	38,148
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase)/decrease in trade and other receivables	**(828,099)**	1,382,203
- (increase)/decrease in other assets	**(106,664)**	(96,246)
- (increase)/decrease in inventories	**20,084**	659
- (increase)/decrease in deferred tax asset	**(104,942)**	57,477
- increase/(decrease) in income in advance	**828,599**	(664,037)
- increase/(decrease) in trade and other payables	**182,699**	54,903
- increase/(decrease) in income taxes payable	**(476,849)**	(485,006)
- increase/(decrease) in deferred tax liability	**173,102**	66,717
- increase/(decrease) in other liabilities	**(125,001)**	125,001
- increase/(decrease) in employee benefits	**(36,141)**	(87,541)
Cashflows from operations	**48,376**	1,820,716

(a) Credit standby arrangements with banks

	2018 $	2017 $
Credit facility	**40,000**	40,000
Amount utilised	**(5,386)**	(3,772)
	34,614	36,228

The major facilities are summarised as follows:

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

Notes to the Financial Statements
For the Year Ended 30 June 2018

	2018 $	2017 $
27 Tax		
Current Tax Asset		
Income tax payable	**347,132**	-
Current Tax Liability		
Income tax payable	**-**	129,717
Recognised deferred tax assets and liabilities		
Deferred tax assets	**421,386**	316,444
Deferred tax liabilities	**669,717**	496,615

28 Company Details

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

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