



**Prophecy**

**PROPHECY INTERNATIONAL HOLDINGS LTD**

ACN 079 971 618

**Appendix 4E - Preliminary Final Report**

**For the Year Ended 30 June 2019**

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Results for announcement to the market

For the Year Ended 30 June 2019

### Analysis of full year Results

The 2018-2019 financial year has been one of strong sales and revenue growth for the Prophecy Group.

Total revenue was \$12.114M up from \$10.676M in last fiscal year. This represents pleasing top line revenue growth driven by increased sales of Snare products, higher recurring revenue from Snare renewals, increasing recurring revenue from eMite and consistent customer acquisition onto the eMite SaaS platform.

	<b>FY18</b>	<b>FY19</b>	<b>Change</b>
Sales Revenue	10,676,203	12,113,981	Up 13%
EBITDA	512,397	87,136	Down 83%
Dividend Declared	-	-	No change
Operating Cash Flow	48,376	1,952,633	Up 3936%
Cash at bank	2,599,684	4,375,635	Up 68%
Debt	-	-	No change

Cash on hand was \$4.376M against \$2.600M this time last year and the company remains debt free and cash flow positive.

Cash at bank increases are a result of Operating Cashflow increasing from \$48.4K last year to \$1.953M this year, forward booked revenue being collected in advance, return of tax paid in FY18 and the successful application for a Federal Government R&D Grant.

Its important to note that this year the group stopped capitalising R&D costs for the development of software and from FY19 all development costs are expensed. In FY19 approximately \$700K of costs were expensed rather than capitalised. Effectively, in FY18 net profit and EBITDA was increased by \$703k by the capitalisation of development costs.

### Snare

#### Snare Key Statistics

- New Sales contracts up to \$6.046M from \$4.690M – 29% increase
- USA Sales up 32% on last year
- No of sales up to 696 from 547 – a 27% increase
- Agents sold up to 201,715 from 170,288 – and 18% increase

#### Key Sales

- US Patent and Trademark Office - USA
- Speedway - USA
- UPS - USA
- Pizza Hut - USA
- American Express - USA
- Raytheon – USA

In FY19 we saw a significant increase in contribution from the Snare indirect channels, as revenue grew from \$2.419M to \$4.022M - a 66% increase.

### eMite

#### eMite Key Statistics

- New sales contracts up to \$2.357M from \$2.230M – a 3% increase
- No of new customer contracts up to 90 from 88 – a 2% increase
- Multiyear contracts up to 40% of all contracts from 23% last year
- Total Contract Values up to \$3.910M from \$3.040M – a 29% increase
- Recurring revenue up to 68% of total eMite revenue

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

### Results for announcement to the market

For the Year Ended 30 June 2019

#### Key Sales

- Sage Group Plc - UK
- Bank of Hawaii - USA
- F5 Networks – USA
- Vic Roads – Australia
- AXA Insurance – Japan
- Hilton Hotels – USA

It's important to note that in FY19 we had no large enterprise perpetual license sales. Last FY there was a single large sale that was worth approximately \$600K in H1. Almost all sales this year were subscriptions and recurring rather than one off. Revenue from SaaS subscriptions grew by 93% over last year.

#### Scope of Operations

Prophecy currently operates globally both with direct staff and through our partners. Our major offices around the globe are in Australia, both Sydney and Adelaide, Manila in the Philippines, Denver in the USA and London in the United Kingdom.

We have customers on every continent.

As a small Australian company trading globally we continue to be extremely proud that more than 70% of our revenues are generated offshore and we are an exporter of Australian Innovation.

The US continues to be our largest market and contributes most of our revenue. This year the US delivered 74% of our revenue and grew at 24% over last year. We now have 17 staff in the US and it's our largest office globally.



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 2019**

	2019	2018
Note	\$	\$
Revenue from continuing operations	3 12,113,982	10,676,203
Other income	-	90,481
Employee benefits expense	(7,998,286)	(6,853,557)
Depreciation and amortisation expense	4 (1,426,213)	(1,353,457)
Other expenses	4 (4,024,317)	(3,395,871)
Finance costs	(4,318)	(4,859)
<b>Profit/(Loss) before income tax</b>	<b>(1,339,152)</b>	<b>(841,060)</b>
Income tax expense	5 (115,673)	47,223
<b>Profit/(Loss) from continuing operations</b>	<b>(1,454,825)</b>	<b>(793,837)</b>
Profit from discontinued operations	6 -	2,451
<b>Profit/(Loss) for the year</b>	<b>(1,454,825)</b>	<b>(791,386)</b>
<b>Other comprehensive income, net of income tax</b>		
<b>Items that will be reclassified to profit or loss when specific conditions are met</b>		
Exchange differences on translating foreign controlled entities	(81,869)	(33,448)
<b>Other comprehensive income for the year, net of tax</b>	<b>(81,869)</b>	<b>(33,448)</b>
<b>Total comprehensive income for the year</b>	<b>(1,536,694)</b>	<b>(824,834)</b>
Profit/(Loss) attributable to:		
Members of the parent entity	(1,398,949)	(730,194)
Non-controlling interest	(55,876)	(61,192)
	<b>(1,454,825)</b>	<b>(791,386)</b>
Total comprehensive income attributable to:		
Members of the parent entity	(1,480,818)	(763,642)
Non-controlling interest	(55,876)	(61,192)
	<b>(1,536,694)</b>	<b>(824,834)</b>
<b>Earnings/(Loss) per share</b>		
From continuing and discontinued operations:		
Basic earnings per share (cents)	10 (2.19)	(1.14)
Diluted earnings per share (cents)	10 (2.19)	(1.14)
From continuing operations:		
Basic earnings per share (cents)	(2.19)	(1.14)
Diluted earnings per share (cents)	(2.19)	(1.14)

The Group has not restated comparatives when initially applying AASB 9, the comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*.

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 2019

	Note	2019 \$	2018 \$
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and cash equivalents	11	4,375,635	2,599,684
Trade and other receivables	12	2,215,034	2,745,098
Work in progress	13	-	9,000
Current tax receivable	27	-	347,132
Other assets	17	342,839	325,040
<b>TOTAL CURRENT ASSETS</b>		<b>6,933,508</b>	6,025,954
NON-CURRENT ASSETS			
Trade and other receivables	12	8,026	7,617
Property, plant and equipment	15	251,443	242,198
Deferred tax assets	27	273,417	421,386
Intangible assets	16	15,399,675	16,734,346
<b>TOTAL NON-CURRENT ASSETS</b>		<b>15,932,561</b>	17,405,547
<b>TOTAL ASSETS</b>		<b>22,866,069</b>	23,431,501
<b>LIABILITIES</b>			
CURRENT LIABILITIES			
Trade and other payables	18	860,065	1,068,306
Current tax liabilities	27	584,567	-
Employee benefits	20	788,580	696,760
Deferred income	19	4,189,968	3,552,711
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,423,180</b>	5,317,777
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	553,195	669,717
Employee benefits	20	101,719	119,338
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>654,914</b>	789,055
<b>TOTAL LIABILITIES</b>		<b>7,078,094</b>	6,106,832
<b>NET ASSETS</b>		<b>15,787,975</b>	17,324,669
<b>EQUITY</b>			
Issued capital	21	28,469,564	28,469,564
Reserves		(344,536)	(262,667)
Retained earnings/(Accumulated losses)		(11,994,986)	(10,596,037)
<b>Total equity attributable to equity holders of the Company</b>		<b>16,130,042</b>	17,610,860
Non-controlling interest		(342,067)	(286,191)
<b>TOTAL EQUITY</b>		<b>15,787,975</b>	17,324,669

The Group has not restated comparatives when initially applying AASB 9, the comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*.

The accompanying notes form part of these financial statements.

**Prophecy International Holdings Limited and Controlled Entities**

ABN: 16 079 971 618

**Consolidated Statement of Changes in Equity**

**For the Year Ended 30 June 2019**

2019

	Ordinary Shares	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Non- controlling Interests	Total
	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2018</b>	<b>28,469,564</b>	<b>(10,596,037)</b>	<b>(387,492)</b>	<b>124,825</b>	<b>(286,191)</b>	<b>17,324,669</b>
Loss attributable to members of the parent entity	-	(1,398,949)	-	-	-	(1,398,949)
Loss attributable to non-controlling interests	-	-	-	-	(55,876)	(55,876)
Total other comprehensive income for the year	-	-	(81,869)	-	-	(81,869)
<b>Balance at 30 June 2019</b>	<b>28,469,564</b>	<b>(11,994,986)</b>	<b>(469,361)</b>	<b>124,825</b>	<b>(342,067)</b>	<b>15,787,975</b>

2018

	Ordinary Shares	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Non- controlling Interests	Total
	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2017</b>	<b>28,469,564</b>	<b>(9,865,843)</b>	<b>(354,044)</b>	<b>124,825</b>	<b>(224,999)</b>	<b>18,149,503</b>
Loss attributable to members of the parent entity	-	(730,194)	-	-	-	(730,194)
Loss attributable to non-controlling interests	-	-	-	-	(61,192)	(61,192)
Total other comprehensive income for the year	-	-	(33,448)	-	-	(33,448)
<b>Balance at 30 June 2018</b>	<b>28,469,564</b>	<b>(10,596,037)</b>	<b>(387,492)</b>	<b>124,825</b>	<b>(286,191)</b>	<b>17,324,669</b>

The Group has not restated comparatives when initially applying AASB 9, the comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*.

The accompanying notes form part of these financial statements.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Consolidated Statement of Cash Flows

For the Year Ended 30 June 2019

	2019	2018
Note	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	13,276,907	10,759,775
Payments to suppliers and employees	(12,116,965)	(10,352,469)
Interest received	6,661	7,409
Income taxes (paid)/refunded	786,030	(366,339)
Net cash provided by operating activities	26 <u>1,952,633</u>	<u>48,376</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(95,711)	(74,216)
Development expenditure	-	(703,120)
Proceeds from sale of discontinued operations	-	(24,249)
Net cash used by investing activities	<u>(95,711)</u>	<u>(801,585)</u>
Effects of foreign exchange rates on overseas cash holdings	<u>(80,971)</u>	12,065
Net increase/(decrease) in cash and cash equivalents held	1,775,951	(741,144)
Cash and cash equivalents at beginning of year	<u>2,599,684</u>	<u>3,340,828</u>
Cash and cash equivalents at end of financial year	11 <u><u>4,375,635</u></u>	<u><u>2,599,684</u></u>

The accompanying notes form part of these financial statements.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

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 Change in Accounting Policy

#### Financial Instruments - Adoption of AASB 9

Prophecy has adopted AASB 9 Financial Instruments from 1 July 2018.

AASB 9 has resulted in a change in accounting policies (highlighted below) and no impact on the opening balance sheet as at the date of initial application of the standard.

Accounting policies from 1 July 2018

Prophecy measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

For trade receivables, Prophecy applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

#### Revenue from Contracts with Customers - Adoption of AASB 15

The Group has adopted AASB 15 *Revenue from Contracts with Customers* for the first time in the current year with a date of initial application of 1 July 2018. The adoption resulted in changes in accounting policies but no adjustments to the amounts recognised in the financial statements.

Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously.

Some contracts include multiple deliverables, such as the sale of licences and maintenance. These are accounted for as separate performance obligations. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Licences that grant the user a right to use the product are recorded when access is granted. Licences that grant the user a right to access the product are recorded over the access period.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.



# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 2 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.

#### (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.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 2 Summary of Significant Accounting Policies continued

#### (c) Business Combinations continued

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.

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.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **2 Summary of Significant Accounting Policies continued**

#### **(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:

<b>Fixed asset Class</b>	<b>Depreciation rate</b>
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) Discontinued operations**

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.

#### **(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**

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of AASB 9 Financial Instruments from 1 July 2018 resulted in changes in accounting policies but no adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below.

From 1 July 2018, the group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **2 Summary of Significant Accounting Policies continued**

#### **(h) Financial Instruments continued**

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The consolidated entity as a group reclassifies debt investments when and only when its business model for managing those assets changes.

From 1 July 2018, the group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The group has assessed the impact of the impairment model and no adjustment was required in the group's financial statement.

#### **Accounting policies applicable to comparative period 30 June 2018**

##### **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.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **2 Summary of Significant Accounting Policies continued**

#### **(h) Financial Instruments continued**

##### **Classification and subsequent measurement 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.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **2 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.

##### **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 15: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised in accordance with AASB 15.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **2 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.

##### **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.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **2 Summary of Significant Accounting Policies continued**

#### **(j) Intangible Assets continued**

##### **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.



## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **2 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.

#### **(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.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **2 Summary of Significant Accounting Policies continued**

#### **(l) Employee Benefits continued**

##### **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.

#### **(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 from contracts with customers**

The core principle of AASB 15 is that revenue is recognised on a basis that reflects the transfer of promised goods or services to customers at an amount that reflects the consideration the Group expects to receive in exchange for those goods or services. Revenue is recognised by applying a five-step model as follows:

1. Identify the contract with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue as and when control of the performance obligations is transferred

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **2 Summary of Significant Accounting Policies continued**

#### **(o) Revenue and Other Income continued**

##### **Revenue from contracts with customers continued**

The group has adopted AASB 15 Revenue from Contracts with Customers from 1 July 2018 which resulted in changes in accounting policies but no adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below.

Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously.

Some contracts include multiple deliverables, such as the sale of licences and maintenance. These are accounted for as a separate performance obligations. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Licences that grant the user a right to use the product are recorded when access is granted. Licences that grant the user a right to access the product are recorded over the access period.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

##### **Accounting policies applicable to comparative period 30 June 2018**

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.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **2 Summary of Significant Accounting Policies continued**

#### **(o) Revenue and Other Income continued**

##### **Accounting policies applicable to comparative period 30 June 2018 continued**

##### **Rendering of Services continued**

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).

#### **(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, less any expected credit losses. Refer to Note 2(h) for further discussion on the determination of expected credit 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.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 2 Summary of Significant Accounting Policies continued

#### (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.

##### **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 – allowance for credit losses**

The value of the allowance for credit losses is estimated by considering the ageing of receivables, communication with the debtors and prior history.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **2 Summary of Significant Accounting Policies continued**

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

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below:

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The group has set up a project team which has reviewed all of the group's leasing arrangements over the last year in light of the new lease accounting rules in AASB 16. The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of \$1,038,998, see Note 22. Of these commitments, approximately \$164,043 relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss. For the remaining lease commitments the group expects to recognise right-of-use assets of approximately \$748,931 on 1 July 2019, lease liabilities of \$748,931 (after adjustments for prepayments and accrued lease payments recognised as at 30 June 2019) and deferred tax assets of \$0. Overall net assets will not change. The group expects that net profit after tax will decrease by approximately \$40,161 for FY 2020 as a result of adopting the new rules. Adjusted EBITDA is expected to increase by approximately \$293,793, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure. Operating cash flows will increase and financing cash flows decrease by approximately \$270,623 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

# Prophecy International Holdings Limited and Controlled Entities

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## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 3 Revenue and Other Income

#### Revenue from continuing operations

	2019	2018
	\$	\$
Sales revenue		
- sale of goods	11,557,630	8,940,777
- provision of services	549,691	1,728,017
	<u>12,107,321</u>	<u>10,668,794</u>
Finance income		
- interest received	6,661	7,409
	<u>6,661</u>	<u>7,409</u>
<b>Total Revenue</b>	<u><u>12,113,982</u></u>	<u><u>10,676,203</u></u>

#### (a) Sale of Licences

Revenue generated from the sale of goods represents revenue from the sale of computer software licences.

# Prophecy International Holdings Limited and Controlled Entities

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## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 4 Result for the Year

The result for the year includes the following specific expenses:

	2019	2018
	\$	\$
Salaries and wages	5,456,470	4,940,001
Commissions	1,152,736	817,339
Superannuation contributions	428,960	415,836
Payroll taxes	346,131	326,849
Depreciation and amortisation expense comprises:		
- Depreciation – plant and equipment	91,542	99,711
- Amortisation – intellectual property	808,567	902,858
- Amortisation – development costs	526,104	350,888
	<u>1,426,213</u>	<u>1,353,457</u>
<b>Other Expenses:</b>		
Accounting fees	140,039	145,772
Consulting and professional fees	1,209,584	1,420,026
Filing fees	67,173	68,701
Insurance	138,985	152,644
Marketing	355,423	206,533
Rent expense	396,567	321,983
Communications expense	719,184	390,301
Software including annual maintenance	434,036	272,110
Travel and accommodation	198,479	313,309
Other expenses	364,847	104,492
	<u>4,024,317</u>	<u>3,395,871</u>

### Research and Development Expenses

Research and Development costs of \$17,569 are included in the total expenses for the Group and include salaries and wages and on-costs. Research and development costs for 2018 of \$36,924 are included in the total expenses for the Group and include salaries and wages and on-costs.

Development costs for Intersect Alliance are no longer capitalised. An amount of \$703,120 was capitalised in the statement of financial position as an intangible asset in 2018.



# Prophecy International Holdings Limited and Controlled Entities

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## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 5 Income Tax Expense

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

	2019	2018
	\$	\$
Current tax expense	509,265	(47,014)
Foreign income tax withholding	106	30,404
Deferred tax expense	(139,471)	68,161
Adjustments for current tax of prior periods	(254,227)	(98,774)
<b>Total income tax expense</b>	<b>115,673</b>	<b>(47,223)</b>

(b) Reconciliation of income tax to accounting profit:

Profit	(1,339,152)	(841,060)
Tax	27.50%	27.50%
	<b>(368,267)</b>	<b>(231,292)</b>

Add:

Tax effect of:

- non-deductible depreciation and amortisation	222,356	28,286
- timing difference on disposal of subsidiary	-	258,653
- non-deductible expenses	5,066	3,997
- tax losses not recognised	512,996	-
	<b>372,151</b>	<b>59,644</b>

Less:

Tax effect of:

- over provision for income tax in prior year	254,227	98,773
- other	2,251	8,094
Income tax attributable to parent entity	<b>115,673</b>	<b>(47,223)</b>
Income tax expense	<b>115,673</b>	<b>(47,223)</b>

Weighted average effective tax rate	(9)%	6%
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(c) Income tax relating to each component of other comprehensive income:

Timing differences on unrealised foreign exchange gains/(losses)	<b>70,192</b>	<b>50,959</b>
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# Prophecy International Holdings Limited and Controlled Entities

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## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 6 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:

	2019	2018
	\$	\$
Gain on sale of the division before income tax	-	3,125
Income tax expense	-	(674)
Gain on sale of the division after income tax	<u>-</u>	<u>2,451</u>

### 7 Key Management Personnel Disclosures

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

Short-term employee benefits	1,736,039	1,768,661
Post-employment benefits	141,859	142,770
	<u>1,877,898</u>	<u>1,911,431</u>

### 8 Remuneration of Auditors

Remuneration of the auditor of the parent entity, Grant Thornton, for:

- auditing or reviewing the financial statements	94,961	92,732
- taxation services	25,422	29,300

Remuneration of other auditors of subsidiaries for:

- auditing or reviewing the financial statements of subsidiaries	10,859	10,419
<b>Total</b>	<u>131,242</u>	<u>132,451</u>

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 9 Dividends

No proposed final dividend for 2019 has been declared.

#### Franking account

	2019	2018
	\$	\$
The franking credits available for subsequent financial years at a tax rate of 27.5%	268,154	111,024

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 (2018: 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		
Loss after income tax	(1,454,825)	(793,837)
Non-controlling interest	55,876	61,192
<b>Profit after income tax attributable to the owners of Prophecy International Holdings Limited</b>	<b>(1,398,949)</b>	<b>(732,645)</b>
(b) Reconciliation of earnings to profit or loss from discontinuing operations		
Profit from discontinuing operations	-	2,451
Profit attributable to non-controlling equity interest	-	-
<b>Earnings used to calculated basic EPS from discontinuing operations</b>	<b>-</b>	<b>2,451</b>
(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
<b>Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS</b>	<b>64,009,784</b>	<b>64,009,784</b>

### 11 Cash and Cash Equivalents

Cash at bank and in hand	4,154,156	2,420,325
Short-term bank deposits	221,479	179,359
	<b>4,375,635</b>	<b>2,599,684</b>

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 12 Trade and Other Receivables

	2019	2018
Note	\$	\$
CURRENT		
Trade receivables	2,045,954	2,666,034
Accrued revenue	163,651	73,336
Other receivables	5,429	5,728
<b>Total current trade and other receivables</b>	<b>2,215,034</b>	<b>2,745,098</b>
NON-CURRENT		
Deposits	24	24
Other receivables	8,002	7,593
<b>Total non-current trade and other receivables</b>	<b>8,026</b>	<b>7,617</b>

#### (a) Collateral held as security

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

#### (b) Financial assets classified as loans and receivables

Trade and other receivables		
- total current	2,215,034	2,745,098
- total non-current	8,026	7,617
Financial assets	30	2,223,060
		2,752,715

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 13 Work in Progress

	2019	2018
	\$	\$
At cost:		
Work in progress	-	9,000

### 14 Interests in Subsidiaries

#### Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 2019	Percentage Owned (%)* 2018
<b>Subsidiaries:</b>			
Intersect Alliance International Pty Ltd	Australia	100	100
Prophecy International Pty Ltd as trustee for CSP Unit Trust	Australia	100	100
Prophecy R&D Pty Ltd	Australia	100	100
Prophecy Americas' Inc	United States	93	93
Prophecy Europe Limited	United Kingdom	100	100
eMite Pty Ltd	Australia	100	100

\*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.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 15 Property, Plant and Equipment

	2019	2018
	\$	\$
Plant and equipment		
At cost	1,008,380	918,987
Accumulated depreciation	(792,401)	(724,830)
<b>Total plant and equipment</b>	<b>215,979</b>	<b>194,157</b>
Furniture, fixtures and fittings		
At cost	236,718	230,889
Accumulated depreciation	(201,254)	(182,848)
<b>Total furniture, fixtures and fittings</b>	<b>35,464</b>	<b>48,041</b>
<b>Total property, plant and equipment</b>	<b>251,443</b>	<b>242,198</b>

#### 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
	\$	\$	\$
<b>Year ended 30 June 2019</b>			
Balance at the beginning of year	194,157	48,041	242,198
Additions	95,711	3,755	99,466
Depreciation expense	(74,599)	(16,943)	(91,542)
Foreign exchange movements	710	611	1,321
<b>Balance at the end of the year</b>	<b>215,979</b>	<b>35,464</b>	<b>251,443</b>
<b>Year ended 30 June 2018</b>			
Balance at the beginning of year	202,423	63,553	265,976
Additions	75,690	635	76,325
Disposals	(967)	-	(967)
Depreciation expense	(83,207)	(16,725)	(99,932)
Foreign exchange movements	218	578	796
<b>Balance at the end of the year</b>	<b>194,157</b>	<b>48,041</b>	<b>242,198</b>

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 16 Intangible Assets

	2019	2018
	\$	\$
Goodwill		
Cost	5,108,270	5,108,270
Intellectual property		
Cost	12,720,000	12,720,000
Accumulated amortisation and impairment	<u>(3,920,000)</u>	<u>(3,111,433)</u>
<b>Net carrying value</b>	<b><u>8,800,000</u></b>	<b>9,608,567</b>
Development costs		
Cost	2,678,372	2,678,372
Accumulated amortisation and impairment	<u>(1,186,967)</u>	<u>(660,863)</u>
<b>Net carrying value</b>	<b><u>1,491,405</u></b>	<b>2,017,509</b>
<b>Total Intangibles</b>	<b><u>15,399,675</u></b>	<b>16,734,346</b>

#### Movements in carrying amounts of intangible assets

	Intellectual property \$	Goodwill \$	Development costs \$	Total \$
<b>Year ended 30 June 2019</b>				
Balance at the beginning of the year	9,608,567	5,108,270	2,017,509	16,734,346
Amortisation	<u>(808,567)</u>	-	<u>(526,104)</u>	<u>(1,334,671)</u>
<b>Closing value at 30 June 2019</b>	<b><u>8,800,000</u></b>	<b><u>5,108,270</u></b>	<b><u>1,491,405</u></b>	<b><u>15,399,675</u></b>

	Intellectual property \$	Goodwill \$	Development costs \$	Total \$
<b>Year ended 30 June 2018</b>				
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	<u>(902,858)</u>	-	<u>(350,888)</u>	<u>(1,253,746)</u>
<b>Closing value at 30 June 2018</b>	<b><u>9,608,567</u></b>	<b><u>5,108,270</u></b>	<b><u>2,017,509</u></b>	<b><u>16,734,346</u></b>

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 17 Other Non-financial Assets

	2019	2018
	\$	\$
Prepayments	<u>342,839</u>	<u>325,040</u>

### 18 Trade and Other Payables

Trade payables	281,132	552,655
Sundry payables and accrued expenses	576,279	512,997
Other payables	<u>2,654</u>	<u>2,654</u>
	<u><b>860,065</b></u>	<u><b>1,068,306</b></u>

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

Trade and other payables:

- total current

860,065      1,068,306

Financial liabilities as trade and other payables

30 **860,065**      **1,068,306**

### 19 Deferred Income

Deferred income	<u><b>4,189,968</b></u>	<u><b>3,552,711</b></u>
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Deferred income has grown due to the growth in multi-year maintenance agreements, growth in subscription licence sales, increase in the term of subscription based customer contracts and increase in the prepayment of annual subscription contracts.



# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 20 Employee Benefits

	2019	2018
	\$	\$
CURRENT		
Long service leave	272,027	234,403
Annual leave	516,553	462,357
	<u>788,580</u>	<u>696,760</u>
NON-CURRENT		
Long service leave	<u>101,719</u>	119,338

### 21 Issued Capital

64,009,784 (2018: 64,009,784) Ordinary shares	<u>28,469,564</u>	28,469,564
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#### (a) Ordinary shares

	No.	No.
At the beginning of the reporting period	<u>64,009,784</u>	<u>64,009,784</u>

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.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 22 Capital and Leasing Commitments

#### Operating Leases

	2019	2018
	\$	\$
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	488,531	252,962
- between one year and five years	550,467	162,288
	<u>1,038,998</u>	<u>415,250</u>

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 2021.

The Prophecy Americas' Inc. lease terminates on 31 May 2022.

### 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 \$191,479 (2018: \$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.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 26 Cash Flow Information

#### (a) Reconciliation of result for the year to cashflows from operating activities

	2019	2018
	\$	\$
Profit for the year	(1,454,825)	(730,194)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	1,426,213	1,353,457
- net gain on disposal of property, plant and equipment	-	967
- net (gain)/loss on sale of division	-	2,451
- foreign exchange (gain)/loss	52,935	(61,751)
- foreign exchange differences arising on translation of foreign subsidiaries	(61,444)	(43,342)
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	532,329	(828,099)
- (increase)/decrease in other assets	(12,505)	(106,664)
- (increase)/decrease in inventories	9,000	20,084
- (increase)/decrease in deferred tax asset	147,969	(104,942)
- increase/(decrease) in income in advance	637,257	828,599
- increase/(decrease) in trade and other payables	(214,710)	182,699
- increase/(decrease) in income taxes payable	931,699	(476,849)
- increase/(decrease) in deferred tax liability	(116,522)	173,102
- increase/(decrease) in other liabilities	-	(125,001)
- increase/(decrease) in employee benefits	75,237	(36,141)
Cashflows from operations	<u>1,952,633</u>	<u>48,376</u>

#### (b) Credit standby arrangements with banks

Credit facility	40,000	40,000
Amount utilised	(11,855)	(5,386)
	<u>28,145</u>	<u>34,614</u>

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.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 27 Tax

	2019	2018
<b>Current Tax Asset</b>	<b>\$</b>	<b>\$</b>
Income tax receivable	-	347,132
<b>Current Tax Liability</b>		
Income tax payable	<b>584,567</b>	-
<b>Recognised deferred tax assets and liabilities</b>		
Deferred tax assets	<b>273,417</b>	421,386
Deferred tax liabilities	<b>553,195</b>	669,717

#### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following:

Tax losses	<b>6,241,971</b>	5,362,003
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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.

#### Deferred Tax Assets

	Opening Balance	Charged to Income	Charged directly to Equity	Closing Balance
	\$	\$	\$	\$
Property, plant and equipment				
- tax allowance	1,350	1,593	-	2,943
Provisions - employee benefits	220,789	(15,207)	-	205,582
Unrealised foreign exchange	(110,548)	(53,382)	50,959	(112,971)
Accruals	94,342	60	-	94,402
Deferred tax assets attributable to tax losses	110,106	120,770	-	230,876
s40-880 deduction	405	149	-	554
<b>Balance at 30 June 2018</b>	<b>316,444</b>	<b>53,983</b>	<b>50,959</b>	<b>421,386</b>
Property, plant and equipment				
- tax allowance	<b>2,943</b>	<b>2,393</b>	-	<b>5,336</b>
Provisions - employee benefits	<b>205,582</b>	<b>13,520</b>	-	<b>219,102</b>
Unrealised foreign exchange	<b>(112,971)</b>	<b>(66,894)</b>	<b>70,192</b>	<b>(109,673)</b>
Accruals	<b>94,402</b>	<b>3,877</b>	-	<b>98,279</b>
Deferred tax assets attributable to tax losses	<b>230,876</b>	<b>(170,919)</b>	-	<b>59,957</b>
s40-880 deduction	<b>554</b>	<b>(138)</b>	-	<b>416</b>
<b>Balance at 30 June 2019</b>	<b>421,386</b>	<b>(218,161)</b>	<b>70,192</b>	<b>273,417</b>

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 27 Tax continued

#### Deferred Tax Liabilities

	Opening Balance	Charged to Income	Charged directly to Equity	Closing Balance
	\$	\$	\$	\$
Work in progress	18,652	2,808	-	21,460
Prepayments	2,313	714	-	3,027
Other current assets	455,203	96,230	-	551,433
Unrealised foreign currency gains	20,447	73,350	-	93,797
<b>Balance at 30 June 2018</b>	<b>496,615</b>	<b>173,102</b>	<b>-</b>	<b>669,717</b>
Work in progress	<b>21,460</b>	<b>1,069</b>	<b>-</b>	<b>22,529</b>
Prepayments	<b>3,027</b>	<b>(69)</b>	<b>-</b>	<b>2,958</b>
Other current assets	<b>551,433</b>	<b>(145,707)</b>	<b>-</b>	<b>405,726</b>
Unrealised foreign currency gains	<b>93,797</b>	<b>28,185</b>	<b>-</b>	<b>121,982</b>
<b>Balance at 30 June 2019</b>	<b>669,717</b>	<b>(116,522)</b>	<b>-</b>	<b>553,195</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **28 Operating Segments**

#### **Segment information**

##### **Identification of reportable segments**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision maker) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

##### **Basis of accounting for purposes of reporting by operating segments**

###### **(a) Accounting policies adopted**

Unless stated below, all amounts reported to the Board of Directors, being the chief operating decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Group.

Income tax expense is calculated based on the segment operating net profit using a notional charge of 27.5%. The effect of taxable or deductible temporary differences is not included for internal reporting purposes.

An internally determined transfer price is set for all inter-entity sales. This price is reset quarterly and is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates.

###### **(b) Segment assets**

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

###### **(c) Segment liabilities**

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

###### **(d) Unallocated items**

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- deferred tax assets and liabilities
- current tax liabilities
- intangible assets

**Prophecy International Holdings Limited and Controlled Entities**

ABN: 16 079 971 618

**Notes to the Financial Statements**

For the Year Ended 30 June 2019

**28 Operating Segments continued**

**(e) Segment performance**

	Legacy		SNARE		eMite		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
<b>REVENUE</b>								
External sales	659,685	609,216	8,222,016	6,740,800	3,225,619	3,214,197	12,107,320	10,564,213
Other revenue	2,298	58,778	139	140	4,225	53,072	6,662	111,990
<b>Total segment revenue</b>	<b>661,983</b>	<b>667,994</b>	<b>8,222,155</b>	<b>6,740,940</b>	<b>3,229,844</b>	<b>3,267,269</b>	<b>12,113,982</b>	<b>10,676,203</b>
<b>Segment operating profit/(loss)</b>	<b>(870,604)</b>	<b>(488,113)</b>	<b>2,345,025</b>	<b>1,529,337</b>	<b>(2,813,573)</b>	<b>(1,882,284)</b>	<b>(1,339,152)</b>	<b>(841,060)</b>

**(f) Segment assets**

<b>Segment assets</b>	<b>37,840,708</b>	33,758,184	<b>4,690,972</b>	5,016,136	<b>2,335,264</b>	2,157,323	<b>44,866,944</b>	40,931,643
- Capital expenditure	<b>9,228</b>	16,592	<b>72,020</b>	41,780	<b>18,218</b>	17,954	<b>99,466</b>	76,326
- Intangible assets	-	-	-	703,120	-	-	-	703,120

**(g) Segment liabilities**

<b>Segment liabilities</b>	<b>42,510,298</b>	41,510,901	<b>3,984,543</b>	3,087,486	<b>5,974,486</b>	4,314,500	<b>52,469,327</b>	48,912,887
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# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 28 Operating Segments continued

#### (h) Reconciliations

*Reconciliation of segment revenue to consolidated statement of profit or loss and other comprehensive income*

	2019	2018
	\$	\$
Total segment revenue	12,113,982	10,676,203

*Reconciliation of segment operating profit to the consolidated statement of profit or loss and other comprehensive income*

The Board meets on a monthly basis to assess the performance of each segment, net operating profit does not include non-operating revenue and expenses such as dividends, fair value gains and losses.

Segment net operating profit	(1,339,152)	(841,060)
Income tax expense	(115,673)	47,223
Profit from discontinued operations	-	2,451
Total net profit after tax	<u>(1,454,825)</u>	<u>(791,386)</u>

*Reconciliation of segment assets to the consolidated statement of financial position*

Segment operating assets	44,866,944	40,931,643
Intersegment eliminations	(37,673,967)	(34,655,874)
Deferred tax assets	273,417	421,386
Intangible assets	15,399,675	16,734,346
Total assets per the consolidated statement of financial position	<u>22,866,069</u>	<u>23,431,501</u>

*Reconciliation of segment liabilities to the consolidated statement of financial position.*

Segment liabilities	52,469,327	48,812,887
Intersegment eliminations	(45,944,428)	(43,375,772)
Deferred tax liabilities	553,195	669,717
Total liabilities per the consolidated statement of financial position	<u>7,078,094</u>	<u>6,106,832</u>

#### (i) Geographical information

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers whereas segment assets are based on the location of the assets.

	2019		2018	
	Revenue	Assets	Revenue	Assets
Australia	2,392,072	19,241,023	2,472,192	19,509,912
United States	8,953,364	3,123,185	7,192,793	3,212,515
Europe	763,854	501,861	905,388	709,074
Asia	4,692	-	105,830	-
	<u>12,113,982</u>	<u>22,866,069</u>	10,676,203	23,431,501



# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 29 Related Parties

**(a) The Group's main related parties are as follows:**

*(i) Key management personnel:*

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity are considered key management personnel.

For details of remuneration disclosures relating to key management personnel, refer to Note 7: Interests of Key Management Personnel (KMP).

Other transactions with KMP and their related entities are shown below.

**(b) Transactions with related parties**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Moore Stephens (SA) Pty Ltd, a company directed by Grant R Miles, the Company Secretary and Director, provided Company Secretary and accounting services to the Group. Directors Fees of \$70,000 for Grant R Miles were paid to Moore Stephens (SA) Pty Ltd as stated in the Remuneration Report included in the Directors' Report.	<b>20,926</b>	27,515
ITVIZZ Pte Ltd, a company Stuart Geros, (the Company CPO), was a shareholder of until 1/4/19, provided consulting services to the Group, and was paid \$175,718 for services provided in the 2017/2018 and 2018/2019 years.	<b>175,718</b>	107,956
PYC Inc a company Peter Barzen is a partner in, has a profit share agreement with Snare Alliance who received royalties during the 2018/2019 year.	<b>130,951</b>	141,002
<b>Total</b>	<b>327,595</b>	<b>276,473</b>

# Prophecy International Holdings Limited and Controlled Entities

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## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 30 Financial Risk Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, foreign currency risk and equity price risk.

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable.

The totals for each category of financial instruments, measured in accordance with AASB 9 as detailed in the accounting policies to these financial statements, are as follows:

	Note	2019 \$	2018 \$
<b>Financial Assets</b>			
Cash and cash equivalents	11	4,375,635	2,599,684
Trade and other receivables	12	2,223,060	2,752,715
<b>Total financial assets</b>		<b>6,598,695</b>	<b>5,352,399</b>
<b>Financial Liabilities</b>			
Financial liabilities at amortised cost			
- Trade and other payables	18	860,065	1,068,306
<b>Total financial liabilities</b>		<b>860,065</b>	<b>1,068,306</b>

#### Objectives, policies and processes

The Board of Directors have overall responsibility for the establishment of the Group's financial risk management framework. This includes the development of policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and the use of derivatives.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The day-to-day risk management is carried out by the Group's finance function under policies and objectives which have been approved by the Board of Directors. The Chief Financial Officer has been delegated the authority for designing and implementing processes which follow the objectives and policies. This includes monitoring the levels of exposure to interest rate and foreign exchange rate risk and assessment of market forecasts for interest rate and foreign exchange movements.

The Board of Directors receives monthly reports which provide details of the effectiveness of the processes and policies in place.

Mitigation strategies for specific risks faced are described below:

#### Specific financial risk exposures and management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk relating to interest rate risk, foreign currency risk and equity price risk.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **30 Financial Risk Management continued**

#### **(a) Credit risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group and arises principally from the Group's receivables.

The group has a material credit risk exposure to the Commonwealth Bank of Australia and National Australia Bank, although the risk of a material loss from this exposure is considered to be very low.

The consolidated group does not hold any collateral in respect of any financial instruments.

There is no provision for impairment of receivables at 30 June 2019 or at 30 June 2018.

Although trade and other receivables are all unrated, no indicators of impairment have been found at 30 June 2019.

The group at present has two types of customers:

The first consists of small to medium organisations that renew their software licences annually. These organisations have been clients for many years and the consolidated group has experienced little bad debt history from these clients.

The second are new licence/service clients who in the main are large government organisations, and it is the consolidated group's policy to subject these organisations to credit verification procedures.

It is the consolidated group's policy to review all outstanding accounts monthly, and any overdue accounts are contacted to ascertain their payment intentions.

#### **(b) Liquidity risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- holding only creditor debt;
- no bank overdraft facilities;
- maintain a significant cash balance to offset any downturn in a quarter's trade performance;
- cash balances are spread over a mixture of on-call accounts and bank term deposits to maximise operational flexibility and interest receivable;
- foreign currency receipts are remitted to Australia regularly, converted to Australian dollars and banked in the abovementioned accounts to maximise interest receivable;
- cash flow projections are ascertained from the consolidated group's policy of reviewing all its business operations in detail on a quarterly basis, and the board agreeing the revised profit and cash outlooks for the year, and measuring actual performance against these on a monthly basis.

# Prophecy International Holdings Limited and Controlled Entities

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## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 30 Financial Risk Management continued

#### (b) Liquidity risk continued

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial assets - cash flows realisable</b>								
Cash and cash equivalents	4,375,635	3,316,579	-	-	-	-	4,375,635	3,316,579
Trade, term and loans receivables	2,215,034	2,745,098	8,026	7,617	-	-	2,223,060	2,752,715
Total anticipated outflows	<u>6,590,669</u>	<u>6,061,677</u>	<u>8,026</u>	<u>7,617</u>	<u>-</u>	<u>-</u>	<u>6,598,695</u>	<u>6,069,294</u>
<b>Financial liabilities due for payment</b>								
Trade and other payables (excluding estimated annual leave)	860,065	1,068,306	-	-	-	-	860,065	1,068,306

The timing of expected outflows is not expected to be materially different from contracted cashflows.

Financial assets pledged as collateral

No financial assets have been pledged as security for any financial liability.

#### (c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

##### *Foreign exchange risk*

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

With instruments being held by overseas operations, fluctuations in UK pounds and US dollars may impact on the Group's financial results unless those exposures are appropriately hedged.

Currently there are no hedges in place.

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

### Notes to the Financial Statements

For the Year Ended 30 June 2019

#### 30 Financial Risk Management continued

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of operations.

	Net financial assets /(liabilities) in AUD \$					Total AUD \$
	USD	EUR	GBP	SGD	NZD	
	\$	\$	\$	\$	\$	\$
<b>2019</b>						
Consolidated						
Trade and other receivables	1,648,872	114,720	45,352	54,517	717	1,864,178
Trade and other payables	(40,537)	-	(39,031)	-	-	(79,568)
<b>2018</b>						
Consolidated						
Trade and other receivables	1,645,935	46,996	313,930	64,119	20,170	2,091,150
Trade and other payables	(167,901)	-	(10,650)	-	-	(178,551)

Forward exchange contracts

There were no outstanding forward exchange contracts as at 30 June 2019 or 30 June 2018.

#### Foreign currency risk sensitivity analysis

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Company's financial assets and financial liabilities and the US Dollar – Australian Dollar exchange rate, UK pounds – Australian Dollar exchange rate and the Euro - Australian Dollar exchange rate. There have been no changes in the assumptions calculating this sensitivity from prior years.

The year end rate is 0.70 US dollars, 0.55 UK pounds and 0.62 Euros.

If the Australian Dollar had strengthened and weakened against the US dollar, UK pound and Euro by 10% ((30 June 2018: 10%) and 10% ((30 June 2018: 10%) respectively then this would have had the following impact:

	2019		2018	
	+10%	-10%	+10%	-10%
<b>USD</b>				
Net results	(181,237)	221,512	(55,492)	67,823
Equity	(51,057)	62,404	(112,293)	137,247
<b>GBP</b>				
Net results	(8,899)	10,876	(1,376)	1,681
Equity	(232)	284	(5,185)	6,338
<b>Euro</b>				
Net results	(1,746)	2,134	(6,986)	8,538
Equity	-	-	-	-

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's exposure to foreign currency risk.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 31 Parent entity

The following information has been extracted from the books and records of the parent, Prophecy International Holdings Limited and Controlled Entities and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, Prophecy International Holdings Limited and Controlled Entities has been prepared on the same basis as the consolidated financial statements except as disclosed below.

#### *Investments in subsidiaries, associates and joint ventures*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the parent entity. Dividends received from associates are recognised in the parent entity profit or loss, rather than being deducted from the carrying amount of these investments.

#### *Tax consolidation legislation*

Prophecy International Holdings Limited and Controlled Entities and its wholly-owned Australian subsidiaries have formed an income tax consolidated group.

Each entity in the tax consolidated group accounts for their own current and deferred tax amounts. These tax amounts are measured using the 'stand-alone taxpayer' approach to allocation.

Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the parent entity.

The tax consolidated group has entered into a tax funding agreement whereby each entity within the group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding agreement are recognised as either a contribution by, or distribution to the head entity.

	2019	2018
	\$	\$
<b>Statement of Financial Position</b>		
Assets		
Current assets	9,991,547	8,881,427
Non-current assets	12,874,522	17,991,000
Total Assets	<u>22,866,069</u>	<u>26,872,427</u>
Liabilities		
Current liabilities	19,542,373	19,392,161
Non-current liabilities	582,818	-
Total Liabilities	<u>20,125,191</u>	<u>19,392,161</u>
Equity		
Issued capital	28,469,564	28,469,564
Retained earnings/Accumulated losses	(25,853,511)	(21,114,123)
Share option reserve	124,825	124,825
Total Equity	<u>2,740,878</u>	<u>7,480,266</u>
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Total profit or loss for the year	<u>(4,739,388)</u>	<u>(888,853)</u>
<b>Total comprehensive income</b>	<u>(4,739,388)</u>	<u>(888,853)</u>

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 31 Parent entity continued

#### **Guarantees**

The parent entity has not entered into any guarantees as at 30 June 2019 or 30 June 2018.

#### **Contingent liabilities**

The parent entity did not have any contingent liabilities as at 30 June 2019 or 30 June 2018.

#### **Contractual commitments**

The parent entity did not have any commitments as at 30 June 2019 or 30 June 2018.

### 32 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