2018
2019
annual report

Prophecy **International Holdings Limited**

Corporate Directory

For the Year Ended 30 June 2019

Prophecy International Holdings Ltd
ACN 079 971 618
ABN 16 079 971 618

Directors
Edwin Reynolds
Leanne R Challans
Matthew T Michalewicz
Grant R Miles

Company Secretary
Grant R Miles

Registered Office
Level 1, 76 Waymouth Street
Adelaide, South Australia 5000
Telephone + 61 8 8213 1200

Subsidiaries
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Prophecy Europe Ltd
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Intersect Alliance International Pty Ltd
Level 1, 76 Waymouth Street
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Telephone + 61 8 8213 1200

eMite Pty Ltd
Level 12, 65 Berry Street
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intersectalliance.com
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Share Registry
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Level 5, 115 Grenfell Street
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Adelaide, South Australia 5001

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www.computershare.com

Auditors
Grant Thornton Audit Pty Ltd
Level 3
170 Frome Street
Adelaide, South Australia 5000

Solicitors
O'Loughlins, Barristers & Solicitors
99 Frome Street
Adelaide, South Australia 5000

Bankers
Commonwealth Bank of Australia
96 King William Street
Adelaide, South Australia 5000

National Australia Bank
Business Banking Centre
Level 9, 22 King William Street
Adelaide, South Australia 5000

Corporate Governance Statement
http://www.prophecyinternational.com/wp-content/uploads/00-PRO-2018-Corporate-Governance-Statement.pdf

Company Profile
For the Year Ended 30 June 2019

Prophecy is an Australian based global software company developing innovation for global markets in the SaaS/Cloud, cyber security and big data/analytics markets. The company is headquartered in Adelaide and has offices in Sydney, Denver USA, and the UK. Prophecy is listed on the ASX under the PRO code.

Founded in 1980, Prophecy has been involved in the development of software solutions to provide business value by securing the enterprise, protecting from Cyber threats and delivering business insights through analytics. We believe that you should be able to make better decisions, faster to protect and improve your digital business operations.

Our product offerings have evolved over time to ensure our solutions remain relevant in the fast-changing world of technology and in response to market changes, customer needs and regulatory requirements.

Prophecy software has been deployed at more than 2,500 customer sites globally and our continuous re-invention and commitment to customer-driven product development has enabled Prophecy to maintain our position as a trusted vendor within industries such as Banking and Finance, Public Sector, Healthcare, Utilities, Manufacturing and Retail.

Prophecy sells to global markets through our direct sales force in Europe, USA and Australia and through a global network of partners across all our product suites.

Our customer base includes some of the best known brand names in the world including a large number of the Fortune 500.

PRODUCT SET
Our current brands include SNARE, eMite, and e-Foundation

SNARE
SNARE is a pioneer in the event logging market and has millions of software agents deployed on customer's systems around the world. It continues to be a critical component of any IT cyber security strategy and regulatory compliance requirement.

Development of the core SNARE logging technology started in Canberra in Australia by ex-Defence personnel for the Australian Defence Department. Large Corporates, Military and Government Agencies around the world rely on SNARE every second of every day as the military-grade platform of choice for audit, collection, analysis, reporting, management and storage of event logging information.

Whether for a mission-critical or highly sensitive site, an Enterprise wide deployment or a robust departmental solution, SNARE is a comprehensive set of event monitoring and analysis tools which address complex auditing and forensic logging requirements, complements existing SIEM deployments or acts as a self contained SIEM for various segments and use cases.

This year the SNARE products have expanded to include a full range of Next Generation SIEM and analytics technologies by leveraging the eMite analytics capability.

The SNARE product suite is comprised of several components:

- Snare fully supported light weight and powerful logging agents capable of very high EPS (Events per Second) for multiple systems including Windows, Unix, Linux, OSX and others called Snare Enterprise Agents
- A collection, compression, filtering, storage and forwarding technology known as Snare Central
- An Agent Management Console for managing the configuration of fleets of thousands of agents
- A powerful Analytics engine for Syslog data with prebuilt KPI's and algorithms, real time and historical analytics, pre-built dashboards and reports called Snare Analytics that can be deployed in the cloud or on premise.
- A next generation SIEM technology called Snare Advanced Threat Intelligence that brings the syslog data from Snare Agents and combines and correlates that data with information from sources including LDAP and Authentication technologies, Patch Management, Back Up, AWS and external data like STIX/TAXI threat data for real time and historical analysis and reporting that can be deployed in the cloud or on premise with pre-built KPI's, dashboards and reports.

All our software is Enterprise grade and has been installed in some of the largest, most complex and most sensitive environments in the world and is supported by our global support organisation.

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For the Year Ended 30 June 2019

eMite
eMite provides big data and real time analytics software to customers based on an easy to deploy and simple to scale Software as a Service (SaaS) system with powerful analytics with a user configurable interface. eMite can also be installed on premise for customers who don't require cloud-based analytics.

eMite's analytics solutions deliver for customers looking for CX Intelligence, IT Ops Intelligence, DevOps insight and powers the analytics components of Snare Analytics and Snare Advanced Threat Intelligence. Our primary segment is the cloud contact centre market enhancing customers investment in Genesys or Amazon solutions.

eMite's value includes:

- in cloud or on premise deployment
- adaptors and connectors to multiple data sources including Genesys contact centre software, CRM , Service Desk systems and over 70 more systems and applications
- "no code" KPI's and algorithms
- "no code" dashboards and reports
- Pre-built KPI's dashboards and reports for chosen markets

eMite correlates and combines data from multiple business sources into tailored, real-time and historical dashboards & reports, helps to break down traditional information silos, enabling organisations to make faster, better and more insightful decisions.

e-Foundation
eFoundation is a legacy software product with a few remaining customers. We are no longer developing new capability in this product.

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Letter to Shareholders

On behalf of Prophecy International Holdings Limited I would like to present our financial results for the 2019 financial year.

Prophecy Vision

At Prophecy our vision is to find the best of emerging Australian software and take it to the world through our global operations. We look for software or SaaS solutions that provide value for our customers with broad market appeal. We are proud to be conducting all R&D in Australia and taking Australian technology innovation to the world.

Our aim is to deliver a cloud based software platform that enables our customers to effectively and efficiently manage their digital business in the primary areas of Cyber/IT Security and in Omni-channel Contact Centre and Customer Experience markets.

Our product strategy is not to simply provide software tools for business but to develop deep market or segment based IP that is built into the software ensuring it provides immediate business value for our customers. We believe that our customers deserve to make better business decisions, faster.

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.

	FY18	FY19	Change
Sales Revenue	10,676,203	12,113,982	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.

It’s important to note that this year the group stopped capitalising R&D costs for the development of software and now 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.

Business Strategy

As stated for the last two years our strategy is one for growth. We consider ourselves to be a growth company and are looking to grow both top line revenue and improved bottom line profit. At present we are focussed on organic growth and are not looking for acquisition in the short term.

Our growth plan has continued to be based on the initiatives that we outlined last year:

- Product innovation – continuous improvement of our products and platform, adding value and entering new markets
- Transitioning to annuity revenue and SaaS offerings where practical and generating recurring revenue
- Improving our customer experience – minimising churn, maximising renewals, keeping our customers and creating advocates
- Optimising our sales and marketing – increasing coverage, channels and capability
- Improving our operational efficiency – running the business well and managing our costs

Message from the CEO
For the Year Ended 30 June 2019

In the last financial year we continued to build on the changes made in FY18 and are seeing those changes begin to pay off.

The leadership team has been stable with only one change in the last year and we continue to expand our team to address opportunities that arise in the market.

Stephen Irecki continues to run Global Customer Operations and is now based in London, Steve Challans is our CISO based in Adelaide, Stuart Geros is responsible for product and is our CPO based in Sydney and Peter Barzen continues to lead our US business in Denver.

We did take the opportunity to rebalance some of our salary expenses during the year by removing a few highly paid roles in Australia and redeploying those funds to employ additional staff in our largest growth market in the USA.

We continue to see productivity improvements from our common Agile development processes in both Sydney and Adelaide and our offshore support team in Manilla has continued to grow, giving us skilled and dedicated resources capable of providing technical support to our global customers. We now run a single support team for all products using the same support tools. This location gives us a foundation to build to global 24 x 7 support that is being demanded by our customers.

We have increased our sales team to include new sales resources in the US and Europe and have aligned our sales resources for Snare to address our best market opportunity and to leverage and grow our partnerships and indirect channels. We plan to continue to add sales resources as needed to grow our coverage. In FY20 we plan to focus on growing our sales resourcing to address the large market opportunity for both Snare and eMite across Europe.

US Federal Government and Defence is also a growing segment for Snare and we expect additional focus on that segment in FY20.

R&D

FY19 has been a fruitful year for R&D at Prophecy with a number of significant product enhancements, new product releases and innovation in our current product offerings. We were also successful in obtaining a grant from the Federal Government for R&D work carried out in the previous financial year. It is our intention to continue to pursue these grants where possible.

Snare

Snare customers consistently tell us that as the financial and reputational consequences of data breaches, cyber threats like malware and ransomware, and the constant risks from insider threats increase, that they have urgent and ongoing requirements for maintaining regulatory compliance, auditing and managing cyber threat detection and response. Security breaches are expensive, with the annual Ponemon Institute's Cost of a Data Breach report indicating the average cost to Australian organisations is currently US$1.99 million, or US$108 per data unit.

Compliance requirements can include any number of regulatory mandates including PCI-DSS, Sarbanes Oxley, HIPAA, NERC, GDPR and more. This makes Snare a high value solution for companies in the Government, Defence and Military sectors, Banking, Finance and Insurance, Retail, Health, Energy, Oil & Gas markets.

They also tell us that existing solutions like traditional Security Incident and Event Management (SIEM) systems are complex to implement and maintain, require specialised technical resources or are increasingly unaffordable or variable in their pricing.

Snare is an extensive suite of Centralised Log Management (CLM), Security Analytics and SIEM tools designed to address these requirements.

From Enterprise Log and Event Collection Agents for Windows, Unix, Linux, OSX, Flat files and Databases to a complete forensics and long-term log storage platform, agent management console, multipoint log reflector, advanced log analytics and next gen SIEM capability. Either hosted or on prem with both Opex and Capex pricing models, Snare is a one stop shop for Centralised Log Management (CLM) and SIEM. The Snare product suite is broadly split into two areas:

Message from the CEO
For the Year Ended 30 June 2019

- Centralised Log Management &
- Snare Analytics

Centralised Log Management incorporates and 4 core technologies

- Snare Enterprise Log Collectors (Agents)
- Snare Reflector
- Snare Agent Management Console
- Snare Central Server (Log storage and archive)

Snare Analytics incorporates another 4 core technologies

- Enhanced Snare Central Server incorporating Analytics
- Non syslog based Data Ingestion Technologies (API, JSON, XML, CSV, ODBC etc via our Adaptors)
- Adaptor Framework for building new data connectors fast.
- Dashboards and Visualisations including custom KPI engine
- Runbook – enabling SOAR

These products can be bought independently or combined into a complete solution. You can also "mix and match" with your current security technologies, leveraging your existing investments.

Snare Analytics is a Security Analytics product that collects data from security endpoints including servers, desktops, network devices, business applications and others to help customer detect threats in real time. Snare's heritage in centralised log management ensure we have one of the most robust solutions in the market.

Snare Advanced Threat Intelligence takes this further by adding data from other sources including external threat databases like Structured Threat Information Expression (STIX), cloud service logs from AWS, Microsoft Office and others, Patch & Operating System Information, Identify and Access data from LDAP or Active Directory and more, to add additional context to potential threats, reduce the number of false positives, decrease mean time to detection and help customers manage threats and ensure regulatory compliance.

We have continued to invest and expand the capability of the Core Snare Agent technology and have a strong roadmap of product releases in the pipeline.

Snare Key Statistics

- New Sales contracts up to $6.046M from $4.690M – 29% increase
- US 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

eMite

Identifying the cause of a poor sales or service experience from contact centres is difficult, as it typically involves data that is scattered across multiple isolated systems. Without a good understanding of the true problems, companies spend energy fixing the wrong things or addressing problems that aren't really there, effectively wasting millions of dollars and countless hours of employee time.

Message from the CEO
For the Year Ended 30 June 2019

Our customers ask us:

- I have terabytes of customer data, but it's a mess; where do I start?
- We want a tool that everyone in the business can use and understand, but which one do we choose?
- How do I leverage my data to uncover real customer pain points?
- What do I do with my legacy CRM and years of customer data?

Companies increasingly rely on multiple systems and technologies to try to deliver great customer experiences. Multi-channel contact center software leveraging voice, chat, email and social along with CRM, Service Desk, Speech Analytics and Customer Surveys are used to deliver a great experience to customers.

Creating and managing Key Performance Indicators from across multiple systems is difficult, time consuming, often a manual process and constantly requires change and adjustment. This is why eMite developed our CX Intelligence Platform. Alternative tools often attract high costs of licensing, require expensive technical resources to implement and lack the embedded knowledge of contact centre operations. In addition to taking months to implement, this approach yields an incomplete understanding of the issues.

FY19 has seen a continuation of the eMite focus on the contact centre with new sales coming from our partnership with Genesys, Genesys sales partners and Telstra. We have continued to expand our offerings in the Genesys marketplace and have "out of the box" capability for PureCloud, PureConnect and PureEngage.

Value is realised quickly through a solution that can be deployed in hours and is available immediately with built in knowledge of contact centre operations. eMite CX Intelligence is both a product and a platform and is designed to meet the most complex needs of large contact centre operators through its extensibility and powerful customisation and configuration capability.

CX Intelligence allows customers to aggregate and correlate data from multiple disparate systems like the Contact Centre, CRM, Service Desk and Surveys to provide real insight into Customer Experience and business operations.

In late FY19 we also launched eMite CX Intelligence for Amazon Connect. Amazon Connect is a self-service, cloud-based contact centre service that makes it easy for any business to deliver better customer service at lower cost. Amazon Connect is based on the same contact centre technology used by Amazon customer service associates around the world to power millions of customer conversations.

eMite has launched an advanced analytics offering for Amazon Connect and already signed a number of customers and partners and has built a pipeline of opportunities to rival our Genesys business in a matter of months.

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

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.

Message from the CEO
For the Year Ended 30 June 2019

Partnerships

Our strategy of scaling through partnerships and indirect channels delivers a growing percentage of revenues.

Our partnership with Genesys in the eMite/Contact Centre market continues to grow as we see both additional sales as well as increased contract terms and larger opportunities being realised.

At the Genesys Xperience19 Conference held in Denver, USA in May 2019 we were awarded Genesys AppFoundry Partner of the Year for the second year in a row.

In June of FY19 eMite, in conjunction with Genesys, signed our largest subscription customer by securing an agreement with Sage Group PLC in the UK that will eventually capture data and provide real time analytics for more than 3000 PureCloud contact centre agents.

We see a continued increase in the size of customer that PureCloud can cater for and we also have a number of very large PureEngage customers in discussions and expect to see an increase in average deal size as a result.

Many Genesys partners will buy eMite through Genesys but for those partners that want to add value and extend the eMite platform we want to have a direct relationship. We have a number of direct partnerships including Datacom, Dimension Data and QPC in Australia, Convergeone, CPI.Solutions and AVDS in the US, Foehn, Advania and Wren Data in Europe and the UK.

In the Amazon connect market we have both VoiceFoundry Australia and Cloudwave as partners and in FY20 we will pursue partnership opportunities with other Amazon Connect Partners in both the US and Europe.

Our initial experience with Amazon Connect customers indicates that it is large enterprise that is adopting Amazon Connect and as a result the deal sizes can be very large and much larger on average than our existing PureCloud customer base.

In the Cyber market we have also continued to expand our partnerships.

Our existing relationships with IBM, ATOS, Secureworks, Verizon and NTT continue to deliver results and an increasing percentage of our SNARE revenue is generated through partnerships. The Managed Security Service Provider (MSSP) market is critical as cyber security professionals become increasingly difficult to find and increasingly more expensive to hire as a result of a global skills shortage, currently estimates indicate around 3.5M roles that remain unfilled globally due to a lack of skills.

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

Market focus

Three of the leading technology drivers of IT spend are Cloud Computing, Big Data/Analytics and IT/Cyber Security. With our focus on Snare and eMite we work in all these segments and we have a global footprint via both our direct sales force and through our partners.

eMite's focus is delivering big data and real time analytics capability to our customers to optimise the management of the contact centre environments.

These solutions work across verticals from SMB to Tier 1 Corporate and Government. Our smallest customers have as few as 5 agents and our largest have many thousands of agents.

The cloud based contact centre market is a USD$6.8B market and is growing at a CAGR of 25.2%*. The contact centre analytics market has been forecast to grow to be worth USD$1.48B by 2022, a CAGR of 15.9%*
(*source marketsandmarkets.com)

Message from the CEO
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The Cyber security market continues to grow due to a combination of the following factors:

- Increased number and severity of cyber threats
- Increased cost of data breaches both direct and reputational
- Increased regulation and compliance including GDPR, Mandatory data breach notification legislation, new privacy regulations
- Global Cyber skills shortages
- Growing complexity of customer IT environments including cloud and hybrid networks, Internet of Things (IOT) and mobility

Snare agent technology delivers IT Security and Log Management capability in the SIEM market globally in a number of key verticals and market segments.

Most notable for SNARE are:

- Government, Defence and Military
- Banking & Finance
- Oil & Gas
- Utilities and Power
- Retail
- Health

The global SIEM market is approximately a USD$2.6B per annum market and is reported at growing between 8% and 12% per annum to be worth USD$6.24B by 2027. (source researchandmarkets.com)

We have remained active with AustCyber (The Australian Cyber Security Growth Network) which supports the development of a vibrant and globally competitive Australian cyber security industry that enhances Australia's future economic growth and helps protect Australia's interests online. We have attended a number of events, trade delegations and have taken part in a number of industry workshops.

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, Manilla 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.

In FY20 we expect to see more focus on realising our opportunity in Europe.

Summary

In FY19 the Prophecy business truly operated as a single integrated business with multiple product based revenue streams, we continued our transition to recurring annuity revenue and delivered new products into the market.

We operate in vibrant and growing but competitive and fast moving markets. We are continually challenged by global giants or by new market entrants with new ideas – many of them extremely well-funded. At Prophecy we continue to fund our growth from the cash flows of the business.

In FY19 we have proven that we can compete with global competitors on their own turf.

We continue to build our global team of committed individuals that want to lead the market, build something great and show the world that we have some of the best Australian innovative technology available. I would like to thank all our team for the tremendous effort over the last year.

Message from the CEO
For the Year Ended 30 June 2019

Our goal is to continue to help our customers stay safe from Cyber threats and to deliver excellent experiences to their customers.

I would like to thank our investors for their continued support.

Brad Thomas OAM
Chief Executive Officer

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Directors' Report

For the Year Ended 30 June 2019

The directors present their report, together with the financial statements of the Group, being Prophecy International Holdings Limited and Controlled Entities (the Company) and its controlled entities, for the financial year ended 30 June 2019.

1. General information

Information on directors

The names, qualifications, experience and special responsibilities of each person who has been a director during the year and to the date of this report are:

Ed Reynolds	
Qualifications	Bachelor of Science
Experience	Ed was appointed Non-executive Chairman on 8 December 2006. He has held various positions within the IT industry, which has given him wide-ranging and extensive experience. Ed joined Prophecy as general manager in 1987 and contributed to the company in various roles, including CEO. In his current Non-executive role, Ed is passionate about ensuring the company achieves its targets and is on track to deliver future success
Interest in shares and options	7,770,000 ordinary shares in Prophecy International Holdings Limited and no options
Special responsibilities	Chairman of the Board of Directors Chair of the Strategy Committee Member of the Remuneration Committee Member of the Audit Committee
Other current directorships in listed entities now and in the previous 3 years	None

Grant R Miles	
Qualifications	Bachelor of Arts in Accountancy Chartered Accountant – Fellow (FCA)
Experience	Grant is the Managing Partner of Moore Stephens (SA) Pty Ltd Grant was appointed Company Secretary of Prophecy in May 2013 and a Director in May 2015. Grant has over 30 years' experience in Finance and Accounting matters and provides the Prophecy Board with strong skills in this area
Interest in shares and options	150,000 ordinary shares in Prophecy International Holdings Limited and no options
Special responsibilities	Chief Financial Officer Chair of the Audit Committee Chair of the Remuneration Committee
Other current directorships in listed entities now and in the previous 3 years	None

Directors' Report
For the Year Ended 30 June 2019

1. General information continued

Information on directors continued

Leanne Challans	
Qualifications	Bachelor of Science
Experience	Leanne joined Prophecy in 1990, with a strong background in software design and development. Her initial role was Product Development Manager for the flagship Prophecy Classic product. The growing partner network for classic opened up new opportunities, so Leanne took on responsibility for Partner Support and Marketing through the mid 1990's. Leanne returned to her strengths in software development in 2000, heading up the successful Emergency Services Levy project, and then managing the development and support of the e-Foundation product suite. She then moved into the role of General Manager, Software & Services, with responsibility for the ongoing development, support and consulting services relating to all of Prophecy International's product lines. Leanne joined the Board of Directors in December 2006, and was appointed Managing Director in July 2007. The acquisition of Intersect Alliance International in August 2011 saw Leanne take on responsibility for the inclusion of this new company into the Prophecy culture, with a focus on growth in this important new part of the group.
Interest in shares and options	774,880 ordinary shares in Prophecy International Holdings Limited and no options
Special responsibilities	Managing Director (Retired 14 July 2017) Member of the Audit Committee
Other current directorships in listed entities now and in the previous 3 years	None

Matthew Michalewicz	
Qualifications	Bachelor of Science
Experience	Matthew is an international expert in entrepreneurship, innovation, and success psychology. He has a 20-year track record of starting, growing, and exiting high growth businesses in the United States and Australia. His last venture, SolveIT Software, grew to become Australia's 3rd fastest growing company before being acquired by Schneider Electric in 2012. In addition to being the author of several books – including Life in Half a Second, Winning Credibility, Adaptive Business Intelligence, and Puzzle-based Learning – Matthew is also a Visiting Fellow at the University of Adelaide where he lectures on the subject of technology commercialisation, and a Limited Partner in Blackbird Ventures, an Australian early-stage venture capital fund
Interest in shares and options	100,000 ordinary shares in Prophecy International Holdings Limited and no options
Special responsibilities	Member of the Strategy Committee
Other current directorships in listed entities now and in the previous 3 years	COMOPS Limited LBT Innovations Limited (Resigned September 2018)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Directors' Report
For the Year Ended 30 June 2019

1. General information continued

Principal activities and significant changes in nature of activities

The principal activities of the Group during the financial year were the design, development and marketing of computer software applications and services aimed at the worldwide corporate marketplace.

There were no significant changes in the nature of the Group's principal activities during the financial year.

2. Operating results and review of operations for the year

Operating results

The consolidated loss before tax from continuing operations of the Group amounted to $1,339,152 down 59% on the 30 June 2018 result.

The consolidated loss from continuing and discontinued operations of the Group amounted to $1,454,825, after providing for income tax, this represented a 84% decrease on the results reported for the year ended 30 June 2018.

Review of operations

A review of the operations of the Group during the financial year and the results of those operations is set out in the section headed "Message from the CEO" in this report.

3. Other items

Significant changes in state of affairs

No significant changes.

Dividends paid or recommended

No dividends declared.

Events after the end of the reporting period

Other than matters disclosed in this report, 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 the state of affairs of the Group in future financial years.

3. Other items continued

Future developments and results

Comments on the company's future direction are included in the "Message from the CEO".

Environmental issues

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory of Australia

Company secretary

The following person held the position of Company secretary at the end of the financial year:

Grant R Miles has been the company secretary since 21 March 2013. Grant R Miles is the Managing Partner of Moore Stephens (SA) Pty Ltd.

Meetings of directors

During the financial year, 26 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee		Remuneration Committee		Strategy Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Ed Reynolds	12	12	2	2	12	12	-	-
Leanne R Challans	12	12	2	2	-	-	-	-
Matthew T Michalewicz	12	12	-	-	-	-	-	-
Grant R Miles	12	12	2	2	12	12	-	-

Unissued shares under option

There are no unissued ordinary shares of Prophecy International Holdings Limited under option at the date of this report.

Shares issued during or since the end of the year as a result of exercise

There were no shares issued during or since the end of the year as a result of exercise.

Indemnification and insurance of officers and auditors

In the financial year, the company has paid premiums of $47,273 in respect of a contract of insurance for all the Directors and Officers of Prophecy International Holdings Limited and its controlled entities against any liability incurred in their roles as Directors or Officers of the company or its controlled entities, except where:

- the liability arises out of conduct involving a wilful breach of duty; or
- there has been a contravention of Section 199© of the Corporations Act 2001.

3. Other items continued

Non-audit services

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to the external auditors for non-audit services provided during the year ended 30 June 2019:

	2019	2018
	$	$
Taxation services	**25,422**	29,300

Remuneration report (audited)

Remuneration policy

The remuneration policy of Prophecy International Holdings Limited and Controlled Entities has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of Prophecy International Holdings Limited and Controlled Entities believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

- The remuneration policy, setting the terms and conditions for the directors and other senior executives, was developed by the Remuneration Committee and approved by the Board.
- All executives receive a base salary (which is based on factors such as responsibilities and experience), superannuation, fringe benefits, options and performance incentives. The Remuneration Committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.
- The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the consolidated entity's profits and shareholders' value.
- All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

3. Other items continued

Remuneration report (audited) continued

- Executives are also entitled to participate in the employee share and option arrangements.
- The non-executive directors receive superannuation contributions but do not receive any other retirement benefits. Australian based executives receive both superannuation contributions and long service leave benefits.
- All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares issued to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are values using a Black-Scholes methodology.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the company option plans.

As approved by the shareholders at the 2015 Annual General Meeting, the maximum amounts payable to directors is $400,000. This compares with an actual charge of $310,000 in the 2018/19 year.

Key management personnel receive a superannuation guarantee contribution required by the law, which is currently 9.5%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

Key Management Personnel

Key management personnel are as follows:

Directors

Edwin Reynolds (Appointed 4 September 1997)	Non-executive Chairman
Leanne R Challans (Appointed 8 December 2006)	Non-executive Director
Matthew T Michalewicz (Appointed 15 May 2014)	Non-executive Director
Grant R Miles (Appointed 1 May 2015)	Non-executive Director

Executives

Brad Thomas (Appointed 26 September 2016)	CEO – Prophecy Group
Peter Barzen (Appointed 1 September 1999)	EVP Sales and Alliances
Stuart Geros (Appointed 1 July 2015)	CPO – Prophecy Group
Steve Challans (Appointed 1 July 2017)	CISO – Prophecy Group
Stephen Irecki (Appointed 1 November 2018)	Director, Global Customer Operations
Christine Bishop (Terminated 31 October 2018)	CMO – Prophecy Group

There have been no changes to Key Management Personnel after the reporting date and before the date the financial accounts were authorised for issue.

Relationship between remuneration policy and company performance

As part of each executive's remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between directors/executives with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the area each individual is involved in and has a level of control over, and are mainly related to increases in profit and revenue. The KPIs target areas the Board believes hold greater potential for Group expansion and profit, covering financial short-term goals. The level set for each KPI is based on budgeted figures for the Group.

3. Other items continued

Remuneration report (audited) continued

Relationship between remuneration policy and company performance continued

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the level of achievement against KPIs. Following the assessment, the KPIs are reviewed by the Remuneration Committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

The satisfaction of the performance conditions are based on a review of the audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility.

The following table shows the gross revenue, profits and dividends for the last five years for the Company, as well as the share prices at the end of the respective financial years.

	2019	2018	2017	2016	2015
	$	$	$	$	$
Revenue from continuing operations	12,113,982	10,676,203	9,188,005	12,333,897	9,956,360
Profit/(Loss) from continuing operations before tax	(1,339,152)	(841,060)	(610,585)	3,386,410	3,447,811
Profit/(Loss) attributable to members after tax	(1,398,949)	(730,194)	1,975,519	2,402,233	2,334,088
Profit from continuing and discontinued operations	(1,454,825)	(791,386)	1,955,795	2,416,038	2,378,480
Share Price at Year-end	0.28	0.43	0.51	1.15	1.25
Dividends Paid (cents)	0.00	0.00	2.00	4.20	2.75
Net Tangible Assets per share (cents)	0.006	0.009	0.014	(0.003)	0.084

Performance conditions linked to remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Two methods have been applied to achieve this aim, the first being a performance-based bonus based on key performance indicators, and the second being the issue of options to directors and executives to encourage the alignment of personal and shareholder interests.

The company believes that the factors affecting shareholder wealth are linked to the company's trading conditions. The company experienced difficult trading conditions last year due to the global economic crisis.

The board feels that the company has consolidated the move towards increasing shareholder wealth, and that the executive and director remuneration policies in place will help facilitate achievement of this goal.

Employment details of members of key management personnel

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the Group. The table also illustrates the proportion of remuneration that was performance based and the proportion of remuneration received in the form of options.

		Performance based remuneration		
		Bonus	Shares	Options / rights
		%	%	%
KMP				
Brad Thomas	CEO – Prophecy Group	-	-	-
Peter Barzen	EVP Sales and Alliances	-	-	-
Stuart Geros	CPO – Prophecy Group	-	-	-
Steve Challans	CISO – Prophecy Group	10%	-	-
Stephen Irecki	Director, Global Customer Operations	4%	-	-
Christine Bishop	CMO – Prophecy Group	-	-	-

3. Other items continued

Remuneration report (audited) continued

Service Agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

The remuneration and other terms of employment for the Chief Executive Officer and senior executives are set out in formal service agreements as summarised below:

- All service agreements are for an unlimited duration. The agreements for executives may be terminated by giving four weeks' notice (except in cases of termination for cause where termination is immediate).
- In cases of resignation, no separation payment is made to the executive, except for amounts due and payable up to the date of ceasing employment, including accrued leave entitlements.

Remuneration Consultants

There have been no remuneration consultants used in the period.

Changes in KMP (other than directors)

Stephen Irecki Director, Global Customer Operations has been added to the KMP from 1 November 2018.
Christine Bishop the former CMO of the Prophecy Group was deleted from the KMP from 31 October 2018.

Remuneration details for the year ended 30 June 2019

The following table of benefits and payment details, in respect to the financial year, these components of remuneration for each member of the key management personnel of the Group.

Table of benefits and payments

	Short Term				Post Employment	Total
	Cash salary fees	Bonus	Consulting fees	Health care & allowances	Pension and superannuation	
2019	$	$	$	$	$	$
Directors						
Ed Reynolds	39,000	-	73,596	-	3,705	116,301
Leanne Challans	70,000	-	26,985	-	9,214	106,199
Matthew Michalewicz	70,000	-	-	-	-	70,000
Grant R Miles	70,000	-	-	-	-	70,000
KMP						
Brad Thomas	272,500	-	-	-	25,000	297,500
Peter Barzen	198,070	214,743	-	36,344	51,858	501,015
Stuart Geros	250,005	-	-	-	23,750	273,755
Steve Challans	156,501	20,386	-	-	16,804	193,691
Stephen Irecki (Appointed 1 November 2018)	138,775	5,506	-	-	4,513	148,794
Christine Bishop (Terminated 31 October 2018)	93,628	-	-	-	7,015	100,643
	1,358,479	240,635	100,581	36,344	141,859	1,877,898

The remuneration detailed above for Ed Reynolds includes director's fees of $100,000 and consulting fees of $12,596 (2018 – director's fees $100,000 and consulting fees $16,453) of which $73,596 was paid to Reyer Investments Pty Limited, a company in which Ed Reynolds is a director and shareholder.

Grant R Miles director's fees are paid to Moore Stephens (SA) Pty Ltd formerly Hayes Knight (SA) Pty Ltd, a company directed by Grant R Miles.

3. Other items continued

Remuneration report (audited) continued

Remuneration details for the year ended 30 June 2019 continued

Short term bonus for Peter Barzen relates to commission payments on licence fee revenue from sales of products to customers, in accordance with an incentive plan approved on 18th April 2013. The purpose of the incentive is to increase licence fee revenues and so improve shareholder wealth.

Short term bonus for Steve Challans relates to commission payments on licence fee revenue from sales of products to customers, in accordance with an incentive plan approved on 1st January 2015. The purpose of the incentive is to increase licence fee revenues and so improve shareholder wealth.

	Short Term				Post Employment	Total
	Cash salary fees	Bonus	Consulting fees	Health care & allowances	Pension and superannuation	
2018	**$**	**$**	**$**	**$**	**$**	**$**
Directors						
Ed Reynolds	**39,000**	**-**	**77,453**	**-**	**3,705**	**120,158**
Leanne Challans	**216,983**	**10,398**	**-**	**-**	**8,062**	**235,443**
Matthew Michalewicz	**70,000**	**-**	**-**	**-**	**-**	**70,000**
Grant R Miles	**70,000**	**-**	**-**	**-**	**-**	**70,000**
KMP						
Brad Thomas	**272,500**	**741**	**-**	**-**	**25,000**	**298,241**
Peter Barzen	**183,480**	**181,308**	**-**	**36,645**	**48,039**	**449,472**
Stuart Geros	**250,005**	**-**	**-**	**-**	**23,750**	**273,755**
Steve Challans	**156,500**	**20,315**	**-**	**-**	**16,797**	**193,612**
Christine Bishop (Terminated 31 October 2018)	**183,333**	**-**	**-**	**-**	**17,417**	**200,750**
	1,441,801	**212,762**	**77,453**	**36,645**	**142,770**	**1,911,431**

Securities received that are not performance related

No members of key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

Voting and comments made at the Company's last Annual General Meeting

Prophecy International Holdings Limited received more than 91% of 'yes' votes on its Remuneration Report for the financial year ending 30 June 2018. The company received no specific feedback on its Remuneration Report at the Annual General Meeting.

Key management personnel options and rights holdings

There are currently no options or rights held by any Directors or key management personnel.

3. Other items continued

Remuneration report (audited) continued

Key management personnel shareholdings

The number of ordinary shares in Prophecy International Holdings Limited and Controlled Entities held by each key management person of the Group during the financial year is as follows:

	Balance at beginning of year	On exercise of options	Acquisitions	Disposals	Other Changes	Balance at end of year
30 June 2019						
Ed Reynolds	**7,700,000**	-	70,000	-	-	**7,770,000**
***Leanne R Challans**	**774,880**	-	-	-	-	**774,880**
Matthew T Michalewicz	**100,000**	-	-	-	-	**100,000**
Grant R Miles	**150,000**	-	-	-	-	**150,000**
Other KMP						
Brad Thomas	**86,681**	-	-	-	-	**86,681**
Peter Barzen	**600,000**	-	300,000	-	-	**900,000**
Stuart Geros	**1,878,177**	-		(60,000)	-	**1,818,177**
***Steve Challans**	**774,880**	-	-	-	-	**774,880**
Stephen Irecki (Appointed 1 November 2018)	**-**	**-**	**-**	**-**	-	**-**
Christine Bishop (Terminated 31 October 2018)	**100,000**	-	-	-	-	**100,000**
	12,164,618	**-**	**370,000**	**(60,000)**	**-**	**12,474,618**

*Shares jointly held by Leanne R Challans and Steve Challans

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:

Moore Stephens (SA) Pty Ltd, a company directed by Grant Miles, provided Accounting services to the Group of $20,926 (2018: $27,515).

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 of $130,951.

ITVIZZ Pte Ltd a company directed by Stuart Geros, provided IT consulting services to eMite Pty Ltd and were paid $175,718 in 2018/2019 for services relating to the 2017/2018 and 2018/2019 years.

End of Remuneration Report

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

Directors' Report
For the Year Ended 30 June 2019

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001*, for the year ended 30 June 2019 has been received and can be found on page 23 of the financial report.

This director's report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

Ed Reynolds	Leanne Challans
Chairman	**Director**

Dated this 26th day of September, 2019

Level 3, 170 Frome Street
Adelaide SA 5000

Correspondence to:
GPO Box 1270
Adelaide SA 5001

T +61 8 8372 6666

Auditor's Independence Declaration

To the Directors of Prophecy International Holdings Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Prophecy International Holdings Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Iain Kemp

I S Kemp
Partner – Audit & Assurance

Adelaide, 26 September 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2019

	Note	2019 $	2018 $
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)
Profit/(Loss) before income tax		**(1,339,152)**	(841,060)
Income tax expense	5	**(115,673)**	47,223
Profit/(Loss) from continuing operations		**(1,454,825)**	(793,837)
Profit from discontinued operations	6	**-**	2,451
Profit/(Loss) for the year		**(1,454,825)**	(791,386)
Other comprehensive income, net of income tax			
Items that will be reclassified to profit or loss when specific conditions are met			
Exchange differences on translating foreign controlled entities		**(81,869)**	(33,448)
Other comprehensive income for the year, net of tax		**(81,869)**	(33,448)
Total comprehensive income for the year		**(1,536,694)**	(824,834)
Profit/(Loss) attributable to:			
Members of the parent entity		**(1,398,949)**	(730,194)
Non-controlling interest		**(55,876)**	(61,192)
		(1,454,825)	(791,386)
Total comprehensive income attributable to:			
Members of the parent entity		**(1,480,818)**	(763,642)
Non-controlling interest		**(55,876)**	(61,192)
		(1,536,694)	(824,834)
Earnings/(Loss) per share			
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 and AASB 15, the comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 18 *Revenue*.

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position
As At 30 June 2019

	Note	2019 $	2018 $
ASSETS			
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
TOTAL CURRENT ASSETS		**6,933,508**	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
TOTAL NON-CURRENT ASSETS		**15,932,561**	17,405,547
TOTAL ASSETS		**22,866,069**	23,431,501
LIABILITIES			
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
TOTAL CURRENT LIABILITIES		**6,423,180**	5,317,777
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	**553,195**	669,717
Employee benefits	20	**101,719**	119,338
TOTAL NON-CURRENT LIABILITIES		**654,914**	789,055
TOTAL LIABILITIES		**7,078,094**	6,106,832
NET ASSETS		**15,787,975**	17,324,669
EQUITY			
Issued capital	21	**28,469,564**	28,469,564
Reserves		**(344,536)**	(262,667)
Retained earnings/(Accumulated losses)		**(11,994,986)**	(10,596,037)
Total equity attributable to equity holders of the Company		**16,130,042**	17,610,860
Non-controlling interest		**(342,067)**	(286,191)
TOTAL EQUITY		**15,787,975**	17,324,669

The Group has not restated comparatives when initially applying AASB 9 and AASB 15, the comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 18 *Revenue.*

The accompanying notes form part of these financial statements.

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
	$	$	$	$	$	$
Balance at 1 July 2018	**28,469,564**	**(10,596,037)**	**(387,492)**	**124,825**	**(286,191)**	**17,324,669**
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)**
Balance at 30 June 2019	**28,469,564**	**(11,994,986)**	**(469,361)**	**124,825**	**(342,067)**	**15,787,975**

2018

	Ordinary Shares	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Non-controlling Interests	Total
	$	$	$	$	$	$
Balance at 1 July 2017	28,469,564	(9,865,843)	(354,044)	124,825	(224,999)	18,149,503
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)
Balance at 30 June 2018	28,469,564	(10,596,037)	(387,492)	124,825	(286,191)	17,324,669

The Group has not restated comparatives when initially applying AASB 9 and AASB 15, the comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 18 *Revenue*.

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
For the Year Ended 30 June 2019

	Note	2019 $	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
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	**1,952,633**	48,376
CASH FLOWS FROM INVESTING ACTIVITIES:			
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		**(95,711)**	(801,585)
Effects of foreign exchange rates on overseas cash holdings		**(80,971)**	12,065
Net increase/(decrease) in cash and cash equivalents held		**1,775,951**	(741,144)
Cash and cash equivalents at beginning of year		**2,599,684**	3,340,828
Cash and cash equivalents at end of financial year	11	**4,375,635**	2,599,684

The accompanying notes form part of these financial statements.

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.

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.

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.

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:

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

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

(f) 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.

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.

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.

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.

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.

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.

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

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.

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.

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.

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.

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		
- licence Sales	**11,566,433**	9,481,507
- consulting sales	**547,549**	1,194,696
	12,113,982	10,676,203

The Group's revenue disaggregated is as follows:

30 June 2019

	Legacy	Core	Subscriptions	Total
	$	$	$	$
All locations	738,951	9,748,050	1,626,981	12,113,982

30 June 2018

	Legacy	Core	Subscriptions	Total
	$	$	$	$
All locations	750,917	9,091,855	833,431	10,676,203

30 June 2019

	Legacy	Snare	eMite	Total
	$	$		$
Goods transferred at a point in time				
- Consulting	-	124,126	423,423	547,549
- Licences	661,983	8,098,029	2,806,421	11,566,433
- Total	661,983	8,222,155	3,229,844	12,113,982

30 June 2018

	Legacy	Snare	eMite	Total
	$	$		$
Goods transferred at a point in time				
- Consulting	-	35,095	1,159,601	1,194,696
- Licences	667,994	6,705,845	2,107,668	9,481,507
- Total	667,994	6,740,940	3,267,269	10,676,203

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
	1,426,213	1,353,457
Other Expenses:		
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
	4,024,317	3,395,871

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.

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)
Total income tax expense	**115,673**	(47,223)

(b) Reconciliation of income tax to accounting profit:

	2019	2018
Profit	**(1,339,152)**	(841,060)
Tax	**27.50%**	27.50%
	(368,267)	(231,292)
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**	-
	372,151	59,644
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	**115,673**	(47,223)
Income tax expense	**115,673**	(47,223)
Weighted average effective tax rate	**(9)%**	6%

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

	2019	2018
Timing differences on unrealised foreign exchange gains/(losses)	**70,192**	50,959

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	**-**	2,451

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
	1,877,898	1,911,431

The Remuneration Report contained in the Directors' Report contains details of the remuneration paid or payable to each member of the Group's Key Management Personnel for the year ended June 2019.

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
Total	**131,242**	132,451

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
Profit after income tax attributable to the owners of Prophecy International Holdings Limited	**(1,398,949)**	(732,645)

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

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

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

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

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
	4,375,635	2,599,684

Notes to the Financial Statements

For the Year Ended 30 June 2019

12 Trade and Other Receivables

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

The following tables details the Group's trade and other receivables.

30 June 2019	**Current**	**Less than 30 days past due**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	0%	0%	0%	0%	0%	
Gross carrying amount						
- trade receivables	1,465,648	579,632	10,105	28,421	139,254	2,223,060
Loss allowance	0	0	0	0	0	0

30 June 2018	**Current**	**Less than 30 days past due**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	0%	0%	0%	0%	0%	
Gross carrying amount						
- trade receivables	1,829,494	572,931	226,082	27,304	96,904	2,752,715
Loss allowance	0	0	0	0	0	0

(a) Collateral held as security

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

(b) Financial assets classified as loans and receivables

	Note	2019 $	2018 $
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

The Group applies the AASB 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

Notes to the Financial Statements
For the Year Ended 30 June 2019

12 Trade and Other Receivables continued

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

The expected loss rates are based on the payment profile for sales over the past 12 months before 30 June 2019 and 1 July respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding.

The Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

Based on this analysis, management considers a zero percentage loss rate to be applicable to the Group's trade receivables balance.

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

Notes to the Financial Statements

For the Year Ended 30 June 2019

15 Property, Plant and Equipment

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

Movements in carrying amounts of property, plant and equipment

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

	Plant and Equipment	Furniture, Fixtures and Fittings	Total
	$	$	$
Year ended 30 June 2019			
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**
Balance at the end of the year	**215,979**	**35,464**	**251,443**
Year ended 30 June 2018			
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
Balance at the end of the year	194,157	48,041	242,198

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	**(3,920,000)**	(3,111,433)
Net carrying value	**8,800,000**	9,608,567
Development costs		
Cost	**2,678,372**	2,678,372
Accumulated amortisation and impairment	**(1,186,967)**	(660,863)
Net carrying value	**1,491,405**	2,017,509
Total Intangibles	**15,399,675**	16,734,346

Movements in carrying amounts of intangible assets

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

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

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

Intellectual property with a carrying value of $nil (2018: $8,567) relates to copyright in Intersect Alliance International Pty Ltd's software products.

Intellectual property with a carrying value of $8,800,000 (2018: $9,600,000) relates to copyright in eMite Pty Ltd's software products. These products have a remaining amortisation period of 11 years.

16 Intangible Assets continued

Goodwill with a carrying value of $2,126,815 (2018: $2,126,815) has been allocated to the SNARE product line. In the past this was determined on a value in use basis by reference to the net present value of cash flow projections over 5 years discounted at a rate of 8%. Current profitability of the product has exceeded its carrying value in the 2018/19 financial year both ex inter-company charges, depreciation and amortisation and including these items. Revenue from SNARE products is expected to increase by 5% for each of the forecast 5 years, with a minor proportion attributable to eMite products. Profitability is expected to be maintained over this period, and no revision to the carrying value of the asset is deemed warranted.

Goodwill with a value of $2,981,455 (2018: $2,981,455), determined on a value in use basis has been allocated to the eMite Pty Ltd segment. Value in use has been determined by reference to the net present value of cash flow projections over the next 5 years, discounted at a rate of 11.4%. It is assumed that revenue growth of 66% will be achieved in the business in the 2019/20 financial year, followed by positive but declining revenue growth rates in the remaining 4 years of the cycle. Modest profitability is expected to be achieved in the 2019/20 financial year, followed by an increase of 89% in 2020/21 and subsequent positive but declining increases year on year. Management has based these assumptions on the targets set for the business.

17 Other Non-financial Assets

	2019	2018
	$	$
Prepayments	**342,839**	325,040

18 Trade and Other Payables

	2019	2018
Trade payables	**281,132**	552,655
Sundry payables and accrued expenses	**576,279**	512,997
Other payables	**2,654**	2,654
	860,065	1,068,306

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

	Note	2019	2018
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

	2019	2018
Deferred income	**4,189,968**	3,552,711

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.

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
	788,580	696,760
NON-CURRENT		
Long service leave	**101,719**	119,338

21 Issued Capital

64,009,784 (2018: 64,009,784) Ordinary shares	**28,469,564**	28,469,564

(a) Ordinary shares

	No.	No.
At the beginning of the reporting period	**64,009,784**	64,009,784

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

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

(b) Capital Management

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

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

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

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
	1,038,998	415,250

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.

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	**1,952,633**	48,376

(b) Credit standby arrangements with banks

	2019	2018
Credit facility	**40,000**	40,000
Amount utilised	**(11,855)**	(5,386)
	28,145	34,614

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.

27 Tax

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

Unrecognised deferred tax assets

	2019	2018
Deferred tax assets have not been recognised in respect of the following:		
Tax losses	**6,241,971**	5,362,003

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
Balance at 30 June 2018	316,444	53,983	50,959	421,386
Property, plant and equipment				
- tax allowance	**2,943**	**2,393**	**-**	**5,336**
Provisions - employee benefits	**205,582**	**13,520**	**-**	**219,102**
Unrealised foreign exchange	**(112,971)**	**(66,894)**	**70,192**	**(109,673)**
Accruals	**94,402**	**3,877**	**-**	**98,279**
Deferred tax assets attributable to tax losses	**230,876**	**(170,919)**	**-**	**59,957**
s40-880 deduction	**554**	**(138)**	**-**	**416**
Balance at 30 June 2019	**421,386**	**(218,161)**	**70,192**	**273,417**

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
Balance at 30 June 2018	496,615	173,102	-	669,717
Work in progress	**21,460**	**1,069**	**-**	**22,529**
Prepayments	**3,027**	**(69)**	**-**	**2,958**
Other current assets	**551,433**	**(145,707)**	**-**	**405,726**
Unrealised foreign currency gains	**93,797**	**28,185**	**-**	**121,982**
Balance at 30 June 2019	**669,717**	**(116,522)**	**-**	**553,195**

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

28 Operating Segments continued

(e) Segment performance

	Legacy		SNARE		eMite		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	$	$	$	$	$	$	$	$
REVENUE								
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
Total segment revenue	**661,983**	667,994	**8,222,155**	6,740,940	**3,229,844**	3,267,269	**12,113,982**	10,676,203
Segment operating profit/(loss)	**(870,604)**	(488,113)	**2,345,025**	1,529,337	**(2,813,573)**	(1,882,284)	**(1,339,152)**	(841,060)

(f) Segment assets

	Legacy 2019	Legacy 2018	SNARE 2019	SNARE 2018	eMite 2019	eMite 2018	Total 2019	Total 2018
Segment assets	**37,840,708**	33,758,184	**4,690,972**	5,016,136	**2,335,264**	2,157,323	**44,866,944**	40,931,643
- Capital expenditure	**9,228**	16,592	**72,020**	41,780	**18,218**	17,954	**99,466**	76,326
- Intangible assets	**-**	-	**-**	703,120	**-**	-	**-**	703,120

(g) Segment liabilities

	Legacy 2019	Legacy 2018	SNARE 2019	SNARE 2018	eMite 2019	eMite 2018	Total 2019	Total 2018
Segment liabilities	**42,510,298**	41,510,901	**3,984,543**	3,087,486	**5,974,486**	4,314,500	**52,469,327**	48,912,887

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.

	2019	2018
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	**(1,454,825)**	(791,386)

Reconciliation of segment assets to the consolidated statement of financial position

	2019	2018
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	**22,866,069**	23,431,501

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

	2019	2018
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	**7,078,094**	6,106,832

(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	-
	12,113,982	**22,866,069**	10,676,203	23,431,501

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) and the remuneration report in the Directors' Report.

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:

	2019 $	2018 $
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.	**20,926**	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.	**175,718**	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.	**130,951**	141,002
Total	**327,595**	276,473

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

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.

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.

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
	$	$	$	$	$	$	$	$
Financial assets - cash flows realisable								
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	**6,590,669**	6,061,677	**8,026**	7,617	**-**	-	**6,598,695**	6,069,294
Financial liabilities due for payment								
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.

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 $					
	USD	**EUR**	**GBP**	**SGD**	**NZD**	**Total AUD**
2019	**$**	**$**	**$**	**$**	**$**	**$**
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)**
2018						
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%**
USD				
Net results	**(181,237)**	**221,512**	(55,492)	67,823
Equity	**(51,057)**	**62,404**	(112,293)	137,247
GBP				
Net results	**(8,899)**	**10,876**	(1,376)	1,681
Equity	**(232)**	**284**	(5,185)	6,338
Euro				
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.

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
	$	$
Statement of Financial Position		
Assets		
Current assets	**9,991,547**	8,881,427
Non-current assets	**12,874,522**	17,991,000
Total Assets	**22,866,069**	26,872,427
Liabilities		
Current liabilities	**19,542,373**	19,392,161
Non-current liabilities	**582,818**	-
Total Liabilities	**20,125,191**	19,392,161
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	**2,740,878**	7,480,266
Statement of Profit or Loss and Other Comprehensive Income		
Total profit or loss for the year	**(4,739,388)**	(888,853)
Total comprehensive income	**(4,739,388**	(888,853)

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

Directors' Declaration

For the Year Ended 30 June 2019

The directors of the Company declare that:

1. the consolidated financial statements and notes for the year ended 30 June 2019 are in accordance with the *Corporations Act 2001* and:

    a. comply with Accounting Standards, which, as stated in basis of preparation Note 2(a) to the consolidated financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and

    b. give a true and fair view of the financial position and performance of the consolidated group;

2. the Chief Executive Officer and Chief Finance Officer have given the declarations required by Section 295A that:

    a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

    b. the consolidated financial statements and notes for the financial year comply with the Accounting Standards; and

    c. the consolidated financial statements and notes for the financial year give a true and fair view.

3. in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director .... Ed Reynolds

Director .... Leanne Challans

Dated this 26th day of September, 2019

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Adelaide SA 5000

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GPO Box 1270
Adelaide SA 5001

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Independent Auditor's Report

To the Members of Prophecy International Holdings Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Prophecy International Holdings Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

a giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Grant Thornton

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Recoverable amount of intangible assets **Notes 2 & 16**	
At 30 June 2019, the carrying value of intangible assets was $15,399,675. In accordance with AASB 136 *Impairment of Assets*, management is required to test intangible assets with indefinite useful lives and goodwill for impairment at least annually. Management has assessed that eMite Pty Ltd is one of three cash-generating units (CGUs), and have allocated goodwill and intangible assets to this CGU as part of the acquisition in the prior period. Of the total carrying value, $2,981,455 of goodwill and $8,800,000 of intangibles have been allocated to the eMite business segment. This represents a significant portion of the total intangible assets. Management has tested for impairment by comparing the carrying amounts of the CGUs with their recoverable amounts and has determined that no impairment existed at 30 June 2019. Recoverable amounts were determined on a value in use basis. Value in use was determined by management by estimating the future cash inflows and outflows to be derived from the continuing use of the assets in the eMite CGU and applying the appropriate discount rate to those future cash flows. This is a key audit matter due to the judgements and estimates required in determining the appropriate CGUs, allocating assets to CGUs and calculating the recoverable amount on a value in use basis.	Our procedures included, amongst others: • Documenting the processes and assessing whether internal controls are designed effectively relating to impairment considerations; • Evaluating management's assessment of CGUs and whether they meet the definition as prescribed by AASB 136; • Obtaining management's impairment assessment and discounted cash flow model and performing the following procedures: – Identifying the key assumptions in the model; – Obtaining evidence to support the key assumptions; – Performing sensitivity analysis on the key assumptions; – Testing the mathematical accuracy of the model; – Testing management's ability to perform accurate estimates by comparing historical forecasts to current year performance; – Involving an auditor's expert to assess the reasonableness of the discount rate and appropriateness of the model; and • Assessing the adequacy of the Group's disclosures within the financial statements.

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

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Prophecy International Holdings Limited, for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Iain Kemp

I S Kemp
Partner – Audit & Assurance

Adelaide, 26 September 2019

Additional Information for Listed Public Companies

For the Year Ended 30 June 2019

ASX Additional Information

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 26 September 2019.

Substantial shareholders

The number of substantial shareholders and their associates are set out below:

Voting rights

Ordinary Shares

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options

No voting rights.

Distribution of equity security holders

		Ordinary shares	
Holding		**Shares**	**Options**
1 - 1,000		370	0
1,001 - 5,000		602	0
5,001 - 10,000		291	0
10,001 - 100,000		451	0
100,000 and over		75	0
	Total	**1789**	0

There were 436 holders of less than a marketable parcel of ordinary shares.

Additional Information for Listed Public Companies
For the Year Ended 30 June 2019

Rank	Twenty Largest Shareholders	Numbers Held	% of Ordinary
1.	REYER INVESTMENTS PTY LTD (SUPER FUND A/C)	7,770,000	12.14%
2.	DUNMOORE PTY LTD	5,004,052	7.82%
3.	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	3,555,605	5.55%
4.	MICROEQUITIES ASSET MANAGEMENT PTY LTD	3,415,248	5.34%
5.	MR DARREN MATHEW GEROS + MS BELINDA GEROS (GEROS FAMILY A/C)	2,127,773	3.32%
6.	MARIA O'CONNOR + ASSOCIATES PTY LTD	1,937,030	3.03%
7.	MR STUART C GEROS + MRS MICHELLE D GEROS (THE EMERALD POINT FAM A/C)	1,759,221	2.75%
8.	CITICORP NOMINEES PTY LIMITED	1,597,275	2.50%
9.	SMOOTHWARE PTY LTD	1,085,230	1.70%
10.	HOLDEN HOLDEN + ASSOCIATES PTY LTD	1,021,875	1.60%
11.	MR PETER JOSEPH BARZEN	900,000	1.41%
12.	FIVE TALENTS LIMITED – NEW ZEALAND	900,000	1.41%
13.	BNP PARIBAS NOMINEES PTY LTD (IB AU NOMS RETAILCLIENT DRP)	842,759	1.32%
14.	MS CHRISTINE A HOLDEN + MR BRIAN P TOWLER (CHRISTINE HOLDEN S/F A/C)	800,000	1.25%
15.	MRS L R CHALLANS + MR S W CHALLANS	774,880	1.21%
16.	CUSTODIAL SERVICES LIMITED (BENEFICIARIES HOLDING A/C)	719,534	1.12%
17.	SILVERNINE PTY LTD	705,469	1.10%
18.	DR DEAN ANDARY	677,201	1.06%
19.	ANDAMAX INVESTMENTS PTY LTD	622,122	0.97%
20.	MR DARREL RAY SCHNEIDER (SCHNEIDER FAMILY JV A/C)	552,159	0.86%

Additional Information for Listed Public Companies

For the Year Ended 30 June 2019

Substantial Shareholders

Substantial shareholders in the company are set out below:

Name	Ordinary Shares	% held
REYER INVESTMENTS PTY LTD (SUPER FUND A/C)	7,770,000	12.14%
DUNMOORE PTY LTD	5,004,052	7.82%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	3,555,605	5.55%

Other Information

Enquiries from shareholders should be addressed to Prophecy International Holdings Limited on (08) 8213 1200 or the Company’s Share Registry, Computershare Investor Services on 1300 55 61 61 from within Australia or +61 3 9415 4000 from outside Australia

Shareholders who have changed their address should advise the Company’s Share Registry in writing. Shareholders who do not wish to receive an Annual Report should advise the Company’s Share Registry in writing.

Voting Rights

Voting rights attaching to ordinary shares are on a show of hands. Every member present in person or by proxy has one vote, and upon a poll each share shall have one

Unissued equity securities

Options unissued - nil

Securities exchange

The Company is listed on the Australian Securities Exchange.