PROPHECY INTERNATIONAL HOLDINGS LTD

ACN 079 971 618

Appendix 4E - Preliminary Final Report

For the Year Ended 30 June 2022

Prophecy

Prophecy International Holdings Ltd

(ASX:PRO)

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ASX preliminary final report for the year ended 30 June 2022
Lodged with the ASX under listing Rule 4.3A

Results for announcement to the market
30 June 2022

Appendix 4E
Reference

		30 June 2022 $'000	30 June 2021 $'000	Variance $'000	Variance %
2.1	Revenue from ordinary activities	16,431	12,841	3,590	28%
2.2	Profit/(loss) From ordinary activities after tax attributable to members	(2,188)	(2,043)	(145)	(7%)
2.3	Net profit/(loss) for the period attributable to members	(2,188)	(2,043)	(145)	(7%)
2.4	Dividends/distributions	No dividends have been paid or proposed.			
2.5	Record date	Not applicable			
2.6	Explanation of the figures in 2.1 to 2.4	Refer to the attached financial statements			
3	Statement of Comprehensive Income	Refer to the attached financial statements			
4	Statement of Financial Position	Refer to the attached financial statements			
5	Statement of Cash Flows	Refer to the attached financial statements			
6	Statement of Changes in Equity	Refer to the attached financial statements			
7	Details of Individual and total Dividends	Not applicable			
8	Details of dividend reinvestment plans in operation	Not applicable			
9	Net tangible assets per share (cents)	0.076 cents	(0.012) cents	0.088 cents	533%
10	Details of entities over which control has been gained or loss	Not applicable			
11	Details of associates or joint venture entities	Not applicable			
12	Any other significant information	Refer to the attached financial statements			
13	The Financial Statements are prepared in accordance with Australian Accounting Standards				
14	Commentary on the results for the period	Refer to the attached financial statements			
15	The 30 June 2022 financial report and accompanying notes for the Group are in the process of being audited and the Directors do not expect any disputes or qualifications.				
16	Not Applicable				
17	Not Applicable				

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Results for announcement to the market

For the Year Ended 30 June 2022

Prophecy Delivers Record Revenue & Growth in FY22

Business software developer Prophecy International Holdings Ltd (ASX: PRO, "Prophecy" or "the Company") is pleased to provide the Company's Annual Final Report and Appendix 4E for the year ended 30 June 2022.

Financial Highlights

	FY22	FY21	YoY % Growth
Revenue	$16.4M	$12.8M	+28%
Invoicing	$20.8M	$13.5M	+54%
Cash Flow	$2.9M	($0.3M)	+871%
Cash at Bank	$13.0M	$3.1M	+319%
Income in Advance	$8.2M	$4.3M	+89%
Debt	Zero	Zero	No change
ARR	$18.4M	$10.7M	+72%
NPAT	($2.1M)	($2.0M)	+7%
EBITDA	($1.3M)	($1.3M)	0%

The company recorded a $3.6M increase in recognised revenue as a result of significantly increased invoicing in FY22 along with strong positive cash flow and substantial increases in ARR.

FY22 was a record year for revenue – the group achieved $16.4M in recognised revenue. This marked a significant increase of 28% from FY21 and a new high watermark for the company's long history. Prophecy has never had revenue at this level previously.

eMite results

eMite is a full featured analytics platform targeted at the Customer Experience (CX) market – we help our customers understand their CX operations and customers, enabling them to optimise their operations and provide differentiated service to their customers by breaking down data silos and making all CX data available for analysis, visualisation and reporting as they need it.

	FY22	FY21	YoY % Growth
Revenue	$7.4M	$4.6M	+61%
Sales Contracts	$5.6M	$3.6M	+56%
ARR	$12.3M	$7.6M	+62%

North America continues to deliver for eMite with 71% of sales being generated by our NAM team, 18% by EMEA and the remaining 11% by the APAC team from customers mostly in Australia. The Americas number has been inflated due to a small number of very significant deals like Humana and Airbnb.

FY22 saw some of eMite's largest customers come on board, leading to a significant increase in revenue and ARR.

Humana, Airbnb and 1800-Flowers have all been successfully rolled out and are generating revenue in the US. Customers like Sage Group, the Co-op, Centrica, Stellantis and LeasePlan are examples from our growing European business. DHS/Services Australia is the flagship government account for Australia and the Company's largest government customer globally. DHS runs the largest contact centre in the Southern Hemisphere, with more than 25,000 agents.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Results for announcement to the market

For the Year Ended 30 June 2022

Snare Results

Snare is a suite of security monitoring tools designed to help answer the questions like “did someone get in” and “what did they see/take/change?”. Once the bad guys are past your perimeter security then only by actively monitoring activity in your network can you see anomalous behaviour that could indicate a breach.

This last year has been notable for Snare as we successfully launched new subscription-based pricing. This has been well accepted by the market with 44% of sales being subscriptions in Q4. We continue to prefer subscription and expect to see continued growth in annuity-based licensing in FY23.

Snare’s go to market strategy is both direct and via partners. We have over 3000 customers around the world using Snare. We have partnerships with MSSPs and System Integrators for Snare like Optus, Fujitsu UK and Australia, Novacoast, IBM, Verizon, NTT Security and Telstra as well as specialists in various segments like Vambrace, Frontier, Jeskell and Four Inc in the US defence sector.

	FY22	FY21	YoY % Growth
Revenue	$8.5M	$7.7M	+10%
Sales Contracts	$6.7M	$5.1M	+31%
Subscription/ARR	$1.8M	$1.8M	Up from zero in FY21

Large customer sales in FY22 include the UK Government through Fujitsu , encompassing various arms of the UK military, MetLife Insurance, Yum Brands, Worley Parsons, the National Football League (NFL), US Dept of Treasury, AT&T, Chemist Warehouse and the Australian Dept of Defence.

ARR

	FY22	FY21	YoY % Growth
Snare Subscriptions	$1.8M	-	N/A
Snare Maintenance	$3.6M	$2.6M	38%
eMite Subscriptions	$12.2M	$7.6M	61%
Legacy Subscriptions	$0.7M	$0.5M	60%
Totals	**$18.3M**	**$10.7M**	**71%**

Legacy products

The legacy products continue to shrink as expected. We now have only 2 customers globally using Prophecy legacy products and we expect that both of these will no longer be using the products by the end of FY23.

Prophecy CEO, Brad Thomas said “In a year dominated by macro –economic head winds which included; increasing inflation and rising interest rates, a global war for talent and wage increases – especially in technology fields, limited war in Europe, trade sanctions and the lingering effects of the global Covid-19 pandemic, the results achieved are particularly strong and a reflection on the talented and dedicated global team at Prophecy”.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2022

	Note	2022 $	2021 $
Revenue from continuing operations	2	**16,431,198**	12,840,733
Other income		**1,030**	479,839
Employee benefits expense		**(11,770,976)**	(9,432,503)
Depreciation and amortisation expense		**(1,688,847)**	(1,865,152)
Other expenses		**(5,513,329)**	(4,796,983)
Finance costs		**(37,831)**	(49,303)
Loss before income tax		**(2,578,755)**	(2,823,369)
Income tax benefit/expense	3	**400,555**	789,890
Loss for the year		**(2,178,200)**	(2,033,479)
Other comprehensive income/(loss), 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		**(246,953)**	278,068
Other comprehensive income/(loss) for the year, net of tax		**(246,953)**	278,068
Total comprehensive loss for the year		**(2,425,153)**	(1,755,411)
Loss attributable to:			
Members of the parent entity		**(2,187,772)**	(2,042,551)
Non-controlling interest		**9,572**	9,072
		(2,178,200)	(2,033,479)
Total comprehensive income/(loss) attributable to:			
Members of the parent entity		**(2,434,725)**	(1,764,483)
Non-controlling interest		**9,572**	9,072
		(2,425,153)	(1,755,411)
Losses per share			
From continuing operations:			
Basic earnings/(loss) per share (cents)	7	**(3.10)**	(3.19)
Diluted earnings/(loss) per share (cents)	7	**(3.10)**	(3.19)

Consolidated Statement of Financial Position
As At 30 June 2022

	Note	2022 $	2021 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	**12,987,942**	3,127,403
Financial assets	9	**100,662**	100,662
Trade and other receivables	10	**2,769,896**	2,323,504
Contract assets		**284,780**	228,908
Current tax receivable		**437,350**	328,674
Other assets	11	**855,643**	575,561
TOTAL CURRENT ASSETS		**17,436,273**	6,684,712
NON-CURRENT ASSETS			
Trade and other receivables	10	**8,170**	7,489
Property, plant and equipment	13	**220,391**	244,368
Intangible assets	14	**7,016,817**	8,149,181
Right to use assets		**542,939**	921,206
Deferred tax assets	23	**576,665**	796,723
TOTAL NON-CURRENT ASSETS		**8,364,982**	10,118,967
TOTAL ASSETS		**25,801,255**	16,803,679
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	**1,635,694**	1,393,702
Contract liabilities - Deferred income	16	**5,026,489**	3,199,630
Employee benefits	17	**1,625,765**	1,173,551
Lease liabilities		**207,316**	531,757
TOTAL CURRENT LIABILITIES		**8,495,264**	6,298,640
NON-CURRENT LIABILITIES			
Deferred tax liabilities	23	**435,994**	383,818
Employee benefits	17	**133,301**	154,806
Lease liabilities		**407,363**	541,143
Contract liabilities - Deferred income	16	**3,172,364**	1,139,360
TOTAL NON-CURRENT LIABILITIES		**4,149,022**	2,219,127
TOTAL LIABILITIES		**12,644,286**	8,517,767
NET ASSETS		**13,156,969**	8,285,912
EQUITY			
Issued capital	18	**35,798,079**	28,501,869
Reserves		**(278,343)**	(31,390)
Accumulated losses		**(22,050,063)**	(19,862,291)
Total equity attributable to equity holders of the Company		**13,469,673**	8,608,188
Non-controlling interest		**(312,704)**	(322,276)
TOTAL EQUITY		**13,156,969**	8,285,912

The accompanying notes form part of these financial statements.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2022

2022

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Non-controlling Interests	Total
	$	$	$	$	$	$
Balance at 1 July 2021	**28,501,869**	**(19,862,291)**	**(156,215)**	**124,825**	**(322,276)**	**8,285,912**
Loss attributable to members of the parent entity	**-**	**(2,187,772)**	**-**	**-**	**-**	**(2,187,772)**
Profit attributable to non-controlling interests	**-**	**-**	**-**	**-**	**9,572**	**9,572**
Total other comprehensive income for the year	**-**	**-**	**(246,953)**	**-**	**-**	**(246,953)**
Transactions with owners in their capacity as owners						
Issue of shares	**7,296,210**	**-**	**-**	**-**	**-**	**7,296,210**
Balance at 30 June 2022	**35,798,079**	**(22,050,063)**	**(403,168)**	**124,825**	**(312,704)**	**13,156,969**

2021

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Non-controlling Interests	Total
	$	$	$	$	$	$
Balance at 1 July 2020	28,501,869	(17,819,740)	(434,283)	124,825	(331,348)	10,041,323
Loss attributable to members of the parent entity	-	(2,042,551)	-	-	-	(2,042,551)
Profit attributable to non-controlling interests	-	-	-	-	9,072	9,072
Total other comprehensive income for the year	-	-	278,068	-	-	278,068
Balance at 30 June 2021	28,501,869	(19,862,291)	(156,215)	124,825	(322,276)	8,285,912

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2022

	Note	2022 $	2021 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		**21,521,741**	13,421,531
Payments to suppliers and employees		**(19,012,500)**	(13,590,709)
Interest received		**377**	1,839
Income taxes (paid)/refunded		**428,772**	(209,133)
Net cash provided by/(used in) operating activities	22	**2,938,390**	(376,472)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		**(96,453)**	(32,706)
Net cash used in investing activities		**(96,453)**	(32,706)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of shares		**7,296,210**	-
Payment of lease liabilities		**(544,333)**	(539,519)
Net cash provided by/(used in) financing activities		**6,751,877**	(539,519)
Effects of foreign exchange rates on overseas cash holdings		**266,725**	(322,623)
Net increase/(decrease) in cash and cash equivalents held		**9,860,539**	(1,271,320)
Cash and cash equivalents at beginning of year		**3,127,403**	4,398,723
Cash and cash equivalents at end of financial year	8	**12,987,942**	3,127,403

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the Year Ended 30 June 2022

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.

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.

1 Summary of Significant Accounting Policies

(a) Basis of Preparation

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

These financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. They have been prepared under the assumption that the Group operates on a going concern basis.

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.

(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 12 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

1 Summary of Significant Accounting Policies continued

(c) 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.

(d) 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.

1 Summary of Significant Accounting Policies continued

(d) Property, Plant and Equipment continued

Depreciation continued

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, Fixtures and 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.

1 Summary of Significant Accounting Policies continued

(e) Financial Instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI)

In the periods presented the corporation does not have any financial assets categorised as FVTPL and FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.value

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Financial assets at fair value through profit or loss

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Impairment of financial assets

AASB 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'.

1 Summary of Significant Accounting Policies continued

(e) Financial Instruments continued

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (‘Stage 1’) and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (‘Stage 2’).
- ‘Stage 3’ would cover financial assets that have objective evidence of impairment at the reporting date.

‘12-month expected credit losses’ are recognised for the first category while ‘lifetime expected credit losses’ are recognised for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Group assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

Classification and measurement of financial liabilities

The Group’s financial liabilities include trade and other payables and lease liabilities. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

1 Summary of Significant Accounting Policies continued

(f) 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.

(g) 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 years or 15 years, depending on the product.

1 Summary of Significant Accounting Policies continued

(g) 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.

1 Summary of Significant Accounting Policies continued

(h) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

At the end of the reporting period:

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

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

Group companies

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

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

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

1 Summary of Significant Accounting Policies continued

(i) Employee Benefits

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

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

Defined contribution schemes

All employees of the Group other than those that receive defined benefit entitlements receive defined contribution superannuation entitlements, for which the Group pays the fixed superannuation guarantee contribution (currently 10% 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.

(j) 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.

(k) 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.

1 Summary of Significant Accounting Policies continued

(l) Leases

At inception of a contract, the Group assesses whether a lease exists - i.e. does the contract convey the right to control the use of an identified asset for a period of time in exchange for consideration.

This involves an assessment of whether:

- The contract involves the use of an identified asset - this may be explicitly or implicitly identified within the agreement. If the supplier has a substantive substitution right then there is no identified asset.
- The Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use.
- The Group has the right to direct the use of the asset i.e. decision making rights in relation to changing how and for what purpose the asset is used.

At the lease commencement, the Group recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where the Group believes it is reasonably certain that the option will be exercised.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises of the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration less any lease incentives received.

The right-of-use asset is depreciated over the lease term on a straight line basis and assessed for impairment in accordance with the impairment of assets accounting policy.

The lease liability is initially measured at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Group's incremental borrowing rate is used.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is remeasured whether there is a lease modification, change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI) or a change in the Group's assessment of lease term.

Where the lease liability is remeasured, the right-of-use asset is adjusted to reflect the remeasurement or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

1 Summary of Significant Accounting Policies continued

(m) 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 obligation is transferred

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.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

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.

When such licenses are either customised or sold together with significant integration services, the goods and services represent a single combined performance obligation. Revenue is recognised at a point in time when the software has been developed and tested and the Group has a right to payment.

Maintenance revenue is recognised on a straight-line basis over the maintenance service period. As the amount of work required to perform under these contracts does not vary significantly from month-to-month, the straightline method provides a faithful depiction of the transfer of goods or services.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Interest Revenue

Interest is recognised using the effective interest method.

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

1 Summary of Significant Accounting Policies continued

(n) Trade and Other Receivables

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

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 2(f) for further discussion on the determination of impairment losses.

(o) 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.

(p) 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.

(q) 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.

(r) R&D Tax Incentive

The Group is entitled to claim R&D tax incentives in Australia. The R&D tax incentive is calculated using the estimated R&D expenditure multiplied by a 43.5% non-refundable tax offset. The Group accounts for this incentive as negative income tax expense.

(s) Comparative Amounts

Comparatives are consistent with prior years, unless otherwise stated.

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

1 Summary of Significant Accounting Policies continued

(t) Critical Accounting Estimates and Judgments

Key estimates - Research and development incentive

Estimates are made at each reporting date relating eligible expenditure to be claimed by the company pursuant to the research and development tax incentive. The research and development tax incentive is one of the key elements of the Australian Government's support for Australia's innovation system and is supported by legislative law primarily in the form of the Australian Income Tax Assessment Act 1997 as long as eligibility criteria are met. Generally speaking, entities which are an R&D entity involved in eligible R&D activities may claim research and development tax incentive as follows:

- as a refundable tax credit if aggregate turnover (which generally means an entity's total income that it derives in the ordinary course of carrying on a business, subject to certain exclusions) of the entity is less than A$20 million, or
- as a non-refundable tax credit if aggregate turnover of the entity is more than A$20 million.

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.

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(g).

Key estimates - Coronovirus COVID-19 Pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Key estimates - impairment of non-financial assets

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 1(f)).

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.

1 Summary of Significant Accounting Policies continued

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

At the date of authorisation of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the AASB. None of these Standards or amendments to existing Standards have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

Notes to the Financial Statements
For the Year Ended 30 June 2022

2 Revenue and Other Income

Revenue from continuing operations

	2022	2021
	$	$
Sales revenue		
- licence sales	**11,168,916**	8,001,197
- maintenance fees	**4,497,051**	4,464,239
- consulting sales	**765,231**	375,297
	16,431,198	12,840,733

The Group's revenue is disaggregated as follows:

	Legacy		Snare		eMite		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
	$	$	$	$	$	$	$	$
Goods or services transferred at a point in time								
- licence sales	**471,518**	262,420	**4,422,129**	3,746,062	**950,962**	581,448	**5,844,609**	4,589,930
- consulting sales	**-**	14,645	**92,591**	169,616	**672,642**	191,036	**765,233**	375,297
	471,518	277,065	**4,514,720**	3,915,678	**1,623,604**	772,484	**6,609,842**	4,965,227
Goods or services transferred over time								
- licence sales	**-**	-	**6,524**	11,791	**5,317,781**	3,399,476	**5,324,305**	3,411,267
- maintenance fees	**81,286**	180,570	**3,975,166**	3,814,579	**440,599**	469,090	**4,497,051**	4,464,239
	81,286	180,570	**3,981,690**	3,826,370	**5,758,380**	3,868,566	**9,821,356**	7,875,506
Total	**552,804**	457,635	**8,496,410**	7,742,048	**7,381,984**	4,641,050	**16,431,198**	12,840,733

Notes to the Financial Statements

For the Year Ended 30 June 2022

3 Income Tax Expense

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

	2022	2021
	$	$
Current tax expense/benefit	**(437,350)**	(328,674)
Deferred tax expense/(benefit)	**9,468**	(302,644)
Adjustments for under/(over) provision for taxes in prior periods	**27,327**	(158,572)
Total income tax expense/(benefit)	**(400,555)**	(789,890)

(b) Reconciliation of income tax to accounting profit:

	2022	2021
	$	$
Profit/(loss)	**(2,578,755)**	(2,823,369)
Tax	**25.00%**	26.00%
	(644,689)	(734,076)
Add:		
Tax effect of:		
- non-deductible expenses	**471,710**	595,565
- tax losses not recognised - foreign jurisdictions	**214,685**	23,948
	41,706	(114,563)
Less:		
Tax effect of:		
- Research and Development offset	**471,368**	516,755
- over/(under) provision for tax in prior year	**(29,107)**	158,572
Income tax expense/(benefit)	**(400,555)**	(789,890)

4 Key Management Personnel Disclosures

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

	2022	2021
	$	$
Short-term employee benefits	**2,002,363**	1,769,068
Long-term benefits	**70,743**	27,792
Post-employment benefits	**103,711**	92,356
Share-based payments	**19,950**	-
	2,196,767	1,889,216

Notes to the Financial Statements
For the Year Ended 30 June 2022

5 Remuneration of Auditors

	2022 $	2021 $
Remuneration of the auditor of the parent entity, Grant Thornton, for:		
- auditing or reviewing the financial statements	**108,526**	104,248
- taxation services	**36,200**	26,100
Remuneration of other auditors of subsidiaries for:		
- auditing or reviewing the financial statements of subsidiaries	**11,009**	10,819
Total	**155,735**	141,167

6 Dividends

a.The following dividends were declared and paid:

	2022	2021
Interim unfranked ordinary dividend of nil (2021: nil) cents per share	**-**	-

Franking account

	2022	2021
The franking credits available for subsequent financial years at a tax rate of 26%	**141,574**	141,574

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

7 Earnings per Share

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

	2022 $	2021 $
Loss after income tax attributable to the owners of Prophecy International Holdings Limited	**(2,187,772)**	(2,042,551)

(b) 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	**70,538,537**	64,055,944
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	**70,538,537**	64,055,944

Notes to the Financial Statements
For the Year Ended 30 June 2022

8 Cash and Cash Equivalents

	2022	2021
	$	$
Cash at bank in hand	**12,987,942**	2,996,222
Short-term bank deposits	**-**	131,181
	12,987,942	3,127,403

9 Financial Assets

Other financial assets - security deposits	**100,662**	100,662

10 Trade and Other Receivables

CURRENT		
Trade receivables	**2,890,583**	2,444,191
Provision for impairment	**(120,687)**	(120,687)
Total current trade and other receivables	**2,769,896**	2,323,504
NON-CURRENT		
Deposits	**24**	24
Other receivables	**8,146**	7,465
Total non-current trade and other receivables	**8,170**	7,489

10 Trade and Other Receivables continued

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

	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
2022						
Expected loss rate	**-**	**-**	**-**	**-**	**-**	**-**
Gross carrying amount						
- trade receivables	**2,173,228**	**524,116**	**76,282**	**35,563**	**89,564**	**2,898,753**
Loss allowance		**-**	**-**	**-**	**120,687**	**120,687**
2021						
Expected loss rate	-	-	-	-	-	-
Gross carrying amount						
- trade receivables	1,941,918	252,238	12,382	97,849	26,606	2,330,993
Loss allowance	-	-	-	-	120,687	120,687

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

The other classes of receivables do not contain impaired assets.

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.

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 2022 and 30 June 2021 respectively as well as the corresponding historical credit losses during that period. The historical rates are not adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding as it is considered that there are no other factors which are not already refected in the historical rates.

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.

11 Other Assets

	2022	2021
	$	$
Prepayments	**855,643**	575,561

12 Interests in Subsidiaries

Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 2022	Percentage Owned (%)* 2021
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.

13 Property, Plant and Equipment

	2022 $	2021 $
Plant and equipment		
At cost	**1,418,478**	1,306,190
Accumulated depreciation	**(1,208,028)**	(1,077,138)
Total plant and equipment	**210,450**	229,052
Furniture, fixtures and fittings		
At cost	**241,844**	237,629
Accumulated depreciation	**(231,903)**	(222,313)
Total furniture, fixtures and fittings	**9,941**	15,316
Total property, plant and equipment	**220,391**	244,368

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 2022			
Balance at the beginning of year	**229,052**	**15,316**	**244,368**
Additions	**95,908**	**545**	**96,453**
Disposals	**(1,003)**	**-**	**(1,003)**
Depreciation expense	**(115,079)**	**(6,276)**	**(121,355)**
Foreign exchange movements	**1,572**	**356**	**1,928**
Balance at the end of the year	**210,450**	**9,941**	**220,391**

13 Property, Plant and Equipment continued

Movements in carrying amounts of property, plant and equipment continued

	Plant and Equipment $	Furniture, Fixtures and Fittings $	Total $
Year ended 30 June 2021			
Balance at the beginning of year	331,622	22,302	353,924
Additions	32,706	-	32,706
Depreciation expense	(133,296)	(6,173)	(139,469)
Foreign exchange movements	(1,980)	(813)	(2,793)
Balance at the end of the year	229,052	15,316	244,368

14 Intangible Assets

	2022	2021
	$	$
Goodwill		
Cost	**5,108,270**	5,108,270
Accumulated impairment losses	**(2,981,455)**	(2,981,455)
Net carrying value	**2,126,815**	2,126,815
Intellectual property		
Cost	**12,720,000**	12,720,000
Accumulated amortisation and impairment	**(8,009,291)**	(7,209,291)
Net carrying value	**4,710,709**	5,510,709
Development costs		
Cost	**2,678,372**	2,678,372
Accumulated amortisation and impairment	**(2,499,079)**	(2,166,715)
Net carrying value	**179,293**	511,657
Total Intangibles	**7,016,817**	8,149,181

Movements in carrying amounts of intangible assets

	Intellectual property	Goodwill	Development costs	Total
	$	$	$	$
Year ended 30 June 2022				
Balance at the beginning of the year	**5,510,709**	**2,126,815**	**511,657**	**8,149,181**
Amortisation	**(800,000)**	**-**	**(332,364)**	**(1,132,364)**
Impairment loss	**-**	**-**	**-**	**-**
Closing value at 30 June 2022	**4,710,709**	**2,126,815**	**179,293**	**7,016,817**
Year ended 30 June 2021				
Balance at the beginning of the year	6,310,709	2,126,815	978,023	9,415,547
Amortisation	(800,000)	-	(466,366)	(1,266,366)
Impairment loss	-	-	-	-
Closing value at 30 June 2021	5,510,709	2,126,815	511,657	8,149,181

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. Goodwill has an indefinite life and is not amortised.

Notes to the Financial Statements

For the Year Ended 30 June 2022

15 Trade and Other Payables

	2022	2021
	$	$
Trade payables	**873,321**	677,050
Sundry payables and accrued expenses	**759,716**	713,995
Other payables	**2,657**	2,657
	1,635,694	1,393,702

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.

16 Contract liabilities

CURRENT		
Unearned revenue from customers	**5,026,489**	3,199,630
NON-CURRENT		
Unearned revenue from customers	**3,172,364**	1,139,360

17 Employee Benefits

CURRENT		
Long service leave	**538,791**	353,095
Annual leave	**1,086,974**	820,456
	1,625,765	1,173,551
NON-CURRENT		
Long service leave	**133,301**	154,806

Notes to the Financial Statements
For the Year Ended 30 June 2022

18 Issued Capital

	2022	2021
	$	$
73,590,934 (2021: 64,055,934) Ordinary shares	**35,798,079**	28,501,869

(a) Ordinary shares

	2022	2022	2021	2021
	$	No	$	No
At the beginning of the reporting period	**28,501,869**	**64,055,934**	28,501,869	64,055,934
Issue of shares – placement	**7,695,000**	**9,500,000**	-	-
Issue of shares – employee share scheme	**19,950**	**35,000**	-	-
Share issue costs (net of tax)	**(418,740)**	**-**	-	-
At the end of the reporting period	**35,798,079**	**73,590,934**	28,501,869	64,055,934

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.

19 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 $70,662 (2021: $201,843).

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.

20 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.

21 Reserves and retained surplus

(a) Foreign currency translation reserve

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

(b) Share option reserve

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

Notes to the Financial Statements
For the Year Ended 30 June 2022

22 Cash Flow Information

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

	2022	2021
	$	$
Profit for the year	**(2,178,200)**	(2,033,479)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	**1,688,847**	1,865,152
- net gain on disposal of property, plant and equipment	**1,003**	-
- foreign exchange (gain)/loss	**(450,453)**	369,735
- foreign exchange differences arising on translation of foreign subsidiaries	**(135,341)**	155,226
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables and contract assest	**(413,159)**	325,838
- (increase)/decrease in other assets	**(255,468)**	84,834
- (increase)/decrease in deferred tax asset	**220,058**	274,842
- (increase)/decrease in income tax receivable	**(108,676)**	(328,674)
- increase/(decrease) in contract liabilities	**3,859,863**	(223,036)
- increase/(decrease) in trade and other payables	**222,647**	93,152
- increase/(decrease) in income taxes payable	**-**	(375,189)
- increase/(decrease) in deferred tax liability	**52,176**	(725,228)
- increase/(decrease) in employee benefits	**435,093**	140,355
Cashflows from operations	**2,938,390**	(376,472)

(b) Credit standby arrangements with banks

Credit facility	**75,000**	40,000
Amount utilised	**(31,696)**	(1,477)
	43,304	38,523

The major facilities are summarised as follows:

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

Notes to the Financial Statements
For the Year Ended 30 June 2022

23 Tax

	2022	2021
	$	$
Current Tax Asset		
Tax receivable	**437,350**	328,674
Current Tax Liability		
Income tax payable	**-**	-
Recognised deferred tax assets and liabilities		
Deferred tax assets	**576,665**	796,723
Deferred tax liabilities	**435,994**	383,818

Unrecognised deferred tax assets

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

	2022	2021
Tax losses	**5,404,922**	6,145,696

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	Over/(under) provision in prior years	Changes in Tax Rate	Closing Balance
	$	$	$	$	$
Property, plant and equipment					
- tax allowance	6,507	(3,004)	-	-	3,503
Provisions - employee benefits	278,751	5,423	-	-	284,174
Unrealised foreign exchange	66,542	(1,859)	-	-	64,683
Accruals	29,249	(6,899)	-	-	22,350
Deferred tax assets attributable to tax losses	-	111,430	-	-	111,430
Other deductions	277	(131)	-	-	146
Leases	690,239	(379,802)	-	-	310,437
Balance at 30 June 2021	1,071,565	(274,842)	-	-	796,723
Property, plant and equipment					
- tax allowance	**3,503**	**(2,514)**	**-**	**(135)**	**854**
Provisions - employee benefits	**284,174**	**83,535**	**-**	**(10,930)**	**356,779**
Unrealised foreign exchange	**64,683**	**(45,259)**	**-**	**(2,488)**	**16,936**
Accruals	**22,350**	**(3,220)**	**-**	**(860)**	**18,270**
Deferred tax assets attributable to tax losses	**111,430**	**34,442**	**(111,430)**	**(4,286)**	**30,156**
Other deductions	**146**	**(140)**	**-**	**(6)**	**-**
Leases	**310,437**	**(144,827)**	**-**	**(11,940)**	**153,670**
Balance at 30 June 2022	**796,723**	**(77,983)**	**(111,430)**	**(30,645)**	**576,665**

Notes to the Financial Statements

For the Year Ended 30 June 2022

23 Tax continued

Deferred Tax Liabilities

	Opening Balance	Charged to Income	Charged directly to Equity	Changes in Tax Rate	Closing Balance
	$	$	$	$	$
Work in progress	21,236	(21,236)	-	-	-
Prepayments	3,987	1,158	-	-	5,145
Property, plant and equipment	-	133,031	-	-	133,031
Other current assets	276,106	(263,886)	-	-	12,220
Unrealised foreign currency gains	152,587	(34,190)	(89,657)	-	28,740
Leases	655,129	(450,447)	-	-	204,682
Balance at 30 June 2021	1,109,045	(635,570)	(89,657)	-	383,818
Prepayments	**5,145**	**1,555**	**-**	**(198)**	**6,502**
Property, plant and equipment	**133,031**	**(83,091)**	**-**	**(5,117)**	**44,823**
Other current assets	**12,220**	**(11,750)**	**-**	**(470)**	**-**
Unrealised foreign currency gains	**28,740**	**194,875**	**26,567**	**(1,105)**	**249,077**
Leases	**204,682**	**(61,218)**	**-**	**(7,872)**	**135,592**
Balance at 30 June 2022	**383,818**	**40,371**	**26,567**	**(14,762)**	**435,994**

24 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

Notes to the Financial Statements
For the Year Ended 30 June 2022

24 Operating Segments continued

(e) Segment performance

	Legacy		SNARE		eMite		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
	$	$	$	$	$	$	$	$
REVENUE								
External sales	552,804	457,635	8,496,410	7,742,048	7,381,984	4,641,050	16,431,198	12,840,733
Other revenue	249	178,505	690	100,012	91	201,322	1,030	479,839
Total segment revenue	553,053	636,140	8,497,100	7,842,060	7,382,075	4,842,372	16,432,228	13,320,572
Segment operating profit/(loss)	(2,225,625)	(1,862,186)	1,055,580	(94,709)	(1,408,710)	(866,474)	(2,578,755)	(2,823,369)

(f) Segment assets

	Legacy 2022	Legacy 2021	SNARE 2022	SNARE 2021	eMite 2022	eMite 2021	Total 2022	Total 2021
Segment assets	4,919,865	1,002,002	7,802,148	7,109,656	12,502,577	7,895,298	25,224,590	16,006,956
- Capital expenditure	17,676	3,815	69,384	27,341	9,393	1,550	96,453	32,706

(g) Segment liabilities

	Legacy 2022	Legacy 2021	SNARE 2022	SNARE 2021	eMite 2022	eMite 2021	Total 2022	Total 2021
Segment liabilities	1,873,666	1,989,621	6,455,860	4,512,511	3,878,766	1,631,817	12,208,292	8,133,949

24 Operating Segments continued

(h) Reconciliations

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

	2022	2021
	$	$
Total segment revenue	**16,431,198**	12,840,733

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.

	2022	2021
Segment net operating profit	**(2,578,755)**	(2,823,369)
Income tax expense	**400,555**	789,890
Total net profit after tax	**(2,178,200)**	(2,033,479)

Reconciliation of segment assets to the consolidated statement of financial position

	2022	2021
Segment operating assets	**51,864,098**	44,437,220
Intersegment eliminations	**(33,656,325)**	(36,579,445)
Deferred tax assets	**576,665**	796,723
Intangible assets	**7,016,817**	8,149,181
Total assets per the consolidated statement of financial position	**25,801,255**	16,803,679

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

	2022	2021
Segment liabilities	**61,485,734**	55,860,671
Intersegment eliminations	**(49,277,442)**	(47,726,722)
Deferred tax liabilities	**435,994**	383,818
Total liabilities per the consolidated statement of financial position	**12,644,286**	8,517,767

(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.

	2022		2021	
	Revenue	**Assets**	**Revenue**	**Assets**
Australia	**2,354,442**	**21,752,816**	1,462,247	12,821,205
United States	**12,134,613**	**3,946,623**	10,230,258	3,909,842
Europe	**1,938,930**	**101,816**	1,118,034	72,632
Asia	**3,213**	**-**	30,194	-
	16,431,198	**25,801,255**	12,840,733	16,803,679

25 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