



PROPHECY

2022

2023

annual report



PROPHECY International Holdings Limited

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Corporate Directory

For the Year Ended 30 June 2023

Prophecy International Holdings Ltd

ACN 079 971 618

ABN 16 079 971 618

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Leanne R Challans

Matthew T Michalewicz

Grant R Miles

Company Secretary

Grant R Miles

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Australia

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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-2023-Corporate-Governance-Statement.pdf>

ProphecyOpen, Prophecy, Prophecy Object Framework, Snare and eMite are trademarks of Prophecy International Holdings Ltd. and its subsidiaries. All other company and product names may be trademarks of their respective owner

Prophecy International Holdings Limited and Controlled Entities

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Company Profile

For the Year Ended 30 June 2023

Prophecy is an Australian based global Business-to-Business (B2B) and Business-to-Government (B2G) software company developing innovation for global markets in the SaaS/Cloud, cyber security and big data/analytics markets. The company is headquartered in Adelaide, Australia and has over 100 staff in offices in Sydney Australia, Denver USA, Manila in the Philippines and remote offices in the UK.

Prophecy is listed on the ASX under the PRO code.

Founded in 1980, Prophecy has naturally evolved over time and by acquisition to become a software company focused on data driven solutions to help our customers secure the enterprise, protect from Cyber threats and deliver business insights in the Customer Experience (CX) and Contact/Call Centre markets using business analytics. We believe that you should be able to make better decisions, faster to protect and improve your digital business operations.

Our two primary product offerings in Snare and eMite were acquired in the purchase of the companies that had developed the IP and both are now wholly owned subsidiaries of Prophecy. Snare was acquired through the purchase of Intersect Alliance in 2011 and eMite was acquired in 2015.

Prophecy software has been deployed at more than 4,000 customer sites globally and our continuous re-invention and commitment to product innovation has enabled Prophecy to maintain our position as a trusted vendor within industries such as Banking and Finance, Public Sector, Defence & Military, Healthcare, Utilities, Manufacturing and Retail.

Prophecy sells to global markets with a strong focus on Large Enterprise and Government through our direct sales force in Europe, USA and APAC and through a global network of partners across all our product offerings.

Our customer base includes some of the best-known brand names in the world including many of the Fortune 500.

Snare

Cyber security software can be broadly looked at in two groups – perimeter security designed to keep the bad actors out, and monitoring solutions to detect the bad actors in the process of a breach or after a breach. Leading industry analyst Forrester categorizes Snare as a Security Analytics platform or a platform that converges logs from network, identity, endpoint, application, and other security relevant sources to generate high-fidelity behavioral alerts and facilitate rapid incident analysis, investigation, and response.

Snare is a monitoring solution designed to help our customers answer the following questions:

“Did someone get in?”

“How did they get in? “

“What did they see/take/change?”

Snare is a suite of software products that enable customers to collect security data from a range of end point devices and cloud-based systems including desktops, servers, network devices, software applications, cloud infrastructure like Azure and other cloud applications like Office 365.

We help customers manage their security policy, store data for forensics and compliance use cases, have a range of simple to use and comprehensive out of the box reports, real time alerting of possible threats.

The product suite includes software agents for desktop, Windows Servers, Linux, Unix, Flat File logs, Syslog devices, MacOS, Applications,

Enterprise tools including fleet and policy management, multipoint reflection, log format parsing, File Integrity and Access Management, Registry Integrity and Access Management & Database Activity Management.

Snare Central is a centre piece of the Snare Solution and can be deployed on premise, in the customer virtual private cloud and in highly secure air-gapped environments.

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Snare Central delivers industry leading compression of data to enable long term storage for compliance and forensics, alerting, reporting, analytics, visualizations, centralized management, high availability, custom report building and API connectivity to cloud based log sources.

Snare has been designed for very large and complex environments and offers industry leading scalability and data ingestion.

eMite

eMite is a reporting and analytics solution focused on driving efficiency and improvement in operations and customer engagement from the contact/call centre segment and more broadly the Customer Experience (CX) market segment.

Customer Experience has become one of the few ways companies can differentiate themselves from their competition and the migration to cloud based systems to deliver CX has become an opportunity for our customers to adopt a set of new and more flexible and powerful tools to deliver CX. This has also added challenges as these many tools – including chat, chat bots, CRM, service ticketing, work force management (WFM), transcription, sentiment analysis, survey, IVR and more are siloed and disconnected from a reporting and analytics perspective.

This makes the analysis of the effectiveness of these systems and process and the satisfaction level of your end customer across these applications increasingly difficult.

eMite is a SaaS based solution that can be deployed in hours in either Amazon or Oracle cloud to meet this challenge.

eMite collects and ingests data from multiple data sources and applications, indexes and correlates the data by mapping it together, runs custom KPI and algorithms across the data creating custom metrics; and then visualizes the data in reports, dashboards and wallboards that can be delivered to everyone from an individual contact centre agent to their team leaders, CX Managers and Business Executives.

eMite also deliver both historical trending and sub-second real time data in the same visualizations with a significant amount of industry IP built into the platform enabling industry leading speed to value.

The product suite includes:

- A data ingestion toolset and adaptors to connect to various data sources and API's including software like Genesys Cloud, Amazon Connect, Salesforce, ServiceNow, CSV files and industry standard databases like SQL and Oracle and many others.
- An indexing platform that correlates and normalizes the data.
- A KPI platform that creates custom KPIs, metrics and measures
- Data visualization layer to enable “no code” dashboard and wall board creation.
- Real time alerting
- Orchestration
- Report Scheduling & sharing

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Prophecy International Holdings Limited and Controlled Entities

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Letter from the CEO For the Year Ended 30 June 2023

Dear Shareholders,

I am delighted to present the FY23 Annual Report for Prophecy International Holdings Ltd. The past year has seen Prophecy entrench its position with an ever-expanding set of global customers through our lead products, eMite and Snare, as our company has achieved several significant milestones on its growth journey.

We remain focused on becoming a globally significant software company based in Australia with global operations in Cyber Security and Customer Experience (CX). At our heart we are a data company that enables our customers to make better decisions, faster in these two domains.

Our strategic focus rests on the four pillars of product innovation, optimising sales & marketing, operational efficiency and improving the user experience for our customers. Focusing on these pillars in FY23 allowed us to pursue significant global growth opportunities of which we have now only scratched the surface.

In FY23 we delivered another record year of sales as the group achieved \$19.6M in recognised revenue. This marked a significant increase of 19% from FY22, a new high watermark for the company's long history, and another step on the path to exhibiting global significance to our partners, customers and investors.

Through our focused product suite, we serve large global markets. Our segment within the Cloud Contact Centre market, Contact Centre Analytics, is projected by Verified Market Research to be worth US\$2.9B by 2027, growing at a Compound Annual Growth Rate (CAGR) of 16.1%. Meanwhile, MarketsAndMarkets forecasts that the Security Analytics Market will reach US\$18.1B by 2024 having grown at an 18.2% CAGR, and KBV Research expects the Log Management Market to grow to USD\$3.3B by 2025 at a CAGR of 11.2%

For eMite, our contact centre analytics solution, this growth presents a fertile environment for our revenue and customer acquisition activities to improve as the market for Cloud CX continues to mature. We continue to see very large Government and Enterprise customers moving their CX platforms – including their contact centre software – to the cloud. These industry tailwinds, along with our organic growth initiatives, allowed Prophecy to grow eMite invoicing by 32% in the last year, reaching \$13.1M in FY23 up from \$9.9M in FY22.

Our momentum in this market increased through the year. In Q4 FY23, Prophecy signed new eMite customer contracts covering more than 7,500 seats with aggregate 1st year contract value (1CV) of \$1.3m. We attracted significant new eMite users over the course of FY23, featuring "household name" customer wins in Prophecy's target geographies of UK, Europe, USA and Australia, including the Australian Tax Office, Macy's, Cochlear and Stellantis. These and other customer wins span sectors including retail, utilities, auto manufacturing, health care, financial services, electronics and government. This diversity indicates the broad spread of contexts in which eMite can add value.

Late in FY23, we were excited to release our integration platform as a service (iPaaS) solution for eMite. This is a major upgrade for eMite which significantly enhances the versatility and scalability of the data integration technology we offer to customers. For businesses, this presents a powerful new way to integrate and analyse data from various sources to highlight hidden trends without requiring any specialist skills. Our launch of eMite iPaaS has brought a market-leading competitive advantage to existing and potential customers, and has also increased our opportunity to address and integrate with more of the CX marketplace.

Our cybersecurity software business, Snare, continued to gain scale with new features and key customer wins in FY23. We have developed and released new capabilities to empower enhanced threat detection, along with Cloud Log Collection to serve our customers' continued migration toward cloud services.

Prophecy was proud to gain selection by the Australian Government Department of Defence Export Office, early in H2 FY23, to participate in trade missions as part of Team Defence Australia (TDA). As the premier platform for export-capable Australian companies with defence capabilities to showcase their goods, services, technology and solutions, we expect Prophecy's membership of Team Defence Australia to open up new growth opportunities for Snare in the year ahead.

Snare's new and existing customer activity in FY23 included sales to the UK Royal Air Force, the Australian Department of Defense, Northrop Grumman, BAE Systems, Verizon, PSEG Long Island and Westinghouse. The strength of these counterparties shows the extent to which Snare continues to appeal to a broad range of regulated industries, including banking & finance, energy, oil, gas and utilities, retail and health as well as government.

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Letter from the CEO For the Year Ended 30 June 2023

Prophecy's focus on the USA, UK and Europe as key target markets is driving strong continued growth in both sales and pipeline for Snare. In FY23, the company signed over 274 new Snare sales contracts with enterprise customers and governments across 5 continents, generating new sales of \$4.9M. As an indicator of the momentum which we are taking into the new year, in Q4 FY23 Snare signed contracts worth \$1.6M.

This year we have seen pleasing uptake of our new option for subscription Snare licensing which sits alongside our existing perpetual license model. An increasing number of Snare customers are grasping the advantages of the Opex/Capex flexibility that this new model provides. Subscription revenue in FY23 constituted 50% of the company's total new Snare sales, a significant expansion from 25% of new sales in FY22.

The success of this new recurring revenue model, and the sales success achieved across our business in FY23, drove the company's annualised recurring revenue (ARR) to new highs, reaching \$23.1M which was a year-on-year increase of 26%.

Our business generated approximately \$2.0M in positive cash flow in the second half of FY23. This left the company with a closing cash balance of \$11.8M as at 30 June 2023 and no debt, providing a healthy financial position from which to pursue our growth objectives.

At Prophecy we place great emphasis on customer satisfaction, and I am pleased to report that both eMite and Snare continue to receive overwhelmingly positive feedback from our customers. We have worked closely to understand their evolving needs and have continuously enhanced our products to meet and exceed their expectations. The satisfaction of our customers is a top priority for us, and we will continue to invest in product development and customer support to ensure their ongoing success.

Our strategies of migrating to subscription licensing, pursuing organic growth across our two lead products globally, aligning with industry ecosystems, leveraging partnerships and sticking to our strategy even through challenging macroeconomic times continues to underpin the success of our business. We will also continue to explore new market opportunities and forge strategic partnerships to expand our customer base and drive revenue growth.

As a globally distributed and diverse company with a growing global footprint, we are aligned to some very significant multi-year industry trends in cloud migration and have established clear points of competitive advantage for both lead products. We continue to invest prudently to address the growth opportunities at hand through our world-class teams in sales, marketing and product development.

I would like to thank our loyal customers and suppliers for supporting Prophecy to succeed in what has been a challenging global operating environment. We are grateful for their continued backing and remain focused on executing our growth strategy in FY24.

I would also like to extend my heartfelt appreciation to our dedicated employees and management, whose hard work and commitment have been instrumental in the success of our company. I am also grateful for our Board of Directors' constant support and guidance. The company's strategic and operational achievements are a direct result of the significant effort contributed by all of Prophecy's people.

Finally, I would like to express my sincere gratitude to our shareholders for your support and belief in Prophecy. The success of our business would not be possible without your trust and confidence in our vision. We are excited about the future and look forward to another year of growth and success.



Brad Thomas OAM PLY MAICD
Chief Executive Officer

Prophecy International Holdings Limited and Controlled Entities

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Review of Operations For the Year Ended 30 June 2023

Prophecy International is a pure play business-to-business (B2B) and business-to-government (B2G) software and SaaS company servicing large enterprise and government customers globally.

Our customers are typically mid to large corporate companies in regulated industries, located anywhere in the world, State and Federal Governments, military and defence agencies. In the commercial world we are particularly relevant in the Banking & Finance; Energy, Oil & Gas; Health, Retail and Technology sectors. We go to market with both direct sales and through channels and partnerships and have partner relationships with some of the biggest IT companies in the world.

In a year overshadowed by economic uncertainty, increasing inflation and rising interest rates, the results achieved are particularly strong.

Financial Highlights

	FY23 Result	% Change YoY
Revenue	\$19.6M	19% Increase
Operating Cash Flow	(\$1.2M)	141% Decrease
Cash at Bank	\$11.8M	9% Decrease
Contract liabilities - Income in Advance	\$9.7M	18% Increase
Debt – excluding leases	Zero	No change
Annual Recurring Revenue (ARR) ¹	\$23.2M	26% Increase
Net profit / (loss) after tax	(\$2.5M)	47% Increase
Earnings before interest, tax, depreciation and amortisation (EBITDA) ²	(\$1.4M)	434% Decrease

1. Annual Recurring Revenue (ARR) is a non-IFRS measure and is a revenue based metric that measures predictable revenues. ARR is calculated as the statutory revenue in the reporting month multiplied by 12. In the case of the above, ARR is June 2023 reported revenues multiplied by 12.
2. Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-IFRS measure and is reconciled to the statutory net profit/(loss) for the year as follows:

Statutory Net profit/loss after tax	(2.5m)
Add back	
Tax	(.3m)
Depreciation and amortisation	1.4m
Net interest	-
Earnings before interest, tax, depreciation and amortisation (EBITDA)	<u>(1.4m)</u>

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Review of Operations For the Year Ended 30 June 2023

FY23 saw the group achieve record revenue in the company's 40 year history, strong positive cash flow in the 2nd half and a positive increase in ARR across both eMite and Snare.

Cash reserves remain strong thanks to the cash flow in H2 and the company has sufficient funds to continue to fund growth in FY24. The company also has no debt.

Leadership

Leadership has remained steady this year with only one change. Paige Montgomery has resigned as Director of Marketing and the company is currently recruiting for a replacement.

Global Operations

The Company continues to be based in Adelaide with other Australian operations in Sydney. The offshore technical centre is based in Manila in the Philippines and Prophecy's sales teams are based in Sydney and Canberra in Australia, Denver, Colorado in the US and across the UK and Scotland in Europe. We are a globally distributed and diverse company with a growing global footprint.

On 1 March 2023, the Company's registered office address, principal administrative office address and contact details changed to:

Level 5
60 Waymouth Street
Adelaide SA 5000
Phone: +61 8 8213 1200

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FY23 saw the establishment of a wholly owned subsidiary in the Philippines to cater for growth of the strong team of mostly technical staff in Manila that have previously been hired through a third party outsourcer. Prophecy has established Prophecy Software Solutions Philippines Inc to bring this team in house.

eMite Background

eMite is the Company's full featured SaaS-based analytics platform targeted at the Customer Experience (CX) market. eMite helps 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.

A typical large enterprise customer utilises multiple software platforms to deliver CX, including Chat and Chat Bots, Interactive Voice Response (IVR), Email, Contact Centre Software, CRM, Ticketing/Service Desk, Surveys, Transcription, Sentiment and Work Force Management. The data from these systems and interactions are typically siloed and unconnected and eMite acts as a data correlator bringing this data together in meaningful ways for analysis and to enable performance improvement.

eMite has an almost 100% channel-based go-to-market strategy driven by key partnerships with Genesys and Amazon Connect from AWS. We also have relationships with many implementation partners, resellers and system integrators including Telstra, Optus, NTT, BT, ConvergeOne and Kerv.

eMite continues to be a Platinum AppFoundry partner for Genesys. As a product that can be delivered either by SaaS or deployed on-premise we host our SaaS customers globally on both AWS and Oracle Cloud.

eMite Growth

eMite	FY23	% Change YoY
Reported Segment Revenue for the year	\$10.9M	47.84%
New Sales during the year	\$4.2M	-28.20%
ARR ¹	\$14.9M	22.04%

1. Non ifrs measure

Prophecy's focus on international marketing through both the Genesys and Amazon Connect contact centre technology ecosystems continues to deliver strong growth in contracted sales for eMite. During the year, the Company won new eMite contracts worth \$4.2M, with momentum increasing through the year. In Q4 FY23, the Company signed new eMite customer contracts covering more than 7,500 seats with aggregate 1st year contract value (1CV) of \$1.3m.

eMite achieved 32% growth in invoicing over the previous corresponding period to \$13.1M (FY22: \$9.9M). This led impressive growth across the Company's total invoicing of \$22.6M.

The period saw Prophecy lap a particularly strong set of comparable sales which included the biggest contract in the Company's history (Humana). A number of significant large customers were invoiced for their annual eMite subscription in H2 of FY23, which had a significant positive effect on cash collection and cash flow for the full year.

eMite Customers

FY23 saw significant eMite customers come on board, driving continued increases in revenue and ARR.

The latest eMite sales activity includes household name customer wins in Prophecy's target geographies of UK, Europe, USA and Australia, spanning sectors including retail, utilities, auto manufacturing, health care, financial services, electronics and government. The Company signed new eMite customer contracts during FY23 with a diverse group of customers, including Macy's, Cochlear, the Australian Tax Office, Stellantis, Next Holdings, Hawaiian Electric, Amica Mutual Insurance, the New Zealand Accident Compensation Corporation, European car-as-a-service provider LeasePlan and US healthcare benefits administrator Nations Benefits.

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In October 2022 Genesys announced the end of life and end of new development for a number of legacy platforms and products, including their leading on-premise solution “Engage”. Prophecy believes that this should accelerate the migration to cloud solutions for a large proportion of their on-premise customers in the large enterprise and government sectors. Early indicators of this shift are positive, with a number of new large household names and potential eMite clients coming into the sales pipeline within the first month of this announcement being made.

Prophecy's release of Integration Platform as a Service (IPaaS) increases the Company's opportunity to address more of the CX marketplace, including other vendor tools with Genesys and Amazon Connect and opening the Company's integration capability to the entire CX ecosystem.

Snare Background

Snare is the Company's cybersecurity software product line. Through Snare, the Company provides critical government recommended or mandated security controls, including cyber threat detection, security information and event management (SIEM), alerting, forensics and centralised log management.

Snare is a suite of security monitoring tools designed to help answer 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.

Many regulation and compliance mandates call for strong security monitoring tools, and Snare helps customers achieve regulatory compliance in areas like Sarbanes Oxley, NERC, HIPAA, PCI DSS and more.

Significant new products were released for Snare in FY23 including Snare Central 8.5. New capability includes Snare Management Centre - New capability to monitor and manage multiple remote Snare Central servers; Cyber Network Map – the first step to introducing comprehensive analytics capability inside Snare Central to enhance threat detection; Cloud Log Collection, enabling customers to collect logs from physical devices and cloud services including Office 365 and Azure Cloud.

Snare Growth

Snare	FY23	% Change YoY
Reported Segment Revenue for the year	\$7.9M	7.00%
New Sales during the year	\$5.3M	-21.76%
ARR ¹	\$4.2M	137.57%

1. Non ifrs measure

Prophecy's focus on the USA, UK and Europe as key target markets is driving strong continued growth in both sales and pipeline for Snare. In FY23, the Company signed over 274 new Snare sales contracts with enterprise customers and governments across 5 continents, generating new sales of \$5.3 million. In Q4 FY23, Snare signed contracts worth \$1.6M.

Following Prophecy's development in FY22 of a subscription-based sales model for Snare and general availability of subscription pricing from 1 January 2022, the Company has seen this business unit's share of subscription-based recurring revenue rise noticeably.

An increasing number of Snare customers are grasping the advantages of the Opex/Capex flexibility provided by this new model, as indicated by subscription revenue constituting 50% of the Company's total new Snare sales in FY23 up from 25% of new sales last year. Total Snare subscriptions increased by 52% to \$2.5M. Average deal sizes also continue to increase, despite moving to the subscription pricing model, to \$18K. Compared to FY22, Snare had an expected decrease in invoicing due to the increase in the number of subscription sales in FY23.

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Review of Operations For the Year Ended 30 June 2023

Snare Customers

A selection of the Company's most newly-won Snare customers includes Northrop Grumman, BAE Systems, Verizon, Sonic Healthcare, Brown & Brown Insurance, Allens and the Australian Department of Defence.

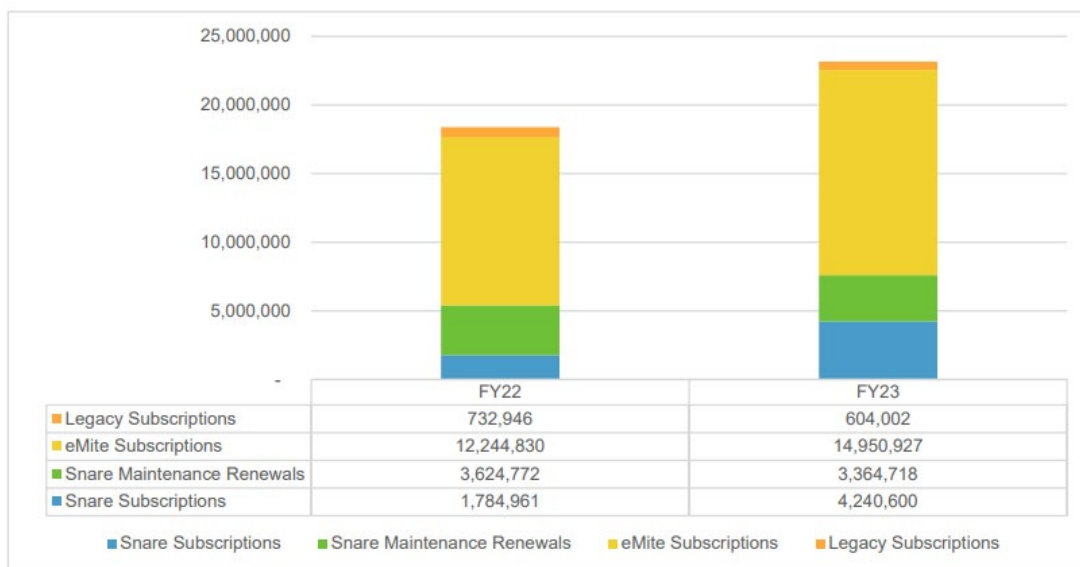
Some of the Company's larger sales of Snare to new and existing customers earlier in FY23 included the UK Royal Air Force, Wolf Creek Nuclear Operating Corporation, PSEG Long Island and Westinghouse. As demonstrated by these brands, Snare continues to appeal to a broad range of regulated industries including banking & finance, energy, oil, gas and utilities, retail and health as well as government.

Legacy Products

Only 2 customers remain on legacy products and both are in the process of migrating away from these outdated platforms and products. While we continued to generate revenue from these legacy customers in FY23, it is expected to end in FY24.

Operational Highlights

Prophecy continues to enhance its business operations to meet significant global market opportunities. This has allowed the Company to deliver strong growth in FY23, headlined by total Group annualised recurring revenue (ARR) increasing by 26% YoY to \$23.2M.



Strong growth by eMite led impressive growth across the Company's total invoicing of \$22.6M with approximately \$2.0M in positive cash flow generated in the second half. This provided the Company with a closing cash balance of \$11.7M as at 30 June 2023 with no debt - excluding leases.

Partner Activity

Sales partnerships established earlier in FY23 with Optus, Fujitsu and Novacoast are beginning to yield customer wins and expand Prophecy's pipeline opportunities locally and in global markets.

During H1 FY23, Prophecy advised that the Company had signed a 5-year Master Supply Agreement (MSA) with Australian telecommunications leader Optus Networks Pty Ltd ("Optus"). The MSA allows for Prophecy to supply both eMite and Snare to Optus group companies and customers.

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Review of Operations

For the Year Ended 30 June 2023

The first eMite deal under the MSA, with a key Optus government customer, progressed to contract negotiation stage with Prophecy having received an initial order valued at \$50k during Q1 FY23. The initial opportunity to supply eMite to just one out of Optus' many customers has been estimated at approximately \$2 million over the next 3 years.

A pipeline of additional potential eMite and Snare deals have been identified through the partnership developed by the signing of the MSA. Prophecy is in ongoing dialogue relating to these pipeline opportunities and is pleased by the progress to date through this milestone partnership for the Company.

The Company also partnered with Fujitsu Australia Limited through a reseller agreement to enable Fujitsu to sell and deploy Snare software to their government and commercial customers in Australia. This agreement complements existing sales relationships with Fujitsu in Singapore and in the United Kingdom. Prophecy has identified potential for its agreement with Fujitsu to open opportunities to supply Snare to organisations responsible for the defence of Australia and its national interests.

Prophecy also signed a new partnership with IT and compliance services, product development and cybersecurity provider Novacoast in the US. Novacoast helps organisations find, create and implement solutions for a powerful security posture through advisory, engineering, development and managed services. This agreement is with the Managed Security Services (MSSP) division of Novacoast and is working on a plan to bring Snare software to the current Novacoast customer base across large commercial and government segments in the United States.

The Company also signed a new partnership in Japan, opening a significant new market for Snare, with Jupiter Technology Corp (JTC). Jupiter Technology, founded in 2001 is a leading provider of log and network management and security in Japan serving more than 5,000 customers. The company delivers a portfolio of management and security services providing localised support for its customers ranging from SMBs to large enterprises and the public sector.

JTC brings a new opportunity with large enterprise customers in Japan looking to optimise their SIEM and achieve regulatory compliance. Since the partnership commenced, JTC has become Prophecy's registered distributor for Snare in Japan and has committed to provide in-country Japanese language sales, support and technical staff for Snare enterprise customers, of whom Prophecy now has approximately 20 in Japan.

Prophecy staff exhibited alongside JTC personnel as part of Team Defence Australia on the Australia Pavilion at the Defence Security Equipment International (DSEI) show held in Chiba, Japan on 15–17 March 2023. Japan represents a strategic growth opportunity for Prophecy given the country's membership alongside Australia in the Quadrilateral Security Dialogue ("Quad") and in light of near-term growth in the Japanese defence budget, approved to increase by 20% in 2023 to a record 6.8 trillion yen (US\$55 billion).

Prophecy's presence at DSEI Japan was the first of several international defence export trade shows that are opening up to the Company in 2023 thanks to its membership of Team Defence Australia.

Pipeline for FY24

Prophecy continues to hold a positive view for growth in customer activity on its eMite platform as its sales and marketing function boosts the recognition of eMite's ability to help businesses visualise and understand their customer's journey.

The Company also holds a positive view for continued growth for Snare, as the market for flexible cybersecurity and compliance solutions continues to grow and the rising financial and reputational consequences of data breaches, malware and ransomware become increasingly apparent to enterprise customers.

On top of these indicators, the Company has continued to cultivate the development of new pipeline, and the business goes into FY24 with a healthy pipeline of opportunities.

The current total unweighted pipe for Snare for FY24 is currently \$12.47M. The unweighted pipeline of sales opportunities for eMite for FY24 is currently \$11.71M.

Outlook

The Company's key priorities for FY24 remain:

- Continue to expand sales and marketing to address growth opportunities in global markets
- Increase eMite sales to large Enterprise customers through both Genesys and Amazon Connect

Review of Operations

For the Year Ended 30 June 2023

- Increase penetration of Snare products with new and existing customers, focusing on opportunities for Snare in the Government & Defence segment in the USA
- Increase Snare partner revenue from Security services partners including MSSP's, Security Operation Centre (SOC) providers and Extended Detection and Response (XDR) platform providers
- Deliver the strong pipeline of product innovation already in progress for both Snare and eMite
- Continue the managed transition of the Snare business to recurring subscription-based licensing
- Identify and execute on acquisition opportunities to accelerate growth and increase capability, capacity and coverage

Healthy demand and continued momentum with customers provides the Company with confidence of delivering further business growth through FY24 and beyond. The growth of our business in FY23 reflects our focus on helping customers to secure the enterprise, repel cyber threats and deliver valuable business insights. We are trusted by an increasingly broad spread of blue-chip clients across the banking, healthcare, government, defence, utilities, transport, manufacturing, retail and energy sectors, and our software products, eMite and Snare, are now deployed at more than 4,000 sites globally.

We will continue to deliver new capabilities, accelerating both Snare and eMite product roadmaps as we develop new revenue streams to complement existing products. We will continue our transition towards SaaS & subscription sales as we focus on driving organic growth through renewal, retention, upsell and cross sell, while proactively scanning the Australian market for potential M&A opportunities.

In cloud migration, eMite is riding a significant growth trend. We expect that hybrid and remote working will accelerate cloud migration for the next several years. With multi-year industry tailwinds ahead, strong market positions, and diverse streams of recurring revenue flowing from our essential service segments of cybersecurity and cloud contact centres, we look forward to delivering scalable and increasingly profitable growth in the year ahead.

Risk factors relating to the business and operations of the Group

Prophecy acknowledges a range of potential risks, both general and specific to its business activities. These risks have the potential to impact the Company's operations, financial performance, overall success and the value of an investment in the Company. Some of the key general and specific risks relating to the business and operations of the Group include:

1. Customer retention and engagement: Prophecy recognises the importance of retaining existing customers and ensuring their ongoing engagement with the Group's products. Factors influencing this include levels of customer support, the technological capabilities of the products, their cost-effectiveness and their perceived value compared to alternatives offered by competitors. The company's reputation also underpins retention and engagement. If Prophecy's reputation is harmed, the Company's business, financial condition, cash flow and results of operations may be materially adversely affected.

2. Customer acquisition and channel partners: Prophecy's underlying growth depends on acquiring new customers, which requires maintaining strong relationships with key partners and ensuring that the Group's products align with the needs of partners' customers. This involves continuous collaboration and alignment with channel partners to effectively reach new markets, with the execution of business development, account management and marketing strategies in multiple jurisdictions. Should the acquisition of new customers or partners slow, this may have an impact on the Group's financial performance.

3. Technology: There is a risk that, as marketable technologies continue to develop in the cybersecurity and business intelligence industries, there may be certain technology and product developments that supersede the existing service and product offerings of Prophecy. This could negatively affect Prophecy's growth trajectory if the Group were not able to respond to these developments.

4. Key personnel: Prophecy's success to an extent depends on its key personnel. The directors and management have extensive experience and knowledge of Prophecy's business and its markets. There is a risk that Prophecy may not be able to attract and retain key staff or be able to find suitable staff in a timely manner and this could impact Prophecy's ability to achieve its growth objectives.

5. Cybersecurity incidents: As the digital economy continues to grow, so does the incidence of cyber attacks and their consequences. There is a risk that partners or clients could be hacked or breached, which could result in losses being suffered by partners or clients. This could lead to a claim against Prophecy which could also hinder the Group's ability to retain or attract clients and partners. Although this risk is mitigated to some extent through contractual arrangements, Prophecy acknowledges the potential for data theft, ransom attacks and misuse of its platform for malicious purposes. The Group remains vigilant in implementing robust cybersecurity measures to protect its systems, data and customers.

Review of Operations

For the Year Ended 30 June 2023

6. International operations: As Prophecy operates in multiple geographic regions, it faces risks related to varying political, economic and regulatory landscapes. The Group must navigate uncertainties and complexities unique to each region, ensuring compliance with local laws and regulations while managing potential economic and political risks. Prophecy may be affected by changes in government taxation policies or in the interpretation or application of such policies under Australian and overseas laws and the outcome of tax audits.

7. Acquisitions: Prophecy may pursue acquisitions or joint ventures that could present integration obstacles or costs. Prophecy may not realise any of the benefits it anticipates and the Group may be exposed to additional liabilities of any acquired business, which could materially adversely Prophecy's revenue and profitability. Changes in the capital structure of Prophecy, for example from the raising of debt or the issue of equity to fund the acquisition of assets, may affect the value of, and returns from, an investment in the Group.

8. Intellectual property protection: Protecting the Group's intellectual property and avoiding infringement of third-party intellectual property rights is crucial. Prophecy acknowledges the need to safeguard its innovations and technology while ensuring that its products do not violate the intellectual property rights of others. If Prophecy is involved in litigation, disputes or protracted settlement negotiations relating to intellectual property or other matters, this may disrupt Prophecy's business operations, cause Prophecy to incur significant legal costs and may divert management's attention away from the day-to-day operations of the business.

Where practicable, Prophecy seeks to implement risk mitigation strategies to minimise its exposure to some of the risks outlined above. However, there can be no assurance that such strategies will protect Prophecy from these risks.

The Group's awareness of these risks demonstrates its commitment to proactive risk management and its dedication to addressing potential challenges as part of its strategic planning and operational activities. Prophecy's ability to effectively mitigate and manage these risks will play a crucial role in its long-term success and sustainability.

The Group notes that these are just a few of the risks that Prophecy has identified. Other risks are beyond Prophecy's control and cannot be mitigated. The occurrence of any such risks could adversely affect Prophecy's financial position and performance and the value of Prophecy securities.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Directors' Report For the Year Ended 30 June 2023

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 2023.

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

Chair and Independent Non-executive Director

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, options and performance rights	7,830,000 ordinary shares in Prophecy International Holdings Limited and no options or performance rights
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

Non-Executive Director

Qualifications	Bachelor of Arts in Accountancy
Experience	Chartered Accountant – Fellow (FCA) Grant is the Managing Partner of Moore Australia SA/NT 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, options and performance rights	150,000 ordinary shares in Prophecy International Holdings Limited and no options or performance rights
Special responsibilities	Finance Director 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 2023

1. General information continued

Information on directors continued

Leanne Challans

Independent Non-executive Director

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, options and performance rights

774,880 ordinary shares in Prophecy International Holdings Limited and no options or performance rights

Special responsibilities

Member of the Audit Committee

Other current directorships in listed entities now and in the previous 3 years

None

Matthew Michalewicz

Independent Non-executive Director

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, options and performance rights

100,000 ordinary shares in Prophecy International Holdings Limited and no options or performance rights

Special responsibilities

Member of the Strategy Committee

Other current directorships in listed entities now and in the previous 3 years

None

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 2023

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 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 after tax of the Group amounted to \$2,478,617 which represents a 48% increase on the loss reported for the year ended 30 June 2022 (2022 - \$1,669,515).

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 "Review of Operations" in this report.

3. Other items

Significant changes in state of affairs

No significant changes.

Dividends paid or recommended

No dividend has been paid or declared during the financial year.

Events after the end of the reporting period

Aside from the issue of 15,000 performance rights, 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.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Directors' Report For the Year Ended 30 June 2023

3. Other items continued

Future developments and results

Comments on the company's future direction are included in the "Letter 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 Australia (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	
	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	12	12
Matthew T Michalewicz	12	11	-	-	-	-
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.

Unissued performance rights

There are 96,000 unissued ordinary shares of Prophecy International Holdings Limited under performance rights arrangement 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 the exercise of share options.

There were 5,000 shares issued during or since the end of the year as a result of the exercise of performance rights.

Indemnification and insurance of officers and auditors

In the financial year, the company has paid premiums of \$113,463 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 199C of the Corporations Act 2001.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Directors' Report

For the Year Ended 30 June 2023

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 (including Independence Standards) 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 2023:

	2023	2022
	\$	\$
Tax compliance services	35,130	36,200

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 key management personnel, 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.

Directors' Report

For the Year Ended 30 June 2023

3. Other items continued

Remuneration report (audited) continued

- Executives are also entitled to participate in the employee share, option, and performance rights 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 and performance rights 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 valued 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.

Key management personnel receive a superannuation guarantee contribution required by the law, which is currently 11.0%, 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 (other key management personnel)

Brad Thomas (Appointed 26 September 2016)	CEO – Prophecy Group
Peter Barzen (Appointed 6 October 2022)	VP – Prophecy Americas
Stuart Geros (Appointed 1 July 2015)	CINO – Prophecy Group
Steve Challans (Appointed 1 July 2017)	CISO – Prophecy Group
Stephen Irecki (Appointed 1 November 2018)	Chief Operations Officer
John Pappas (Ceased 5 October 2022)	VP – Sales – Prophecy Americas

There have been no changes to Key Management Personnel after the reporting date and before the date the financial statements 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.

Directors' Report

For the Year Ended 30 June 2023

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 (as restated) for the last five years for the Company, as well as the share prices at the end of the respective financial years.

	2023	2022	2021	2020	2019
	\$	\$	\$	\$	\$
Revenue and other income	19,688,156	16,432,228	13,320,572	13,748,332	12,113,982
Profit/(Loss) attributable to members after tax	(2,478,617)	(1,669,515)	(1,949,997)	(5,041,617)	(1,398,949)
Share price at year-end	0.52	0.81	0.55	0.79	0.28
Dividends paid (cents)	0.00	0.00	0.00	0.50	0.00

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 if any, the proportion of remuneration received in the form of options/rights. The company uses bonus schemes to reward senior executives for the achievement of individually set targets and milestones.

		Performance based remuneration		
		Bonus	Shares	Options / rights
		%	%	%
KMP				
Brad Thomas	CEO – Prophecy Group	14%	-	-
Peter Barzen	VP – Prophecy Americas (Appointed 6 Oct 2022)	23%	-	-
Stuart Geros	CINO – Prophecy Group	17%	-	-
Steve Challans	CISO – Prophecy Group	-	-	-
Stephen Irecki	Chief Operations Officer	14%	-	5%
John Pappas	VP – Sales – Prophecy Americas (Ceased 5 Oct 2022)	19%	-	-

Directors' Report

For the Year Ended 30 June 2023

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 key management personnel 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 year.

Remuneration details for the year ended 30 June 2023

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.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Directors' Report

For the Year Ended 30 June 2023

3. Other items continued

Remuneration report (audited) continued

Remuneration details for the year ended 30 June 2023 continued

Table of benefits and payments

Director and other Key Management Personnel				Short-term employee benefits		Post-employment benefits	Long-term benefits	Share-based payments			Performance based on % of remuneration
Directors	Year	Cash salary Fees \$	Cash bonus \$	Consulting fees \$	Non-monetary benefits \$	Health care & Allowances \$	Superannuation \$	Long Service Leave \$	Shares \$	Total \$	
Ed Reynolds	2023	39,000	-	67,576	-	-	4,095	-	-	110,671	-
	2022	39,000	-	67,646	-	-	3,900	-	-	110,546	-
Leanne Challans	2023	70,000	-	90,650	-	-	16,868	-	-	177,518	-
	2022	70,000	-	41,720	-	-	11,172	-	-	122,892	-
Matthew Michalewicz	2023	70,000	-	-	-	-	-	-	-	70,000	-
	2022	70,000	-	-	-	-	-	-	-	70,000	-
Grant R Miles	2023	70,000	-	-	-	-	-	-	-	70,000	-
	2022	70,000	-	-	-	-	-	-	-	70,000	-
KMP											
Brad Thomas	2023	330,000	63,000	-	4,689	-	26,828	18,235	-	442,752	14%
	2022	315,625	-	-	15,526	-	25,000	26,727	-	382,878	-
Stuart Geros	2023	298,734	69,714	-	(13,873)	-	25,292	21,415	-	401,282	17%
	2022	255,211	66,462	-	24,014	-	25,000	22,801	-	393,488	17%
Steve Challans	2023	215,501	-	-	2,243	-	22,628	4,675	-	245,047	0%
	2022	198,375	-	-	15,301	-	19,838	14,902	-	248,416	0%
Stephen Irecki	2023	263,455	45,146	-	(3,308)	-	13,173	10,623	15,936	345,025	14%
	2022	225,106	38,227	-	(73)	-	5116	6,313	19,950	294,639	20%
Peter Barzen (Appointed 6 October 2022)	2023	162,989	66,597	-	14,699	38,844	6,888	-	-	290,017	23%
	2022	-	-	-	-	-	-	-	-	-	-
John Pappas (Ceased 5 October 2022)	2023	129,406	33,314	-	-	4,759	4,882	-	-	172,361	19%
	2022	266,714	189,467	-	17,440	16,602	13,685	-	-	503,908	38%
2023 Total	2023	1,649,085	277,771	158,226	4,450	43,603	120,654	54,948	15,936	2,324,673	
2022 Total	2022	1,510,031	294,156	109,366	72,208	16,602	103,711	70,743	19,950	2,196,767	

Directors' Report

For the Year Ended 30 June 2023

3. Other items continued

Remuneration report (audited) continued

Remuneration details for the year ended 30 June 2023 continued

The remuneration detailed above for Ed Reynolds includes director's fees of \$39,000 and consulting fees of \$67,576 (2022 – director's fees \$39,000 and consulting fees \$67,646) of which \$67,576 was paid to Reyer Investments Pty Limited, a company in which Ed Reynolds is a director and shareholder.

Grant R Miles director's fees of \$70,000 were paid to Moore Australia (SA) Pty Ltd (\$60,000) and Rickaby Holdings Pty Ltd (\$10,000) both companies directed by Grant R Miles.

Short term cash bonuses for Stuart Geros, Stephen Irecki, Peter Barzen and John Pappas relate 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.

Securities received that are not performance related

During the year, Mr S Irecki received 35,000 performance rights with a total fair value of \$30,800. The performance rights vesting condition is a three year service period. \$15,936 has been recognised as remuneration in the current year.

No other members of key management personnel received any securities during this year or the prior year as remuneration.

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

Prophecy International Holdings Limited received more than 80% of 'yes' votes on its Remuneration Report for the financial year ending 30 June 2022. The company received no specific feedback on its Remuneration Report at the Annual General Meeting.

Key management personnel options and rights holdings

As noted above, Mr S Irecki holds 35,000 performance rights which were granted during the year.

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

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Directors' Report

For the Year Ended 30 June 2023

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	Granted as Remuneration	Acquisitions	Disposals	Other Changes	Balance at end of year
30 June 2023						
Ed Reynolds	7,830,000	-	-	-	-	7,830,000
*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	945,882	-	-	-	-	945,882
Stuart Geros	1,702,665	-	14,000	(38,937)	-	1,677,728
*Steve Challans	774,880	-	-	-	-	774,880
Stephen Irecki	54,000	-	-	-	-	54,000
	12,418,988	-	14,000	(38,937)	-	12,394,051

*Shares jointly held by Leanne R Challans and Steve Challans.

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated.

The following transactions occurred with related parties:

Moore Australia (SA) Pty Ltd, a company directed by Grant Miles, provided Accounting services to the Group of \$16,698 (2022: \$13,145).

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.

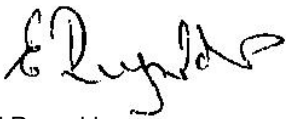
Prophecy International Holdings Limited and Controlled Entities

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Directors' Report

For the Year Ended 30 June 2023

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001*, for the year ended 30 June 2023 has been received and can be found on page 27 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
Chairman



Leanne Challans
Director

Dated this 28 day of September, 2023

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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 2023, 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 AUDIT PTY LTD
Chartered Accountants



J L Humphrey
Partner – Audit & Assurance

Adelaide, 28 September 2023

www.grantthornton.com.au
ACN-130 913 594

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Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

**Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 30 June 2023**

	2023	2022
Note	\$	\$
Revenue from continuing operations	2 19,607,087	16,431,198
Research and development tax incentive	618,659	437,350
Other income	81,069	1,030
Employee benefits expense	3 (14,677,822)	(11,092,730)
Depreciation and amortisation expense	3 (1,397,262)	(1,688,847)
Other expenses	3 (6,995,402)	(5,513,329)
Finance costs	(52,588)	(37,830)
Loss before income tax	(2,816,259)	(1,463,158)
Income tax benefit/(expense)	4 337,642	(206,357)
Loss for the year	(2,478,617)	(1,669,515)
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	(229,096)	(246,953)
Other comprehensive income/(loss) for the year, net of tax	(229,096)	(246,953)
Total comprehensive loss for the year	(2,707,713)	(1,916,468)
Loss attributable to:		
Members of the parent entity	(2,488,454)	(1,714,158)
Non-controlling interest	9,837	44,643
	(2,478,617)	(1,669,515)
Total comprehensive income/(loss) attributable to:		
Members of the parent entity	(2,717,550)	(1,961,111)
Non-controlling interest	9,837	44,643
	(2,707,713)	(1,916,468)
Losses per share		
From continuing operations:		
Basic earnings/(loss) per share (cents)	8 (3.38)	(2.40)
Diluted earnings/(loss) per share (cents)	8 (3.38)	(2.40)

The accompanying notes form part of these financial statements.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Consolidated Statement of Financial Position

For the Year Ended 30 June 2023

	2023	2022
Note	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	9 11,735,885	12,987,942
Financial assets	10 100,400	100,662
Trade and other receivables	11 3,942,699	3,207,246
Contract assets	139,325	284,780
Other assets	12 2,238,018	1,821,511
TOTAL CURRENT ASSETS	18,156,327	18,402,141
NON-CURRENT ASSETS		
Trade and other receivables	11 8,488	8,170
Other assets	12 1,201,313	1,202,783
Property, plant and equipment	14 278,772	220,391
Intangible assets	15 6,061,490	7,016,817
Right to use assets	16 1,259,353	542,939
TOTAL NON-CURRENT ASSETS	8,809,416	8,991,100
TOTAL ASSETS	26,965,743	27,393,241
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	17 1,842,422	1,635,694
Contract liabilities - Deferred revenue	18 8,479,845	5,026,489
Employee benefits	19 1,717,466	1,625,765
Lease liabilities	16 429,826	207,316
TOTAL CURRENT LIABILITIES	12,469,559	8,495,264
NON-CURRENT LIABILITIES		
Deferred tax liabilities	25 116,297	427,729
Employee benefits	19 174,994	133,301
Lease liabilities	16 884,231	407,363
Contract liabilities - Deferred revenue	18 1,217,806	3,172,364
TOTAL NON-CURRENT LIABILITIES	2,393,328	4,140,757
TOTAL LIABILITIES	14,862,887	12,636,021
NET ASSETS	12,102,856	14,757,220
EQUITY		
Issued capital	20 35,809,479	35,798,079
Reserves	(465,490)	(278,343)
Accumulated losses	(23,056,361)	(20,567,907)
Total equity attributable to equity holders of the Company	12,287,628	14,951,829
Non-controlling interest	(184,772)	(194,609)
TOTAL EQUITY	12,102,856	14,757,220

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 2023

2023

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Share Based Payments Reserve	Non- controlling Interests	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2022	35,798,079	(20,567,907)	(403,168)	124,825	(194,609)	14,757,220
Loss attributable to members of the parent entity	-	(2,488,454)	-	-	-	(2,488,454)
Profit attributable to non-controlling interests	-	-	-	-	9,837	9,837
Total other comprehensive income for the year	-	-	(229,096)	-	-	(229,096)
Share based payment transactions	-	-	-	41,949	-	41,949
Shares issued during the year	11,400	-	-	-	-	11,400
Balance at 30 June 2023	35,809,479	(23,056,361)	(632,264)	166,774	(184,772)	12,102,856

2022

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Share Based Payments Reserve	Non- controlling Interests	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2021	28,501,869	(18,853,749)	(156,215)	124,825	(239,252)	9,377,478
Loss attributable to members of the parent entity	-	(1,714,158)	-	-	-	(1,714,158)
Profit attributable to non-controlling interests	-	-	-	-	44,643	44,643
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	(20,567,907)	(403,168)	124,825	(194,609)	14,757,220

The accompanying notes form part of these financial statements.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2023

	2023	2022
Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	20,683,391	21,521,741
Payments to suppliers and employees	(22,380,010)	(19,012,500)
Interest received	81,069	377
Income taxes (paid)/refunded inclusive of R&D incentives	419,761	428,772
Net cash provided by/(used in) operating activities	24 <u>(1,195,789)</u>	2,938,390
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	14 <u>(167,296)</u>	(96,453)
Net cash used in investing activities	<u>(167,296)</u>	(96,453)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issue of shares	-	7,296,210
Payment of lease liabilities	(398,065)	(544,333)
Net cash provided by/(used in) financing activities	<u>(398,065)</u>	6,751,877
Effects of foreign exchange rates on overseas cash holdings	<u>509,093</u>	266,725
Net increase/(decrease) in cash and cash equivalents held	<u>(1,252,057)</u>	9,860,539
Cash and cash equivalents at beginning of year	<u>12,987,942</u>	3,127,403
Cash and cash equivalents at end of financial year	9 <u><u>11,735,885</u></u>	<u>12,987,942</u>

The accompanying notes form part of these financial statements.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Notes to the Financial Statements

For the Year Ended 30 June 2023

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 13 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.

Notes to the Financial Statements

For the Year Ended 30 June 2023

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.

Notes to the Financial Statements

For the Year Ended 30 June 2023

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	10% - 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.

Notes to the Financial Statements

For the Year Ended 30 June 2023

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'.

Notes to the Financial Statements

For the Year Ended 30 June 2023

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).

Notes to the Financial Statements

For the Year Ended 30 June 2023

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.

Notes to the Financial Statements

For the Year Ended 30 June 2023

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.

Notes to the Financial Statements

For the Year Ended 30 June 2023

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.

Notes to the Financial Statements

For the Year Ended 30 June 2023

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 10.5% 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.

(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.

Notes to the Financial Statements

For the Year Ended 30 June 2023

1 Summary of Significant Accounting Policies continued

(I) 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.

Notes to the Financial Statements

For the Year Ended 30 June 2023

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 income

Interest is recognised using the effective interest method.

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

Notes to the Financial Statements

For the Year Ended 30 June 2023

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 1(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 the company tax rate plus an 18.5% premium. The Group accounts for this incentive as other income.

(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.

Notes to the Financial Statements

For the Year Ended 30 June 2023

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 – recognition 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 is 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 25.

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 - 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.

(u) New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2023

2 Revenue and Other Income

Revenue from continuing operations

	2023	2022
	\$	\$
Sales revenue		
- licence sales	14,375,496	11,168,916
- maintenance fees	4,295,142	4,497,051
- consulting sales	936,449	765,231
	<u>19,607,087</u>	<u>16,431,198</u>

The Group's revenue is disaggregated as follows:

	Legacy		Snare		eMite		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
	\$	\$	\$	\$	\$	\$	\$	\$
Goods or services transferred at a point in time								
- licence sales	663,726	471,518	2,290,508	4,422,129	1,388,382	950,962	4,342,616	5,844,609
- consulting sales	-	-	85,335	92,591	851,114	672,642	936,449	765,233
Total	663,726	471,518	2,375,843	4,514,720	2,239,496	1,623,604	5,279,065	6,609,842

	Legacy		Snare		eMite		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
	\$	\$	\$	\$	\$	\$	\$	\$
Goods or services transferred over time								
- licence sales	-	-	2,151,458	6,524	7,881,422	5,317,781	10,032,880	5,324,305
- maintenance fees	82,154	81,286	3,420,376	3,975,166	792,612	440,599	4,295,142	4,497,051
Total	82,154	81,286	5,571,834	3,981,690	8,674,034	5,758,380	14,328,022	9,821,356

Notes to the Financial Statements

For the Year Ended 30 June 2023

3 Result for the Year

The result for the year includes the following specific expenses:

	2023	2022
	\$	\$
Salaries and wages	10,707,275	7,351,968
Commissions	1,340,950	1,200,832
Superannuation contributions	646,932	507,792
Payroll taxes	722,013	558,226
Consultants	501,063	488,142
Medical expenses	508,208	370,178
AL & LSL expenses	98,050	411,789
Share-based payment	41,949	-
Other employee benefit expenses	111,382	203,803
	14,677,822	11,092,730
Depreciation and amortisation expense comprises:		
- Depreciation - plant and equipment	110,535	121,355
- Depreciation - right of use assets	331,400	435,128
- Amortisation - intellectual property	800,000	800,000
- Amortisation - development costs	155,327	332,364
	1,397,262	1,688,847
Other Expenses:		
Accounting fees	260,842	204,115
Consulting and professional fees	1,705,304	2,494,883
Filing fees	86,071	77,132
Insurance	240,803	177,395
Marketing	461,187	155,978
Strata Fees	181,112	(3,646)
Foreign exchange (gains)/losses	(599,381)	(450,455)
Communications expense including cloud services	2,729,464	1,632,899
Software including annual maintenance	1,206,099	861,142
Travel and accommodation	293,950	87,455
Other expenses	429,951	276,431
	6,995,402	5,513,329

Notes to the Financial Statements

For the Year Ended 30 June 2023

4 Income Tax Expense

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

	2023	2022
	\$	\$
Current tax expense/(benefit)	-	-
Deferred tax expense/(benefit)	(283,187)	179,030
Origination and reversal of temporary differences	(35,087)	-
Adjustments for under/(over) provision for taxes in prior periods	(19,368)	27,327
Total income tax expense/(benefit)	(337,642)	206,357

(b) Reconciliation of income tax to accounting profit:

Profit/(loss)	(2,816,259)	(1,463,158)
Tax	25.00%	25.00%
	(704,065)	(365,790)
Add:		
Tax effect of:		
- non-deductible expenses	420,878	799,723
- tax losses not recognised - foreign jurisdictions	-	214,685
	(283,187)	648,618
Less:		
Tax effect of:		
- Tax losses – foreign jurisdictions	35,087	471,368
- over/(under) provision for tax in prior year	19,368	(29,107)
Income tax expense/(benefit)	(337,642)	206,357

5 Key Management Personnel Disclosures

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

	2023	2022
	\$	\$
Short-term employee benefits	2,133,135	2,002,363
Long-term benefits	54,948	70,743
Post-employment benefits	120,654	103,711
Share-based payments	15,936	19,950
	2,324,673	2,196,767

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 2023.

Notes to the Financial Statements

For the Year Ended 30 June 2023

6 Remuneration of Auditors

	2023	2022
	\$	\$
Remuneration of the auditor of the parent entity, Grant Thornton, for:		
- auditing or reviewing the financial statements	150,278	108,526
- tax compliance services	35,130	36,200
Total paid or payable to Grant Thornton	<u>185,408</u>	<u>144,726</u>
Remuneration of other auditors of subsidiaries for:		
- auditing or reviewing the financial statements of subsidiaries	<u>12,606</u>	11,009
Total	<u><u>198,014</u></u>	<u><u>155,735</u></u>

7 Dividends

a. The following dividends were declared and paid:

Interim unfranked ordinary dividend of nil (2022: nil) cents per share	<u>-</u>	<u>-</u>
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Franking account

The franking credits available for subsequent financial years at a tax rate of 25%	141,574	141,574
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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.

8 Earnings per Share

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

	2023	2022
	\$	\$
Loss after income tax attributable to the owners of Prophecy International Holdings Limited	<u>(2,488,454)</u>	<u>(1,714,158)</u>

(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	<u>73,604,852</u>	70,538,537
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	<u>73,604,852</u>	<u>70,538,537</u>

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2023

9 Cash and Cash Equivalents

	2023	2022
	\$	\$
Cash at bank in hand	11,735,885	12,987,942

10 Financial Assets

Other financial assets - security deposits	100,400	100,662
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11 Trade and Other Receivables

CURRENT

Trade receivables	3,372,298	2,890,583
Provision for expected credit losses	(48,258)	(120,687)

	3,324,040	2,769,896
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Other receivable – Research and development tax incentive	618,659	437,350
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Total current trade and other receivables	3,942,699	3,207,246
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NON-CURRENT

Deposits	24	24
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Other receivables	8,464	8,146
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Total non-current trade and other receivables	8,488	8,170
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Notes to the Financial Statements

For the Year Ended 30 June 2023

11 Trade and Other Receivables continued

The following table details the Group's trade 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
2023						
Expected loss rate	-	-	-	-	-	
Gross carrying amount						
- trade receivables	2,937,669	331,580	72,935	31,164	7,438	3,380,786
Loss allowance	-	-	-	-	-	(48,258)
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)

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 2023 and 30 June 2022 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 reflected 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.

12 Other Assets

	2023	2022
	\$	\$
CURRENT		
Prepayments – incremental costs to obtain contracts with customers	1,495,393	1,184,071
Other prepayments	742,625	637,440
	<u>2,238,018</u>	<u>1,821,511</u>
NON-CURRENT		
Prepayments – incremental costs to obtain contracts with customers	<u>1,201,313</u>	<u>1,202,783</u>

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2023

13 Interests in Subsidiaries

Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 2023	Percentage Owned (%)* 2022
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
Prophecy Software Solutions Philippines Inc	Philippines	100	-

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

14 Property, Plant and Equipment

	2023 \$	2022 \$
Plant and equipment		
At cost	1,596,395	1,418,478
Accumulated depreciation	(1,323,680)	(1,208,028)
Total plant and equipment	272,715	210,450
Furniture, fixtures and fittings		
At cost	243,558	241,844
Accumulated depreciation	(237,501)	(231,903)
Total furniture, fixtures and fittings	6,057	9,941
Total property, plant and equipment	278,772	220,391

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 2023			
Balance at the beginning of year	210,450	9,941	220,391
Additions	167,296	-	167,296
Depreciation expense	(106,568)	(3,967)	(110,535)
Foreign exchange movements	1,538	82	1,620
Balance at the end of the year	272,716	6,056	278,772

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2023

14 Property, Plant and Equipment continued

Movements in carrying amounts of property, plant and equipment continued

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

Notes to the Financial Statements

For the Year Ended 30 June 2023

15 Intangible Assets

	2023	2022
	\$	\$
Goodwill		
Cost	5,108,270	5,108,270
Accumulated impairment losses	<u>(2,981,455)</u>	<u>(2,981,455)</u>
Net carrying value	<u>2,126,815</u>	<u>2,126,815</u>
Intellectual property		
Cost	12,720,000	12,720,000
Accumulated amortisation and impairment	<u>(8,809,291)</u>	<u>(8,009,291)</u>
Net carrying value	<u>3,910,709</u>	<u>4,710,709</u>
Development costs		
Cost	2,678,372	2,678,372
Accumulated amortisation and impairment	<u>(2,654,406)</u>	<u>(2,499,079)</u>
Net carrying value	<u>23,966</u>	<u>179,293</u>
Total Intangibles	<u><u>6,061,490</u></u>	<u><u>7,016,817</u></u>

Movements in carrying amounts of intangible assets

	Intellectual property	Goodwill	Development costs	Total
	\$	\$	\$	\$
Year ended 30 June 2023				
Balance at the beginning of the year	4,710,709	2,126,815	179,293	7,016,817
Amortisation	<u>(800,000)</u>	<u>-</u>	<u>(155,327)</u>	<u>(955,327)</u>
Closing value at 30 June 2023	<u><u>3,910,709</u></u>	<u><u>2,126,815</u></u>	<u><u>23,966</u></u>	<u><u>6,061,490</u></u>
Year ended 30 June 2022				
Balance at the beginning of the year	5,510,709	2,126,815	511,657	8,149,181
Amortisation	<u>(800,000)</u>	<u>-</u>	<u>(332,364)</u>	<u>(1,132,364)</u>
Closing value at 30 June 2022	<u><u>4,710,709</u></u>	<u><u>2,126,815</u></u>	<u><u>179,293</u></u>	<u><u>7,016,817</u></u>

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 2023

Goodwill with a carrying value of \$2,126,815 (2022: \$2,126,815) has been allocated to the Snare CGU. The recoverable amount of the Snare CGU is determined based on the value-in-use ("VIU") calculations. The calculation is based on net present value of cash flow projections over a 4 year period at a post-tax discount rate of 16.2%. It is estimated an ongoing growth rate of 2.5% pa to perpetuity in the future cash flows in this VIU calculation. If the discount rate, which is based on the estimate of the Snare CGU's weighted average cost of capital, had been increased from 16.2% to 18.5%, no impairment expenses would have been recognised.

Intellectual Property with a carrying value of \$3,910,709 (2022: \$4,710,709), has been allocated to the eMite CGU. The recoverable amount of the eMite CGU is determined based on the VIU calculations. The calculation is based on net present value of cash flow projections over a 4 year period at a post-tax discount rate of 16.2%. It is estimated an ongoing growth rate of 2.5% pa to perpetuity in the future cash flows in this VIU calculation. If the discount rate, which is based on the estimate of the eMite CGU's weighted average cost of capital, had been increased from 16.2% to 18.5%, no impairment expenses would have been recognised.

16 Leases

(a) Right-of-use assets

	2023
Year ended 30 June 2023	
As at 1 July 2022	542,939
Increases - new leases	1,057,112
FX Revaluation	(9,298)
Depreciation	<u>(331,400)</u>
Balance at end of year	<u><u>1,259,353</u></u>
	2022
Year ended 30 June 2022	
As at 1 July 2021	921,206
Increases - new leases	56,861
Depreciation	<u>(435,128)</u>
Balance at end of year	<u><u>542,939</u></u>

The Group lease various office spaces in Australia and the United States. Rental contracts are typically made for fixed periods of 1 year to 5 years.

(b) Lease liabilities

The maturity analysis of lease liabilities based on contractual undiscounted cash flows is shown in the table below:

	< 1 year	1 - 5 years	> 5 years	Total
	\$	\$	\$	\$
2023				
Lease liabilities	429,826	884,231	-	1,314,057
2022				
Lease liabilities	207,316	407,363	-	614,679

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2023

17 Trade and Other Payables

	2023	2022
Note	\$	\$
Trade payables	952,030	873,321
Sundry payables and accrued expenses	887,735	759,716
Other payables	2,657	2,657
	<u>1,842,422</u>	<u>1,635,694</u>

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

18 Contract liabilities

CURRENT

Unearned revenue from customers	<u>8,479,845</u>	<u>5,026,489</u>
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NON-CURRENT

Unearned revenue from customers	<u>1,217,806</u>	<u>3,172,364</u>
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19 Employee Benefits

CURRENT

Long service leave	560,511	538,791
Annual leave	<u>1,156,955</u>	<u>1,086,974</u>
	<u>1,717,466</u>	<u>1,625,765</u>

NON-CURRENT

Long service leave	<u>174,994</u>	<u>133,301</u>
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Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2023

20 Issued Capital

	2023	2022
	\$	\$
73,610,934 (2022: 73,590,934) Ordinary shares	<u>35,809,479</u>	<u>35,798,079</u>

(a) Ordinary shares

	2023	2023	2022	2022
	\$	No	\$	No
At the beginning of the reporting period	35,798,079	73,590,934	28,501,869	64,055,934
Issue of shares – placement	-	-	7,695,000	9,500,000
Issue of shares – employee share scheme	11,400	20,000	19,950	35,000
Share issue costs (net of tax)	-	-	(418,740)	-
At the end of the reporting period	<u>35,809,479</u>	<u>73,610,934</u>	<u>35,798,079</u>	<u>73,590,934</u>

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

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

(b) Capital Management

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

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

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

Notes to the Financial Statements

For the Year Ended 30 June 2023

21 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 \$70,400 (2022: \$70,662).

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.

22 Events Occurring After the Reporting Date

Aside from the issue of 15,000 performance rights to employees, 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.

23 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 based payments reserve

This reserve records the cumulative value of employee service received for the issue of share options and performance rights.

Notes to the Financial Statements

For the Year Ended 30 June 2023

24 Cash Flow Information

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

	2023	2022
	\$	\$
Loss for the year	(2,478,617)	(1,669,515)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	1,397,262	1,688,847
- net gain on disposal of property, plant and equipment	-	1,003
- foreign exchange (gain)/loss	(598,593)	(420,070)
- unrealised foreign exchange differences	(32,399)	(135,341)
- share based payments	(41,949)	-
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables and contract assets	(422,495)	(413,159)
- (increase)/decrease in other assets	(361,097)	(1,026,162)
- (increase)/decrease in deferred tax asset	(1,224,575)	220,058
- (increase)/decrease in income tax receivable	(181,309)	(108,676)
- increase/(decrease) in contract liabilities	1,498,798	3,859,863
- increase/(decrease) in trade and other payables	201,487	222,647
- increase/(decrease) in deferred tax liability	913,143	283,802
- increase/(decrease) in employee benefits	134,555	435,093
Cashflows from operations	<u>(1,195,789)</u>	<u>2,938,390</u>

(b) Credit standby arrangements with banks

Credit facility	75,000	75,000
Amount utilised	<u>(32,750)</u>	<u>(31,696)</u>
	<u>42,250</u>	<u>43,304</u>

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.

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2023

25 Tax

	2023	2022
	\$	\$
Current Tax Liability		
Income tax payable	-	-
Recognised deferred tax assets and liabilities		
Deferred tax assets	<u>1,801,240</u>	576,665
Deferred tax liabilities	<u>1,917,537</u>	1,004,394
Net deferred tax liability	<u>116,297</u>	427,729
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following:		
Tax losses	6,145,696	5,875,092

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. At 30 June 2023, substantially all tax losses relate to the Group's United States subsidiaries.

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	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	<u>796,723</u>	<u>(77,983)</u>	<u>(111,430)</u>	<u>(30,645)</u>	<u>576,665</u>
Property, plant and equipment					
- tax allowance	854	-	-	-	854
Provisions - employee benefits	356,779	15,554	-	-	372,333
Unrealised foreign exchange	16,936	(15,896)	-	-	1,040
Accruals	18,270	5,883	-	-	24,153
Deferred tax assets attributable to tax losses	30,156	431,926	-	-	462,082
Leases	153,670	124,324	-	-	277,994
Balance at 30 June 2023	<u>576,665</u>	<u>561,791</u>	<u>-</u>	<u>-</u>	<u>1,138,456</u>

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2023

25 Tax continued

Deferred Tax Liabilities

	Opening Balance	Charged to Income	Charged directly to Equity	Changes in Tax Rate	Closing Balance
	\$	\$	\$	\$	\$
Prepayments	403,983	171,117	-	(198)	574,902
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	782,656	209,933	26,567	(14,762)	1,004,394
Prepayments	574,902	106,646	-	-	681,548
Property, plant and equipment	44,823	(34,604)	-	-	10,219
Unrealised foreign currency gains	249,077	77,189	(28,246)	-	298,020
Leases	135,592	129,374	-	-	264,966
Balance at 30 June 2023	1,004,394	278,605	(28,246)	-	1,254,753
Net DTL after offset against DTA					(116,297)

Notes to the Financial Statements

For the Year Ended 30 June 2023

26 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 25%. The effect of taxable or deductible temporary differences is not included for internal reporting purposes.

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

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

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

(b) Segment assets

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

(c) Segment liabilities

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

(d) Unallocated items

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

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

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2023

26 Operating Segments continued

(e) Segment performance

	Legacy		SNARE		eMite		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE								
External sales	745,880	552,804	7,947,676	8,496,410	10,913,531	7,381,984	19,607,087	16,431,198
Other revenue	3,991	249	169	690	76,909	91	81,069	1,030
Total segment revenue	749,871	553,053	7,947,845	8,497,100	10,990,440	7,382,075	19,688,156	16,432,228
Segment operating profit/(loss)	(2,682,045)	(2,225,624)	(878,604)	1,055,580	125,731	(730,464)	(3,434,918)	(1,900,508)

(f) Segment assets

Segment assets	2,866,233							
- Capital expenditure	29,845	5,019,619	7,578,202	8,836,597	16,521,309	13,537,025	26,965,744	27,393,241
		17,676	88,670	69,384	48,781	9,393	167,296	96,453

(g) Segment liabilities

Segment liabilities	2,850,895							
		1,873,666	6,861,118	6,455,860	5,034,578	3,878,766	14,746,591	12,208,292

Notes to the Financial Statements

For the Year Ended 30 June 2023

26 Operating Segments continued

(h) Reconciliations

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

	2023	2022
	\$	\$
Total segment revenue	19,607,087	16,431,198

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

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

Segment net operating profit	(3,434,918)	(1,900,508)
Other income - Research and development incentive	618,659	437,350
Income tax (expense)/benefit	337,642	(206,357)
Total net profit after tax	<u>(2,478,617)</u>	<u>(1,669,515)</u>

Reconciliation of segment assets to the consolidated statement of financial position

Segment operating assets	51,370,782	54,032,749
Intersegment eliminations	(30,466,529)	(33,656,325)
Deferred tax assets	-	576,665
Intangible assets	6,061,490	7,016,817
Total assets per the consolidated statement of financial position	<u>26,965,743</u>	<u>27,969,906</u>

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

Segment liabilities	61,277,637	61,485,734
Intersegment eliminations	(46,531,047)	(49,277,442)
Deferred tax liabilities	116,297	1,004,394
Total liabilities per the consolidated statement of financial position	<u>14,862,887</u>	<u>13,212,686</u>

(i) Geographical information

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

	2023		2022	
	Revenue	Assets	Revenue	Assets
Australia	2,871,141	21,982,686	2,354,442	21,850,469
United States	14,984,409	5,743,654	12,134,613	5,633,700
Europe	1,747,742	768,164	1,938,930	485,737
Asia	3,795	272,479	3,213	-
	<u>19,607,087</u>	<u>28,766,983</u>	16,431,198	<u>27,969,906</u>

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2023

27 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.

Compensation

The aggregate compensation made to directors and other members of key management personnel of the company are set out below and detailed disclosures relating to remuneration are included in the remuneration report:

	2023	2022
	\$	\$
Short-term employee benefits	2,133,135	2,002,363
Long-term benefits	54,948	70,743
Post-employment benefits	120,654	103,711
Share-based payments	15,936	19,950
	2,324,673	2,196,767

Disclosures relating to key management personnel are set out in 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:

	2023	2022
	\$	\$
Directors Fees of \$100,000 for Ed Reynolds were paid to: - Ed Reynolds (\$39,000) and - Reyer Investments Pty Ltd (\$61,000) as stated in the Remuneration Report included in the Directors' Report. Reyer Investments Pty Ltd, a company directed by Ed Reynolds, the Chairman, provided additional consulting services to the Group.	6,576	6,646
Directors Fees of \$70,000 for Grant R Miles were paid to: - Moore Australia (SA) Pty Ltd (\$60,000); and - Rickaby Holdings Pty Ltd (\$10,000) as stated in the Remuneration Report included in the Directors' Report. Moore Australia (SA) Pty Ltd, a company directed by Grant R Miles, the Company Secretary and Director, provided Company Secretary and accounting services to the Group.	16,698	13,145
	23,274	19,791

Notes to the Financial Statements

For the Year Ended 30 June 2023

28 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	2023 \$	2022 \$
Financial Assets			
Cash and cash equivalents	9	11,735,885	12,987,942
Financial assets	10	100,400	100,662
Trade and other receivables	11	3,942,699	2,778,066
Total financial assets		<u>15,778,984</u>	<u>15,866,670</u>
Financial Liabilities at amortised costs			
Trade and other payables	17	1,842,422	1,635,694
Lease liabilities	16	1,314,057	614,679
Total financial liabilities		<u>3,156,479</u>	<u>2,250,373</u>

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:

Notes to the Financial Statements

For the Year Ended 30 June 2023

28 Financial Risk Management continued

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.

(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 a provision for impairment of receivables at 30 June 2023.

Trade and other receivables are all unrated.

The group at present has two types of customers:

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

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

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

(b) Liquidity risk

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

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

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2023

28 Financial Risk Management continued

(b) Liquidity risk continued

The Group's non-derivative financial liabilities have contract maturities as summarised below. The amounts below reflect the contractual undiscounted cash flows. Refer to Note 16 for the maturity analysis of lease liabilities.

	Within 1 Year		1 to 5 Years		Total	
	2023	2022	2023	2022	2023	2022
	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment						
Trade and other payables	1,842,422	1,635,694	-	-	1,842,422	1,635,694

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.

Market risk

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

Foreign exchange risk

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

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

Currently there are no hedges in place.

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2023

28 Financial Risk Management continued

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

	Net financial assets /(liabilities) in AUD \$						Total AUD \$
	USD	EUR	GBP	CAD	NZD	PHP	
2023	\$	\$	\$	\$	\$	\$	\$
Consolidated							
Trade and other receivables	2,883,501	-	245,984	4,750	-	-	3,134,235
Trade and other payables	(741,126)	(52,555)	(181,266)	-	-	(2,429)	(977,376)
2022							
Consolidated							
Trade and other receivables	1,614,711	158,830	869,022	9,885	28,492		2,680,940
Trade and other payables	(432,843)	(40,216)	(197,719)	-	-		(670,778)

Forward exchange contracts

There were no outstanding forward exchange contracts as at 30 June 2023 or 30 June 2022.

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, Euro - Australian Dollar exchange rate and the Philippine Peso – Australian Dollar exchange rate. There have been no changes in the assumptions calculating this sensitivity from prior years.

The year end rate is 0.66 US dollars, 0.53 UK pounds, 0.61 Euros and 36.67 Pesos.

If the Australian Dollar had strengthened and weakened against the US dollar, UK pound and Euro by 10% (30 June 2022: 10%) and 10% (30 June 2022: 10%) respectively then this would have had the following impact:

	2023		2022	
	+10%	-10%	+10%	-10%
USD				
Net results	(848,654)	1,037,244	(566,049)	691,838
Equity	(129,290)	158,022	22,431	(27,416)
GBP				
Net results	(56,627)	69,211	(19,715)	24,097
Equity	(48,845)	59,700	11,667	(14,260)
Euro				
Net results	(3,286)	4,016	(3,859)	4,717
Equity	-	-	-	-
PHP				
Net results	-	-	-	-
Equity	(234)	286	-	-

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

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2023

29 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 consistent with the accounting policies of the Group.

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 consolidated 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.

	2023	2022
	\$	\$
Statement of Financial Position		
Assets		
Current assets	7,220,418	12,022,621
Non-current assets	16,549,115	17,973,209
Total Assets	<u>23,769,533</u>	<u>29,995,830</u>
Liabilities		
Current liabilities	10,727,534	15,150,893
Non-current liabilities	939,143	135,591
Total Liabilities	<u>11,666,677</u>	<u>15,286,484</u>
Equity		
Issued capital	35,809,479	35,798,079
Retained earnings	(23,873,397)	(21,213,558)
Share option reserve	166,774	124,825
Total Equity	<u>12,102,856</u>	<u>14,709,346</u>
Statement of Profit or Loss and Other Comprehensive Income		
Total profit or loss for the year	<u>(2,091,439)</u>	<u>(83,069)</u>
Total comprehensive income	<u>(2,091,439)</u>	<u>(83,069)</u>

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2023

Guarantees

The parent entity has not entered into any guarantees as at 30 June 2023 or 30 June 2022.

Contingent liabilities

The parent entity did not have any contingent liabilities as at 30 June 2023 or 30 June 2022.

Contractual commitments

The parent entity did not have any commitments as at 30 June 2023 or 30 June 2022.

Notes to the Financial Statements

For the Year Ended 30 June 2023

30 Share-based payments

Share-based payments expense during the period is \$41,949 (2022: \$19,950) which relates to performance rights issued to KMP and other employees of the Company.

Performance rights

In August 2022, the Company issued 35,000 performance rights to Stephen Irecki (Chief Operations Officer) vesting upon meeting performance conditions. Of this amount 5,000 rights vested during the year, resulting in the issue of 5,000 shares since the end of the year.

During the year ended 30 June 2023, 12,500 performance rights vested upon meeting performance conditions but remained unexercised at 30 June 2023.

As at 30 June 2023, 73,500 performance rights remained unvested (2022: 15,000), the performance conditions of which are as below:

Performance Rights	Expiry Date	Vesting Conditions
3,000	2 August 2023	Continuous employment within the group
10,000	1 February 2024	Continuous employment within the group
2,000	1 April 2024	Continuous employment within the group
5,000	8 April 2024	Continuous employment within the group
5,000	1 June 2024	Continuous employment within the group
5,000	2 August 2024	Continuous employment within the group
20,000	1 February 2025	Continuous employment within the group
2,500	1 April 2025	Continuous employment within the group
7,000	8 April 2025	Continuous employment within the group
7,000	1 June 2025	Continuous employment within the group
7,000	2 August 2025	Continuous employment within the group

Accounting policy for share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

Notes to the Financial Statements

For the Year Ended 30 June 2023

30 Share-based payments continued

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited. If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

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31 Company Details

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

Prophecy International Holdings Limited and Controlled Entities

Level 5

60 Waymouth Street

Adelaide SA 5000

Prophecy International Holdings Limited and Controlled Entities

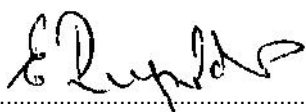
ABN: 16 079 971 618

Directors' Declaration For the Year Ended 30 June 2023

The directors of the Company declare that:

1. the consolidated financial statements and notes for the year ended 30 June 2023 are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards, which, as stated in basis of preparation Note 1(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 28 day of September, 2023

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 2023, 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 2023 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 (including Independence Standards)* (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.

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
Revenue recognition – Note 1(m) and 2 <p>The Group recorded revenue of \$19,607,087 for the year ended 30 June 2023. Revenue is the key driver of the Group and is generated through multiple revenue streams including:</p> <ul style="list-style-type: none">• License sales;• Maintenance fees; and• Consulting sales <p>The revenues are generated from providing diverse goods and services to its customers which require different types of revenue recognition in accordance with the accounting policies detailed in Note 1(m).</p> <p>The Group focuses on revenue as a key performance indicator and revenue is also a key driver by which the performance of the Group is measured. Revenue is a key audit matter due to the volume of transactions and the complexity in the revenue recognition of the different streams.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none">• Documenting the processes and assessing whether internal controls are designed effectively relating to revenue recognition under the five-step model of AASB 15 <i>Revenue from Contracts with Customers</i> ;• Reviewing revenue recognition policies of individual customer agreements and contractual arrangements to ensure compliance with AASB 15;• Testing a sample of revenue transactions by agreeing the amounts with contract terms, delivery of performance obligations and other supporting documentation;• Analytically reviewing revenue streams against the prior corresponding period to identify and assess potential anomalies;• Reviewing management’s information and key estimates relating to incremental costs to obtain customer contracts; and• Assessing the adequacy of the Group’s disclosures within the financial statements.
Recognition of research and development tax incentive – Notes 1(r), 1(t) and 11 <p>The Group receives a research and development (R&D) refundable tax offset from the Australian government, which represents the corporate tax rate plus 18.5 cents in each dollar of eligible annual R&D expenditure in each dollar of eligible annual R&D expenditure if its turnover is less than \$20 million per annum. Registration of R&D Activities Application is filed with AusIndustry in the following financial year and, based on this filing, the Group receives the incentive in cash.</p> <p>Management reviewed the Group’s total R&D expenditure to estimate the refundable tax offset receivable under the R&D tax incentive legislation.</p> <p>This area is a key audit matter due to the size of the accrual and the degree of judgment and interpretation of the R&D tax legislation required by management to assess the eligibility of the R&D expenditure under the scheme.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none">• Obtaining through discussions with management an understanding of the process to estimate the claim;• Utilising an internal R&D tax specialist to:<ul style="list-style-type: none">– review the expenditure methodology employed by management for consistency with the R&D tax offset rules; and– consider the nature of the expenses against the eligibility criteria of the R&D tax incentive scheme to form a view about whether the expenses included in the estimate were likely to meet the eligibility criteria;• Comparing the nature of the R&D expenditure included in the current year estimate to the prior year’s claim;• Testing a sample of R&D expenditure and agreeing to supporting documentation to ensure appropriate classification, the validity of the claimed amount and eligibility against the R&D tax incentive scheme criteria;• Assessing the appropriateness of the financial statement disclosures.

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 2023, 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_2020.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 2023.

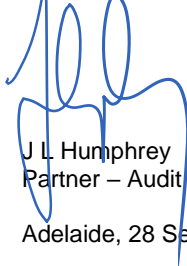
In our opinion, the Remuneration Report of Prophecy International Holdings Limited, for the year ended 30 June 2023 complies with section 300A of the *Corporations Act 2001*.

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.

The logo for Grant Thornton, featuring the company name in a blue, cursive script font.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A blue ink signature of J. L. Humphrey, written in a cursive style.

J. L. Humphrey
Partner – Audit & Assurance

Adelaide, 28 September 2023

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Additional Information for Listed Public Companies

For the Year Ended 30 June 2023

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 28 September 2023.

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

Holding	Ordinary shares	
	Shares	Options
1 - 1,000	388	0
1,001 - 5,000	499	0
5,001 - 10,000	254	0
10,001 - 100,000	433	0
100,000 and over	76	0
Total	1650	0

There were 260 holders of less than a marketable parcel of ordinary shares.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Additional Information for Listed Public Companies

For the Year Ended 30 June 2023

Rank	Twenty Largest Shareholders	Numbers Held	% of Ordinary
1.	BNP PARIBAS NOMINEES PTY LTD (IB AU NOMS RETAIL CLIENT DRP)	8,129,741	11.04%
2.	REYER INVESTMENTS PTY LTD (SUPER FUND A/C)	7,830,000	10.64%
3.	NATIONAL NOMINEES LIMITED	6,235,585	8.47%
4.	DUNMOORE PTY LTD	4,764,052	6.47%
5.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	4,021,238	5.46%
7.	J P MORGAN NOMINEES AUSTRALIA LIMITED	2,989,189	4.06%
6.	CITICORP NOMINEES PTY LIMITED	2,798,076	3.80%
8.	MR STUART CRAIG GEROS+MRS MICHELLE DOROTHY GEROS (THE EMERALD POINT FAM A/C)	1,667,728	2.27%
9.	TEN TALENTS <FIVE TALENTS A/C>	1,226,935	1.67%
10.	HOLDEN HOLDEN + ASSOCIATES PTY LTD	1,021,875	1.38%
11.	MR PETER JOSEPH BARZEN	945,882	1.28%
12.	MS CHRISTINE A HOLDEN + MR BRIAN P TOWLER (CHRISTINE HOLDEN S/F A/C)	800,000	1.09%
13.	CUSTODIAL SERVICES LIMITED (BENEFICIARIES HOLDING A/C)	788,834	1.07%
15.	MRS L R CHALLANS + MR S W CHALLANS	774,880	1.05%
14.	SMOOTHWARE PTY LTD	766,469	1.04%
16.	MRS GLENIS NITA O'DONNELL	570,000	0.77%
17.	MR DARREL RAY SCHNEIDER <SCHNEIDER FAMILY JV A/C>	552,159	0.75%
18.	ANDAMAX INVESTMENTS PTY LTD	500,000	0.68%
19.	BOND STREET CUSTODIANS LIMITED <ECWMPL - D64640 A/C>	500,000	0.68%
20.	DR DEAN ANDARY	412,615	0.56%

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Additional Information for Listed Public Companies For the Year Ended 30 June 2023

Substantial Shareholders

Substantial shareholders in the company are set out below:

Name	Ordinary Shares	% held
BNP PARIBAS NOMINEES PTY LTD	8,129,741	11.04%
REYER INVESTMENTS PTY LTD (SUPER FUND A/C)	7,830,000	10.64%
NATIONAL NOMINEES LTD – AUSTRALIAN ETHICAL INVESTMENT LTD	4,852,502	6.59%
DUNMOORE PTY LTD	4,764,052	6.47%

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.