



PROPHECY INTERNATIONAL HOLDINGS LTD

ACN 079 971 618

Appendix 4E - Preliminary Final Report

For the Year Ended 30 June 2020



Prophecy International Holdings Ltd

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Prophecy

ASX preliminary final report for the year ended 30 June 2020 Lodged with the ASX under listing Rule 4.3A

Results for announcement to the market
30 June 2020

Appendix 4E
Reference

		30 June 2020 \$'000	30 June 2019 \$'000	Variance \$'000	Variance %
2.1	Revenue from ordinary activities	13,594	12,107	1,487	12%
2.2	(Loss) from ordinary activities after tax attributable to members	(5,505)	(1,399)	(4,106)	(293%)
2.3	Net (loss) for the period attributable to members	(5,505)	(1,399)	(4,106)	(293%)
2.4	Dividends/distributions	An interim dividend of 0.5 cents per share was paid on 31 st on March 2020 for the period. No final dividend has been proposed.			
2.5	Record date	Not applicable			
2.6	Explanation of the figures in 2.1 to 2.4	Refer to the attached financial statements			
3	Statement of Comprehensive Income	Refer to the attached financial statements			
4	Statement of Financial Position	Refer to the attached financial statements			
5	Statement of Cash Flows	Refer to the attached financial statements			
6	Statement of Changes in Equity	Refer to the attached financial statements			
7	Details of Individual and total Dividends	Not applicable			
8	Details of dividend reinvestment plans in operation	Not applicable			
9	Net tangible assets per share (cents)	0.010 cents	0.006 cents	0.004 cents	67%
10	Details of entities over which control has been gained or loss	Not applicable			
11	Details of associates or joint venture entities	Not applicable			
12	Any other significant information	Refer to the attached financial statements			
13	The Financial Statements are prepared in accordance with Australian Accounting Standards				
14	Commentary on the results for the period	Refer to the attached financial statements			
15	The 30 June 2020 financial report and accompanying notes for the Group are in the process of being audited and the Directors do not expect any disputes or qualifications.				
16	Not Applicable				
17	Not Applicable				

Results for announcement to the market

For the Year Ended 30 June 2020

**Revenue
\$13.75M**

**Revenue
up 13.5%**

**EBITDA
up 396%**

Zero debt

**\$4.3M
Cash**

**\$1.16M
Cash Flow**

**eMite
\$4.3M ARR**

Prophecy International announced today that despite the challenging global economy in H2 as a result of the COVID-19 Pandemic, sales results for the group have been strong and have increased year over year.

Highlights

Full year total revenue is \$13.75M up from \$12.21M last year or growth of 13.5%. This is our third consecutive year of top line revenue growth.

EBITDA finished in the positive for the full year achieving \$345K up from \$87K last year.

The group continues to have no debt and the cash balance remains strong with \$4.3M cash at hand at the close of the financial year. The group did pay a dividend at the half and will not declare a further dividend for the full year.

Strong positive cashflow of \$1.16M was generated over the year.

Sales in the US continued to provide the majority of the revenue for the group.

COVID19

Any commentary on FY20 cannot be made without acknowledging the impact of COVID 19. At Prophecy we had experienced a significant growth result at the end of the first half and were well positioned for this to continue prior to the impact of COVID19.

As a globally dispersed technology company we were in a strong position to leverage the tools and systems that we had in place to immediately move to secure remote working for all staff globally. We did this quickly for our office locations in Australia, the US and Manila

More significant was the uncertainty that was created by COVID19 from March 2020 that persists to today. The global uncertainty and the significant loss of life from COVID19 in some countries and geographies did have a material impact on the business. We saw global decision making on investments and purchases slow significantly, causing delays in customer signings, we also saw projects delayed causing an impact on the speed of roll out on some eMite deals, slowing our ability to invoice customers and collect revenue.

We estimate that we experienced approximately a 30% decrease in sales and invoicing during this initial high impact COVID period from March 2020 onwards.

Snare

Snare sales achieved 624 new sales contracts in FY20 with an average value of \$10,947. Previous financial year average was \$8,648 – a 26.5% increase in average sale size. Total new business sales (excluding renewals) increased from \$6.061M to \$6.830M.

Sales transaction size was improved due to several MSSP partners selling Snare into larger accounts and gaining a greater footprint in those accounts, as well as the direct sales team selling the entire product suite more effectively in FY20.

The majority of Snare sales were perpetual license sales that are recognized as revenue at the time of the sale although we have seen an increase in subscription licenses as these are being introduced into the Snare product suite.

The Americas was again the predominant market for Snare sales with 77.0% of new business coming from the US. EMEA contributed 13.3% with APAC contributing the remaining 9.7%

Our best Snare customers continue to come from large enterprise and government segment including Metlife, Chicago Mercantile Exchange, QBE, Principal Financial, Raytheon and the Metropolitan Police in the UK over the last 12 months.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Results for announcement to the market

For the Year Ended 30 June 2020

eMite

eMite sales continue to be strong and we have experienced good growth in sales into the Amazon Connect customer base despite challenges with roll out delays for some new customers due to COVID19.

A total of 79 new subscription customers were added in FY20 with 59 of these coming from Genesys and 20 coming from Amazon Connect. The Genesys average deal size increased to \$26,590 up from \$18,870 in FY19.

Genesys customers accounted for sales contracts totaling \$1.56M in year 1 and based on expected usage the Amazon Connect sales are expected to generate annual revenues of \$1.46M when fully deployed. Combined these sales total \$3.03M of expected revenue up from \$2.67M last financial year. Although it should be noted that Amazon Connect sales generally do not have committed volumes and are purely usage based at this stage.

55.2% of eMite sales came from the Americas, 24.80% from APAC and 20% from EMEA.

Significant sales closed through Genesys included 1800 Flowers, Dyson/AT&T, Edelman Financial and Philip Morris. Amazon Connect customers that bought eMite in the last year included Goldman Sachs, NAB, Telstra, LA Sanitation, Johnson & Johnson and Fidelity Investments.

eMite sales are almost exclusively subscription licenses and revenue is recognized as the service is provided on a monthly basis. This means that some of the sales contracts from last year have not had a full impact on the revenue at a P&L level this year.

Annualized Recurring Revenue (ARR) of current accounts for eMite totals \$4.37M (including Amazon Connect accounts based on estimated usage of \$1.46M) going into the new year.

Intangible asset write down

COVID19 has also been the trigger for a review of the value of the intangible assets held by the group and due to the impacts experienced in H2 and the ongoing uncertainty about the speed of project roll out impacting revenue over the next 12 months, the board feels that it is sensible to write down the book value of the intangible assets relating to eMite by an amount of \$4.67M.

This write down has no impact on cash, cash flow or the EBITDA results.

As a result of this write down the operating profit changes to an accounting loss of \$5.5M.

The board looks forward to releasing the Annual Report before the 30th September 2020.



Brad Thomas OAM
CEO

Prophecy International Holdings Limited and Controlled Entities

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2020

		2020	2019
	Note	\$	\$
Revenue	3	13,594,435	12,107,320
Other income		153,897	6,662
Employee benefits expense		(8,874,482)	(7,998,286)
Depreciation and amortisation expense	4	(1,571,254)	(1,426,213)
Impairment expense – intangible assets	4	(4,670,746)	-
Other expenses	4	(4,524,629)	(4,024,317)
Finance costs		(33,569)	(4,318)
Loss before income tax		(5,926,348)	(1,339,152)
Income tax benefit/(expense)	5	432,364	(115,673)
Loss for the year		(5,493,984)	(1,454,825)
Other comprehensive income, net of income tax			
Items that will be reclassified to profit or loss when specific conditions are met			
Exchange differences on translating foreign controlled entities		35,077	(81,869)
Other comprehensive income/(loss) for the year, net of tax		35,077	(81,869)
Total comprehensive loss for the year		(5,458,907)	(1,536,694)
Profit/(Loss) attributable to:			
Members of the parent entity		(5,504,703)	(1,398,949)
Non-controlling interest		10,719	(55,876)
		(5,493,984)	(1,454,825)
Total comprehensive income/(loss) attributable to:			
Members of the parent entity		(5,469,626)	(1,480,818)
Non-controlling interest		10,719	(55,876)
		(5,458,907)	(1,536,694)
Losses per share			
From continuing and discontinued operations:			
Basic earnings per share (cents)	9	(8.60)	(2.19)
Diluted earnings per share (cents)	9	(8.60)	(2.19)
From continuing operations:			
Basic earnings per share (cents)		(8.60)	(2.19)
Diluted earnings per share (cents)		(8.60)	(2.19)

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Consolidated Statement of Financial Position

As At 30 June 2020

	Note	2020 \$	2019 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	4,398,723	4,375,635
Trade and other receivables	11	2,903,934	2,215,034
Other assets	12	512,242	342,839
TOTAL CURRENT ASSETS		7,814,899	6,933,508
NON-CURRENT ASSETS			
Trade and other receivables	11	8,201	8,026
Property, plant and equipment	14	353,924	251,443
Right to use assets	16	1,280,960	-
Deferred tax assets	26	1,071,565	273,417
Intangible assets	15	9,415,547	15,399,675
TOTAL NON-CURRENT ASSETS		12,130,197	15,932,561
TOTAL ASSETS		19,945,096	22,866,069
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	1,288,130	860,065
Current tax liabilities	26	375,189	584,567
Employee benefits	19	1,017,665	788,580
Contract liabilities	18	3,603,248	3,104,576
Lease liabilities	16	482,478	-
TOTAL CURRENT LIABILITIES		6,766,710	5,337,788
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	1,109,046	553,195
Employee benefits	19	163,968	101,719
Lease liabilities	16	905,271	-
Contract liabilities	18	958,778	1,085,392
TOTAL NON-CURRENT LIABILITIES		3,137,063	1,740,306
TOTAL LIABILITIES		9,903,773	7,078,094
NET ASSETS		10,041,323	15,787,975
EQUITY			
Issued capital	20	28,501,869	28,469,564
Reserves		(309,458)	(344,536)
Retained earnings/(accumulated losses)		(17,819,740)	(11,994,986)
Total equity attributable to equity holders of the Company		10,372,671	16,130,042
Non-controlling interest		(331,348)	(342,067)
TOTAL EQUITY		10,041,323	15,787,975

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2020

2020

Balance at 1 July 2019

Loss attributable to members of the parent entity

Profit attributable to non-controlling interests

Total other comprehensive income for the year

Transactions with owners in their capacity as owners

Shares issued during the year

Dividends paid or provided for

Balance at 30 June 2020

Ordinary Shares	Retained Earnings	Foreign Currency Translation Reserve	Option Reserve	Non- controlling Interests	Total
\$	\$	\$	\$	\$	\$
28,469,564	(11,994,986)	(469,361)	124,825	(342,067)	15,787,975
-	(5,504,703)	-	-	-	(5,504,703)
-	-	-	-	10,719	10,719
-	-	35,077	-	-	35,077
32,305	-	-	-	-	32,305
-	(320,050)	-	-	-	(320,050)
28,501,869	(17,819,739)	(434,284)	124,825	(331,348)	10,041,323

2019

Balance at 1 July 2018

Loss attributable to members of the parent entity

Loss attributable to non-controlling interests

Total other comprehensive income for the year

Balance at 30 June 2019

Ordinary Shares	Retained Earnings	Foreign Currency Translation Reserve	Option Reserve	Non- controlling Interests	Total
\$	\$	\$	\$	\$	\$
28,469,564	(10,596,037)	(387,492)	124,825	(286,191)	17,324,669
-	(1,398,949)	-	-	-	(1,398,949)
-	-	-	-	(55,876)	(55,876)
-	-	(81,869)	-	-	(81,869)
28,469,564	(11,994,986)	(469,361)	124,825	(342,067)	15,787,975

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Consolidated Statement of Cash Flows**For the Year Ended 30 June 2020**

	Note	2020 \$	2019 \$
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		13,424,134	13,276,907
Payments to suppliers and employees		(12,269,571)	(12,116,965)
Interest received		4,056	6,661
Income taxes refunded		-	786,030
Net cash provided by operating activities	25	1,158,619	1,952,633
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(281,889)	(95,711)
Net cash provided used in investing activities		(281,889)	(95,711)
Proceeds from issue of shares		32,305	-
Payment of lease liabilities		(517,948)	-
Dividends paid by parent entity		(320,050)	-
Net cash provided used in financing activities		(805,693)	-
Effects of foreign exchange rates on overseas cash holdings		(47,949)	(80,971)
Net increase in cash and cash equivalents held		23,088	1,775,951
Cash and cash equivalents at beginning of year		4,375,635	2,599,684
Cash and cash equivalents at end of financial year	10	4,398,723	4,375,635

Notes to the Financial Statements

For the Year Ended 30 June 2020

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 Change in Accounting Policy

Leases - Adoption of AASB 16

The Group has adopted AASB 16 *Leases* using the modified retrospective (cumulative catch-up) method from 1 July 2019 and therefore the comparative information for the year ended 30 June 2019 has not been restated and has been prepared in accordance with AASB 117 *Leases* and associated Accounting Interpretations.

Impact of adoption of AASB 16

The impact of adopting AASB 16 is described below:

The Group as a lessee

Under AASB 117, the Group assessed whether leases were operating or finance leases based on its assessment of whether the significant risks and rewards of ownership had been transferred to the Group or remained with the lessor. Under AASB 16, there is no differentiation between finance and operating leases for the lessee and therefore all leases which meet the definition of a lease are recognised on the consolidated statement of financial position (except for short-term leases and leases of low value assets).

The Group has elected to use the exception to lease accounting for short-term leases and leases of low value assets, and the lease expense relating to these leases are recognised on a straight line basis.

Practical expedients used on transition

AASB 16 includes a number of practical expedients which can be used on transition, the Group has used the following expedients:

- contracts which had previously been assessed as not containing leases under AASB 117 were not re-assessed on transition to AASB 16;
- lease liabilities have been discounted using the Group's incremental borrowing rate at 1 July 2019;
- right-of-use assets at 1 July 2019 have been measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments;
- a single discount rate was applied to all leases with similar characteristics;
- the right-of-use asset was adjusted by the existing onerous lease provision (where relevant) at 30 June 2019 rather than perform impairment testing of the right-of-use asset;
- excluded leases with an expiry date prior to 30 June 2020 from the consolidated statement of financial position and lease expenses for these leases have been recorded on a straight-line basis over the remaining term;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease;
- for leases which were classified as finance leases under AASB 117, the carrying amount of the right-of-use asset and the lease liability at 1 July 2019 are the same value as the leased asset and liability on 30 June 2019.

Notes to the Financial Statements

For the Year Ended 30 June 2020

1 Change in Accounting Policy continued

Financial statement impact of adoption of AASB 16

The Group has recognised right-of-use assets of \$508,125 and lease liabilities of \$688,589 and derecognised accrued lease payments of \$180,464 at 1 July 2019, for leases previously classified as operating leases.

	\$
Operating lease commitments at 30 June 2019 financial statements	1,038,998
Discounted using the incremental borrowing rate at 1 July 2019 ranging between 2.9% and 7.8%	852,632
Less:	
Short-term leases included in commitments note	(164,043)
Lease liabilities recognised at 1 July 2019	688,589

Interpretation 23 Uncertainty over Income Tax

The Group has adopted Interpretation 23 from 1 July 2019. The interpretation clarifies how to apply the recognition and measurement requirements of AASB 112 'Income Taxes' in circumstances where uncertain tax treatments exists. The interpretation requires: the Group to determine whether each uncertain tax treatment should be treated separately or together, based on which approach better predicts the resolution of the uncertainty; the Group to consider whether it is probable that a taxation authority will accept an uncertain tax treatment; and if the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates, measuring the tax uncertainty based on either the most likely amount or the expected value. In making the assessment it is assumed that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. Interpretation 23 was adopted using the modified retrospective approach and as such comparatives have not been restated. There was no impact of adoption on opening accumulated losses as at 1 July 2019.

2 Summary of Significant Accounting Policies

(a) Basis of Preparation

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

These financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. 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.

Notes to the Financial Statements

For the Year Ended 30 June 2020

2 Summary of Significant Accounting Policies continued

(b) Principles of Consolidation continued

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.

(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.

Notes to the Financial Statements

For the Year Ended 30 June 2020

2 Summary of Significant Accounting Policies continued

(c) Income Tax continued

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

The Company and its wholly-owned Australian controlled entities have formed a tax-consolidated group under the legislation and as a consequence these entities are taxed as a single entity.

(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.

Leased assets and leasehold improvements are amortised over the shorter of either the unexpired period of the lease or their estimated useful life.

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class	Depreciation rate
Plant and Equipment	10% - 40%
Furniture, Fixtures and Fittings	1.8% - 30%

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

Notes to the Financial Statements

For the Year Ended 30 June 2020

2 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 financial 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.

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 amortised cost

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 2020

2 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 2020

2 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 2020

2 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.

Intellectual property

Intellectual property relates to copyright in eMite Pty Ltd's software products acquired in a business combination. It is amortised on a straight-line basis over the period of their expected benefit, being their expected finite period of 14 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 2020

2 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 2020

2 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 9.5% of the employee's average ordinary salary) to the employee's superannuation fund of choice. All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Group's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Group's statement of financial position.

Termination benefits

When applicable, the Group recognises a liability and expense for termination benefits at the earlier of: (a) the date when the Group can no longer withdraw the offer for termination benefits; and (b) when the Group recognises costs for restructuring pursuant to AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the costs include termination benefits. In either case, unless the number of employees affected is known, the obligation for termination benefits is measured on the basis of the number of employees expected to be affected. Termination benefits that are expected to be settled wholly before 12 months after the annual reporting period in which the benefits are recognised are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as other long-term employee benefits.

(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 2020

2 Summary of Significant Accounting Policies continued

(I) Leases

For current year

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.

Accounting policy applicable to comparative period (30 June 2019)

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Notes to the Financial Statements

For the Year Ended 30 June 2020

2 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 obligations 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 straight-line method provides a faithful depiction of the transfer of goods or services.

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

Interest Revenue

Interest is recognised using the effective interest method.

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

Notes to the Financial Statements

For the Year Ended 30 June 2020

2 Summary of Significant Accounting Policies continued

(n) Trade and Other Receivables

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

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

(o) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(p) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

(q) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payable are stated inclusive of GST.

Cash flows in the consolidated statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(r) 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 2020

2 Summary of Significant Accounting Policies continued

(s) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

Key estimates - impairment of tax losses

Deferred tax assets include amounts related to unused tax losses. At each balance date the directors review the likelihood that the Group be able to generate sufficient future taxable profits to utilise these tax losses, and adjusts deferred tax assets accordingly. Further information regarding the conditions under which these tax losses may be utilised can be found in Note 26.

Key estimates - Coronavirus COVID-19 Pandemic

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

Key estimates - impairment of non-financial assets

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2(f)). During the year, the Group recognised an impairment loss on intangible assets goodwill (see Note 15).

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.

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

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

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

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2020

3 Revenue and Other Income

Revenue

	2020	2019
	\$	\$
Sales revenue		
- licence sales	8,565,875	7,220,280
- maintenance fees	4,646,722	4,339,491
- consulting sales	381,838	547,549
	<u>13,594,435</u>	<u>12,107,320</u>

The Group's revenue is disaggregated as follows:

	Legacy		Core		Subscriptions		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$	\$	\$
All locations	656,634	732,289	10,575,828	9,748,050	2,361,973	1,626,981	13,594,435	12,107,320

Notes to the Financial Statements

For the Year Ended 30 June 2020

4 Result for the Year

The result for the year includes the following specific expenses:

	2020	2019
	\$	\$
Salaries and wages	5,779,389	5,456,470
Commissions	1,137,376	1,152,736
Superannuation contributions	394,759	428,960
Payroll taxes	396,094	346,131
Impairment of intangible assets	4,670,746	-
Depreciation and amortisation expense comprises:		
- Depreciation - plant and equipment	180,408	91,542
- Depreciation - right of use assets	77,464	-
- Amortisation - intellectual property	800,000	808,567
- Amortisation - development costs	513,382	526,104
	1,571,254	1,426,213
Other Expenses:		
Accounting fees	152,424	140,039
Consulting and professional fees	1,440,182	1,209,584
Filing fees	81,223	67,173
Insurance	139,189	138,985
Marketing	140,173	355,423
Rent expense	462,095	396,567
Communications expense	1,080,383	719,184
Software including annual maintenance	607,802	434,036
Travel and accommodation	228,769	198,479
Other expenses	192,389	364,847
	4,524,629	4,024,317

Notes to the Financial Statements

For the Year Ended 30 June 2020

5 Income Tax Expense

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

	2020	2019
	\$	\$
Current tax expense	145,294	509,265
Foreign income tax withholding	-	106
Deferred tax expense	(212,301)	(139,471)
Adjustments for current tax of prior periods	(365,358)	(254,227)
Total income tax (benefit)/expense	(432,365)	115,673

(b) Reconciliation of income tax to accounting profit:

Loss	(5,926,348)	(1,339,152)
Tax rate	27.50%	27.50%
	(1,629,746)	(368,267)

Add:

Tax effect of:

- non-deductible depreciation, amortisation and impairment	1,515,102	222,356
- non-deductible expenses	2,672	5,066
- tax losses not recognised	44,965	512,996
	(67,007)	372,151

Less:

Tax effect of:

- over provision for income tax in prior year	365,358	254,227
- other	-	2,251

Income tax attributable to parent entity	(432,365)	115,673
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Income tax expense	(432,365)	115,673
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Weighted average effective tax rate	(9)%	(9)%
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(c) Income tax relating to each component of other comprehensive income:

Timing differences on unrealised foreign exchange gains	29,997	70,192
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Notes to the Financial Statements

For the Year Ended 30 June 2020

6 Key Management Personnel Disclosures

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

	2020	2019
	\$	\$
Short-term employee benefits	1,782,656	1,736,039
Post-employment benefits	113,892	141,859
	<u>1,896,548</u>	<u>1,877,898</u>

7 Remuneration of Auditors

Remuneration of the auditor of the parent entity, Grant Thornton Audit Pty Ltd, for:

- auditing or reviewing the financial statements	97,925	94,961
- taxation services	27,700	25,422

Remuneration of other firms for audits of subsidiaries:

- auditing or reviewing the financial statements of subsidiaries	11,318	10,859
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Total	<u>136,943</u>	<u>131,242</u>
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8 Dividends

The following dividends were declared and paid:

Interim unfranked ordinary dividend of 0.5 (2019: nil) cents per share	<u>320,050</u>	<u>-</u>
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Franking account

The franking credits available for subsequent financial years at a tax rate of 27.5%	123,308	268,154
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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 impact on the franking credit of the dividends proposed after the end of the reporting period is to reduce it by zero (2019: zero).

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

Notes to the Financial Statements

For the Year Ended 30 June 2020

9 Earnings per Share

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

	2020	2019
Note	\$	\$
Loss after income tax	(5,493,984)	(1,454,825)
Non-controlling interest	(10,719)	55,876
Loss after income tax attributable to the owners of Prophecy International Holdings Limited	(5,504,703)	(1,398,949)

(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	64,013,441	64,009,784
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	64,013,441	64,009,784

10 Cash and Cash Equivalents

	\$	\$
Cash at bank and in hand	4,177,244	4,154,156
Short-term bank deposits	221,479	221,479
	4,398,723	4,375,635

11 Trade and Other Receivables

CURRENT		
Trade receivables	2,492,262	2,045,954
Accrued revenue	379,683	163,651
Other receivables	31,989	5,429
Total current trade and other receivables	2,903,934	2,215,034
NON-CURRENT		
Deposits	24	24
Other receivables	8,177	8,002
Total non-current trade and other receivables	8,201	8,026

(a) Collateral held as security

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

(b) Financial assets classified as loans and receivables

Trade and other receivables		
- total current	2,903,934	2,215,034
- total non-current	8,201	8,026
Financial assets	2,912,135	2,223,060

Notes to the Financial Statements

For the Year Ended 30 June 2020

11 Trade and Other Receivables continued

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

	Current	Less than 30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
2020						
Expected loss rate	0%	0%	0%	0%	0%	
Gross carrying amount						
- trade and other receivables	1,920,894	747,810	21,552	40,616	181,263	2,912,135
Loss allowance	0	0	0	0	0	0
2019						
Expected loss rate	0%	0%	0%	0%	0%	
Gross carrying amount						
- trade and other receivables	1,465,648	579,632	10,105	28,421	139,254	2,223,060
Loss allowance	0	0	0	0	0	0

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 2020 and 1 July respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding.

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

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

12 Other Non-financial Assets

	2020	2019
	\$	\$
Prepayments	512,242	342,839

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2020

13 Interests in Subsidiaries

Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 2020	Percentage Owned (%)* 2019
Subsidiaries:			
Intersect Alliance International Pty Ltd	Australia	100	100
Prophecy International Pty Ltd as trustee for CSP Unit Trust	Australia	100	100
Prophecy R&D Pty Ltd	Australia	100	100
Prophecy Americas' Inc	United States	93	93
Prophecy Europe Limited	United Kingdom	100	100
eMite Pty Ltd	Australia	100	100

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

Significant judgements and assumptions

The Group holds 93.1% of the ordinary shares and voting rights in Prophecy Americas Inc. One other investor holds 6.9%.

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

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2020

14 Property, Plant and Equipment

	2020 \$	2019 \$
Plant and equipment		
At cost	1,290,292	1,008,380
Accumulated depreciation	(958,670)	(792,401)
Total plant and equipment	331,622	215,979
Furniture, fixtures and fittings		
At cost	241,465	236,718
Accumulated depreciation	(219,163)	(201,254)
Total furniture, fixtures and fittings	22,302	35,464
Total property, plant and equipment	353,924	251,443

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 2020			
Balance at the beginning of year	215,979	35,464	251,443
Additions	278,084	3,805	281,889
Depreciation expense	(162,796)	(17,240)	(180,036)
Foreign exchange movements	355	273	628
Balance at the end of the year	331,622	22,302	353,924

Year ended 30 June 2019

Balance at the beginning of year	194,157	48,041	242,198
Additions	95,711	3,755	99,466
Depreciation expense	(74,599)	(16,943)	(91,542)
Foreign exchange movements	710	611	1,321
Balance at the end of the year	215,979	35,464	251,443

Notes to the Financial Statements

For the Year Ended 30 June 2020

15 Intangible Assets

	2020 \$	2019 \$
Goodwill		
Cost	5,108,270	5,108,270
Accumulated impairment losses	(2,981,455)	-
Net carrying value	2,126,815	5,108,270
Intellectual property		
Cost	12,720,000	12,720,000
Accumulated amortisation	(4,720,000)	(3,920,000)
Accumulated impairment losses	(1,689,291)	-
Net carrying value	6,310,709	8,800,000
Development costs		
Cost	2,678,372	2,678,372
Accumulated amortisation and impairment	(1,700,349)	(1,186,967)
Net carrying value	978,023	1,491,405
Total Intangibles	9,415,547	15,399,675

Movements in carrying amounts of intangible assets

	Intellectual property \$	Goodwill \$	Development costs \$	Total \$
Year ended 30 June 2020				
Balance at the beginning of the year	8,800,000	5,108,270	1,491,405	15,399,675
Amortisation	(800,000)	-	(513,382)	(1,313,382)
Impairment loss	(1,689,291)	(2,981,455)	-	(4,670,746)
Closing value at 30 June 2020	6,310,709	2,126,815	978,023	9,415,547
Year ended 30 June 2019				
Balance at the beginning of the year	9,608,567	5,108,270	2,017,509	16,734,346
Amortisation	(808,567)	-	(526,104)	(1,334,671)
Closing value at 30 June 2019	8,800,000	5,108,270	1,491,405	15,399,675

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

The recoverable amount of the eMite CGU is estimated to be \$6,310,709 as at 30 June 2020 and the corresponding impairment loss of \$4,670,746 was charged to the profit or loss during the year due to reduction in the target growth in revenue and profit for the cash flow projection period of the next 4 years.

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2020

16 Leases

Right-of-use assets

\$

Year ended 30 June 2020

As at 1 July 2019	688,589
Increases – new leases	963,526
Depreciation	(371,155)
Balance at end of year	1,280,960

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 lease liabilities
	\$	\$	\$	\$
2020				
Lease liabilities	482,478	905,271	-	1,387,749

17 Trade and Other Payables

	Note	2020 \$	2019 \$
Trade payables		679,801	281,132
Sundry payables and accrued expenses		605,672	576,279
Other payables		2,657	2,654
	29	1,288,130	860,065

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

Deferred income	3,603,248	3,104,576
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NON-CURRENT

Deferred income	958,778	1,085,392
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Total deferred income

	4,562,026	4,189,968
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Deferred income has grown due to the growth in multi-year maintenance agreements, growth in subscription licence sales, increase in the term of subscription based customer contracts and increase in the prepayment of annual subscription contracts.

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2020

19 Employee Benefits

	2020 \$	2019 \$
CURRENT		
Long service leave	314,461	272,027
Annual leave	703,204	516,553
	<u>1,017,665</u>	<u>788,580</u>
NON-CURRENT		
Long service leave	<u>163,968</u>	<u>101,719</u>

20 Issued Capital

64,055,934 (2019: 64,009,784) Ordinary shares	<u>28,501,869</u>	<u>28,469,564</u>
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(a) Ordinary shares

	No.	No.
At the beginning of the reporting period	64,009,784	64,009,784
Shares issued during the year	46,150	-
At the end of the reporting period	<u>64,055,934</u>	<u>64,009,784</u>

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

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

(b) Capital Management

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

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

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

Notes to the Financial Statements

For the Year Ended 30 June 2020

21 Capital and Leasing Commitments

Operating Leases

	2020 \$	2019 \$
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	-	488,531
- between one year and five years	-	550,467
	<u>-</u>	<u>1,038,998</u>

Following implementation of AASB 16 – Leases, minimum lease payments are now included in lease liabilities. Refer note 16.

22 Contingencies

Contingent Liabilities

Prophecy International Pty Ltd, a controlled entity, has provided guarantees to third parties in respect of property lease rentals. The maximum amount payable is \$191,479 (2019: \$191,479).

Details of leases can be found in Note 16. 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.

23 Events Occurring After the Reporting Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

24 Reserves and retained surplus

(a) Foreign currency translation reserve

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

(b) Share option reserve

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

Notes to the Financial Statements

For the Year Ended 30 June 2020

25 Cash Flow Information

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

	2020	2019
	\$	\$
Loss for the year	(5,493,984)	(1,454,825)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	1,571,254	1,426,213
- impairment expense	4,670,746	-
- foreign exchange (gain)/loss	58,936	52,935
- foreign exchange differences arising on translation of foreign subsidiaries	19,411	(61,444)
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	(692,199)	532,329
- (increase)/decrease in other assets	(171,025)	(222,787)
- (increase)/decrease in inventories	-	9,000
- (increase)/decrease in deferred tax asset	(798,148)	147,969
- increase/(decrease) in income in advance	372,058	847,539
- increase/(decrease) in trade and other payables	983,195	(214,710)
- increase/(decrease) in income taxes payable	(209,378)	931,699
- increase/(decrease) in deferred tax liability	555,851	(116,522)
- increase/(decrease) in employee benefits	291,902	75,237
Cashflows from operations	<u>1,158,619</u>	<u>1,952,633</u>

(b) Credit standby arrangements with banks

Credit facility	40,000	40,000
Amount utilised	(1,477)	(11,855)
	<u>38,523</u>	<u>28,145</u>

The major facilities are summarised as follows:

Credit cards:

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

Notes to the Financial Statements

For the Year Ended 30 June 2020

26 Tax

Current Tax Asset

2020	2019
\$	\$

Current Tax Liability

Income tax payable	375,189	584,567
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Recognised deferred tax assets and liabilities

Deferred tax assets	1,071,565	273,417
Deferred tax liabilities	1,109,046	553,195

Unrecognised deferred tax assets

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

Tax losses	6,052,063	6,241,971
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Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therein.

Deferred Tax Assets

	Opening Balance \$	Charged to Income \$	Charged directly to Equity \$	Closing Balance \$
Property, plant and equipment				
- tax allowance	2,943	2,393	-	5,336
Provisions - employee benefits	205,582	13,520	-	219,102
Unrealised foreign exchange	(112,971)	(66,894)	70,192	(109,673)
Accruals	94,402	3,877	-	98,279
Deferred tax assets attributable to tax losses	230,876	(170,919)	-	59,957
s40-880 deduction	554	(138)	-	416
Balance at 30 June 2019	421,386	(218,161)	70,192	273,417
Property, plant and equipment				
- tax allowance	5,336	1,171	-	6,507
Provisions - employee benefits	219,102	59,649	-	278,751
Unrealised foreign exchange	(109,673)	146,218	29,997	66,542
Accruals	98,279	(69,030)	-	29,249
Deferred tax assets attributable to tax losses	59,957	(59,957)	-	-
s40-880 deduction	416	(139)	-	277
Leases	-	690,239	-	690,239
Balance at 30 June 2020	273,417	768,151	29,997	1,071,565

Notes to the Financial Statements

For the Year Ended 30 June 2020

26 Tax continued

Deferred Tax Liabilities

	Opening Balance \$	Charged to Income \$	Charged directly to Equity \$	Closing Balance \$
Work in progress	21,460	1,069	-	22,529
Prepayments	3,027	(69)	-	2,958
Other current assets	551,433	(145,707)	-	405,726
Unrealised foreign currency gains	93,797	28,185	-	121,982
Balance at 30 June 2019	669,717	(116,522)	-	553,195
Work in progress	22,529	(1,293)	-	21,236
Prepayments	2,958	1,029	-	3,987
Other current assets	405,726	(129,618)	-	276,108
Unrealised foreign currency gains	121,982	30,604	-	152,586
Leases	-	655,129	-	655,129
Balance at 30 June 2020	553,195	555,851	-	1,109,046

27 Operating Segments

Segment information

Identification of reportable segments

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

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

Basis of accounting for purposes of reporting by operating segments

(a) Accounting policies adopted

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

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

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

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

Notes to the Financial Statements

For the Year Ended 30 June 2020

27 Operating Segments continued

Basis of accounting for purposes of reporting by operating segments continued

(a) Accounting policies adopted continued

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 2020

27 Operating Segments continued

(e) Segment performance

	Legacy		SNARE		eMite		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE								
External sales	630,428	659,685	9,533,924	8,222,016	3,430,083	3,225,619	13,594,435	12,107,320
Total segment revenue	630,428	659,685	9,533,924	8,222,016	3,430,083	3,225,619	13,594,435	12,107,320
Segment operating profit/(loss)	(1,674,280)	(870,604)	2,525,017	2,345,025	(6,777,085)	(2,813,573)	(5,926,348)	(1,339,152)

(f) Segment assets

Segment assets	36,276,859	37,840,708	6,549,347	4,690,972	3,132,459	2,335,264	45,958,665	44,866,944
- Capital expenditure	76,594	9,228	185,740	72,020	19,555	18,218	281,889	99,466

(g) Segment liabilities

Segment liabilities	42,643,314	42,510,298	4,294,394	3,984,543	7,244,169	5,974,486	54,181,877	52,469,327
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Notes to the Financial Statements

For the Year Ended 30 June 2020

27 Operating Segments continued

(h) Reconciliations

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

	2020	2019
	\$	\$
Total segment revenue	13,594,435	12,107,300

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	(5,926,348)	(1,339,152)
Income tax benefit /(expense)	432,364	(115,673)
Total net profit after tax	(5,493,984)	(1,454,825)

Reconciliation of segment assets to the consolidated statement of financial position

Segment operating assets	45,958,666	44,866,944
Intersegment eliminations	(36,500,682)	(37,673,967)
Deferred tax assets	1,071,565	273,417
Intangible assets	9,415,547	15,399,675
Total assets per the consolidated statement of financial position	19,945,096	22,866,069

Reconciliation of segment liabilities to the consolidated statement of financial position

Segment liabilities	54,181,877	52,469,327
Intersegment eliminations	(45,387,151)	(45,944,428)
Deferred tax liabilities	1,109,046	553,195
Total liabilities per the consolidated statement of financial position	9,903,772	7,078,094

(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.

	2020		2019	
	Revenue	Assets	Revenue	Assets
Australia	1,997,502	16,841,443	2,385,390	19,241,023
United States	10,580,973	3,043,633	8,953,364	3,123,185
Europe	1,001,192	60,020	763,854	501,861
Asia	14,768	-	4,692	-
	13,594,435	19,945,096	12,107,300	22,866,069

Notes to the Financial Statements

For the Year Ended 30 June 2020

28 Related Parties

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

(i) Key management personnel:

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

For details of remuneration disclosures relating to key management personnel, refer to Note 6: Interests of Key Management Personnel (KMP) and the remuneration report in the Directors' Report.

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

(b) Transactions with related parties

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

The following transactions occurred with related parties:

	2020 \$	2019 \$
Directors Fees of \$70,000 for Grant R Miles were paid to:		
- Moore Stephens (SA) Pty Ltd \$60,000; and		
- Rickaby Holdings Pty Ltd \$10,000		
as stated in the Remuneration Report included in the Directors' Report.		
Moore Stephens (SA) Pty Ltd, a company directed by Grant R Miles, the Company Secretary and Director, provided Company Secretary and accounting services to the Group.	26,287	20,926
ITVIZZ Pte Ltd, a company previously directed by Stuart Geros, the Company CPO, provided consulting services to the Group in the 2018/2019 year.	-	175,718
PYC Inc a company Peter Barzen is a partner in, had a profit share agreement up to 31st December 2019 with Share Alliance who received royalties during the 2019/2020 year.	11,902	130,951
Total	38,189	327,595

Notes to the Financial Statements

For the Year Ended 30 June 2020

29 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 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	2020 \$	2019 \$
Financial Assets			
Cash and cash equivalents	10	4,398,723	4,375,635
Loans and receivables	11	2,912,135	2,223,060
Total financial assets		7,310,858	6,598,695
Financial Liabilities			
Financial liabilities at amortised cost			
- Trade and other payables	17	1,228,130	860,065
Total financial liabilities		1,228,130	860,065

Objectives, policies and processes

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

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

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

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

Mitigation strategies for specific risks faced are described below:

Specific financial risk exposures and management

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

Notes to the Financial Statements

For the Year Ended 30 June 2020

29 Financial Risk Management continued

(a) Credit risk

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

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

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

There is no provision for impairment of receivables at 30 June 2020 or at 30 June 2019.

Although trade and other receivables are all unrated, no indicators of impairment have been found at 30 June 2020.

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.

Notes to the Financial Statements

For the Year Ended 30 June 2020

29 Financial Risk Management continued

(b) Liquidity risk continued

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$	\$	\$
Financial assets - cash flows realisable								
Cash and cash equivalents	4,398,723	4,375,635	-	-	-	-	4,398,723	4,375,635
Trade, term and loans receivables	2,903,934	2,215,034	8,201	8,026	-	-	2,912,135	2,223,060
Total anticipated outflows	7,302,657	6,590,669	8,201	8,026	-	-	7,310,858	6,598,695
Financial liabilities due for payment								
Trade and other payables (excluding estimated annual leave)	1,288,130	860,065	-	-	-	-	1,288,130	860,065

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.

Notes to the Financial Statements

For the Year Ended 30 June 2020

29 Financial Risk Management continued

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

	Net financial assets /(liabilities) in AUD \$					
	USD	EUR	GBP	SGD	NZD	Total AUD
	\$	\$	\$	\$	\$	\$
2020						
Consolidated						
Trade and other receivables	2,015,778	62,699	169,057	-	2,920	2,250,454
Trade and other payables	(431,888)	-	(76,188)	-	-	(508,076)
2019						
Consolidated						
Trade and other receivables	1,648,872	114,720	45,352	54,517	717	1,864,178
Trade and other payables	(40,537)	-	(39,031)	-	-	(79,568)

Forward exchange contracts

There were no outstanding forward exchange contracts as at 30 June 2020 or 30 June 2019.

Foreign currency risk sensitivity analysis

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

The year end rate is 0.69 US dollars, 0.56 UK pounds and 0.61 Euros.

If the Australian Dollar had strengthened and weakened against the US dollar, UK pound and Euro by 10% ((30 June 2019: 10%) and 10% ((30 June 2019: 10%) respectively then this would have had the following impact:

	2020		2019	
	+10%	-10%	+10%	-10%
USD				
Net results	(280,355)	342,656	(181,237)	221,512
Equity	(19,024)	23,251	(51,057)	62,404
GBP				
Net results	(3,051)	3,729	(8,899)	10,876
Equity	2,467	(3,015)	(232)	284
Euro				
Net results	(775)	947	(1,746)	2,134
Equity	-	-	-	-

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

Prophecy International Holdings Limited and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 30 June 2020

30 Parent entity

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

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

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the 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.

	2020 \$	2019 \$
Statement of Financial Position		
Assets		
Current assets	9,157,685	9,991,547
Non-current assets	18,509,778	12,874,522
Total Assets	27,667,463	22,866,069
Liabilities		
Current liabilities	19,457,294	19,542,373
Non-current liabilities	655,129	582,818
Total Liabilities	20,112,423	20,125,191
Equity		
Issued capital	28,501,869	28,469,564
Retained earnings	(21,071,654)	(25,853,511)
Share option reserve	124,825	124,825
Total Equity	7,555,040	2,740,878
Statement of Profit or Loss and Other Comprehensive Income		
Total profit or loss for the year	156,890	(4,739,388)
Total comprehensive income	156,890	(4,739,388)

Notes to the Financial Statements

For the Year Ended 30 June 2020

Guarantees

The parent entity has not entered into any guarantees as at 30 June 2020 or 30 June 2019.

Contingent liabilities

The parent entity did not have any contingent liabilities as at 30 June 2020 or 30 June 2019.

Contractual commitments

The parent entity did not have any commitments as at 30 June 2020 or 30 June 2019.

31 Company Details

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

Prophecy International Holdings Limited and Controlled Entities

Level 1

76 Waymouth Street

Adelaide SA 5000