Prophecy

PROPHECY INTERNATIONAL HOLDINGS LTD

ACN 079 971 618

Appendix 4E - Preliminary Final Report

For the Year Ended 30 June 2021

Prophecy International Holdings Ltd

(ASX:PRO)

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ASX preliminary final report for the year ended 30 June 2021
Lodged with the ASX under listing Rule 4.3A

Results for announcement to the market
30 June 2021

Appendix 4E
Reference

		30 June 2021 $'000	30 June 2020 $'000	Variance $'000	Variance %
2.1	Revenue from ordinary activities	12,841	13,594	(753)	(6%)
2.2	Profit/(loss) From ordinary activities after tax attributable to members	(2,229)	(5,505)	3,276	60%
2.3	Net profit/(loss) for the period attributable to members	(2,229)	(5,505)	3,276	60%
2.4	Dividends/distributions	No dividends have been paid or proposed.			
2.5	Record date	Not applicable			
2.6	Explanation of the figures in 2.1 to 2.4	Refer to the attached financial statements			
3	Statement of Comprehensive Income	Refer to the attached financial statements			
4	Statement of Financial Position	Refer to the attached financial statements			
5	Statement of Cash Flows	Refer to the attached financial statements			
6	Statement of Changes in Equity	Refer to the attached financial statements			
7	Details of Individual and total Dividends	Not applicable			
8	Details of dividend reinvestment plans in operation	Not applicable			
9	Net tangible assets per share (cents)	0.001 cents	0.010 cents	(0.011) cents	(70%)
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 2021 financial report and accompanying notes for the Group are in the process of being audited and the Directors do not expect any disputes or qualifications.				
16	Not Applicable				
17	Not Applicable				

Prophecy International Holdings Limited and Controlled Entities
ABN: 16 079 971 618

Results for announcement to the market

For the Year Ended 30 June 2021

Prophecy Delivers Strong Recurring Growth in FY21

Business software developer Prophecy International Holdings Ltd (ASX: PRO, "Prophecy" or "the Company") is pleased to provide the Company's Annual Final Report and Appendix 4E for the year ended 30 June 2021.

In FY21, Prophecy continued to focus on delivering organic growth through its two primary product lines, eMite and Snare.

eMite provides a SaaS-based real time and historical analytics platform, dashboards, wallboards, KPI and process orchestration products for Customer Experience and Contact (Call) Centre environments for customers in the Genesys, Amazon and Avaya ecosystems.

The Snare cybersecurity software suite is a highly scalable platform of Centralised Log Management and Security Analytics products, designed to enable customers to detect and manage cyber threats in real time and maintain regulatory compliance.

Financial Highlights

- eMite revenue increased by 32% year-on-year to $4.85 million
- Strong growth in annualised recurring revenue (ARR), boosting eMite ARR by 77% year-on-year to $7.60 million up 76.7% and growing total Company ARR to $11.5 million as at 30 June 2021
- Overall company revenue $13.32 million
- Overall consolidated cashflow of ($376K) for the full year
- Significant improvement in underlying profitability, with net loss after tax improving from ($5.5 million) in FY20 to ($2.2 million) in FY21
- Healthy balance sheet with no debt and cash at bank of $3.1 million

Record Growth in Overall Annualised Recurring Revenue (ARR)

eMite Subscriptions	$7.6 million
Snare Subscriptions and Maintenance	$3.7 million
Legacy Subscriptions	$0.2 million
Total ARR	**$11.5 million (+51% year-on-year)**

Record eMite Growth

eMite continues to grow through an almost completely channel driven sales model, with the vast majority of sales coming through partners including Genesys, Amazon Web Services or through system integrators like ConvergeOne, Cognizant, NTT and Voice Foundry.

In FY21 the Company saw an acceleration in sales as it acquired larger customers and average deal sizes increased. This has a strong flow on to increase ARR. At the commencement of FY21, eMite had an ARR of $4.3 million, and by the end of FY21 this had grown to $7.6 million, representing 76.7% annual growth in eMite ARR.

eMite Sales Highlights

- Q4 FY21 revenue of $1.7 million, an increase of 316% from $409K in Q4 FY20
- $2.9 million in H2 FY21 revenue, an increase of 142% from $1.2 million in H2 FY20
- FY21 revenue of $3.7 million vs $2.8 million for FY20, representing 32% year-on-year growth

Snare Performance

Snare sales did not reach the record result the Company achieved in FY20, primarily driven by fewer buying decisions in the government sector in the US through the transition of the new administration and during the COVID period. Although direct

Results for announcement to the market
For the Year Ended 30 June 2021

sales to end users were in line with FY20, Prophecy experienced some slowing in growth from one of the Company's major Managed Security Service Provider (MSSP) partners which changed its product strategy, resulting in a sales reduction of approximately $1 million from that channel in FY21.

Renewals from existing customers increased in FY21 – up 17.7% YoY, and sales of Snare Central were up 47.3% over last year. Q4 FY21 sales were strong and had recovered to the levels we experienced in FY20.

Snare Sales Highlights

- Q4 $1.50 million vs $1.53 million last year
- H2 $2.4 million vs $2.82 million last year
- FY21 $5.15 million vs $6.83 million last year

Legacy products

Legacy products remained consistent as the few remaining customers continued to use both eFoundation and Prophecy Classic in FY21. We expect our single largest eFoundation customer to complete their migration away from this product in FY22 and expect the revenue stream to reduce by 50% in FY22 and to effectively reduce to zero in FY23.

Operational Highlights

Prophecy continues to enhance its business operations to meet significant global market opportunities.

eMite has focused on winning large enterprise customers with thousands of contact centre seats where customers have complex and sophisticated analytics requirements and need to understand their end-to-end customer journey. Notable recent customer wins within this segment include Airbnb (4,300 seats), Australian Federal Government Department of Human Services (8,000 seats), Johnson & Johnson (855 seats) and Signet Group (850 seats).

Snare has focused on customer acquisition, new partner relationships and increasing the penetration of Snare products into the existing customer base, most notably Snare Central. These efforts were rewarded with notable recent customer wins including Charles Schwab, Occidental Petroleum, Peraton and Markel.

A key differentiator is that Snare enables customers to detect many Advanced Persistent Threats and the Company maps extensively against the Mitre Att&ck Framework, helping customers to achieve a range of mandatory compliance standards including NIST 800-171, HIPAA, NERC, PCI DSS and more. Snare is also verified by Veracode for application security, giving customers peace of mind in relation to supply chain integrity.

In FY21 Prophecy made significant enhancements to its global support model, improving the Company's ability to support customers globally 24x7 leveraging offshore capability in Manila.

Also, in the last year the Company has invested in new skilled sales resources in its North American office to address significant opportunities for Snare in the Government & Defence segments and in Banking & Finance, as well as with security service partners.

Notable Events

In FY21 eMite became the first Genesys AppFoundry Platinum partner globally.

Snare Central became a truly cloud enabled solution and is now supported in AWS, Azure and Oracle Cloud.

Outlook

Our key focus areas in FY22 are:

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

Results for announcement to the market

For the Year Ended 30 June 2021

- Increase penetration of Snare products in new and existing customers
- Realise opportunity for Snare in the Government & Defence segment in the USA
- Increase Snare partner revenue from Security services partners including MSSP's, Security Operation Centre (SOC) providers and Extended Detection and Response (XDR) platform providers
- Deliver a strong pipeline of product innovation already in progress for both Snare and eMite
- Continue the managed transition of the Snare business to recurring subscription-based licensing
- Achieve ISO 27001 security certification
- Identify and execute on acquisition opportunities to accelerate growth and increase capability, capacity and coverage

Prophecy International CEO, Brad Thomas, said:

"FY21 has been a busy and successful year for Prophecy International. While the conditions of our operating environments have presented challenges for Snare in some segments, we feel confident that both Snare and eMite are positioned well for success in FY22.

"We continue to focus on helping customers to secure the enterprise, repel cyber threats and deliver valuable business insights. We are trusted by a broad spread of blue-chip clients across the banking, healthcare, government, defence, utilities, transport, manufacturing, retail and energy sectors, and our software products, eMite and Snare, are now deployed at more than 4,000 sites globally.

"We have continuously improved eMite's functionality as large enterprise and government have embraced cloud services. We forecast eMite's impressive performance to grow further in FY22, and we will invest to accelerate growth across the business, particularly for eMite. We are positioned well to increase eMite sales in FY21 through several growth drivers: organic, upsell, customer acquisition, cloud migrations and new partnerships.

"The rising financial and reputational consequences of data breaches, malware and ransomware was already driving rapid growth in the market for cybersecurity solutions like Snare prior to COVID-19. The rise of working from home has accelerated these trends, and we are confident that this segment will drive growth for Prophecy in FY22.

"With multi-year industry tailwinds ahead, strong market positions, and diverse streams of recurring revenue flowing from our essential service segments of cybersecurity and cloud contact centres, we look forward to delivering scalable and increasingly profitable growth in the year ahead."

Authorised by: Brad Thomas, CEO

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About Prophecy International Holdings Limited

Prophecy International Holdings Limited (ASX: PRO) is a leading Australian designer and developer of innovative business software. Through its two products, Snare and eMite, Prophecy serves the large and growing global markets of Contact Centre Analytics and Cyber Security.

CX Intelligence by eMite provides a SaaS based real time and historical analytics platform, dashboards, wallboards, KPI and orchestration products for Customer Experience, Contact Centre environments.

The Snare product suite is a highly scalable platform of Centralised Log Management and Security Analytics products designed to enable customers to detect and manage cyber threats in real time and maintain regulatory compliance.

Prophecy operates globally from Adelaide and Sydney in Australia, London in the United Kingdom and in Denver, USA.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2021

	Note	2021 $	2020 $
Revenue from continuing operations	2	**12,840,733**	13,594,435
Other income		**479,839**	153,897
Employee benefits expense		**(9,432,503)**	(8,874,482)
Depreciation and amortisation expense	3	**(1,865,152)**	(1,864,945)
Impairment expense – intangible assets	3	**-**	(4,670,746)
Other expenses	3	**(4,796,983)**	(4,230,938)
Finance costs		**(49,303)**	(33,569)
Loss before income tax		**(2,823,369)**	(5,926,348)
Income tax benefit/(expense)	4	**603,135**	432,364
Loss for the year		**(2,220,234)**	(5,493,984)
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		**278,068**	35,077
Other comprehensive income/(loss) for the year, net of tax		**278,068**	35,077
Total comprehensive loss for the year		**(1,942,166)**	(5,458,907)
Profit/(Loss) attributable to:			
Members of the parent entity		**(2,229,306)**	(5,504,703)
Non-controlling interest		**9,072**	10,719
		(2,220,234)	(5,493,984)
Total comprehensive income/(loss) attributable to:			
Members of the parent entity		**(1,951,238)**	(5,469,626)
Non-controlling interest		**9,072**	10,719
		(1,942,166)	(5,458,907)
Losses per share			
From continuing operations:			
Basic earnings per share (cents)	8	**(3.48)**	(8.60)
Diluted earnings per share (cents)	8	**(3.48)**	(8.60)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position
As At 30 June 2021

	Note	2021 $	2020 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	**3,127,403**	4,398,723
Financial Assets	10	**100,662**	-
Trade and other receivables	11	**2,552,412**	2,903,934
Current tax receivable		**141,919**	-
Other assets	12	**575,561**	512,242
TOTAL CURRENT ASSETS		**6,497,957**	7,814,899
NON-CURRENT ASSETS			
Trade and other receivables	11	**7,489**	8,201
Property, plant and equipment	14	**244,368**	353,924
Right to use assets	16	**921,206**	1,280,960
Deferred tax assets		**796,723**	1,071,565
Intangible assets	15	**8,149,181**	9,415,547
TOTAL NON-CURRENT ASSETS		**10,118,967**	12,130,197
TOTAL ASSETS		**16,616,924**	19,945,096
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	**1,393,702**	1,288,130
Current tax liabilities		**-**	375,189
Employee benefits	19	**1,173,551**	1,017,665
Deferred income	18	**3,199,630**	3,603,248
Lease liabilities	16	**531,757**	482,478
TOTAL CURRENT LIABILITIES		**6,298,640**	6,766,710
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**383,818**	1,109,046
Employee benefits	19	**154,806**	163,968
Lease liabilities	16	**541,143**	905,271
Deferred income	18	**1,139,360**	958,778
TOTAL NON-CURRENT LIABILITIES		**2,219,127**	3,137,063
TOTAL LIABILITIES		**8,517,767**	9,903,773
NET ASSETS		**8,099,157**	10,041,323
EQUITY			
Issued capital	20	**28,501,869**	28,501,869
Reserves		**(31,390)**	(309,458)
Accumulated losses		**(20,049,046)**	(17,819,740)
Total equity attributable to equity holders of the Company		**8,421,433**	10,372,671
Non-controlling interest		**(322,276)**	(331,348)
TOTAL EQUITY		**8,099,157**	10,041,323

The accompanying notes form part of these financial statements.

Prophecy International Holdings Limited and Controlled Entities
ABN: 16 079 971 618

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2021

2021

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Non-controlling Interests	Total
	$	$	$	$	$	$
Balance at 1 July 2020	**28,501,869**	**(17,819,740)**	**(434,283)**	**124,825**	**(331,348)**	**10,041,323**
Loss attributable to members of the parent entity	**-**	**(2,229,306)**	**-**	**-**	**-**	**(2,229,306)**
Profit attributable to non-controlling interests	**-**	**-**	**-**	**-**	**9,072**	**9,072**
Total other comprehensive income for the year	**-**	**-**	**278,068**	**-**	**-**	**278,068**
Balance at 30 June 2021	**28,501,869**	**(20,049,046)**	**(156,215)**	**124,825**	**(322,276)**	**8,099,157**

2020

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Non-controlling Interests	Total
	$	$	$	$	$	$
Balance at 1 July 2019	28,469,564	(11,994,987)	(469,360)	124,825	(342,067)	15,787,975
Loss attributable to members of the parent entity	-	(5,504,703)	-	-	-	(5,504,703)
Profit attributable to non-controlling interests	-	-	-	-	10,719	10,719
Total other comprehensive income for the year	-	-	35,077	-	-	35,077
Transactions with owners in their capacity as owners						
Shares issued during the year	32,305	-	-	-	-	32,305
Dividends paid or provided for	-	(320,050)	-	-	-	(320,050)
Balance at 30 June 2020	28,501,869	(17,819,740)	(434,283)	124,825	(331,348)	10,041,323

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2021

	Note	2021 $	2020 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		**13,421,531**	13,424,134
Payments to suppliers and employees		**(13,590,709)**	(12,269,571)
Interest received		**1,839**	4,056
Income taxes paid		**(209,133)**	-
Net cash provided by operating activities	24	**(376,472)**	1,158,619
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		**(32,706)**	(281,889)
Net cash provided used in investing activities		**(32,706)**	(281,889)
Proceeds from issue of shares		**-**	32,305
Payment of lease liabilities		**(539,519)**	(517,948)
Dividends paid by parent entity		**-**	(320,050)
Net cash provided used in financing activities		**(539,519)**	(805,693)
Effects of foreign exchange rates on overseas cash holdings		**(322,623)**	(47,949)
Net increase in cash and cash equivalents held		**(1,271,320)**	23,088
Cash and cash equivalents at beginning of year		**4,398,723**	4,375,635
Cash and cash equivalents at end of financial year	9	**3,127,403**	4,398,723

Notes to the Financial Statements
For the Year Ended 30 June 2021

This preliminary financial report covers the consolidated financial statements and notes of Prophecy International Holdings Limited and Controlled Entities (the 'group'). Prophecy International Holdings Limited and Controlled Entities is a for profit Company domiciled in Australia.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

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

1 Summary of Significant Accounting Policies

(a) Basis of Preparation

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated.

The financial statements are based on historical costs.

(b) Principles of Consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a June financial year end.

A list of controlled entities is contained in Note 13 to the financial statements.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the parent has control. Control is established when the parent is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Notes to the Financial Statements
For the Year Ended 30 June 2021

1 Summary of Significant Accounting Policies continued

(c) Income Tax

The tax expense recognised in the consolidated statement of profit or loss and other comprehensive income comprises of current income tax expense plus deferred tax expense.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax is provided on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Deferred tax is not provided for the following:

- The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- Taxable temporary differences arising on the initial recognition of goodwill.
- Temporary differences related to investment in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

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.

1 Summary of Significant Accounting Policies continued

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment.

Where the cost model is used, the asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and restoring the asset, where applicable.

Depreciation

Property, plant and equipment, is depreciated on a reducing balance basis over the assets useful life to the Company, commencing when the asset is ready for use.

1 Summary of Significant Accounting Policies continued

(d) Property, Plant and Equipment continued

Depreciation continued

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

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

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

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

1 Summary of Significant Accounting Policies continued

(e) Financial Instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the 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.

1 Summary of Significant Accounting Policies continued

(e) Financial Instruments continued

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'.

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

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

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

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

Trade and other receivables

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

Classification and measurement of financial liabilities

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

1 Summary of Significant Accounting Policies continued

(f) Impairment of Non-financial Assets

At the end of each reporting period the Group determines whether there is an evidence of an impairment indicator for non-financial assets.

Where this indicator exists and regardless for goodwill, indefinite life intangible assets and intangible assets not yet available for use, the recoverable amount of the asset is estimated.

Where assets do not operate independently of other assets, the recoverable amount of the relevant cash-generating unit (CGU) is estimated.

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss.

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

(g) Intangible Assets

Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

i) the consideration transferred;

ii) any non-controlling interest; and

iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired in a business combination.

The value of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the aforementioned non-controlling interest. The Group can elect to measure the non-controlling interest in the acquiree either at fair value ('full goodwill method') or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets ('proportionate interest method'). The Group determines which method to adopt for each acquisition.

Under the 'full goodwill method', the fair values of the non-controlling interests are determined using valuation techniques which make the maximum use of market information where available.

Patents and trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life which is estimated to be 7 years or 15 years, depending on the product.

1 Summary of Significant Accounting Policies continued

(g) Intangible Assets continued

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and accumulated impairment losses.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the projects which are between 5 years.

Impairment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. to determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

1 Summary of Significant Accounting Policies continued

(h) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

At the end of the reporting period:

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

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

Group companies

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

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

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

1 Summary of Significant Accounting Policies continued

(i) Employee Benefits

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

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

Defined contribution schemes

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

1 Summary of Significant Accounting Policies continued

(l) Leases

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

This involves an assessment of whether:

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

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

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

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

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

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

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

1 Summary of Significant Accounting Policies continued

(m) Revenue and Other Income

Revenue from contracts with customers

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

1. Identify the contract with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue as and when control of the performance 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 2021

1 Summary of Significant Accounting Policies continued

(n) Trade and Other Receivables

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

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

(o) Trade and Other Payables

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

(p) Borrowing Costs

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

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

(q) Goods and Services Tax (GST)

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

Receivables and payable are stated inclusive of GST.

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

(r) R&D Tax Incentive

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

(s) Comparative Amounts

Comparatives are consistent with prior years, unless otherwise stated.

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

1 Summary of Significant Accounting Policies continued

(t) Critical Accounting Estimates and Judgments

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.

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.

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

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

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

Notes to the Financial Statements

For the Year Ended 30 June 2021

2 Revenue and Other Income

Revenue from continuing operations

	2021	2020
	$	$
Sales revenue		
- licence sales	**8,001,197**	8,565,875
- maintenance fees	**4,464,239**	4,646,722
- consulting sales	**375,297**	381,838
	12,840,733	13,594,435

Notes to the Financial Statements
For the Year Ended 30 June 2021

3 Result for the Year

The result for the year includes the following specific expenses:

	2021	2020
	$	$
Salaries and wages	**6,646,159**	5,779,389
Commissions	**971,800**	1,137,376
Superannuation contributions	**473,447**	394,759
Payroll taxes	**449,766**	396,094
Consultants	**362,508**	500,352
Medical expenses	**298,206**	235,019
AL & LSL expenses	**159,283**	293,080
Other employee benefit expenses	**71,334**	138,413
	9,432,503	8,874,482
Depreciation and amortisation expense comprises:		
- Depreciation - plant and equipment	**139,469**	180,408
- Depreciation - right of use assets	**459,317**	371,155
- Amortisation - intellectual property	**800,000**	800,000
- Amortisation - development costs	**466,366**	513,382
	1,865,152	1,864,945
- Impairment of intangible assets	**-**	4,670,746
Other Expenses:		
Accounting fees	**154,484**	152,424
Consulting and professional fees	**1,716,802**	1,440,182
Filing fees	**77,864**	81,223
Insurance	**146,677**	139,189
Marketing	**186,743**	140,173
Strata fees	**80,020**	-
Expected credit losses	**120,687**	-
Communications expense	**1,073,156**	1,080,383
Software including annual maintenance	**679,931**	607,802
Travel and accommodation	**10,449**	228,769
Other expenses	**550,170**	360,793
	4,796,983	4,230,938

Notes to the Financial Statements
For the Year Ended 30 June 2021

4 Income Tax Expense

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

	2021	2020
	$	$
Current tax expense	**(143,530)**	145,294
Deferred tax expense	**(301,033)**	(212,301)
Adjustments for current tax of prior periods	**(158,572)**	(365,357)
Total income tax expense	**(603,135)**	(432,364)

(b) Reconciliation of income tax to accounting profit:

	2021	2020
Profit before income tax	**(2,823,369)**	(5,926,348)
Income tax at 26% (2020: 27.5%)	**(734,076)**	(1,629,745)
Add:		
Tax effect of:		
- non-deductible depreciation, amortisation and impairment	**595,239**	1,515,102
- timing difference on disposal of subsidiary		
- non-deductible expenses	**306**	2,672
- tax losses not recognised – overseas subs	**23,948**	44,965
- R&D tax offset	**(330,000)**	-
	(444,583)	(67,007)
Less:		
Tax effect of:		
- over provision for income tax in prior year	**158,572**	365,358
- non-assessable income	**-**	-
- other	**-**	-
- Recoupment of prior year tax losses not previously brought to account	**-**	-
Income tax expense	**(603,135)**	(432,364)

Notes to the Financial Statements
For the Year Ended 30 June 2021

5 Key Management Personnel Disclosures

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

	2021	2020
	$	$
Short-term employee benefits	**1,769,068**	1,821,922
Long-term benefits	**27,792**	30,254
Post-employment benefits	**92,356**	113,893
Share-based payments	**-**	13,300
	1,889,216	1,979,369

6 Remuneration of Auditors

	2021	2020
Remuneration of the auditor of the parent entity, Grant Thornton, for:		
- auditing or reviewing the financial statements	**104,248**	97,925
- taxation services	**26,100**	27,700
Remuneration of other auditors (not Grant Thornton) of subsidiaries for:		
- auditing or reviewing the financial statements of subsidiaries	**10,819**	11,318
Total	**141,167**	136,943

7 Dividends

a.The following dividends were declared and paid:

	2021	2020
Interim unfranked ordinary dividend of nil (2020: 0.5) cents per share	**-**	320,050

Franking account

	2021	2020
The franking credits available for subsequent financial years at a tax rate of 27.5%	**141,574**	123,308

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 (2020: 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 2021

8 Earnings per Share

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

	Note	2021 $	2020 $
Loss after income tax attributable to the owners of Prophecy International Holdings Limited		**(2,229,306)**	(5,504,703)

(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	**64,055,934**	64,013,441
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	**64,055,934**	64,013,441

9 Cash and Cash Equivalents

	$	$
Cash at bank in hand	**2,996,222**	4,177,244
Short-term bank deposits	**131,181**	221,479
	3,127,403	4,398,723

10 Financial Assets

Long-term bank deposits	**100,662**	-

11 Trade and Other Receivables

CURRENT		
Trade receivables	**2,444,191**	2,492,262
Provision for impairment	**(120,687)**	-
Accrued revenue	**228,908**	379,683
Other receivables	**-**	31,989
Total current trade and other receivables	**2,552,412**	2,903,934
NON-CURRENT		
Deposits	**24**	24
Other receivables	**7,465**	8,177
Total non-current trade and other receivables	**7,489**	8,201

12 Other Non-financial Assets

	2021 $	2020 $
Prepayments	**575,561**	512,242

13 Interests in Subsidiaries

Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 2021	Percentage Owned (%)* 2020
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.

Notes to the Financial Statements
For the Year Ended 30 June 2021

14 Property, Plant and Equipment

	2021 $	2020 $
Plant and equipment		
At cost	**1,306,190**	1,290,292
Accumulated depreciation	**(1,077,138)**	(958,670)
Total plant and equipment	**229,052**	331,622
Furniture, fixtures and fittings		
At cost	**237,629**	241,465
Accumulated depreciation	**(222,313)**	(219,163)
Total furniture, fixtures and fittings	**15,316**	22,302
Total property, plant and equipment	**244,368**	353,924

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 2021			
Balance at the beginning of year	**331,622**	**22,302**	**353,924**
Additions	**32,706**	**-**	**32,706**
Depreciation expense	**(133,283)**	**(6,173)**	**(139,456)**
Foreign exchange movements	**(1,993)**	**(813)**	**(2,806)**
Balance at the end of the year	**229,052**	**15,316**	**244,368**
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

Notes to the Financial Statements

For the Year Ended 30 June 2021

15 Intangible Assets

	2021	2020
	$	$
Goodwill		
Cost	**5,108,270**	5,108,270
Accumulated impairment losses	**(2,981,455)**	(2,981,455)
Net carrying value	**2,126,815**	2,126,815
Intellectual property		
Cost	**12,720,000**	12,720,000
Accumulated amortisation and impairment	**(7,209,291)**	(6,409,291)
Net carrying value	**5,510,709**	6,310,709
Development costs		
Cost	**2,678,372**	2,678,372
Accumulated amortisation and impairment	**(2,166,715)**	(1,700,349)
Net carrying value	**511,657**	978,023
Total Intangibles	**8,149,181**	9,415,547

Movements in carrying amounts of intangible assets

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

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.

Notes to the Financial Statements

For the Year Ended 30 June 2021

16 Leases

(a) Right-of-use assets

	2021
	$
Year ended 30 June 2021	
As at 1 July 2020	**1,280,960**
Increase - new leases and adjustments	**99,563**
Depreciation	**(459,317)**
Balance at end of year	**921,206**

	2020
	$
Year ended 30 June 2020	
As at 1 July 2019	508,125
Increases - new leases	1,143,990
Depreciation	(371,155)
Balance at end of year	1,280,960

The Group lease various office spaces in Australia and United States. Rental contacts typically made for fixed periods of one year to five years.

(b) Lease liabilities

	2021
	$
Current	**531,757**
Non-current	**541,143**
Balance at end of year	**1,072,900**

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
	$	$	$	$
2021				
Lease liabilities	**531,757**	**541,143**	**-**	**1,072,900**
2020				
Lease liabilities	482,478	905,271	-	1,387,749

Notes to the Financial Statements
For the Year Ended 30 June 2021

17 Trade and Other Payables

	Note	2021 $	2020 $
Trade payables		**677,050**	679,801
Sundry payables and accrued expenses		**713,995**	605,672
Other payables		**2,657**	2,657
		1,393,702	1,288,130

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

	2021 $	2020 $
CURRENT		
Deferred income	**3,199,630**	3,603,248
NON-CURRENT		
Deferred income	**1,139,360**	958,778

19 Employee Benefits

	2021 $	2020 $
CURRENT		
Long service leave	**353,095**	314,461
Annual leave	**820,456**	703,204
	1,173,551	1,017,665
NON-CURRENT		
Long service leave	**154,806**	163,968

Notes to the Financial Statements
For the Year Ended 30 June 2021

20 Issued Capital

	2021	2020
	$	$
64,055,934 (2020: 64,055,934) Ordinary shares	**28,501,869**	28,501,869

(a) Ordinary shares

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

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

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

(b) Capital Management

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

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

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

21 Contingencies

Contingent Liabilities

Prophecy International Pty Ltd, a controlled entity, has provided guarantees to third parties in respect of property lease rentals. The maximum amount payable is $201,843 (2020: $191,479).

Details of leases can be found in Note 15. The guarantees are secured by a fixed charge over Prophecy International Pty Ltd's bank balances.

No material losses are anticipated in respect to this contingency.

22 Events Occurring After the Reporting Date

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

23 Reserves and retained surplus

(a) Foreign currency translation reserve

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

(b) Share 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 2021

24 Cash Flow Information

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

	2021 $	2020 $
Loss for the year	**(2,220,234)**	(5,493,984)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	**1,865,152**	6,242,000
- foreign exchange (gain)/loss	**369,735**	58,936
- foreign exchange differences arising on translation of foreign subsidiaries	**155,226**	19,411
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	**325,838**	(692,199)
- (increase)/decrease in other assets	**84,834**	(171,025)
- (increase)/decrease in deferred tax asset	**274,842**	(798,148)
- (increase)/decrease in income tax receivable	**(141,919)**	-
- increase/(decrease) in income in advance	**(223,036)**	372,058
- increase/(decrease) in trade and other payables	**93,152**	983,195
- increase/(decrease) in income taxes payable	**(375,189)**	(209,378)
- increase/(decrease) in deferred tax liability	**(725,228)**	555,851
- increase/(decrease) in employee benefits	**140,355**	291,902
Cashflows from operations	**(376,472)**	1,158,619

(b) Credit standby arrangements with banks

	2021	2020
Credit facility	**40,000**	40,000
Amount utilised	**(2,154)**	(1,477)
	37,846	38,523

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 2021

25 Operating Segments

Segment information

Identification of reportable segments

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

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

Basis of accounting for purposes of reporting by operating segments

(a) Accounting policies adopted

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

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

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

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

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

(b) Segment assets

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

(c) Segment liabilities

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

(d) Unallocated items

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

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

25 Operating Segments continued

(e) Segment performance

	Legacy		SNARE		eMite		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
REVENUE								
External sales	447,324	630,428	7,795,569	9,533,924	4,597,840	3,430,083	12,840,733	13,594,435
Other revenue	178,505	79,298	100,012	41	201,322	74,558	479,839	153,897
Total segment revenue	625,829	709,726	7,895,581	9,533,965	4,799,162	3,504,641	13,320,572	13,748,332
Segment operating profit/(loss)	(1,862,186)	(1,674,280)	(94,709)	2,525,017	(866,474)	(6,777,085)	(2,823,369)	(5,926,348)
The following amount is included in the measure of segment profit or loss:								
- Impairment expense – intangible assets	-	-	-	-	-	(4,670,746)	-	(4,670,746)

(f) Segment assets

	Legacy 2021 $	Legacy 2020 $	SNARE 2021 $	SNARE 2020 $	eMite 2021 $	eMite 2020 $	Total 2021 $	Total 2020 $
Segment assets	1,182,082	2,292,549	7,109,656	7,906,517	7,895,298	8,674,465	16,187,036	18,873,531
- Capital expenditure	3,815	76,594	27,341	185,740	1,550	19,555	32,706	281,889

(g) Segment liabilities

	Legacy 2021 $	Legacy 2020 $	SNARE 2021 $	SNARE 2020 $	eMite 2021 $	eMite 2020 $	Total 2021 $	Total 2020 $
Segment liabilities	1,989,621	2,220,895	4,512,511	4,293,698	1,631,817	1,904,945	8,133,949	8,419,538

Notes to the Financial Statements

For the Year Ended 30 June 2021

25 Operating Segments continued

(h) Reconciliations

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

	2021	2020
	$	$
Total segment revenue	**13,320,572**	13,748,332

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.

	2021	2020
Segment net operating loss	**(2,823,369)**	(5,926,348)
Income tax benefit	**603,135**	432,364
Total net loss after tax	**(2,220,234)**	(5,493,984)

Reconciliation of segment assets to the consolidated statement of financial position

	2021	2020
Segment operating assets	**44,108,546**	45,958,666
Intersegment eliminations	**(36,579,445)**	(36,500,682)
Deferred tax assets	**938,642**	1,071,565
Intangible assets	**8,149,181**	9,415,547
Total assets per the consolidated statement of financial position	**16,616,924**	19,945,096

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

	2021	2020
Segment liabilities	**55,860,671**	54,181,877
Intersegment eliminations	**(47,726,722)**	(45,387,150)
Deferred tax liabilities	**383,818**	1,109,046
Total liabilities per the consolidated statement of financial position	**8,517,767**	9,903,773

(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.

	2021		2020	
	Revenue	Assets	Revenue	Assets
Australia	**1,462,247**	**12,634,450**	1,997,502	16,841,443
United States	**10,230,258**	**3,909,842**	10,580,973	3,043,633
Europe	**1,118,034**	**72,632**	1,001,192	60,020
Asia	**30,194**	**-**	14,768	-
	12,840,733	**16,616,924**	13,594,435	19,945,096

Notes to the Financial Statements
For the Year Ended 30 June 2021

26 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