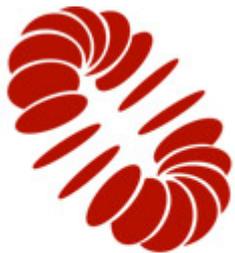


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Prophecy

Consolidated Financial Statements

For the Half-Year Ended 31 December 2019

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Results For Announcement to the Market For the Period Ended 31 December 2019

This report should be read in conjunction with the 30 June 2019 Annual Financial Report of the consolidated entity.

1	Summary of results	% change	Direction	\$
	Revenue from ordinary activities from continuing operations	20%	up	7,333,052
	Loss from ordinary activities before tax attributable to members	83%	down	(109,102)
	Loss from ordinary activities after tax	5%	up	(691,471)
	Loss from ordinary activities attributable to members (after non controlling interests)	22%	up	(790,236)

2 Dividends

On the 10th February 2020 the Directors declared an interim unfranked dividend for the half of 0.5 cents per share with a record date of 5th March 2020 and a payment date of 31st March 2020.

No other dividends have been declared or paid during the review period.

3 Explanatory information

For the six months to 31 December 2019, Prophecy has posted a loss before tax of (\$109k). This compares with a loss before tax of (\$655k) for the same period last year.

Revenues for the six months to 31 December 2019 were \$7.33 million – up 20% from the same period last year which recorded revenues of \$6.12 million.

The half year closed with a cash balance of \$4.1 up from \$2.3 million at the same period last year.

4 Net Tangible Assets per Security

	December 2019 \$	December 2018 \$
Net Tangible Assets (pre tax)	(751,487)	529,999
Net Tangible Assets (post tax)	(946,882)	844,030
Number of Securities	64,009,784	64,009,784
NTA per Security (pre tax)	(0.012)	0.008
NTA per Security (post tax)	(0.015)	0.013

Prophecy defines net tangible assets as net assets less intangible assets. A large proportion of Prophecy's assets are classified as intangible assets including goodwill, right of use assets and intellectual property. The company has elected to disclose net tangible assets both pre and post deferred tax balances. At 31st December 2019, the intangible assets have been excluded from the calculation of the net tangible assets, resulting in negative net tangible asset per security.

The reviewed financial statements for the period ended 31 December 2019 are attached

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

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For the Half Year Ended 31 December 2019

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Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Review of Operations & Results of Operations

For the Half Year Ended 31 December 2019

FINANCIALS

Prophecy is pleased to announce results for H1 FY20 that show a significant improvement over FY19 with top line revenue growth reaching 20% against the same period last year.

Sales revenue was \$7.33M vs \$6.12M for the same period last year. EBITDA of \$748K was also achieved. This is a significant increase over last year's full year result of \$87K. This result is due to solid top line revenue growth and good fiscal management keeping expenses growth modest. It is also important to note that this year we will fully expense all R&D costs after commencing this last FY.

The company continues to be debt free and had cash in excess of \$4M on hand at the end of the half. Cash had increased to \$4.7M at the end of January.

A dividend of half a cent per share (\$0.005) was declared on 10th February 2020.

The first half has been characterized by increases in the sales from Snare and eMite and the launch of eMite CX Intelligence for Amazon Connect and our launch of that offering on Amazon Marketplace. We formally launched this Marketplace offering at the Amazon re:Invent Conference in Las Vegas in December.

The CX Intelligence for Amazon Connect offering is different to the Genesys offering in that it is a true usage based model and only a small number of agreements are committed to a minimum volume or term. This is aligned to the terms of the underlying Amazon Connect usage based pricing model. The eMite solution for Amazon Connect is charged on a connected minutes basis in the same way that Amazon Connect is charged.

eMite Highlights

- A total of 45 new eMite customers added in the first half – an average of 7.5 per month vs 59 in the same period last year – however as CX Intelligence by eMite moves into Large Enterprise we have seen a significant shift in average contract values.
- 10 new sales of CX Intelligence for Amazon Connect
- Average 1CV (first year contract value) increased to \$41,420 from \$14,733 in the same period last year – a 181% increase in deal size.
- A potential of >36,900 contact center seats sold in H1 based on usage
- Increase in TCV (Total Contract Value) from \$1.70M in H1 FY19 to \$2.75M in H1 2020 – a 61.8% increase and a strong indicator for future revenue due to multiyear contract sales.
- Sales across 9 countries including the US, Australia, Bulgaria, Finland, France, Italy, New Zealand, Switzerland and the UK
- Blue chips customers including Phillip Morris, 1800 Flowers, InfoArmor, Goldman Sachs, Blinkforhome (an Amazon company), Fidelity Investments, WA Water & Schroder Investments, NAB and Telstra.
- North America continues to provide the majority of sales – a total of 24 of the 45 sales, 13 from APAC and 8 from EMEA.

Snare Highlights

- \$4.010M in Snare new business sales vs \$2.878M for H1 last year – a 39.3% increase
- 312 new business sales in the half at an average of value \$12,853 an increase of 54.6% against the average deal size last year
- Sales across 17 countries including USA, Australia, Canada, Finland, France, Germany, Italy, Japan, Netherlands, Singapore, Sweden, Switzerland, Taiwan, UAE and the UK.
- Blue chip customers including CSE Banking Services & Gemalto in EMEA, Principal Financial, QBE, Global Foundries, Metlife, Raytheon in the US and Dept of Employment, Skills, Small & Family Business in Australia.

Business Operations

Snare and eMite continue to be our key product lines. This year we have already announced new offerings for eMite.

eMite

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

Review of Operations & Results of Operations

For the Half Year Ended 31 December 2019

Companies increasingly rely on multiple systems and technologies to try to deliver great customer outcomes. Multi-channel contact centre software leveraging voice, chat, email and social, CRM, Service Desk, Speech Analytics and Customer Surveys are used to deliver these customer experiences.

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

eMite CX Intelligence brings together data from customers' contact center software and combines that with data from many other systems to deliver both real time and historical data to visualize issues with sales or service experience. CX Intelligence presents a visually appealing and highly configurable experience. Because of our focus on contact centre, we understand the data involved and this enables KPI's to be created instantly from multiple data sets with no coding.

To stay closely aligned with the new product naming of our key partner, Genesys, to ensure we continue to drive great value for our customers and to continue to be competitive in the marketplace we have rebranded our main product and have introduced 3 new products in time for the Genesys Sales Kick-Off event in January, 2020 in the US.

Leading Contact Center Analytics solutions for Enterprise-grade customers:

Rebrand to Enterprise Contact Center Analytics

- To be clear on the product, align with our partner's product which is changing names, and to allow the name to better reflect what the product does, we are renaming our flagship product to "Enterprise Contact Centre Analytics for Genesys Cloud".
- Same great product, continual improvements.

Enterprise Contact Center Analytics Lite

- Enterprise Contact Center Analytics Lite – is a slimmed down version of our flagship product. It allows us to offer the core benefits at an entry level price-point for those customers just getting started.
- The benefit to the customer is that they get the same core product at a low entry price, while still having a simple and full upgrade path to the power and flexibility of our full-blown product.

Migration Made Easy (Solutions that help large customers globally migrate from legacy platforms to the latest Genesys Cloud platform.) About 80% of large enterprise customers doing these types of migrations will take between 6 months and 36 months to complete their migrations globally. The business has to continue to run and manage their contact centers during these migrations. Our solutions below help them do that while giving them access to their real-time and historical data during those migrations.

Enterprise Contact Centre Analytics for PureBridge

- Enterprise Contact Centre Analytics for PureBridge is a migration tool that helps customers migrating from an on-premises Avaya Aura CMS platform to the Genesys Cloud platform hosted in the cloud.
- Some benefits to the customer are:
 - The ability to have both their Avaya Aura CMS data and their Genesys Cloud data combined and visualized in the same analytics tool from eMite
 - The ability to pull reports using both real-time and historical data from both platforms (Avaya Aura CMS and Genesys Cloud)
 - The ability to allow agents and contact centre managers to view data in terms they are familiar with from the Avaya platform.

Enterprise Contact Centre Analytics for PureConnect to Genesys Cloud

- Enterprise Contact Centre Analytics for PureConnect to Genesys Cloud migrations helps customers migrating from the on-premises PureConnect platform to Genesys Cloud.
- Some benefits to the customer are:
 - The ability to have both their Genesys PureConnect data and their Genesys Cloud data combined and visualized in the same analytics tool from eMite
 - The ability to pull reports using both real-time and historical data
 - The ability to allow agents and contact centre managers to view data in a format they are used to in the PureConnect world.

Prophecy International Holdings Limited and Controlled Entities

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Review of Operations & Results of Operations

For the Half Year Ended 31 December 2019

With over 180 customers world-wide using the eMite platform, we have the proven ability to deliver out of the box functionality for Contact Centre Analytics. Our deep experience in the contact centre market enables us to deliver superior speed to value for customers looking for a fully integrated analytics solution to deliver real insight.

Amazon Connect

In December 2019 we also announced the general availability of our [CX Intelligence solution for Amazon Connect](#). Amazon Connect is a self-service, cloud-based contact center service that makes it easy for any business to deliver better customer service at lower cost. Amazon Connect is based on the same contact center technology used by Amazon customer service associates around the world to power millions of customer conversations.

The market for cloud based contact centre is growing at an astounding rate of over 25% CAGR and some say it could [grow to become a \\$15B market by the end of 2021](#). We continue to see customers migrating from on-premise software to cloud based solutions. Amazon Connect is a fast growing vendor in this market and it is important for us to be able to assist Amazon Connect customers with our technology.

As a company we have already selected Amazon Web Services (AWS) as one of our hosting partners so it makes perfect sense to extend our analytics offering to Amazon Connect.

eMite is sold on a subscription basis as a per contact centre agent/month price or based on connected minutes used by a customer in the prior month.

For eMite sales we measure sales value in a number of ways primarily using the acronyms 1CV, TCV and Estimated Value (EV).

- 1CV is the first year contract value, this includes the committed volume of any subscriptions in the first 12 months of the contract plus any set up fees (which we call Quickstart) and any professional services describing the committed contract value in the first 12 months of the agreement .
- TCV is the total contract value with is the committed volume of any subscriptions for the entire contract term (12, 24, 36 months etc) plus any Quickstart set up fees and any professional services describing the committed contract value over the total term of the agreement.
- Estimated Value is for customers that have signed on a pure usage basis (especially for Amazon Connect) that have no commitment to term or volume but is based on the number of agents multiplied by the average talk time for those agents to come up with a monthly connect minutes estimate from which we can estimate billing and revenue.

Our preference is for customers to commit to a term and a volume and we offer incentives for customers who chose to do that.

In FY20 we have seen average 1CV sales value increase from approximately \$19K for the full year FY19 to approximately \$41K this year as we sell into larger organisations.

Snare

Snare customers consistently tell us that as the financial and reputational consequences of data breaches, cyber threats like malware and ransomware and the constant risks from insider threats increase that they have urgent and ongoing requirements for maintaining regulatory compliance, auditing and managing cyber threat detection and response. Security breaches are expensive.

They also tell us that existing solutions like SIEM are complex to implement and maintain, require specialised technical resources or are increasingly unaffordable or variable in their pricing. As a result of these challenges Prophecy International has created the Snare product suite.

Snare is a complete suite of Centralised Log Management (CLM), Security Analytics and SIEM tools designed by Defence Personnel for Defence applications.

Logging and Log Management is a foundational pillar in maintaining IT Cyber Security for government agencies and corporations. It's also a key requirement for achieving compliance with a range of compliance standards and regulations including PCI, GDPR, HIPAA and many others. Logging and Log Management continues to evolve, and Snare is evolving to meet the new challenges in IT security.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Review of Operations & Results of Operations

For the Half Year Ended 31 December 2019

Snare Logging enables our customers to collect, store, forward, filter sort and report on IT event logs for both real time and forensic purposes across multiple IT platforms. Supported platforms include many versions of Windows, Linux, Unix, OSX and across many types of devices including servers, desktops, domain controllers, firewalls, switches and routers and databases. The Snare platform includes agents for log collection, technology for forwarding and filtering logging data and Snare Server which is a reporting, forensics and storage platform operating as a SIEM for some customers.

Snare can also send logs to many Industry standard SIEMs or to multiple SIEMs as required.

Increasing Network Complexity and the requirements of logging for regulatory compliance continue to drive the log management market. Snare capability is being expanded to capture the opportunity for cloud based logging and log management.

Snare is typically sold as a perpetual licence with an annual maintenance fee and we are gradually introducing subscription offerings into the Snare suite. Especially for Managed Services Partners who are looking for an OPEX model in line with the services billing.

In FY20 we have seen average sales sizes increase from approximately \$8.7K to \$13K as we upsell to our customers, increase penetration into the IT environments and "sell the stack" of products from Snare more effectively.

At the end of Q1 we will be launching a new version of Snare Central which will significantly reposition Snare in the market.

Legacy

eFoundation is the primary remaining legacy product and revenue for this product comes from one significant government customer in South Australia. This is a subscription licence and an agreement has been reached for the renewal of this service for the next two years with options to extend. No new development is being conducted on these products and eventually they will no longer be required and until that time we will continue to support our customers who are still using this software.

Major partnerships

One of our key strategies is to scale through partners. For eMite we have our major vendor partners in Genesys and Amazon Web Services and we also work with implementation partners and resellers like Converge One, CPI, Foehn, NTT, VoiceFoundry and others.

The same strategy applies for Snare and we have partners that embed Snare in the services offering and traditional resellers. Our major partners for Snare are Secureworks, Verison, NTT, Novacoast, ATOS and more.

Locations

All R&D continues to be performed in Australia and we are very proud to be taking Australian innovation to the world.

We operate from Sydney and Adelaide in Australia with operations in the US based from Denver in Colorado, Manilla in the Philippines and out of the UK with most of our employees now based in Scotland.

Our offshore centre in Manilla has seen the bulk of our staff increases over the last few years and is our global support centre.

This financial year we have invested in growing the EMEA business and have added additional sales resources into our UK team growing this from 2 to 6 adding staff for both eMite and Snare.

Prophecy has also moved to a full regional sales structure with Sales VP's in EMEA, the Americas and APAC with growing sales teams reporting into them.

James (Jamie) Lind is VP of Sales in EMEA, John Pappas has joined us as VP Sales for the Americas and Stuart Geros is leading sales in APAC. Peter Barzen who was VP of Sales in North America has moved into the role of VP Global Strategic Alliances and is responsible for maintaining and growing our major global partnerships and acquiring new strategic partners.

Jamie brings years of experience growing businesses in both Australia and EMEA with companies like Nortel, Avaya and Juniper. John has great global experience from companies like AT&T, Verizon and Ericsson. Stuart was the co-founder of eMite. This structure sets the foundation for us to continue to grow our direct sales and channel teams globally.

Outlook

The strategic imperatives for FY20 remain the same as communicated in the last Annual Report. We continue to be focussed on organic growth and building recurring subscription revenue streams and expanding the markets in which our products are relevant.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Review of Operations & Results of Operations For the Half Year Ended 31 December 2019

The strategies that we employ to achieve these are consistent with last year:

- Optimise sales and marketing coverage and capability – especially scaling through partnerships and indirect channels
- Deliver product innovation - creating new market opportunities
- Improve Customer experience – particularly global support capability
- Improve Business Operations – increase operational efficiency and software development productivity

We have made significant gains in all areas in the first half of the year and our focus is to continue to drive these initiatives to grow both revenues and profit for the remainder of the financial year.

We continue to see subscription revenue build and we expect to see continued improvements in revenue and profit over the short and medium term. We expect to continue to invest appropriately in development of new product offerings and taking them to market globally including the expansion of direct and indirect sales channels.

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Directors' Report

For the Half Year Ended 31 December 2019

The directors submit the financial report of the Group for the half year ended 31 December 2019.

1. General information

Information on directors

The names of each person who has been a director during the half year and to the date of this report are:

Ed Reynolds
Leanne R Challans
Matthew Michalewicz
Grant Miles

2. Operating results and review of operations for the half year

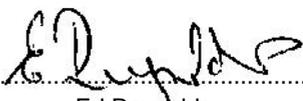
Review of operations

A review of the operations of the Group during the half year and the results of those operations is shown in the review of operations and results of operations.

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the half year ended 31 December 2019 has been received and can be found on page 7 of the consolidated financial report.

This report is signed in accordance with a resolution of the Board of Directors.

Director:

Ed Reynolds

Director:

Leanne R Challans

Dated this: 20th day of February 2020

Auditor's Independence Declaration

To the Directors of Prophecy International Holdings Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Prophecy International Holdings Limited for the year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



J L Humphrey
Partner – Audit & Assurance

Adelaide, 20 February 2020

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half Year Ended 31 December 2019

	31 December 2019	31 December 2018
	\$	\$
Revenue	7,333,052	6,120,791
Other income	19,321	72,848
Employee benefits expense	(4,284,149)	(4,002,830)
Depreciation and amortisation expense	(842,775)	(718,574)
Other expenses	(2,320,253)	(2,125,524)
Finance costs	(14,298)	(1,765)
Profit/(Loss) before income tax	(109,102)	(655,054)
Income tax expense	(582,369)	(4,752)
Profit/(Loss) for the half year	(691,471)	(659,806)
Other comprehensive income/(loss), net of income tax		
Items that will be reclassified to profit or loss when specific conditions are met		
Exchange differences on translating foreign controlled entities	33,980	(74,329)
Other comprehensive income for the year, net of tax	33,980	(74,329)
Total comprehensive income for the year	(657,491)	(734,135)
Profit/(Loss) attributable to:		
Members of the parent entity	(790,236)	(647,769)
Non-controlling interest	98,765	(12,037)
	(691,471)	(659,806)
Total comprehensive income attributable to:		
Members of the parent entity	(756,256)	(722,098)
Non-controlling interest	98,765	(12,037)
	(657,491)	(734,135)
Earnings per share		
Basic earnings per share (cents)	(1.23)	(1.01)
Diluted earnings per share (cents)	(1.23)	(1.01)

The accompanying notes form part of these financial statements.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Consolidated Statement of Financial Position

As At 31 December 2019

	31 December 2019 \$	30 June 2019 \$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	4,076,539	4,375,635
Trade and other receivables	3,546,767	2,215,034
Other assets	477,489	342,839
TOTAL CURRENT ASSETS	8,100,795	6,933,508
NON-CURRENT ASSETS		
Trade and other receivables	8,034	8,026
Property, plant and equipment	418,736	251,443
Right to use assets	1,155,955	-
Deferred tax assets	323,577	273,417
Intangible assets	14,726,016	15,399,675
TOTAL NON-CURRENT ASSETS	16,632,318	15,932,561
TOTAL ASSETS	24,733,113	22,866,069
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	1,277,146	860,065
Current tax liabilities	1,251,563	584,567
Employee benefits	874,466	788,580
Other financial liabilities	4,281,456	4,189,968
Lease liabilities	388,497	-
TOTAL CURRENT LIABILITIES	8,073,128	6,423,180
NON-CURRENT LIABILITIES		
Deferred tax liabilities	518,972	553,195
Employee benefits	142,757	101,719
Lease liabilities	867,772	-
TOTAL NON-CURRENT LIABILITIES	1,529,501	654,914
TOTAL LIABILITIES	9,602,629	7,078,094
NET ASSETS	15,130,484	15,787,975
EQUITY		
Issued capital	28,469,564	28,469,564
Reserves	(310,556)	(344,536)
Retained earnings/(Accumulated losses)	(12,785,222)	(11,994,986)
Total equity attributable to equity holders of the Company	15,373,786	16,130,042
Non-controlling interest	(243,302)	(342,067)
TOTAL EQUITY	15,130,484	15,787,975

The Group has initially applied AASB 16 using the cumulative effect method and has not restated comparatives. The comparatives have been prepared using AASB 117 and related interpretations.

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 Half-Year Ended 31 December 2019

31 December 2019

	Ordinary Shares	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Non- controlling Interests	Total
Note	\$	\$	\$	\$	\$	\$
Balance at 1 July 2019	28,469,564	(11,994,986)	(469,361)	124,825	(342,067)	15,787,975
Profit/(Loss) attributable to members of the parent entity	-	(790,236)	-	-	-	(790,236)
Profit/(Loss) attributable to non-controlling interests	-	-	-	-	98,765	98,765
Total other comprehensive income for the year	-	-	33,980	-	-	33,980
Balance at 31 December 2019	28,469,564	(12,785,222)	(435,381)	124,825	(243,302)	15,130,484

31 December 2018

	Ordinary Shares	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Non- controlling Interests	Total
Note	\$	\$	\$	\$	\$	\$
Balance at 1 July 2018	28,469,564	(10,596,037)	(387,492)	124,825	(286,191)	17,324,669
Profit/(Loss) attributable to members of the parent entity	-	(647,769)	-	-	-	(647,769)
Profit/(Loss) attributable to non-controlling interests	-	-	-	-	(12,037)	(12,037)
Total other comprehensive income for the year	-	-	(74,329)	-	-	(74,329)
Balance at 31 December 2018	28,469,564	(11,243,806)	(461,821)	124,825	(298,228)	16,590,534

The accompanying notes form part of these financial statements.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Consolidated Statement of Cash Flows

For the Half-Year Ended 31 December 2019

	31 December 2019	31 December 2018
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	6,161,373	6,113,116
Payments to suppliers and employees	(6,172,629)	(6,330,032)
Interest received	2,205	3,302
Income taxes paid	-	(95,145)
Net cash provided by/(used in) operating activities	<u>(9,051)</u>	<u>(308,759)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	<u>(248,588)</u>	<u>(37,647)</u>
Net cash provided by/(used in) investing activities	<u>(248,588)</u>	<u>(37,647)</u>
Effects of foreign exchange rates on overseas cash holdings	<u>(41,457)</u>	19,324
Net increase/(decrease) in cash and cash equivalents held	<u>(299,096)</u>	<u>(327,082)</u>
Cash and cash equivalents at beginning of year	<u>4,375,635</u>	<u>2,599,684</u>
Cash and cash equivalents at end of the half year	<u>4,076,539</u>	<u>2,272,602</u>

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2019

1 Basis of Preparation

This condensed consolidated interim financial report for the reporting period ending 31 July 2019 has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*.

The interim financial report is intended to provide users with an update on the latest annual financial statements of Prophecy International Holdings Limited and Controlled Entities and controlled entities (the Group). As such it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. This condensed consolidated financial report does not include all the notes normally included in an annual financial report. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2019, together with any public announcements made during the half year.

The same accounting policies and methods of computation other than the change relating to Leases (outlined in note 2) have been followed in this interim financial report as were applied in the most recent annual financial statements.

2 Change in Accounting Policy

Leases - Adoption of AASB 16

The group has adopted AASB 16 *Leases* using simplified transition approach which is 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.

Management has reviewed all of the group's leasing arrangements over the last year in light of the new lease accounting rules in AASB 16.

Impact of adoption of AASB 16

The impact of adopting AASB 16 is described below:

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 lessee 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 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 in the statement of profit or loss 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 implied interest 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;

Notes to the Financial Statements

For the Half-Year Ended 31 December 2019

- excluded leases with an expiry date prior to 30 June 2020 from the 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;

Financial statement impact of adoption of AASB 16

The Prophecy group has recognised right-of-use assets of \$514,441 and lease liabilities of \$688,589 at 1 July 2019, for leases previously classified as operating leases.

Operating lease commitment at 30 June 2019	\$1,038,998
Recognise exemption for short -term leases or leases expiring before 30 June 2020, leases of low value asset	(\$164,043)
Discounted using the incremental borrowing rate at 1 July 2019 and other adjustments	(\$186,366)
Lease liabilities recognised at 1 July 2019	\$688,589

The right-of-use assets increased by approximately \$ 793,905 at 31 December 2019 to reflect the amendment of the overseas leases agreements in November 2019. The group expects that net profit before tax will decrease by approximately \$7,473 for the full 2020 financial year as a result of adopting the new rules. Adjusted EBITDA is expected to increase by approximately \$399,326, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure. Operating cash flows will increase and financing cash flows decrease by approximately \$433,031 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

	31 December 2019	31 December 2018
	\$	\$

3 Dividends

Dividend declared during the half year.

-	-
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In February 2020, the directors declared a dividend of 0.05 cents per share.

Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Notes to the Financial Statements

For the Half-Year Ended 31 December 2019

4 Operating Segments

(a) Segment performance

	Legacy		Snare		eMite		Total	
	31 December 2019	31 December 2018						
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE								
External sales	566,195	595,244	5,030,277	3,918,574	1,734,375	1,603,671	7,330,847	6,117,489
Other revenue	798	1,134	16	77	1,391	2,091	2,205	3,302
Total segment revenue	566,993	596,378	5,030,293	3,918,651	1,735,766	1,605,762	7,333,052	6,120,791
Segment result before tax	(721,651)	(288,282)	1,579,546	1,110,315	(966,997)	(1,477,087)	(109,102)	(655,054)

(b) Segment assets

	Legacy		Snare		eMite		Total	
	31 December 2019	30 June 2019	31 December 2019	30 June 2019	31 December 2019	30 June 2019	31 December 2019	30 June 2019
	\$	\$	\$	\$	\$	\$	\$	\$
Segment assets	2,654,119	2,640,270	8,262,764	6,724,096	13,492,653	13,438,570	24,409,536	22,802,936

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Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

Notes to the Financial Statements

For the Half-Year Ended 31 December 2019

4 Operating Segments

(c) Reconciliations

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

	31 December 2019	31 December 2018
	\$	\$
Segment net operating loss	(109,102)	(655,054)
Income tax expense	(582,369)	(4,752)
Total net loss after tax	<u>(691,471)</u>	<u>(659,806)</u>

5 Interests in Subsidiaries

Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%) [*] 31 December 2019	Percentage Owned (%) [*] 30 June 2019
Subsidiaries:			
Intersect Alliance Pty Ltd	Australia	100.0	100.0
Prophecy International Pty Ltd as trustee for CSP Unit Trust	Australia	100.0	100.0
Prophecy R&D Pty Ltd	Australia	100.0	100.0
Prophecy Americas' Inc	United States	93.1	93.1
Prophecy Europe Limited	United Kingdom	100.0	100.0
eMite Pty Ltd	Australia	100.0	100.0

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

6 Contingencies

There has been no change in contingent liabilities since the last annual reporting period.

7 Events Occurring After the Interim Period

In February 2020, the directors declared a dividend of 0.05 cents per share.

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

Prophecy International Holdings Limited and Controlled Entities

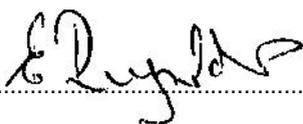
ABN: 16 079 971 618

Directors' Declaration

The directors of the Company declare that:

1. The consolidated financial statements and notes, as set out on pages 8-15 are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - (b) give a true and fair view of the consolidated group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date.
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Director 

Director 

Dated this 20th day of February 2020

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Independent Auditor's Review Report

To the Members of Prophecy International Holdings Limited

Report on the review of the half year financial report

Opinion

We have reviewed the accompanying half year financial report of Prophecy International Holdings Limited (the Company) and its subsidiaries (the Group), which comprises the statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Prophecy International Holdings Limited does not give a true and fair view of the financial position of the Group as at 31 December 2019, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Directors' responsibility for the half year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Prophecy International Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



J L Humphrey
Partner – Audit & Assurance

Adelaide, 20 February 2020