

Corporate Governance Statement

30 June 2015

Prophecy also establishes and maintains a program to provide an appropriate level of insurance cover for professional indemnity, directors, officers and public and product liability.

Notwithstanding the Board considers its current composition to be appropriate, it has in place an active program for assessing whether individual directors and the Board as a whole have the skills and knowledge necessary to discharge their responsibilities in accordance with the Board's governance arrangements. Any deficiencies identified by this program can be addressed in a number of ways, including training and the employment of specialist staff.

Audit Committee

The Audit Committee was established by the Board in 1998, and continued to meet regularly during the reporting period. Its membership comprises the Non-Executive Director A P Weber (Chairman), Non-Executive Chairman E Reynolds and Non-Executive Director G R Miles. A representative of the company's external auditors attends Audit Committee meetings by invitation.

The functions carried out by the Audit Committee are to:

- Provide the Board with an additional review and assurance regarding the accuracy and appropriateness of financial policies adopted in preparation of half year and full year financial results.
- Review internal controls of the Group and its overseas operations (including audit of the risk management policies applicable to the company's business).
- Recommend the scope of external audit activities and fees.
- Audit and review compliance with statutory and regulatory obligations.
- Periodically review the Group's balance sheets.
- Audit and review compliance with the Levels of Authority and approval policies established by the Board.
- Review and recommend improvements to the company's financial, regulatory and other risk management procedures.
- Monitor the financial and regulatory obligations of the company's overseas operations, in particular by requiring and monitoring the close involvement of the Finance Department in ensuring those obligations are met.

Matters dealt with by the Audit Committee and recommendations made by it are reported to and acted upon by the Board.

Strategy Committee

The Strategy Committee was established in July 2001, and continued to meet through the reporting period.

Its membership comprises Non-Executive Chairman E Reynolds (Chairman) and Non-Executive Director A P Weber.

It meets as required to set the strategic direction of the company, and to provide direction on specific opportunities that may arise.

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Remuneration Committee

A Remuneration Committee was established in July 2001, and continued to meet through the reporting period.

Its membership comprises Non-Executive Director A P Weber (Chairman) and Non-Executive Chairman E Reynolds.

The Remuneration Committee is responsible for the review of remuneration packages for executive directors and senior management, and the general principles of remuneration for all company staff. It also gives consideration to remuneration issues affecting directors, and makes recommendations to the Board for its review and consideration.

ASX Corporate Governance Council - Corporate Governance - Principles and Recommendations 2nd Edition

The Board has considered each of the eight (8) Principles of Good Corporate Governance and sets out below Prophecy's (PRO) compliance or otherwise with each of the principles.

Principle 1: Lay solid foundations for management and oversight

Principle:

Companies should establish and disclose the respective roles and responsibilities of Board and management.

PRO Position:

PRO have five (5) Board Directors - Chairman, Managing Director and three (3) Non-Executive Directors, and one (1) Senior Executive. Performance over the past 5 financial years has proved this to be an effective combination

Recommendations:

Recommendation 1.1:

Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

PRO View:

PRO has a documented policy on the Authorities and Delegations of the Board and the Senior Executive Functions.

Recommendation 1.2:

Companies should disclose the process for evaluating the performance of senior executives.

PRO View:

PRO has documented the process for evaluating Senior Executive performance.

Recommendation 1.3:

Companies should provide the information indicated in the Guide to reporting on Principle 1.

PRO View:

No further reporting is considered necessary.

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Principle 2: Structure the Board to add Value

Principle:

Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

PRO Position:

PRO have a Board of five (5) experienced directors including the Managing Director. The Board believe that over the past 5 financial years, it has performed an effective job in difficult global conditions. PRO appointed the fifth director recently to provide transition and succession of Financial and Accounting skills.

Recommendations:

Recommendation 2.1:

A majority of the Board should be independent directors.

PRO View:

The recent director appointment was an independent director. PRO will move to a majority of independent directors over time.

Recommendation 2.2:

The chair should be an independent director.

PRO View:

Appointing an additional director for the role of chairman is not considered cost effective until the company grows considerably.

Recommendation 2.3:

The roles of chair and chief executive office should not be exercised by the same individual.

PRO View:

These roles are split in current organisation.

Recommendation 2.4:

The Board should establish a nomination committee

PRO View:

There is no expectation that a further increase in Board numbers will be required in the short term and so a nomination committee is not required.

Recommendation 2.5:

Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.

PRO View:

PRO has documented the process for evaluating the performance of the Board, its committees and directors.

Recommendation 2.6:

Companies should provide the information indicated in the Guide to reporting on Principle 2.

PRO View:

No further reporting is considered necessary.

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Principle 3: Promote ethical and responsible decision-making

Principle:

To make ethical and responsible decisions companies should not only comply with their legal obligations, but should also consider the reasonable expectations of their stakeholders including; shareholders, employees, suppliers, creditors, consumers and the broader community in which they operate.

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The company is committed to diversity and recognises the benefits arising from employee and board diversity and the importance of benefiting from all available talent. Accordingly, the company is in the process of drafting a diversity policy.

This diversity policy outlines requirements for the Board to develop measurable objectives for achieving diversity, and annually assess both the objectives and the progress in achieving those objectives. Accordingly, the Board is developing the following objectives regarding gender diversity and aims to achieve these objectives over the next five years as director and senior executive positions become vacant and appropriately qualified candidates become available:

	2015 No.	%	2016-2021 No.	%
Women on the Board	1	20	1	20
Women in senior management roles	2	50	2	50
Women employees in the company	8	28	14	30

Recommendations

Recommendation 3.1:

Companies should establish a code of conduct and disclose the code or a summary of the code.

PRO View:

PRO have a documented Code of Conduct policy.

Recommendation 3.2:

Companies should establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.

PRO View:

Such a policy exists

Recommendation 3.3:

Companies should provide the information indicated in the Guide to reporting on Principle 3.

PRO View:

No further reporting is considered necessary.

Recommendation 3.4:

The company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Our recruitment processes encourage the development of diversity in our workplaces, bearing in mind that employees must have the required technological skills to be successful in their positions.

PRO View:

The board is drafting a diversity policy and it will be finalised and introduced shortly.

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Principle 4: Safeguard integrity in financial reporting

Principle:

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting. This requires companies to put in place a structure of review and authorisation designed to ensure the truthful and factual presentation of the company's financial position. The structure would include, for example:

- A review and consideration of the financial statements by the audit committee
- A process to ensure the independence and competence of the company's external auditors.

PRO Position:

Monthly, half and full year financial reports are prepared by the Group accountant, reviewed by the CFO and approved at a detailed level at monthly board meetings. The audit committee with external auditors present, review and recommend approval of half and full year financial statements.

Recommendations:

Recommendation 4.1:

The board should establish an audit committee.

PRO View:

An audit committee exists.

Recommendation 4.2:

The audit committee should be structured so that it:

- consists of only non-executive directors
- consists of a majority of independent directors
- is chaired by an independent chair, who is not chair of the board
- has at least three members.

PRO View:

The above structure exists.

Recommendation 4.3:

The audit committee should have a formal charter.

PRO View:

This charter exists.

Recommendation 4.4:

Companies should provide the information indicated in the Guide to reporting on Principle 4.

PRO View:

No additional reporting is required.

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Principle 5: Make timely and balanced disclosure

Principle:

Companies should put in place mechanisms designed to ensure compliance with the ASX Listing Rule requirements.

Recommendations:

Recommendation 5.1:

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

PRO View:

History shows that PRO Board submit numerous ASX announcements to keep market and shareholders informed of material information concerning the company.

Recommendation 5.2:

Companies should provide the information indicated in the Guide to reporting on Principle 5.

PRO View:

PRO has a documented Disclosure Policy.

Principle 6: Respect the rights of shareholders

Principle:

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

Recommendations

Recommendation 6.1:

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy.

PRO View:

The Board believe they communicate adequately with a majority in size of shareholders. PRO have a documented Communications Policy.

Recommendation 6.2:

Companies should provide the information indicated in the Guide to reporting on Principle 6.

PRO View:

No additional reporting is considered necessary.

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Principle 7: Recognise and manage risk

Principle:

Companies should establish a sound system of risk oversight and management and internal control.

Recommendations

Recommendation 7.1:

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

PRO View:

At every monthly Board Meeting attended by the Managing Director, risks relating to individual sales programs, together with ongoing implementation projects and software development programs are reviewed in detail.

Recommendation 7.2:

The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

PRO View:

With a small company with only a small number of sales prospects and technical projects in progress at any time, a complex reporting system is not required.

Recommendation 7.3:

The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

PRO View:

The Board have received this certificate for the 2014/15 year.

Recommendation 7.4:

Companies should provide the information indicated in the Guide to reporting on Principle 7.

PRO View:

No further reporting is considered necessary.

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Principle 8: Remunerate fairly and responsibly

Principle:

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Recommendations

Recommendation 8.1:

The board should establish a remuneration committee.

PRO View:

A remuneration committee exists and is effective.

Recommendation 8.2:

Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

PRO View:

This structure exists.

Recommendation 8.3:

Companies should provide the information indicated in the Guide to reporting on Principle 8:

PRO View:

No further reporting is considered necessary.