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Adacel Technologies Limited

(ASX: ADA)

ASX & Media Release

Melbourne, 28 August 2017

Appendix 4E - Preliminary Final Report Year ended 30 June 2017

(Previous corresponding period: Year ended 30 June 2016)

Lodged with the ASX under Listing Rule 4.3A

Contents

Results for announcement to the market
Annual Report and Financial Accounts

Results for Announcement to the Market

Revenue from continuing operations	Down	11.4%	to	\$42,432,000
Profit for the period attributable to owners	Up	0.7%	to	\$9,279,000
Profit before tax for the period	Down	27.4%	to	\$7,851,000

Dividends/distributions	Amount per security	Franked amount per security
Interim dividend (Paid 30 March 2017)	\$0.0175	-
Final dividend	\$0.0225	-
Special dividend	\$0.0775	-

Record date for determining entitlements to the final and special dividends

15 September 2017

Payment date of the final and special dividends

29 September 2017

Net Tangible Asset Backing per Ordinary Share (Cents per Share) FY 2017

31.78

Net Tangible Asset Backing per Ordinary Share (Cents per Share) FY 2016

24.24

Other information requiring disclosure to comply with ASX Listing Rule 4.3A is contained in the accompanying 2017 Annual Report.



2017

ANNUAL **REPORT**

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DIRECTORS' REPORT

Your Directors submit their report on the consolidated entity consisting of Adacel Technologies Limited and the entities it controlled at the end of, or during the year ended 30 June 2017.

DIRECTORS

The names and details of the Directors of Adacel Technologies Limited in office during the whole of the financial year and up to the date of this report, unless stated otherwise, are:

Peter Landos (Chairman)

Julian Beale

Kevin Courtney (resigned 18 November 2016)

Silvio Salom

David Smith

Natalya Jurcheshin (appointed 07 October 2016)

Michael McConnell (appointed 01 May 2017)

PRINCIPAL ACTIVITIES

The principal activities of Adacel Technologies Limited (Adacel or the Company) during the current and previous financial years were air traffic management and air traffic control simulation and software applications and services in the global civil and military aerospace sector.



OPERATING RESULTS

The Company's operating results for the twelve months ended 30 June 2017 and 2016 respectively are summarised in the following table:

Key Financial Measures	Year ended 30 June		
A\$'000	2017	2016	% change
Revenue from continuing operations	42,432	47,917	(11.4)%
Gross margin	17,885	21,635	(17.3)%
Gross margin %	42.1%	45.2%	
EBITDA	8,836	11,881	(25.6)%
EBITDA %	20.8%	24.8%	
Profit before tax	7,851	10,818	(27.4)%
Net profit after tax	9,279	9,217	0.7%
Earnings per share (cents)	11.71	11.63	0.7%
Net cash flow	585	8,146	(92.8)%
Net cash	16,358	15,773	3.7%
Final dividend (unfranked) (cents)	2.25	1.75	28.6%
Total ordinary dividends (cents)	4.00	3.00	33.3%
Special dividend (unfranked) (cents)	7.75	0.00	NA
Total dividends (cents)	11.75	3.00	291.7%

The Company delivered a profit before tax (PBT) of \$7.9 million, above the top end of the earnings guidance provided in May 2017, and 27% lower than the previous fiscal year.

The result in FY2017 was lower principally due to the late award of certain key contracts, delays which impacted the Company's ability to recognise the program revenue in the period. As a result, the first half of FY2018 will benefit from the recognition of these contracts.

Total gross margins were lower across the business due to mix, principally the higher proportion of Services revenue compared to Systems revenue in the period and timing issues noted above.

Earnings before interest, tax and depreciation (EBITDA) reduced to \$8.8 million compared to \$11.9 million in FY2017, directly related to the lower revenues. The reduction in EBITDA % was the result of program mix and a one-off investment designed to capture a key program.

The Company's net cash balance increased to A\$16.4 million. The lower net cash flow was affected by timing relating to delayed contracts and completed system installations and provision of services which were all earned and delivered in 2017. This increase in the net cash position in FY2017 was achieved after allowing for the payment of dividends, totalling A\$2.8 million, (A\$2.0 million in the previous year).

An on-market share buyback was announced during May 2017, an initiative to provide the Company with an additional capital management lever given the strong balance sheet position. The Company will continue to act prudently in relation to surplus capital.

After an exceptionally strong result in FY2016, the Company was disappointed to have fallen short of improving on this result in FY2017. That being said, despite the timing issues noted with respect to certain contract awards, there were a number of positive strategic achievements in FY2017, including a broadening of the Company's international customer base, relationships which are anticipated to develop and grow over the long term. The Company is pleased with the order book and foundation for strong earnings growth for FY2018.

BUSINESS SEGMENT REPORTING

Systems

The Systems segment represents sales of integrated software systems and products covering operational air traffic management as well as simulation and training applications. This segment also includes hardware and software upgrade sales.

Services

The Services segment includes all recurring revenue, including software maintenance and all aspects of system support, field services and on-site technical services.

Segment Performance

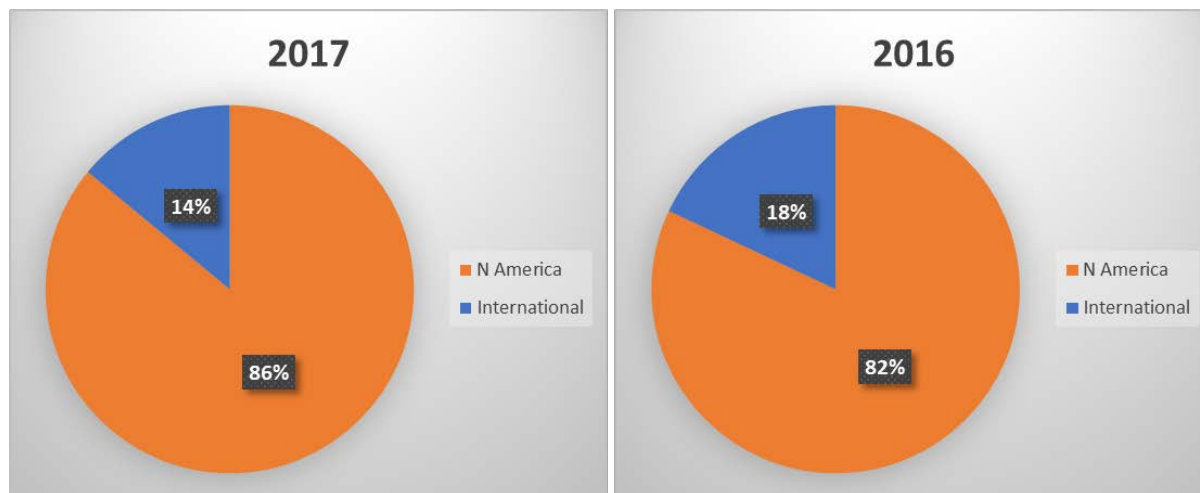
The Company's business segment performance is summarised as follows:

Segment performance	Year ended 30 June					
	2017			2016		
	Revenue	GM	GM %	Revenue	GM	GM %
	A\$'000			A\$'000		
Systems	9,670	3,367	34.8%	17,806	8,742	49.1%
Services	32,762	14,518	44.3%	30,111	12,893	42.8%
Total	42,432	17,885	42.1%	47,917	21,635	45.2%

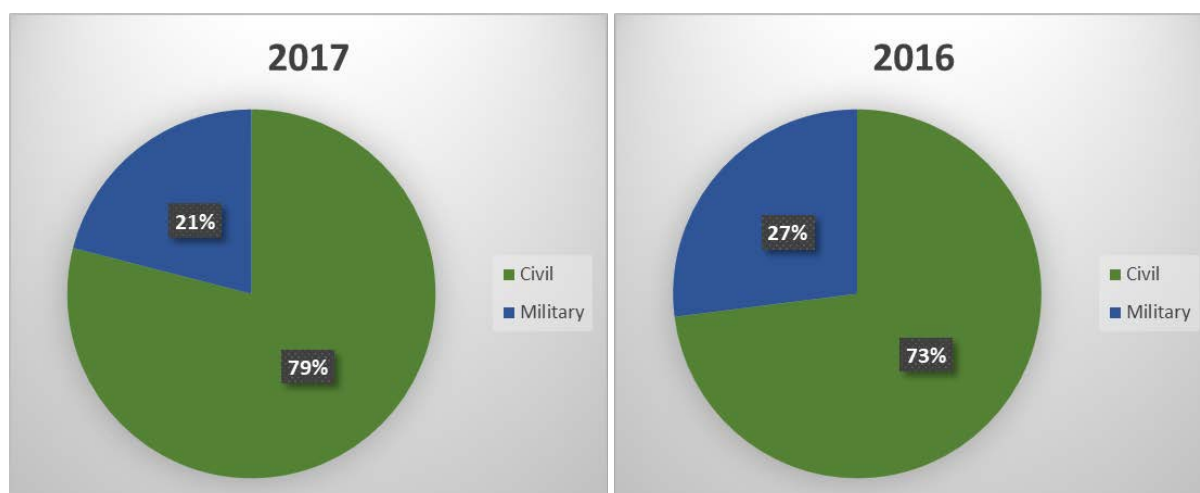
The recurring revenue from the Services segment grew by almost 9% in the period. The lower Systems segment revenue performance was largely attributable to delays in programs. Total revenues declined by 11.4% compared to the previous period, explained by the late receipt and delay of new system sales.

Gross margins in the Services segment remained strong in the period. The gross margins in the Systems segment were lower due to mix of business, in particular, a lower contribution from sale of high margin software licences. It is anticipated that a greater contribution from licence sales will occur in FY2018.

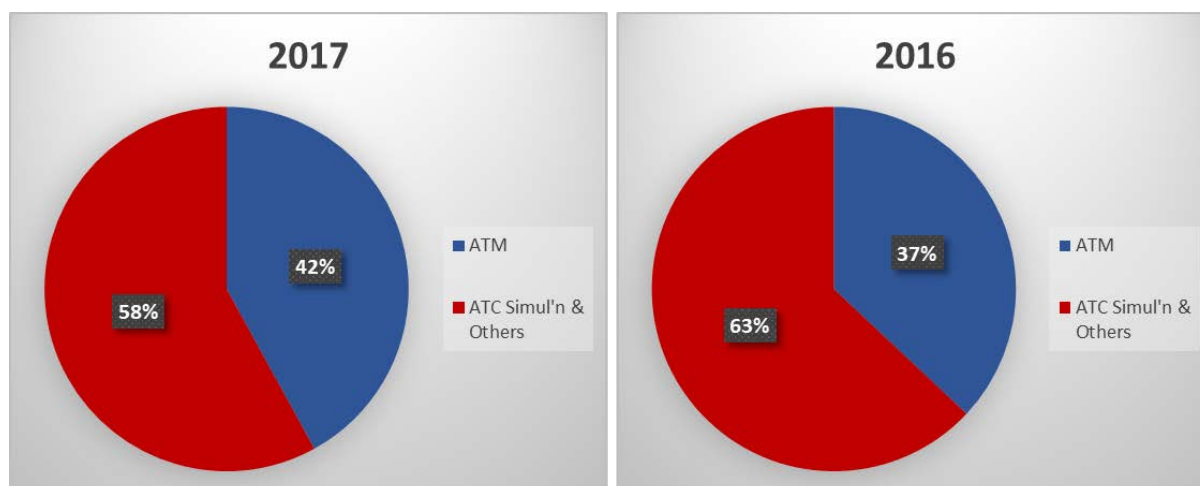
Revenues derived from USA-based customers increased in FY2017 from 82% to 86%. Revenues from customers in 16 countries outside the USA represented approximately 14%. It is anticipated that international revenues will represent a greater proportion of total revenues in FY2018 due to a number of new contract awards received towards the end of FY2017 and beginning of FY2018.



Civil revenues have grown from 73% of revenue in the previous period, to 79% in FY2017. Consequently, military business has reduced from 27% in FY2016 to 21%.



ATC simulation and additional products segment revenue decreased from 63% in FY2016 to 58%, increasing the contribution from air traffic management products to 42%.



OPERATING PERFORMANCE

Systems

FY2017 was a very positive year for new system order opportunities, success of which was more evident late in the period and thus, an anticipated contributor to earnings growth in FY2018. During the period, the Company witnessed a large number of new customer systems opportunities. When combined with our growing Services business, and our approach to success in new systems sales for both new and existing customers, confidence in a growing contribution from the Systems segment is well-placed. Success in a number of international markets was particularly high, with ATC training products being sold to the Colombian Air Force, Kurdistan, Mozambique, St Maarten, Aruba and a new military customer in Central America. Since the commencement of FY2018, notification of success was received for additional systems with a number of new international agencies, noting these contract awards are subject to final negotiations.

In the USA, the FAA, Department of Defence, as well as several aviation universities, either acquired new products or engaged in system upgrade programs, which typically included extensions or expansions of other services.

The airfield driver trainer product found its first international customer in Italy and the Company delivered a multiple seat driver training system to a US airport under a software as a service agreement, the first of its kind for the company.

Other Systems successes included an order for additional voice activated cockpit units, for the Leonardo (previously Aermacchi) M346 advanced jet trainer.

In addition, orders were received from customers for upgrades to three of our air traffic management systems and the decision on the award of the two additional ATM systems for the French Territories program, Martinique and Guadeloupe, remains pending.

Services

The growing base of air traffic control simulators and air traffic management systems continues to provide the Company with a global hardware and software footprint across various customers and jurisdictions. Key programs in this segment include those with Leidos (formally Lockheed Martin), the ATOP contract and the FAA, the USAF, the RAAF and Air Services Australia simulator support programs.

During FY2017, 18 new customers both in North America and internationally have been added to our base.

Given the nature of the products provided, we continue to see almost universal adoption of long term service contracts from our customers. The diverse services contracts attaching to this installed base provide a high level of visibility for both business planning and activity and earnings. Given the multi-year terms of the services contracts, the Company anticipates that the composition of earnings will continue to be weighted towards the Services Segment.

In the Services Segment, the activities include on-site simulator operators, field service representative services, system warranties services, air traffic control instructor services and long-term software support contracts.



OTHER ACTIVITIES

The Company has continued to invest in its core technologies, focused on maintaining its competitive advantages, developing new product more efficiently, reducing support costs and broadening its addressable markets. The Company expects to announce new products at the International Interservices Training and Education Conference (IITSEC) in December 2017. The new products are evolutions from the core technologies investment from previous years, particularly speech recognition and image generation.

Emphasis has been placed upon the targeted development of gaining new performance credentials, the successful achievement of which present opportunities for bids on several larger services contracts at US Government facilities.

Adacel currently employs more than 75 staff in field locations; this number is expected to grow in FY2018.

TAX

Adacel has carry-forward tax losses and credits available in various jurisdictions to offset future taxable profits. Reflecting the Board's confidence in future profitability, at 30 June 2017, the Company recognised a net deferred tax asset of \$3.1 million, relating to available tax credits. The recognition of this amount has contributed to a net tax benefit for the year of \$1.4 million.

In addition to this amount, and not recorded on the balance sheet, the Company has available tax losses in Australia and tax credits in Canada, the estimated net benefit of which, at the applicable tax rates, are \$11.7 million and \$11.6 million, respectively.

DIVIDENDS

The Board is pleased to declare a final dividend of 2.25 cents per share, unfranked (2016: 1.75 cents per share), an increase of 29% over the prior corresponding period. Given the Company's strong balance sheet and confidence in the future outlook, the Board is pleased to also declare a special dividend of 7.75 cents per share, unfranked.

Importantly, the Company's balance sheet remains sufficient to allow management to execute against our strategy.

Both the final dividend and special dividend have a record date of 15 September 2017 and will be paid on 29 September 2017.

Total dividends to be paid for FY2017 will be 11.75 cents per share compared to dividends in FY2016 of 3 cents per share.

KEY RISKS AND BUSINESS CHALLENGES

Whilst the reported financial performance of the Company was lower than the prior period, the Board is satisfied in the business foundations and its strategic direction and remains confident in earnings growth and consistent returns on invested capital.

The Company plays a significant role in the global market of providing the crucial software used in air traffic management systems and the critical tools used in the training of air traffic controllers for both civil and military organisations. The Company also provides a comprehensive suite of services to assist its customers and global aviation authorities in delivering high levels of safety and efficiency for global air travel.

The principal risks and business challenges for the Company are the lengthy tender and decision-making processes on the part of aviation authorities as well as the occasional funding constraints faced by these organisations. These factors can affect the Company's ability to forecast accurately the timing and quantum of both new and on-going business activity. This risk is more likely to occur in the Company's Systems business whereas the Services business is more annuity-style in nature.

Whilst the Company has been successful in renewing and extending many of its contracts with major partners, the renewal of contracts remains a risk that management and the Board continues to actively monitor and manage.

The talents of a relatively small number of key personnel contribute significantly to the Company's operational effectiveness and performance. Management and the Board have implemented strategies to retain those personnel, including participation in an appropriate incentive arrangement.

The Company remains well-placed under the leadership of its Chief Executive Officer, Gary Pearson.

During FY2017, the Company has added to its Board of Directors, following the appointment of Ms Natalya Jurcheshin in October 2016, and Mr Michael McConnell in May 2017. Both Natalya and Michael bring deep financial and commercial skills as well as successful track records to the Company's Board.

In April 2017, Mr Julian Beale indicated his intention to retire from the Board at the 2017 Annual General Meeting. Having served as a Director since June 2003, and as Chairman from September 2003 until November 2012, Julian has been a tremendous influence in restoring the Company's foundations and its more recent financial success. The Company wishes Julian every success and enjoyment in retirement.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There was no significant change in the state of affairs of the Company during the period.

OUTLOOK

The Board is pleased with how the business has commenced trading in the 2018 financial year. The Board anticipates strong revenue and earnings growth in the 2018 financial year, both organic and in part, to a contribution from contracts which were delayed toward the end of the 2017 financial year. The Company anticipates growth in both business segments, however growth in the Systems segment is expected to be higher than Services, and will be weighted towards the first half of the period.

Updated guidance is expected to be provided at the Company's Annual General Meeting in November 2017.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Subsequent to the end of the financial year, the Board declared a Final Dividend of 2.25 cents per share as well as a Special Dividend of 7.75 cents per share. The dividends will be paid in September 2017.

There were no other significant events after the balance date.

ENVIRONMENTAL REGULATION

The Chief Executive Officer reports to the Board if required on any environmental and regulatory issues at each Directors meeting. There are no matters that the Board considers need to be reported in this report.

GREENHOUSE GAS AND ENERGY DATA REPORTING REQUIREMENTS

The Group is not subject to the reporting requirements of either the Energy Efficiency Opportunities Act 2006 or the National Greenhouse and Energy Reporting Act 2007.



INFORMATION ON DIRECTORS



Peter Landos BEco (ANU)

Non-Executive Chairman

Mr. Landos was appointed as a Non-executive Director on 26 February 2009 and has been Chairman since 16 November 2012. Peter is the Chief Operating Officer of the Thorney Investment Group of companies with whom he has worked since September 2000, having previously worked at Macquarie Bank Limited. Peter has extensive business and corporate experience specialising in advising boards and management in mergers and acquisitions, divestments, business restructurings and capital markets. Peter is also a Non-executive Director of Gale Pacific Limited.

Interests in Shares and Options

Nil ordinary shares in Adacel Technologies Limited.

Nil options over ordinary shares in Adacel Technologies Limited.



Julian Beale BE (Syd), MBA (Harvard)

Non-Executive Director

Mr Beale was appointed as an independent Non-executive Director in June 2003. Mr. Beale has extensive international business and capital markets experience and a background in private and public companies at both Board and management level. Julian has held senior positions in a range of companies including English Electric and Esso Australia (now Exxon) and was Managing Director of a resources group with interests in petroleum production, pipelines and minerals. He also established a plastics processing company in Melbourne and was a key participant in the successful transition of Moldflow, a developer of software for injection moulding machines, to the United States NASDAQ capital market. Julian was also a member of the Federal Parliament for 11 years from 1984 as the Member for Deakin and later Bruce. During this time he held many Shadow Ministerial portfolios. Julian does not currently hold and has not held directorships in other listed companies at any time in the 3 years immediately before the end of the financial year.

Interests in Shares and Options

1,062,276 ordinary shares in Adacel Technologies Limited.

Nil options over ordinary shares in Adacel Technologies Limited.



David Smith BE (Electronics)

Non-Executive Director

Mr Smith has been a non-executive Director since July 2000 and prior to that date an Executive Director from incorporation in October 1997. Mr. Smith was a senior executive of the Company and has extensive experience in software development, project and operations management in the military, aviation and transport domains. David does not currently hold and has not held directorships in other listed companies at any time in the 3 years immediately before the end of the financial year.

Interests in Shares and Options

5,618,589 ordinary shares in Adacel Technologies Limited.

Nil options over ordinary shares in Adacel Technologies Limited.

INFORMATION ON DIRECTORS (CONTINUED)



Michael McConnell BA (Harvard), MBA (Virginia)
Non-Executive Director

Mr McConnell joined the Board as an Independent Non-executive Director on 1 May, 2017. He is an experienced Director and private investor who is currently a Non-executive Director of Spark Networks Inc, and Guidance Software Inc. Previously, he was Managing Director of Shamrock Capital Advisors as well as serving on numerous public and private company boards in the United States of America, Australia, New Zealand, Israel and Ireland. He has experience across a variety of Industries, including media, entertainment, enterprise software, radio broadcasting, cable distribution, basic materials, chemicals, e-commerce and consumer products.

Interests in Shares and Options

Nil ordinary shares in Adacel Technologies Limited.

Nil options over ordinary shares in Adacel Technologies Limited.



Natalya Jurcheshin B.Comm, CA (Aust and NZ)
Non-Executive Director

Ms Jurcheshin joined the Board as an Independent Non-executive Director on 7 October, 2016. Natalya is a senior financial leader with a breadth and depth of experience in managing, improving and growing finance functions of companies and playing an instrumental part in their strategic growth. She has over 25 years' experience in finance roles, starting her career in the audit and assurance practice at Arthur Andersen (now part of Ernst & Young), working with clients in a wide variety of industries in Australia and in Eastern Europe. She has 12 years' experience as a Chief Financial Officer with ASX listed biotech Circadian Technologies Limited (10 years) and the Melbourne Symphony Orchestra (2 years). Natalya has been appointed Chair of the Audit Committee.

Interests in Shares and Options

Nil ordinary shares in Adacel Technologies Limited.

Nil options over ordinary shares in Adacel Technologies Limited.



Silvio Salom B Eng
Non-Executive Director

Mr Salom was Managing Director of Adacel Technologies Limited from incorporation in October 1997 until 16 June 2006, and Non-executive Director since that date. Mr. Salom was founder and Managing Director of the predecessor Adacel Pty Ltd from establishment in 1987. Silvio has extensive experience in the strategic and operational management of hi-tech companies with particular expertise in information technology related to the manufacturing, environmental, defence, transport, multimedia and telecommunications industry sectors. Silvio is a director in a number of private and public companies, however, he does not currently hold and has not held directorships in other listed companies at any time in the 3 years immediately before the end of the financial year.

Interests in Shares and Options

7,861,858 ordinary shares in Adacel Technologies Limited.

Nil options over ordinary shares in Adacel Technologies Limited.

INFORMATION ON DIRECTORS (CONTINUED)

Kevin Courtney FCA, FAICD

Non-Executive Director



Mr Courtney was an independent non-executive Director from October 1998 to his resignation on 18 November 2016. Mr. Courtney is a chartered accountant and a former regional managing partner of Ernst & Young. He was Chairman of Adacel's audit committee. Kevin has been a Commissioner of the City of Melbourne and a Director of Connect.com.au, the internet service provider sold to AAPT Telecommunications Ltd. He has been Chair of the audit committees of the Victorian Workcover Authority, the Sunraysia Rural Water Authority and the National Competition Council. Kevin was a director of Melbourne IT Limited from October 1999 until his retirement in April 2003 and a director of MLC Nominees Pty Ltd and National Australia Superannuation Pty Ltd from 2003 to 2006.

Interests in Shares and Options

Nil ordinary shares in Adacel Technologies Limited.

Nil options over ordinary shares in Adacel Technologies Limited.

COMPANY SECRETARY

Sophie Karzis B. Juris, LLB



Ms. Karzis is a practising lawyer with over 15 years' experience as a corporate and commercial lawyer, and company secretary and general counsel for a number of private and public companies. Sophie is the principal of Corporate Counsel, a corporate law practice with a focus on equity capital markets, mergers and acquisitions, corporate governance for ASX-listed entities, as well as the more general aspects of corporate and commercial law. Sophie is currently the company secretary of a number of ASX-listed and unlisted entities, and is a member of the Law Institute of Victoria as well as the Governance Institute of Australia.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year and the number of meetings attended by each Director or their alternate were as follows:

DIRECTORS	Meetings of Directors		Meetings of Committees					
	Held	Attended	Audit & Risk Management		Remuneration		Nomination	
			Held	Attended	Held	Attended	Held	Attended
Peter Landos	13	13	5	5	1	1	1	1
Julian Beale	13	12	5	4	1	1	1	1
Silvio Salom **	13	12	1	1	1	1	1	1
David Smith	13	11	*	*	*	*	1	1
Kevin Courtney (resigned 18 Nov 2016)	5	5	2	2	0	0	0	0
Natalya Jurcheshin (appointed 7 Oct 2016)	10	10	3	3	1	1	1	1
Michael McConnell *** (appointed 1 May 2017)	2	2	1	1	1	1	0	0

All of the above Directors are non-executive directors.

* Denotes that the Director was not a member of the relevant committee.

** Silvio Salom was added to the Audit & Risk Management Committee and the Remuneration Committee on the 19 May 2017.

*** Michael McConnell was added to the Audit & Risk Management Committee, the Remuneration Committee, and the Nomination Committee on the 19 May 2017.

As at the date of this report, the company has an Audit and Risk Management Committee, a Remuneration Committee and a Nomination Committee of the Board of Directors.

The current members of the Audit & Risk Management Committee are Natalya Jurcheshin, Julian Beale, Peter Landos, Silvio Salom and Michael McConnell. The Chairman of the Audit & Risk Management Committee is Natalya Jurcheshin.

The current members of the Remuneration Committee are Peter Landos, Natalya Jurcheshin, Julian Beale, Silvio Salom and Michael McConnell. The Chairman of the Remuneration Committee is Peter Landos.

The members of the Nomination Committee are all of the members of the Board. The Chairman of the Nomination Committee is Peter Landos.

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Details of remuneration
- C. Service agreements
- D. Share-based compensation
- E. Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

A. PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION.

The Adacel Board has determined policies in relation to the remuneration of directors and executives, as follows:

Non-executive Directors

Non-executive Directors are remunerated by fixed annual fees, superannuation and from time-to-time may also be issued share options in place of higher cash fees.

The level of annual Directors' fees is reviewed by the Remuneration Committee and the Board, taking into account a number of factors, including the range of Directors' fees paid in the market, and the Company's costs and operating performance. The maximum total payable to Directors for Directors' Fees is approved from time to time by shareholders in general meeting and was last set at \$500,000 per annum at the 2013 Annual General Meeting.

Non-executive Directors may also, in view of the Company's size and resources, from time-to-time be issued options as part of their remuneration in place of a higher cash fee. Options would be issued after consideration by the Remuneration Committee and the Board and subject to shareholder approval at a general meeting. These options would be issued separately to the Staff Share Option Plan and with conditions that were designed to provide a link with Company share price performance. Directors are not paid additional fees for work on Board committees and are not entitled to a retirement benefit.

Senior Executives

Under the Company's constitution, remuneration of the Managing Director or equivalent position, subject to other provisions in any contract between the executive and the Company, may be by way of fixed salary or participation in the profits of the Company but may not be by way of commission on or percentage of operating revenue. Other senior executives are remunerated by fixed salary and performance based bonuses. Remuneration packages will generally be set to be competitive to both retain executives and attract experienced executives to the Company.

Where packages comprise a fixed element and variable incentive components, the variable components will depend on Company and/or personal performance. Short-term incentives may include annual cash incentives on meeting specific Key Performance Indicators that have been agreed to at Board Level. The amount of the incentive will depend upon the extent that the measure is exceeded.

To provide long-term incentives, senior executives may also participate in the Staff Share Option plan. The options are issued with conditions linked to the share price to help ensure that the remuneration of senior executives is aligned with the long-term interests of shareholders. The overall level of executive reward takes into account the performance of the Company over a number of years, with greater emphasis given to the current year.

Short Term Incentives

For a number of the executives in the consolidated entity, an element of their remuneration may be based upon annual bonuses, usually dependent on the satisfaction of various performance conditions. For the year ended 30 June 2017, the Board approved discretionary short-term incentives for these executives as shown in Section B below based on quantitative and qualitative performance factors. The Board is in the process of reviewing short-term and long-term incentive plans to be introduced in the 2018 financial year. The following table compares earnings and all bonuses paid or accrued over the past five years.

YEAR	Profit After Tax	Range of Share Price	Bonuses Paid/Accrued	Ordinary Dividend Declared (per share)
	\$'000's	\$	\$'000's	Cents
2013	810	0.25 to 0.46	263	1.5
2014	(2,287)	0.23 to 0.54	-	-
2015	3,933	0.25 to 0.63	741	2.0
2016	9,217	0.58 to 3.02	779	3.0
2017	9,279	2.14 to 3.40	555	4.0

Long Term Incentives

For a number of the executives in the consolidated entity, at the discretion of the remuneration committee, an element of their remuneration may be by way of the Staff Share Option Plan. Exercise prices of Options are set to ensure that an employee will benefit by exercising their options if there has been a rise in the share price. The Staff Share Option Plan is described in Note 36, but there are no current options outstanding.

Benefits

Executives receive benefits including health insurance and disability insurance.

B. DETAILS OF REMUNERATION.

Amounts of remuneration

Details of the nature and amount of each element of the emoluments of each Director of Adacel Technologies Limited, the key management personnel (as defined in AASB 124 Related Party Disclosures) and specified executives of the Group are set out in the following tables.

The key management personnel of the group were the directors of Adacel Technologies Limited (see pages 11-13); the Company Secretary, Ms Sophie Karzis; the Chief Executive Officer (CEO), Mr Gary Pearson; the Chief Financial Officer (CFO), Mr Jean-Philippe Duval, the Vice President of Business Development and Strategic Planning, Mr Brian Hennessey, and the Vice President, Operations and General Manager, Adacel Inc, Mr Alain Bernardeau.

Emoluments of the Directors and key management personnel of the group for 2017

2017 Name	Short-term employee benefits				Post-employment benefits	Other	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non monetary*	Other	Super-annuation	Termination benefits	Options	
	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive Directors								
Peter Landos (<i>Chairman</i>)**	100,000	-	-	-	9,500	-	-	109,500
Julian Beale	50,000	-	-	-	4,750	-	-	54,750
Kevin Courtney (resigned 18/11/16)	19,167	-	-	-	1,821	-	-	20,988
Silvio Salom	50,000	-	-	-	4,750	-	-	54,750
David Smith	50,000	-	-	-	4,750	-	-	54,750
Natalya Jurcheshin (appointed 7/10/16)	36,693	-	-	-	3,486	-	-	40,179
Michael McConnell (appointed 1/5/17)	8,333	-	-	-	-	-	-	8,333
Sub-total: Non-exec Directors	314,193	-	-	-	29,057	-	-	343,250
Other Key Management								
Sophie Karzis	57,600	-	-	-	-	-	-	57,600
Seth Brown	-	-	-	-	-	-	-	-
Gary Pearson	453,927	93,000	34,971	-	16,466	-	-	598,364
Jean-Philippe Duval	186,404	50,000	911	-	9,320	-	-	246,635
Brian Hennessey	245,228	60,000	21,073	-	9,916	-	-	336,217
Alain Bernardeau	169,478	40,000	4,759	-	8,474	-	-	222,711
Sub-total: Other Key Mgmt	1,112,637	243,000	61,714	-	44,176	-	-	1,461,527
Total Key Management Personnel Compensation								
	1,426,830	243,000	61,714	-	73,233	-	-	1,804,777

* Non-Monetary Remuneration is based upon actual costs to the Company.

** Cash Salary and Fees paid to TIGA Trading Pty Ltd.

Emoluments of the Directors and key management personnel of the group for 2016

2016	Short-term employee benefits				Post-employment benefits	Other	Share-based payments	
Name	Cash salary and fees	Cash bonus	Non monetary*	Other	Super-annuation	Termination benefits	Options	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive Directors								
Peter Landos (<i>Chairman</i>)**	100,000	-	-	-	9,500	-	-	109,500
Julian Beale	50,000	-	-	-	4,750	-	-	54,750
Kevin Courtney	50,000	-	-	-	4,750	-	-	54,750
Silvio Salom	50,000	-	-	-	4,750	-	-	54,750
David Smith	50,000	-	-	-	4,750	-	-	54,750
Natalya Jurcheshin	-	-	-	-	-	-	-	-
Michael McConnell	-	-	-	-	-	-	-	-
Sub-total: Non-exec Directors	300,000	-	-	-	28,500	-	-	328,500
Other Key Management								
Sophie Karzis	46,416	-	-	-	-	-	-	46,416
Seth Brown	53,549	-	19,487	-	6,438	456,811	-	536,285
Gary Pearson	449,457	216,406	35,213	-	10,820	-	-	711,896
Jean-Philippe Duval	175,463	85,457	702	-	8,773	-	-	270,395
Brian Hennessey	249,104	120,225	20,907	-	16,086	-	-	406,322
Alain Bernardeau	159,421	58,007	4,271	-	7,971	-	-	229,670
Sub-total: Other Key Mgmt	1,133,410	480,095	80,580	-	50,088	456,811	-	2,200,984
Total Key Management Personnel Compensation								
	1,433,410	480,095	80,580	-	78,588	456,811	-	2,529,484

* Non-Monetary Remuneration is based upon actual costs to the Company.

** Cash Salary and Fees paid to TIGA Trading Pty Ltd.

C. SERVICE AGREEMENTS.

Remuneration and other terms of employment for the key management personnel are formalised in service agreements. The major provisions of the agreements relating to remuneration are set out below.

Sophie Karzis (Company Secretary)

- Term of agreement - ongoing commencing on 30 June 2008 and renewed 24 February 2016.
- Ms Karzis provides services to the Company as a contractor on an agreed monthly fee basis.
- Fees for the year ended 30 June 2017 in respect of Company Secretarial activities of \$57,600 have been paid.

Gary Pearson (Chief Executive Officer)

- Term of agreement - ongoing and automatically renewed on 1 July each year.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2017 of \$505,364. This equates to 100% of his total earnings.
- Payment of termination benefit on early termination by the employer, other than for cause, equal to 12 months' base salary, or 3 months base salary if terminated for cause.
- There is a contractual provision for performance-related and discretionary cash bonuses, as determined by the Board. An amount of \$93,000 has been accrued for the year ended 30 June 2017. This equates to 16% of his total earnings.
- Participation, when eligible, in the Staff Share Option Plan.

Jean-Philippe Duval (Chief Financial Officer)

- Term of agreement – No fixed term.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2017 of \$196,635. This equates to 100% of his total earnings.
- There is no defined contractual obligation to provide a benefit upon termination of employment, however, payment of early termination benefits, other than for cause, would be based on industry standards.
- There is no contractual provision for performance-related cash bonuses, however, is eligible for performance-related cash bonuses as determined by the Board. An amount of \$50,000 has been accrued for the year ended 30 June 2017. This equates to 20% of his total earnings.
- Participation, when eligible, in the Staff Share Option Plan.

Brian Hennessey (Vice President, Business Development and Strategic Planning)

- Term of agreement - No fixed term.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2017 of \$253,020. This equates to 100% of his total earnings.
- There is no defined contractual obligation to provide a benefit upon termination of employment, however, payment of early termination benefits, other than for cause, would be based on industry standards.
- There is no contractual provision for performance-related cash bonuses, however, is eligible for performance-related cash bonuses as determined by the Board. An amount of \$60,000 has been accrued for the year ended 30 June 2017. This equates to 18% of his total earnings.
- Participation, when eligible, in the Staff Share Option Plan.

Alain Bernardeau (Vice President, Operations & General Manager, Adacel Inc.)

- Term of agreement - No fixed term.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2017 of \$182,711. This equates to 100% of his total earnings.
- There is no defined contractual obligation to provide a benefit upon termination of employment, however, payment of early termination benefits, other than for cause, would be based on industry standards.
- There is no contractual provision for performance-related cash bonuses, however, is eligible for performance-related cash bonuses as determined by the Board. An amount of \$40,000 has been accrued for the year ended 30 June 2017. This equates to 18% of his total earnings.
- Participation, when eligible, in the Staff Share Option Plan.



D. SHARE-BASED COMPENSATION.

Staff Share Option Plan

Options may be granted under the Staff Share Option Plan, which was approved by the shareholders at the Annual General Meeting on the 15 November 2000. Under this plan, Directors may issue options (up to 10% of the Company's issued capital) to eligible employees. The Directors have the discretion as to the number of options to be issued and also the exercise periods and conditions precedent to the options vesting. The options are issued for no consideration and are not listed. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. Currently, the directors have indefinitely suspended the issuing of further options and there are no options on issue affecting remuneration in this or future reporting periods. In the event of the resignation, redundancy or termination of employment of an option holder, the options issued under the Staff Share Option Plan lapse immediately, unless the Directors, at their absolute discretion, determine otherwise. The Staff Share Option Plan is described in note 36.

Shares provided on exercise of remuneration options

During the year, no ordinary shares in the Company were issued as a result of the exercise of remuneration options to the directors or other key management personnel of Adacel Technologies Limited.

Equity instrument disclosures relating to key management personnel

Option holdings

There were no options over ordinary shares in the Company held during the financial year by any of the directors of Adacel Technologies Limited nor other key management personnel of the Company, including their personally related parties.

Share holdings

The numbers of ordinary shares in the Company held during the financial year by each Director of Adacel Technologies Limited and other key management personnel of the Company, including their personally related parties, are set out below. There were no shares granted during the period as compensation.

2017							
Name	Balance at the start of the year	Granted during the year as remuneration	Received during the year on the exercise of options	Acquisitions during the year	Disposals during the year	Change as a KMP during the year	Balance at the end of the year
Directors of Adacel Technologies limited							
Julian Beale	1,062,276	-	-	-	-	-	1,062,276
Kevin Courtney	-	-	-	-	-	-	-
Silvio Salom	7,861,858	-	-	-	-	-	7,861,858
David Smith	5,618,589	-	-	-	-	-	5,618,589
Peter Landos	-	-	-	-	-	-	-
Natalya Jurcheshin	-	-	-	-	-	-	-
Michael McConnell	-	-	-	-	-	-	-
Other key management personnel of the group							
Sophie Karzis	-	-	-	-	-	-	-
Gary Pearson	-	-	-	-	-	-	-
Brian Hennessey	480,264	-	-	-	310,000	-	170,264
Jean-Philippe Duval	-	-	-	-	-	-	-
Alain Bernardeau	-	-	-	-	-	-	-

2016							
Name	Balance at the start of the year	Granted during the year as remuneration	Received during the year on the exercise of options	Acquisitions during the year	Disposals during the year	Change as a KMP during the year	Balance at the end of the year
Directors of Adacel Technologies limited							
Julian Beale	1,816,867	-	-	-	754,591	-	1,062,276
Kevin Courtney	-	-	-	-	-	-	-
Silvio Salom	14,418,343	-	-	-	6,556,485	-	7,861,858
David Smith	9,260,558	-	-	-	3,641,969	-	5,618,589
Peter Landos	-	-	-	-	-	-	-
Other key management personnel of the group							
Sophie Karzis	-	-	-	-	-	-	-
Gary Pearson	-	-	-	-	-	-	-
Brian Hennessey	545,764	-	-	-	65,500	-	480,264
Jean-Philippe Duval	-	-	-	-	-	-	-
Alain Bernardeau	-	-	-	-	-	-	-

Other transactions with directors and executives

During the financial year, Adacel Technologies Limited entered into transactions with a company, Verbyx, that has a director, Gary Pearson, who is also a senior executive of Adacel. The transactions were for the receipt of a licence to the value of approximately USD\$36,000, and for support and services to the value of approximately CAD\$234,000. These transactions total approximately AUD\$262,000, compared to approximately AUD\$225,000 in the prior period. Other than this occurrence, no other transactions were entered into between Adacel Technologies Limited or any of its subsidiaries and any director of Adacel Technologies Limited or any of the specified executives of the consolidated entity, including their personally-related entities.

At 30 June 2017, there was no payables balance owing in the accounts relating to these transactions. As at 30 June 2016, there was also no payables balance owing. Net terms are 30 days following the purchase date which is normal in the industry.

E. ADDITIONAL INFORMATION.

Details of remuneration: cash bonuses and options

Cash bonuses for executives are at the discretion of the Board. Amounts approved for payment by the Board for the financial year are shown in section B above and the basis for these is addressed in section A. There were no options outstanding at the beginning of the financial year and no options were granted during the financial year.

LOANS TO DIRECTORS AND KEY MANAGEMENT PERSONNEL

During the financial year, no loans were made, guaranteed or secured by Adacel Technologies Limited or any of its subsidiaries to any Director of Adacel Technologies Limited or any of the specified executives of the Group, including their personally related entities. No loans remain outstanding as at 30 June 2017 (2016: nil).

SHARE OPTIONS GRANTED TO DIRECTORS AND THE MOST HIGHLY REMUNERATED OFFICERS

No options have been granted over unissued ordinary shares in Adacel Technologies Limited during or since the end of the year to any Directors, other key management personnel, or the Company Secretary of the Company as part of their remuneration.

SHARES UNDER OPTION

There are no unissued ordinary shares in Adacel Technologies Limited under option as at the date of this report.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

During the year ended 30 June 2017, there were no ordinary shares of Adacel Technologies Limited issued on the exercise of options granted. No shares have been issued since 30 June 2017 and up to the date of this report.

INSURANCE OF DIRECTORS AND OFFICERS

During the year the Company paid a premium for a Directors and Officers Liability Insurance Policy. This policy covers Directors and Officers of the Company and the consolidated entity. In accordance with normal commercial practices under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of the premiums are confidential.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has made any application under section 237 of the Corporations Act 2001.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

During the year the following non-audit fees were paid or payable for services provided by the auditor of the parent entity, and its related practices:

	Consolidated	
	2017	2016
Taxation services		
PricewaterhouseCoopers Australian firm		
Tax compliance services	17,340	17,340
Tax consulting services	-	6,000
	17,340	23,340
Related practices of PricewaterhouseCoopers Australian firm		
Tax compliance services	70,009	46,961
Tax consulting services	21,510	14,193
	91,519	61,154
Total remuneration for taxation services	108,859	84,494

AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 26.

ROUNDING

The amounts contained in this report and in the financial report have been rounded off to the nearest thousand dollars, or in some cases to the nearest dollar, under the relief available to the company under Australian Securities & Investment Commission Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191. The Company is an entity to which this Instrument applies.

AUDITOR

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Adacel Technologies Limited support and have adhered to the principles of corporate governance. The Company's corporate governance statement is available on the company's website as indicated on page 80.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read "Peter Landos".

Peter Landos

Chairman

Melbourne, 28 August 2017

A handwritten signature in black ink, appearing to read "David Smith".

David Smith

Director



Auditor's Independence Declaration

As lead auditor for the audit of Adacel Technologies Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Adacel Technologies Limited and the entities it controlled during the period.

A handwritten signature in grey ink, appearing to be "JP", with a long horizontal line extending to the right.

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
28 August 2017

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
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ADACEL TECHNOLOGIES LIMITED

ABN 15 079 672 281

ANNUAL FINANCIAL STATEMENTS – 30 JUNE 2017

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This financial report is for the consolidated entity consisting of Adacel Technologies Limited and its subsidiaries. The financial report is presented in the Australian currency.

Adacel Technologies Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Adacel Technologies Limited
Suite 1, 342 South Road
Hampton East, VIC, 3188

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations in the directors' report on pages 3 to 9, which does not form part of this financial report.

The financial report was authorised for issue by the directors on 28 August 2017. The Company has the power to amend and reissue the financial report.

Through the use of the Internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available at our Shareholders' Centre on our website: www.adacel.com.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Notes	Consolidated	
		2017 \$'000	2016 \$'000
Revenue from continuing operations	5	42,432	47,917
Interest income	6	42	53
Other income	6	2,033	1,310
Net foreign exchange (loss)/gain		(96)	14
Materials and consumables		(2,783)	(4,568)
Labour expense		(25,351)	(25,787)
Depreciation and amortisation expense		(770)	(775)
Finance costs		(257)	(341)
<i>Other Expenses</i>			
Travel expense		(635)	(527)
Professional fees		(2,890)	(2,651)
Premises rental costs		(1,115)	(1,108)
Insurance expense		(678)	(626)
Communications expense		(114)	(115)
Trade shows		(231)	(342)
Repairs & maintenance		(371)	(369)
Bad & doubtful debts reversed		81	365
All other expenses		(1,446)	(1,632)
Profit before tax		7,851	10,818
Income tax benefit/(expense)	8	1,428	(1,601)
Profit from continuing operations		9,279	9,217
Profit for the year		9,279	9,217
Other comprehensive income/(loss)			
Exchange differences on translation of foreign operations		(716)	(129)
Total other comprehensive income/loss		(716)	(129)
Total comprehensive income for the year		8,563	9,088
Profit for the year is attributable to:			
Owners of Adacel Technologies Limited		9,279	9,217
Total comprehensive income for the year is attributable to:			
Owners of Adacel Technologies Limited		8,563	9,088
Earnings per share for profit attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share (cents per share)	35	11.71	11.63
Diluted earnings per share (cents per share)	35	11.71	11.63

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION*As at 30 June 2017***Consolidated**

	Notes	2017 \$'000	2016 \$'000
Current assets			
Cash and cash equivalents	9	16,358	15,773
Trade and other receivables	10	12,300	8,595
Current tax receivable		308	769
Accrued revenue	10	2,622	4,004
Inventories	11	541	170
Other financial assets	12, 13	150	208
Total current assets		32,279	29,519
Non-current assets			
Property, plant and equipment	15	1,181	1,658
Intangible assets	16	833	1,041
Deferred tax asset	17	3,481	-
Other financial assets	14	40	41
Total non-current assets		5,535	2,740
Total assets		37,814	32,259
Current liabilities			
Trade and other payables	18	4,331	4,853
Advance payments from customers		2,004	2,349
Current tax liabilities		2,458	1,929
Provisions	21	410	348
Other current liabilities	19	692	767
Total current liabilities		9,895	10,246
Non-current liabilities			
Other non-current liabilities	19	1,103	1,751
Deferred tax liability	17	784	-
Provisions	21	12	8
Total non-current liabilities		1,899	1,759
Total liabilities		11,794	12,005
Net assets		26,020	20,254
Equity			
Contributed equity	23	75,230	75,253
Reserves	24	(1,964)	(1,248)
Accumulated losses	24	(47,246)	(53,751)
Total equity		26,020	20,254

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

		Attributable to the owners of Adacel Technologies Limited			
		Contributed Equity	Reserves	Retained Earnings	Total Equity
	Notes	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2015		75,253	(1,119)	(60,986)	13,148
Profit for the year		-	-	9,217	9,217
Exchange differences on translation of foreign operations	24	-	(129)	-	(129)
Total comprehensive income/(loss) for the year		-	(129)	9,217	9,088
Transactions with owners in their capacity as owners:					
Share buyback equity reductions	23	-	-	-	-
Dividends provided for or paid	24	-	-	(1,982)	(1,982)
		-	-	(1,982)	(1,982)
Balance at 30 June 2016		75,253	(1,248)	(53,751)	20,254
Balance at 1 July 2016		75,253	(1,248)	(53,751)	20,254
Profit for the year		-	-	9,279	9,279
Exchange differences on translation of foreign operations	24	-	(716)	-	(716)
Total comprehensive income/(loss) for the year		-	(716)	9,279	8,563
Transactions with owners in their capacity as owners:					
Share buyback equity reductions	23	(23)	-	-	(23)
Dividends provided for or paid	24	-	-	(2,774)	(2,774)
		(23)	-	(2,774)	(2,797)
Balance at 30 June 2017		75,230	(1,964)	(47,246)	26,020

The above statement of changes in equity should be read in conjunction with the accompanying notes

STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	Notes	Consolidated	
		2017	2016
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		41,650	51,455
Payments to suppliers and employees (inclusive of GST)		(35,299)	(36,869)
Payments for research and development expenditure (inclusive of GST)		(1,552)	(1,342)
Refund of security deposits		58	40
		<u>4,857</u>	<u>13,284</u>
Interest received	6	42	53
Income tax refunded/(paid)		21	(2,089)
Tax credits refunded		-	91
Finance costs		(6)	(9)
Net cash inflow from operating activities	33	<u>4,914</u>	<u>11,330</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(179)	(453)
Net cash outflow from investing activities		<u>(179)</u>	<u>(453)</u>
Cash flows from financing activities			
Dividend paid		(2,774)	(1,982)
Repayment of TPC grant		(740)	(736)
Shares repurchased through on market buy-back	23	(23)	-
Net cash outflow from financing activities		<u>(3,537)</u>	<u>(2,718)</u>
Net increase in cash and cash equivalents		1,198	8,159
Cash and cash equivalents at the beginning of the financial year	9	15,773	7,627
Effects of exchange rate changes on cash and cash equivalents		(613)	(13)
Cash and cash equivalents at the end of the financial year	9	<u><u>16,358</u></u>	<u><u>15,773</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Adacel Technologies Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Adacel Technologies Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of Adacel Technologies Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Early adoption of standards

Adacel Technologies Limited does not intend to adopt any new standards prior to the due date.

Going concern basis of preparation

This general purpose financial report has been prepared on a going concern basis following the directors' consideration of the operating plans and budgets for the period of 12 months from the date of signing the financial statements, and the financing facility discussed in note 22.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Adacel Technologies Limited ("Company", "parent entity") as at 30 June 2017 and the results of all subsidiaries for the year then ended. Adacel Technologies Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group 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 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.

The acquisition method of accounting is used to account for business combinations by the Group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors. The group's segments are based upon an "income type" and are consistent with the previous year.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Adacel Technologies Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each profit and loss are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are expressed in the functional currency of the foreign entity and translated at the applicable closing exchange rate.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, duties and taxes paid. Revenue is derived from various products and services which are accounted for differently. The method used is selected on the basis of that which best represents the nature of the contract. Where the outcome of a contract cannot be estimated reliably, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred. Losses on contracts are recognised in full when identified.

Revenue derived from support activities (including field service support and Simcare maintenance) are recognised on a straight-line basis over the support period. Revenue from monthly time and materials invoicing is accrued monthly based on the actual time and materials incurred.

Revenue from license sales of standard software products is recognised when all the risks and rewards have been transferred to the customer, usually only after the delivery and client acceptance of the products. These products are off-the-shelf and the customer does not have the ability to request specific tailoring.

Revenue from the delivery of products other than those indicated above is generally recognised under the percentage of completion method, based on the actual labour costs incurred to date compared to the total expected labour costs. Such contracts meet the criteria of a construction contract as defined by AASB 111 Construction Contracts. These deliveries generally have different footprints and the customer can request a significant amount of tailoring.

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Dividends are recognised as revenue when the right to receive payment is established.

Research and Development (R&D) Tax Credits are recognised in the period which the expenditure is incurred. An estimate is accrued based upon an analysis against the criteria in the related tax legislation and adjusted to the actual figure in subsequent periods once the tax return is completed.

In cases where the revenue stream does not fall within any of the situations described above, management will recognise the revenue based upon the existing accounting rules at the time.

(f) Government grants

Grants from governments are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit and loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and credited to the profit and loss on a straight-line basis over the expected lives of the related assets.

Government grants received which contain a repayment clause are treated as a liability and measured using the amortised cost method. The liability is discounted using the implicit effective interest rate in the grant contract and remeasured at each balance date. The unwind of the discounting is included within finance expense, and the remeasurement included within other expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if there is convincing evidence that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except where it relates to items recognised in other comprehensive income or directly in equity. If so, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(h) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown as part of current liabilities on the balance sheet.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Trade receivables and accrued revenue

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables payment terms are generally contained within the contract documents for each project and can vary from between 30 to 60 days after the end of the month of Invoice. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debtors, known to be uncollectible, are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(ii) Accrued revenue

Accrued revenue represents revenue that has been recognised, but which has not been invoiced to the customer at balance date.

(j) Security deposits

Security deposits are carried at the amounts paid to suppliers in relation to contract performance or the rental of offices. Security deposits are refundable following successful performance of contractual obligations.

(k) Inventories

Works in progress are stated at the lower of cost and net realisable value.

Costs deferred to work in progress comprise direct materials and direct labour. These costs are charged as expenses when the related revenue is recognised.

(l) Investments and other financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (note 10). Loans and receivables are carried at amortised cost.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Adacel does not enter into hedges for specific transactions, however, does utilise forward exchange contracts for currencies that it may deal in. The entity may also enter into contracts with customers where the payment currency is not the functional currency of each company, and therefore giving rise to an embedded derivative. The remeasurement of these derivatives at balance date gives rise to a gain or loss which is recognised immediately in profit and loss.

(n) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Details on how the fair value of financial instruments is determined are disclosed in note 2.

(o) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation on plant & equipment assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Class of Fixed Assets	Depreciation Rate
Leasehold improvements	5 - 20%
Furniture and fittings	10 - 12.5%
Computer Equipment	25%
Software	25 - 50%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit and loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Intangible assets

(i) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Intellectual property

Intellectual property is carried at cost and is amortised on a straight-line basis over the periods of the expected benefit. The Board has established a process to review the value of the Company's intellectual property assets, on a timely basis, for recoverable amount assessment purposes. The current IP being amortised has been assessed as having 10 years expected benefit.

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in profit and loss as an expense when it is incurred.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in profit and loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation.

For the years ending 30 June 2017 and 30 June 2016, no expenditure on development activities has been capitalised.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days after the month of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(r) Advance payments from customers

Advance payments from customers represent amounts invoiced to customers in excess of the amount of revenue recognised on contracts. Services for these contracts will be rendered and revenue will be recognised in future periods.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. These finance leases are capitalised at inception at the lower of the fair value of the property and the present value of the minimum payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 29a). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term (note 5).

(t) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from the contract are less than the unavoidable costs of meeting the obligations under that contract, and only after any impairment losses to assets dedicated to that contract have been recognised. The provision recognised is based on the excess of the estimated cash flows to meet the unavoidable costs under the contract over the estimated cash flows to be received in relation to the contract, having regard to the risks of the activities relating to the contract. The net estimated cash flows are discounted using market yields at balance date on national government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the expected future payments, where the effect of discounting is material.

(u) Provisions

Provisions for legal claims and service warranties are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

For similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave, and long service leave are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for accumulating sick leave are recognized when the leave is taken and measured at the rates paid or payable. The liability for long service leave is recognized in the provision for employee benefits. All other short-term employee benefit obligations including annual leave are presented as payables.

(ii) Other long-term employee benefit obligations

These are liabilities for long service leave and annual leave which are not expected to be settled wholly within 12 months after the end of the period in which the employees renders the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(iii) Superannuation

Contributions are made by the consolidated entity to defined contribution employee superannuation funds and are charged as expenses when incurred. Amounts outstanding at balance date are recognised in trade creditors.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Adacel Staff Share Option Plan.

The fair value of options granted under the Adacel Staff Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate. The fair value of the options granted excludes the impact of any non-market vesting conditions.

(v) Bonus plans

The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Termination benefits

Liabilities for termination benefits are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised in those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised in other creditors unless the amount or timing of the payments is uncertain, in which case they are recognised as provisions.

(vii) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in the employee benefit liabilities and costs when the employment to which they relate has occurred.

(w) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g. as a result of a share buy-back, those instruments are deducted from the equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming their conversion.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(z) Parent entity financial information

The financial information for the parent entity, Adacel Technologies Limited, disclosed in note 37, has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

(aa) Rounding of amounts

The Company is an entity to which relief is available under the Australian Securities & Investment Commission Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191. The amounts contained in this financial report have been rounded off to the nearest thousand dollars, or in some cases to the nearest dollar.

(ab) New accounting standards and interpretations

- (i) There have been no new standards incorporated into these financial statements that have had any material effect in the current reporting period, nor in the foreseeable future periods.
- (ii) The following 3 standards have been issued but are not yet effective and have not been early adopted.

(a) AASB 9 Financial Instruments, (effective from 1 January 2018)

This standard addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The standard is not applicable until 1 January 2018 but was available for early adoption. The group will adopt AASB 9 for the accounting period starting 1 July 2018. Although a detailed assessment has not been performed, the group believes there will be no material effect to the group's accounting for its financial assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) AASB 15 Revenue from contracts with customers

AASB 15 will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The standard is not applicable until 1 January 2018 but is available for early adoption. The group will adopt AASB 15 for the year starting 1 July 2018.

The core principle of AASB 15 is that an entity recognises revenue related to the transfer of goods or services when control of the goods or services passes to customers. Any distinct good or service in a contract is to be recognised using this core principle. The Group has identified contracts which include warranty services bundled in with the development and delivery of systems as being impacted by this accounting standard shifting the timing of recognition of the warranty expense and the associated revenue. Based on the Group's preliminary assessment the recognition and measurement of revenue pursuant to the new standard is not expected to have a material effect on its financial results. The Group has not yet completed its final assessment and will monitor the 2018 accounts for comparative purposes.

(c) AASB 16 Leases

AASB 16 Leases provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The standard is not applicable until 1 January 2019 but is available for early adoption. Management is currently assessing the impact of AASB 16 on the measurement and recognition of lease assets and liabilities and does not currently have an opinion. The group is unlikely to early adopt AASB 16.

There are no other standards that are not yet effective that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risks (including currency risk and interest rate risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group may use derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. Derivatives are used exclusively for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and aging analysis for credit risk.

Risk management is carried out by the Group Chief Financial Officer, or equivalent, under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as other specific policy areas such as foreign exchange risk, interest rate risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The consolidated entity holds the following financial instruments

	Consolidated	
	2017	2016
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	16,358	15,773
Trade and other receivables	6,907	5,142
Accrued revenue	2,622	4,004
Security Deposits with RBC	150	208
	26,037	25,127
Financial liabilities		
Trade and other payables	3,088	3,726
Other liabilities (TPC grant repayment)	1,795	2,518
	4,883	6,244

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk

(i) Foreign exchange risk

The consolidated entity operates internationally and is exposed to foreign exchange risk arising from currency exposures primarily to the US Dollar and European Euro.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. To minimise the exposure, the Group manages the natural hedges that may exist and, when significant transactions with external customers or suppliers are conducted in currencies other than the functional currency, forward exchange contracts may be put into place to minimise the risk.

The Group's exposure to foreign currency risk at the reporting date was as follows

Values are shown in foreign currencies	30 June 2017		30 June 2016	
	USD	EURO	USD	EURO
	\$'000	E'000	\$'000	E'000
Cash and cash equivalents	2,373	173	3,275	300
Trade and other receivables	3,171	398	1,360	789
Accrued revenues	124	818	-	291
Trade and other payables	(2)	(21)	(71)	(27)

Sensitivity

Based on the financial instruments held at 30 June 2017, had the Australian dollar strengthened/weakened by 10% against the US Dollar, with all other variables held constant, the Group's post tax profit for the year would have been \$670,000 lower/\$819,000 higher (in 2016, the post tax profit would have been \$559,000 lower/\$683,000 higher).

Had the Australian dollar strengthened/weakened by 10% against the EURO, with all other variables held constant, the Group's post tax profit for the year would have been \$185,000 lower/\$226,000 higher (in 2016, the post tax profit would have been \$184,000 lower/\$224,000 higher).

Aside from the effect upon profit, there would be no further direct impact on equity resulting from this movement.

(ii) Price risk

The consolidated entity is not exposed to equity securities price risks since all investments are impaired and recorded at the impaired values. None of these impaired investments are in publicly traded equity vehicles. The consolidated entity is also not exposed to commodity price risk.

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises on cash balances held and on its bank facility with the Royal Bank of Canada.

Cash at bank and borrowings under the facility are subject to variable interest rates. Excess cash is placed in short-term deposit or high-interest earning accounts, which is also subject to interest rate risk. The Group monitors the movements in interest rates, but to date has not deemed it necessary or cost effective to use derivative financial instruments to manage such risk. As at the end of the reporting period, the group had the following deposits and borrowings subject to interest rate variations.

	Consolidated			
	30 June 2017		30 June 2016	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	AUD \$'000	%	AUD \$'000
Cash at bank	0.71	16,358	0.27	15,773
Net exposure to cash flow interest rate risk		<u>16,358</u>		<u>15,773</u>

Sensitivity

The Group's main interest rate risk arises from cash equivalents, loans and other receivables with variable interest rates. However, the impact of any anticipated movements in interest rates would not have a material impact on the results of the Group.

(b) Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures to customers, including outstanding receivables. An analysis of outstanding receivables are included in note 10.

The Group has a significant concentration of risk due to having significant accounts receivable with US government or related entities, however, due to the nature of this customer base, there is no significant exposure to credit risk.

For banks and financial institutions each entity deals exclusively with a single bank with whom they have built up a long-standing relationship.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to much of the business being project driven, the Chief Financial Officer aims to maintain flexibility in funding by keeping committed credit lines available with the Royal Bank of Canada. Surplus funds are generally only invested in short-term bank deposits to enable ready access to the funds as required.

Financing arrangements

The consolidated entity had access to undrawn borrowing facilities at the reporting date as disclosed in note 22.

Maturities of financial instruments

The tables below analyse the consolidated entity's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group – At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years	Total contractual cash flows	Carrying Amount (assets) /liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	3,088	-	-	-	3,088	3,088
Other Liabilities	692	692	692	-	2,076	1,795
Total	3,780	692	692	-	5,164	4,883

Group – At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years	Total contractual cash flows	Carrying Amount (assets) /liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	3,726	-	-	-	3,726	3,726
Other Liabilities	767	767	1,535	-	3,069	2,518
Total	4,493	767	1,535	-	6,795	6,244

The book value of the liabilities above approximates fair value.

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- a. quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- b. inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- c. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

None of the consolidated entity's assets and liabilities were required to be measured and recognised at fair value for 30 June 2017 and 30 June 2016.

If they were required, the fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) would be determined using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. Fair value is established by reference to forward exchange rates quoted by specialist departments from financial institutions.

3. CRITICAL ACCOUNTING ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Contract revenue recognised at balance date

The Group reviews all contracts work in progress at the balance date to determine the percentage value of completion. Costs and revenues are brought to account based on the outcomes of the review, in accordance with the accounting policy stated in note 1(e). The judgements can only be finally confirmed at the point of completion of the contract and final delivery to the customer. This may result in differences between the revenue recognised at balance date and the amounts that are subsequently determined to be applicable. Any such differences are brought to account at the next contract review cycle.

Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

The Group recognises deferred tax assets relating to carried forward tax losses and tax credits to the extent that there is convincing evidence that there will be future taxable profits in the jurisdiction to which those losses relate. The directors continuously monitor this issue in all companies. The directors have now assessed that there is enough convincing evidence of future taxable profits being available in Adacel Inc. to support the recognition of a deferred tax asset. The deferred tax asset will be reassessed and remeasured annually.

Grant repayment liabilities

The Group has received grants that require repayment up to a capped amount through a royalty payable on specific revenue streams. The estimate of the liability payable at each balance sheet date is based on forecasts for these future revenue streams and represents management's best estimate of the discounted liability at that date. Subsequent changes in business performance may result in variations to these revenue forecasts with a consequential change in the grant repayment liability. Any change in the expected liability is recognised in the profit and loss in the period in which the estimate of future revenues is changed.

4. SEGMENT INFORMATION

(a) Description of segments

Management has determined the operating segments based on the reports that are used to make strategic decisions. These reports are prepared by the CEO and the CFO and reviewed by the Board monthly. The consolidated entity is organised on a global basis into these following segments:

Systems – Includes all sales of complex systems and products covering operational control as well as simulation and training. This segment also includes all hardware and software upgrade sales.

Services – Includes all potential recurring revenue, including all aspects of support, field services and on-site technical services.

Segment margins result after the allocation of all direct project expenses, (labour, materials and other direct costs), as well as an allocation of costs from direct function areas such as engineering, testing and project management. Further costs from the indirect functions areas of HR, IT and Facilities are also allocated based upon direct labour heads.

(b) Notes to and forming part of the segment information

(i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and the accounting standard AASB 8 Segment Reporting. Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets and liabilities include all assets that can be reasonably allocated at this segment level. These consist primarily of Trade Debtors, Accrued Revenue, Inventories and Advance Payments.

(ii) *Inter-segment transfers*

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arm's length" basis and are eliminated on consolidation.

(iii) *Significant Customers*

Revenues of approximately 75% have been derived from 3 external customers, all individually having greater than 10% of total sales. These customers are all in the North American region, and the amount of revenues from them during the 2017 financial year were \$14.5 million, \$13.2 million and \$5.4 million respectively. In 2016, 69% of revenues were from 3 customers, individually amounting to \$15.1 million, \$10.9 million and \$7.0 million respectively.

Notes to the Financial Statements - 30 June 2017

4. SEGMENT INFORMATION (CONTINUED)**(c) Segment Information for the year ended 30 June 2017**

	Notes	Systems		Services		Total	
		2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Operations							
Total segment revenue	5	9,670	17,806	32,762	30,111	42,432	47,917
Total segment margin		3,367	8,742	14,518	12,893	17,885	21,635
Other income	6					2,033	1,310
Interest revenue	6					42	53
Exchange rate (loss)/gain						(96)	14
R&D expenses						(1,745)	(1,656)
S&M expenses						(3,541)	(3,518)
G&A expenses						(5,700)	(5,343)
Redundancy costs						-	(457)
Non-operating expenses						-	(104)
Depreciation & amortisation	7					(770)	(775)
Interest & finance charges	7					(257)	(341)
Profit before income tax						7,851	10,818
Income Tax Benefit/(Expense)						1,428	(1,601)
Profit for the Period						9,279	9,217

Geographical Information

The consolidated entity is required to provide the following geographical information in accordance with AASB 8. This geographical information is based upon the location of the operating entities of the group.

	USA		Canada		Australia		Total	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Total Segment Revenue	21,779	23,808	20,425	21,725	228	2,384	42,432	47,917
Total non-current assets	630	508	4,877	2,202	28	30	5,535	2,740

Notes to the Financial Statements - 30 June 2017

5. REVENUE FROM CONTINUING OPERATIONS

	Consolidated	
	2017	2016
	\$'000	\$'000
<i>Sales revenue</i>		
Sale of services and systems	42,432	47,917
	42,432	47,917

6. OTHER INCOME

	Consolidated	
	2017	2016
	\$'000	\$'000
<i>Other Income</i>		
Quebec Tax Credits	2,033	1,310
Interest	42	53
	2,075	1,363

The Group is eligible for Tax credits of \$2,033,000 (2016 : \$1,310,000) from the Quebec government for R&D, Multimedia and E-business schemes. These tax credits have been accrued after analysing the applicable criteria. They will be adjusted to the actual amount once the Tax return has been submitted and the amounts received. The Group did not benefit directly from any other forms of government assistance.

7. EXPENSES

	Consolidated	
	2017	2016
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
Depreciation/amortisation of property, plant & equipment:		
Leasehold improvements	261	267
Furniture, fittings and equipment	359	352
Total depreciation	620	619
Amortisation of Intangibles	150	156
Interest and finance charges paid/payable	257	341
Rental expense relating to operating leases	1,139	1,146
Net foreign exchange losses/(gains)	96	(14)
Defined contribution superannuation expense	1,133	1,083
Research and development (inclusive of labour)	1,552	1,342
Bad and doubtful debts expensed/(recovered)	(81)	(365)
Restructuring (Termination & Redundancy Expenses)	-	457
(Gain) on remeasurement of TPC Liability	(144)	(161)

8. INCOME TAX

	Consolidated	
	2017	2016
	\$'000	\$'000
(a) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable		
Profit from continuing operations before income tax expense	7,851	10,818
Income tax calculated at applicable tax rates*	2,264	3,085
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Canadian Federal income tax credits	(962)	(1,263)
Non-assessable dividend	(1,433)	(863)
Other items (net)	117	110
Current year temporary differences not brought to account	71	(679)
Current year temporary differences brought to account	46	-
Current year tax losses not brought to account	1,699	750
Impact of recognition of previously unbooked tax credits	(3,062)	-
Impact of changes in tax rates on deferred tax	-	1
Income tax (over)/under provided in prior years	(430)	379
Withholding tax on overseas remittances	239	125
Other Items	23	(44)
Income tax (benefit)/expense	(1,428)	1,601
(b) Income tax expense		
Current tax	1,699	1,222
Deferred Tax	(2,697)	-
Adjustments for current tax of prior periods	(430)	379
	(1,428)	1,601
Income tax expense is wholly attributable to continuing operations		
(c) Estimated Unused Tax losses and Tax credits		
Australia – tax losses	39,018	37,909
Canada – Federal tax credits	77,551	81,229
Total gross tax losses and credits	116,569	119,138
Potential tax benefit at applicable tax rates*	23,338	23,557
(d) Estimated Unrecognised temporary differences		
Temporary differences for which no deferred tax asset/(liability) has been recognised	237	844
Potential tax benefit at applicable tax rates*	71	296

* Effective tax rates applicable are: Australia: 30%, Canada Federal: 15%, Canada Provincial 11.9%, USA : 37.25%.

Notes to the Financial Statements - 30 June 2017

9. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated	
	2017	2016
	\$'000	\$'000
Current		
Cash at bank and in hand	16,358	15,773
	16,358	15,773

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	16,358	15,773
Balances per statement of cash flows	16,358	15,773

(b) Cash at bank and in hand

Cash at bank is interest bearing at rates of 0.0% to 2.18% (2016 : 0.0% to 0.90%). Cash at bank is mainly at call, but is invested in term deposits where possible.

(c) Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 2.

10. CURRENT ASSETS – TRADE, OTHER RECEIVABLES, ACCRUED REVENUE

	Consolidated	
	2017	2016
	\$'000	\$'000
Trade receivables	6,907	5,196
Provision for impairment of receivables	-	(54)
	6,907	5,142
Sundry debtors	278	338
Provincial tax credits	4,614	2,685
Security deposits	-	7
Prepayments	501	423
	12,300	8,595
Accrued revenue	2,915	4,341
Provision for impairment of accrued revenue	(293)	(337)
	2,622	4,004

10. CURRENT ASSETS – TRADE & OTHER RECEIVABLES & ACCRUED REVENUE (CONTINUED)

(a) Impaired trade receivables & accrued revenue

As at 30 June 2017, current trade receivables with a nominal value of \$Nil (2016 : \$54,000) were impaired and accrued revenue with a nominal value of \$293,000 (2016 : \$337,000) was impaired. The impaired amounts all relate to one contract where receipts are expected over a number of years.

The age of these impaired receivables and accrued revenue is as follows:

	Consolidated	
	2017	2016
	\$'000	\$'000
Up to 3 months	-	-
3 to 6 months	-	-
Over 6 months	293	391
	293	391

Movements in the provision for impairment of receivables and accrued revenue are as follows

	Consolidated	
	2017	2016
	\$'000	\$'000
Opening Balance	(391)	(430)
Provision for impairment recognised during the year	-	-
Provision for impairment reversed during the year	86	55
Foreign exchange impact	12	(16)
Closing Balance	(293)	(391)

(b) Past due but not impaired

As of 30 June 2017, trade receivables of \$1,070,000 (2016 : \$1,111,000) were past due but not impaired. Whilst these amounts are past due, dialogue continues with these customers and payment is expected to be received in full.

	Consolidated	
	2017	2016
	\$'000	\$'000
Up to 3 months	615	616
3 to 6 months	205	319
Over 6 months	250	176
	1,070	1,111

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables.

10. CURRENT ASSETS – TRADE & OTHER RECEIVABLES & ACCRUED REVENUE (CONTINUED)

(c) Foreign exchange and interest rate risk

Information about the Group's and the parent entity's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 2.

(d) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

11. CURRENT ASSETS – INVENTORIES

	Consolidated	
	2017 \$'000	2016 \$'000
Current		
Work-in-progress on contracts – at cost	<u>541</u>	<u>170</u>

12. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Instruments used by the Group

There are currently no financial instruments being utilised by the group.

(b) Risk exposures

Information about the Group's and the parent entity's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

13. CURRENT ASSETS - OTHER FINANCIAL ASSETS

	Consolidated	
	2017 \$'000	2016 \$'000
Restricted term Deposit with Royal Bank of Canada	<u>150</u>	<u>208</u>
	<u>150</u>	<u>208</u>

The entity has a restricted term deposit with the RBC as security for their rental premises. This deposit and security is renewed annually and reduced by CAD \$50,000 each year.

Notes to the Financial Statements - 30 June 2017

14. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

	Consolidated	
	2017	2016
	\$'000	\$'000
Security Deposits – Orlando and Hampton East Offices	40	41

15. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Furniture, fittings & equipment \$'000	Consolidated Leasehold improvements \$'000	Total \$'000
At 30 June 2015			
Cost	6,295	1,365	7,660
Accumulated depreciation/amortisation	(5,505)	(319)	(5,824)
Net book amount	<u>790</u>	<u>1,046</u>	<u>1,836</u>
Year ended 30 June 2016			
Opening net book value	790	1,046	1,836
Additions	440	13	453
Depreciation/amortisation expense	(353)	(266)	(619)
Exchange differences	(2)	(10)	(12)
Closing net book amount	<u>875</u>	<u>783</u>	<u>1,658</u>
At 30 June 2016			
Cost	5,068	1,349	6,417
Accumulated depreciation/amortisation	(4,193)	(566)	(4,759)
Net book amount	<u>875</u>	<u>783</u>	<u>1,658</u>
Year ended 30 June 2017			
Opening net book value	875	783	1,658
Additions	170	9	179
Depreciation/amortisation expense	(359)	(261)	(620)
Exchange differences	(17)	(19)	(36)
Closing net book amount	<u>669</u>	<u>512</u>	<u>1,181</u>
At 30 June 2017			
Cost	4,177	1,310	5,487
Accumulated depreciation/amortisation	(3,508)	(798)	(4,306)
Net book amount	<u>669</u>	<u>512</u>	<u>1,181</u>

Notes to the Financial Statements - 30 June 2017

16. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Consolidated			Goodwill	Total
	Core intellectual property \$'000	Purchased intellectual property \$'000	Total intellectual property \$'000	\$'000	\$'000
At 30 June 2015					
Cost	17,275	984	18,259	2,492	20,751
Accum amortisation & impairment	(16,132)	(892)	(17,024)	(2,492)	(19,516)
Net book amount	1,143	92	1,235	-	1,235
Year ended 30 June 2016					
Opening net book value	1,143	92	1,235	-	1,235
Amortisation expense	(136)	(20)	(156)	-	(156)
Exchange differences	(33)	(5)	(38)	-	(38)
Closing net book amount	974	67	1,041	-	1,041
At 30 June 2016					
Cost	17,311	982	18,293	2,481	20,774
Accum amortisation & impairment	(16,337)	(915)	(17,252)	(2,481)	(19,733)
Net book amount	974	67	1,041	-	1,041
Year ended 30 June 2017					
Opening net book value	974	67	1,041	-	1,041
Amortisation expense	(131)	(19)	(150)	-	(150)
Exchange differences	(55)	(3)	(58)	-	(58)
Closing net book amount	788	45	833	-	833
At 30 June 2017					
Cost	17,172	978	18,150	2,450	20,600
Accum amortisation & impairment	(16,384)	(933)	(17,317)	(2,450)	(19,767)
Net book amount	788	45	833	-	833

Notes to the Financial Statements - 30 June 2017

17. DEFERRED TAX ASSETS & LIABILITIES

Deferred tax assets and liabilities have been recognised in relation to unused tax credits and temporary differences to the extent that the directors are confident that future profits will be available in the same taxation authority to use them.

	Consolidated	
	2017	2016
	\$'000	\$'000
Deferred tax assets comprise the following temporary differences attributable to:		
Unused tax credits brought to account	4,184	-
Lease Incentive	143	157
Employee benefit provisions	116	99
Allowance for doubtful accounts	109	141
Accrued Expenses	101	56
Other items	238	539
Set off of deferred tax liabilities pursuant to set-off provisions	(1,410)	(351)
	3,481	641
Deferred tax liabilities comprise the following temporary differences attributable to:		
Temporary difference on unused tax credits brought to account	(1,117)	-
Temporary difference on utilised Federal tax credits	(257)	(311)
Temporary difference on utilised Provincial tax credits	(697)	(543)
Other items	(123)	(138)
Set off of deferred tax assets pursuant to set-off provisions	1,410	351
	(784)	(641)
Net Amount of Deferred Tax Assets(Liabilities)	2,697	-
Movement reconciliation		
Opening Balance	-	-
(Charged)/credited to tax expense	2,697	-
(Charged)/credited to foreign currency translation reserve	-	-
Closing Balance	2,697	-

Notes to the Financial Statements - 30 June 2017

18. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2017	2016
	\$'000	\$'000
Trade payables	2,009	2,704
Accrued expenses	1,079	1,022
Annual leave payable (a)	1,243	1,127
	4,331	4,853

(a) Amounts not expected to be settled within the next 12 months

The entire obligation for annual leave payable is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months. The following amounts reflect leave that is not expected to be taken within the next 12 months

	Consolidated	
	2017	2016
	\$'000	\$'000
Annual leave obligation expected to be settled after 12 months	287	234

(b) Risk exposure

Information about the Group's and the parent entity's exposure to foreign exchange risk is provided in note 2.

19. OTHER LIABILITIES

	Consolidated	
	2017	2016
	\$'000	\$'000
Current		
TPC grants repayments (a)	692	767
	692	767
Non-Current		
TPC grants repayments (a)	1,103	1,751
	1,103	1,751

(a) TPC Grants Repayments

Adacel received Grants from the Canadian Government during the period 2004 to 2008. The terms of the agreements obliged the Company to pay to the government future royalties for a set period based on a percentage of the Company's future revenue. The repayment liabilities have been calculated at amortised cost using a discounted cash flow analysis. The set period concludes on the 30 June 2019 and the final repayment will be made in October 2019.

20. NON-CURRENT LIABILITIES - RETIREMENT BENEFIT OBLIGATIONS

All employees from the group are entitled to benefits from accumulated benefits superannuation plans on retirement, disability or death. Australian employees are covered by the Australian Government's Superannuation Guarantee. Canadian employees are covered by a Deferred Profit Sharing Plan (DPSP) and the USA employees are covered by a 401k Plan. The expense recognised in relation to these defined contribution plans is disclosed in note 7.

21. LIABILITIES – PROVISIONS

	Consolidated	
	2017	2016
	\$'000	\$'000
Current		
Employee benefits – Long service leave (c),(b)	169	156
Service and contract performance warranties (a),(b)	241	192
	410	348
Non-Current		
Employee benefits – Long service leave (c),(b)	12	8
	12	8

(a) Service and contract performance warranties

Provision is made for the estimated warranty claims in respect of contracts delivered which are still under warranty at balance date. These claims are expected to be settled in the next financial year. Management estimates the provision based on historical warranty claim information and any recent trends that may suggest future claims could differ from historical amounts.

(b) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits are set out below.

	Warranty	Long Service Leave
	\$'000	\$'000
Carrying amount at the beginning of the year	192	164
Charged/(credited) to the profit and loss		
-additional provisions recognised	109	17
-amounts used during the period	(53)	-
Foreign exchange impact	(7)	-
Carrying amount at the end of the year	241	181

(c) Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.

	Consolidated	
	2017	2016
	\$'000	\$'000
Long service leave obligation expected to be settled after 12 months	179	154

Notes to the Financial Statements - 30 June 2017

22. FINANCING ARRANGEMENTS

	Consolidated	
	2017	2016
	\$'000	\$'000
Bank facilities available		
Overdraft	5,853	5,191
Guarantees	303	5,191
Lease facility	500	-
Forward exchange contracts	2,002	-
Credit card	208	137
	8,866	10,519
Bank facilities used at balance date		
Overdraft	-	-
Guarantees	303	496
Lease facility	-	-
Forward exchange contracts	-	-
Credit card	6	5
	309	501
Bank facilities unused at balance date		
Overdraft	5,853	5,191
Guarantees	-	4,695
Lease facility	500	-
Forward exchange contracts	2,002	-
Credit card	202	132
	8,557	10,018

Adacel signed a new facility agreement with the Royal Bank of Canada on the 28th June 2017. The Bank has provided the Company a facility to address all of our requirements. The facility is governed by pre-agreed covenants with the bank and is repayable on demand. The facility comprises -

- A combined Overdraft and Guarantee facility of up to CAD \$6,000,000. The guarantees are limited to CAD \$2,000,000.
- A Guarantee facility of CAD \$150,000 reducing by CAD \$50,000 each year as the security provided for our leased premises.
- A Lease line of credit of CAD \$500,000 specifically for leases.
- A Visa credit Card facility to the value of CAD \$175,000.
- A CAD \$2,000,000 facility for Foreign Exchange Forward Contracts.

The facility is secured by a deed of movable hypothec (mortgage) over the assets and undertakings of Adacel Inc (Canadian operating entity), with guarantees and subordination agreements from Adacel Systems Inc, Adacel Technologies Inc and Adacel Technologies Holding Inc.

Adacel inc also have an American Express facility to the value of USD \$25,000.

The directors have reviewed the size and terms of the facility and its continued availability. The directors are satisfied that the operating plans and budgets for the period of 12 months from the date of signing this financial report will provide sufficient cash flows, that together with the facility, will be adequate for the Company's requirements.

Risk exposures

Information about the Group's and the parent entity's exposure to interest rate and foreign currency changes is set out in note 2.

23. CONTRIBUTED EQUITY

	Consolidated	
	2017	2016
	\$'000	\$'000
(a) Share capital		
Ordinary shares	75,230	75,253

(b) Movements in ordinary share capital

Date	Details	Number of Shares	\$'000
1 July 2015	Balance	79,268,178	75,253
01 Jul 15 – 30 Jun 16	No Movements	-	-
30 June 2016	Balance	79,268,178	75,253
01 Jul 16 – 30 Jun 17	Share Buy Back	(10,000)	(23)
30 June 2017	Balance	79,258,178	75,230

(c) Share options

At the end of the year there were no unissued ordinary shares under the Staff Share Option Plan.

(d) Terms and conditions of ordinary shares

The Ordinary shares of Adacel Technologies Limited have no par value. Ordinary shares have the right to receive dividends as declared and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(e) Terms and conditions of share options

Staff Share Option Plan Options

The terms and conditions of the options issued under the Staff Share Option Plan are disclosed in note 36.

(f) Share buy-back

A Share Buy Back scheme was entered into during the year ended 30 June 2017. The market was informed on 3 May 2017, and the scheme will run from 17 May 2017 through to 16 May 2018. A maximum of 7,926,817 shares may be bought back.

(g) Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

24. RESERVES AND RETAINED PROFITS / ACCUMULATED LOSSES

	Consolidated	
	2017	2016
	\$'000	\$'000
(a) Accumulated losses		
Accumulated losses	<u>(47,246)</u>	<u>(53,751)</u>
<i>Movements in accumulated losses were as follows:</i>		
Balance at the beginning of the year	(53,751)	(60,986)
Net profit for the year	9,279	9,217
Dividends provided for or paid	(2,774)	(1,982)
Balance at the end of the year	<u>(47,246)</u>	<u>(53,751)</u>
(b) Reserves		
Foreign currency translation reserve	<u>(1,964)</u>	<u>(1,248)</u>

(i) Nature and purpose of reserve

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

(ii) Movements in reserve

Balance at the beginning of the year	(1,248)	(1,119)
Currency translation differences arising during the year	(716)	(129)
Balance at the end of the year	<u>(1,964)</u>	<u>(1,248)</u>

25. DIVIDENDS

	2017	2016
	\$'000	\$'000
(a) Ordinary shares		
An interim dividend of \$0.0175 was paid during FY2017 (\$0.0125 during FY 2016). All dividends were paid in cash.	(1,387)	(991)
(b) Dividends not recognised at the end of the reporting period		
In addition to the above dividend, since year end the directors have recommended the payment of a final dividend of \$0.0225 (FY2016 - \$0.0175), and a special dividend of \$0.0775 (FY2016 – Nil). The aggregate amount of these dividends will be paid on 29 September 2017.		
Final Dividend	(1,783)	(1,387)
Special Dividend	(6,143)	-

(c) Franking balance

Adacel Technologies Limited and its Australian controlled entities have not paid Australian income tax. Accordingly there is a nil balance in the franking account of the Company.

26. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2017	2016
	\$	\$
PricewaterhouseCoopers Australia		
<i>(a) Audit and other assurance services</i>		
Audit and review of financial statements	119,085	120,608
Total remuneration for audit and other assurance services	119,085	120,608
<i>(b) Taxation services</i>		
Tax compliance services	17,340	17,340
Tax consulting services	-	6,000
Total remuneration for taxation services	17,340	23,340
Total for PricewaterhouseCoopers Australia	136,425	143,948
Related firms of PricewaterhouseCoopers Australia		
<i>(a) Audit and other assurance services</i>		
Audit and review of financial statements	235,315	251,747
Total remuneration for audit and other assurance services	235,315	251,747
<i>(b) Taxation services</i>		
Tax compliance services	70,009	46,961
Tax consulting services	21,510	14,193
Total remuneration for taxation services	91,519	61,154
Total for related firms of PricewaterhouseCoopers Australia	326,834	312,901

The Group's policy is to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are considered important. These assignments are principally tax advice and advice relating to changes to the accounting compliance regulations. It is the Group's policy to seek competitive tenders for all major consulting projects.

27. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel compensation

	Consolidated	
	2017	2016
	\$	\$
Short-term employee benefits	1,731,544	1,994,085
Post-employment benefits	73,233	78,588
Termination benefits	-	456,811
	1,804,777	2,529,484

The detailed remuneration disclosures can be found in sections A – C of the remuneration report on pages 15 to 20.

28. CONTINGENCIES

As at 30 June 2017, the parent entity, Adacel Technologies Limited, will continue to provide financial support to subsidiaries that are in a net liability position.

Guarantees of \$294,462 (2016: \$496,284) have been given to banks and customers in relation to contract warranty and performance.

Other than above, there are no other known contingent liabilities.

29. COMMITMENTS

	Consolidated	
	2017	2016
	\$'000	\$'000
(a) Operating leases expenditure commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases for office and office equipment rentals are payable as follows:		
Within one year	986	1,125
Later than one year and not later than 5 years	4,735	4,459
Later than 5 years	1,975	3,257
Commitments not recognised in the financial statements	7,696	8,841

(b) Other expenditure commitments

Commitments for payments in relation to non-cancellable contracts for the use of a new ERP system are payable as follows:

Within one year	98	-
Later than one year and not later than 5 years	196	-
Later than 5 years	-	-
Commitments not recognised in the financial statements	294	-

30. RELATED PARTY TRANSACTIONS

(a) Parent entity

Adacel Technologies Limited, incorporated in Australia, is the ultimate parent entity.

(b) Subsidiaries

Interests in subsidiaries are disclosed in note 31.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 27.

(d) Transactions with related Parties

During the financial year, Adacel Technologies Limited entered into transactions with a company that has a director who is also a senior executive of Adacel. The transactions were for the receipt licences, support and services to the value of AUD\$262K. The value of these transactions in the previous financial year was AUD\$225K. Other than this occurrence, no other transactions were entered into between Adacel Technologies Limited or any of its subsidiaries and any director of Adacel Technologies Limited or any of the specified executives of the consolidated entity, including their personally-related entities.

At 30 June 2017, there was no payables balance owing in the accounts relating to these transactions. As at 30 June 2016, there was also no payable balance owing. Net terms are 30 days following the purchase date which is normal in the industry.

(e) Terms and conditions

All transactions between Adacel Technologies Limited and its controlled entities were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. The current payables, however, are all considered to be short-term and are expected to be repaid periodically. Therefore, no interest has been charged from June 2008 onwards.

31. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b).

Name of entity	Country of incorporation	Class of shares	Equity holding *	
			2017 % held	2016 % held
Adacel Inc	Canada	Ordinary	100	100
Adacel Technologies Holdings Inc	USA	Ordinary	100	100
Adacel Technologies Inc	USA	Ordinary	100	100
Adacel Systems Inc	USA	Ordinary	100	100
Adacel Technical Services Inc	USA	Ordinary	100	100

* The proportion of ownership interest is equal to the proportion of voting power held.

32. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Subsequent to the end of the financial year, the Board declared a Final Dividend of 2.25 cents per share as well as a Special Dividend of 7.75 cents per share. The dividends will be paid in September 2017.

There were no other significant events after the balance date.

33. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated	
	2017	2016
	\$'000	\$'000
Operating profit from ordinary activities after income tax	9,279	9,217
Depreciation and amortisation	770	775
Bad debts (reversed)/written off and Prov for Doubtful Debts	(81)	(365)
Net exchange differences	96	(14)
Changes in assets and liabilities:		
(Increase)/decrease in trade receivables and accrued revenue	(598)	4,838
(Increase) in other receivables and other assets	(1,974)	(1,340)
(Increase)/decrease in inventory	(376)	787
(Increase)/decrease in prepayments	(94)	160
(Increase) in deferred tax assets and liabilities and tax payable	(1640)	(647)
(Decrease) in trade and other creditors	(335)	(736)
Increase in employee benefits provisions	17	6
Increase/(decrease) in other provisions	57	(114)
(Decrease) in advanced payments from customers	(265)	(1,263)
Decrease in other non-current assets	58	26
Net cash inflow from operating activities	4,914	11,330

34. NON-CASH INVESTING AND FINANCING ACTIVITIES

There were no non-cash investing and financing activities during the years ended 30 June 2017 and 30 June 2016.

35. EARNINGS PER SHARE

	Consolidated	
	2017	2016
Basic earnings per share (cents per share)	11.71	11.63
Diluted earnings per share (cents per share)	11.71	11.63

(a) Reconciliations of earnings used in calculating earnings per share

	Consolidated	
	2017	2016
	\$'000	\$'000
<i>Basic earnings per share</i>		
Profit from continuing operations	9,279	9,217
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	9,279	9,217
<i>Diluted earnings per share</i>		
Profit from continuing operations	9,279	9,217
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	9,279	9,217

(b) Weighted average number of ordinary shares used as the denominator

	Consolidated	
	2017	2016
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	79,267,027	79,268,178
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	79,267,027	79,268,178

(c) Information concerning the classification of securities

Staff Share Option Plan

Staff Share Option Plan options are considered to be potential ordinary shares and would be included in the determination of diluted earnings per share to the extent to which they are dilutive. There were no outstanding options at 30 June 2017 nor 30 June 2016, and hence have not been included in the determination of basic earnings per share for these years. Details of options are set out in note 36.

(d) Conversions, calls, subscription or issues after 30 June 2017

There are no current holders of option certificates, and therefore there has been no movement since 30 June 2017.

36. SHARE-BASED PAYMENTS

(a) Staff Share Option Plan

The Staff Share Option Plan was approved by the shareholders at the Annual General Meeting on the 15 November 2000. Under this plan, Directors can issue options (up to 10% of the Company's issued capital) to eligible employees. The Directors have the discretion as to the number of options to be issued and exercise periods. The options are not listed and issued for no consideration. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. Staff Share Option Plan options may be issued with conditions precedent to the options vesting. The conditions precedent for any options issued under the plan were usually one of the following:

- (i) Set time periods are achieved (the anniversary dates); and
On the anniversary date or any subsequent date, the weighted average sale price of all ordinary shares in the capital of the Company sold on ASX during the 5 trading days immediately preceding that date or any subsequent date is determined to be at least 15% higher on an annual compound basis than the exercise price of the options. Once this price threshold is achieved, a subsequent fall in the Company's share price will not affect the right to exercise the options.
- (ii) Set time periods are achieved.
- (iii) The achievement of the fiscal year EBITDA as set forth in the Board approved annual budget.
- (iv) Set time periods are achieved, and
The weighted average sale price of all ordinary shares in the capital of the Company sold on ASX for a period of 10 trading days reaches a defined price, and for a period of 90 days thereafter the average price per share is greater than, or equal to, the same defined price. Once this price threshold is achieved, a subsequent fall in the Company's share price will not affect the right to exercise the options.

In the event of the resignation, redundancy or termination of employment of an option holder, the options issued under the Staff Share Option Plan lapse immediately, unless the Directors, at their discretion, determine otherwise.

During the year ended 30 June 2017, no options were exercised, no options were issued and no options lapsed. The directors have indefinitely suspended the issuing of further options.

Weighted average exercise price

As there were no share options outstanding as at 30 June 2017 (and 30 June 2016), the weighted average remaining contractual life at the end of the period was Nil (2016 : Nil).

Fair value of options granted

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount where required, is included in the remuneration tables shown in the Directors report. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

(b) Expenses arising from share-based payment transactions

As there were no share based payments during this financial year, there have been no expenses incurred.

37. PARENT ENTITY FINANCIAL INFORMATION

	2017	2016
(a) Summary financial information	\$'000	\$'000

The individual financial statements for the parent entity show the following aggregate amounts:

Balance Sheet

Current Assets	3,102	2,580
Total Assets	10,344	9,704
Current Liabilities	427	407
Total Liabilities	439	415
<i>Shareholder's Equity</i>		
Issued Capital	75,230	75,253
Accumulated Losses	(65,325)	(65,964)
	9,905	9,289

Profit for the year	3,413	2,753
Total comprehensive income	3,413	2,753

(b) Guarantees entered into by the parent entity

There have been no guarantees entered into by the parent entity and therefore no liability has been recognised by the parent entity in relation to guarantees.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2017 or 30 June 2016. For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment.

The parent entity did not have any material contractual commitments for the acquisition of property, plant or equipment as at 30 June 2017 or 30 June 2016.

DIRECTORS' DECLARATION

In the Directors' opinion:

- a. the financial statements and notes set out on pages 27 to 72 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- c. The remuneration disclosures set out on pages 15 to 23 of the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the chief executive officer and the chief financial officer required by section 295A of the Corporations Act 2001.

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

A handwritten signature in black ink, appearing to read "Peter Landos".

Peter Landos
Chairman

A handwritten signature in black ink, appearing to read "D. Smith".

David Smith
Director

Melbourne, 28 August 2017

Adacel Technologies Limited Auditor's Report – 30 June 2017



Independent auditor's report

To the shareholders of Adacel Technologies Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Adacel Technologies Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended;
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies;
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The group is a developer of advanced simulation training systems and air traffic management automation solutions for the military and civil sectors. The group's operations and executive team are based primarily in North America. The corporate function is based in Australia. The group's operations are broken down into systems and services operating segments. The systems segment includes sale of advanced systems, technical software and hardware. The services segment includes development and support, and field technical services.



<i>Materiality</i>	<i>Audit scope</i>	<i>Key audit matters</i>
<p>For the purpose of our audit we used overall Group materiality of \$0.4 million, which represents approximately 5% of the Group's profit before tax.</p> <p>We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.</p> <p>We chose Group profit before tax from continuing operations because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.</p> <p>We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.</p>	<p>Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</p> <p>Our audit procedures were primarily performed at the principal places of business in Victoria (Australia) and Quebec (Canada).</p>	<p>Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee:</p> <p>Revenue recognition and accounts receivable recoverability</p> <p>Deferred tax</p> <p>These are further described in the <i>Key audit matters</i> section of our report.</p>



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition and accounts receivable recoverability <i>(Refer to note 5 Revenue from continuing operations and note 10 Trade, other receivables, accrued revenue)</i></p> <p>The group's systems sales revenue includes project based revenue. These projects are generally tailored applications developed for specific customers and are often completed across a number of years.</p> <p>This was a key audit matter due to:</p> <ul style="list-style-type: none"> the uncertainty involved in project revenue estimates as a result of the complex and long term nature of the projects (revenue recognition); the delays sometimes experienced in collecting receivable balances (accounts receivable recoverability). <p>Project based revenue is recognised under the percentage of completion method, as described in note 1(e) and is subject to estimates of the total labour costs required to complete a project and the forecast profitability of the project. When losses are forecast on contracts these are recognised in the period they are identified.</p> <p>Invoicing and subsequent collection of these amounts are subject to customer's agreement of milestone completion and are sometimes delayed due to the nature of the projects and customers.</p>	<p>We assessed the appropriateness and consistent application of revenue recognition policies by reviewing the key terms in customer agreements for significant projects.</p> <p>We assessed revenue recognised using the percentage of completion method by performing the following procedures:</p> <ul style="list-style-type: none"> Checked mathematical accuracy of percentage of completion calculations. Agreed a sample of actual labour costs to approved timesheets and payroll records. Agreed a sample of accrued costs to date to supporting calculations. Tested the reasonableness of forecast costs to complete by comparing them with actual costs incurred to date and budgets. Performed controls testing over the monthly management project status reviews. <p>We assessed actual and forecast contract profitability against historical benchmarks and inquired with management on any projects where margins have deviated significantly from forecasts.</p> <p>We agreed a sample of significant accrued revenue and outstanding accounts receivable balances to cash receipts subsequent to year end.</p>

Key audit matter**How our audit addressed the key audit matter**

We made inquiries of management regarding overdue accounts receivable and aged work in progress balances to identify items with an increased risk of non-recoverability. For these balances we obtained evidence of past payments, historical progress of projects and correspondence with customers.

Deferred tax

(Refer to note 8 Income tax and note 17 Deferred tax assets & liabilities)

The Group has unused carry forward gross tax losses and tax credits amounting to \$116.6 million as at 30 June 2017. Due to the nature of the Group's business there is uncertainty in the timing and quantum of new and ongoing business activity and therefore actual profits can vary significantly from year to year and from forecasts. The directors have now assessed that there is enough convincing evidence of future taxable profits available in Adacel Inc to warrant the recognition of a deferred tax asset.

Management has assessed the available carry forward tax balances against forecast tax profits by jurisdiction. Based on this assessment a deferred tax asset of \$3.1 million has been recognised as at 30 June 2017 in relation to Canadian Federal tax credits. In accordance with accounting standard *AASB 112 Income Taxes* an entity can record tax assets if there is convincing evidence that sufficient profits will be available in the future against which they can be offset.

The group's carry forward tax losses and tax credits arise from different jurisdictions across the North American and Australian operations. While tax losses have no expiry dates, Canadian Federal and Provincial tax credits expire after 10 years.

This was a key audit matter due to the degree of judgement involved in assessing the timing and quantum of future taxable profits.

In assessing the accuracy and recoverability of the deferred tax balances we performed the following procedures with assistance from our PwC tax specialists:

- Assessed the appropriateness of the group's policy for recognition of carry forward tax balances in the context of the requirements of Australian Accounting Standards and considering the historical results of the group.
- Checked the mathematical accuracy of deferred tax calculations.
- Agreed available carry forward tax losses and tax credits to filed tax returns.
- Obtained detailed budgets of future taxable profits by jurisdiction approved by the board of directors.
- Compared budgets to actual profits and guidance issued by the Group to the Australian Stock Exchange.
- Checked that tax assets have been utilised in current year's filed tax returns and compared these to the current year utilisation amounts budgeted.
- Agreed tax rates used to enacted or substantially enacted tax rates in each jurisdiction in which tax losses and tax credits existed.



Other information

The directors are responsible for the other information. The other information comprises the Director's Report, Additional Securities Exchange Information and Corporate Directory included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf This description forms part of our auditor's report.



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 15 to 23 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Adacel Technologies Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to be "JP".

Jason Perry
Partner

Melbourne
28 August 2017

ADDITIONAL SECURITIES EXCHANGE INFORMATION

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information is current as at 7 August 2017 (Reporting Date).

Corporate Governance Statement

The Company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations (**Corporate Governance Statement**).

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement will be available for review on Adacel's website (www.adacel.com), and will be lodged together with an Appendix 4G with ASX at the same time that this Annual Report is lodged with ASX.

Number of Holdings of Equity Securities

As at the Reporting Date, the number of holders in each class of equity securities on issue in Adacel is as follows:

The fully paid issued capital of the Company consisted of 79,258,178 ordinary fully paid shares held by 5,405 shareholders. Each share entitles the holder to one vote.

There are no performance rights.

Voting rights of Equity Securities

The only class of equity securities on issue in the Company which carry voting rights is ordinary shares.

At a general meeting of the Company, every holder of ordinary shares is entitled to vote in person or by proxy or attorney or, in the case of a body corporate, its duly authorised representative; and on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney or duly authorised representative has one vote for each ordinary share held by that person, except that in the case of partly paid shares the voting rights of a shareholder are pro rata to the proportion of the total issued price paid up (not credited) on the shares.

Preference shareholders have the right to vote at any meeting convened for the purpose of reducing the capital, or approving the terms of a buy-back agreement, or winding up, or sanctioning a sale of the whole of the Company's property, business and undertaking or where the proposition to be submitted directly affects their rights and privileges or when the dividend or part of the dividend on the preference shares is in arrears.

Distribution of Holders of Equity Securities

	Class of Equity Security	
	Ordinary Shares	Share Options
100,001 and over	40	-
10,001 to 100,000	535	-
5,001 to 10,000	696	-
1,001 to 5,000	2,638	-
1 to 1,000	1,496	-
	5,405	-

Unmarketable Parcels

The number of holders of less than a marketable parcel of ordinary shares as at the Reporting Date is as follows:

<u>Unmarketable Parcels as at 7 August 2017</u>	<u>Minimum Parcel Size</u>	<u>Holders</u>	<u>Units</u>
Minimum \$500.00 parcel at \$2.57 per unit	195	130	9,385

Substantial holders

As at the Reporting Date, the names of the substantial holders of Adacel and the number of equity securities in which those substantial holders and their associates have a relevant interest, as disclosed in substantial holding notices given to Adacel, are as follows:

Shareholder	No. Shares Held	% of Issued Capital
Thorney Holdings Pty Ltd	25,672,859	32.39%
Mr Silvio Salom	7,861,858	9.92%
Mr David Wallace Smith	5,618,589	7.09%

Twenty Largest Holders of Quoted Equity Securities

The Company only has one class of quoted securities, being ordinary shares. The names of the 20 largest holders of ordinary shares, the number of ordinary shares and the percentage of capital held by each holder is as follows:

Shareholder Name	Fully Paid Ordinary Shares	
	Top 20 Shareholders	
	Shares held	% held
HSBC Custody Nominees (Australia) Limited	25,745,426	32.48
Mr Silvio Salom	6,896,693	8.70
Mr David Wallace Smith	3,392,924	4.28
JP Morgan Nominees Australia Limited	2,438,005	3.08
D & E Smith Superannuation Nominees Pty Ltd	2,225,665	2.81
National Nominees Limited	1,472,508	1.86
One Managed Investment Funds Limited (Lakehouse Small Companies A/c)	1,077,493	1.36
Obena Ridge Pty Limited	1,062,276	1.34
National Nominees Limited (DB A/c)	799,274	1.01
Coalwell Pty Ltd	796,182	1.00
UBS Nominees Pty Ltd	641,363	0.81
Mr James Douglas Carnegie (James Carnegie Family A/c)	599,564	0.76
Sandhurst Trustees Ltd (Berkholts Investments A/c)	586,522	0.74
Citicorp Nominees Pty Limited	557,018	0.70
Ian Harriss Super Pty Ltd (Ian Harriss Super Fund A/c)	483,148	0.61
Valwren Pty Limited (WFIT A/c)	432,873	0.55
Valwren Pty Limited (Sandy Family Investment A/c)	367,127	0.46
Equitas Nominees Pty Limited (PB-601018 A/c)	350,000	0.44
Bissapp Software Pty Ltd (Super Fund Account)	299,985	0.38
Brispot Nominees Pty Ltd (House Head Nominee A/c)	297,138	0.37
	50,521,184	63.74

Other Information

The name of the Company Secretary is Ms Sophie Karzis. The address of the principal registered office in Australia, and the principal administrative office is Suite 1, 342 South Road, Hampton East Victoria, Australia, telephone is (03) 8530 7777. The Company is listed on the Australian Securities Exchange. The home exchange is Melbourne. Registers of securities are held by Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria, Australia, local call is 1300 850 505, international call is +61 3 9415 4000.

Stock Exchange Listing

Adacel's ordinary shares are quoted on the Australian Securities Exchange (ASX issuer code: ADA).

Voluntary Escrow

There are no securities on issue in Adacel that are subject to voluntary escrow.

Unquoted equity securities

There are no unquoted equity securities on issue in Adacel.

On Market Buyback

The Company is currently conducting an on-market buy-back. It was announced to the market on 03 May 2017 and covers the period 17 May 2017 to 16 May 2018. A maximum number of 7,926,817 shares may be bought back during this period.

Issues of Securities

There are no issues of securities approved for the purpose of Item 7 of Section 611 of the Corporations Act which have not yet been completed.

Securities purchased on-market

No securities were purchased on-market during the reporting period under or for the purposes of an employee incentive scheme or to satisfy the entitlements of the holders of options or other rights to acquire securities granted under an employee incentive scheme.

CORPORATE DIRECTORY

Adacel Technologies Limited
ABN 15 079 672 281

Registered Office

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Hampton East Victoria Australia 3188
Telephone +61 3 8530 7777
Facsimile +61 3 9555 0068
www.adacel.com

Board of Directors

Peter Landos (Non-Executive Chairman)
Julian Beale (Non-Executive Director)
Natalya Jurcheshin (Non-Executive Director)
Silvio Salom (Non-Executive Director)
David Smith (Non-Executive Director)
Michael McConnell (Non-Executive Director)

Company Secretary

Sophie Karzis

Bank

Royal Bank of Canada
1 Place Ville Marie, 8th Floor, East Wing
Montreal Quebec H3C 3A9
Canada

Solicitors – Australia

Ashurst Australia
Level 26
181 William Street
Melbourne Victoria 3000

Solicitors- USA

Ogletree, Deakins, Nash, Smoak & Stewart, P.C.,
One Ninety One Peachtree Tower
191 Peachtree St. NE, Suite 4800
Atlanta, GA 30303

Auditor

PricewaterhouseCoopers
Freshwater Place
Level 19, 2 Southbank Boulevard
Southbank Victoria 3006

Share Registry

Computershare Investor Services
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067
web.queries@computershare.com.au