2016 ANNUAL REPORT

ADACEL TECHNOLOGIES LIMITED

TABLE OF CONTENTS

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 2016.

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 are:

Peter Landos (Chairman)
Julian Beale
Kevin Courtney
Silvio Salom
David Smith

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 AND FINANCIAL REVIEW

Company Overview

Operating Results

The operating results for the twelve months ended 30 June 2016 and 2015 respectively are summarised below:

Key financial measures	**Twelve months ended 30 June**		
A$'000	**2016**	**2015**	**% change**
Revenue from continuing operations	47,917	41,914	14.3%
Gross margin	21,635	17,217	25.7%
Gross margin %	45.2%	41.1%	
EBITDA	11,881	6,922	71.6%
EBITDA %	24.8%	16.5%	
Profit before tax	10,818	5,913	83.0%
Net profit after tax	9,217	3,933	134.4%
Earnings per share (cents)	11.63	4.95	134.9%
Net cash movement	8,146	5,438	49.8%
Net cash	15,773	7,627	106.8%
Final dividend (unfranked) (cents)	1.75	1.25	40.0%
Dividends per share (cents)	3.00	2.00	50.0%

The Company has delivered a strong financial result for the twelve-month period ended 30 June 2016 (FY2016) with a profit before tax of A$10.8 million, a result at the top of the guidance range, and representing an increase of approximately 83% compared to the prior corresponding period (2015: A$5.9 million).

The FY2016 result was achieved on a 14.3% increase in revenue from continuing operations of A$47.9 million, compared to the prior corresponding period (2015: A$41.9 million). Gross margins for the period were higher than the prior corresponding period due to improved operating performance and the delivery of several high margin software licence programs.

Earnings before interest, tax and depreciation (EBITDA) increased to A$11.9 million, over 71% greater than the prior corresponding period (2015: A$6.9 million). EBITDA margin for the period reflected higher gross margins and a continued improvement in operating performance.

Strong positive cash flow of A$8.1 million (after dividend payments during the period of A$2.0 million) has increased the Company's net cash balance as at 30 June 2016 to A$15.8 million. This improved cash flow represents an increase when compared to the prior corresponding period (2015: A$5.4 million) and is attributable to higher sales and program performance. All receivables from key customers remain on commercial and contracted terms.

Overall, FY2016 has been a year mixed with pleasing operational and financial success however, marked with sadness following the passing of the Company's former Chief Executive Officer, Seth Brown, in April 2016. Gary Pearson was promoted to the position of Chief Executive Officer in October 2015, having been the Chief Operating Officer and together with his team, delivered a strong financial result and consolidated the foundations for future earnings growth.

Business Segment Reporting

The approach to segment reporting adopted for the first half of FY2016 has been maintained and enhanced for the full year results to provide increased transparency for shareholders.

Systems

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

Services

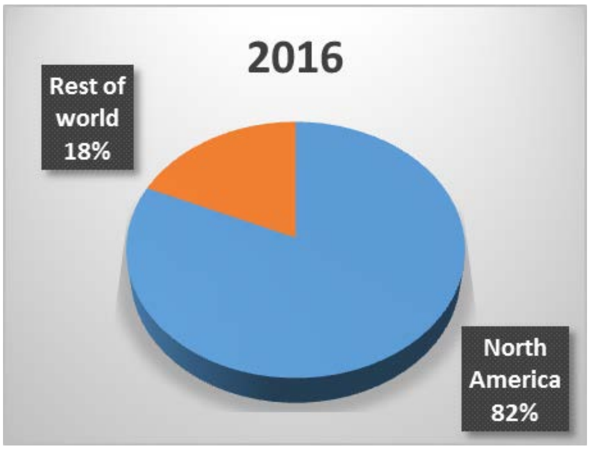
The Services Segment includes all potential recurring revenue, including software maintenance and all aspects of system support, field services and on-site technical services.

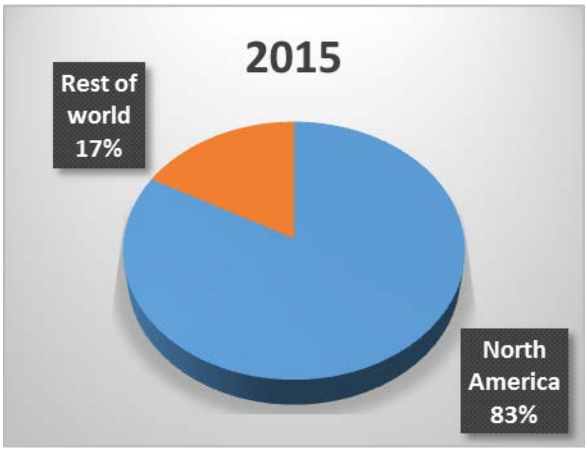
The revenue contributions for the Company's business segments can be summarised as follows:

Business segment revenue	**Twelve months ended 30 June**				**% change**
	2016		**2015**		
	A$'000	%	A$'000	%	
Systems	17,806	37.2%	18,715	44.7%	(4.9)%
Services	30,111	62.8%	23,199	55.3%	29.8%
Total revenue	47,917	100.0%	41,914	100.0%	14.3%

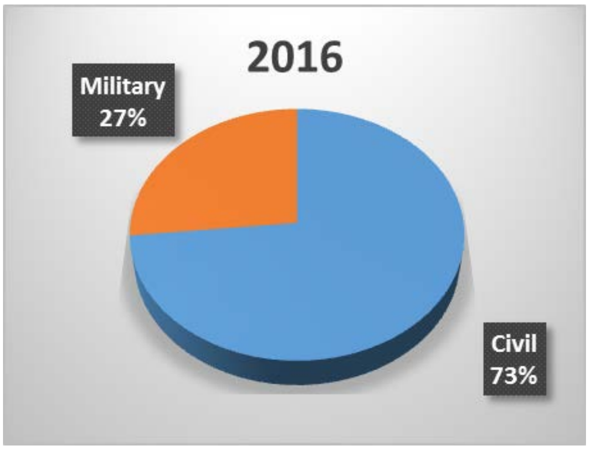
During the final quarter of FY2016, a number of program renewals and contract awards were achieved and have provided an opening order book for FY2017 that is higher than one year ago.

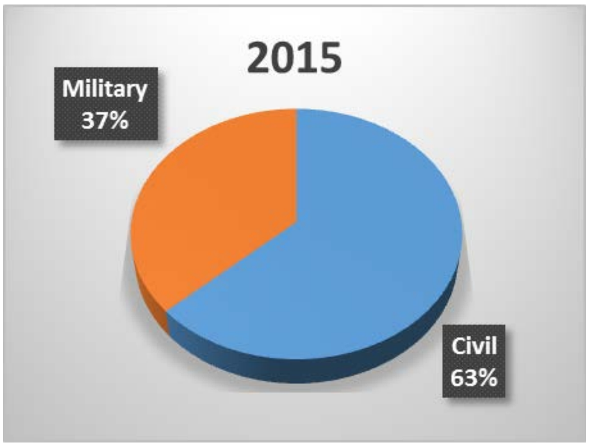
The split between North American and rest-of-world revenues remain relatively the same year over year and is illustrated below:



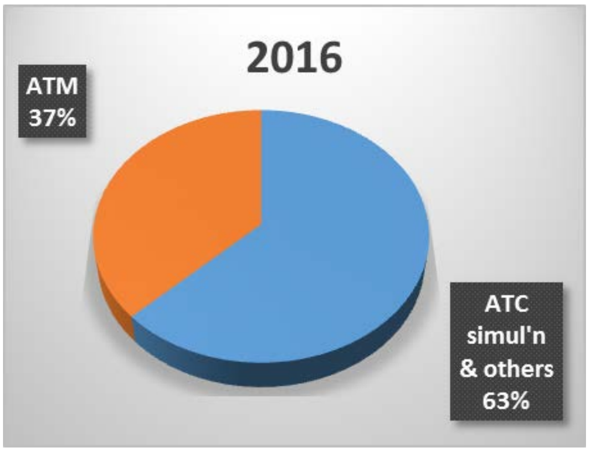


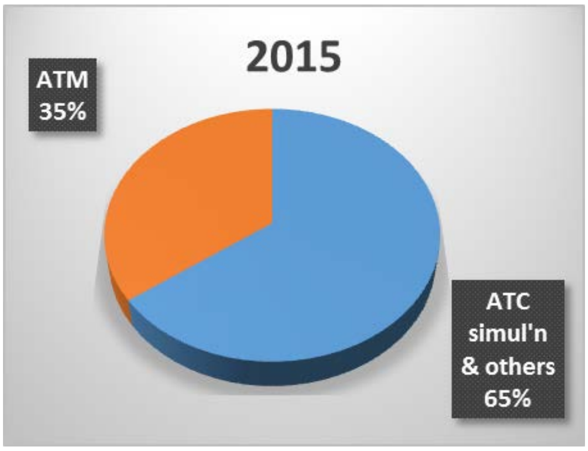
There has been an increase in civil business during the period resulting in a modest shift in revenue share between civil and military segments:





The revenue split has shifted slightly in favor of air traffic management and away from simulation and training products as can be seen in the following charts:





The relative gross margin contribution of the Systems Segment has increased due to continued improvement in operating performance and software licence sales; the Services Segment has seen a small decrease due to a changing business mix and, in particular, the addition of a number of competitive government services contracts.

Business segment gross margin	**Twelve months ended 30 June**					
	2016			**2015**		
	Revenue	**GM**	**GM %**	**Revenue**	**GM**	**GM %**
	A$'000	A$'000		A$'000	A$'000	
Systems	17,806	8,742	49.1%	18,715	6,935	37.1%
Services	30,111	12,893	42.8%	23,199	10,282	44.3%
Total	47,917	21,635	45.2%	41,914	17,217	41.1%

The gross margin contributions for the period illustrate the consistent shift in business activities towards more stable and annuity-style earnings, as represented by the Services Segment.

Overview of Operating Performance

The twelve month period ended 30 June 2016 was marked by a number of financial, strategic and foundational achievements that have positioned the Company for future earnings growth, including:

- Retention of key programs, including Federal Aviation Administration (FAA), United States Air Force (USAF), Lockheed Martin ATOP Program and Air Services Australia;
- Award and consolidation of new customer relationships, including French Territories, Kent State College, St Maarten Civil Aviation, US Army ATNAVICS Program and SAIC under the FAA CTC contract;
- Enhancement and expansion of programs with the Company's existing commercial partners; with software upgrades to the FAA; renewed contracts from Dallas Fort Worth Airport, NavPortugal and AustroControl;
- Early stage development, as well as soft launch, of new products/ technologies for both existing markets and potential adjacent market opportunities.

Systems

Activity in the Systems Segment, including hardware and software upgrades, during the period was driven primarily by the following programs:

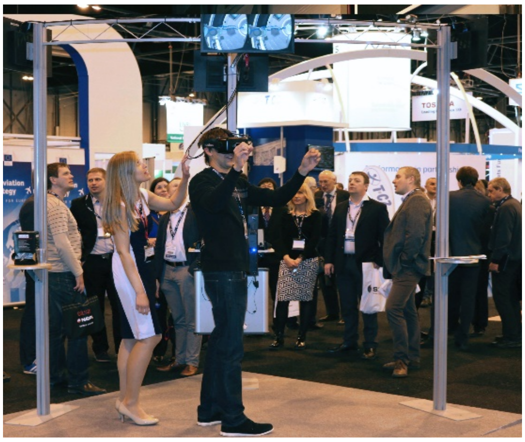
- Installation and system acceptance in Norway for Avinor, in French Guiana under the French Territories ATM Modernisation Program, and new simulation systems for St Maarten;
- Hardware and system upgrades for Air Services Australia, AustroControl, Tulsa Community College, Norway and NavPortugal;
- Hardware upgrades and transition of certain aviation academies and universities to the Company's products, including Kent State University and Miami Dade College;
- Various hardware and software upgrades for the United States Army, the FAA, Dallas/ Fort Worth International Airport and the USAF.

Services

The installed base of air traffic control simulators and air traffic management systems has provided the Company with a global hardware and software footprint across various customers and jurisdictions. 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.

Customers in the Services Segment included:



- USAF;
- Lockheed Martin;
- NavPortugal;
- United States Army;
- FAA;
- SAIC;
- Universities and Aviation Colleges;
- Air Services Australia; and
- Royal Australian Air Force.

Other Activities

The Company continues to broaden its addressable market through the development of new technologies that have direct application to existing markets and new adjacent business areas. Research and development activities focused on the development of premium upgrades for simulation including the Insight 3D Image Generator, the expansion of the LEXIX speech recognition suite of products, incorporating the world's largest aviation speech corpus, and new capabilities for the Aurora air traffic management product.

In addition to the development of products and features for our existing markets, the technologies produced have direct applicability to new adjacent markets, including the voice activated cockpit for both civil and military aircraft, commercial driver training, flight training and additional simulators, where visual scene generation combined with motion detection and speech recognition are enabling new training domains. Furthermore, Adacel is at the forefront of the introduction of virtual and augmented reality for new classes of products within our market segments.

Complementing these business activities, Adacel recently signed a sub-contract agreement with Enroute Computer Solutions (ECS) on the FAA's SE2025 Program. This program provides the Company with the opportunity to deliver research and mission analysis, engineering, technical resources and strategic planning support services to support the FAA's Next Generation Air Transportation System (NextGen) and non-NextGen initiatives. All work on this program will be bid and released by task order. Continuing to build on the strong partnership with the FAA, the Company is cautiously optimistic about the role it can play in supporting ECS and the FAA under the SE2025 Program.

DIVIDEND

The Board is pleased to declare an unfranked final dividend of 1.75 cents per share (2015: 1.25 cents per share), an increase of 40% over the prior corresponding period final dividend. The final dividend has a record date of 16 September 2016 and will be paid on 30 September 2016.

Total dividends to be paid for FY2016 will be 3.00 cents per share, a 50% increase on FY2015.

KEY RISKS AND BUSINESS CHALLENGES

The financial performance of the Company improved during the period, and delivered on its strategic plan, in line with the Board's expectation.

The Board believes that the Company is well placed under the leadership of the Company's Chief Executive Officer, Gary Pearson, to continue to take advantage of growth opportunities as they manifest, and to maximise shareholder returns.

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 our 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 and sometimes elongated 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 appropriate incentive arrangements.

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 the performance of the business, in particular the depth and diversity of the order book to start the 2017 financial year. While it is too early to provide specific guidance for 2017, the Board is focused on, and optimistic of, further earnings growth in 2017, subject to anticipated customer demand and on-going success with existing contracts.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There were no 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 the 26th 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

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

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.

Kevin Courtney FCA, FAICD
Non-Executive Director

Independent Non-executive Director since October 1998. Mr. Courtney is a chartered accountant and a former regional managing partner of Ernst & Young. He is 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. Kevin 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
Nil ordinary shares in Adacel Technologies Limited.
Nil options over ordinary shares in Adacel Technologies Limited.

Silvio Salom B Eng
Non-Executive Director

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.

COMPANY SECRETARY

Sophie Karzis B. Juris, LLB
Ms. Karzis is a practicing 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: Audit		Remuneration		Nomination	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Peter Landos **	12	12	3	3	0	0	1	1
Julian Beale **	12	12	3	3	0	0	1	1
Kevin Courtney **	12	9	3	2	0	0	1	1
Silvio Salom **	12	11	*	*	*	*	1	1
David Smith **	12	11	*	*	*	*	1	0

* Denotes that the Director was not a member of the relevant committee.
** Denotes that the Director is a non-executive director.

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

The members of the Audit Committee are Kevin Courtney, Julian Beale and Peter Landos. The Chairman of the Audit Committee is Kevin Courtney.

The members of the Remuneration Committee are Peter Landos, Kevin Courtney and Julian Beale. 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 general meeting. These options would be issued separately to the Adacel 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 Adacel 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 is dependent on the satisfaction of various performance conditions. For the year ended 30 June 2016, the performance conditions included financial targets, primarily new orders, annual profit and cash balances. Each of these targets was considered as a separate element of the incentive scheme and given a weighting in the bonus pool, however, for the business development executives, the bonus pool is based entirely upon new orders. The following table compares earnings and bonuses paid over the past 5 years.

YEAR	Profit After Tax	Range of Share Price	Bonuses paid	Dividend Declared (per share)
	$'000's	$	$'000's	Cents
2012	4,402	0.185 to 0.43	552	-
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	789	3.0

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 Adacel 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 10-11); the Company Secretary, Ms Sophie Karzis; the Chief Executive Officer (CEO), Mr Gary Pearson; and the Vice President of Business Development and Marketing, Mr Brian Hennessey.

As announced to the Australian Securities Exchange on 22 June 2015, the former CEO, Mr Seth Brown was on a medical leave of absence at the start of the financial year, and was terminated for health reasons in October 2015.

Key management personnel and other Executives of the Company and the Group

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 (*Chairman*)**	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
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
Brian Hennessey	249,104	120,225	20,907	-	16,086	-	-	406,322
Sub-total: Other Key Mgmt	**798,526**	**336,631**	**75,607**	**-**	**33,344**	**456,811**	**-**	**1,700,919**
Total Key Management Personnel Compensation	**1,098,526**	**336,631**	**75,607**	**-**	**61,844**	**456,811**	**-**	**2,029,419**

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

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

Comparative figures for 2015 are shown in the table below.

2015	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 (*Chairman*)**	80,000	-	-	-	7,600	-	-	87,600
Julian Beale	40,000	-	-	-	3,800	-	-	43,800
Kevin Courtney	40,000	-	-	-	3,800	-	-	43,800
Silvio Salom	40,000	-	-	-	3,800	-	-	43,800
David Smith	40,000	-	-	-	3,800	-	-	43,800
Sub-total: Non-exec Directors	**240,000**	**-**	**-**	**-**	**22,800**	**-**	**-**	**262,800**
Other Key Management								
Sophie Karzis	40,496	-	-	-	-	-	-	40,496
Seth Brown	386,840	175,856	31,892	-	15,044	-	-	609,632
Gary Pearson	338,124	153,525	30,848	-	-	-	-	522,497
Brian Hennessey	178,914	63,152	18,151	-	8,940	-	-	269,157
Sub-total: Other Key Mgmt	**944,374**	**392,533**	**80,891**	**-**	**23,984**	**-**	**-**	**1,441,782**
Total Key Management Personnel Compensation	**1,184,374**	**392,533**	**80,891**	**-**	**46,784**	**-**	**-**	**1,704,582**

* 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 2016 in respect of Company Secretarial activities of $46,416 has been paid.

Seth Brown (Former Chief Financial Officer and Chief Executive Officer)

- Term of agreement - automatically renewed on the 1 July each year, however terminated on 12 October 2015.
- Base salary, superannuation, accrued leave and medical/health insurance benefits for the year ended 30 June 2016 of $79,474.
- Payment of termination benefit on early termination by the employer of 12 months' base salary being $456,811 has been paid.
- No Provision has been made in respect of the year ended 30 June 2016 for performance-related cash bonuses.
- Participation, when eligible, in the Staff Share Option Plan.

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 2016 of $495,490. This equates to 70% 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.
- Provision of performance-related cash bonuses in accordance with the Adacel Employee Bonus Plan. $176,518 has been paid in respect of the year ended 30 June 2015. $216,406 has been accrued for the year ended 30 June 2016. This equates to 30% of his total earnings.
- Participation, when eligible, in the Staff Share Option Plan.

Brian Hennessey (Vice President, Business Development and Marketing)

- Term of agreement - No fixed term.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2016 of $286,097. This equates to 70% 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 a performance-related cash bonus in accordance with the Adacel Employee Bonus Plan. $120,225 has been accrued for the year ended 30 June 2016. This equates to 30% 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 Adacel Technologies 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 exercise periods. The options are issued for no consideration from Directors or employees. The options 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.

Staff Share Option Plan options may be issued with conditions precedent to the options vesting. Currently, there are no options on issue.

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.

Options granted as remuneration

There are no grants of options affecting remuneration in this or future reporting periods. 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.

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	Began 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	-	-	-	-	-	-	-
Seth Brown	-	-	-	-	-	-	-
Gary Pearson	-	-	-	-	-	-	-
Brian Hennessey	545,764	-	-	-	65,500	-	480,264

2015 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	Began as a KMP during the year	Balance at the end of the year
Directors of Adacel Technologies limited							
Julian Beale	1,816,867	-	-	-	-	-	1,816,867
Kevin Courtney	-	-	-	-	-	-	-
Silvio Salom	14,496,659	-	-	-	78,316	-	14,418,343
David Smith	9,560,558	-	-	-	300,000	-	9,260,558
Peter Landos	-	-	-	-	-	-	-
Other key management personnel of the group							
Sophie Karzis	-	-	-	-	-	-	-
Seth Brown	-	-	-	-	-	-	-
Gary Pearson	-	-	-	-	-	-	-
Brian Hennessey	545,764	-	-	-	-	-	545,764

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 support services to the value of CAD$217K, (AUD$225K). The value of these transactions in the previous financial year were CAD$234K, (AUD$239K). 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 2016, there was no payables balance owing in the accounts relating to these transactions. As at 30 June 2015, there was CAD$15K, (AUD$16K) 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

For each cash bonus and grant of options included in the above tables, the percentage of the available bonus opportunity or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses are payable in future years. Options are considered vested if they have met both time and market conditions and are therefore exercisable. The options vest over the period determined at the time of issue, provided all conditions are met. No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined by reference to the exercise price of the options.

	Cash bonus		Options					
Name	**Paid %**	**Forfeited %**	**Year granted**	**Vested %**	**Forfeited %**	**Financial years in which options may vest**	**Minimum total value of grant yet to vest $**	**Maximum total value of grant yet to vest $**
Gary Pearson	100%	0%	-	-	-	-	-	-
Brian Hennessey	100%	0%	-	-	-	-	-	-

The 2016 Contractual Bonuses are shown as 100% as all of the agreed minimum performance criteria were met.

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 2016 (2015: 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 2016, there were no ordinary shares of Adacel Technologies Limited issued on the exercise of options granted. No shares have been issued since 30 June 2016 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	
	2016	2015
Other assurance services	**$**	$
Assurance, consulting, and due diligence services		
PricewaterhouseCoopers Australian firm	**6,000**	-
Related practices of PricewaterhouseCoopers Australian firm	**14,193**	5,559
Total remuneration for other assurance services	**20,193**	5,559
Taxation services		
Tax compliance services, including review of company income tax returns and international tax consulting		
PricewaterhouseCoopers Australian firm	**17,340**	34,300
Related practices of PricewaterhouseCoopers Australian firm	**46,961**	43,220
Total remuneration for taxation services	**64,301**	77,520

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 22.

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 74.

Signed in accordance with a resolution of the Directors.

Peter Landos	David Smith
Chairman	**Director**

Melbourne, 27th September 2016

Auditors' Independence Declaration

As lead auditor for the audit of Adacel Technologies Limited for the year ended 30 June 2016, 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.

Barlow

Andrew Barlow
Partner
PricewaterhouseCoopers

Melbourne
27 September 2016

Pricewaterhouse Coopers, ABN 52 780 433 757

Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001, T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

ADACEL TECHNOLOGIES LIMITED
ABN 15 079 672 281

ANNUAL FINANCIAL STATEMENTS – 30 JUNE 2016

Contents	**Page**

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 27 September 2016. 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 2016

	Notes	Consolidated	
		2016 $'000	2015 $'000
Income			
Revenue from continuing operations	5	**47,917**	41,914
Other income	6	**1,363**	581
Expenses	7		
Materials and consumables		**(4,568)**	(7,536)
Labour expense		**(25,787)**	(21,340)
Net foreign exchange gain		**14**	139
Depreciation and amortisation expense		**(775)**	(699)
Finance costs		**(341)**	(326)
Premises rental & maintenance		**(1,108)**	(1,069)
Professional fees		**(2,651)**	(1,623)
Insurance expense		**(626)**	(593)
Communications expense		**(115)**	(105)
Travel and entertainment expense		**(527)**	(536)
Trade shows		**(342)**	(250)
Repairs & maintenance		**(369)**	(326)
Bad & doubtful debts reversed/(expensed)		**365**	(775)
All other expenses		**(1,632)**	(1,543)
Profit before tax		**10,818**	5,913
Income tax expense	8	**(1,601)**	(1,980)
Profit from continuing operations		**9,217**	3,933
Profit for the year		**9,217**	3,933
Other comprehensive income/(loss)			
Exchange differences on translation of foreign operations		**(129)**	1,136
Total other comprehensive income/(loss)		**(129)**	1,136
Total comprehensive income for the year		**9,088**	5,069
Profit for the year is attributable to:			
Owners of Adacel Technologies Limited		**9,217**	3,933
Total comprehensive income for the year is attributable to:			
Owners of Adacel Technologies Limited		**9,088**	5,069
Earnings per share for profit attributable to the ordinary equity holders of the Company:		**Cents**	Cents
Basic earnings per share (cents per share)	35	**11.63**	4.95
Diluted earnings per share (cents per share)	35	**11.63**	4.95

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

BALANCE SHEET

As at 30 June 2016

	Notes	Consolidated 2016 $'000	2015 $'000
Current assets			
Cash and cash equivalents	9	**15,773**	7,627
Trade and other receivables	10	**8,610**	8,059
Current tax receivable		**769**	-
Accrued revenue	10	**4,004**	7,629
Inventories	11	**170**	931
Other financial assets	12, 13	**208**	263
Total current assets		**29,534**	24,509
Non-current assets			
Property, plant and equipment	15	**1,658**	1,836
Intangible assets	16	**1,041**	1,235
Other financial assets	14	**26**	25
Total non-current assets		**2,725**	3,096
Total assets		**32,259**	27,605
Current liabilities			
Trade and other payables	18	**4,853**	5,657
Advance payments from customers		**2,349**	3,512
Current tax liabilities		**1,929**	1,706
Provisions	19	**348**	459
Other current liabilities	20	**767**	745
Total current liabilities		**10,246**	12,079
Non-current liabilities			
Other non-current liabilities	20	**1,751**	2,373
Provisions	19	**8**	5
Total non-current liabilities		**1,759**	2,378
Total liabilities		**12,005**	14,457
Net assets		**20,254**	13,148
Equity			
Contributed equity	23	**75,253**	75,253
Reserves	24	**(1,248)**	(1,119)
Accumulated losses	24	**(53,751)**	(60,986)
Total equity		**20,254**	13,148

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

		Attributable to the owners of Adacel Technologies Limited			
		Contributed Equity	**Reserves**	**Retained Earnings**	**Total Equity**
	Notes	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2014		**75,345**	**(2,255)**	**(64,325)**	**8,765**
Profit for the year		-	-	3,933	**3,933**
Exchange differences on translation of foreign operations	24	-	1,136	-	**1,136**
Total comprehensive income for the year		**-**	**1,136**	**3,933**	**5,069**
Transactions with owners in their capacity as owners:					
Share buyback equity reductions		(92)	-	-	**(92)**
Dividends provided for or paid		-	-	(594)	**(594)**
		(92)	**-**	**(594)**	**(686)**
Balance at 30 June 2015		**75,253**	**(1,119)**	**(60,986)**	**13,148**
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:					
Dividends provided for or paid		-	-	(1,982)	**(1,982)**
		-	**-**	**(1,982)**	**(1,982)**
Balance at 30 June 2016		**75,253**	**(1,248)**	**(53,751)**	**20,254**

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 2016

	Notes	Consolidated	
		2016	2015
		$'000	$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**51,455**	39,872
Payments to suppliers and employees (inclusive of GST)		**(36,869)**	(33,988)
Payments for research and development expenditure (inclusive of GST)		**(1,342)**	(480)
Refund of security deposits		**40**	134
		13,284	5,538
Interest received	6	**53**	16
Income tax paid		**(2,089)**	(325)
Tax credits refunded		**91**	1,212
Finance costs		**(9)**	1
Net cash inflow from operating activities	33	**11,330**	6,442
Cash flows from investing activities			
Payments for property, plant and equipment		**(453)**	(248)
Net cash outflow from investing activities		**(453)**	(248)
Cash flows from financing activities			
Dividend paid		**(1,982)**	(594)
Repayment of borrowing		**-**	(6)
Repayment of TPC grant		**(736)**	(587)
Shares repurchased through on market buy-back	23	**-**	(92)
Net cash outflow from financing activities		**(2,718)**	(1,279)
Net increase in cash and cash equivalents		**8,159**	4,915
Cash and cash equivalents at the beginning of the financial year	9	**7,627**	2,189
Effects of exchange rate changes on cash and cash equivalents		**(13)**	523
Cash and cash equivalents at the end of the financial year	9	**15,773**	7,627

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

Contents of the notes to the financial statements

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 2016 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. (See note 1(h)).

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 balance sheet 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. During the year, the group changed its segment reporting from a geographical basis to a ‘systems or services’ basis. The previous year comparatives have been restated to ensure consistency.

(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 translated at the closing 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) is 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 the government 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) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(j) 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.

(k) 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 – 120 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Collectability of trade receivables is reviewed on an ongoing basis. Debts, which are 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 recognized 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) 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.

(q) 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 (note 1(i)).

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

(r) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 1(h). 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 2016 and 30 June 2015, no expenditure on development activities has been capitalised.

(s) 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 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.

(t) 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.

(u) 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 (note 29b). 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

(v) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(w) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

(x) Provisions

Provisions for legal claims and service warranties are recognized 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.

Where there are a number of 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 recognized as interest expense.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) 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.

(z) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual 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 annual leave is recognized in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render 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 using the projected unit credit method. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 recognized 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.

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.

Liabilities for termination benefits expected to be settled within 12 months are measured at the amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the reporting date are measured as the estimated cash outflows, discounted using market yields at the reporting date on national government bonds with terms of maturity and currency that match, as closely as possible, the estimated future payments, where the effect of the discounting is material.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Website costs

Costs relating to the Company's website are charged as expenses in the period in which they are incurred unless they relate to the acquisition of an asset, in which case they are capitalised and amortised over the period of expected benefit.

(ab) 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 recognized in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognized directly in equity.

(ac) 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.

(ad) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ae) 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.

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

(af) 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.

(ag) New accounting standards and interpretations

(i) The 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 doesn't believe it is likely to affect the group's accounting for its financial assets.

(b) AASB 15 Revenue from contracts with customers

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard is not applicable until 1 January 2017 but is available for early adoption. It is expected that the standard will be deferred for a year until 1 January 2018 and a formal amendment is expected shortly but has not been issued as yet. At the moment, the group expects to adopt AASB 15 for the accounting period starting 1 July 2017. At this stage the group is not able to estimate the impact of the new rules on the group's financial statements. The group will make a more detailed assessment in the future.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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. The group has not yet decided when to 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	
	2016	2015
	$'000	$'000
Financial assets		
Cash and cash equivalents	**15,773**	7,627
Trade and other receivables	**5,164**	5,811
Accrued revenue	**4,004**	7,629
Security Deposits with RBC	**208**	263
	25,149	21,330
Financial liabilities		
Trade and other payables	**3,726**	4,491
Finance lease liabilities	**-**	-
Derivative financial instruments	**-**	-
Other liabilities (TPC grant repayment)	**2,518**	3,118
	6,244	7,609

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, Canadian 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 may also enter into certain forward exchange contracts.

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 2016**		30 June 2015	
	USD	**EURO**	USD	EURO
	$'000	**E'000**	$'000	E'000
Cash and cash equivalents	**3,275**	**300**	1,446	373
Trade and other receivables	**1,360**	**789**	1,025	32
Accrued revenues	**-**	**291**	256	1,524
Other financial assets	**-**	**-**	-	-
Trade and other payables	**(71)**	**(27)**	(12)	-

Sensitivity

Based on the financial instruments held at 30 June 2016, 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 $559,000 lower/$683,000 higher (In 2015, the post tax profit would have been $321,000 lower/$354,000 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 $184,000 lower/$224,000 higher (In 2015, the post tax profit would have been $255,000 lower/$281,000 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 on short-term deposit, 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 2016		30 June 2015	
	Weighted average interest rate	**Balance**	Weighted average interest rate	Balance
	%	**AUD $'000**	%	AUD $'000
Cash at bank	**0.27**	**15,773**	0.34	7,627
Net exposure to cash flow interest rate risk		**15,773**		7,627

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, North America, or equivalent, 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 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**

Group – At 30 June 2015	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	4,491	-	-	-	4,491	4,491
Other Liabilities	745	819	2,456	-	4,020	3,118
Total	5,236	819	2,456	-	8,511	7,609

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 2016 and 30 June 2015.

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 it is probable that there will be future taxable profits in the jurisdiction to which those losses relate. Adacel Inc.’s history of tax losses in Canada saw the deferred tax assets related to the unused tax credits written down in FY 2014. The directors continuously monitor this issue in all companies. Whilst the Directors anticipate that taxable profits will be available in the future against which a deferred tax asset may again be recognised, the risk associated with those profits is such that the directors have judged there is not sufficient convincing evidence to support the recognition of a deferred tax asset in accordance with the requirements of the accounting standards at this stage.

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 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.

(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 69% have been derived from 3 external customers, all individually having greater than 10% of total sales. These customers are all in the North American Segment, and the amount of revenues earned from them during the 2016 financial year amounted to $15.1 million, $10.9 million and $7.0 million respectively. In 2015, there was 72% from 3 customers, individually amounting to $12.4 million, $10.5 million and $7.9 million respectively.

4. SEGMENT INFORMATION (CONTINUED)

(c) Segment Information for the year ended 30 June 2016

	Notes	Systems		Services		Total	
		2016 $'000	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000
Operations							
Total segment revenue	5	**17,806**	18,715	**30,111**	23,199	**47,917**	41,914
Total segment margin		**8,742**	6,935	**12,893**	10,282	**21,635**	17,217
Other income	6					**1,310**	565
Interest revenue	6					**53**	16
Exchange rate gain						**14**	139
R&D expenses						**(1,656)**	(884)
S&M expenses						**(3,518)**	(3,440)
G&A expenses						**(5,343)**	(6,440)
Redundancy costs						**(457)**	(80)
Non-operating expenses						**(104)**	(155)
Depreciation & amortisation	7					**(775)**	(699)
Interest & finance charges	7					**(341)**	(326)
Profit before income tax						**10,818**	5,913
Income Tax Expense						**(1,601)**	(1,980)
Profit for the Period						**9,217**	3,933
Allocable assets & liabilities							
Net trade debtors		**1,708**	3,300	**3,434**	2,496	**5,142**	5,796
Accrued Revenue		**3,584**	6,975	**420**	654	**4,004**	7,629
Inventories		**136**	924	**34**	7	**170**	931
Advance Payments		**986**	1,586	**1,363**	1,926	**2,349**	3,512

No other assets or liabilities are able to be allocated reasonably to these segments

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	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000
Total Segment Revenue	**23,808**	23,619	**21,725**	17,729	**2,384**	566	**47,917**	41,914
Total non-current assets	**508**	308	**2,202**	2,779	**15**	9	**2,725**	3,096

5. REVENUE FROM CONTINUING OPERATIONS

	Consolidated	
	2016	2015
	$'000	$'000
Sales revenue		
Sale of services and systems	**47,917**	41,914
	47,917	41,914

6. OTHER INCOME

	Consolidated	
	2016	2015
	$'000	$'000
Other Income		
Quebec Rent, R&D & Tax Credits	**1,310**	565
Interest	**53**	16
	1,363	581

The Group received $36,000 (2015 : refunded $20,000) from the Quebec government as Rent Credits and received $1,173,000 (2015 : $585,000) as R&D Tax Credits, as well as receiving $101,000 as Multimedia Tax Credits (2015 : $nil). These R&D and multimedia 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. The Group did not benefit directly from any other forms of government assistance.

7. EXPENSES

	Consolidated	
	2016	2015
	$'000	$'000
Profit before income tax includes the following specific expenses:		
Depreciation/amortisation of property, plant & equipment		
Leasehold improvements	**267**	14
Furniture, fittings and equipment	**352**	532
Total depreciation	**619**	546
Amortisation of Intangibles	**156**	153
Interest and finance charges paid/payable	**341**	326
Rental expense relating to operating leases	**1,144**	1,077
Net foreign exchange (gain)/losses	**14**	(139)
Defined contribution superannuation expense	**828**	735
Research and development (inclusive of labour)	**1,342**	480
Bad and doubtful debts expensed (recovered)	**(365)**	775
Restructuring (Termination & Redundancy Expenses)	**457**	80
Gain/(loss) on remeasurement of TPC Liability	**594**	(422)

8. INCOME TAX

	Consolidated	
	2016	2015
	$'000	$'000
(a) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable		
Profit from continuing operations before income tax expense	**10,818**	5,913
Income tax calculated at applicable tax rates*	**3,085**	1,899
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Canadian Federal and Provincial income tax credits	**(1,263)**	(401)
Other items (net)	**110**	63
Current year temporary differences not brought to account	**(679)**	397
Utilisation of previously unbooked tax losses and tax credits	**(113)**	(108)
Impact of changes in tax rates on deferred tax	**1**	-
Income tax over provided in prior years	**379**	6
Withholding tax on overseas remittances	**125**	124
Other Items	**(44)**	-
Income tax expense	**1,601**	1,980
(b) Income tax expense		
Current tax	**1,222**	1,974
Deferred Tax	**-**	-
Adjustments for current tax of prior periods	**379**	6
	1,601	1,980
Income tax expense is wholly attributable to continuing operations		
(c) Estimated Unused Tax losses and Tax credits		
Unused tax losses and tax credits for which no deferred tax asset has been recognised	**84,656**	82,011
Potential tax benefit at applicable tax rates*	**24,108**	23,327
(d) Estimated Unrecognised temporary differences		
Temporary differences for which no deferred tax asset/(liability) has been recognised	**957**	1,336
Potential tax benefit at applicable tax rates*	**323**	445

* Tax rates applicable are: Australia: 30%, Canada: 27%, USA : 37%

Canadian Federal and Provincial tax credits expire at least 10 years from the balance sheet date. Income tax losses do not have expiry dates.

Adacel Inc, Adacel Systems Inc and Adacel Technical Services Inc have undistributed earnings, which, if paid out as dividends, would be unfranked and therefore subject to tax in the hands of the recipient. An assessable temporary difference of $11,618K exists (2015: $5,785K), but no deferred tax liability has been recognised as the parent entity is able to control the timing of distributions from these subsidiaries and is not expected to distribute these profits in the foreseeable future.

9. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated	
	2016	2015
	$'000	$'000
Current		
Cash at bank and in hand	**15,773**	7,627
	15,773	7,627

(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	**15,773**	7,627
Balances per statement of cash flows	**15,773**	7,627

(b) Cash at bank and in hand

Cash at bank is interest bearing at rates of 0.0% to 0.90% (2015 : 0.0% to 1.51%). Cash at bank is mainly at call.

(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	
	2016	2015
	$'000	$'000
Trade receivables	**5,196**	5,900
Provision for impairment of receivables	**(54)**	(104)
	5,142	5,796
Sundry debtors	**3,023**	1,669
Security deposits	**22**	15
Prepayments	**423**	579
	8,610	8,059

Accrued revenue	**4,341**	7,955
Provision for impairment of accrued revenue	**(337)**	(326)
	4,004	7,629

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

(a) Impaired trade receivables & accrued revenue

As at 30 June 2016, current trade receivables with a nominal value of $54,000 (2015 : $104,000) were impaired. The amount of the provision was $54,000 (2015 : $104,000). As at 30 June 2016, accrued revenue with a nominal value of $337,000 (2015 : $326,000) was impaired. The amount of the provision was $337,000 (2015 : $326,000). The individually impaired amounts relate to one contract where receipts are expected over a number of years.

The age of these receivables and accrued revenue is as follows:	**Consolidated**	
	2016	2015
	$'000	$'000
1 to 3 months	**-**	-
3 to 6 months	**-**	-
Over 6 months	**391**	430
	391	430

Movements in the provision for impairment of receivables are as follows	**Consolidated**	
	2016	2015
	$'000	$'000
Opening Balance	**(430)**	(366)
Provision for impairment recognised during the year	**-**	-
Provision for impairment reversed during the year	**55**	18
Foreign exchange impact	**(16)**	(82)
Closing Balance	**(391)**	(430)

(b) Past due but not impaired

As of 30 June 2016, trade receivables of $1,111,000 (2015 : $430,000) were past due but not impaired. A large proportion of our customer base relates to US government organisations where there has been no history of default and payment is expected to be received in full.

	Consolidated	
	2016	2015
	$'000	$'000
Up to 3 months	**616**	263
3 to 6 months	**319**	42
Over 6 months	**176**	125
	1,111	430

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	
	2016	2015
	$'000	$'000
Current		
Work-in-progress on contracts – at cost	**170**	931

12. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Instruments used by the Group

Forward exchange contracts

The functional currency for the North American operations is either Canadian Dollars or US Dollars. Virtually all of the business expenses are incurred in US or Canadian Dollars by these business units in Canada and USA. Due to the interaction of these business activities, foreign currency hedges are not utilised for customer contracts denominated in either Canadian or US Dollars, however the Company does enter into forward exchange contracts for other currencies.

(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	
	2016	2015
	$'000	$'000
Restricted Deposits with Royal Bank of Canada	**208**	263
	208	263

Restricted deposits

The entity will occasionally deposit cash to RBC as security for rental premises or performance contracts. These deposits are restricted for use.

14. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

	Consolidated 2016 $'000	Consolidated 2015 $'000
Security Deposit – Orlando Offices	**26**	25

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

	Consolidated			
	Furniture, fittings & equipment	Motor vehicles	Leasehold improvements	Total
	$'000	$'000	$'000	$'000
At 30 June 2014				
Cost	5,625	-	1,274	6,899
Accumulated depreciation/amortisation	(4,852)	-	(55)	(4,907)
Net book amount	773	-	1,219	1,992
Year ended 30 June 2015				
Opening net book value	773	-	1,219	1,992
Additions	248	-	-	248
Depreciation/amortisation expense	(291)	-	(255)	(546)
Exchange differences	60	-	82	142
Closing net book amount	790	-	1,046	1,836
At 30 June 2015				
Cost	6,295	-	1,365	7,660
Accumulated depreciation/amortisation	(5,505)	-	(319)	(5,824)
Net book amount	790	-	1,046	1,836
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	875	-	783	1,658
At 30 June 2016				
Cost	5,068	-	1,349	6,417
Accumulated depreciation/amortisation	(4,193)	-	(566)	(4,759)
Net book amount	875	-	783	1,658

16. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Consolidated				
	Core intellectual property $'000	Purchased intellectual property $'000	Total intellectual property $'000	Goodwill $'000	Total $'000
At 30 June 2014					
Cost	16,853	975	17,828	2,475	20,303
Accum amortisation & impairment	(15,622)	(869)	(16,491)	(2,475)	(18,966)
Net book amount	1,231	106	1,337	-	1,337
Year ended 30 June 2015					
Opening net book value	1,231	106	1,337	-	1,337
Acquisitions	-	-	-	-	-
Amortisation expense	(130)	(23)	(153)	-	(153)
Exchange differences	42	9	51	-	51
Closing net book amount	1,143	92	1,235	-	1,235
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
Acquisitions	-	-	-	-	-
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

17. DEFERRED TAX ASSETS & LIABILITIES

Deferred tax assets have been recognised in relation to temporary differences to the extent that there are deferred tax liabilities in relation to other temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same period.
The net amount recognised on the balance sheet is nil.

	Consolidated	
	2016	2015
	$'000	$'000
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Non-current assets	**641**	455
Deferred tax assets		
The balance comprises temporary differences attributable to:		
Provisions	**641**	455

18. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2016	2015
	$'000	$'000
Trade payables	**2,704**	2,737
Accrued expenses	**1,022**	1,754
Annual leave payable (a)	**1,127**	1,166
	4,853	5,657

(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	
	2016	**2015**
	$'000	**$'000**
Annual leave obligation expected to be settled after 12 months	**234**	265

(b) Risk exposure

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

19. LIABILITIES – PROVISIONS

	Consolidated	
	2016	2015
	$'000	$'000
Current		
Employee benefits – Long service leave (c),(b)	**156**	153
Service and contract performance warranties (a),(b)	**192**	306
	348	459
Non-Current		
Employee benefits – Long service leave (c),(b)	**8**	5
	8	5

(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	306	158
Charged/(credited) to the profit and loss		
-additional provisions recognised	50	12
-amounts used during the period	(161)	(6)
Foreign exchange impact	(3)	-
Carrying amount at the end of the year	192	164

(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	
	2016	2015
	$'000	$'000
Long service leave obligation expected to be settled after 12 months	**154**	151

20. OTHER LIABILITIES

	Consolidated	
	2016	2015
	$'000	$'000
Current		
TPC grants repayments (a)	**767**	745
	767	745
Non-Current		
TPC grants repayments (a)	**1,751**	2,373
	1,751	2,373

(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 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.

21. 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.

22. FINANCING ARRANGEMENTS

	Consolidated	
	2016	2015
	$'000	$'000
Bank facilities available		
Overdraft	**5,191**	5,254
Guarantees	**5,191**	5,254
Forward exchange contracts	**-**	-
Credit card	**137**	138
	10,519	10,646
Bank facilities used at balance date		
Overdraft	**-**	-
Guarantees	**496**	424
Forward exchange contracts	**-**	-
Credit card	**5**	-
	501	424
Bank facilities unused at balance date		
Overdraft	**5,191**	5,254
Guarantees	**4,695**	4,830
Forward exchange contracts	**-**	-
Credit card	**132**	138
	10,018	10,222

The Royal Bank of Canada has provided the Company an Overdraft and Guarantee facility for up to $10,000,000 Canadian Dollars (AUD $10.4 million). The facility is governed by pre-agreed covenants with the bank and is repayable on demand. The facility is secured by a fixed and floating charge over the assets and undertakings of Adacel Inc (Canadian operating entity). Adacel Technologies Limited (the parent entity) and the other North American entities (Adacel Systems Inc, Adacel Technologies Holdings Inc and Adacel Technologies Inc) have also agreed to provide a guarantee to the bank for the facility. The RBC also provides Adacel with facilities for Credit Cards and Forward Exchange contracts. The Credit Card facility is currently $100,000 Canadian Dollars and $25,000 US Dollars (AUD $137,485). The Forward Exchange Contract facility is currently Unlimited and contracts are issued as requested.

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	
	2016	2015
	$'000	$'000
(a) Share capital		
Ordinary shares	**75,253**	75,253

(b) Movements in ordinary share capital

Date	Details	Number of Shares	$'000
1 July 2014	Balance	79,580,379	75,345
03 Sep 14 – 30 Jun 15	Share buy-back	(312,201)	(92)
30 June 2015	Balance	79,268,178	75,253
01 Jul 15 – 30 Jun 16	No Movements	-	-
30 June 2016	Balance	79,268,178	75,253

(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

No Share Buy Back scheme was entered into during the year ended 30 June 2016

(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	
	2016	2015
	$'000	$'000
(a) Accumulated losses		
Accumulated losses	**(53,751)**	(60,986)
Movements in accumulated losses were as follows:		
Balance at the beginning of the year	**(60,986)**	(64,325)
Net profit for the year	**9,217**	3,933
Dividends provided for or paid	**(1,982)**	(594)
Balance at the end of the year	**(53,751)**	(60,986)

(b) Reserves		
Foreign currency translation reserve	**(1,248)**	(1,119)

(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	**(1,119)**	(2,255)
Currency translation differences arising during the year	**(129)**	1.136
Balance at the end of the year	**(1,248)**	(1,119)

25. DIVIDENDS

	2016	2015
	$'000	$'000
(a) Ordinary shares		
An interim dividend of $0.0125 was paid during FY2016. ($0.0075 during FY 2015). All dividends were paid in cash	**(991)**	(594)
(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 $0.0175. (FY2015 - $0.0125). The aggregate amount of this dividend that will be paid on 30 September 2016 out of the profit for 30 June 2016 is	**(1,387)**	(991)

(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. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel compensation

	Consolidated	
	2016	2015
	$	$
Short-term employee benefits	**1,510,764**	1,657,798
Post-employment benefits	**61,844**	46,784
Termination benefits	**456,811**	-
	2,029,419	1,704,582

The detailed remuneration disclosures can be found in sections A – C of the remuneration report on pages 13 to 17.

27. REMUNERATION OF AUDITORS

	Consolidated	
	2016	2015
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, and its related practices:	**$**	$
Assurance services		
(a) Audit services		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*		
PricewaterhouseCoopers Australian firm	**120,608**	131,754
Related practices of PricewaterhouseCoopers Australian firm	**251,747**	235,988
Total remuneration for audit services	**372,355**	367,742
(b) Other assurance services		
Assurance, consulting, and due diligence services		
PricewaterhouseCoopers Australian firm	**6,000**	-
Related practices of PricewaterhouseCoopers Australian firm	**14,193**	5,559
Total remuneration for other assurance services	**20,193**	5,559
Total remuneration for assurance services	**392,548**	373,301
Taxation services		
Tax compliance services, including review of Company income tax returns and international tax consulting.		
PricewaterhouseCoopers Australian firm	**17,340**	34,300
Related practices of PricewaterhouseCoopers Australian firm	**46,961**	43,220
Total remuneration for taxation services	**64,301**	77,520

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are 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.

28. CONTINGENCIES

As at 30 June 2016, the parent entity, Adacel Technologies Limited, will continue to provide financial support to subsidiaries that are in a net liability position.

Guarantees of $496,284 (2015 : $686,874) have been given to banks and customers in relation to contract warranty and performance.

From time to time, employees and consultants may make claims against the Company with respect to remuneration or labour matters. The Company vigorously defends these types of claims. At balance date, in accordance with legal advice received, there are no such claims which are expected to result in payment.

29. COMMITMENTS

	Consolidated	
	2016	2015
	$'000	$'000
(a) Operating leases expenditure commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**1,125**	1,132
Later than one year and not later than 5 years	**4,459**	4,387
Later than 5 years	**3,257**	4,451
Commitments not recognised in the financial statements	**8,841**	9,970

The above operating lease commitments are all for the rental of offices and Office equipment.

(b) Finance leases expenditure commitments

There were no new finance leases entered into during the period ending June 2016.

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 26.

(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 of support services to the value of CAD$217K (AUD$225K). The value of these transactions in the previous financial year was CAD$234K, (AUD$239K). 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 2016, there was no payables balance owing in the accounts relating to these transactions. As at 30 June 2015, there was CAD$15K (AUD$16K) 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).

			Equity holding *	
	Country of	**Class of**	**2016**	**2015**
Name of entity	**incorporation**	**shares**	**% held**	**% 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	N/A

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

32. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There were no significant events subsequent to balance date.

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

	Consolidated	
	2016	2015
	$'000	$'000
Operating profit from ordinary activities after income tax	**9,217**	3,933
Depreciation and amortisation	**775**	699
Bad debts (reversed)/written off and Prov for Doubtful Debts	**(365)**	775
Net exchange differences	**(14)**	(139)
Changes in assets and liabilities:		
Decrease/(increase) in trade receivables and accrued revenue	**4,838**	(3,043)
(Increase)/decrease in other receivables and other assets	**(1,340)**	660
Decrease/(increase) in inventory	**787**	(381)
Decrease in prepayments	**160**	102
(Increase)/decrease in deferred tax assets and liabilities and tax payable	**(647)**	1,642
(Decrease)/increase in trade and other creditors	**(736)**	1,464
Increase/(decrease) in employee benefits provisions	**6**	(13)
(Decrease) in other provisions	**(114)**	(209)
(Decrease)/increase in advanced payments from customers	**(1,263)**	1,064
Decrease/(increase) in other non-current assets	**26**	(112)
Net cash inflow from operating activities	**11,330**	6,442

34. NON-CASH INVESTING AND FINANCING ACTIVITIES

There were no non-cash investing and financing activities during the years ended 30 June 2016 and 30 June 2015.

35. EARNINGS PER SHARE

	Consolidated	
	2016	2015
Basic earnings per share (cents per share)	**11.63**	4.95
Diluted earnings per share (cents per share)	**11.63**	4.95

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

	Consolidated	
	2016	2015
	$'000	$'000
Basic earnings per share		
Profit from continuing operations	**9,217**	3,933
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**9,217**	3,933
Diluted earnings per share		
Profit from continuing operations	**9,217**	3,933
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**9,217**	3,933

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

	Consolidated	
	2016	2015
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**79,268,178**	79,397,356
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**79,268,178**	79,397,356

(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 2016 nor 30 June 2015, 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 2016

There are no current holders of option certificates, and therefore there has been no movement since 30 June 2016.

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 2016, 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 2016 (and 30 June 2015), the weighted average remaining contractual life at the end of the period was Nil (2015 : 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

(a) Summary financial information	**2016 $'000**	2015 $'000
The individual financial statements for the parent entity show the following aggregate amounts:		
Balance Sheet		
Current Assets	**2,595**	2,794
Total Assets	**9,704**	9,932
Current Liabilities	**407**	1,409
Total Liabilities	**415**	1,414
Shareholder's Equity		
Issued Capital	**75,253**	75,253
Accumulated Losses	**(65,964)**	(66,735)
	9,289	8,518
Profit for the year	**2,753**	1,675
Total comprehensive income	**2,753**	1,675

(b) Guarantees entered into by the parent entity

The parent entity has provided a guarantee (in conjunction with Adacel Inc, Adacel Systems Inc, Adacel Technologies Holdings Inc, and Adacel Technologies Inc) for an Overdraft and Guarantee facility for up to $10.0 million Canadian Dollars. This facility is operated by Adacel Inc, and is secured by a fixed and floating charge over the assets and undertakings of Adacel Inc.

No liability was recognised by the parent entity in relation to this guarantee.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015. 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 2016 or 30 June 2015.

DIRECTORS' DECLARATION

In the Directors' opinion:

a. the financial statements and notes set out on pages 23 to 70 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 2016 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 13 to 20 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.

Peter Landos
Chairman

David Smith
Director

Melbourne, 27th September 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADACEL TECHNOLOGIES LIMITED

Report on the financial report

We have audited the accompanying financial report of Adacel Technologies Limited (the company), which comprises the balance sheet as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Adacel Technologies Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Auditor's opinion

In our opinion:

a. the financial report of Adacel Technologies Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

b. the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 13 to 20 of the directors' report for the year ended 30 June 2016. 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.

Auditor's opinion

In our opinion, the remuneration report of Adacel Technologies Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001.*

PricewaterhouseCoopers

PricewaterhouseCoopers

Barlow

Andrew Barlow
Partner

Melbourne
27 September 2016

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 31 August 2016 (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 79,268,178 ordinary fully paid shares held by 2,637 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	42	-
10,001 to 100,000	345	-
5,001 to 10,000	351	-
1,001 to 5,000	1,166	-
1 to 1,000	733	-
	2,637	**-**

Unmarketable Parcels

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

Unmarketable Parcels As at 31 August 2016	Minimum Parcel Size	Holders	Units
Minimum $500.00 parcel at $2.50 per unit	200	89	5,723

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	25,667,645	32.38%
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 a follows:

	Fully Paid Ordinary Shares Top 20 Shareholders	
Shareholder Name	**Shares held**	**% held**
HSBC Custody Nominees (Australia) Limited	24,966,186	31.50
Mr Silvio Salom	6,896,693	8.70
National Nominees Limited	4,166,217	5.26
RBC Investor Services Australia Pty Limited (VFA A/c)	3,622,441	4.57
UBS Nominees Pty Ltd	3,568,052	4.50
Mr David Wallace Smith	3,392,924	4.28
Citicorp Nominees Pty Limited	3,248,418	4.10
D & E Smith Superannuation Nominees Pty Ltd	2,225,665	2.81
Obena Ridge Pty Limited	1,062,276	1.34
Lujeta Pty Ltd (The Margaret Account)	1,000,000	1.26
JP Morgan Nominees Australia Limited	939,802	1.19
Coalwell Pty Ltd	796,182	1.00
CS Fourth Nominees Pty Limited (HSBS Cust Nom AU Ltd 11 A/c)	694,876	0.88
Mr James Douglas Carnegie (James Carnegie Family A/c)	599,564	0.76
Valwren Pty Limited (WFIT A/c)	532,873	0.67
Brispot Nominees Lty Ltd (House Head Nominee No 1 A/c)	527,706	0.67
Ian Harriss Super Pty Ltd (Ian Harriss Super Fund A/c)	483,148	0.61
Mr Brian Hennessey	470,264	0.59
Valwren Pty Limited (Sandy Family Investment A/c)	467,127	0.59
Equitas Nominees Pty Limited (PB-601018 A/c)	400,000	0.50
	60,060,414	**75.77**

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 not currently conducting an on-market buy-back.

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

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ABN 15 079 672 281

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Telephone +61 3 8530 7777
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www.adacel.com

Board of Directors
Peter Landos (Non-Executive Chairman)
Julian Beale (Non-Executive Director)
Kevin Courtney (Non-Executive Director)
Silvio Salom (Non-Executive Director)
David Smith (Non-Executive Director)

Company Secretary
Sophie Karzis

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