

**Adacel Technologies Limited**  
**(ASX: ADA)**

**ASX & Media Release**

**Melbourne, 26 August 2010**

**Appendix 4E - Preliminary Final Report**  
**Year ended 30 June 2010**

Lodged with the ASX under Listing Rule 4.3A

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**Adacel Technologies Limited**  
**Year ended 30 June 2010**

(Previous corresponding period: Year ended 30 June 2009)

**Results for Announcement to the Market**

				\$000
<b>Revenue</b> from continuing operations	down	16%	to	46,405
<b>Profit</b> for the period attributable to owners	down	143%	to	-2,912

<b>Dividends/distributions</b>	Amount per security	Franked amount per security
Final dividend	-	-
Interim dividend	-	-

**Record date** for determining entitlements to the dividend

Not Applicable

**Explanation of Revenue and Result**

**Overview**

The Company's results in 2010 reflected generally slower economic conditions globally, which impacted on the Company's ability to continue to generate the level of business growth experienced in 2009. Despite these challenges as well as the impact of fluctuating exchange rates, the Company received a number of new orders towards the end of the financial year including the Company's second voice activated cockpit systems order (Aermacchi 346), an initial order of Ice Pilot from the US Air Force, booked additional international Simulation customers (India, Ukraine, Brazil) and entered into an ATM (Air Traffic Management) Data Link contract with French Guyana.

Disappointingly, the Company experienced a slow-down in international business for training/simulation, a delay in system orders in the air traffic management business, and slower than anticipated development of new markets. In addition, slower than forecast orders from key customers, including the Federal Aviation Administration (FAA) and a downturn of University markets affected the performance.

The Company generated revenue and other income of \$48M for the 2010 financial year, compared to \$59M in 2009. The gross margin on revenue was 33% compared with 43% in the previous corresponding period. The reduction in gross margin levels is attributable primarily to program write-downs and losses suffered in developing the Company's presence in Eastern European markets incurred primarily during the first half.

The reduction in overall gross margin levels from the previous corresponding period was a significant factor in the Company's result of a loss of \$2.9M. During the second half, gross margins returned towards historical levels.

**Revenues**

Total revenue for 2010 was \$48M representing a reduction of 19% compared to the prior corresponding period. Overall revenue from services and support increased slightly in local currencies in 2010, however decreased in value due to the stronger Australian Dollar. The total revenue from services and support was \$18.1M, compared to \$20.0M in the 2009 financial year.

**Earnings**

Earnings before interest, tax, depreciation and amortisation for the 2010 financial year was a loss of \$1.993M, compared to a profit of \$6.505M in 2009. Depreciation and amortisation totalled \$0.887M in 2010 compared with \$1.607M in 2009. Finance costs totalled \$0.092M for 2010 compared with \$0.120M in 2009.

**Balance Sheet and Cash Flow**

The balance sheet continues to be strong with current assets of \$23.3M against current liabilities of \$12.8M and total assets of \$28.9M against total liabilities of \$13.0M.

Cash movement for the 2010 financial year was an outflow of \$3.6M. Operating outflows accounted for \$2.9M of this amount which included Tax payments of \$0.5M. Plant & Equipment acquisitions amounted to \$0.6M.

## **Adacel Technologies Limited**

### **Year ended 30 June 2010**

(Previous corresponding period: Year ended 30 June 2009)

#### ***No Dividend declared***

Directors have not declared a dividend for the 2010 year. (2009 year - Nil).

#### ***Operations***

##### **Air Traffic Control Simulation**

The company received orders for the US Simulation business in the 2010 financial year totalling \$21.2M from which revenues of around \$18.9M were generated. This business was diversified across many markets and included FAA, DOD (Department of Defense - US Air Force, US MARINE, US Army Reserve), and US Federal Government customers as well as state universities. FAA orders totalled \$12.9M and all other orders awarded by civil and defence aviation organisations were \$8.3M.

The International Simulation business received orders in the 2010 financial year totalling \$12.0M and generated revenues of \$15.2M. This area was balanced by orders from India \$2.6M, Saudi \$2.6M, Ukraine \$3.7M in addition to new orders from the Czech Republic, and follow on upgrades from Air Services Australia and Hungary. At year end, several orders were near term in Austria, Singapore and RAAF.

##### **Air Traffic Management**

Adacel continues to work with Lockheed Martin to provide software support for the US ATOP (Advanced Technologies and Oceanic Procedures) and ERAM (En Route Automation and Modernization) programs and received orders on 2010 with a value of \$4.9M. The Company also continues to provide support and upgrades to NAV Portugal's Oceanic system, and received an additional order for approximately \$1.7M as well as a data link contract in French Guyana with a value of \$0.5M. Adacel completed the installation and acceptance of the new Fijian ATM system and continues to provide support for ongoing operations.

##### **Other Developmental Product Areas**

Adacel's strategy to leverage existing technologies and enter collateral markets to support the overall growth of the business continues to be a primary focus. The Company continues to invest in its ATCIB product area and has made some technical improvements which have resulted in expanded voice and visual applications. The Company has continued to receive orders from its Voice Activated Cockpit and security simulation customers (Aermacchi and Sandia labs), as well as orders from MIT Lincoln labs and Fidelity Simulation.

Additionally, The ATCIB business area now includes a PC based version (ICE Pilot) which will be used to train both pilots and air traffic controllers in Aviation English so as to prepare them for certification to International Civil Organization Standards. During the last quarter of the 2010 financial year, the Company received an order from the United States Air Force for delivery of the ICE Pilot license and system product. At present, management continues to develop business relationships in these ATCIB markets which include flight simulator manufacturers, commercial and military airplane manufacturers, as well as pilot and air traffic controller trainers. The Company continues to have successful business relationships with CAE, Flight Safety, Aermacchi, Lockheed Martin (Joint Strike Fighter), Rockwell Collins, Lincoln Labs, as well as certain other smaller European flight simulation manufacturer and training companies.

#### ***Outlook***

After concluding a disappointing 2010 and despite a challenging global economic environment, the company is focussed on achieving improved revenue and earnings growth in the 2011 financial year.

**Adacel Technologies Limited**  
**Preliminary consolidated statement of comprehensive income**  
**For the year ended 30 June 2010**

		<b>Consolidated</b>	
		<b>2010</b>	<b>2009</b>
	<b>Notes</b>	<b>\$000</b>	<b>\$000</b>
<b>Revenue from continuing operations</b>		<b>46,405</b>	<b>55,281</b>
Other income		2,050	2,270
Net foreign exchange gain/(loss)		(92)	1,780
Materials and consumables		(14,521)	(15,437)
Labour expense		(28,297)	(27,146)
Depreciation and amortisation expense		(887)	(1,607)
Finance costs		(92)	(120)
Lease rental expense		(1,706)	(1,808)
Professional fees		(1,946)	(1,982)
Insurance expense		(577)	(564)
Communications expense		(234)	(328)
Travel & entertainment expense		(761)	(942)
Trade shows		(707)	(861)
Repairs & Maintenance		(294)	(356)
Bad & Doubtful debts		290	(700)
All other expenses		(1,603)	(2,816)
<b>Profit/(loss) before tax</b>		<b>(2,972)</b>	<b>4,664</b>
Income tax benefit/(expense)	5	60	2,132
<b>Profit/(Loss) from continuing operations</b>		<b>(2,912)</b>	<b>6,796</b>
Profit from discontinued operations		-	-
<b>Profit/(Loss) for the year</b>		<b>(2,912)</b>	<b>6,796</b>
<b>Other comprehensive income/(expense)</b>			
Exchange differences on translation of foreign operations		513	(252)
<b>Total comprehensive income/(expense) for the year</b>		<b>(2,399)</b>	<b>6,544</b>
<b>Profit/(Loss) is attributable to:</b>			
<b>Owners of Adacel Technologies Limited</b>		<b>(2,912)</b>	<b>6,796</b>
<b>Total comprehensive income/(expense) for the year is attributable to:</b>			
<b>Owners of Adacel Technologies Limited</b>		<b>(2,399)</b>	<b>6,544</b>
<b>Earnings/(loss) per share for profit/(loss) attributable to the ordinary equity holders of the company:</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings/(loss) per share (cents per share)	9	(3.5)	8.2
Diluted earnings/(loss) per share (cents per share)	9	(3.5)	8.2

*The above preliminary consolidated income statement should be read in conjunction with the accompanying notes.*

**Adacel Technologies Limited**  
**Preliminary consolidated statement of financial position**  
**As at 30 June 2010**

	Notes	Consolidated	
		2010 \$000	2009 \$000
<b>Current assets</b>			
Cash and cash equivalents	2(a)	1,068	3,598
Receivables	2(b)	9,234	8,629
Current tax receivable		19	7
Accrued revenue	2(b)	11,460	8,937
Inventories	2(c)	1,228	2,611
Other financial assets	2(l)	263	-
<b>Total current assets</b>		<b>23,272</b>	<b>23,782</b>
<b>Non-current assets</b>			
Plant and equipment (net)	2(d)	1,405	1,508
Intangible assets (net)	2(e)	-	235
Deferred tax asset	2(n)	4,242	4,077
<b>Total non-current assets</b>		<b>5,647</b>	<b>5,820</b>
<b>Total assets</b>		<b>28,919</b>	<b>29,602</b>
<b>Current liabilities</b>			
Borrowings	2(a)	2,304	1,225
Payables	2(f)	7,383	6,292
Advanced payments from customers	2(g)	1,908	1,762
Current tax liabilities	2(h)	601	1,102
Provisions	2(i)	576	509
Other current liabilities	2(m)	-	185
<b>Total current liabilities</b>		<b>12,772</b>	<b>11,075</b>
<b>Non-current liabilities</b>			
Other non-current liabilities	2(m)	227	242
<b>Total non-current liabilities</b>		<b>227</b>	<b>242</b>
<b>Total liabilities</b>		<b>12,999</b>	<b>11,317</b>
<b>Net assets</b>		<b>15,920</b>	<b>18,285</b>
<b>Equity</b>			
Contributed equity	2(j)	76,234	76,234
Reserves	2(k)	(1,361)	(1,674)
Retained profits/(accumulated losses)	7	(58,953)	(56,275)
<b>Total equity</b>		<b>15,920</b>	<b>18,285</b>

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

**Adacel Technologies Limited**  
**Preliminary consolidated statement of changes in equity**  
**For the year ended 30 June 2010**

	Attributable to the owners of Adacel Technologies Limited			TOTAL EQUITY \$'000
	Contributed Equity \$'000	Reserves \$'000	Retained Earnings \$'000	
<b>Balance at 1 July 2008</b>	<b>76,830</b>	<b>(1,299)</b>	<b>(63,207)</b>	<b>12,324</b>
Profit/(Loss) for the year	-	-	6,796	<b>6,796</b>
Exchange differences on translation of foreign operations	-	(252)	-	<b>(252)</b>
<b>Total Comprehensive Income/(Expense) for the year</b>	<b>-</b>	<b>(252)</b>	<b>6,796</b>	<b>6,544</b>
<b>Transactions with owners in their capacity as owners:</b>				
Share Buyback equity reductions	(592)	-	-	<b>(592)</b>
Cost associated with Share Buyback	(4)	-	-	<b>(4)</b>
Proceeds from exercise of Options	-	-	-	-
Value of options exercised transferred from SBP Reserve	-	-	-	-
Employee Share Options	-	13	-	<b>13</b>
Value of options that have lapsed during the current period	-	(136)	136	-
	<b>(596)</b>	<b>(123)</b>	<b>136</b>	<b>(583)</b>
<b>Balance at 30 June 2009</b>	<b>76,234</b>	<b>(1,674)</b>	<b>(56,275)</b>	<b>18,285</b>
<b>Balance at 1 July 2009</b>	<b>76,234</b>	<b>(1,674)</b>	<b>(56,275)</b>	<b>18,285</b>
Profit/(Loss) for the year	-	-	(2,912)	<b>(2,912)</b>
Exchange differences on translation of foreign operations	-	513	-	<b>513</b>
<b>Total Comprehensive Income/(Expense) for the year</b>	<b>-</b>	<b>513</b>	<b>(2,912)</b>	<b>(2,399)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Share Buyback equity reductions	(2)	-	-	<b>(2)</b>
Cost associated with Share Buyback	-	-	-	-
Proceeds from exercise of Options	1	-	-	<b>1</b>
Value of options exercised transferred from SBP Reserve	1	(1)	-	-
Employee Share Options	-	35	-	<b>35</b>
Value of options that have lapsed during the current period	-	(234)	234	-
	<b>0</b>	<b>(200)</b>	<b>234</b>	<b>34</b>
<b>Balance at 30 June 2010</b>	<b>76,234</b>	<b>(1,361)</b>	<b>(58,953)</b>	<b>15,920</b>

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

**Adacel Technologies Limited**  
**Preliminary consolidated statement of cash flows**  
**For the year ended 30 June 2010**

	Consolidated	
	2010	2009
Notes	\$000	\$000
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of GST)	45,062	57,218
Other receipts	374	2,735
Payments to suppliers and employees (inclusive of GST)	(46,355)	(54,564)
Payments for research and development expenditure (inclusive of GST)	(1,504)	(1,184)
	(2,423)	4,205
Interest received	28	119
Income tax paid	(465)	-
Tax Credits Refunded	48	-
Finance costs	(92)	(120)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>6 (2,904)</b>	<b>4,204</b>
<b>Cash flows from investing activities</b>		
Payments for plant and equipment	(580)	(969)
Proceeds from sale of plant and equipment	-	183
Proceeds from return of capital on Investment	30	-
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(550)</b>	<b>(786)</b>
<b>Cash flows from financing activities</b>		
Proceeds from shares issued	1	-
Proceeds from Borrowings	-	280
Repayment of borrowings	(72)	(7)
Shares repurchased through on market share buy-back	(2)	(592)
Share buy-back costs	-	(4)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(73)</b>	<b>(323)</b>
<b>Net increase/(decrease) in cash held</b>	(3,527)	3,095
Cash at beginning of the financial year	2,373	(621)
Effects of exchange rate changes on cash	(82)	(101)
<b>Cash at end of the financial year</b>	<b>(1,236)</b>	<b>2,373</b>
<b>Reconciliation of cash</b>		
Cash balance at the end of the year comprises:		
Cash assets - Cash at Bank	1,068	3,598
Cash borrowings - Overdraft facility	(2,304)	(1,225)
	<b>(1,236)</b>	<b>2,373</b>

*The above preliminary consolidated cash flow statement should be read in conjunction with the accompanying notes.*

**Adacel Technologies Limited**  
**Notes to the preliminary consolidated financial statements**  
**30 June 2010**

**1. Material factors affecting the revenues and expenses of the economic entity for the current period.**

A discussion on the material factors affecting the revenues and expenses of the economic entity for the current period is contained on pages 2 and 3.

**2. Material factors affecting the assets, liabilities and equity of the economic entity for the current period.**

**Note 2(a): Cash and cash equivalents**

The closing balance of cash as at 30 June 2010 was a net cash overdraft of \$1.2m as compared to a net cash deposit of \$2.4m as at 30 June 2009. This represents a decrease in cash balances of \$3.6m. \$2.3m is the value of the overdraft facility that has been utilised as at the year end.

The major components of this decrease are:

- : Operating activities (excluding interest and tax (paid)/refunded) \$2.4m
- : Tax paid \$0.5m
- : Investment in New Plant & Equipment \$0.6m
- : Foreign exchange loss effect on cash balances \$0.1m

**Note 2(b): Receivables & Accrued revenue**

Receivables and accrued revenue have increased by a net amount of \$3.1m to \$20.7m as at 30 June 2010.

Receivables have increased by \$0.6m to \$9.2m whilst Accrued revenue has also increased by \$2.5m to \$11.5m. These amounts are predominantly a matter of timing. Our major contracts are billed periodically upon milestone achievements and revenue is mainly recognised under the percentage of completion (POC) methodology that may not yet be billable under the contract terms. These are mainly government contracts where payment is assured.

**Note 2(c): Inventories (substantially work-in-progress)**

Inventories have decreased by \$1.4m to \$1.2m as at 30 June 2010, reflecting the decrease in activity. Inventories are substantially comprised of work-in progress for North American customers.

**Note 2(d): Plant & equipment**

The net value of Property, Plant & Equipment decreased by \$0.1m to \$1.4m during the year ended 30 June 2010. New equipment acquisitions of \$0.6m has been offset by a similar amount charged for depreciation. There were few disposals and the foreign exchange impact on asset balances was minor.

**Note 2(e): Intangible assets**

The net value of Intellectual property has decreased by a \$0.2m amortisation charge (\$0.9m in 2009) and has now been fully written down in the consolidated accounts. This Intellectual Property is still in use.

**Note 2(f): Payables**

Payables and accruals have increased by \$1.1m to \$7.4m during the year ending 30 June 2010. This change comes mostly from the timing of the different contracts.

**Note 2(g): Advance payments from customers**

Advance payments from customers has increased by a minor amount of \$0.1m to \$1.9m as at 30 June 2010. These payments are received under the terms of the contract for supply of equipment and services, at which time the cash is brought to account against sales invoices supplied to the customers.

**Note 2(h): Current tax liabilities**

Current tax liabilities have decreased by \$0.5m to \$0.6m as at 30 June 2010. The current balance includes \$0.2m which would be owed to the Quebec Provincial Level before the application of the Research & Development and Canadian tax refunds of \$1.6m which is disclosed as an Other Receivable. The other \$0.4m represents a provision for possible taxes to be owed by a US Subsidiary.



**Adacel Technologies Limited**  
**Notes to the preliminary consolidated financial statements**  
**30 June 2010**

**Note 2(i): Provisions**

Provisions have increased by \$0.1m to \$0.6m as at 30 June 2010. The majority of this increase relates to warranty.

**Note 2(j): Contributed equity**

The share capital of the company is \$76.2m. There have been no major changes during the year.

**Note 2(k): Reserves**

Reserves have increased by \$0.3m as at 30 June 2010. This movement relates to an increase in the Foreign Currency Translation Reserve of \$0.5m and a decrease in the the Share Based Payments Reserve of \$0.2m, mainly due to lapsing of Options.

**Note 2(l): Other financial assets**

Other financial assets have increased from Nil to \$0.3m as at 30 June 2010. The current year balance comprises embedded derivative assets relating to contracts in both Australia and North America.

**Note 2(m): Other liabilities**

Other liabilities have decreased by \$0.2m to \$0.2m as at 30 June 2010. The decrease is related to the embedded derivative which was a liability last year. The current year balance relates to the Finance Lease liability in Adacel Systems Inc for Information Technology infrastructure.

**Note 2(n): Deferred tax asset**

Due to the order book currently maintained by the business, management has taken a prudent approach to booking unbooked tax losses and future tax credits. These losses have been booked only to the extent that they should cover the profitability for the following two years. The degree of certainty of the order book beyond June 2012 is not certain and the degree of profitability cannot be reasonably predicted.

**3. Material factors affecting the cash flows of the economic entity for the current period**

A discussion on the material factors affecting the cash flows of the economic entity for the current period is contained on pages 2 and 3.

**Adacel Technologies Limited**  
**Notes to the preliminary consolidated financial statements**  
**30 June 2010**

**4. Segment information**

	Australia		North America		Corporate Office		Intersegment Eliminations		Total	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Sales to external customers	2,596	6,725	43,772	48,434	-	-	-	-	46,368	55,159
Intersegment sales	77	59	2,377	4,375	358	627	(2,812)	(5,061)	-	-
<b>Total sales revenue</b>	<b>2,673</b>	<b>6,784</b>	<b>46,149</b>	<b>52,809</b>	<b>358</b>	<b>627</b>	<b>(2,812)</b>	<b>(5,061)</b>	<b>46,368</b>	<b>55,159</b>
Other revenue/income	144	161	2,052	3,965	34	95	(143)	(49)	2,087	4,172
<b>Total segment revenue/income</b>	<b>2,817</b>	<b>6,945</b>	<b>48,201</b>	<b>56,774</b>	<b>392</b>	<b>722</b>	<b>(2,955)</b>	<b>(5,110)</b>	<b>48,455</b>	<b>59,331</b>
<b>Segment result</b>	<b>(145)</b>	<b>1,196</b>	<b>(2,260)</b>	<b>4,732</b>	<b>209</b>	<b>711</b>	<b>356</b>	<b>(452)</b>	<b>(1,840)</b>	<b>6,187</b>
Corporate office costs	-	-	-	-	(1,040)	(1,403)	-	-	(1,040)	(1,403)
Management fees	(61)	(112)	(297)	(515)	-	-	358	627	-	-
Interest on funds advanced - intergroup	-	-	-	-	-	-	-	-	-	-
Finance costs - external	-	-	(92)	(118)	-	(2)	-	-	(92)	(120)
<b>Profit/(loss) before income tax</b>	<b>(206)</b>	<b>1,084</b>	<b>(2,649)</b>	<b>4,099</b>	<b>(831)</b>	<b>(694)</b>	<b>714</b>	<b>175</b>	<b>(2,972)</b>	<b>4,664</b>
Income tax (expense)/benefit									60	2,132
<b>Profit/(loss) for the period</b>									<b>(2,912)</b>	<b>6,796</b>
Segment assets	952	192	37,814	36,788	33,436	33,766	(43,283)	(41,144)	28,919	29,602
Segment liabilities	22,164	21,198	15,164	12,194	1,562	871	(25,891)	(22,946)	12,999	11,317
Acquisitions of plant and equipment	-	-	585	1,017	-	1	-	-	585	1,018
Depreciation and amortisation expense	-	-	1,601	1,781	-	1	(714)	(175)	887	1,607
Impairment of trade receivables	-	-	(290)	700	-	-	-	-	(290)	700
Other non-cash expenses	-	-	-	-	-	-	-	-	-	-

**Description of segments**

The consolidated entity was organised during the current and prior financial periods on a global basis into the following areas:

*North America* - servicing the US and Canada as well as global markets in air traffic control simulation and air traffic management software and services.

*Australia* - servicing the Australian domestic market for simulation and software development services.

**Adacel Technologies Limited**  
**Notes to the preliminary consolidated financial statements**  
**30 June 2010**

**5. Income tax reconciliation**

	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable</b>		
Profit/(loss) from continuing operations before income tax	(2,972)	4,664
Income tax expense/(benefit) calculated at applicable tax rates	(1,096)	1,676
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Canadian Federal and Provincial income tax credits	(1,328)	(1,555)
Other items (net)	(58)	(59)
Current year temporary differences not brought to account	(834)	123
Current year tax losses and tax credits not brought to account	3,415	-
Utilisation of previously unbooked tax losses and tax credits	(58)	(1,670)
Recognition of previously unbooked tax losses and tax credits	-	(1,267)
Income tax under/(over) provided in prior years	(3)	292
Other items	(98)	328
<b>Income tax expense/(benefit)</b>	<b>(60)</b>	<b>(2,132)</b>

**6. Reconciliation of profit/(loss) after income tax to net cash flows from operating activities**

	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Operating profit/(loss) from ordinary activities after income tax	(2,912)	6,796
Non cash items:		
Depreciation and amortisation	887	1,607
Net (profit)/loss on sale of plant and equipment	-	-
Bad Debts Written Off	(164)	-
Employee share options expense	35	13
Net exchange differences	92	(1,780)
Changes in assets and liabilities:		
(Increase)/decrease in trade receivables and accrued revenue	(1,683)	380
(Increase)/decrease in other receivables and other assets	(1,665)	426
(Increase)/decrease in inventory	1,194	(1,807)
(Increase)/decrease in prepayments	151	(196)
(Increase)/decrease in deferred tax assets and liabilities and tax payable	(477)	(2,132)
Increase/(decrease) in trade and other creditors	1,502	(300)
Increase/(decrease) in employee benefits provisions	(26)	(23)
Increase/(decrease) in other provisions	67	(78)
Increase/(decrease) in advanced payments from customers	95	1,133
(Increase)/decrease in other non-current assets	-	165
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(2,904)</b>	<b>4,204</b>

**Adacel Technologies Limited**  
**Notes to the preliminary consolidated financial statements**  
**30 June 2010**

**7. Retained earnings/(accumulated losses)**

	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Balance at the beginning of the year	(56,275)	(63,207)
Net profit/(loss) for the year	(2,912)	6,796
Transfer from equity reserves	234	136
<b>Balance at the end of the year</b>	<b>(58,953)</b>	<b>(56,275)</b>

**8. Net tangible asset backing**

	<b>2010</b>	<b>2009</b>
(a) Net tangible asset backing per ordinary share (cents per share)	19.3	21.9
(b) Number of ordinary shares used as the denominator in calculating net tangible asset backing per ordinary share	82,275,220	82,276,220

**9. Earnings per share**

	<b>2010</b>	<b>2009</b>
Basic earnings/(loss) per share (cents per share)	(3.5)	8.2
Diluted earnings/(loss) per share (cents per share)	(3.5)	8.2

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

	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<i>Basic earnings per share</i>		
Profit / (loss) from continuing operations	(2,912)	6,796
Profit / (loss) attributable to the ordinary equity holders of the company used in calculating basic earnings per share	<b>(2,912)</b>	<b>6,796</b>
<i>Diluted earnings per share</i>		
Profit / (loss) from continuing operations	(2,912)	6,796
Profit / (loss) attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	<b>(2,912)</b>	<b>6,796</b>

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

	<b>2010</b>	<b>2009</b>
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	82,271,990	83,198,447
Adjustments for calculation of diluted earnings per share		
Options	527,437	90,140
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<b>82,799,427</b>	<b>83,288,587</b>

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**10. Contingent liabilities**

Guarantees of \$3.4M (2009: \$3.0M) 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.

**11. Financing facility**

The Royal Bank of Canada (RBC) has provided the company an Overdraft and Guarantee facility for up to \$10 million Canadian Dollars. 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. The Forward Exchange Contract facility has no specific dollar limit and is conditional upon varying requirements as determined on a case by case basis by the RBC hedge department at the time of request of the Forward Exchange Contract. The guarantees that are utilised through the RBC have been 100% guaranteed by Export Development Canada.

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 the financial report will provide sufficient cash flows, that together with the facility, will be adequate for the company's requirements.

**12. Events occurring after reporting date**

There were no significant events subsequent to balance date.

**13. Audit**

This report is based on accounts which are in the process of being audited.