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Adacel Technologies Limited
(ASX: ADA)

ASX & Media Release

Melbourne, 25 August 2011

Appendix 4E - Preliminary Final Report
Year ended 30 June 2011

Lodged with the ASX under Listing Rule 4.3A

Contents

Adacel Technologies Limited
Year ended 30 June 2011
(Previous corresponding period: Year ended 30 June 2010)

Results for Announcement to the Market

				$000
Revenue from continuing operations	down	20%	to	37,262
Loss for the period attributable to owners	down	11%	to	2,960

Dividends/distributions	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 2011 were a tale of two distinct halves. The first half consolidated the Company's position in its key markets whilst the second half started slowly and continued to grind for the balance of the financial year. The second half was impacted by economic conditions globally as well as slow US Government budgetary decisions which caused delays in expected new business and option exercises on existing contracts from our FAA (Federal Aviation Authority) and DOD (Department of Defense) customers. The International Simulation business declined from 2010 levels and the commercial pilot training business continued to experience headwinds in establishing its market presence. In the face of these challenges, the Company acted proactively and downsized parts of its business though leaving intact its core technologies and capabilities. Despite the additional challenge of fluctuating exchange rates, there were several business areas which experienced strong activity.

The Air Traffic Management (ATM) business continued its strong presence in US and world markets and demonstrated increasing growth in its software service revenue orders on the ATOP (Advanced Technologies and Oceanic Procedures) program. Several orders were secured from SESAR (Single European Skies ATM Research) that deal with the future management of global airspace and a significant upgrade order from NavPortugal was received. The Company's Voice Activated Cockpit software product was commercially accepted by Lockheed Martin with sales achieved on the JSF program. The Company views the voice activated cockpit market as very promising and the JSF program, when coupled with the 2010 order of the Aermacchi 346, gives us market presence in the US and global markets to address all types of aircraft platforms to include fixed wing, rotary wing, ground vehicles (transport and tank) as well as UAV (Unmanned Airborne Vehicles).

Accelerated acceptance is occurring for our Intelligent Communication Environment (ICE) product which is a PC-based trainer, building on an initial order at the USAF (United States Air Force) in late 2010. It is expected that this software product will expand across the USAF and FAA and become a standard for training new controllers with substantial orders in the following year. The Company's contractual backlog as at 30 June 2011 provides a solid foundation for the 2012 financial year.

Revenues and Gross Margins

The Company generated revenue and other income of $38.6M for the 2011 financial year, compared to $48.4M in 2010. The gross margin on revenue for 2011 increased to 42% in 2011 from 33% in 2010 primarily due to the mix of job types, and overall, program performance was strong. Company infrastructure was reduced late in the second half to "right size" the business for the future.

Revenue from continuing operations for 2011 was $37.3M representing a reduction of 20% compared to 2010. Revenue from services and support remained similar to 2010 but overall, the decline in revenue was attributable to the higher australian dollar, as well as the decline of non-US international simulation sales, which generated lower gross margins in 2010.

Earnings

Earnings before interest, tax, depreciation and amortisation for the 2011 financial year was a loss of $1.941M, compared to a loss of $1.993M in 2010. Depreciation and amortisation totalled $0.581M in 2011 compared with $0.887M in 2010. Finance costs totalled $0.559M for 2011 compared with $0.522M in 2010.

Balance Sheet and Cash Flow

The balance sheet continues to be strong with current assets of $15.0M against current liabilities of $9.4M and total assets of $19.6M against total liabilities of $12.5M.

The balance sheet has been affected by the inclusion of a liability relating to two grants received by the Company from the Canadian Government. The restatement was necessary due to updated advice regarding the relevant accounting standard. The 2010 closing balance sheet now reflects a liability for this item of $3.8M with the 2011 balance sheet reflecting a liability of $3.7M.

Cash movement for the 2011 financial year was an inflow of $5.7M as compared to the 2010 financial year outflow of $3.6M. Some of this was timing of receipts, however there was a strong focus on collection of cash and minimization of expenses throughout 2011 as the company addressed right sizing the business for the future. Operating inflows accounted for $6.1M of the overall inflow, (2010 $2.9M outflow). Plant & equipment acquisitions amounted to $0.4M (2010 $0.6M).

No Dividend declared

Directors have not declared a dividend for the 2011 year. (2010 year - Nil).

Operations

Air Traffic Control Simulation

The company received orders for the US Simulation and Training business in the 2011 financial year totalling $16.7M and achieved revenues of $18.3M. This business was diversified across many markets and included FAA, DOD - US Air Force, US MARINE, US Army Reserve, and US Federal Government customers as well as state universities. FAA orders totalled $8.7M and all other orders awarded by civil and defence aviation organisations were $8.0M.

International Simulation received $1.7M in orders in 2011, after receiving $12.0M in 2010. New customers included Vietnam ($0.7M) and Curacao ($0.5M). Revenues in 2011 were $7.5M and resulted primarily from backlogged 2010 orders. They fell $7.7M from the $15.2M in 2010.

Air Traffic Management

Adacel continues to work with Lockheed Martin to provide software support for the ATOP and ERAM (En Route Automation and Modernization) programs and received orders in 2011 with a value of $7.2M. The Company also continues to provide support and upgrades to NAV Portugal's Oceanic system, and received an additional order for approximately $2.9M.

Other Developmental Product Areas

Adacel's strategy is to leverage its existing core defined technologies and expand existing markets and customer base. A secondary focus is to enter collateral markets in order to support the overall growth of the business.

In 2011, R&D expenditures focused on the further development of the PC based version of our ATCIB (Air Traffic Control in a Box) - ICE Pilot, which is 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 2011 financial year, the Company received orders from universities, USAF and NavPortugal 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. Other focus continues to be on further development of Voice Activated Cockpit products, which utilize speech recognition technologies and applications that are resident in our ICE pilot and MAXSIM products that can address various DOD and Commercial markets.

Outlook

After concluding a disappointing 2011and despite a challenging global economic environment, the company is focussed on achieving improved revenue and a return to positive earnings in the 2012 financial year.

Adacel Technologies Limited
Preliminary consolidated statement of comprehensive income
For the year ended 30 June 2011

	Notes	Consolidated 2011 $000	Consolidated 2010 Restated $000
Revenue from continuing operations		**37,262**	**46,405**
Other income		1,311	2,050
Net foreign exchange gain/(loss)		(1,359)	(92)
Materials and consumables		(7,890)	(14,521)
Labour expense		(24,147)	(28,297)
Depreciation and amortisation expense		(581)	(887)
Finance costs		(559)	(522)
Lease rental expense		(1,455)	(1,706)
Professional fees		(1,350)	(1,946)
Insurance expense		(485)	(577)
Communications expense		(189)	(234)
Travel & entertainment expense		(1,000)	(761)
Trade shows		(889)	(707)
Repairs & maintenance		(351)	(294)
Bad & doubtful debts		(98)	290
All other expenses		(1,301)	(1,603)
Profit/(loss) before tax		**(3,081)**	**(3,402)**
Income tax benefit/(expense)	6	121	60
Profit/(Loss) from continuing operations		**(2,960)**	**(3,342)**
Profit from discontinued operations		-	-
Profit/(Loss) for the year		**(2,960)**	**(3,342)**
Other comprehensive income/(expense)			
Exchange differences on translation of foreign operations		(1,507)	943
Total comprehensive income/(expense) for the year		**(4,467)**	**(2,399)**
Profit/(Loss) is attributable to:			
Owners of Adacel Technologies Limited		**(2,960)**	**(3,342)**
Total comprehensive income/(expense) for the year is attributable to:			
Owners of Adacel Technologies Limited		**(4,467)**	**(2,399)**
Earnings/(loss) per share for profit/(loss) attributable to the ordinary equity holders of the company:		**Cents**	**Cents**
Basic earnings/(loss) per share (cents per share)	10	(3.6)	(4.1)
Diluted earnings/(loss) per share (cents per share)	10	(3.6)	(4.1)

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 2011

		Consolidated	
		2011	**2010 Restated**
	Notes	**$000**	**$000**
Current assets			
Cash and cash equivalents	2(a)	4,451	1,068
Receivables	2(b)	4,110	9,234
Current tax receivable	2(c)	111	19
Accrued revenue	2(b)	5,169	11,014
Inventories	2(d)	1,127	1,228
Other financial assets	2(e)	-	263
Total current assets		**14,968**	**22,826**
Non-current assets			
Plant and equipment (net)	2(f)	960	1,405
Deferred tax asset	2(g)	3,630	4,242
Total non-current assets		**4,590**	**5,647**
Total assets		**19,558**	**28,473**
Current liabilities			
Borrowings	2(a)	-	2,304
Payables	2(h)	5,264	7,383
Advanced payments from customers	2(i)	2,528	1,908
Current tax liabilities	2(j)	312	601
Provisions	2(k)	681	576
Other current liabilities	2(l)	617	-
Total current liabilities		**9,402**	**12,772**
Non-current liabilities			
Other non-current liabilities	2(l)	3,130	3,995
Total non-current liabilities		**3,130**	**3,995**
Total liabilities		**12,532**	**16,767**
Net assets		**7,026**	**11,706**
Equity			
Contributed equity	2(m)	76,015	76,234
Reserves	2(n)	(2,926)	(931)
Retained profits/(accumulated losses)	8	(66,063)	(63,597)
Total equity		**7,026**	**11,706**

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 2011

	Attributable to the owners of Adacel Technologies Limited			
	Contributed Equity $'000	Reserves $'000	Retained Earnings $'000	TOTAL EQUITY $'000
Balance at 1 July 2009 (as previously reported)	**76,234**	**(1,674)**	**(56,275)**	**18,285**
Impact of Restatement	-	-	(4,214)	(4,214)
Restated Balance at 1 July 2009	**76,234**	**(1,674)**	**(60,489)**	**14,071**
Profit/(Loss) for the year	-	-	(3,342)	**(3,342)**
Exchange differences on translation of foreign operations	-	943	-	**943**
Total Comprehensive Income/(Expense) for the year	-	943	(3,342)	**(2,399)**
Transactions with owners in their capacity as owners:				
Share buyback equity reductions	(2)	-	-	**(2)**
Cost associated with share buyback	-	-	-	**-**
Proceeds from exercise of options	1	-	-	**1**
Value of options exercised transferred from SBP reserve	1	(1)	-	**-**
Employee share options	-	35	-	**35**
Value of options that have lapsed during the current period	-	(234)	234	-
	-	(200)	234	**34**
Restated Balance at 30 June 2010	**76,234**	**(931)**	**(63,597)**	**11,706**
Restated Balance at 1 July 2010	**76,234**	**(931)**	**(63,597)**	**11,706**
Profit/(Loss) for the year	-	-	(2,960)	**(2,960)**
Exchange differences on translation of foreign operations	-	(1,507)	-	**(1,507)**
Total Comprehensive Income/(Expense) for the year	-	(1,507)	(2,960)	**(4,467)**
Transactions with owners in their capacity as owners:				
Share buyback equity reductions	(218)	-	-	**(218)**
Cost associated with share buyback	(1)	-	-	**(1)**
Proceeds from exercise of options	-	-	-	**-**
Value of options exercised transferred from SBP reserve	-	-	-	**-**
Employee share options	-	6	-	**6**
Value of options that have lapsed during the current period	-	(494)	494	-
	(219)	(488)	494	**(213)**
Balance at 30 June 2011	**76,015**	**(2,926)**	**(66,063)**	**7,026**

The above preliminary 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 2011

	Notes	Consolidated 2011 $000	Consolidated 2010 Restated $000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		45,902	45,062
Other receipts		1,384	374
Payments to suppliers and employees (inclusive of GST)		(39,262)	(45,925)
Payments for research and development expenditure (inclusive of GST)		(1,191)	(1,504)
		6,833	(1,993)
Interest received		15	28
Income tax paid		(164)	(417)
Finance costs		(559)	(522)
Net cash inflow/(outflow) from operating activities	7	**6,125**	**(2,904)**
Cash flows from investing activities			
Payments for plant and equipment		(377)	(580)
Proceeds from sale of plant and equipment		2	-
Proceeds from return of capital on investment		-	30
Net cash inflow/(outflow) from investing activities		**(375)**	**(550)**
Cash flows from financing activities			
Proceeds from shares issued		-	1
Proceeds from borrowings		-	-
Repayment of borrowings		(75)	(72)
Shares repurchased through on market share buy-back		(218)	(2)
Share buy-back costs		(1)	-
Net cash inflow/(outflow) from financing activities		**(294)**	**(73)**
Net increase/(decrease) in cash held		5,456	(3,527)
Cash at beginning of the financial year		(1,236)	2,373
Effects of exchange rate changes on cash		231	(82)
Cash at end of the financial year		**4,451**	**(1,236)**

	2011 $000	2010 Restated $000
Reconciliation of cash		
Cash balance at the end of the year comprises:		
Cash assets - Cash at bank	4,451	1,068
Cash borrowings - Overdraft facility	-	(2,304)
	4,451	**(1,236)**

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

1. Consolidated Balance Sheet Restatement.

The company has restated its prior period consolidated balance sheet. During the course of the finalisation of the 2011 financial statements, it has been determined that the Company must now record a liability associated with the receipt in 2004 to 2008 by the Company's Canadian subsidiary of two separate Canadian government grants. Under those arrangements the Company was obliged to pay to the government future royalties based on a percentage of the Company's future revenue. When the government grants were received, they were recorded as revenue without any associated liability to reflect the future royalty payments.

The Company has restated its prior period consolidated balance sheet to record a liability of $3.7 million for the year ended 30 June 2009. As a consequence the consolidated balance sheet at 30 June 2010 has been restated to also reflect the closing liability at that date of $3.8 million, as well as the loss for 2010 being adjusted from $2.912M to $3.342M. The 2011 financial statements also reflect the current closing balance of the liability.

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 2011 was a net cash deposit of $4.4m as compared to a net cash overdraft of $1.2m as at 30 June 2010. This is an increase in cash balances of $5.6m. None of the overdraft facility is being utilised as at the year end.
The major components of this increase are:
: Operating activities (excluding interest and tax paid) $6.4m
: Tax paid $0.2m
: Investment in new plant & equipment $0.4m
: Cost of shares bought back $0.2m
: Foreign exchange gain effect on cash balances $0.2m

Note 2(b): Receivables & accrued revenue

Receivables and accrued revenue have decreased by a net amount of $10.9m to $9.3m as at 30 June 2011. Receivables have decreased by $5.1m to $4.1m whilst accrued revenue has decreased by $5.8m to $5.2m. The receivables decrease is due to the lower revenues this year as well as a successful effort to decrease the ageing of our debtors. The decrease in accrued revenue is predominantly a matter of timing where our major contracts are billed periodically upon milestone achievements and revenue is mainly recognised under the percentage of completion (POC) method. These are mainly government contracts where payment is assured.

Note 2(c): Current tax receivable

Current tax receivable has increased by $0.1m to $0.1m as at 30 June 2011. This current balance comes mostly from the recovery of income taxes paid by applying available Research and Development pool against taxable income for 30 June 2009.

Note 2(d): Inventories (substantially work-in-progress)

Inventories have decreased minimally by $0.1m to $1.1m as at 30 June 2011. Inventories are substantially comprised of work-in progress for North American customers.

Note 2(e): Other financial assets

Other financial assets have decreased $0.3m to Nil as at 30 June 2011. This is solely due to the reduction of the previous embedded derivative assets relating to contracts in both Australia and North America.

Note 2(f): Plant & equipment

The net value of property, plant & equipment decreased by $0.4m to $1.0m during the year ended 30 June 2011. New equipment acquisitions of $0.4m has been offset by $0.5m charged for depreciation and a foreign exchange impact of $0.3m. The WDV of disposals was immaterial.

Note 2(g): Deferred tax asset

Management has taken a prudent approach to booking unbooked tax losses and future tax credits. The future benefit has been booked only to the extent that it has reasonable assurance of being recovered by profitability into the future. The major justification for Management's view is the fact that the carry forward period for the Canadian Federal Income Tax Credits is at least 10 years from today.

Note 2(h): Payables

Payables and accruals have decreased by $2.1m to $5.3m during the year ending 30 June 2011. This change comes mostly from the timing of the different contracts but also reflects the lower than previous year activity.

Note 2(i): Advance payments from customers

Advance payments from customers has increased by $0.6m to $2.5m as at 30 June 2011. These payments are received under the terms of the contract for supply of equipment and services. This amount will decrease as sales are recognised under the percentage of completion (POC) method.

Note 2(j): Current tax liabilities

Current tax liabilities have decreased by $0.3m to $0.3m as at 30 June 2011. The current balance is a provision for possible taxes to be paid by a US Subsidiary.

Note 2(k): Provisions

Provisions have increased by $0.1m to $0.7m as at 30 June 2011. The majority of this increase relates to warranty.

Note 2(l): Other liabilities

Other liabilities have decreased by $0.3m to $3.7m as at 30 June 2011. The decrease is related to the removal of the embedded derivative. The balance relates mainly to the liability due to the Canadian Government for funding grants.

Note 2(m): Contributed equity

The share capital of the company has decreased $0.2 to $76.0m as at 30 June 2011. The decrease results from the Share Buy Back that was in action during the financial year.

Note 2(n): Reserves

Reserves have decreased by $2.0m as at 30 June 2011. This movement relates to an decrease in the Foreign Currency Translation Reserve of $1.5m and a decrease in the the Share Based Payments Reserve of $0.5m, mainly due to lapsing of options.

3. 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.

4. 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.

5. Segment information

	Australia		North America		Corporate Office		Intersegment Eliminations		Total	
	2011 $000	**2010 $000**	**2011 $000**	**2010 $000**	**2011 $000**	**2010 $000**	**2011 $000**	**2010 $000**	**2011 $000**	**2010 $000**
Sales to external customers	576	2,596	36,671	43,772	-	-	-	-	37,247	46,368
Intersegment sales	85	77	396	2,377	326	358	(807)	(2,812)	-	-
Total sales revenue	**661**	**2,673**	**37,067**	**46,149**	**326**	**358**	**(807)**	**(2,812)**	**37,247**	**46,368**
Other revenue/income	4	144	1,313	2,052	17	34	(8)	(143)	1,326	2,087
Total segment revenue/income	**665**	**2,817**	**38,380**	**48,201**	**343**	**392**	**(815)**	**(2,955)**	**38,573**	**48,455**
Segment result	**(184)**	**(145)**	**(2,250)**	**(2,260)**	**338**	**209**	**566**	**356**	**(1,530)**	**(1,840)**
Corporate office costs	-	-	-	-	(992)	(1,040)	-	-	(992)	(1,040)
Management fees	(56)	(61)	(270)	(297)	-	-	326	358	-	-
Interest on funds advanced - intergroup	-	-	-	-	-	-	-	-	-	-
Finance costs - external	-	-	(558)	(522)	(1)	-	-	-	(559)	(522)
Profit/(loss) before income tax	**(240)**	**(206)**	**(3,078)**	**(3,079)**	**(655)**	**(831)**	**892**	**714**	**(3,081)**	**(3,402)**
Income tax (expense)/benefit									121	60
Profit/(loss) for the period									**(2,960)**	**(3,342)**
Segment assets	6	952	32,210	37,368	31,551	33,436	(44,209)	(43,283)	19,558	28,473
Segment liabilities	21,458	22,164	18,547	18,932	1,039	1,562	(28,512)	(25,891)	12,532	16,767
Acquisitions of plant and equipment	-	-	372	585	5	-	-	-	377	585
Depreciation and amortisation expense	-	-	1,468	1,601	5	-	(892)	(714)	581	887
Impairment of trade receivables	-	-	98	(290)	-	-	-	-	98	(290)
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 2011

6. Income tax reconciliation

	2011 $000	2010 Restated $000
Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable		
Profit/(loss) from continuing operations before income tax	(3,081)	(3,402)
Income tax expense/(benefit) calculated at applicable tax rates	(1,140)	(1,259)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Canadian Federal and Provincial income tax credits	(945)	(1,328)
Other items (net)	(149)	(58)
Current year temporary differences not brought to account	(509)	(671)
Current year tax losses and tax credits not brought to account	2,393	3,415
Utilisation of previously unbooked tax losses and tax credits	-	(58)
Recognition of previously unbooked tax losses and tax credits	-	-
Income tax under/(over) provided in prior years	149	(3)
Other items	80	(98)
Income tax expense/(benefit)	**(121)**	**(60)**

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

	2011 $000	2010 Restated $000
Operating profit/(loss) from ordinary activities after income tax	(2,960)	(3,342)
Non cash items:		
Depreciation and amortisation	581	887
Net (profit)/loss on sale of plant and equipment	-	-
Bad debts written off	-	(164)
Employee share options expense	6	35
Net exchange differences	1,359	92
Changes in assets and liabilities:		
(Increase)/decrease in trade receivables and accrued revenue	7,509	(1,683)
(Increase)/decrease in other receivables and other assets	72	(1,665)
(Increase)/decrease in inventory	(146)	1,194
(Increase)/decrease in prepayments	251	151
(Increase)/decrease in deferred tax assets and liabilities and tax payable	(285)	(477)
Increase/(decrease) in trade and other creditors	(1,530)	1,932
Increase/(decrease) in employee benefits provisions	(13)	(26)
Increase/(decrease) in other provisions	194	67
Increase/(decrease) in advanced payments from customers	1,087	95
(Increase)/decrease in other non-current assets	-	-
Net cash inflow/(outflow) from operating activities	**6,125**	**(2,904)**

Adacel Technologies Limited
Notes to the preliminary consolidated financial statements
30 June 2011

8. Retained earnings/(accumulated losses)

	2011 $000	2010 Restated $000
Balance at the beginning of the year	(63,597)	(60,489)
Net profit/(loss) for the year	(2,960)	(3,342)
Transfer from equity reserves	494	234
Balance at the end of the year	**(66,063)**	**(63,597)**

9. Net tangible asset backing

	2011	2010
(a) Net tangible asset backing per ordinary share (cents per share)	8.6	14.2
(b) Number of ordinary shares used as the denominator in calculating net tangible asset backing per ordinary share	81,641,392	82,275,220

10. Earnings per share

	2011	2010 Restated
Basic earnings/(loss) per share (cents per share)	(3.6)	(4.1)
Diluted earnings/(loss) per share (cents per share)	(3.6)	(4.1)

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

	2011 $000	2010 Restated $000
Basic earnings per share		
Profit / (loss) from continuing operations	(2,960)	(3,342)
Profit / (loss) attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**(2,960)**	**(3,342)**
Diluted earnings per share		
Profit / (loss) from continuing operations	(2,960)	(3,342)
Profit / (loss) attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**(2,960)**	**(3,342)**

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

	2011	2010
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	82,014,860	82,271,990
Adjustments for calculation of diluted earnings per share		
Options	280	527,437
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**82,015,140**	**82,799,427**

11. Contingent liabilities

Guarantees of $2.5M (2010: $3.4M) 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, the company is aware of no such claims.

12. 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 is currently $750,000 Canadian Dollars 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.

13. Events occurring after reporting date

There were no significant events subsequent to balance date.

14. Audit

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