Adacel Technologies Limited
(ASX: ADA)

ANNUAL REPORT 2012

ADACEL TECHNOLOGIES LIMITED

ANNUAL REPORT 2012

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DIRECTORS' REPORT

Your Directors submit their report on the consolidated entity consisting of Adacel Technologies Limited and the entities it controlled at the end of, or during the year ended 30 June 2012.

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:

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

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year were the development and sale of simulation and software applications and services. There were no significant changes in the nature of the consolidated entity's activities during the year, other than described in the review of operations.

REVIEW OF OPERATIONS

Overview

Adacel has delivered a pleasing result for the 2012 financial year. The 2012 results are a culmination of consistent order success and revenue recognition, tight cost control and disciplined program management and execution. The Company achieved earnings before tax in 2012 of $4.62 million (2011: loss of $3.08 million), derived from revenue of $38.56 million (2011: $37.26 million).

The 2012 results reflect the continued focus by the Company on its core technologies, expansion within existing markets and the fostering of closer relationships with its key customers. The Company will continue this focused approach in combination with a prudent assessment of Research and Development (R&D) and adjacent market opportunities. The Company's strong balance sheet provides a robust foundation for the continued execution of this strategy. Positive cash flow of $1.29 million was generated during 2012 (2011: $5.69 million), the difference largely attributable to the timing of receipts in the period. The Company enjoys a net cash position at the end of the financial year of $5.75 million.

Following a series of management changes toward the end of the previous period, the Company moved to focus the business on its key products, markets and opportunities. As a result of these efforts and the subsequent performance, the Board is pleased to confirm Seth Brown in the role of Chief Executive Officer. Seth, along with Chief Operating Officer, Gary Pearson, executed the necessary changes and, along with the Company's employees, have delivered this result in 2012.

The Company witnessed consistent performance across its businesses. Additionally, the results were boosted by a number of high margin contracts.

The Air Traffic Management business continued its consistent performance, principally from renewals under the ATOP (Advanced Technologies and Oceanic Procedures) program for the US FAA (Federal Aviation Administration), a five year extension of the NavPortugal support contract and a new order from French Guiana.

The International Air Traffic Control (ATC) Simulation business rebounded from a soft prior period to deliver a strong result, due predominantly to contract wins in the Ukraine and Italy.

The US ATC Simulation business generated a profitable contribution, principally from key relationships with the US FAA and US Air Force. This outcome was encouraging given the US Government-imposed budgetary pressures, in particular on the US Department of Defence.

The Company's Speech Recognition business enjoyed the benefits of order growth in voice activated cockpit control programs with Lockheed Martin's Joint Strike Fighter, accompanying other contract awards including the Aleni Aermacchi M346 Trainer and development funding on Boeing's Apache helicopter. It is anticipated that further orders will be derived from these programs in future years and the Company remains confident that there will be other voice activated cockpit control applications in both civil and military vehicles.

Further acceptance of Adacel's Security Simulation products resulted in considerable new business with Sandia National Labs in the US.

During 2012, the Company committed considerable R&D funds to the on-going commercialisation of Intelligent Communications Environment (ICE). This product is used to train both pilots and air traffic controllers in the fundamentals of air traffic control and pilot communication as well as providing an aviation English training platform for non-native English speakers. ICE has proven to be a key resource for certification to International Civil Organisation Standards for aviation English. As a result, the Company has received strong market acceptance for this product with a number of profitable contracts secured during 2012.

The Company continues to have productive and successful relationships with its key partners, across many programs and jurisdictions, including CAE, ENAV, Alenia Aermacchi, Lockheed Martin, RAAF, USAF, Air Services Australia, Sanmina, SCI, Sandia National Labs, Hungara Control, Singapore Technologies, Telephonics, Exelis, Boeing and the Ukraine CAA. The Company looks forward to continued development of these relationships.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS
The Company is pleased with the 2012 financial result and the Directors are cautiously optimistic that, despite the challenges in the global economic environment and on-going US budgetary constraints, the Group will have continued profitability in the 2013 financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS
There were no significant changes in the state of affairs during the current year, except as noted in the review of operations.

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 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

Julian Beale BE (Syd), MBA (Harvard)
Non-Executive Chairman

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. Mr. Beale 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. Mr. Beale 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. Mr. Beale 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
1,816,867 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. Mr. Courtney 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. He is a member of the Committee of Management of Eastern Palliative Care providing home-based care for those with a terminal illness. Mr. Courtney 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. Mr. Courtney 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 (Electrical)
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. Mr. Salom 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. Mr. Salom 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
14,496,659 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. Mr. Smith 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
9,560,558 ordinary shares in Adacel Technologies Limited.
Nil options over ordinary shares in Adacel Technologies Limited.

Peter Landos BEco (ANU)
Non-Executive Director

Mr. Landos was appointed as a Non-executive Director on the 26th February 2009. Mr. Landos is a senior executive with the Thorney Investment Group and has extensive business experience with a number of small and large public companies globally. Mr. Landos is also a Director of Rattoon Holdings Limited.

Interests in Shares and Options
Nil ordinary shares in Adacel Technologies Limited.
Nil options over ordinary shares in Adacel Technologies Limited.

COMPANY SECRETARY

Sophie Karzis B. Juris, LLB

Sophie Karzis was appointed as Company Secretary on 30 June 2008. Ms Karzis is a practising lawyer and a member of the Law Institute of Victoria and the Institute of Chartered Secretaries.

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:

	Meetings of Directors		Meetings of Committees					
			Audit		Remuneration		Nominations	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Julian Beale **	12	12	4	4	1	1	1	1
Kevin Courtney **	12	12	4	4	1	1	1	1
Silvio Salom **	12	10	*	*	*	*	1	1
David Smith **	12	11	*	*	*	*	1	1
Peter Landos **	12	12	4	4	1	1	1	1

* 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 Nominations 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 Julian Beale, Kevin Courtney and Peter Landos. The Chairman of the Remuneration Committee is Julian Beale.

The members of the Nominations Committee are all of the members of the Board. The Chairman of the Nominations Committee is Julian Beale.

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 $300,000 per annum at the 1999 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 personal performance. Short-term incentives may include annual cash incentives on meeting specific profit and performance criteria that has been agreed to in plans set with the Board. Criteria to be met may include group and/or business unit orders, revenue and profit performance and personal Key Performance Indicators. 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 2012, the performance conditions included financial targets, primarily new orders and annual earnings. Each of these targets was to be considered as a separate element of the incentive scheme. Using annual earnings as a major proportion of the bonus pool ensures that the incentive is only paid when value has been created for shareholders and is consistent with the business plan. The following table compares earnings and bonuses paid over the past 5 years.

YEAR	Profit After Tax $'000's	Bonuses paid $
2008	1,810	-
2009	6,796	429,941
2010	(3,342)	-
2011	(2,960)	-
2012	4,402	552,000

Long Term Incentives
For a number of the executives in the consolidated entity, an element of their remuneration is 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 following table compares share prices and Options exercised over the past 5 years.

YEAR	Range of Share Price Cents	Executive Options Exercised Units
2008	28 to 81.5	250,000
2009	25 to 49.5	-
2010	32.5 to 78	-
2011	18 to 43	-
2012	18.5 to 43	-

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 3-4 above); the Company Secretary, Ms Sophie Karzis; the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), Mr Seth Brown; the Chief Operating Officer (COO), Mr Gary Pearson; and the Vice President of Business Development and Marketing, Mr Jeff Tyrcha.

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

2012	**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								
Julian Beale (*Chairman)*	87,200	-	-	-	-	-	-	87,200
Kevin Courtney	40,000	-	-	-	3,600	-	-	43,600
Silvio Salom	40,000	-	-	-	3,600	-	-	43,600
David Smith	40,000	-	-	-	3,600	-	-	43,600
Peter Landos	40,000	-	-	-	3,600	-	-	43,600
Sub-total: Non-exec Directors	**247,200**	**-**	**-**	**-**	**14,400**	**-**	**-**	**261,600**
Other Key Management								
Sophie Karzis	35,915	-	-	-	-	-	-	35,915
Seth Brown	227,183	211,676	19,427	-	13,323	-	-	471,609
Gary Pearson	203,019	202,011	14,219	-	12,684	-	-	431,933
Jeff Tyrcha	183,646	18,365	13,605	10,434	7,417	-	-	233,467
Fred Sheldon (to 27/06/11)***	38,936	-	824	-	1,802	207,867	-	249,429
Marsha Bell (to 21/06/11)***	-	-	-	-	-	3,845	-	3,845
Kyle Crooks (to 21/06/11)***	-	-		-		(13,100)	-	(13,100)
Sub-total: Other Key Mgmt	**688,699**	**432,052**	**48,075**	**10,434**	**35,226**	**198,612**	**-**	**1,413,098**
Total Key Management Personnel Compensation	**935,899**	**432,052**	**48,075**	**10,434**	**49,626**	**198,612**	**-**	**1,674,698**

* Non-Monetary Remuneration is based upon actual costs to the company.
** Remuneration in the form of Relocation Costs
*** Remuneration being difference in Termination Benefit Accrued in the previous period

2011	**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								
Julian Beale (*Chairman)*	87,200	-	-	-	-	-	-	87,200
Kevin Courtney	40,000	-	-	-	3,600	-	-	43,600
Silvio Salom	40,000	-	-	-	3,600	-	-	43,600
David Smith	40,000	-	-	-	3,600	-	-	43,600
Peter Landos	40,000	-	-	-	3,600	-	-	43,600
Sub-total: Non-exec Directors	**247,200**	**-**	**-**	**-**	**14,400**	**-**	**-**	**261,600**
Other Key Management								
Sophie Karzis	36,322	-	-	-	-	-	-	36,322
Fred Sheldon (to 27/06/11)	285,959	-	14,654	-	12,138	85,000	-	397,751
Seth Brown	231,524	-	17,116	-	11,147	-	-	259,787
Marsha Bell (to 21/06/11)	185,023	-	16,963	-	9,096	60,238	5,925	277,245
Gary Pearson	198,360	-	10,928	-	9,566	-	-	218,854
Mark Creasap (to 23/07/10)	44,911	-	111	-	2,566	-	-	47,588
Cyrille Jodas	141,014	-	3,135	-	7,051	-	-	151,200
William Lang	185,678	-	5,005	-	9,284	-	-	199,967
Kyle Crooks (to 21/06/11)	165,793	-	16,954	-	4,745	51,415	-	238,907
Sub-total: Other Key Mgmt	**1,474,584**	**-**	**84,866**	**-**	**65,593**	**196,653**	**5,925**	**1,827,621**
Total Key Management Personnel Compensation	**1,721,784**	**-**	**84,866**	**-**	**79,993**	**196,653**	**5,925**	**2,089,221**

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

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.
- Ms Karzis provides services to the company as a contractor on an hourly basis.
- Fees for the year ended 30 June 2012 in respect of Company Secretarial activities of $35,915.

Seth Brown (Chief Financial Officer, and Chief Executive Officer from 27/06/2011)

- Term of agreement – ongoing and automatically renewed on 1 January each year.
- Base salary, superannuation, medical/health insurance and other benefits for the year ended 30 June 2012 of $259,933.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 18 months base salary and superannuation, or 3 months base salary and superannuation if terminated for failing to perform.
- Provision of performance-related cash bonuses (up to 40% of base salary), $90,857 has been accrued in respect of the year ended 30 June 2012. Also provided was a one-off retention bonus of $120,819 of which $48,328 was performance related. $72,491 has been paid with the remaining $48,328 accrued in respect of the year ended 30 June 2012.
- Participation, when eligible, in the Staff Share Option Plan.

Gary Pearson (Chief Operating Officer)

- Term of agreement – ongoing.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2012 of $229,922.
- There is no defined contractual obligation to provide a termination benefit; however, payment of early termination benefits, other than for cause, would be based on industry standards.
- Provision of performance-related cash bonuses (up to 40% of base salary), $81,192 has been accrued in respect of the year ended 30 June 2012. Also provided was a once-off retention bonus of $120,819 of which $48,328 was performance related. $72,491 has been paid with the remaining $48,328 accrued in respect of the year ended 30 June 2012.
- Participation, when eligible, in the Staff Share Option Plan.

Jeff Tyrcha (Vice President, Business Development and Marketing)

- Term of agreement – ongoing.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2012 of $204,668.
- There is a defined contractual obligation to provide a benefit of 6 months pay upon termination of employment due to a change in company ownership, however, payment of early termination benefits, other than for cause, would be based on industry standards.
- Provision of performance-related cash bonuses (up to 30% of base salary). A bonus of $18,365 has been accrued in respect of the year ended 30 June 2012.
- Participation, when eligible, in the Staff Share Option Plan.

D. Share-based compensation.

Staff Share Option Plan
Options are 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 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 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.

Staff Share Option Plan options may be issued with conditions precedent to the options vesting. The conditions precedents for the options on issue are one of the following:

(a) 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.

(b) Set time periods are achieved.

(c) The achievement of the fiscal year EBITDA as set forth in the Board approved annual budget.

(d) 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 absolute discretion, determine otherwise.

There are no grants of options affecting remuneration in this or future reporting periods. The Staff Share Option Plan is described in note 37.

Details of options over ordinary shares in the company provided as remuneration to each Director of Adacel Technologies Limited and each of the key management personnel of the Group are set out below. When and if exercisable, each option is convertible into one ordinary share of Adacel Technologies Limited. Further information on the options is set out in note 37 to the financial statements.

	Number of options granted during the year		Number of options vested during the year	
Name	**2012**	2011	**2012**	2011
Directors of Adacel Technologies Limited				
Julian Beale (*Chairman)*	-	-	-	-
Kevin Courtney	-	-	-	-
Silvio Salom	-	-	-	-
David Smith	-	-	-	-
Peter Landos	-	-	-	-
Other key management personnel of the Group				
Sophie Karzis	-	-	-	-
Seth Brown	-	-	-	-
Gary Pearson	-	-	-	-
Jeff Tyrcha	-	-	-	-
Marsha Bell	-	-	-	250,000

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 is included in the remuneration tables above. 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.

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.

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 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 $
Seth Brown	100%	0%	-	-	-	-	-	-
Gary Pearson	100%	0%	-	-	-	-	-	-
Jeff Tyrcha	33%	67%	-	-	-	-	-	-

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 2012 (2011 : 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, any of the most highly remunerated officers of the consolidated entity, or the company Secretary of the company as part of their remuneration.

SHARES UNDER OPTION
Details of unissued ordinary shares in Adacel Technologies Limited under option as at 31 August 2012 are as follows:

Plan	Grant Date	Number	Expiry Date	Exercise Price
Staff Share Option Plan	4 January 2008	5,000	4 January 2013	$0.68
Staff Share Option Plan	4 April 2008	10,000	4 April 2013	$0.44
		15,000		

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate except in exercising the relevant options.

SHARES ISSUED ON THE EXERCISE OF OPTIONS
During the year ended 30 June 2012, there were no ordinary shares of Adacel Technologies Limited issued on the exercise of options granted. No shares have been issued since 30 June 2012 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 audit and 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 fees were paid or payable for services provided by the auditor of the parent entity, and its related practices:

	Consolidated	
	2012	2011
Assurance services	**$**	$
(a) Audit services		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*		
PricewaterhouseCoopers Australian firm	**105,180**	141,719
Related practices of PricewaterhouseCoopers Australian firm	**190,105**	214,271
Total remuneration for audit services	**295,285**	355,990
(b) Other assurance services		
Assurance, consulting, and due diligence services		
PricewaterhouseCoopers Australian firm	**-**	5,000
Related practices of PricewaterhouseCoopers Australian firm	**14,438**	14,715
Total remuneration for other assurance services	**14,438**	19,715
Total remuneration for assurance services	**309,723**	375,705
Taxation services		
Tax compliance services, including review of company income tax returns and international tax consulting		
PricewaterhouseCoopers Australian firm	**34,000**	(4,350)
Related practices of PricewaterhouseCoopers Australian firm	**39,946**	47,626
Total remuneration for taxation services	**73,946**	43,276

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 13.

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 option available to the company under Australian Securities & Investment Commission Class Order 98/0100. The company is an entity to which the Class Order 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 contained in the Corporate Governance Statement section of this annual report.

Signed in accordance with a resolution of the Directors.

Julian Beale	David Smith
Chairman	Director

Melbourne, 21st September 2012

pwc

Auditors' Independence Declaration

As lead auditor for the audit of Adacel Technologies Limited for the year ended 30 June 2012, 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
21 September 2012

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 8613 1555, www.pwc.com.au

Adacel Technologies Limited ABN 15 079 672 281

Annual financial report – 30 June 2012

Contents

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
Level 1, Suite 3, 240 Bay Street
Brighton VIC 3186.

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 1 to 2, which does not form part of this financial report.

The financial report was authorised for issue by the directors on 21 September 2012. 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 2012

	Notes	Consolidated	
		2012 **$'000**	2011 $'000
Revenue from continuing operations			
Sale of goods and services	5	**38,538**	37,247
Other revenue	5	**19**	15
Other income	6	**1,348**	1,311
Expenses			
Materials and consumables		**(6,420)**	(7,890)
Labour expense		**(21,956)**	(24,147)
Net foreign exchange gain/(loss)	7	**190**	(1,359)
Depreciation and amortisation expense	7	**(462)**	(581)
Finance costs	7	**(498)**	(559)
Premises rental & maintenance		**(1,405)**	(1,455)
Professional fees		**(1,107)**	(1,350)
Insurance expense		**(491)**	(485)
Communications expense		**(115)**	(189)
Travel and entertainment expense		**(687)**	(1,000)
Trade shows		**(367)**	(889)
Repairs & maintenance		**(326)**	(351)
Bad & doubtful debts	7	**(203)**	(98)
All other expenses		**(1,436)**	(1,301)
Profit/(loss) before tax		**4,622**	(3,081)
Income tax (expense)/benefit	8	**(220)**	121
Profit/(loss) from continuing operations		**4,402**	(2,960)
Profit/(loss) for the year		**4,402**	(2,960)
Other comprehensive income/(expense)			
Exchange differences on translation of foreign operations		**9**	(1,507)
Total comprehensive income/(expense) for the year		**4,411**	(4,467)

Earnings/(loss) per share for profit/(loss) attributable to the ordinary equity holders of the company:		**Cents**	Cents
Basic earnings/(loss) per share	36	**5.4**	(3.6)
Diluted earnings/(loss) per share	36	**5.4**	(3.6)

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

BALANCE SHEET
As at 30 June 2012

	Notes	Consolidated 2012 $'000	Consolidated 2011 $'000
Current assets			
Cash and cash equivalents	9	**5,745**	4,451
Trade and other receivables	10	**7,623**	4,339
Current tax receivable		**16**	111
Accrued revenue	10	**5,998**	4,940
Inventories	11	**802**	1,127
Other financial assets	12, 13	**32**	-
Total current assets		**20,216**	14,968
Non-current assets			
Plant and equipment	15	**835**	960
Other financial assets	14	**19**	-
Deferred tax asset	17	**3,714**	3,630
Total non-current assets		**4,568**	4,590
Total assets		**24,784**	19,558
Current liabilities			
Trade and other payables	18	**5,506**	5,264
Advance payments from customers		**2,864**	2,528
Current tax liabilities		**610**	312
Provisions	19	**578**	681
Other current liabilities	20	**757**	690
Total current liabilities		**10,315**	9,475
Non-current liabilities			
Other non-current liabilities	22	**3,329**	3,057
Total non-current liabilities		**3,329**	3,057
Total liabilities		**13,644**	12,532
Net assets		**11,140**	7,026
Equity			
Contributed equity	24	**75,718**	76,015
Reserves	25	**(2,925)**	(2,926)
Accumulated losses	25	**(61,653)**	(66,063)
Total equity		**11,140**	7,026

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

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2012

		Attributable to the owners of Adacel Technologies Limited			
	Notes	**Contributed Equity $'000**	**Reserves $'000**	**Retained Earnings $'000**	**Total Equity $'000**
Balance at 1 July 2010		**76,234**	**(931)**	**(63,597)**	**11,706**
Loss for the year		-	-	(2,960)	**(2,960)**
Exchange differences on translation of foreign operations	25	-	(1,507)	-	**(1,507)**
Total comprehensive expense for the year		**-**	**(1,507)**	**(2,960)**	**(4,467)**
Transactions with owners in their capacity as owners:					
Share buyback equity reductions		(218)	-	-	**(218)**
Costs associated with share buyback		(1)	-	-	**(1)**
Employee share options		-	6	-	**6**
Value of options that have lapsed during the current period	25	-	(494)	494	**-**
		(219)	**(488)**	**494**	**(213)**
Balance at 30 June 2011		**76,015**	**(2,926)**	**(66,063)**	**7,026**
Balance at 1 July 2011		**76,015**	**(2,926)**	**(66,063)**	**7,026**
Profit for the year		-	-	4,402	**4,402**
Exchange differences on translation of foreign operations	25	-	9	-	**9**
Total comprehensive income for the year		**-**	**9**	**4,402**	**4,411**
Transactions with owners in their capacity as owners:					
Share buyback equity reductions		(296)	-	-	**(296)**
Costs associated with share buyback		(1)	-	-	**(1)**
Employee share options		-	-	-	**-**
Value of options that have lapsed during the current period	25	-	(8)	8	**-**
		(297)	**(8)**	**8**	**(297)**
Balance at 30 June 2012		**75,718**	**(2,925)**	**(61,653)**	**11,140**

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 2012

	Notes	Consolidated 2012 $'000	Consolidated 2011 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**34,887**	45,902
Other receipts		**1,484**	1,384
Payments to suppliers and employees (inclusive of GST)		**(33,246)**	(39,712)
Payments for research and development expenditure (inclusive of GST)		**(404)**	(1,191)
Payment of security deposits		**(224)**	-
		2,497	6,383
Interest received	5	**19**	15
Income tax paid		**-**	(164)
Tax credits refunded		**159**	-
Finance costs		**(4)**	(109)
Net cash inflow from operating activities	34	**2,671**	6,125
Cash flows from investing activities			
Payments for plant and equipment		**(453)**	(377)
Proceeds from sale of plant and equipment		**124**	2
Net cash outflow from investing activities		**(329)**	(375)
Cash flows from financing activities			
Repayment of borrowing		**(77)**	(75)
Repayment of TPC Loan		**(640)**	-
Shares repurchased through on market buy-back	24	**(296)**	(218)
Share buy-back costs	24	**(1)**	(1)
Net cash outflow from financing activities		**(1,014)**	(294)
Net increase in cash and cash equivalents		**1,328**	5,456
Cash and cash equivalents at the beginning of the financial year	9	**4,451**	(1,236)
Effects of exchange rate changes on cash and cash equivalents		**(34)**	231
Cash and cash equivalents at the end of the financial year	9	**5,745**	4,451

	Notes
Non-cash financing and investing activities	35
Financing arrangements	21

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, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

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 21.

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 2012 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 those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

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 such as Flightline Drivers, ICE and ATCIB 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.

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.

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

In cases where the revenue stream does not fall within any of the situations described above, management will carefully assess what would be the most appropriate way to recognise the revenue based on 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 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 substantially 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 it is probable 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.

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).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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 for the rental of offices. Security deposits are refundable following successful performance of contractual obligations.

(m) Inventories
Work 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.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Plant and equipment
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	20% or lease term
Motor vehicles	25%
Computers and office equipment	25-50%
Furniture and fittings	10-12.5%
Leased plant and equipment	25% or lease term

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.

(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. During the year ended 30 June 2004, the company reassessed the useful life from 15 years to 5 years, and no changes have resulted from subsequent years assessments.

(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 2012 and 30 June 2011, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 31). These finance leases are capitalised at inception at the lower of the fair value of the property and the present value of the minimum payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 30). 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.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 liability for long service leave is recognized 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 on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

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

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

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is 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.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(ae) Parent entity financial information
The financial information for the parent entity, Adacel Technologies Limited, disclosed in note 38, 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 of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(ag) New and amended standards adopted by the group

(i) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)
In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group has applied the amended standard from 1 July 2011, and there has been no impact on any of the amounts recognised in the financial statements.

(ii) AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011).
Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The group has applied the amendment from 1 July 2011. They have not had any significant impact on the group's disclosures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ah) New and amended standards not yet adopted by the group
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i). AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013*).

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. The group will adopt AASB 9 for the accounting period starting on or after 1 January 2013. It is not likely to affect the group's accounting for its financial assets.

- In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

(ii). AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 *Disclosure of Interests in Other Entities, revised* AASB 127 *Separate Financial Statements and* AASB 128 *Investments in Associates and Joint Ventures and* AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. While the group does not expect the new standards to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance.

(iii). AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard may impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

(iv). Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013).

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. Adacel does not have any Defined benefit liabilities/assets and therefore expect no effect from the change. The Group has not yet decided when to adopt the new standard.

There are no other standards that are not yet effective and that are expected to have a material impact

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 and interest rate swaps 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 written principles for overall risk management, as well as policies covering specific 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	
	2012 $'000	2011 $'000
Financial assets		
Cash and cash equivalents	**5,745**	4,451
Trade and other receivables	**5,852**	2,578
Accrued revenue	**5,998**	4,940
Derivative financial instruments	**32**	-
	17,627	11,969
Financial liabilities		
Trade and other payables	**4,511**	4,256
Finance lease liabilities	**-**	73
Other liabilities (TPC grant repayment)	**4,086**	3,654
	8,597	7,983

(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 2012**			30 June 2011		
	USD $'000	**CAD $'000**	**EURO E'000**	USD $'000	CAD $'000	EURO E'000
Cash and cash equivalents	**2,284**	**-**	**-**	1,515	-	-
Trade and other receivables	**1,484**	**-**	**657**	1,154	-	64
Accrued revenues	**831**	**-**	**803**	1,403	-	294
Trade and other payables	**(219)**	**-**	**-**	(19)	-	-

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity
Based on the financial instruments held at 30 June 2012, had the Australian dollar strengthened/weakened by 10% against the other currencies, with all other variables held constant, the Group's post tax profit for the year would have been $555,000 lower/$611,000 higher (2011 - $381,000 lower/$421,000 higher), mainly as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table. 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 impairment values. None of these impaired investments are in publicly traded equity vehicles. The consolidated entity is also not exposed to commodity price risk.

(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 2012		30 June 2011	
	Weighted average interest rate %	**Balance AUD $'000**	Weighted average interest rate %	Balance AUD $'000
Cash at bank	**0.21**	**5,745**	0.33	4,451
Net exposure to cash flow interest rate risk		**5,745**		4,451

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.

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.

For derivative financial instruments, the Group has access to a facility with the major bank, which is reviewed on a regular basis to ensure that it is appropriate to the current requirements. 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 21.

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 2012	**Less than 1 year $'000**	**Between 1 and 2 years $'000**	**Between 2 and 5 years $'000**	**Greater than 5 years $'000**	**Total contractual cash flows $'000**	**Carrying Amount (assets)/liabilities $'000**
Trade and other payables	**4,511**	**-**	**-**	**-**	**4,511**	**4,511**
Other Liabilities	**785**	**667**	**2,310**	**2,353**	**6,115**	**4,086**
Total	**5,296**	**667**	**2,310**	**2,353**	**10,626**	**8,597**

Group – At 30 June 2011	Less than 1 year $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Greater than 5 years $'000	Total contractual cash flows $'000	Carrying Amount (assets)/liabilities $'000
Trade and other payables	4,256	-	-	-	4,256	4,256
Finance lease liabilities	76	-	-	-	76	76
Other Liabilities	626	631	2,048	3,114	6,419	3,654
Total	4,958	631	2,048	3,114	10,751	7,986

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).

The following tables present the consolidated entity's assets and liabilities measured and recognised at fair value at 30 June 2012 and 30 June 2011.

Consolidated Entity – at 30 June 2012	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Derivative financial instruments	-	32	-	-
Total Assets	**-**	**32**	**-**	**-**

Consolidated Entity – at 30 June 2011	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Derivative financial instruments	-	-	-	-
Total Assets	**-**	**-**	**-**	**-**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is 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. Embedded Derivatives relate to revenue contracts that are denominated in foreign currencies. 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.

In addition, the Group has recognised deferred tax assets relating to carried forward tax losses and unused tax credits to the extent that there are sufficient taxable profits relating to the same taxation authority and the same subsidiary against which the unused tax losses and tax credits can be utilised. Utilisation will depend on the ability of the entity to actually generate taxable income and satisfy certain tests at the time the losses or credits are recouped.

Grant repayment liabilities
The Group has received grants that require repayment of these grants 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 consequent 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 reviewed by the Board that are used to make strategic decisions. The consolidated entity is organised into two main 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.

(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 include all assets used by a segment and consist primarily of operating cash, receivables, accrued revenues, inventories, other plant and equipment and intangible assets net of related provisions. Segment liabilities consist primarily of trade and other creditors, advanced payments from customers, employee benefits and other provisions.

(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 54% of total sales 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 2012 financial year amounted to $9.0 million, $6.5 million and $6.3 million respectively. In 2011, there was 57% from 3 customers, individually amounting to $9.7 million, $7.7 million and $4.7 million respectively.

4. SEGMENT INFORMATION (CONTINUED)

(c) Segment Information for the year ended 30 June 2012	Notes	Australia		North America		Corporate Office		Intersegment Eliminations		Total	
		2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Sales to external customers		208	576	38,330	36,671	-	-	-	-	38,538	37,247
Intersegment sales		85	85	-	396	370	326	(455)	(807)	-	-
Total sales revenue	5	293	661	38,330	37,067	370	326	(455)	(807)	38,538	37,247
Other revenue/income	5,6	-	4	1,362	1,313	5	17	-	(8)	1,367	1,326
Total segment revenue/income		293	665	39,692	38,380	375	343	(455)	(815)	39,905	38,573
Segment result		(107)	(184)	4,463	(2,250)	374	338	1,398	566	6,128	(1,530)
Corporate office costs		-	-	-	-	(1,008)	(992)	-	-	(1,008)	(992)
Management fees		(80)	(56)	(290)	(270)	-	-	370	326	-	-
Finance costs		-	-	(498)	(558)	-	(1)	-	-	(498)	(559)
Profit/(loss) before income tax		(187)	(240)	3,675	(3,078)	(634)	(655)	1,768	892	4,622	(3,081)
Income tax (expense)/benefit										(220)	121
Profit/(loss) after income tax										4,402	(2,960)
Segment assets		68	6	37,249	32,210	31,711	31,551	(44,244)	(44,209)	24,784	19,558
Unallocated assets										-	-
Total assets										24,784	19,558
Segment liabilities		21,707	21,458	15,879	18,547	2,138	1,039	(26,080)	(28,512)	13,644	12,532
Unallocated liabilities										-	-
Total liabilities										13,644	12,532
Acquisitions of plant and equipment		10	-	678	372	1	5	-	-	689	377
Depreciation and amortization expense	7	10	-	1,326	1,468	1	5	(875)	(892)	462	581
Impairment of trade receivables		-	-	209	98	-	-	-	-	209	98
Other non-cash expenses		-	-	(33)	-	-	-	-	-	(33)	-

5. REVENUE FROM CONTINUING OPERATIONS

	Consolidated	
	2012	2011
	$'000	$'000
Sales revenue		
Sale of services and systems	**38,538**	37,247
	38,538	37,247
Other revenue		
Interest	**19**	15
	19	15
	38,557	37,262

6. OTHER INCOME

	Consolidated	
	2012	2011
	$'000	$'000
Grant income (a)	**-**	4
Quebec Rent and R&D Credits	**1,348**	1,286
Other	**-**	21
	1,348	1,311

(a) Government grants

Government grants recognised as other income by the Group during the financial year comprise $Nil (2011 : $4,000). There are no unfulfilled conditions or other contingencies attaching to these grants. The Group received $703,000 (2011 : $636,000) from the Quebec government as Rent Credits and $645,000 (2011 : $650,000) as R&D Credits. The Group did not benefit directly from any other forms of government assistance.

7. EXPENSES

	Consolidated	
	2012	2011
	$'000	$'000
Profit/(loss) before income tax includes the following specific expenses:		
Depreciation/amortisation of property, plant & equipment		
Leasehold improvements	**88**	110
Furniture, fittings and equipment	**371**	468
Motor vehicles	**3**	3
Total depreciation	**462**	581
Interest and finance charges paid/payable	**498**	559
Rental expense relating to operating leases	**1,390**	1,388
Net foreign exchange (gain)/losses	**(190)**	1,359
Defined contribution superannuation expense	**761**	788
Research and development (inclusive of labour)	**404**	1,191
Bad and doubtful debts – trade debtors	**203**	98

8. INCOME TAX

	Consolidated	
	2012 $'000	2011 $'000
(a) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense	**4,622**	(3,081)
Income tax calculated at applicable tax rates	**1,401**	(1,140)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Canadian Federal and Provincial income tax credits	**(709)**	(945)
Other items (net)	**(201)**	(149)
Current year temporary differences not brought to account	**231**	509
Current year tax losses and tax credits not brought to account	**-**	1,375
Utilisation of previously unbooked tax losses and tax credits	**(407)**	-
Impact of changes in tax rates on deferred tax	**(23)**	-
Income tax underprovided in prior years	**-**	149
Other items (benefit)/expense	**(72)**	80
Income tax expense/(benefit)	**220**	(121)
(b) Income tax (expense)/benefit		
Current tax	(220)	270
(Under)/over provided in prior years	-	(149)
	(220)	121

Income tax (expense)/benefit 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	**60,693**	60,232
Potential tax benefit at applicable tax rates*	**18,208**	18,672
(d) Estimated Unrecognised temporary differences		
Temporary differences for which no deferred tax asset/(liability) has been recognised	**(480)**	(1,209)
Potential tax benefit at applicable tax rates*	**(144)**	(375)

* Tax rates applicable are
Australia: 30%
Canada: 28%
USA : 37%

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

9. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated 2012 $'000	2011 $'000
Current		
Cash at bank and in hand	**5,745**	4,451
	5,745	4,451

(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:

	2012	2011
Balances as above	**5,745**	4,451
Balances per statement of cash flows	**5,745**	4,451

(b) Cash at bank and in hand
Cash at bank is interest bearing at rates of 0.0% to 3.86% (2011 : 0.0% to 3.68%). Cash at bank is 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 2012 $'000	2011 $'000
Trade receivables	**5,770**	2,580
Provision for impairment of receivables	**(195)**	(46)
	5,575	2,534
Sundry debtors	**1,429**	1,542
Security deposits	**277**	44
Prepayments	**342**	219
	7,623	4,339
Accrued revenue	**6,302**	5,169
Provision for impairment of accrued revenue	**(304)**	(229)
	5,998	4,940

(a) Impaired trade receivables & accrued revenue

As at 30 June 2012, current trade receivables with a nominal value of $195,000 (2011 : $165,000) were impaired. The amount of the provision was $195,000 (2011 : $46,000). As at 30 June 2012, accrued revenue with a nominal value of $304,000 (2011 : $303,000) was impaired. The amount of the provision was $304,000 (2011 : $229,000). The individually impaired amounts mainly 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 2012 $'000	2011 $'000
1 to 3 months	**-**	-
3 to 6 months	**-**	-
Over 6 months	**499**	468
	499	468

Movements in the provision for impairment of receivables are as follows

	Consolidated 2012 $'000	2011 $'000
As at 1 July 2011	**(275)**	(232)
Provision for impairment recognised during the year	**(242)**	(92)
Provision for impairment reversed during the year	**34**	-
Foreign exchange impact	**(17)**	49
As at 30 June 2012	**(500)**	(275)

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

(b) Past due but not impaired

As of 30 June 2012, trade receivables of $1,107,000 (2011 : $790,000) 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	
	2012	2011
	$'000	$'000
Up to 3 months	**837**	130
3 to 6 months	**66**	620
Over 6 months	**204**	40
	1,107	790

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.

(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	
	2012	2011
	$'000	$'000
Current		
Work-in-progress on contracts – at cost	**802**	1,127

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 nature of these compensating businesses and the interaction in 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. OTHER CURRENT ASSETS

	Consolidated 2012 $'000	2011 $'000
Net foreign exchange asset on embedded derivatives (a)	**(8)**	-
Forward exchange contracts (Refer note 12(a))	**40**	-
	32	-

(a) Embedded derivatives
The entity will occasionally enter into contracts with customers where the payment currency is not the functional currency of either company. This gives rise to a foreign exchange gain or loss at balance date on the outstanding portion of the contract still to be billed and delivered.

14. NON-CURRENT ASSETS –OTHER FINANCIAL ASSETS

	Consolidated 2012 $'000	2011 $'000
Security Deposit – Orlando Offices	**19**	-

15. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

	Furniture, fittings & equipment $'000	Motor vehicles $'000	Leasehold improvements $'000	Total $'000
At 1 July 2010				
Cost	5,098	119	561	5,778
Accumulated depreciation/amortisation	(3,942)	(107)	(324)	(4,373)
Net book amount	1,156	12	237	1,405
Year ended 30 June 2011				
Opening net book value	1,156	12	237	1,405
Additions	351	-	43	394
Disposals	(5)	-	-	(5)
Depreciation/amortisation expense	(468)	(3)	(110)	(581)
Exchange differences	(209)	(2)	(42)	(253)
Closing net book amount	825	7	128	960
At 30 June 2011				
Cost	4,390	96	494	4,980
Accumulated depreciation/amortisation	(3,565)	(89)	(366)	(4,020)
Net book amount	825	7	128	960
Year ended 30 June 2012				
Opening net book value	825	7	128	960
Additions	354	-	90	444
Disposals	(111)	-	(45)	(156)
Depreciation/amortisation expense	(371)	(3)	(88)	(462)
Exchange differences	44	-	5	49
Closing net book amount	741	4	90	835
At 30 June 2012				
Cost	4,796	13	229	5,038
Accumulated depreciation/amortisation	(4,055)	(9)	(139)	(4,203)
Net book amount	741	4	90	835

16. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Core intellectual property $'000	Purchased intellectual property $'000	Total intellectual property $'000	Goodwill $'000	Total $'000
At 1 July 2010					
Cost	15,524	869	16,393	2,527	18,920
Accumulated amortisation	(15,524)	(869)	(16,393)	(2,527)	(18,920)
Net book amount	-	-	-	-	-
Year ended 30 June 2011					
Opening net book value	-	-	-	-	-
Amortisation expense **	-	-	-	-	-
Exchange differences	-	-	-	-	-
Closing net book amount	-	-	-	-	-
At 30 June 2011					
Cost	15,524	869	16,393	2,527	18,920
Accumulated amortisation	(15,524)	(869)	(16,393)	(2,527)	(18,920)
Net book amount	-	-	-	-	-
Year ended 30 June 2012					
Opening net book value	-	-	-	-	-
Amortisation expense **	-	-	-	-	-
Exchange differences	-	-	-	-	-
Closing net book amount	-	-	-	-	-
At 30 June 2012					
Cost	15,524	869	16,393	2,527	18,920
Accumulated amortisation	(15,524)	(869)	(16,393)	(2,527)	(18,920)
Net book amount	-	-	-	-	-

17. NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	Consolidated	
	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Tax losses and unused tax credits	**3,714**	3,630
Total deferred tax assets	**3,714**	3,630
Deferred tax assets to be recovered within 12 months	**895**	1,185
Deferred tax assets to be recovered after more than 12 months	**2,819**	2,445
Total deferred tax assets	**3,714**	3,630
Movement reconciliation		
Opening balance	**3,630**	4,242
Credited/(charged) to foreign currency translation reserve	**84**	(612)
Closing balance	**3,714**	3,630

18. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2012	2011
	$'000	$'000
Trade payables	**4,511**	4,256
Annual leave payable (a)	**995**	1,008
	5,506	5,264

(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	
	2012	2011
	$'000	$'000
Annual leave obligation expected to be settled after 12 months	**213**	204

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

19. CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2012	2011
	$'000	$'000
Current		
Employee benefits – Long service leave (c)	**156**	145
Service and contract performance warranties (a),(b)	**422**	536
	578	681

(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 $'000
Carrying amount at the beginning of the year	536
Charged/(credited) to the profit and loss	
-additional provisions recognised	49
-unused amounts reversed	-
Amounts used during the period	(181)
Foreign exchange impact	18
Carrying amount at the end of the year	422

(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	
	2012	2011
	$'000	$'000
Long service leave obligation expected to be settled after 12 months	**141**	145

20. OTHER CURRENT LIABILITIES

	Consolidated 2012 $'000	Consolidated 2011 $'000
Risk exposures		
TPC grants repayments (note 22)	**757**	617
Finance lease liability (note 30)	**-**	73
	757	690

21. FINANCING ARRANGEMENTS

	Consolidated 2012 $'000	Consolidated 2011 $'000
Bank facilities available		
Overdraft	**4,783**	4,674
Guarantees	**4,783**	4,674
Forward exchange contracts	**717**	701
Credit card	**96**	103
	10,379	10,152
Bank facilities used at balance date		
Overdraft	**-**	-
Guarantees	**1,795**	2,497
Forward exchange contracts	**717**	701
Credit card	**-**	-
	2,512	3,198
Bank facilities unused at balance date		
Overdraft	**4,783**	4,674
Guarantees	**2,988**	2,177
Forward exchange contracts	**-**	-
Credit card	**96**	103
	7,867	6,954

The Royal Bank of Canada (RBC) has provided the company an Overdraft and Guarantee facility for up to $10 million Canadian Dollars (AUD $9.7 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 (AUD $95,657). The Forward Exchange Contract facility is currently $750,000 Canadian Dollars (AUD $717,429) 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 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.

22. NON-CURRENT LIABILITIES - OTHER

	Consolidated 2012 $'000	Consolidated 2011 $'000
TPC grants repayments (a)	**3,329**	**3,037**
Deferred lease inducement (b)	**-**	**20**
	3,329	**3,057**

(a) TPC Grants Repayments
Adacel received Grants from the Canadian Government during the period 2004 to 2008. The terms of the agreement 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 using a discounted cash flow analysis.

(b) Deferred lease inducement
The lease for the premises in Canada came due for renewal during 2007. An inducement for the company to sign a new 5-year lease was agreed to by the lessor. This inducement was progressively brought to account as a reduction in the rental expense payable over the period of the lease which has now been completed.

23. 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.

24. CONTRIBUTED EQUITY

	Consolidated 2012 $'000	Consolidated 2011 $'000
(a) Share capital		
Ordinary shares	**75,718**	76,015

(b) Movements in ordinary share capital

Date	Details	Number of Shares	$'000
1 July 2010	Balance	82,275,220	76,234
22 Nov 10 – 30 Jun 11	Share buy-back	(633,828)	(218)
22 Nov 10 – 30 Jun 11	Share buy-back costs	-	(1)
30 June 2011	Balance	81,641,392	76,015
08 Sept 11 – 30 Jun 12	Share buy-back	(1,056,013)	(296)
08 Sept 11 – 30 Jun 12	Share buy-back costs	-	(1)
30 June 2012	Balance	80,585,379	75,718

(c) Share options
At the end of the year there were 17,000 unissued ordinary shares under the Staff Share Option Plan.

24. CONTRIBUTED EQUITY (CONTINUED)

(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 37.

(f) Share buy-back

On 29 July 2011, the parent entity announced that it would conduct an on-market share buy-back for a maximum of 8,164,139 shares, being 10 per cent of the lowest number of ordinary shares on issue during the previous 12 months. Accordingly, the buy-back did not require shareholder approval.

The buy-back accorded with the Group's and the parent entity's long-term capital management program. The objectives of the on-market share buy-back were to increase earnings per share and returns on shareholder equity. The buy-back program was also intended to result in the return of excess capital to shareholders in an efficient manner.

The share buy-back ceased on 30 June 2012. At the cessation of the buy-back, the parent entity had purchased and cancelled 1,056,013 shares at an average price of 28.1c per share, with the highest price paid 38.0c and the lowest price 21.0c. The total cost of the share buy-back was $297,341.

(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.

25. RESERVES AND RETAINED PROFITS / ACCUMULATED LOSSES

	Notes	Consolidated 2012 $'000	Consolidated 2011 $'000
(a) Accumulated losses			
Accumulated losses		**(61,653)**	(66,063)
Movements in accumulated losses were as follows:			
Balance at the beginning of the year		**(66,063)**	(63,597)
Net profit/(loss) for the year		**4,402**	(2,960)
Transfers from SBP Reserve for lapsed options		**8**	494
Balance at the end of the year		**(61,653)**	(66,063)

25. RESERVES AND RETAINED PROFITS / ACCUMULATED LOSSES (CONTINUED)

(b) Reserves

Foreign currency translation reserve (1)		**(2,929)**	(2,938)
Share-based payments reserve (2)		**4**	12
		(2,925)	(2,926)

(1) Foreign currency translation reserve

(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		**(2,938)**	(1,431)
Currency translation differences arising during the year		**9**	(1,507)
Balance at the end of the year		**(2,929)**	(2,938)

(2) Share-based payments reserve

(i) Nature and purpose of reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

(ii) Movements in reserve

Balance at the beginning of the year		**12**	500
Option expense	35	**-**	6
Transfer to retained earnings for lapsed options		**(8)**	(494)
Balance at the end of the year		**4**	12

26. DIVIDENDS

(a) Ordinary shares

No dividends were provided for, or paid during the current or prior financial years.

(b) 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.

27. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	Consolidated 2012 $	2011 $
Short-term employee benefits	**1,426,460**	1,806,650
Post-employment benefits	**49,626**	79,993
Share-based payments	**-**	5,925
Termination benefits	**198,612**	196,653
	1,674,698	2,089,221

The detailed remuneration disclosures can be found in sections A – C of the remuneration report on pages 5 to 8.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options.

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on page 9.

(ii) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Adacel Technologies Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2012 Name	Balance at the start of the year	Granted during the year as remune-ration	Became a specified executive during the year	Exercised during the year	Lapsed during the year	Ceased to be a specified executive during the year	Balance at the end of the year	Vested at the reporting date	Vested and exercisable at the reporting date	Vested and unexer-cisable at the reporting date
Directors of Adacel Technologies limited										
Julian Beale	-	-	-	-	-	-	-	-	-	-
Kevin Courtney	-	-	-	-	-	-	-	-	-	-
Silvio Salom	-	-	-	-	-	-	-	-	-	-
David Smith	-	-	-	-	-	-	-	-	-	-
Peter Landos	-	-	-	-	-	-	-	-	-	-
Other key management personnel of the group										
Sophie Karzis	-	-	-	-	-	-	-	-	-	-
Seth Brown	-	-	-	-	-	-	-	-	-	-
Gary Pearson	-	-	-	-	-	-	-	-	-	-
Jeff Tyrcha	-	-	-	-	-	-	-	-	-	-

2011 Name	Balance at the start of the year	Granted during the year as remune-ration	Became a specified executive during the year	Exercised during the year	Lapsed during the year	Ceased to be a specified executive during the year	Balance at the end of the year	Vested at the reporting date	Vested and exercisable at the reporting date	Vested and unexer-cisable at the reporting date
Directors of Adacel Technologies limited										
Julian Beale	-	-	-	-	-	-	-	-	-	-
Kevin Courtney	-	-	-	-	-	-	-	-	-	-
Silvio Salom	-	-	-	-	-	-	-	-	-	-
David Smith	-	-	-	-	-	-	-	-	-	-
Peter Landos	-	-	-	-	-	-	-	-	-	-
Other key management personnel of the group										
Sophie Karzis	-	-	-	-	-	-	-	-	-	-
Fred Sheldon	1,750,000	-	-	-	1,750,000	-	-	-	-	-
Seth Brown	500,000	-	-	-	500,000	-	-	-	-	-
Marsha Bell	500,000	-	-	-	-	500,000	-	-	-	-
Gary Pearson	200,000	-	-	-	200,000	-	-	-	-	-
Mark Creasap	200,000	-	-	-	-	200,000	-	-	-	-
Cyrille Jodas	-	-	-	-	-	-	-	-	-	-
William Lang	200,000	-	-	-	200,000	-	-	-	-	-
Kyle Crooks	-	-	-	-	-	-	-	-	-	-

27. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(iii) 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 Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2012 Name	Balance at the start of the year	Granted during the year as remune-ration	Received during the year on the exercise of options	Acquisitions during the year	Disposals during the year	Ceased to be an employee 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	-	-	-	-	-	14,496,659
David Smith	9,560,558	-	-	-	-	-	9,560,558
Peter Landos	-	-	-	-	-	-	-
Other key management personnel of the group							
Sophie Karzis	-	-	-	-	-	-	-
Seth Brown	-	-	-	-	-	-	-
Gary Pearson	-	-	-	-	-	-	-
Jeff Tyrcha	-	-	-	-	-	-	-

2011 Name	Balance at the start of the year	Granted during the year as remune-ration	Received during the year on the exercise of options	Acquisitions during the year	Disposals during the year	Ceased to be an employee 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	-	-	-	-	-	14,496,659
David Smith	9,560,558	-	-	-	-	-	9,560,558
Peter Landos	-	-	-	-	-	-	-
Other key management personnel of the group							
Sophie Karzis	-	-	-	-	-	-	-
Fred Sheldon	275,000	-	-	-	-	275,000	-
Seth Brown	-	-	-	-	-	-	-
Marsha Bell	-	-	-	-	-	-	-
Gary Pearson	-	-	-	-	-	-	-
Mark Creasap	85,000	-	-	-	-	85,000	-
Cyrille Jodas	-	-	-	-	-	-	-
William Lang	-	-	-	-	-	-	-
Kyle Crooks	-	-	-	-	-	-	-

c) Loans to 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 key management personnel of the Group. No such loans were made during the previous year.

(d) Other transactions with directors and executives
During the financial year, no 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 2012, there are no payable or receivable balances outstanding relating to other transactions.

28. REMUNERATION OF AUDITORS

	Consolidated 2012 $	2011 $
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	**105,180**	141,719
Related practices of PricewaterhouseCoopers Australian firm	**190,105**	214,271
Total remuneration for audit services	**295,285**	355,990
(b) Other assurance services		
Assurance, consulting, and due diligence services		
PricewaterhouseCoopers Australian firm	**-**	5,000
Related practices of PricewaterhouseCoopers Australian firm	**14,438**	14,715
Total remuneration for other assurance services	**14,438**	19,715
Total remuneration for assurance services	**309,723**	375,705
Taxation services		
Tax compliance services, including review of company income tax returns and international tax consulting.		
PricewaterhouseCoopers Australian firm	**34,000**	(4,350)
Related practices of PricewaterhouseCoopers Australian firm	**39,946**	47,626
Total remuneration for taxation services	**73,946**	43,276

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.

29. CONTINGENCIES

As at 30 June 2012, the parent entity, Adacel Technologies Limited, will continue to provide financial support to subsidiaries that are in a net liability position.

Guarantees of $1,794,856 (2011 : $2,497,494) 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.

30. COMMITMENTS

	Consolidated 2012 $'000	2011 $'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	**1,059**	1,266
Later than one year and not later than 5 years	**1,644**	1,069
Later than 5 years	**1,496**	-
Commitments not recognised in the financial statements	**4,199**	2,335

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

	2012	2011
(b) Finance leases expenditure commitments		
Commitments in relation to finance leases are payable as follows:		
Within one year	**-**	76
Later than one year and not later than 5 years	**-**	-
Later than 5 years	**-**	-
Minimum lease payments	**-**	76
Less future finance charges	**-**	(3)
	-	73
Representing lease liabilities:		
Current (note 21)	**-**	73
Non-current (note 23)	**-**	-
	-	73

The group purchased new IT Infrastructure equipment during 2009 and financed it through a finance lease with RBC. There were no new finance leases entered into during 2012.

(c) Remuneration commitments

Commitments arising from service contracts of key management personnel are detailed in section C of the remuneration report.

31. RELATED PARTY TRANSACTIONS

(a) Parent entity

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

(b) Subsidiaries

Interests in subsidiaries are disclosed in note 32.

(c) Key management personnel

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

(d) 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.

32. SUBSIDIARIES

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

Name of entity	Country of incorporation	Class of shares	Equity holding * 2012 % held	Equity holding * 2011 % 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

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

33. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There were no significant events subsequent to balance date.

34. RECONCILIATION OF PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated 2012 $'000	Consolidated 2011 $'000
Operating profit/(loss) from ordinary activities after income tax	**4,402**	(2,960)
Depreciation and amortisation	**462**	581
Net loss on sale of plant and equipment	**33**	-
Bad debts written off	**-**	-
Employee share options expense	**-**	6
Net exchange differences	**(190)**	1,359
Changes in assets and liabilities:		
(Increase)/decrease in trade receivables and accrued revenue	**(3,778)**	7,509
(increase)/decrease in other receivables and other assets	**(88)**	72
Decrease/(increase) in inventory	**372**	(146)
(Increase)/decrease in prepayments	**(102)**	251
Decrease/(increase) in deferred tax assets and liabilities and tax payable	**379**	(285)
Increase/(decrease) in trade and other creditors	**997**	(1,530)
Increase/(decrease) in employee benefits provisions	**11**	(13)
(Decrease)/increase in other provisions	**(125)**	194
Increase in advanced payments from customers	**317**	1,087
(Increase) in other non-current assets	**(19)**	-
Net cash inflow from operating activities	**2,671**	6,125

35. NON-CASH INVESTING AND FINANCING ACTIVITIES

There were no non-cash investing and financing activities during the years ended 30 June 2012 and 2011.

36. EARNINGS PER SHARE

	Consolidated 2012	2011
Basic earnings per share (cents per share)	**5.4**	(3.6)
Diluted earnings per share (cents per share)	**5.4**	(3.6)

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

	Consolidated 2012 $'000	2011 $'000
Basic earnings per share		
Profit / (loss) from continuing operations	**4,402**	(2,960)
Profit / (loss) attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**4,402**	(2,960)
Diluted earnings per share		
Profit / (loss) from continuing operations	**4,402**	(2,960)
Profit / (loss) attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**4,402**	(2,960)

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

	Consolidated 2012	2011
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**81,120,268**	82,014,860
Adjustments for calculation of diluted earnings per share		
Options	**-**	280
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**81,120,268**	82,015,140

(c) Information concerning the classification of securities

Staff Share Option Plan
Staff Share Option Plan options are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share for the year ended 30 June 2012 and 2011. Details of the options are set out in note 37.

(d) Conversions, calls, subscription or issues after 30 June 2012

Holders of option certificates have not exercised any options to acquire ordinary shares since 30 June 2012. Since the end of the year, Nil options have been issued and 2,000 options have lapsed.

37. 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 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.

Staff Share Option Plan options may be issued with conditions precedent to the options vesting. The conditions precedent for the options on issue are 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 absolute discretion, determine otherwise.

During the year ended 30 June 2012, Nil options were exercised, Nil options were issued and 27,000 options lapsed.

The directors have indefinitely suspended the issuing of further options.

Set out below is a reconciliation of options on issue under the plan:

Plan	Exercise Price $	No of Options on Issue at 30 June 2011	Issued	Exercised	Lapsed	No of Options on Issue at 30 June 2012	Issue Date	Expiry Date
Staff Share Option Plan	$0.47	3,000	-	-	3,000	-	7 July 2006	7 July 2011
Staff Share Option Plan	$0.53	2,000	-	-	2,000	-	6 October 2006	6 October 2011
Staff Share Option Plan	$0.68	4,000	-	-	4,000	-	5 January 2007	5 January 2012
Staff Share Option Plan	$0.63	15,000	-	-	15,000	-	10 April 2007	10 April 2012
Staff Share Option Plan	$0.80	2,000	-	-	-	2,000	6 July 2007	6 July 2012
Staff Share Option Plan	$0.68	5,000	-	-	-	5,000	4 January 2008	4 January 2013
Staff Share Option Plan	$0.44	13,000	-	-	3,000	10,000	4 April 2008	4 April 2013
		44,000	-	-	27,000	17,000		
Weighted average price		$0.58	$0.00	$0.00	$0.59	$0.55		

37. SHARE-BASED PAYMENTS (CONTINUED)

Weighted average exercise price

There were no options exercised during the year ended 30 June 2012.

The weighted average remaining contractual life of share options outstanding at the end of the period was 0.60 years (2011 : 1.07 years).

Total numbers of options that have met the conditions precedent as described above, and as a result have vested as at 30 June 2012 is 10,000 (2011 : 17,000).

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.

There were no options granted during the year ended 30 June 2012, nor the year ended 30 June 2011.

(b) Expenses arising from share-based payment transactions

	Consolidated	
	2012	2011
Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:	**$'000**	$'000
Options issued under the Staff Share Option Plan	**-**	6

38. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	2012 $'000	2011 $'000
Balance Sheet		
Current Assets	**192**	164
Total Assets	**8,424**	10,384
Current Liabilities	**490**	320
Total Liabilities	**490**	320
Shareholder's Equity		
Issued Capital	**75,718**	76,015
Share Based Payments Reserve	**4**	12
Retained Earnings	**(67,788)**	(65,963)
	7,934	10,064
Loss for the year	**(821)**	(895)
Total comprehensive expense	**(821)**	(895)

(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 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 2012 or 30 June 2011. 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 contractual commitments for the acquisition of property, plant or equipment as at 30 June 2012 or 30 June 2011.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 14 to 54 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 2012 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 5 to 10 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.

Julian Beale	David Smith
Chairman	Director

Melbourne, 21st September 2012

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 2012, and 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 Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the 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. These Auditing 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 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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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 8613 1555, www.pwc.com.au

Independence

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

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 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(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 5 to 10 of the directors' report for the year ended 30 June 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Barlow

Andrew Barlow
Partner

Melbourne
21 September 2012

SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Ltd. and not shown elsewhere in this report is as follows. The information is complete up to 31 August 2012.

(a) Equity security holders

(i) Top 20 largest holders of quoted ordinary shares

	Fully Paid Ordinary Shares	
	Top 20 Shareholders	
Name	**No. of shares held**	**% held**
Thorney Holdings Pty Ltd	30,423,967	37.75
Mr Silvio Salom	13,453,178	16.69
Mr David Wallace Smith	6,774,883	8.41
D & E Smith Superannuation Nominees Pty Ltd	2,785,675	3.46
UBS Nominees Pty Ltd	2,296,224	2.85
M F Custodians Ltd	1,337,800	1.66
Bissapp Software Pty Ltd (Super Fund Account)	1,286,305	1.60
Obena Ridge Pty Limited	1,285,050	1.59
Valwren Pty Limited (WFIT A/c)	1,002,000	1.24
Mr James Douglas Carnegie (James Carnegie Family A/c)	880,000	1.09
Coalwell Pty Ltd	796,182	0.99
Berne No 132 Nominees Pty Ltd (582479 A/c)	683,000	0.85
Mr Brian Hennessey	545,764	0.68
Jawess Pty Ltd (Kent Family Super Fund A/c)	500,000	0.62
Aznanob Pty Ltd	473,709	0.59
Bell Organization (Vic) Pty Ltd	385,190	0.48
Citicorp Nominees Pty Limited	371,965	0.46
Mr Ian Edwin Harriss	301,120	0.37
Mr Anthony Mark Van Der Steeg	291,926	0.36
Mr Malcolm James Butler + Mrs Josephine Margaret Butler	250,000	0.31
	66,123,938	82.05

	Substantial Shareholdings
	No. of shares held
Thorney Holdings Pty Ltd	32,720,191
Mr Silvio Salom	14,496,659
Mr David Wallace Smith	9,560,558

SHAREHOLDER INFORMATION

(ii) Unquoted options over ordinary shares

Plan	Number	Expiry Date	Exercise Price	Number Of Holders
Staff Share Option Plan	5,000	4 January 2013	$0.68	2
Staff Share Option Plan	10,000	4 April 2013	$0.44	5
	15,000			

(b) Distribution of equity securities
Analysis of numbers of equity security holders by size of holding:

	Class of Equity Security	
	Ordinary Shares	Share Options
100,001 and over	46	0
10,001 to 100,000	240	0
5,001 to 10,000	192	0
1,001 to 5,000	473	4
1 to 1,000	223	3
	1,174	7

There were 301 holders of less than marketable parcels of ordinary shares.

(c) Voting rights
(i) All ordinary shares (whether fully paid or not) carry one vote per share without restriction.
(ii) All options have no voting rights.

CORPORATE GOVERNANCE

This statement sets out the corporate governance practices that were in operation throughout the 2012 financial year for Adacel Technologies Limited (the **Company**) and its controlled entities (the **Group**) and includes a summary of how the Group complies with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments, 2nd Edition.

The various charters and policies are all available on the Company's web site: www.adacel.com.

Principle 1: Lay solid foundation for management oversight

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

Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

Complying

The Board has adopted a charter which establishes the role of the Board and its relationship with management. The primary role of the Board is the protection and enhancement of long term shareholder value. Its responsibilities include the overall strategic direction of the Group, establishing goals for management and monitoring the achievement of these goals. The functions and responsibilities of the Board and management are consistent with ASX Principle 1.

Each Director is given a letter upon his or her appointment which outlines the Director's duties. The Group has in place systems designed to fairly review and actively encourage enhanced Board and management effectiveness. The Nomination Committee takes responsibility for evaluating the Board's performance and the Remuneration Committee evaluates the Group's Key Executives annually.

Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.

Complying

The Company's Remuneration Committee together with the Company's Chief Executive Officer, evaluate the performance of the Group's Key Executives annually. The Remuneration Committee also reviews the Chief Executive Officer's performance annually. A performance evaluation for the Group's Key Executives and the Chief Executive Officer has taken place in the reporting period in accordance with this process.

Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.

Complying

A copy of the Company's Board Charter is available on the Company's website, www.adacel.com.au in a clearly marked corporate governance section. A performance evaluation for the Group's Key Executives and the Chief Executive Officer has taken place in the reporting period in accordance with process stated in this Statement under recommendation 1.2.

Principle 2: Structure the Board to add value

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

Recommendation 2.1: A majority of the board members should be independent.

Non-Complying

It is noted that the Company does not satisfy the ASX Recommendations on Board independence as the majority of Directors are not independent. The Board comprises five non-executive directors, two of whom are independent. The Directors considered by the Board to constitute independent directors are the Chairman, Mr Julian Beale and the Chairman of the Audit Committee, Mr Kevin Courtney. The test to determine independence which is used by the Company is whether a Director is independent of management and any business or other relationship with the Group that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement. The Board believes that the interests of the shareholders are best served by directors who are not influenced by any factor other than the Company's best interests. In spite of the fact that a majority of the Board is not classified as independent, the Board believes that every director acts in good faith and in the best interests of all shareholders at all times. Enforcement of conflict of interest protocols whereby directors who have a material personal interest in a matter are not permitted to be present during discussions or to vote on that matter further ensure this. Additionally, those directors who are not classified as independent bring to the Board particular knowledge and expertise on the business which is considered valuable and constructive by the other directors.

Recommendation 2.2: The chairman should be an independent Director.

Complying

The Chairman, Mr Julian Beale has been Chairman of the Company since 2003 and was, at the date of his appointment and continues to be, independent. The Chairman leads the Board and is responsible for the efficient organisation and conduct of the Board's functions. The roles of the chairman and the chief executive officer should not be exercised by the same individual.

Recommendation 2.3: The roles of the chairman and the chief executive officer should not be exercised by the same individual.

Complying

The positions of Chairman and Chief Executive Officer are held by separate persons.

Recommendation 2.4: The board should establish a nomination committee.

Complying

The Board has a formal Nomination Committee comprising of all of the Directors. The Nomination Committee's functions and powers are formalised in a Charter.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The Directors undertakes an annual process to review the performance and effectiveness of the Board, the Board Committees and individual directors. The Company Secretary oversees this process. As part of the review, each Director completes a questionnaire relating to the Board's role, composition, procedures, practices and behavior. The questionnaires are confidential. The Chairman leads a discussion of the questionnaire results with the Board as a whole, and provides feedback to individual Directors as necessary.

Recommendation 2.6: Provide the information indicated in the Guide to reporting on Principle 2.

Complying

The following information is set out in the Company's annual report:

- the skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report;
- the directors considered by the Board to constitute independent directors and the Company's materiality threshold;
- the existence of any of the relationships listed in Box 2.1 and an explanation of why the board considers a director to be independent notwithstanding the existence of these relationships;
- a statement regarding directors' ability to take independent professional advice at the expense of the Company;
- a statement as to the mix of skills and diversity for which the board of directors is looking to achieve in membership of the Board;
- The term of office held by each director in office at the date of the report.
- The names of members of the Company's committees and their attendance at committee meetings.
- whether a performance evaluation for the board, its committees and directors has taken place in the reporting period and whether it was in accordance with the process disclosed;
- an explanation of any departures from Recommendations 2.1, 2.2, 2.3, 2.4, 2.5 or 2.6.

The following material is made publicly available, on the Company's website in a clearly marked corporate governance section:

- a description of the procedure for the selection and appointment of new directors and the re-election of incumbent directors;
- the charter of the Nomination Committee;
- the Board's policy for the nomination and appointment of directors.

Principle 3: Promote ethical and responsible decision making

Companies should actively promote ethical and responsible decision-making.

Recommendation 3.1: Establish a code of conduct and disclose the code as to:

- The practices necessary to maintain confidence in the Company's integrity.
- The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.
- The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Complying

The Company has formulated a Code of Conduct which can be viewed on its website.

The Code of Conduct has the commitment of the directors and senior management to ensure practices are operating that are necessary to maintain confidence in the Company's integrity, and responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company has adopted a Share Trading Policy which can be viewed on its website.

The Company has a policy concerning the trading in the Company's securities by Directors, Senior Managers and employees. In summary, Directors, Senior Managers and employees must not deal in the Company's securities when they are in possession of insider information. Directors and Senior Managers must not trade during the "trading blackout" beginning at the end of the half year and full year reporting periods until the release to the ASX of the Financial Results for the relevant period.

Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.

Complying

The Company has adopted a Gender Diversity Policy which can be viewed on its website.

The Gender Diversity Policy has the commitment of the Directors and senior management to promote the specific objective of gender diversity and seeks to ensure, to the extent that is practicable and appropriate, that the Company's director appointment and employee recruitment processes are undertaken with reference to the objectives of the Gender Diversity Policy. The policy also includes requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.

Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

Non-Complying

The Company is committed to the principles of employing people with a broad range of experiences, skills and views. All executives, managers and employees are responsible for promoting workforce diversity. The Company's Nomination Committee is charged with the responsibility of undertaking an annual review to:

- assess its policies and procedures in reference to its diversity objectives;
- determine whether its diversity policies and procedures are and are likely to continue to be appropriate;
- ensure that the Company, and its policies and procedures, comply with all applicable legal requirements in respect of diversity and that such policies and procedures remain relevant and effective.

The Nomination Committee is then required to report on the findings of such an annual review, and make relevant recommendations in relation to changes proposed. The Company's Nomination Committee will perform its annual review on gender diversity in October 2012 and the Company will communicate these objectives as well as its progress in realising these objectives in the Annual Report for year ending 30 June 2013.

Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

Complying

The Company employs a total of 197 employees; of these, 27 are female, and of these 0 hold senior management roles. There are currently no female directors on the Company's Board.

Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.

Complying

The Company's Code of Conduct, Share Trading Policy and Gender Diversity Policy can be viewed on its website, www.adacel.com.au, in a clearly marked corporate governance section.

Principle 4: Safeguarding integrity in financial reporting

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

Recommendation 4.1: The board should establish an audit committee.

Complying

The Company has an Audit Committee that reports to the Board. The role of the Audit Committee is to advise on the establishment and maintenance of a framework of internal controls and appropriate ethical standards for the management of the Group and to advise on financial information prepared for use by the Board or for inclusion in financial statements. The Directors are committed to the preparation of financial statements that present a balanced and clear assessment of the Group's financial position and prospects. The Board reviews the Group's half yearly and annual financial statements. The Board requires that the Chief Executive Officer and the Chief Financial Officer state in writing to the Board that the Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with relevant accounting standards.

Recommendation 4.2: The audit committee should be structured so that it:

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

Complying

The Company's Audit Committee comprises three non-executive Directors, and a majority of independent Directors and a chairman who is not chairman of the Board. The members of the Audit Committee during the year and attendance at meetings of the Committee are disclosed in the Directors' Report in the Annual Report.

Recommendation 4.3: The audit committee should have a formal charter.

Complying

The Audit Committee has a formal charter that is posted on the Company's website.

Recommendation 4.4: Companies should provide the information indicated in the Guide.

Complying

The following material is included in the Company's 2012 annual report:

- the names and qualifications of those appointed to the audit committee and their attendance at meetings of the committee;
- the number of meetings of the audit committee

The following material is available on the Company's website in a clearly marked corporate governance section:

- the audit committee charter
- information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.

Principle 5: Make timely and balanced disclosure

Companies should promote timely and balanced disclosure of all material matters concerning the company.

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Complying

The Company has a documented policy which has established procedures designed to ensure compliance with Australian Securities Exchange Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. The focus of these procedures is on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities and improving access to information for all investors. The Chief Executive Officer, the Chief Financial Officer and the Company Secretary are responsible for interpreting the Group's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the Australian Securities Exchange. The purpose of the procedures for identifying information for disclosure is to ensure timely and accurate information is provided equally to all shareholders and market participants.

Recommendation 5.2: Companies should provide the information indicated in the Guide.

Complying

The policy on continuous disclosure is posted on the Company's website in a clearly marked corporate governance section.

Principle 6: Respect the rights of shareholders

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

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. Companies should provide the information indicated in the Guide to reporting on Principle 6.

Complying

The Board informs shareholders of all major developments affecting the Group's state of affairs as follows:

- The annual report is distributed to all shareholders who have elected to receive it, including relevant information about the operations of the consolidated entity during the year and changes in the state of affairs.
- The half yearly report to the Australian Securities Exchange contains summarised financial information and a review of the operations of the Group during the period.
- All major announcements are lodged with the Australian Securities Exchange, and posted on the Company's website.
- Proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders.
- The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Group's strategy and goals.
- The Company's auditor attends the Annual General Meeting.

Principle 7: Recognise and manage risk

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

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Complying

The Board has responsibility for monitoring risk oversight and ensures that the Chief Executive Officer and the Chief Financial Officer or equivalent report on the status of business risks through risk management programs aimed at ensuring risks are identified, assessed and appropriately managed. In addition the Board is responsible for reviewing the risk management framework and policies of the Group.
The Board oversees policies on risk assessment and management and has delegated certain responsibilities in these matters to the Audit Committee. The Group has established policies and procedures to identify, assess and manage critical areas of financial and operating risk. The Group's Risk Management policy is posted on the Company's website.

Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

Complying

Management has previously completed a review of the Group's major business units, organisational structure and accounting controls and processes. This review by management has been reported to the Audit Committee and in turn to the Board and the Board is satisfied that the processes in place to identify the Group's material business risks are appropriate and that these risks are being effectively managed. The Group's risk management processes continue to be monitored and reported against on an ongoing basis.
A description of the Group's risk management policy and internal compliance and control systems is available on the Company's website.

Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. Companies should provide the information indicated in the Guide to reporting on Principle 7.

Complying

The Chief Executive Officer and Chief Financial Officer are required to state to the Board in writing that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Recommendation 7.4: Companies should provide the information indicated in the Guide.

Complying

The Board has received the report from management under Recommendation 7.2, and has received assurance from the Chief Executive Officer and the chief financial officer under Recommendation 7.3.
A summary of the Company's policies on risk oversight and management of material business risks is available on the Company's website in a clearly marked corporate governance section.

Principle 8: Remunerate fairly and responsibly

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

Recommendation 8.1: The board should establish a remuneration committee.

Complying

The Board has established a Remuneration Committee. The role of the Remuneration Committee is to review and make recommendations to the Board on remuneration packages and practices applicable to the Chief Executive Officer, Senior Executives and Directors themselves. This role also includes responsibility for share option schemes incentive performance packages and retirement and termination entitlements. Remuneration levels are competitively set to attract the most qualified and experienced Directors and Senior Executives. The Remuneration Committee may obtain independent advice on the appropriateness of remuneration packages.

Recommendation 8.2: The remuneration committee should be structured so that it:

- **consists of a majority of independent directors**
- **is chaired by an independent chair**
- **has at least three members.**

Complying

The Company's Remuneration Committee comprises three non-executive independent directors and is chaired by an independent chairman.

Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Complying

Details of the Directors and Key Senior Executives remuneration are set out in the Remuneration Report of the Annual Report. The structure of Non-Executive Directors' remuneration is distinct from that of executives and is further detailed in the Remuneration Report of the Annual Report. Equity based executive remuneration is made in accordance with thresholds set in plans approved by shareholders. In addition, the Company has issued equity based remuneration to both Executive and Senior Management which has been approved by shareholders at a general meeting.

Recommendation 8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8.

Complying

The names of the members of the Remuneration Committee and their attendance at meetings of the Committee are detailed in the Directors' Report of this Annual Report.

A charter setting out the responsibilities of the Remuneration Committee has been adopted and a copy of this charter is posted on the Company's website.

The members of the Remuneration Committee during the year and attendance at meetings of the Committee are disclosed in the Directors' Report section of this the Annual Report.

There are no schemes for retirement benefits, other than superannuation, for non-executive directors
A copy of the Company's Remuneration Committee charter is posted on the Company's website in a clearly marked corporate governance section, together with a summary of the Company's policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes.

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