Adacel Technologies Limited
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Adacel Technologies Limited
(ASX: ADA)

23 August 2018

Appendix 4E - Preliminary Final Report

Year ended 30 June 2018
(Previous corresponding period: Year ended 30 June 2017)

Lodged with the ASX under Listing Rule 4.3A

Contents

Results for Announcement to the Market

Revenue from continuing operations	**Up**	**25.0%**	**To**	**$53,060,000**
Profit for the period attributable to owners	**Down**	**9.5%**	**To**	**$8,394,000**
Profit before tax for the period	**Up**	**29.8%**	**To**	**$10,192,000**

Dividends/Distributions

	Amount per security	Amount per security
Interim dividend (Paid 29 March 2018)	**$0.0200**	**-**
Final dividend	**$0.0250**	**-**
Special dividend	**$0.0500**	**-**

Record date for determining entitlements to the final and special dividends	**13 September 2018**
Payment date of the final and special dividends	**27 September 2018**

Earnings per Ordinary Share (Cents per Share) FY2018	**10.64**
Earnings per Ordinary Share (Cents per Share) FY2017	**11.71**

Net Tangible Asset Backing per Ordinary Share (Cents per Share) FY 2018	**28.95**
Net Tangible Asset Backing per Ordinary Share (Cents per Share) FY 2017	**31.78**

BASIS OF PREPARATION

This report is based on the consolidated financial statements which have been audited by PricewaterhouseCoopers. The audit report is included within the Group's Financial Report which accompanies this Appendix 4E.

OTHER INFORMATION REQUIRED BY LISTING RULE 4.3A

Other information requiring disclosure to comply with Listing Rule 4.3A is contained in the 30 June 2018 Financial Report (which includes the Directors' Report).

ACCOUNTING STANDARDS

This report has been compiled using Australian Accounting Standards and International Financial Reporting Standards.

ADACEL
TECHNOLOGIES LIMITED

2018

ANNUAL REPORT

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DIRECTORS' REPORT

Your Directors submit their report on the consolidated entity (the Group), consisting of Adacel Technologies Limited and the entities it controlled at the end of, or during the year ended 30 June 2018.

DIRECTORS

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

Peter Landos (Chairman)
Julian Beale (resigned 16 November 2017)
Natalya Jurcheshin
Michael McConnell
Silvio Salom
David Smith

PRINCIPAL ACTIVITIES

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

OPERATING RESULTS

The Company's operating results for the twelve months ended 30 June 2018 and 2017, respectively, are summarised in the following table:

Key Financial Measures	Year ended 30 June		
A$'000	**2018**	**2017**	**% change**
Revenue	53,060	42,432	25.0
Gross margin	20,250	17,885	13.2
Gross margin %	38.2%	42.1%	
EBITDA	10,903	8,836	23.4
EBITDA %	20.5%	20.8%	
Profit before tax	10,192	7,851	29.8
Net profit after tax	8,394	9,279	(9.5)
Earnings per share (cents)	10.64	11.71	(9.1)
Net cash flow *	(3,833)	585	n/c
Net cash	12,525	16,358	n/c
Final dividend (unfranked) (cents)	2.50	2.25	11.1
Total ordinary dividends (cents)	4.50	4.00	12.5
Special dividend (unfranked) (cents)	5.00	7.75	n/c
Total dividends (cents)	9.50	11.75	n/c

* includes the effect of exchange rate changes on cash and cash equivalents

The Company delivered a profit before tax (PBT) of $10.2 million, 29.8% higher than the previous fiscal year.

The improved result in FY2018 was driven by a 25% increase in revenue from continuing operations, and in particular, a 127% increase in Systems Segment revenue. Service Segment revenues were consistent with the prior period, albeit slightly lower, at $31.1M.

The overall gross margin percentage was lower than the prior year, principally due to a high proportion of international systems sales in the period.

Earnings before interest, tax and depreciation (EBITDA) grew to $10.9 million compared to $8.8 million in FY2017, with EBITDA margins in line with the prior period.

As at 30 June 2018, the Company's net cash balance was $12.5 million. During the period, a total of $9.5 million (2017: $2.8 million) was paid as dividends to shareholders, and $2.0 million (2017: $0.02 million) was used to purchase shares under on-market share buybacks.

This financial result was negatively affected by a portion of a Federal Aviation Administration (FAA) support contract being awarded to a certified small business service provider in November 2017. Owing to Adacel's decision to protest the award of this portion of the contract, delivery of various software components by the Company have been halted pending resolution of the protest process.

The net profit after tax in 2018 of $8.4 million (2017: $9.3 million) was impacted by a tax expense of $1.8 million versus a tax credit of $1.4 million in 2017, the latter due to the recognition of the impact of previously unbooked Canadian tax credits.

BUSINESS SEGMENT REPORTING

Systems

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

Services

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

Segment Performance

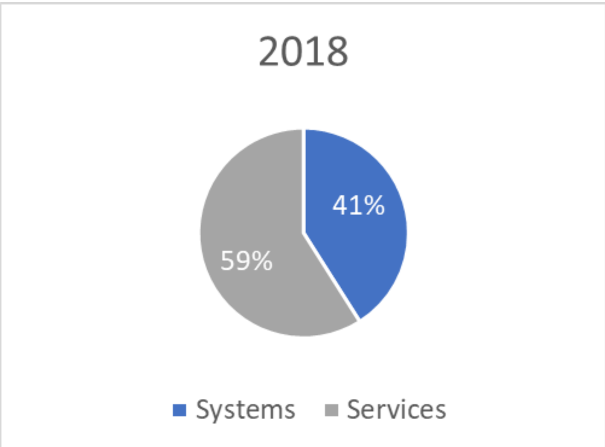
The Company's business segment performance is summarised as follows:

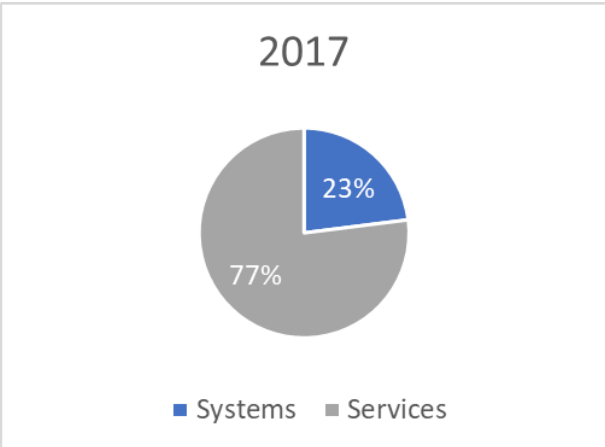
Segment performance	Year ended 30 June					
	2018			2017		
	Revenue	GM	GM %	Revenue	GM	GM %
	A$'000			A$'000		
Systems	21,912	6,115	27.9%	9,670	3,367	34.8%
Services	31,148	14,135	45.4%	32,762	14,518	44.3%
Total	53,060	20,250	38.2%	42,432	17,885	42.1%

Total revenues in FY2018 increased by 25% compared to the previous period, with contributions from a number of system contract awards late in the FY2017 year and additional new contract awards throughout FY2018.

It was a strong year for Systems Segment revenue, with a 127% increase in the period, driven by growth in both air traffic management (ATM) operational systems and air traffic control (ATC) simulation systems.

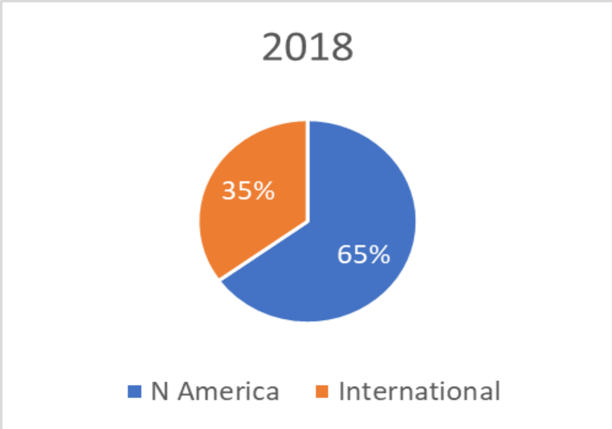
Services Segment revenues were 5% below the prior period, principally due to the portion of the FAA support contract lost to a small business and a halt placed on the portion expected to remain with Adacel, whilst the award is under protest. In other activities with the FAA, the Company experienced an 11% increase in the level of effort on the FAA ATOP program, with further growth anticipated into future periods.

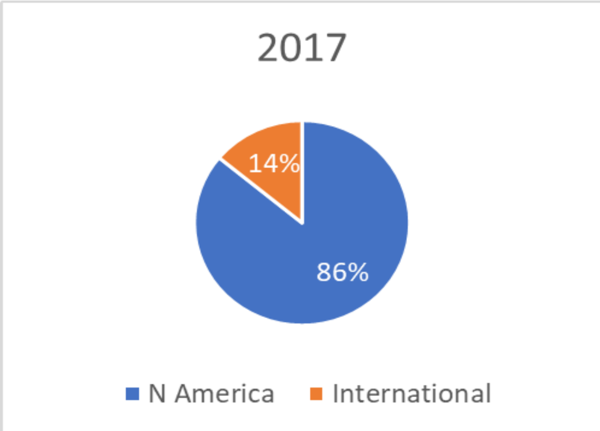




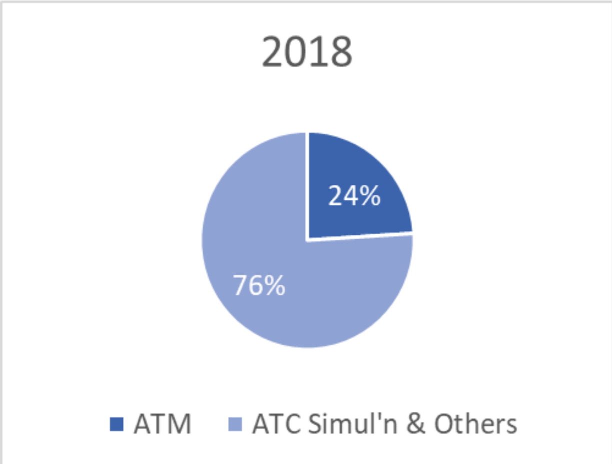
While the Systems Segment revenue performance was strong and margins for the segment at $6.1 million were 82% higher than FY2017, the gross margin percentage declined from 35% to 28%. The decline in gross margin can be attributed to a high proportion of contract awards for international systems during the period.

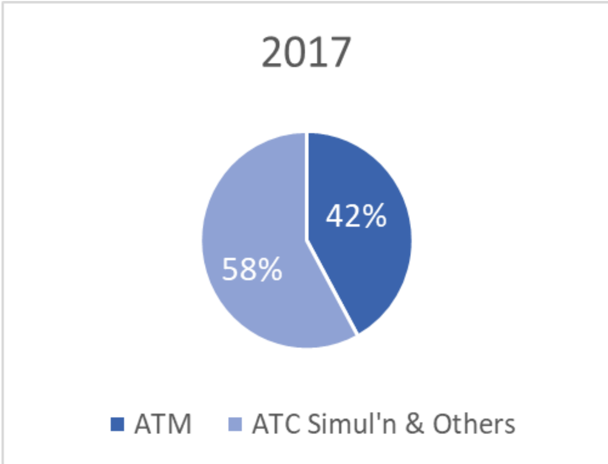
Revenues from international customers for FY2018 have grown to represent 35% of revenue in the current period, from 14% in FY2017. North American revenues delivered 65% of the total, a reduction from 86% in the previous year.



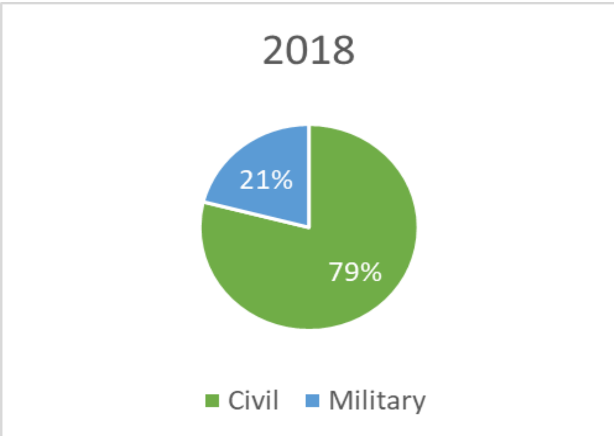


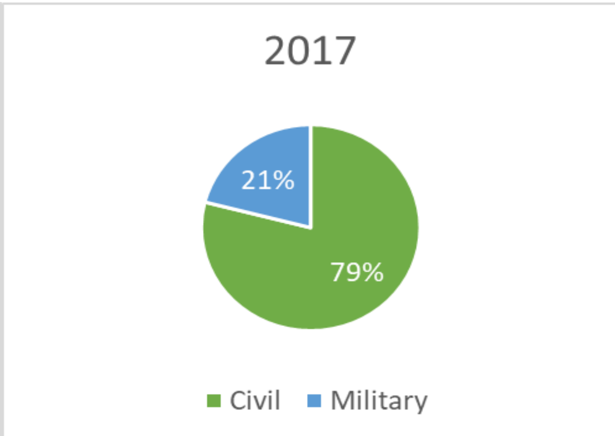
Systems sales contributed 41% of total revenues for the period at $21.9M, with ATM systems delivering 24% of the total and ATC systems 72%. The remaining 4% of systems revenue was from speech recognition and other products.





The civil and military revenue split remains consistent with FY2017, with civil revenues comprising 79% of the business and military revenues at 21%.





OPERATING PERFORMANCE

Systems

As reported in August 2017, the Company experienced new system orders late in FY2017 and that these would provide a platform for a strong contribution in FY2018. This contribution manifested across a number of new international customers, including some where the Company displaced competitor systems. Notable new customers included the Civil Aviation Authorities in Morocco, Algeria, Sri Lanka and China. Additional products and systems were sold to the FAA and a number of aviation colleges in the United States of America. The Company's activities in this segment were further boosted by a number of our customers electing to perform upgrades to their existing systems, including Saudi Arabia, the Royal Australian Air Force, Air Services Australia, Austrocontrol, the Dutch Carribean, the United States Air Force and the FAA.

It was also a solid year for the ATM systems segment with new systems contracts with Fiji, Norway, Gaudeloupe, French Guiana and Portugal. Installation of these systems commenced in FY2018 and, generally speaking, will complete in FY2019. For example, the installation of the second system under the French Territories program, Guadeloupe, is approximately 50% complete. Installation of the third system under this program in Martinique could commence in FY2019. There are a number of other programs where the system installation or upgrade is partially complete, including: NavPortugal at 50%, Sri Lanka at 65%, Morocco at 50%, Air Services Australia at 35% and Fiji at 10%.

The competitive environment in winning these international systems contracts, and the high level of software customisation required during the installation phase is expected to continue to impact gross margins in the Systems Segment for FY2019.

Services

Services revenues for FY2018 were broadly consistent with FY2017, albeit slightly lower. The growth of the services business over recent years has been impacted by the loss of a component of an FAA support contract in the current period. While Adacel expects to continue to see revenue from the FAA under this contract, the delivery of the software support component has been halted pending the outcome of Adacel's formal protest of the contract award. All other activities with the FAA continue unaffected by the protest process on the support contract.

The FAA ATOP contract continues to be a significant contributor to the Services Segment. Revenues from the ATOP program showed an 11% increase over the previous period. The process to fully resource the expanded contract was completed late in FY2018 and further growth is expected in FY2019 and future years.

The Company anticipates a consistent contribution from the Services Segment in FY2019. Growth in the ATOP program and the commencement of services and support from systems installations completed in prior periods will mitigate the effect of further delays in a contribution from the FAA support contract.

TAX

Adacel has carry-forward tax losses and credits available in various jurisdictions to offset future taxable profits. At June 2017, reflecting the Board's confidence in future profitability, the Company recognised a net deferred tax asset of $3.1 million, relating to available tax credits and resulted in a net tax benefit for that year. Tax credits continue to be recognised and utilised in accordance with Company policy and applicable accounting standards.

In addition to this amount, and not recorded on the balance sheet, the Company has available tax losses in Australia and tax credits in Canada, the estimated net benefit of which, at the applicable tax rates, are $11.8 million and $10.1 million, respectively.

DIVIDENDS

The Board is pleased to declare a final dividend of 2.50 cents per share, unfranked (2017: 2.25 cents per share), taking total ordinary dividends for FY2018 to 4.50 cents per share. Given the Company's strong balance sheet and confidence in the future outlook, the Board is pleased to also declare a special dividend of 5.00 cents per share, unfranked.

Both the final dividend and special dividend have a record date of 13 September 2018 and will be paid on 27 September 2018.

KEY RISKS AND BUSINESS CHALLENGES

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

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

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

The talents of a number of key personnel contribute significantly to the Company's operational effectiveness and performance. The policies that management and the Board have in place to retain those personnel, include participation in an appropriate incentive arrangement.

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

STRATEGIC ACTIVITIES AND OUTLOOK

The Company continues to focus on its core technologies and markets. It is actively pursuing initiatives aimed at mitigating the inherent lumpiness which exists in the Company's Systems Segment, and the maturation in its key markets, by seeking to expand its product and services capabilities, in doing so, broadening its addressable markets.

This focus has manifested in a number of areas:

- The Company's capabilities in the delivery of ATM systems has grown and diversified. In the ATM market, the Company was historically known as having expertise in the delivery of oceanic ATM systems only. This capability has expanded such that the Company can now deliver smaller footprint land-based ATM systems, with successes in Fiji and the French Territories testament to that. The Company can see further opportunities in this segment as smaller countries look to upgrade their ageing ATM systems;

- The Company has progressed with its ambition to expand the number of new ATM products and features that complement the Aurora system, having recently completed the acquisition of several new ATM products. One new product is in the aeronautical information management segment and will allow our current and future customers to choose from a more comprehensive ATM product suite, and enable a broadening of the addressable ATM market for the Company;
- In the ATC simulation business we are increasing our R&D investment into new technologies that will permit the launch of new complementary products for our existing ATC business and new business models for selling and licensing products and services;
- The Company will continue to seek opportunities to expand its product and service offering.

Further commentary around earnings guidance will be made at the Company's Annual General Meeting in November 2018.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Subsequent to the end of the financial year, the Board declared a Final Dividend of 2.50 cents per share as well as a Special Dividend of 5.00 cents per share. The dividends will be paid in September 2018.

There were no other significant events after the balance date.

ENVIRONMENTAL REGULATION

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

GREENHOUSE GAS AND ENERGY DATA REPORTING REQUIREMENTS

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

INFORMATION ON DIRECTORS

Peter Landos BEco (ANU)

Non-Executive Chairman

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

Interests in Shares and Options

Nil ordinary shares in Adacel Technologies Limited.

Nil options over ordinary shares in Adacel Technologies Limited.

Julian Beale BE (Syd), MBA (Harvard)

Non-Executive Director

Mr Beale was an independent Non-executive Director from June 2003 until his resignation on 16 November 2017, and served as Chairman from September 2003 until November 2012. Mr. Beale has extensive international business and capital markets experience and a background in private and public companies at both Board and management level. Julian has held senior positions in a range of companies including English Electric and Esso Australia (now Exxon) and was Managing Director of a resources group with interests in petroleum production, pipelines and minerals. He also established a plastics processing company in Melbourne and was a key participant in the successful transition of Moldflow, a developer of software for injection moulding machines, to the United States NASDAQ capital market. Julian was also a member of the Federal Parliament for 11 years from 1984 as the Member for Deakin and later Bruce. During this time he held many Shadow Ministerial portfolios. Julian did not hold any directorships in other listed companies at any time in the 3 years immediately before his resignation.

Interests in Shares and Options

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

Nil options over ordinary shares in Adacel Technologies Limited.

David Smith BE (Electronics)

Non-Executive Director

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

Interests in Shares and Options

2,951,922 ordinary shares in Adacel Technologies Limited.

Nil options over ordinary shares in Adacel Technologies Limited.

INFORMATION ON DIRECTORS (CONTINUED)

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

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

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

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

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

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

Silvio Salom B Eng
Non-Executive Director

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

Interests in Shares and Options
5,195,191 ordinary shares in Adacel Technologies Limited.
Nil options over ordinary shares in Adacel Technologies Limited.

COMPANY SECRETARY

Sophie Karzis B. Juris, LLB

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

Interests in Shares and Options
13,000 ordinary shares in Adacel Technologies Limited.
Nil options over ordinary shares in Adacel Technologies Limited.

MEETINGS OF DIRECTORS

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

DIRECTORS	Meetings of Directors		Meetings of Committees					
			Audit & Risk Management		Remuneration		Nomination	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Peter Landos	11	11	4	4	0	0	1	1
Julian Beale (resigned 16 Nov 2017)	3	3	1	1	0	0	0	0
Silvio Salom	11	11	4	4	0	0	1	1
David Smith	11	9	*	*	*	*	1	1
Natalya Jurcheshin	11	11	4	4	0	0	1	1
Michael McConnell	11	9	4	4	0	0	1	1

All of the above Directors are non-executive directors.

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

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

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

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

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

REMUNERATION REPORT

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

A. Principles used to determine the nature and amount of remuneration

B. Details of remuneration

C. Service agreements

D. Share-based compensation

E. Additional information

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

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

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

Non-executive Directors

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

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

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

Senior Executives

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

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

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

Short Term Incentives

For a number of the executives in the consolidated entity, an element of their remuneration may be based upon annual bonuses, usually dependent on the satisfaction of various performance conditions. For the year ended 30 June 2018, the Board approved discretionary short-term incentives for these executives as shown in Section B below based on quantitative and qualitative performance factors. The Board is in the process of reviewing short-term and long-term incentive plans to be introduced in the 2019 financial year. The following table compares earnings and all bonuses paid or accrued over the past five years.

YEAR	Profit Before Tax $'000's	Profit After Tax $'000's	Range of Share Price	Bonuses Paid/Accrued	Ordinary Dividend Declared (per share)
	$	$	$	$'000's	Cents
2014	1,775	(2,287)	0.23 to 0.54	-	-
2015	5,913	3,933	0.25 to 0.63	741	2.0
2016	10,818	9,217	0.58 to 3.02	779	3.0
2017	7,851	9,279	2.14 to 3.40	555	4.0
2018	10,192	8,394	1.69 to 3.09	644	4.5

Long Term Incentives

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

Benefits

Executives receive benefits including health insurance and disability insurance.

B. DETAILS OF REMUNERATION.

Amounts of remuneration

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

The key management personnel of the group were the directors of Adacel Technologies Limited (see pages 10-11); the Company Secretary, Ms Sophie Karzis; the Chief Executive Officer (CEO), Mr Gary Pearson; the Chief Financial Officer (CFO), Mr Jean-Philippe Duval, the Vice President of Business Development and Strategic Planning, Mr Brian Hennessey, the Vice President, Operations and General Manager, Adacel Inc, Mr Alain Bernardeau (until 27 April 2018), and the Vice President Operations, Mr Kevin Pickett (from 27 April 2018).

Emoluments of the Directors and key management personnel of the group for 2018

2018	Short-term employee benefits				Post-employment benefits	Other	Share-based payments	
Name	Cash salary and fees $	Cash bonus $	Non monetary* $	Other $	Super-annuation $	Termination benefits $	Options $	Total $
Non-executive Directors								
Peter Landos (*Chairman)***	100,000	-	-	-	9,500	-	-	109,500
Julian Beale (resigned 16/11/17)	18,889	-	-	-	1,794	-	-	20,683
Natalya Jurcheshin	50,000	-	-	-	4,750	-	-	54,750
Michael McConnell	50,000	-	-	-	594	-	-	50,594
Silvio Salom	50,000	-	-	-	4,750	-	-	54,750
David Smith	50,000	-	-	-	4,750	-	-	54,750
Sub-total: Non-exec Directors	**318,889**	**-**	**-**	**-**	**26,138**	**-**	**-**	**345,027**
Other Key Management								
Sophie Karzis	57,600	-	-	-	-	-	-	57,600
Gary Pearson	441,630	144,670	30,711	189	16,137	-	-	633,337
Jean-Philippe Duval	189,597	-	793	-	9,480	-	-	199,870
Brian Hennessey	238,525	96,501	18,009	1,305	14,905	-	-	369,245
Alain Bernardeau (resigned 27/04/2018)	138,589	-	3,842	-	6,929	40,451	-	189,811
Kevin Pickett (appointed 27/04/2018)	199,439	47,647	22,356	1,304	11,469	-	-	282,215
Sub-total: Other Key Mgmt	**1,265,380**	**288,818**	**75,711**	**2,798**	**58,920**	**40,451**	**-**	**1,732,078**
Total Key Management Personnel Compensation	**1,584,269**	**288,818**	**75,711**	**2,798**	**85,058**	**40,451**	**-**	**2,077,105**

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

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

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

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

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

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

C. SERVICE AGREEMENTS.

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

Sophie Karzis (Company Secretary)

- Term of agreement - ongoing commencing on 30 June 2008 and renewed 24 February 2016.
- Ms Karzis provides services to the Company as a contractor on an agreed monthly fee basis.
- Fees for the year ended 30 June 2018 in respect of Company Secretarial activities of $57,600 have been paid or accrued.

Gary Pearson (Chief Executive Officer)

- Term of agreement - ongoing and automatically renewed on 1 July each year.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2018 of $488,667. This equates to 77% of his total earnings.
- Payment of termination benefit on early termination by the employer, other than for cause, equal to 12 months' base salary, or 3 months base salary if terminated for cause.
- There is a contractual provision for performance-related and discretionary cash bonuses, as determined by the Board. An amount of $144,670 has been accrued for the year ended 30 June 2018. This equates to 23% of his total earnings.
- Participation, when eligible, in the Staff Share Option Plan.

Jean-Philippe Duval (Chief Financial Officer)

- Term of agreement – No fixed term.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2018 of $199,870. This equates to 100% of his total earnings.
- There is no defined contractual obligation to provide a benefit upon termination of employment, however, payment of early termination benefits, other than for cause, would be based on industry standards.
- There is no contractual provision for performance-related cash bonuses, however, is eligible for performance-related cash bonuses as determined by the Board. An amount of $Nil has been accrued for the year ended 30 June 2018. This equates to 0% of his total earnings.
- Participation, when eligible, in the Staff Share Option Plan.

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

- Term of agreement - No fixed term.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2018 of $272,744. This equates to 74% of his total earnings.
- There is no defined contractual obligation to provide a benefit upon termination of employment, however, payment of early termination benefits, other than for cause, would be based on industry standards.
- There is no contractual provision for performance-related cash bonuses, however, is eligible for performance-related cash bonuses as determined by the Board. An amount of $96,501 has been accrued for the year ended 30 June 2018. This equates to 26% of his total earnings.
- Participation, when eligible, in the Staff Share Option Plan.

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

- Term of agreement – Resigned on 27 April 2018.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2018 of $149,360. This equates to 79% of his total earnings.
- There was no defined contractual obligation to provide a benefit upon termination of employment, however, a payment of $40,451 was made. This equates to 21% of his total earnings.
- There is no contractual provision for performance-related cash bonuses, however, is eligible for performance-related cash bonuses as determined by the Board. An amount of $Nil has been accrued for the year ended 30 June 2018. This equates to 0% of his total earnings.
- Participation, if eligible, in the Staff Share Option Plan.

Kevin Pickett (Vice President, Operations)

- Term of agreement - No fixed term.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2018 of $234,568. This equates to 83% of his total earnings.
- There is no defined contractual obligation to provide a benefit upon termination of employment, however, payment of early termination benefits, other than for cause, would be based on industry standards.
- There is no contractual provision for performance-related cash bonuses, however, is eligible for performance-related cash bonuses as determined by the Board. An amount of $47,647 has been accrued for the year ended 30 June 2018. This equates to 17% of his total earnings.
- Participation, when eligible, in the Staff Share Option Plan.

D. SHARE-BASED COMPENSATION.

Staff Share Option Plan

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

Shares provided on exercise of remuneration options

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

Equity instrument disclosures relating to key management personnel

Option holdings

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

Share holdings

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

2018 Name	Balance at the start of the year	Granted during the year as remuneration	Received during the year on the exercise of options	Acquisitions during the year	Disposals during the year	Change as a KMP during the year	Balance at the end of the year
Directors of Adacel Technologies limited							
Peter Landos	-	-	-	-	-	-	-
Julian Beale	1,062,276	-	-	-	-	(1,062,276)	-
Natalya Jurcheshin	-	-	-	-	-	-	-
Michael McConnell	-	-	-	-	-	-	-
Silvio Salom	7,861,858	-	-	-	(2,666,667)	-	5,195,191
David Smith	5,618,589	-	-	-	(2,666,667)	-	2,951,922
Other key management personnel of the group							
Sophie Karzis	13,000	-	-	-	-	-	13,000
Gary Pearson	-	-	-	-	-	-	-
Brian Hennessey	170,264	-	-	-	(45,107)	-	125,157
Jean-Philippe Duval	-	-	-	-	-	-	-
Alain Bernardeau	-	-	-	-	-	-	-
Kevin Pickett	-	-	-	-	-	-	-

2017 Name	Balance at the start of the year	Granted during the year as remuneration	Received during the year on the exercise of options	Acquisitions during the year	Disposals during the year	Change as a KMP during the year	Balance at the end of the year
Directors of Adacel Technologies limited							
Peter Landos	-	-	-	-	-	-	-
Julian Beale	1,062,276	-	-	-	-	-	1,062,276
Natalya Jurcheshin	-	-	-	-	-	-	-
Michael McConnell	-	-	-	-	-	-	-
Silvio Salom	7,861,858	-	-	-	-	-	7,861,858
David Smith	5,618,589	-	-	-	-	-	5,618,589
Other key management personnel of the group							
Sophie Karzis	-	-	-	13,000	-	-	13,000
Gary Pearson	-	-	-	-	-	-	-
Brian Hennessey	480,264	-	-	-	(310,000)	-	170,264
Jean-Philippe Duval	-	-	-	-	-	-	-
Alain Bernardeau	-	-	-	-	-	-	-
Kevin Pickett	-	-	-	-	-	-	-

Other transactions with directors and executives

During the financial year, Adacel Technologies Limited entered into transactions with a company, Verbyx, that has a director, Gary Pearson, who is also a senior executive of Adacel. The transactions were for the receipt of licences to the value of approximately USD$234,000, and for support and services to the value of approximately USD$185,000. These transactions total approximately AUD$540,000 compared to approximately AUD$262,000 in the prior period. Other than this occurrence, no other transactions were entered into between Adacel Technologies Limited or any of its subsidiaries and any director of Adacel Technologies Limited or any of the specified executives of the consolidated entity, including their personally-related entities.

At 30 June 2018, there was a payables balance owing in the accounts of USD $27,000 relating to these transactions. As at 30 June 2017, there was no payables balance owing. Net terms are 30 days following the purchase date which is normal in the industry.

E. ADDITIONAL INFORMATION.

Details of remuneration: cash bonuses and options

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

LOANS TO DIRECTORS AND KEY MANAGEMENT PERSONNEL

During the financial year, no loans were made, guaranteed or secured by Adacel Technologies Limited or any of its subsidiaries to any Director of Adacel Technologies Limited or any of the specified executives of the Group, including their personally related entities. No loans remain outstanding as at 30 June 2018 (2017: nil).

SHARE OPTIONS GRANTED TO DIRECTORS AND THE MOST HIGHLY REMUNERATED OFFICERS

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

SHARES UNDER OPTION

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

SHARES ISSUED ON THE EXERCISE OF OPTIONS

During the year ended 30 June 2018, there were no ordinary shares of Adacel Technologies Limited issued on the exercise of options granted. No shares have been issued since 30 June 2018 and up to the date of this report.

INSURANCE OF DIRECTORS AND OFFICERS

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

NON-AUDIT SERVICES

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

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

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

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

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

	Consolidated	
	2018	2017
Taxation services		
PricewaterhouseCoopers Australian firm		
Tax compliance services	**17,340**	17,340
Tax consulting services	**918**	-
	18,258	17,340
Related practices of PricewaterhouseCoopers Australian firm		
Tax compliance services	**47,811**	70,009
Tax consulting services	**6,722**	21,510
	54,533	91,519
Total remuneration for taxation services	**72,791**	108,859

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 25.

ROUNDING

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

AUDITOR

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

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Adacel Technologies Limited support and have adhered to the principles of corporate governance. The Company's corporate governance statement is available on the company's website as indicated on page 77.

Signed in accordance with a resolution of the Directors.

Peter Landos
Chairman
Melbourne, 23 August 2018

Natalya Jurcheshin
Director

Auditor's Independence Declaration

As lead auditor for the audit of Adacel Technologies Limited for the year ended 30 June 2018, 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.

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
23 August 2018

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

ADACEL TECHNOLOGIES LIMITED
ABN 15 079 672 281

ANNUAL FINANCIAL STATEMENTS – 30 JUNE 2018

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

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

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

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

The financial report was authorised for issue by the directors on 23 August 2018. 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 2018

	Notes	Consolidated	
		2018	2017
		$'000	$'000
Revenue from continuing operations	5	**53,060**	42,432
Interest income	6	**129**	42
Other income	6	**1,530**	2,033
Net foreign exchange (loss)		**(121)**	(96)
Materials and consumables		**(7,894)**	(2,783)
Labour expense		**(28,428)**	(25,351)
Depreciation and amortisation expense		**(626)**	(770)
Finance costs		**(214)**	(257)
All other expenses		**(7,244)**	(7,399)
Profit before tax		**10,192**	7,851
Income tax (expense)/benefit	8	**(1,798)**	1,428
Profit from continuing operations		**8,394**	9,279
Profit for the year		**8,394**	9,279
Other comprehensive income/(loss)			
Exchange differences on translation of foreign operations		**654**	(716)
Total other comprehensive income/loss		**654**	(716)
Total comprehensive income for the year		**9,048**	8,563
Profit for the year is attributable to:			
Owners of Adacel Technologies Limited		**8,394**	9,279
Total comprehensive income for the year is attributable to:			
Owners of Adacel Technologies Limited		**9,048**	8,563

Earnings per share for profit attributable to the ordinary equity holders of the Company:		**Cents**	Cents
Basic earnings per share (cents per share)	35	**10.64**	11.71
Diluted earnings per share (cents per share)	35	**10.64**	11.71

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

STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	Consolidated 2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	9	**12,525**	16,358
Trade and other receivables	10	**11,009**	12,300
Current tax receivable		**-**	308
Accrued revenue	10	**7,216**	2,622
Inventories	11	**1,140**	541
Other financial assets	12, 13	**155**	150
Deferred Tax Asset	17	**403**	-
Total current assets		**32,448**	32,279
Non-current assets			
Property, plant and equipment	15	**1,041**	1,181
Intangible assets	16	**917**	833
Deferred tax asset	17	**3,463**	3,481
Other financial assets	14	**41**	40
Total non-current assets		**5,462**	5,535
Total assets		**37,910**	37,814
Current liabilities			
Trade and other payables	18	**4,998**	3,088
Advance payments from customers		**2,774**	2,004
Current tax liabilities		**2,641**	2,458
Provisions	21	**1,686**	1,653
Other current liabilities	19	**855**	692
Total current liabilities		**12,954**	9,895
Non-current liabilities			
Other non-current liabilities	19	**704**	1,103
Deferred tax liability	17	**662**	784
Provisions	21	**-**	12
Total non-current liabilities		**1,366**	1,899
Total liabilities		**14,320**	11,794
Net assets		**23,590**	26,020
Equity			
Contributed equity	23	**73,253**	75,230
Reserves	24	**(1,310)**	(1,964)
Accumulated losses	24	**(48,353)**	(47,246)
Total equity		**23,590**	26,020

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Notes	Contributed Equity	Reserves	Accumulated Losses	Total Equity
		Attributable to the owners of Adacel Technologies Limited			
		$'000	**$'000**	**$'000**	**$'000**
Balance at 1 July 2016		**75,253**	**(1,248)**	**(53,751)**	**20,254**
Profit for the year		-	-	9,279	**9,279**
Exchange differences on translation of foreign operations	24	-	(716)	-	**(716)**
Total comprehensive income/(loss) for the year		**-**	**(716)**	**9,279**	**8,563**
Transactions with owners in their capacity as owners:					
Share buyback equity reductions	23	(23)	-	-	**(23)**
Dividends provided for or paid	24	-	-	(2,774)	**(2,774)**
		(23)	**-**	**(2,774)**	**(2,797)**
Balance at 30 June 2017		**75,230**	**(1,964)**	**(47,246)**	**26,020**
Balance at 1 July 2017		**75,230**	**(1,964)**	**(47,246)**	**26,020**
Profit for the year		-	-	8,394	**8,394**
Exchange differences on translation of foreign operations	24	-	654	-	**654**
Total comprehensive income/(loss) for the year		**-**	**654**	**8,394**	**9,048**
Transactions with owners in their capacity as owners:					
Share buyback equity reductions	23	(1,977)	-	-	**(1,977)**
Dividends provided for or paid	24	-	-	(9,501)	**(9,501)**
		(1,977)	**-**	**(9,501)**	**(11,478)**
Balance at 30 June 2018		**73,253**	**(1,310)**	**(48,353)**	**23,590**

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 2018

	Notes	Consolidated	
		2018	2017
		$'000	$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**52,655**	41,650
Payments to suppliers and employees (inclusive of GST)		**(45,112)**	(35,299)
Payments for research and development expenditure (inclusive of GST)		**(1,096)**	(1,552)
Refund of security deposits		**50**	58
Payment for security deposits		**(57)**	-
		6,440	4,857
Interest received	6	**129**	42
Income tax (paid)/refunded		**(1,728)**	21
Tax credits refunded		**3,805**	-
Finance costs		**(13)**	(6)
Net cash inflow from operating activities	33	**8,633**	4,914
Cash flows from investing activities			
Payments for Intellectual Property		**(277)**	-
Payments for property, plant and equipment		**(250)**	(179)
Net cash outflow from investing activities		**(527)**	(179)
Cash flows from financing activities			
Dividend paid		**(9,501)**	(2,774)
Repayment of TPC grant		**(707)**	(740)
Shares repurchased through on market buy-back	23	**(1,977)**	(23)
Net cash outflow from financing activities		**(12,185)**	(3,537)
Net (decrease)/increase in cash and cash equivalents		**(4,079)**	1,198
Cash and cash equivalents at the beginning of the financial year	9	**16,358**	15,773
Effects of exchange rate changes on cash and cash equivalents		**246**	(613)
Cash and cash equivalents at the end of the financial year	9	**12,525**	16,358

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

Contents of the notes to the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

Compliance with IFRS

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

Early adoption of standards

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

Going concern basis of preparation

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

Historical cost convention

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

Critical accounting estimates

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

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Adacel Technologies Limited (“Company”, “parent entity”) as at 30 June 2018 and the results of all subsidiaries for the year then ended. Adacel Technologies Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Revenue recognition

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

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

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

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

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

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

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

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

(f) Government grants

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Income tax

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

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

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

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

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

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

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

(h) Cash and cash equivalents

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Trade receivables and accrued revenue

(i) Trade receivables

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

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

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

(ii) Accrued revenue

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

(j) Security deposits

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

(k) Inventories

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

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

(l) Investments and other financial assets

Loans and receivables

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Derivatives and hedging activities

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

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

(n) Fair Value Estimation

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

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

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

(o) Property, plant and equipment

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Intangible assets

(i) Goodwill

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

(ii) Intellectual property

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

(iii) Research and development

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

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

For the years ending 30 June 2018 and 30 June 2017, no expenditure on development activities has been capitalised.

(q) Trade and other payables

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

(r) Advance payments from customers

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Leases

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

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

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

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

(t) Onerous contracts

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

(u) Provisions

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

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

(iii) Superannuation

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

(iv) Share-based payments

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(v) Bonus plans

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

(vi) Termination benefits

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

(vii) Employee benefit on-costs

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

(w) Contributed equity

Ordinary shares are classified as equity.

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

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

(x) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Goods and Services Tax (GST)

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

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

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

(z) Parent entity financial information

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

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

(aa) Rounding of amounts

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

(ab) New accounting standards and interpretations

(i) There have been no new standards incorporated into these financial statements that have had any material effect in the current reporting period, nor in the foreseeable future periods.

(ii) The following 3 standards have been issued but are not yet effective and have not been early adopted.

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

This standard addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The standard is not applicable until 1 January 2018 but was available for early adoption. The group has not early adopted and will adopt AASB 9 for the accounting period starting 1 July 2018. The group has minimal financial instruments that would be affected by this standard and Management believes there will be no material effect to the group's accounting for its financial assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) AASB 15 Revenue from contracts with customers

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

The core principle of AASB 15 is that an entity recognises revenue related to the transfer of goods or services when control of the goods or services passes to customers. Any distinct good or service in a contract is to be recognised using this core principle.

Management has performed a preliminary assessment of the effects of applying the new standard and identified contracts which include warranty services and other separate performance obligations bundled with development and delivery of systems as being impacted by this accounting standard shifting the timing of revenue recognition.

The preliminary assessment has identified the impact of adopting AASB15 to be an approximate reduction in FY2018 Revenue of $2,500,000 and an increase in FY2019 revenue of $2,300,000. These amounts remain estimates subject to change resulting from the further analysis required; particularly in relation to licenses bundled with integrated software systems.

Two methods are available to recognise the impact of adoption in the FY2019 accounts. The Full retrospective approach, where comparatives will be fully restated and the Modified retrospective approach where the cumulative impact of the adoption will be recognised in retained earnings as of 1 July 2018. The group has not decided which approach it will use as yet.

(c) AASB 16 Leases

AASB 16 Leases provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The standard is not applicable until 1 January 2019 but is available for early adoption. Management is currently assessing the impact of AASB 16 on the measurement and recognition of lease assets and liabilities. Note 29 discloses operating lease commitments of $6,889,000 which will be recognised on the balance sheet as a right to use asset and liability. EBITDA, interest and depreciation will increase; however the net profit impact is not yet quantified. The group will not early adopt AASB 16.

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

2. FINANCIAL RISK MANAGEMENT

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

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

The consolidated entity holds the following financial instruments

	Consolidated	
	2018	2017
	$'000	$'000
Financial assets		
Cash and cash equivalents	**12,525**	16,358
Trade and other receivables	**7,155**	6,907
Accrued revenue	**7,216**	2,622
Security Deposits with RBC & BMO	**155**	150
	27,051	26,037
Financial liabilities		
Trade and other payables	**4,998**	3,088
Other liabilities (TPC grant repayment)	**1,559**	1,795
	6,557	4,883

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk

(i) Foreign exchange risk

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

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

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

Values are shown in foreign currencies	**30 June 2018**		30 June 2017	
	USD	**EURO**	USD	EURO
	$'000	**E'000**	$'000	E'000
Cash and cash equivalents	**605**	**85**	2,373	173
Trade and other receivables	**3,370**	**357**	3,171	398
Accrued revenues	**2,535**	**1,552**	124	818
Security Deposits with RBC & BMO	**38**	**-**	-	-
Trade and other payables	**(43)**	**(8)**	(2)	(21)

Sensitivity

Based on the financial instruments held at 30 June 2018, had the Australian dollar strengthened/weakened by 10% against the US Dollar, with all other variables held constant, the Group's post tax profit for the year would have been $811,000 lower/$990,000 higher (in 2017, the post-tax profit would have been $670,000 lower/$819,000 higher).

Had the Australian dollar strengthened/weakened by 10% against the EURO, with all other variables held constant, the Group's post tax profit for the year would have been $285,000 lower/$347,000 higher (in 2017, the post-tax profit would have been $185,000 lower/$226,000 higher).

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

(ii) Price risk

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

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Cash flow and fair value interest rate risk

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

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

	Consolidated			
	30 June 2018		30 June 2017	
	Weighted average interest rate	**Balance**	Weighted average interest rate	Balance
	%	**AUD $'000**	%	AUD $'000
Cash at bank	**0.78**	**12,525**	0.71	16,358
Net exposure to cash flow interest rate risk		**12,525**		16,358

Sensitivity

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

(b) Credit risk

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

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

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

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

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

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

Financing arrangements

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

Maturities of financial instruments

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

Group – At 30 June 2018	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Greater than 5 years**	**Total contractual cash flows**	**Carrying Amount (assets) /liabilities**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade and other payables	**4,998**	**-**	**-**	**-**	**4,998**	**4,998**
Other Liabilities	**855**	**855**	**-**	**-**	**1,710**	**1,559**
Total	**5,853**	**855**	**-**	**-**	**6,708**	**6,557**

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

The book value of the liabilities above approximates fair value.

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Fair value measurements

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

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

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

None of the consolidated entity's assets and liabilities were required to be measured and recognised at fair value for 30 June 2018 and 30 June 2017.

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

3. CRITICAL ACCOUNTING ESTIMATES

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

Contract revenue recognised at balance date

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

Income taxes

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

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

Grant repayment liabilities

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

4. SEGMENT INFORMATION

(a) Description of segments

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

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

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

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

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

(i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and the accounting standard AASB 8 Segment Reporting. Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis.

(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

During the 2018 financial year, revenues of approximately 57% have been derived from 3 external customers. These customers are in the North American region, and the amount of revenues from them during the year were $15.9 million, $9.1 million and $5.2 million respectively. In 2017, 75% of revenues were from 3 customers, individually amounting to $14.5 million, $13.2 million and $5.4 million respectively.

4. SEGMENT INFORMATION (CONTINUED)

(c) Segment Information for the year ended 30 June 2018

	Notes	Systems		Services		Total	
		2018 $'000	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000
Operations							
Total segment revenue	5	**21,912**	9,670	**31,148**	32,762	**53,060**	42,432
Total segment margin		**6,115**	3,367	**14,135**	14,518	**20,250**	17,885
Other income	6					**1,530**	2,033
Interest revenue	6					**129**	42
Exchange rate (loss)						**(121)**	(96)
R&D expenses						**(1,695)**	(1,745)
S&M expenses						**(3,238)**	(3,541)
G&A expenses						**(5,823)**	(5,700)
Depreciation & amortisation	7					**(626)**	(770)
Interest & finance charges	7					**(214)**	(257)
Profit before income tax						**10,192**	7,851
Income Tax (Expense)/Benefit						**(1,798)**	1,428
Profit for the Period						**8,394**	9,279

Geographical Information

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

	USA		Canada		Australia		Total	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000
Total Segment Revenue	**18,870**	21,779	**30,715**	20,425	**3,475**	228	**53,060**	42,432
Total non-current assets	**322**	630	**5,084**	4,877	**56**	28	**5,462**	5,535

5. REVENUE FROM CONTINUING OPERATIONS

	Consolidated	
	2018	2017
	$'000	$'000
Sales revenue		
Sale of services and systems (note 4c)	**53,060**	42,432
	53,060	42,432

6. OTHER INCOME

	Consolidated	
	2018	2017
	$'000	$'000
Other Income		
Quebec Tax Credits	**1,530**	2,033
Interest	**129**	42
	1,659	2,075

The Group is eligible for Tax credits of $1,530,000 (2017: $2,033,000) from the Quebec government for R&D, Multimedia and E-business schemes. These tax credits have been accrued after analysing the applicable criteria. They will be adjusted to the actual amount once the tax return has been submitted and the amounts received. The Group did not benefit directly from any other forms of government assistance.

7. EXPENSES

	Consolidated	
	2018	2017
	$'000	$'000
Profit before income tax includes the following specific expenses:		
Depreciation/amortisation of property, plant & equipment:		
Leasehold improvements	**132**	261
Furniture, fittings and equipment	**286**	359
Total depreciation	**418**	620
Amortisation of Intangibles	**208**	150
Interest and finance charges paid/payable	**214**	257
Rental expense relating to operating leases	**1,105**	1,139
Net foreign exchange losses/(gains)	**121**	96
Defined contribution superannuation expense	**1,194**	1,133
Research and development (inclusive of labour)	**1,096**	1,552
Bad and doubtful debts expensed/(recovered)	**(20)**	(81)
Loss (Gain) on remeasurement of TPC Liability	**229**	(144)

8. INCOME TAX

	Consolidated 2018 $'000	2017 $'000
(a) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable		
Profit from continuing operations before income tax expense	**10,192**	7,851
Income tax calculated at applicable tax rates*	**2,712**	2,264
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Canadian Federal income tax credits	**(1,899)**	(962)
Other items (net)	**17**	117
Current year temporary differences not brought to account	**70**	71
Current year temporary differences brought to account	**35**	46
Impact of recognition of previously unbooked tax credits	**-**	(3,062)
Impact of changes in tax rates on deferred tax	**138**	-
Income tax under/(over) provided in prior years	**98**	(430)
Withholding tax on overseas remittances	**567**	239
Other Items, including current year losses not brought to account	**60**	289
Income tax (benefit)/expense	**1,798**	(1,428)
(b) Income tax expense		
Current tax	**2,207**	1,699
Deferred Tax	**(507)**	(2,697)
Adjustments for current tax of prior periods	**98**	(430)
	1,798	(1,428)
Income tax expense is wholly attributable to continuing operations		
(c) Estimated Unrecognised Tax losses and Tax credits		
Australia – tax losses	**39,219**	39,018
Canada – Federal tax credits	**67,744**	77,551
Total gross tax losses and credits	**106,963**	116,569
Potential tax benefit at applicable tax rates*	**21,927**	23,338
(d) Estimated Unrecognised temporary differences		
Temporary differences for which no deferred tax asset/(liability) has been recognised	**235**	237
Potential tax benefit at applicable tax rates*	**71**	71

* Effective tax rates applicable are: Australia: 30%, Canada Federal: 15%, Canada Provincial 11.9%, USA: 32.19%.

9. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated	
	2018	2017
	$'000	$'000
Current		
Cash at bank and in hand	**12,525**	16,358
	12,525	16,358

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

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

Balances as above	**12,525**	16,358
Balances per statement of cash flows	**12,525**	16,358

(b) Cash at bank and in hand

Cash at bank is interest bearing at rates of 0.0% to 2.40% (2017 : 0.0% to 2.18%). Cash at bank is mainly at call but is invested in term deposits where possible.

(c) Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 2.

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

	Consolidated	
	2018	2017
	$'000	$'000
Trade receivables	**7,155**	6,907
Provision for impairment of receivables	**-**	-
	7,155	6,907
Sundry debtors	**565**	278
Provincial tax credits	**2,447**	4,614
Security deposits	**6**	-
Prepayments	**836**	501
	11,009	12,300
Accrued revenue	**7,412**	2,915
Provision for impairment of accrued revenue	**(196)**	(293)
	7,216	2,622

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

(a) Impaired trade receivables & accrued revenue

As at 30 June 2018, current trade receivables with a nominal value of $Nil (2017 : $Nil) were impaired and accrued revenue with a nominal value of $196,000 (2017 : $293,000) was impaired. The impaired amounts all relate to one contract where receipts are expected over a number of years.

The age of these impaired receivables and accrued revenue is as follows:	**Consolidated**	
	2018	2017
	$'000	$'000
Up to 3 months	**-**	-
3 to 6 months	**-**	-
Over 6 months	**196**	293
	196	293

Movements in the provision for impairment of receivables and accrued revenue are as follows	**Consolidated**	
	2018	2017
	$'000	$'000
Opening Balance	**(293)**	(391)
Provision for impairment recognised during the year	**-**	-
Provision for impairment reversed during the year	**103**	86
Foreign exchange impact	**(6)**	12
Closing Balance	**(196)**	(293)

(b) Past due but not impaired

As of 30 June 2018, trade receivables of $2,224,555 (2017 : $1,070,000) were past due but not impaired. Whilst these amounts are past due, dialogue continues with these customers and payment is expected to be received in full.

	Consolidated	
	2018	2017
	$'000	$'000
Up to 3 months	**1,949**	615
3 to 6 months	**20**	205
Over 6 months	**256**	250
	2,225	1,070

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

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

(c) Foreign exchange and interest rate risk

Information about the Group's 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	
	2018	2017
	$'000	$'000
Current		
Work-in-progress on contracts	**1,140**	541

12. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Instruments used by the Group

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

(b) Risk exposures

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

13. CURRENT ASSETS - OTHER FINANCIAL ASSETS

	Consolidated	
	2018	2017
	$'000	$'000
Restricted term Deposit with Royal Bank of Canada and Bank of Montreal	**155**	150
	155	150

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

14. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

	Consolidated 2018 $'000	Consolidated 2017 $'000
Security Deposits – Orlando and Hampton East Offices	**41**	40

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

	Consolidated		
	Furniture, fittings & equipment $'000	**Leasehold improvements $'000**	**Total $'000**
At 30 June 2016			
Cost	5,068	1,349	6,417
Accumulated depreciation/amortisation	(4,193)	(566)	(4,759)
Net book amount	875	783	1,658
Year ended 30 June 2017			
Opening net book value	875	783	1,658
Additions	170	9	179
Depreciation/amortisation expense	(359)	(261)	(620)
Exchange differences	(17)	(19)	(36)
Closing net book amount	669	512	1,181
At 30 June 2017			
Cost	4,177	1,310	5,487
Accumulated depreciation/amortisation	(3,508)	(798)	(4,306)
Net book amount	669	512	1,181
Year ended 30 June 2018			
Opening net book value	669	512	1,181
Additions	250	-	250
Depreciation/amortisation expense	(286)	(132)	(418)
Exchange differences	17	11	28
Closing net book amount	650	391	1,041
At 30 June 2018			
Cost	3,307	1,341	4,648
Accumulated depreciation/amortisation	(2,657)	(950)	(3,607)
Net book amount	650	391	1,041

16. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Consolidated				
	Core intellectual property $'000	Purchased intellectual property $'000	Total intellectual property $'000	Goodwill $'000	Total $'000
At 30 June 2016					
Cost	17,311	982	18,293	2,481	20,774
Accum amortisation & impairment	(16,337)	(915)	(17,252)	(2,481)	(19,733)
Net book amount	974	67	1,041	-	1,041
Year ended 30 June 2017					
Opening net book value	974	67	1,041	-	1,041
Amortisation expense	(131)	(19)	(150)	-	(150)
Exchange differences	(55)	(3)	(58)	-	(58)
Closing net book amount	788	45	833	-	833
At 30 June 2017					
Cost	17,172	978	18,150	2,450	20,600
Accum amortisation & impairment	(16,384)	(933)	(17,317)	(2,450)	(19,767)
Net book amount	788	45	833	-	833
Year ended 30 June 2018					
Opening net book value	788	45	833	-	833
Additions	-	277	277	-	277
Amortisation expense	(152)	(56)	(208)	-	(208)
Exchange differences	16	(1)	15	-	15
Closing net book amount	652	265	917	-	917
At 30 June 2018					
Cost	15,423	1,258	16,681	2,469	19,150
Accum amortisation & impairment	(14,771)	(993)	(15,764)	(2,469)	(18,233)
Net book amount	652	265	917	-	917

17. DEFERRED TAX ASSETS & LIABILITIES

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

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Deferred tax assets comprise the following temporary differences attributable to:		
Unused tax credits brought to account	**4,278**	4,184
Lease Incentive	**125**	143
Employee benefit provisions	**80**	116
Allowance for doubtful accounts	**49**	109
Accrued Expenses	**62**	101
Other items	**536**	238
Set off of deferred tax liabilities pursuant to set-off provisions	**(1,264)**	(1,410)
	3,866	3,481
Deferred tax liabilities comprise the following temporary differences attributable to:		
Temporary difference on unused tax credits brought to account	**(1,129)**	(1,117)
Temporary difference on utilised Federal tax credits	**(502)**	(257)
Temporary difference on utilised Provincial tax credits	**(244)**	(697)
Other items	**(51)**	(123)
Set off of deferred tax assets pursuant to set-off provisions	**1,264**	1,410
	(662)	(784)
Net Amount of Deferred Tax Assets(Liabilities)	**3,204**	2,697
Movement reconciliation		
Opening Balance	**2,697**	-
(Charged)/credited to tax expense	**507**	2,697
(Charged)/credited to foreign currency translation reserve	**-**	-
Closing Balance	**3,204**	2,697

18. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2018	2017
	$'000	$'000
Trade payables	**2,641**	2,009
Accrued expenses	**2,357**	1,079
	4,998	3,088

(a) Risk exposure

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

19. OTHER LIABILITIES

	Consolidated	
	2018	2017
	$'000	$'000
Current		
TPC grants liability (a), (b)	**855**	692
	855	692
Non-Current		
TPC grants liability (a), (b)	**704**	1,103
	704	1,103

(a) TPC Grants Liability

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

	Consolidated	
(b) Movements in TPC Grant Liability	**2018**	2017
	$'000	$'000
Carrying amount at the beginning of the year	**1,795**	2,518
Exchange Rate change on Opening Balance	**40**	(90)
Cash Repayments	**(707)**	(740)
Interest Applied	**202**	251
Change in Forecasts	**229**	(144)
Closing Balance	**1,559**	1,795

20. NON-CURRENT LIABILITIES - RETIREMENT BENEFIT OBLIGATIONS

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

21. LIABILITIES – PROVISIONS

	Consolidated	
	2018	2017
	$'000	$'000
Current		
Employee benefits – Long service leave (c),(b)	**185**	169
Annual Leave Payable (c)	**1,388**	1,243
Service and contract performance warranties (a),(b)	**113**	241
	1,686	1,653
Non-Current		
Employee benefits – Long service leave (c),(b)	**-**	12
	-	12

(a) Service and contract performance warranties

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

(b) Movements in provisions

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

	Warranty	**Long Service Leave**
	$'000	$'000
Carrying amount at the beginning of the year	241	181
Charged/(credited) to the profit and loss		
-additional provisions recognised	25	12
-amounts used during the period	(160)	(8)
Foreign exchange impact	7	-
Carrying amount at the end of the year	113	185

(c) 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. Similarly, 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 their full amount of accrued annual leave and accrued long service leave nor 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	
	2018	2017
	$'000	$'000
Annual leave obligation expected to be settled after 12 months	**361**	287
Long service leave obligation expected to be settled after 12 months	**182**	179
	543	466

22. FINANCING ARRANGEMENTS

	Consolidated	
	2018	2017
	$'000	$'000
Bank facilities available		
Overdraft	**4,930**	5,853
Guarantees	**1,313**	303
Lease facility	**512**	500
Forward exchange contracts	**2,047**	2,002
Credit card	**619**	208
	9,421	8,866
Bank facilities used at balance date		
Overdraft	**-**	-
Guarantees	**1,313**	303
Lease facility	**-**	-
Forward exchange contracts	**-**	-
Credit card	**119**	6
	1,432	309
Bank facilities unused at balance date		
Overdraft	**4,930**	5,853
Guarantees	**-**	-
Lease facility	**512**	500
Forward exchange contracts	**2,047**	2,002
Credit card	**500**	202
	7,989	8,557

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

- A combined Overdraft and Guarantee facility of up to CAD $6,000,000. The guarantees are limited to CAD $2,000,000.
- A Guarantee facility of CAD $100,000 which reduces by CAD $50,000 each year as the security provided for our leased premises.
- A Lease line of credit of CAD $500,000 specifically for leases.
- A Visa credit Card facility to the value of CAD $175,000.
- A CAD $2,000,000 facility for Foreign Exchange Forward Contracts.

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

The Company also has American Express facilities. Adacel Inc has an approved limit of CAD$100,000 and Adacel Systems Inc has an approved limit of USD $250,000.

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

Risk exposures

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

23. CONTRIBUTED EQUITY

	Consolidated 2018 $'000	Consolidated 2017 $'000
(a) Share capital		
Ordinary shares	**73,253**	75,230

(b) Movements in ordinary share capital

Date	Details	Number of Shares	$'000
1 July 2016	Balance	79,268,178	75,253
01 Jul 16 – 30 Jun 17	Share Buy Back	(10,000)	(23)
30 June 2017	Balance	79,258,178	75,230
01 Jul 17 – 30 Jun 18	Share Buy Back	(928,118)	(1,977)
30 June 2018	Balance	78,330,060	73,253

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

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

(e) Terms and conditions of share options
Staff Share Option Plan Options
The terms and conditions of the options issued under the Staff Share Option Plan are disclosed in note 36.

(f) Share buy-back

A Share Buy Back scheme was in operation from the previous year. The market was informed on 3 May 2017, and the scheme ran until 16 May 2018. A total of 845,058 shares were bought back.

A New Share Buy Back scheme was entered into during the year ended 30 June 2018. The market was informed on 17 May 2018, and the scheme will run from 31 May 2018 through to 30 May 2019. A maximum of 7,845,881 shares may be bought back.

(g) Capital risk management

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

24. RESERVES AND RETAINED PROFITS / ACCUMULATED LOSSES

	Consolidated	
	2018	2017
	$'000	$'000
(a) Accumulated losses		
Accumulated losses	**(48,353)**	(47,246)
Movements in accumulated losses were as follows:		
Balance at the beginning of the year	**(47,246)**	(53,751)
Net profit for the year	**8,394**	9,279
Dividends provided for or paid	**(9,501)**	(2,774)
Balance at the end of the year	**(48,353)**	(47,246)
(b) Reserves		
Foreign currency translation reserve	**(1,310)**	(1,964)

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

(ii) Movements in reserve		
Balance at the beginning of the year	**(1,964)**	(1,248)
Currency translation differences arising during the year	**654**	(716)
Balance at the end of the year	**(1,310)**	(1,964)

25. DIVIDENDS

	2018	2017
	$'000	$'000
(a) Ordinary shares		
An interim dividend of $0.0200 was paid during FY2018 ($0.0175 during FY 2017). All dividends were paid in cash.	**(1,575)**	(1,387)

(b) Dividends not recognised at the end of the reporting period

In addition to the above dividend, since year end the directors have recommended the payment of a final dividend of $0.0250 (FY2017 - $0.0225), and a special dividend of $0.0500 (FY2017 – $0.0775). The aggregate amount of these dividends will be paid on 27 September 2018.

Final Dividend	**(1,958)**	(1,783)
Special Dividend	**(3,917)**	(6,143)

(c) Franking balance

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

26. REMUNERATION OF AUDITORS

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

	Consolidated	
	2018	2017
	$	$
PricewaterhouseCoopers Australia		
(a) Audit and other assurance services		
Audit and review of financial statements	**119,308**	119,085
Total remuneration for audit and other assurance services	**119,308**	119,085
(b) Taxation services		
Tax compliance services	**17,340**	17,340
Tax consulting services	**918**	-
Total remuneration for taxation services	**18,258**	17,340
Total for PricewaterhouseCoopers Australia	**137,566**	136,425
Related firms of PricewaterhouseCoopers Australia		
(a) Audit and other assurance services		
Audit and review of financial statements	**231,684**	235,315
Total remuneration for audit and other assurance services	**231,684**	235,315
(b) Taxation services		
Tax compliance services	**47,811**	70,009
Tax consulting services	**6,722**	21,510
Total remuneration for taxation services	**54,533**	91,519
Total for related firms of PricewaterhouseCoopers Australia	**286,217**	326,834

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

27. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel compensation

	Consolidated	
	2018	2017
	$	$
Short-term employee benefits	**1,951,596**	1,731,544
Post-employment benefits	**85,058**	73,233
Termination benefits	**40,451**	-
	2,077,105	1,804,777

The detailed remuneration disclosures can be found in sections A – C of the remuneration report on pages 14 to 19.

28. CONTINGENCIES

As at 30 June 2018, the parent entity, Adacel Technologies Limited, will continue to provide financial support to subsidiaries that are in a net liability position.

Guarantees of $1,362,596 (2017: $294,462) have been given to banks and customers in relation to contract warranty and performance.

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

29. COMMITMENTS

	Consolidated	
	2018	2017
	$'000	$'000
(a) Operating leases expenditure commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases for office and office equipment rentals are payable as follows:		
Within one year	**1,185**	986
Later than one year and not later than 5 years	**4,759**	4,735
Later than 5 years	**945**	1,975
Commitments not recognised in the financial statements	**6,889**	7,696
(b) Other expenditure commitments		
Commitments for payments in relation to non-cancellable contracts for the use of a new ERP system are payable as follows:		
Within one year	**124**	98
Later than one year and not later than 5 years	**81**	196
Later than 5 years	**-**	-
Commitments not recognised in the financial statements	**205**	294

30. RELATED PARTY TRANSACTIONS

(a) Parent entity

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

(b) Subsidiaries

Interests in subsidiaries are disclosed in note 31.

(c) Key management personnel

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

(d) Transactions with related Parties

During the financial year, Adacel Technologies Limited entered into transactions with a company that has a director who is also a senior executive of Adacel. The transactions were for the receipt of licences, support and services to the value of AUD$540K. The value of these transactions in the previous financial year was AUD$262K. Other than this occurrence, no other transactions were entered into between Adacel Technologies Limited or any of its subsidiaries and any director of Adacel Technologies Limited or any of the specified executives of the consolidated entity, including their personally-related entities.

At 30 June 2018, there was AUD$35K owing in the accounts relating to these transactions. As at 30 June 2017, there were no payables balance owing. Net terms are 30 days following the purchase date which is normal in the industry.

(e) Terms and conditions

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

31. SUBSIDIARIES

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

			Equity holding *	
	Country of	**Class of**	**2018**	2017
Name of entity	**incorporation**	**shares**	**% held**	% held
Adacel Inc	Canada	Ordinary	100	100
Adacel Technologies Holdings Inc	USA	Ordinary	100	100
Adacel Technologies Inc	USA	Ordinary	100	100
Adacel Systems Inc	USA	Ordinary	100	100
Adacel Technical Services Inc	USA	Ordinary	100	100

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

32. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Subsequent to the end of the financial year, the Board declared a Final Dividend of 2.50 cents per share as well as a Special Dividend of 5.00 cents per share. The dividends will be paid in September 2018.

There were no other significant events after the balance date.

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

	Consolidated	
	2018	2017
	$'000	$'000
Operating profit from ordinary activities after income tax	**8,394**	9,279
Depreciation and amortisation	**626**	770
Bad debts (reversed) during the year	**(20)**	(81)
Net exchange differences	**121**	96
Changes in assets and liabilities:		
(Increase) in trade receivables and accrued revenue	**(4,531)**	(598)
Decrease/(increase) in other receivables and other assets	**1,939**	(1,974)
(Increase) in inventory	**(524)**	(376)
(Increase) in prepayments	**(329)**	(94)
Decrease/(increase) in deferred tax assets, liabilities and tax payable	**4**	(1,640)
Increase/(decrease) in trade and other creditors	**2,322**	(335)
Increase in employee benefits provisions	**114**	17
(Decrease)/increase in other provisions	**(133)**	57
Increase/(decrease) in advanced payments from customers	**650**	(265)
Decrease in other non-current assets	**-**	58
Net cash inflow from operating activities	**8,633**	4,914

34. NON-CASH INVESTING AND FINANCING ACTIVITIES

There were no non-cash investing and financing activities during the years ended 30 June 2018 and 30 June 2017.

35. EARNINGS PER SHARE

	Consolidated	
	2018	2017
Basic earnings per share (cents per share)	**10.64**	11.71
Diluted earnings per share (cents per share)	**10.64**	11.71

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

	Consolidated	
	2018	2017
	$'000	$'000
Basic earnings per share		
Profit from continuing operations	**8,394**	9,279
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**8,394**	9,279
Diluted earnings per share		
Profit from continuing operations	**8,394**	9,279
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**8,394**	9,279

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

	Consolidated	
	2018	2017
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**78,897,935**	79,267,027
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**78,897,935**	79,267,027

(c) Information concerning the classification of securities

Staff Share Option Plan

Staff Share Option Plan options are considered to be potential ordinary shares and would be included in the determination of diluted earnings per share to the extent to which they are dilutive. There were no outstanding options at 30 June 2018 nor 30 June 2017, and hence have not been included in the determination of basic earnings per share for these years. Details of options are set out in note 36.

(d) Conversions, calls, subscription or issues after 30 June 2018

There are no current holders of option certificates, and therefore there has been no movement since 30 June 2018.

36. SHARE-BASED PAYMENTS

Staff Share Option Plan

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

During the year ended 30 June 2018, no options were exercised, no options were issued, no options lapsed and no share based payment expenses were incurred.

The directors have indefinitely suspended the issuing of further options.

37. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information	**2018 $'000**	2017 $'000
The individual financial statements for the parent entity show the following aggregate amounts:		
Balance Sheet		
Current Assets	**6,248**	3,102
Total Assets	**13,852**	10,344
Current Liabilities	**4,894**	427
Total Liabilities	**4,894**	439
Shareholder's Equity		
Issued Capital	**73,253**	75,230
Accumulated Losses	**(64,295)**	(65,325)
Total Equity	**8,958**	9,905
Profit for the year	**10,531**	3,413
Total comprehensive income	**10,531**	3,413

(b) Guarantees entered into by the parent entity

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

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2018 or 30 June 2017. For information about guarantees given by the parent entity, please see above.

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

The parent entity did not have any material contractual commitments for the acquisition of property, plant or equipment as at 30 June 2018 or 30 June 2017.

DIRECTORS' DECLARATION

In the Directors' opinion:

a. the financial statements and notes set out on pages 26 to 71 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 2018 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 14 to 22 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 group financial controller required by section 295A of the Corporations Act 2001.

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

Peter Landos	Natalya Jurcheshin
Chairman	**Director**

Melbourne, 23 August 2018

Independent auditor's report

To the members of Adacel Technologies Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the statement of financial position as at 30 June 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

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

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Our audit approach

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

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

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

Materiality	*Audit scope*	*Key audit matters*
• For the purpose of our audit we used overall Group materiality of \$0.5 million, which represents approximately 5% of the Group's profit before tax. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • Our audit procedures were primarily performed at the Group's principal places of business in Victoria (Australia) and Quebec (Canada).	• Amongst other relevant topics, we communicated the following key audit matter to the Audit and Risk Committee: – Revenue recognition • This is further described in the *Key audit matters* section of our report.

Materiality	Audit scope	Key audit matters
• We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds.		

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition *(Refer to note 5 Revenue from continuing operations and note 10 Trade, other receivables, accrued revenue)* The Group's systems sales revenue includes project based revenue. These projects are generally tailored applications developed for specific customers and are often completed across a number of months. Project based revenue is recognised under the percentage of completion method, as described in note 1(e) and is subject to estimates of the total labour costs required to complete a project and the forecast profitability of the project. When losses are forecast on contracts these are recognised in the period they are identified. Invoicing and subsequent collection of these amounts are subject to the customer's agreement of milestone completion and are sometimes delayed due to the nature of the projects and customers. This was a key audit matter because size of the trade and other receivables balance of $11.09 million and the accrued revenue balance of $7.2 million and due to the uncertainty involved in project revenue estimates made by the Group as a result of the complex and long term nature of the projects.	We performed the following procedures, amongst others, over revenue recognition and accounts receivable recoverability: • We inspected the key terms of a sample of customer agreements to assess whether revenue had been recognised in accordance with the Group's revenue recognition policy and the requirements of Australian Accounting Standards. • We assessed revenue recognised for a sample of customer agreements using the percentage of completion method by performing the following procedures amongst others: - Checking the mathematical accuracy of a sample of percentage of completion calculations. - Agreeing a sample of actual labour costs to approved timesheets and payroll records. - Agreeing a sample of accrued costs (for example contractor costs) to date to supporting calculations. - Testing the reasonableness of forecast costs to complete a project by comparing them with actual costs incurred to date and budgets. - On a sample basis, checked whether monthly management project status reviews were being performed.

Key audit matter	*How our audit addressed the key audit matter*
	• We compared actual and forecast contract profitability and enquired with management on any projects where margins had deviated significantly from forecasts. We found that the deviations typically related to payroll and contractor cost variations which we agreed was a reasonable explanation. • We agreed a sample of significant accrued revenue and outstanding accounts receivable balances to cash receipts subsequent to year end.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the Directors' Report, Appendix 4E, Additional Securities Exchange Information and Corporate Directory, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 14 to 22 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Adacel Technologies Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Pricewaterhouse Coopers

PricewaterhouseCoopers

Jason Perry
Partner

Melbourne
23 August 2018

ADDITIONAL SECURITIES EXCHANGE INFORMATION

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information is current as at 6 August 2018 (Reporting Date).

Corporate Governance Statement

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

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

Number of Holdings of Equity Securities

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

The fully paid issued capital of the Company consisted of 78,330,060 ordinary fully paid shares held by 5,860 shareholders. Each share entitles the holder to one vote.

There are no performance rights.

Voting rights of Equity Securities

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

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

Preference shareholders have the right to vote at any meeting convened for the purpose of reducing the capital, or approving the terms of a buy-back agreement, or winding up, or sanctioning a sale of the whole of the Company's property, business and undertaking or where the proposition to be submitted directly affects their rights and privileges or when the dividend or part of the dividend on the preference shares is in arrears. There are no preference shares on issue as at the reporting date.

Distribution of Holders of Equity Securities

	Class of Equity Security	
	Ordinary Shares	**Share Options**
100,001 and over	38	-
10,001 to 100,000	666	-
5,001 to 10,000	865	-
1,001 to 5,000	2,773	-
1 to 1,000	1,518	-
	5,860	**-**

Unmarketable Parcels

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

Unmarketable Parcels as at 6 August 2018	Minimum Parcel Size	Holders	Units
Minimum $500 parcel at $1.645 per unit	304	331	57,933

Substantial holders

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

Shareholder	No. Shares Held	% of Issued Capital
Thorney Holdings Pty Ltd	24,955,331	31.86%
Mr Silvio Salom	5,195,191	6.63%

Twenty Largest Holders of Quoted Equity Securities

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

	Fully Paid Ordinary Shares Top 20 Shareholders	
Shareholder Name	**Shares held**	**% held**
HSBC Custody Nominees (Australia) Limited	29,294,823	37.40
Mr Silvio Salom	4,230,026	5.40
D & E Smith Superannuation Nominees Pty Ltd	2,225,665	2.84
Citicorp Nominees Pty Limited	1,738,895	2.22
Obena Ridge Pty Limited	1,062,276	1.36
Neweconomy Com Au Nominees Pty Ltd (900 Account)	849,873	1.08
Coalwell Pty Ltd	796,182	1.02
JP Morgan Nominees Australia Limited	776,562	0.99
Mr David Wallace Smith	726,257	0.93
Mr James Douglas Carnegie (James Carnegie Family A/c)	599,564	0.77
HSBC Custody Nominees (Australia) Limited – A/C 2	570,305	0.73
National Nominees Limited	443,386	0.57
Ian Harriss Super Pty Ltd (Ian Harriss Super A/c)	378,074	0.48
BNP Paribas Nominees Pty Ltd (IB AU NOMS Retailclient DRP)	377,377	0.48
Valwren Pty Limited (WFIT A/c)	360,000	0.46
Bissapp Software Pty Ltd (Super Fund Account)	296,785	0.38
Valwren Pty Limited (Sandy Family Investment A/c)	290,000	0.37
EMS Arcadia Pty Ltd (CB Films Superfund No 2 A/c)	210,000	0.27
Greenslade Holdings Pty Ltd	204,000	0.26
Mrs Boh Hua Tan	187,100	0.24
	45,617,150	**58.24**

Other Information

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

Stock Exchange Listing

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

Voluntary Escrow

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

Unquoted equity securities

There are no unquoted equity securities on issue in Adacel.

On Market Buyback

The Company is currently conducting an on-market buy-back. It was announced to the market on 17 May 2018 and covers the period 31 May 2018 to 30 May 2019. A maximum number of 7,845,881 shares may be bought back during this period.

Issues of Securities

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

Securities purchased on-market

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

CORPORATE DIRECTORY

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ABN 15 079 672 281

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Board of Directors
Peter Landos (Non-Executive Chairman)
Natalya Jurcheshin (Non-Executive Director)
Michael McConnell (Non-Executive Director)
Silvio Salom (Non-Executive Director)
David Smith (Non-Executive Director)

Company Secretary
Sophie Karzis

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