Adacel Technologies Limited
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Adacel Technologies Limited
(ASX: ADA)

ASX & Media Release

Melbourne, 28 February 2019

Appendix 4D & Half Year Report for the period ended 31 December 2018

Lodged with the ASX under Listing Rule 4.2A
This information should be read in conjunction with the 30 June 2018 annual report

Contents

Adacel Technologies Limited
Appendix 4D
Half-year ended 31 December 2018
(Previous corresponding period: Half-year ended 31 December 2017)

Results for Announcement to the Market

Revenue from continuing operations	Down	6.4%	to	23,750,000
Profit for the period attributable to owners	Down	57.1%	to	1,454,000
Profit before tax for the period	Down	52.3%	to	2,249,000

Dividends/distributions

	Amount per security	Franked amount per security
Interim dividend	$0.0100	$0.0000
Final dividend	-	-
Special dividend	-	-

Record date for determining entitlements to the dividend	14 March 2019
Payment date of the Interim dividend	28 March 2019

Other Information

Earnings per Share

Earnings per Ordinary Share (Cents per Share) Half year ended December 2018	1.9
Earnings per Ordinary Share (Cents per Share) Half year ended December 2017	4.3

Net Tangible Asset Backing

Net Tangible Asset Backing per Ordinary Share (Cents per Share) December 2018	21.35
Net Tangible Asset Backing per Ordinary Share (Cents per Share) June 2018	27.91

Additional information supporting the Appendix 4D disclosure requirements can be found in the Media Release lodged with this Appendix 4D. This Media Release forms part of the Directors' Report.

Adacel Technologies Limited

ABN 015 079 672 281

Half-year ended 31 December 2018

Contents

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

ADACEL TECHNOLOGIES LIMITED
Suite 1, 342 South Road
Hampton East, Vic, 3188

Its shares are listed on the Australian Stock Exchange.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Adacel Technologies Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* .

Adacel Technologies Limited

Directors' report

Your directors present their report on the consolidated entity consisting of Adacel Technologies Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2018.

Directors
The following persons were directors of Adacel Technologies Limited during the whole of the half-year and up to the date of this report, unless otherwise stated:

Peter Landos
Natalya Jurcheshin
Michael McConnell
Silvio Salom
David Smith (resigned 28 February 2019)

Principal activities

The principal activities of the consolidated entity during the current and prior financial periods were air traffic management and air traffic control simulation and software applications and services in the global civil and military aerospace sector.

Review of operations
For a detailed review of operations of Adacel Technologies Limited and the entities it controlled at the end of, or during, the half-year to 31 December 2018, please refer to the Media Release (which forms part of the Directors Report) lodged with this Appendix 4D.

Auditor's 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 5 of this report.

Rounding of amounts to nearest thousand dollars
The amounts contained in this 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 and Investments Commission Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191. The Company is an entity to which this Instrument applies.

This report is made in accordance with a resolution of the directors.

Peter Landos	Natalya Jurcheshin
Chairman	Director

Melbourne, 28 February 2019

Auditor's Independence Declaration

As lead auditor for the review of Adacel Technologies Limited for the half-year ended 31 December 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Adacel Technologies Limited and the entities it controlled during the period.

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
28 February 2019

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Adacel Technologies Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2018

	Note	Half-year ended 31 December 2018 $'000	Half-year ended 31 December 2017 Restated* $'000
Revenue from continuing operations		**23,750**	**25,379**
Interest income		29	81
Other income		523	507
Net foreign exchange gain/(loss)		40	(588)
Materials and consumables		(4,165)	(3,360)
Labour expense		(14,980)	(13,413)
Depreciation and amortisation expense		(330)	(320)
Finance costs		(83)	(101)
All other expenses		(2,535)	(3,472)
Profit before tax		**2,249**	**4,713**
Income tax expense		(795)	(1,323)
Profit from continuing operations		**1,454**	**3,390**
Profit for the half-year		**1,454**	**3,390**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		500	305
Total comprehensive income for the half-year		**1,954**	**3,695**
Profit for the half-year is attributable to:			
Owners of Adacel Technologies Limited		**1,454**	**3,390**
Total comprehensive income for the half-year is attributable to:			
Owners of Adacel Technologies Limited		**1,954**	**3,695**
Total comprehensive income for the half-year attributable to Owners of Adacel Technologies Limited arises from:			
Continuing Operations		**1,954**	**3,695**
Earnings per share for profit attributable to the ordinary equity holders of the company:		**Cents**	**Cents**
Basic earnings per share (cents per share)		1.9	4.3
Diluted earnings per share (cents per share)		1.9	4.3

* See Note 8 for details regarding the restatement as a result of a change in accounting policy.

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

Adacel Technologies Limited
Consolidated statement of financial position
As at 31 December 2018

	31 December 2018 $'000	30 June Restated* 2018 $'000
Current assets		
Cash and cash equivalents	4,870	12,525
Trade and other receivables	12,570	11,009
Accrued revenue	6,752	4,665
Inventories	694	2,845
Other financial assets	158	155
Deferred tax asset	422	403
Total current assets	**25,466**	**31,602**
Non-current assets		
Property, plant and equipment	945	1,041
Intangible assets	864	917
Deferred tax asset	3,517	3,463
Other financial assets	42	41
Total non-current assets	**5,368**	**5,462**
Total assets	**30,834**	**37,064**
Current liabilities		
Trade and other payables	2,408	4,998
Bank overdraft	1,726	-
Advance payments from customers	3,301	2,774
Current tax liabilities	3,192	2,604
Provisions	1,537	1,686
Other liabilities	776	855
Total current liabilities	**12,940**	**12,917**
Non-current liabilities		
Deferred tax liability	672	662
Other liabilities	-	704
Total non-current liabilities	**672**	**1,366**
Total liabilities	**13,612**	**14,283**
Net assets	**17,222**	**22,781**
Equity		
Contributed equity	71,607	73,253
Reserves	(810)	(1,310)
Accumulated losses	(53,575)	(49,162)
Total equity	**17,222**	**22,781**

* See Note 8 for details regarding the restatement as a result of a change in accounting policy.

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

Adacel Technologies Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2018

	Contributed Equity $'000	Reserves $'000	Accumulated Losses $'000	TOTAL EQUITY $'000
	Attributable to the owners of Adacel Technologies Limited			
Balance at 1 July 2017 as originally presented	**75,230**	**(1,964)**	**(47,246)**	**26,020**
Change in accounting policy *	-	-	(132)	**(132)**
Restated total equity at 1 July 2017	**75,230**	**(1,964)**	**(47,378)**	**25,888**
Profit for the half year (restated*)	-	-	3,390	**3,390**
Exchange differences on translation of foreign operations	-	305		**305**
Total Comprehensive Income for the half-year	-	305	3,390	**3,695**
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(7,926)	**(7,926)**
Share buyback	(1,168)	-	-	**(1,168)**
	(1,168)	-	(7,926)	**(9,094)**
Balance at 31 December 2017	**74,062**	**(1,659)**	**(51,914)**	**20,489**
Balance at 1 July 2018 as originally presented	**73,253**	**(1,310)**	**(48,353)**	**23,590**
Change in accounting policy *	-	-	(809)	**(809)**
Restated total equity at 1 July 2018	**73,253**	**(1,310)**	**(49,162)**	**22,781**
Profit for the half year	-	-	1,454	**1,454**
Exchange differences on translation of foreign operations	-	500		**500**
Total Comprehensive Income for the half-year	-	500	1,454	**1,954**
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(5,867)	**(5,867)**
Share buyback	(1,646)	-	-	**(1,646)**
	(1,646)	-	(5,867)	**(7,513)**
Balance at 31 December 2018	**71,607**	**(810)**	**(53,575)**	**17,222**

* See Note 8 for details regarding the restatement as a result of a change in accounting policy.

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

Adacel Technologies Limited
Consolidated cash flow statement
For the half-year ended 31 December 2018

	Half-year ended 31 December 2018 $'000	Half-year ended 31 December 2017 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	21,562	24,546
Payments to suppliers and employees (inclusive of GST)	(21,763)	(22,267)
Payments for development expenditure (inclusive of GST)	(796)	(396)
Refund of security deposits	6	51
	(991)	1,934
Interest received	29	81
Income tax payments	(281)	(692)
Tax credits refunded	-	2,402
Finance costs	(10)	(8)
Net cash (outflow)/inflow from operating activities	**(1,253)**	**3,717**
Cash flows from investing activities		
Payments for plant and equipment	(89)	(73)
Payments for intellectual property	(50)	(123)
Net cash outflow from investing activities	**(139)**	**(196)**
Cash flows from financing activities		
Dividend paid	(5,867)	(7,926)
Cost of shares purchased by on-market share buyback	(1,646)	(1,168)
Repayment of grant	(905)	(705)
Net cash outflow from financing activities	**(8,418)**	**(9,799)**
Net decrease in cash held	**(9,810)**	**(6,278)**
Cash at beginning of the financial year	12,525	16,358
Effects of exchange rate changes on cash	429	16
Cash at end of the half year	**3,144**	**10,096**
Reconciliation of cash		
Cash balance at the end of the period comprises:		
Cash assets	4,870	10,096
Bank overdraft	(1,726)	-
	3,144	**10,096**

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

1. Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2018 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Adacel Technologies Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

Accounting Estimates

The group makes estimates and assumptions concerning the future in computing and preparing its financial reports. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events. The estimates and assumptions adopted for this financial period are consistent with those of the previous financial year.

Accounting Policies

These financial statements have been prepared on the basis of accounting policies consistent with those applied in the 30 June 2018 Annual Report, with any variations explained as follows.

a) New and amended standards adopted by the group

The following amended standards became applicable for the current reporting period.
- *AASB 9 Financial Instruments, (effective from 1 January 2018)*
- *AASB 15 Revenue from contracts with customers (effective from 1 January 2018)*

AASB 9 had no material impact on the group's accounting for its financial assets. However, for AASB 15, the group changed its accounting policies and made restrospective adjustments as a result of adopting the standard.

(i) AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group completed an assessment of its financial assets as at 1 July 2018. Most of the requirements in AASB 139 for classification and measurement of the Group’s financial assets were carried forward in AASB 9. Hence, the Group’s accounting policy for financial assets did not change except for the application of new impairment rules to the trade receivables. In determining the recoverability of a trade or other receivable using the expected credit loss model, a risk analysis is performed by the Group considering the type and age of the outstanding receivables, the creditworthiness of the counterparty, contract provisions, letter of credit and timing of payment.

Adoption of this new standard did not have a significant impact on the financial statements. Based on the risk analysis above, the Group has determined that expected provision for credit losses is not material at transition date, 1 July 2018.

(ii) AASB 15 Revenue from contracts with customers

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 at the point in time when performance obligations are considered met. The method used is selected on the basis of that which best represents the nature of the contract and the performance obligations within each contract whereby different methods of recognition can be used across separate performance obligations within a single contract.

Revenue from rendering of support and services (including field service support and Simcare maintenance) is recognised over a period of time depending upon contractual terms. For fixed price contracts, revenue is recognised on a straight line basis as the customer simultaneously receives and consumes the benefits provided by the performance obligation.

1. Basis of preparation of half-year report (Continued)

For contracts that include time and materials invoicing, mainly based on hourly rates, revenue is recognised monthly based on the actual time and materials incurred to which the Company has a right to invoice. Customers are invoiced based as per the contract on a monthly or weekly basis and consideration is payable when invoiced.

Revenue from license sales of standard software products is recognised at a point in time when control has 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 system and license sales of software products is recognised over time in contracts that generally have different footprints and the customer can request a significant amount of tailoring. In these cases, the Company's performance does not create an asset with an alternative use to the Company and the Company generally has an enforceable right to payment for performance completed to date. Revenue to be recognised is measured using the percentage of completion method, based on the actual labour costs incurred to the end of the reporting period as a proportion of the total services to be provided. Revenue is recognised at a point in time in case the contracts requires the customer to provide acceptance before the Company can have a right to payment for performance completed.

The Company has a number of contracts that offer extended warranty terms to the customers. The provision of extended warranty terms is considered a separate performance obligation. Revenue attributable to extended warranties is measured over time on a straight line basis.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. Losses on contracts are recognised in full when identified.

Typically, the Company has a right to invoice and payment based on the contractual terms with the customers. Payment received before control passes is recognised as a contract liability. The amount of consideration does not contain a significant financing component as payment terms are usually less than one year.
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.

The impact of the adoption of this standard is disclosed in Note 8.

b) Impact of standards issued but not yet applied by the group

(iii) AASB 16 Leases (effective 1 January 2019)

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect the primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of approximately $6,000,000. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

The standard is manatory for first interim periods within annual reporting periods beginning on or after 1 Janaury 2019. The group does not intend to adopt the standard before its effective date.

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

2. Segment information

	Systems		Services		Total	
	2018 $'000	2017 Restated* $'000	2018 $'000	2017 Restated* $'000	2018 $'000	2017 Restated* $'000
Total segment revenue	**9,568**	**10,001**	**14,182**	**15,378**	**23,750**	**25,379**
Total segment margin	**1,185**	**3,373**	**7,223**	**6,719**	**8,408**	**10,092**
Other Income					523	507
Interest Revenue					29	81
Exchange Rate Gain/(loss)					40	(589)
R&D Expenses					(796)	(482)
S&M Expenses					(1,807)	(1,448)
G&A Expenses					(3,735)	(3,027)
Depreciation & Amortisation					(330)	(320)
Interest and Finance Charges					(83)	(101)
Profit before income tax					**2,249**	**4,713**
Income tax expense					(795)	(1,323)
Profit for the period					**1,454**	**3,390**

Description of segments
The consolidated entity was organised during the current and prior financial periods on a global basis into the 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 potentially recurring revenue, including all aspects of support, field services and on-site technical services.

Segment margin
The segment margin represents net sales less cost of goods sold. This segment margin is calculated on a "function basis", as distinct from the "nature of account" basis displayed in the statement of comprehensive income. Support costs of direct functions are included in the project cost of sales. These support costs, (included in overhead costs on a “nature of account” basis) are distributed proportionally to services or systems projects based upon the labour expended on each project.

The CEO prepares his Monthly Executive report to the Board having regard to these segments.

* See Note 8 for details regarding the restatement as a result of a change in accounting policy.

3. Dividends	**Half Year**	
	2018	**2017**
	$'000	$'000
3.1 Dividends provided for or paid during the half-year		
Final Dividend $0.0250 per share (2017: $0.0225)	**1,955**	1,783
Special Dividend $0.0500 per share (2017: $0.0775)	**3,912**	6,143
3.2 Dividends not recognised at the end of the half-year		
In addition to the above dividends, and subsequent to the period end, the Directors have declared an interim unfranked dividend of 1.00 cent per share. The Record Date for the Dividend is 14 March 2019 and will be paid on 28 March 2019. An unfranked dividend of 2.00 cents per share was announced for the previous corresponding period ended 31 December 2017.	**766**	1,575

4. Equity securities movements	**31 December 2018 Shares**	31 December 2017 Shares
4.1 Issues of ordinary shares during the half-year		
There have been no new issues of shares during the half-year.	-	-
4.2 Equity securities cancelled through Share Buyback program		
The company embarked on an on-market Share buyback program which was announced to the Australian Stock Exchange on 17 May 2018. The buyback program is still active, and during the half year ending 31 December 2018, these shares have been purchased and cancelled. The comparative figures represent the previous buyback program announced to the Australian Stock Exchange on 3 May 2017.	1,703,485	490,555

5. Contingent liabilities

Guarantees of $1,726,433 (30 June 2018: $1,362,596) have been given to banks and customers in relation to contract warranty and performance assurances.

6. Events occurring after the balance sheet date

Other than the dividend declared, there were no other significant events subsequent to the balance sheet date.

7. Financing arrangements

Adacel signed a facility agreement with the Royal Bank of Canada on the 28th June 2017.

As at 31 December 2018, the Royal Bank of Canada provided the group with a facility comprising the following:
- 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 originally CAD $150,000 reducing by CAD $50,000 each year as security for our leased premises. This facility now stands at CAD $50,000
- 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 governed by pre-agreed covenants with the bank and is repayable on demand.

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 have an approved limit of CAD $100,000, and Adacel Systems Inc have 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.

8. Change in Accounting Policy - Impact on the financial statements

The Group has adopted AASB 15 *Revenue from contracts with customers* from 1 July 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in AASB 15, the group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 July 2018).

Statement of Financial Position (extract)

	30 Jun 2018 As originally presented $'000	Transitioning Adjustments AASB 15 $'000	30 Jun 2018 Restated $'000
Current assets			
Accrued revenue	7,216	(2,551)	4,665
Inventories	1,140	1,705	2,845
Current liabilities			
Current tax liabilities	2,641	(37)	2,604
Equity			
Accumulated losses	(48,353)	(809)	(49,162)

The impact on the group's accumulated losses as at 1 July 2018 and 1 July 2017 is as follows:

Statement of Changes in Equity (extract)

	2018 $'000	2017 $'000
Accumulated losses – prior to AASB 15 restatement	(48,353)	(47,246)
Reduction of accrued revenue	(2,551)	(270)
Increase in work in progress	1,705	104
Reduction in tax liability	37	34
Adjustment to accumulated losses from adoption of AASB 15	(809)	(132)
Restated accumulated losses	**(49,162)**	**(47,378)**

The total impact of transition adjustments on 31 December 2017 reported income statement is as follows:

Statement of Comprehensive Income (extract)

	31 Dec 2017 As originally presented $'000	AASB 15 $'000	31 Dec 2017 Restated $'000
Revenue	25,589	(210)	25,379
Materials and Consumables	(3,436)	76	(3,360)
Labour Expense	(13,488)	75	(13,413)
Income tax (expense)/benefit	(1,304)	(19)	(1,323)
Change in Profit		**(78)**	

The Company has a number of projects where the warranty exceeds the standard 12 month term. The new accounting policy dictates that the revenue attributable to these warranties is to be recognised separately over the period of the warranty. The Company also had one customer where there was not an irrevocable right to payment upon contract cancellation. The revenue on this project can only be recognised upon acceptance by the customer. These projects were all in the systems segment.

Adacel Technologies Limited

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 6 to 14 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 31 December 2018 and of its performance, as represented by the results of its operations, changes in equity and cash flows, for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Adacel Technologies Limited will be able to pay its debts as and when they become due and payable.

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

Peter Landos	Natalya Jurcheshin
Chairman	Director

Melbourne, 28 February 2019

Independent auditor's review report to the members of Adacel Technologies Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Adacel Technologies Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Adacel Technologies Limited. The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Adacel Technologies Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Adacel Technologies Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Jason Perry
Partner

Melbourne
28 February 2019