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Adacel Technologies Limited

(ASX: ADA)

ASX & Media Release

Melbourne, 24 February 2016

Appendix 4D & Half Year Report for the period ended 31 December 2015

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the 30 June 2015 annual report

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Adacel Technologies Limited
Half-year ended 31 December 2015

(Previous corresponding period: Half-year ended 31 December 2014)

Results for Announcement to the Market

				\$000
Revenue from continuing operations	Up	42.1%	to	24,613
Profit for the period attributable to members	Up	608.9%	to	5,707

Dividends/distributions	Amount per security	Franked amount per security
Final dividend	-	-
Interim dividend	\$0.0125	\$0.0000

Record date for determining entitlements to the dividend

17 March 2016

Net Tangible Asset Backing	December 2015	June 2015
Net tangible asset backing per ordinary share (cents per share)	20.4	15.0

Adacel Technologies Limited

Half year ended 31 December 2015

(Previous corresponding period: Half year ended 31 December 2014)

Overview of Financial Performance

The Company has delivered a strong financial result for the six month period ended 31 December 2015 with a profit before tax of A\$6.3 million, an increase of over 300% compared to the prior corresponding period (2014: A\$1.4 million).

This first half result has been driven principally by strong on-going business activity with key customers and the award and renewal of certain orders being received ahead of original expectations. Total revenue for the period was A\$24.6 million, 42% higher than the prior corresponding period (2014: A\$17.3 million).

Earnings before interest, tax and depreciation (EBITDA) increased to A\$6.8 million, over 250% greater than the prior corresponding period (2014: A\$1.9 million).

The net cash balance as at 31 December 2015 was A\$11.3 million, reflecting cash inflows of A\$3.7 million for the six month period. This cash flow represents a decrease when compared to the prior corresponding period (2014: A\$4.8 million), principally due to the payment of a dividend in this period. Cash flow in the second half of the 2016 financial year is anticipated to be higher reflecting the benefit of receivables generated in the first half. There were no bad debts recognised during the period and all receivables from key customers remain on commercial and contracted terms.

Business Segment Reporting

Commencing in this reporting period, the Company will begin reporting under the following business segments: Systems and Services. The financial results for the prior corresponding period have been amended to allow for a more beneficial comparison for shareholders.

Systems

The Systems segment represents all sales of integrated software systems and products covering operational control as well as simulation and training. This segment also includes all hardware and software upgrade sales.

Services

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

The revenue contributions of the Company's key business segments can be summarised as follows:

Business segment revenue A\$'000	Six months ended 31 December				% change
	2015		2014		
Systems	9,895	40.2%	6,852	39.6%	44.4%
Services	14,718	59.8%	10,470	60.4%	40.6%
Total revenue	24,613	100.0%	17,322	100.0%	42.1%

The foreign currency effect on the Company's reported revenue for the relevant period due to a lower average Australian dollar versus the United States Dollar was approximately A\$1.0 million.

The relative gross margin contribution of each business segment for the six months ended 31 December 2015 can be summarised as follows:

Business segment A\$'000	Six months ended 31 December					
	2015			2014		
	Revenue	GM	GM %	Revenue	GM	GM %
Systems	9,895	5,128	51.8%	6,852	3,766	55.0%
Services	14,718	8,564	58.2%	10,470	5,573	53.2%
Total	24,613	13,692	55.6%	17,322	9,339	53.9%

The gross margin contributions for the period illustrate the consistency in business activity towards more stable and annuity-style earnings, as represented by the Services segment.

Overview of Operating Performance

Systems

During the six month period ended 31 December 2015, additional air traffic management (**ATM**) system sales occurred with French Guiana as an upgrade to the ATM contract awarded during FY2015. The installation of this system was largely completed during the period, after which the Company will be responsible for service and support for the lifetime of the system. This program was the first of five ATM systems to be installed under the French Territories Modernisation Program, with contract aware for installation of the second system anticipated to be during FY2017.

Sales of simulation products during the period included sales to the United States Army, the Federal Aviation Administration, St Maarten, Miami Dade College and Dallas/Fort Worth International Airport. Hardware and software upgrades completed in whole or part included those to Austro Control, as well as the United States Air Force.

Services

The global footprint of air traffic control simulators and air traffic management systems has provided the Company with a diverse customer base and an order book with considerable earnings visibility and predictability. Given the multi-year terms of the services contracts, the Company anticipates that the composition of earnings will continue to be weighted towards the Services business segment. Some examples of the activities of the Company within the Services and Support business segments include on-site simulator operators, field service representatives and air traffic control instructor services.

During the six month period ended 31 December 2015, contributions in the Services and Support business segments were principally derived from:

- United States Air Force simulator support program;
- FAA under the ATOP program;
- Software field services for NavPortugal;
- United States Army;
- FAA under the Tower Simulation Systems Program;
- SAIC under the Controller Training Contract (CTC) with the Company now having 70+ on-site support personnel deployed at various FAA locations;
- Universities and Aviation Colleges;
- Air Services Australia; and
- Royal Australian Air Force.

Dividend

The Board is pleased to declare an unfranked interim dividend of A\$0.0125 (A1.25 cents per share), an increase of 67% over the prior corresponding period interim dividend (2014: A\$0.0075). The interim dividend has a record date of 17 March 2016 and will be paid on 31 March 2016.

Outlook

The Board is confident that the current momentum in the business will be maintained for the balance of FY2016. Whilst it is too early to provide specific guidance for the second half of FY2016, the combination of a strong order book to commence the calendar year, good visibility of opportunities for each of the business segments and disciplined operating systems provides confidence that the guidance for FY2016 of profit before tax being 70% higher than the previous period is achievable.

Adacel Technologies Limited

ABN 015 079 672 281

Half-year ended 31 December 2015

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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 2015 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 2015.

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:

Peter Landos
Kevin Courtney
Silvio Salom
David Smith
Julian Beale

Principal activities

The principal activities of the consolidated entity during the current and prior financial periods were simulation and software applications and services.

Review of operations

A review of operations of Adacel Technologies Limited and the entities it controlled at the end of, or during, the half-year to 31 December 2015 is set out on pages 3 to 5 of this report.

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 8 of this report.

Rounding of amounts to nearest thousand dollars

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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



Peter Landos
Chairman



David Smith
Director

Melbourne, 24 February 2016



Auditor's Independence Declaration

As lead auditor for the review of Adacel Technologies Limited for the half-year ended 31 December 2015, 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.

A handwritten signature in blue ink that reads 'Barlow'.

Andrew Barlow
Partner
PricewaterhouseCoopers

Melbourne
24 February 2016

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Adacel Technologies Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2015

		Half-year ended 31 December	
	Note	2015 \$'000	2014 \$'000
Revenue from continuing operations		24,613	17,322
Interest Income		12	7
Other income		873	256
Net foreign exchange gain (loss)		732	76
Raw materials and consumables used		(3,094)	(2,419)
Employee & Subcontractor Salaries & Benefits		(12,623)	(9,501)
Depreciation and amortisation expense		(386)	(347)
Finance costs		(176)	(147)
Other expenses			
Travel & Entertainment Expenses		(192)	(279)
Printing & Stationery		(35)	(32)
Audit & Tax Fees		(227)	(238)
Legal/Consulting Fees		(1,054)	(569)
Light & Power		(53)	(39)
Premises Rental Cost		(553)	(524)
Insurance		(311)	(291)
Telephone		(52)	(55)
Directors Fees		(164)	(131)
Investor & Public Relations Costs		(31)	(21)
IT Costs		(151)	(150)
Trade Shows		(111)	(124)
Employee Training		(36)	(32)
Repair & Maintenance		(167)	(173)
Bad & Doubtful Debts reversed (expensed)	3	28	(776)
Sundry Other Expenses		(568)	(379)
Profit before tax		6,274	1,434
Income tax (expense)/benefit		(567)	(629)
Profit from continuing operations		5,707	805
Profit from discontinued operations		-	-
Profit for the half-year		5,707	805
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(595)	934
Total comprehensive income for the half-year		5,112	1,739
Profit is attributable to:			
Owners of Adacel Technologies Limited		5,707	805
Total comprehensive income for the half-year is attributable to:			
Owners of Adacel Technologies Limited		5,112	1,739
Total comprehensive income for the half-year attributable to Owners of Adacel Technologies Limited arises from:			
Continuing Operations		5,112	1,739
Earnings per share for profit attributable to the ordinary equity holders of the company:		Cents	Cents
Basic earnings per share (cents per share)		7.2	1.0
Diluted earnings per share (cents per share)		7.2	1.0

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 2015

	31 December 2015 \$'000	30 June 2015 \$'000
Current assets		
Cash and cash equivalents	11,305	7,627
Receivables	9,306	8,059
Accrued revenue	4,357	7,629
Inventories	214	931
Other financial assets	197	263
Total current assets	25,379	24,509
Non-current assets		
Plant and equipment	1,718	1,836
Intangible assets (net)	1,074	1,235
Other financial assets	26	25
Total non-current assets	2,818	3,096
Total assets	28,197	27,605
Current liabilities		
Payables	4,783	5,657
Advanced payments from customers	2,302	3,512
Current tax liabilities	1,046	1,706
Provisions	353	459
Other financial liabilities	807	745
Total current liabilities	9,291	12,079
Non-current liabilities		
Provisions	7	5
Other non-current liabilities	1,630	2,373
Total non-current liabilities	1,637	2,378
Total liabilities	10,928	14,457
Net assets	17,269	13,148
Equity		
Contributed equity	75,253	75,253
Reserves	(1,714)	(1,119)
Accumulated losses	(56,270)	(60,986)
Total equity	17,269	13,148

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 2015

	Attributable to the owners of Adacel Technologies Limited			
	Contributed Equity \$'000	Reserves \$'000	Retained Earnings \$'000	TOTAL EQUITY \$'000
Balance at 1 July 2014	75,345	(2,255)	(64,325)	8,765
Profit for the half year	-	-	805	805
Exchange differences on translation of foreign operations	-	934		934
Total Comprehensive Income for the half-year	-	934	805	1,739
Transactions with owners in their capacity as owners:				
Share Buyback equity reductions	(59)	-	-	(59)
	(59)	-	-	(59)
Balance at 31 December 2014	75,286	(1,321)	(63,520)	10,445
Balance at 1 July 2015	75,253	(1,119)	(60,986)	13,148
Profit for the half year	-	-	5,707	5,707
Exchange differences on translation of foreign operations	-	(595)		(595)
Total Comprehensive Income for the half-year	-	(595)	5,707	5,112
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(991)	(991)
	-	-	(991)	(991)
Balance at 31 December 2015	75,253	(1,714)	(56,270)	17,269

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 2015

	Half-year ended 31 December	
	2015	2014
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	26,175	21,879
Payments to suppliers and employees (inclusive of GST)	(18,373)	(17,600)
Payments for development expenditure (inclusive of GST)	(666)	(308)
Refund of Security Deposits	61	-
	<u>7,197</u>	<u>3,971</u>
Interest received	12	7
Income tax payments	(1,293)	(11)
Tax credits refunded	-	1,211
Net cash inflow from operating activities	<u>5,916</u>	<u>5,178</u>
Cash flows from investing activities		
Payments for plant and equipment	(256)	(81)
Net cash outflow from investing activities	<u>(256)</u>	<u>(81)</u>
Cash flows from financing activities		
Dividend Paid	(991)	-
Cost of Shares purchased by on-market share buyback	-	(59)
Repayment of borrowings	-	(3)
Repayment of Grant	(699)	(587)
Net cash outflow from financing activities	<u>(1,690)</u>	<u>(649)</u>
Net increase in cash held	3,970	4,448
Cash at beginning of the financial year	7,627	2,189
Effects of exchange rate changes on cash	(292)	370
Cash at end of the half year	<u><u>11,305</u></u>	<u><u>7,007</u></u>
Reconciliation of cash		
Cash balance at the end of the period comprises:		
Cash assets	11,305	7,007
	<u><u>11,305</u></u>	<u><u>7,007</u></u>

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

Adacel Technologies Limited
Notes to the financial statements
31 December 2015

1. Basis of preparation of half-year report

This report is a general purpose financial report for the interim half-year reporting period ended 31 December 2015 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 2015 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 and corresponding interim reporting period.

Accounting Policies

These financial statements have been prepared on the basis of accounting policies consistent with those applied in the 30 June 2015 Annual Report, with any variations explained as follows.

a) New and amended standards adopted by the group

Any new accounting standards and interpretations which became effective from 1 July 2015 have been incorporated into these accounts. There has been no change to the Company's accounting policies nor any retrospective adjustments made as a result of adopting these standards.

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

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

This standard addresses the classification, measurement and derecognition of financial assets and financial liabilities as well as introducing new rules for hedge accounting. The standard is not applicable until 1 January 2018 but was available for early adoption. The group will adopt AASB 9 for the accounting period starting 1 July 2018. Although a detailed assessment has not been performed, the group doesn't believe it is likely to affect the group's accounting for its financial assets.

(ii) AASB 15 Revenue from contracts with customers

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard is not applicable until 1 January 2018 but is available for early adoption. At the moment, the group expects to adopt AASB 15 for the accounting period starting 1 July 2018. At this stage the group is not able to estimate the impact of the new rules on the group's financial statements. The group will make a more detailed assessment in the future.

(iii) IFRS 16 Leases

The IASB has issued a new standard for leases. The changes under IFRS16 are significant and will predominantly affect leases, with almost all leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. To measure a lease, the lease term and lease payments must be established - both are defined more broadly under IFRS16 than under the previous standard. Specifically, the lease term now includes extension periods if it is reasonably certain the lessee will extend the lease, while lease payments now include certain variable payments such as CPI increases and purchase options which are reasonably certain to be exercised. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years, similar to a mortgage where the interest expense is high until the capital is significantly reduced. Additionally, operating expense will be replaced with interest and depreciation so key metrics like EBITDA will be affected. The impact on the Group is not expected to be significant.

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.

Adacel Technologies Limited
Notes to the financial statements
31 December 2015

2. Segment information

	System Sales		Service & Support		Total	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Total segment revenue	9,895	6,852	14,718	10,470	24,613	17,322
Total segment margin	5,128	3,766	8,564	5,573	13,692	9,339
Other Income					873	256
Interest Revenue					12	7
Exchange Rate Gain (loss)					732	76
R&D Expenses					(666)	(308)
S&M Expenses					(1,606)	(1,386)
G&A Expenses					(5,640)	(5,965)
Redundancy Costs					(457)	(80)
Non-Operating Expenses					(104)	(11)
Depreciation & Amortisation					(386)	(347)
Interest and Finance Charges					(176)	(147)
Profit/(loss) before income tax					6,274	1,434
Income tax expense					(567)	(629)
Profit for the period					5,707	805

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

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

Adacel Technologies Limited
Notes to the financial statements
31 December 2015

3. Profit for the half-year

Included in the profit for the half-year is a bad debt reversal (gain) of \$0.03M compared to a bad debt (loss) of \$0.78M in the comparative half-year ended 31 December 2014. Also included in this half-year is a redundancy expense of \$0.43M to the former CEO's contract that was terminated for health reasons. The profit for the half-year does not include any other items that are unusual because of their nature, size or incidence.

4. Dividends

Subsequent to the period end, the Directors have declared an unfranked dividend of 1.25 cents per share. The Record Date for the Dividend is 17 March 2016 and will be paid on 31 March 2016. An unfranked dividend of 0.75 cents per share was announced for the previous corresponding period ended 31 December 2014.

5. Equity securities movements

31 December 2015 Shares	31 December 2014 Shares
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5.1 Issues of ordinary shares during the half-year

There have been no new issues of shares during the half-year.

5.2 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 7th August 2014. The buyback program completed on 30 June 2015. No new Buyback program has been activated since 30 June 2015. The following shares have been purchased and therefore cancelled in their respective periods..

- (200,000)

6. Contingent liabilities

Guarantees of \$514,551 (30 June 2015: \$686,874) have been given to banks and customers in relation to contract warranty and performance.

7. Events occurring after the balance sheet date

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

8. Net tangible asset backing

	31 December 2015	30 June 2015
(a) Net tangible asset backing per ordinary share (cents per share)	20.4	15.0
(b) Number of ordinary shares used as the denominator in calculating net tangible asset backing per ordinary share	79,268,178	79,268,178

9. Financing arrangements

As at 31 December 2015, the Royal Bank of Canada was providing the group with a facility for up to \$10 million Canadian Dollars which was repayable on demand. The facility comprises a \$5 million Canadian Dollars Overdraft facility as well as an additional \$5 million Canadian Dollars available for Customer's Guarantees. Access to the facility is governed by pre-agreed covenants with the bank. Adacel Technologies Limited (the parent entity) and the other North American entities (being Adacel Inc, Adacel Systems Inc, Adacel Technologies Holdings Inc and Adacel Technologies Inc) have also agreed to provide a guarantee to the bank for the facility.

The directors have reviewed the size and terms of the facility and 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.

Adacel Technologies Limited

Directors' declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 9 to 15 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 2015 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
Chairman



David Smith
Director

Melbourne, 24 February 2016



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 2015, 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, selected explanatory notes and the directors' declaration for Adacel Technologies Limited (the consolidated entity). The consolidated entity 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 consolidated entity's financial position as at 31 December 2015 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*.

PricewaterhouseCoopers, ABN 52 780 433 757

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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:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'Barlow'.

Andrew Barlow
Partner

Melbourne
24 February 2016