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Adacel Technologies Limited

(ASX: ADA)

ASX & Media Release

Melbourne, 29 August 2013

Appendix 4E - Preliminary Final Report Year ended 30 June 2013

Lodged with the ASX under Listing Rule 4.3A

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Adacel Technologies Limited
Year ended 30 June 2013

(Previous corresponding period: Year ended 30 June 2012)

Results for Announcement to the Market

				\$000
Revenue from continuing operations	down	19%	to	31,295
Profit for the period attributable to owners	down	\$3.592M	to	810

Dividends/distributions	Amount per security	Franked amount per security
Final dividend	-	-
Interim dividend	-	-
Special dividend paid	\$0.015	-

Record date for determining entitlements to the dividend

-

Operating and Financial Review

Overview

Although Adacel has delivered a second consecutive year of profitability in 2013, the Board was disappointed in the overall outcome. The Company achieved a profit before tax in 2013 of \$0.9m compared to \$4.6m in 2012. The 2013 result, achieved on revenues of \$31.3m versus the prior year of \$38.6m, was largely driven by key orders arriving late in the period and, consequently, not contributing to earnings. These orders will benefit the Company in 2014 and later years.

The Company's key achievements were:

- total orders in 2013 of \$35.7m were received, above the Company's forecasts (prior year \$39.9m). The order book is strong and provides a sound foundation for improved earnings in 2014. In addition, a number of additional orders have been received early in 2014 which will further contribute to earnings in the 2014 period;
- operating cash flows of \$3.8m were high which delivered a record net cash position as at 30 June 2013, reflecting the strong focus on working capital management;
- the payment of an inaugural dividend of 1.5 cents per share (unfranked) to shareholders in March 2013. Further dividends will be paid in the future where considered appropriate, efficient for shareholders and supported by operating performance and balance sheet capacity;
- the purchase of the Aurora intellectual property from CAE for \$1.5m in October 2012;
- an increased R&D spend during 2013 on the Company's core technologies;
- extensions of contracts with key partners, including United States Air Force (USAF), Federal Aviation Administration (FAA) and ENAV in Italy;
- the entering into a teaming agreement with the Lockheed Martin Corporation in relation to offering oneSKY, the jointly-developed, next generation ATM system on the forthcoming Australian CMATs program;
- tight overhead cost control; and
- disciplined program management and execution.

Adacel Technologies Limited

Year ended 30 June 2013

(Previous corresponding period: Year ended 30 June 2012)

The Year in Review

Air Traffic Management

The Air Traffic Management business continued its consistent contribution in 2013, primarily from its two key customers, the FAA under the ATOP program with Lockheed Martin, and NavPortugal. The Company's relationship and important role with the FAA was recently confirmed following the FAA's renewal of the ATOP Program contract with Lockheed Martin and Adacel for a further eight years (one base year, seven option years) until 2021.

The ATOP system utilises Adacel's Aurora air traffic management software and is comprised of hardware and software components that provide an automated platform to support air traffic control operations.

The Company's Aurora ATM technology continues to be used in Fiji, Iceland, New Zealand, Norway and Portugal.

Leveraging off the relationship established and cultivated with the Lockheed Martin Corporation on the ATOP program for the FAA, Adacel has entered into a teaming agreement with the Lockheed Martin Corporation in relation to offering oneSKY, the jointly-developed, next generation ATM system. The system will be offered to the Australian aviation authorities as part of the forthcoming procurement and it is anticipated that the Australian authorities will make their decision on a new system during calendar 2014.

Further, the Company is pursuing a number of procurements in the Asia-Pacific region, including Papua New Guinea and Brunei, and in Eastern Europe, including Russia.

Simulation

Adacel's ATC simulation systems have proven to be very effective in the training of both civil and military air traffic controllers globally.

In the USA, the Simulation business continued to be underpinned by key relationships with the FAA and USAF. Both the FAA and USAF have recently extended their contracts with the Company for ongoing support services and upgrades on existing programs. Domestically, simulators installed at key locations for Air Services Australia and Royal Australian Air Force have consolidated the Company's presence and continue to deliver crucial training to both civil and military air traffic controllers.

The Company is pleased to confirm that it was selected by the United States Army in August 2013 to deliver the Air Traffic Common Simulator (ACS) program. The initial award is a five year basic purchasing agreement under which simulation systems, hardware and software support, and training services will be procured. Indications are that the US Army may procure up to 75 ATC trainers under the ACS program. This award confirms the Company as the preferred supplier of ATC simulation systems to both the civil and military markets.

Key Business Partners

The Company continues to value the relationships with its key partners across many programs and jurisdictions, including the FAA, US Military, CAE, ENAV, Lockheed Martin, RAAF, Air Services Australia, Sanmina, SCI, Sandia National Labs, Hungaro, Control, Singapore Technologies, Telephonics, Avinor, Boeing and the Ukraine CAA. The Company looks forward to continued development of these relationships over future years.

Adacel Technologies Limited
Year ended 30 June 2013

(Previous corresponding period: Year ended 30 June 2012)

Key Risks and Business Challenges

In certain regions, air traffic management systems are ageing and, consequently, incapable of adequately managing the growth in air traffic. As a result, the Company is witnessing a period whereby global aviation authorities are assessing their air traffic management system capabilities and air traffic control training environments. This assessment process is being driven by the growth in air travel in all markets as well as factors relating to cost efficiencies, the environment and the degree to which connectivity exists between systems and jurisdictional airspace. Current examples include Papua New Guinea, China and Russia, all of whom are developing their requirements for new and upgraded ATM systems and ATC simulation training platforms.

The Company believes it is well-placed to play a role as a key supplier of leading air traffic management and training technologies, either as a prime contractor or as a key technology partner. The Company's comprehensive list of relationships is testament to its ability to contribute at a variety of levels and across different countries and jurisdictions.

The challenge for the Company is managing the lead-time in the decision-making process which is often long and dependent upon the availability of adequate funding in governmental budgets. These lengthy decision-making processes can, at times, impede the Company's efforts to accurately predict the timing and quantum of new contract award opportunities.

In order to manage these challenges, the Company has increased the focus on its business development and resources on key areas of opportunity. For example, the Company has recently recruited a business development manager for the Asia-Pacific region to focus on the growing opportunities emerging and identified by the Company.

Key Financial Results

The key financial results and material factors affecting the assets, liabilities and equity of the Company for the period are contained in Appendix 4E, Note 2.

Outlook

The outlook for the Company remains positive. Delay in the award of significant orders during 2013 provides a strong platform for profitable earnings in 2014.

The Company will continue to work closely with our key partners and customers and drive efficiencies across the business.

The Directors are cautiously optimistic that, despite the challenges in the global economic environment, ongoing global budgetary constraints, the Company order backlog should deliver further profitability in the 2014.

Adacel Technologies Limited
Preliminary consolidated statement of comprehensive income
For the year ended 30 June 2013

	Notes	Consolidated	
		2013 \$000	2012 \$000
Revenue from continuing operations		31,295	38,557
Other income		1,336	1,348
Net foreign exchange (loss)/gain		(442)	190
Materials and consumables		(3,337)	(6,420)
Labour expense		(21,136)	(21,956)
Depreciation and amortisation expense		(498)	(462)
Finance costs		(503)	(498)
Lease rental expense		(1,243)	(1,405)
Professional fees		(1,178)	(1,107)
Insurance expense		(456)	(491)
Communications expense		(132)	(115)
Travel & entertainment expense		(704)	(687)
Trade shows		(273)	(367)
Repairs & maintenance		(223)	(326)
Bad & doubtful debts		-	(203)
All other expenses		(1,570)	(1,436)
Profit before tax		936	4,622
Income tax (expense)	5	(126)	(220)
Profit from continuing operations		810	4,402
Profit for the year		810	4,402
Other comprehensive income			
Exchange differences on translation of foreign operations		1,120	9
Total comprehensive income for the year		1,930	4,411
Profit is attributable to:			
Owners of Adacel Technologies Limited		810	4,402
Total comprehensive income for the year is attributable to:			
Owners of Adacel Technologies Limited		1,930	4,411
Earnings per share for profit attributable to the ordinary equity holders of the company:		Cents	Cents
Basic earnings/(loss) per share (cents per share)	9	1.0	5.4
Diluted earnings/(loss) per share (cents per share)	9	1.0	5.4

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

Adacel Technologies Limited
Preliminary consolidated statement of financial position
As at 30 June 2013

	Notes	Consolidated	
		2013 \$000	2012 \$000
Current assets			
Cash and cash equivalents	2(a)	6,127	5,745
Receivables	2(b)	5,902	7,623
Current tax receivable	2(c)	4	16
Accrued revenue	2(b)	4,300	5,998
Inventories	2(d)	411	802
Other financial assets	2(e)	504	32
Total current assets		17,248	20,216
Non-current assets			
Plant and equipment (net)	2(f)	610	835
Intangible assets (net)	2(g)	1,431	-
Other Financial Assets	2(e)	20	19
Deferred tax asset	2(h)	4,003	3,714
Total non-current assets		6,064	4,568
Total assets		23,312	24,784
Current liabilities			
Borrowings	2(i)	4	-
Payables	2(j)	4,281	5,506
Advanced payments from customers	2(k)	1,967	2,864
Current tax liabilities	2(l)	626	610
Provisions	2(m)	883	578
Other current liabilities	2(n)	666	757
Total current liabilities		8,427	10,315
Non-current liabilities			
Borrowings	2(i)	5	-
Other non-current liabilities	2(n)	3,344	3,329
Provisions	2(m)	5	-
Total non-current liabilities		3,354	3,329
Total liabilities		11,781	13,644
Net assets		11,531	11,140
Equity			
Contributed equity	2(o)	75,378	75,718
Reserves	2(p)	(1,809)	(2,925)
Retained profits/(accumulated losses)	7	(62,038)	(61,653)
Total equity		11,531	11,140

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

Adacel Technologies Limited
Preliminary consolidated statement of changes in equity
For the year ended 30 June 2013

	Attributable to the owners of Adacel Technologies Limited			
	Contributed Equity \$'000	Reserves \$'000	Retained Earnings \$'000	TOTAL EQUITY \$'000
Balance at 1 July 2011	76,015	(2,926)	(66,063)	7,026
Profit for the year	-	-	4,402	4,402
Exchange differences on translation of foreign operations	-	9	-	9
Total Comprehensive Income for the year	-	9	4,402	4,411
Transactions with owners in their capacity as owners:				
Share buyback equity reductions	(296)	-	-	(296)
Cost associated with share buyback	(1)	-	-	(1)
Value of options that have lapsed during the current period	-	(8)	8	-
	(297)	(8)	8	(297)
Balance at 30 June 2012	75,718	(2,925)	(61,653)	11,140
Balance at 1 July 2012	75,718	(2,925)	(61,653)	11,140
Profit for the year	-	-	810	810
Exchange differences on translation of foreign operations	-	1,120	-	1,120
Total Comprehensive Income for the year	-	1,120	810	1,930
Transactions with owners in their capacity as owners:				
Share buyback equity reductions	(339)	-	-	(339)
Cost associated with share buyback	(1)	-	-	(1)
Dividends provided for or paid	-	-	(1,199)	(1,199)
Value of options that have lapsed during the current period	-	(4)	4	-
	(340)	(4)	(1,195)	(1,539)
Balance at 30 June 2013	75,378	(1,809)	(62,038)	11,531

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

Adacel Technologies Limited
Preliminary consolidated statement of cash flows
For the year ended 30 June 2013

	Consolidated	
	2013	2012
Notes	\$000	\$000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	33,915	35,739
Payments to suppliers and employees (inclusive of GST)	(30,120)	(33,886)
Payments for research and development expenditure (inclusive of GST)	(841)	(404)
	<u>2,954</u>	<u>1,449</u>
Interest received	37	19
Income tax paid	-	-
Tax Credits Refunded	821	791
Finance costs	(2)	(4)
Net cash inflow from operating activities	6 <u><u>3,810</u></u>	<u><u>2,255</u></u>
Cash flows from investing activities		
Payments for plant and equipment	(115)	(453)
Proceeds from sale of plant and equipment	-	124
Payments for Intellectual Property	(1,551)	-
Payment of security deposits	(260)	(224)
Net cash outflow from investing activities	<u><u>(1,926)</u></u>	<u><u>(553)</u></u>
Cash flows from financing activities		
Dividend Paid	(1,199)	-
Proceeds from borrowings	13	-
Repayment of borrowings	(4)	(77)
Shares repurchased through on market share buy-back	(340)	(296)
Share buy-back costs	-	(1)
Net cash outflow from financing activities	<u><u>(1,530)</u></u>	<u><u>(374)</u></u>
Net increase in cash held	354	1,328
Cash at beginning of the financial year	5,745	4,451
Effects of exchange rate changes on cash	28	(34)
Cash at end of the financial year	<u><u>6,127</u></u>	<u><u>5,745</u></u>
Reconciliation of cash		
Cash balance at the end of the year comprises:		
Cash assets - Cash at bank	6,127	5,745
	<u><u>6,127</u></u>	<u><u>5,745</u></u>

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

Adacel Technologies Limited
Notes to the preliminary consolidated financial statements
30 June 2013

1. Material factors affecting the revenues and expenses of the economic entity for the current period.

A discussion on the material factors affecting the revenues and expenses of the economic entity for the current period is contained on pages 2 to 4.

2. Material factors affecting the assets, liabilities and equity of the economic entity for the current period.

Note 2(a): Cash and cash equivalents

The closing balance of cash as at 30 June 2013 was a net cash deposit of \$6.1m as compared to a net cash deposit of \$5.7m as at 30 June 2012. This is an increase in cash balances of \$0.4m. None of the overdraft facility is being utilised as at the year end.

The major components of this increase are:

- : Operating activities (excluding interest and tax) \$3.0m
- : Tax Credits received \$0.8m
- : Dividend Paid \$1.2m
- : Purchase of IP \$1.5m
- : Cost of shares bought back \$0.3m

Note 2(b): Receivables & accrued revenue

Receivables and accrued revenue have decreased by a net amount of \$3.4m to \$10.2m as at 30 June 2013. Receivables have decreased by \$1.7m to \$5.9m whilst accrued revenue has also decreased by \$1.7m to \$4.3m. We have continued our strict focus on collections and have continued to reduce our receivables this year. The decrease in accrued revenue is predominantly a matter of timing where our major contracts are billed periodically upon milestone achievements and revenue is mainly recognised under the percentage of completion (POC) method. These are mainly government contracts where payment is assured.

Note 2(c): Current tax receivable

There has been no material movement in Current tax receivable for the year ending 30 June 2013.

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

Inventories have decreased by \$0.4m to \$0.4m as at 30 June 2013. Inventories are substantially comprised of work-in progress for North American customers.

Note 2(e): Other financial assets

Other Financial Assets have increased by \$0.5m for the year ending 30 June 2013. The increase being restricted cash deposits with the Royal Bank of Canada, for Security and performance guarantees.

Note 2(f): Plant & equipment

The net value of property, plant & equipment decreased by \$0.2m to \$0.6m during the year ended 30 June 2013. New equipment acquisitions of \$0.1m together with a minor foreign exchange impact of \$0.1m has been offset by \$0.4m charged for depreciation.

Note 2(g): Intangible Assets

Intangible Assets have increased by \$1.4m to \$1.4m during the year ending 30 June 2013. This is solely attributable to the outright purchase of the Aurora (ATOP) software enabling us to retire all future royalty payment liabilities.

Note 2(h): Deferred tax asset

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

Adacel Technologies Limited
Notes to the preliminary consolidated financial statements
30 June 2013

Note 2(i): Borrowings

An immaterial increase in Borrowings relates to a finance lease for the purchase of a new phone system.

Note 2(j): Payables

Payables and accruals have decreased by \$1.2m to \$4.3m during the year ending 30 June 2013. The change is indicative of the lower than previous year turnover.

Note 2(k): Advance payments from customers

Advance payments from customers has decreased by \$0.9m to \$2.0m as at 30 June 2013. These payments are received under the terms of the contract for supply of equipment and services. This amount will decrease as sales are recognised under the percentage of completion (POC) method.

Note 2(l): Current tax liabilities

Current tax liabilities have had no material change and remain at \$0.6m as at 30 June 2013. The amount represents tax payable by Adacel Systems Inc and Adacel Technologies Holdings Inc, both in the USA.

Note 2(m): Provisions

Provisions have increased by \$0.3m to \$0.9m as at 30 June 2013. The majority of this increase relates to warranty provision increases.

Note 2(n): Other liabilities

Other liabilities have decreased by \$0.1m to \$4.0m as at 30 June 2013. This amount represents the liability due to the Canadian Government for funding grants, and is recalculated each year to reflect payments made and updated budgets.

Note 2(o): Contributed equity

The share capital of the company has decreased \$0.3m to \$75.4m as at 30 June 2013. The decrease results from the Share Buy Back activity that occurred during the financial year.

Note 2(p): Reserves

Reserves have increased by \$1.1m to \$1.8m as at 30 June 2013. This is solely due to exchange differences on the translation of Foreign Operations.

3. Material factors affecting the cash flows of the economic entity for the current period

A discussion on the material factors affecting the cash flows of the economic entity for the current period is contained on pages 2 to 4.

Adacel Technologies Limited
Notes to the preliminary consolidated financial statements
30 June 2013

4. Segment information

	Australia		North America		Corporate Office		Intersegment Eliminations		Total	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000	2013 \$000	2012 \$000	2013 \$000	2012 \$000	2013 \$000	2012 \$000
Sales to external customers	268	208	30,990	38,330	-	-	-	-	31,258	38,538
Intersegment sales	241	85	41	-	362	370	(644)	(455)	-	-
Total sales revenue	509	293	31,031	38,330	362	370	(644)	(455)	31,258	38,538
Other revenue/income	-	-	1,360	1,452	2,582	5	(2,569)	100	1,373	1,557
Total segment revenue/income	509	293	32,391	39,782	2,944	375	(3,213)	(355)	32,631	40,095
Segment result	(100)	(107)	1,694	4,463	2,902	374	(2,005)	1,398	2,491	6,128
Corporate office costs	-	-	-	-	(1,052)	(1,008)	-	-	(1,052)	(1,008)
Management fees	(82)	(80)	(280)	(290)	-	-	362	370	-	-
Finance costs	-	-	(501)	(498)	(2)	-	-	-	(503)	(498)
Profit/(loss) before income tax	(182)	(187)	913	3,675	1,848	(634)	(1,643)	1,768	936	4,622
Income tax (expense)/benefit									(126)	(220)
Profit/(loss) for the period									810	4,402
Segment assets	6	68	32,253	37,249	30,870	31,711	(39,817)	(44,244)	23,312	24,784
Segment liabilities	21,827	21,707	10,712	15,879	1,127	2,138	(21,885)	(26,080)	11,781	13,644
Acquisitions of plant and equipment	-	10	100	678	15	1	-	-	115	689
Depreciation and amortisation expense	-	10	923	1,326	15	1	(440)	(875)	498	462
Impairment of trade receivables	-	-	-	209	-	-	-	-	-	209
Other non-cash expenses	-	-	-	(33)	-	-	-	-	-	(33)

Description of segments

The consolidated entity was organised during the current and prior financial periods on a global basis into the following areas:

North America - servicing the US and Canada as well as global markets in air traffic control simulation and air traffic management software and services.

Australia - servicing the Australian domestic market for simulation and software development services.

Adacel Technologies Limited
Notes to the preliminary consolidated financial statements
30 June 2013

5. Income tax reconciliation

	2013	2012
	\$000	\$000
Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable		
Profit/(loss) from continuing operations before income tax	936	4,622
Income tax expense/(benefit) calculated at applicable tax rates	429	1,401
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Canadian Federal and Provincial income tax credits	(833)	(709)
Other items (net)	(41)	(201)
Current year temporary differences not brought to account	322	231
Current year tax losses and tax credits not brought to account	387	-
Utilisation of previously unbooked tax losses and tax credits	-	(407)
Impact of changes in tax rates on deferred tax	-	(23)
Income tax under/(over) provided in prior years	(269)	-
Withholding tax on overseas remittances	135	-
Other items	(4)	(72)
Income tax expense/(benefit)	126	220

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

	2013	2012
	\$000	\$000
Operating profit/(loss) from ordinary activities after income tax	810	4,402
Non cash items:		
Depreciation and amortisation	498	462
Net loss on sale of plant and equipment	-	33
Net exchange differences	442	(190)
Changes in assets and liabilities:		
(Increase)/decrease in trade receivables and accrued revenue	4,754	(3,778)
Decrease in other receivables and other assets	(1,342)	136
Decrease/(increase) in inventory	386	372
(Increase)/decrease in prepayments	(110)	(102)
Decrease/(increase) in deferred tax assets and liabilities and tax payable	(214)	379
Increase/(decrease) in trade and other creditors	(819)	357
Increase/(decrease) in employee benefits provisions	3	11
(Decrease)/increase in other provisions	306	(125)
Increase in advanced payments from customers	(903)	317
(Increase) in other non-current assets	(1)	(19)
Net cash inflow from operating activities	3,810	2,255

Adacel Technologies Limited
Notes to the preliminary consolidated financial statements
30 June 2013

7. Retained earnings/(accumulated losses)

	2013	2012
	\$000	\$000
Balance at the beginning of the year	(61,653)	(66,063)
Net profit for the year	810	4,402
Transfer from equity reserves	4	8
Dividends provided for or paid	(1,199)	-
Balance at the end of the year	(62,038)	(61,653)

8. Net tangible asset backing

	2013	2012
(a) Net tangible asset backing per ordinary share (cents per share)	12.7	13.8
(b) Number of ordinary shares used as the denominator in calculating net tangible asset backing per ordinary share	79,660,379	80,585,379

9. Earnings per share

	2013	2012
Basic earnings/(loss) per share (cents per share)	1.0	5.4
Diluted earnings/(loss) per share (cents per share)	1.0	5.4

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

	2013	2012
	\$000	\$000
<i>Basic earnings per share</i>		
Profit / (loss) from continuing operations	810	4,402
Profit / (loss) attributable to the ordinary equity holders of the company used in calculating basic earnings per share	810	4,402
<i>Diluted earnings per share</i>		
Profit / (loss) from continuing operations	810	4,402
Profit / (loss) attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	810	4,402

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

	2013	2012
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	80,127,505	81,120,268
Adjustments for calculation of diluted earnings per share		
Options	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	80,127,505	81,120,268

Adacel Technologies Limited
Notes to the preliminary consolidated financial statements
30 June 2013

10. Contingent liabilities

Guarantees of \$0.8M (2012: \$1.8M) have been given to banks and customers in relation to contract warranty and performance.

From time to time, employees and consultants may make claims against the company with respect to remuneration or labour matters. The company vigorously defends these types of claims. At balance date, the company is aware of no such claims.

11. Financing facility

The Royal Bank of Canada (RBC) has provided the company an Overdraft and Guarantee facility for up to \$10,250,000 Canadian Dollars. The facility is governed by pre-agreed covenants with the bank and is repayable on demand. The facility is secured by a fixed and floating charge over the assets and undertakings of Adacel Inc (Canadian operating entity). Adacel Technologies Limited (the parent entity) and the other North American entities (Adacel Systems Inc, Adacel Technologies Holdings Inc and Adacel Technologies Inc) have also agreed to provide a guarantee to the bank for the facility. The RBC also provides Adacel with facilities for Credit Cards and Forward Exchange contracts. The Credit Card facility is currently \$125,000 Canadian Dollars. The Forward Exchange Contract facility is currently \$1,500,000 Canadian Dollars and is conditional upon varying requirements as determined on a case by case basis by the RBC hedge department at the time of request of the Forward Exchange Contract. The guarantees that are utilised through the RBC have been 100% guaranteed by Export Development Canada.

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

12. Events occurring after reporting date

There were no significant events subsequent to balance date.

13. Audit

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