



Adacel Technologies Limited
ABN 15 079 672 281
Suite 1, 342 South Road
Hampton East, VIC 3188
Australia
T. +61 3 8530 7777
F. +61 3 9555 0068

Adacel Technologies Limited

(ASX: ADA)

ASX & Media Release

Melbourne, 23 August 2016

Appendix 4E - Preliminary Final Report Year ended 30 June 2016

Lodged with the ASX under Listing Rule 4.3A

Contents

Results for announcement to the market	2
Preliminary consolidated statement of comprehensive income	9
Preliminary consolidated statement of financial position	10
Preliminary consolidated statement of changes in equity	11
Preliminary consolidated statement of cash flows	12
Notes to the preliminary consolidated financial statements	13

Adacel Technologies Limited**Year ended 30 June 2016**

(Previous corresponding period: Year ended 30 June 2015)

Results for Announcement to the Market

Revenue from continuing operations	Up	14.3%	to	\$47,917,000
Profit for the period attributable to owners	Up	134.4%	to	\$9,217,000

Dividends/distributions	Amount per security	Franked amount per security
Final dividend	\$0.0175	-
Interim dividend	\$0.0125	-

Record date for determining entitlements to the final dividend

16 September 2016

Adacel Technologies Limited

Year ended 30 June 2016

Operating and Financial Review

Company Overview

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 operating results for the twelve months ended 30 June 2016 and 2015 respectively are summarised below:

Key financial measures	Twelve months ended 30 June		% change
	2016	2015	
A\$'000			
Revenue from continuing operations	47,917	41,914	14.3%
Gross margin	21,635	17,217	25.7%
Gross margin %	45.2%	41.1%	
EBITDA	11,881	6,922	71.6%
EBITDA %	24.8%	16.5%	
Profit before tax	10,818	5,913	83.0%
Net profit after tax	9,217	3,933	134.4%
Earnings per share (cents)	11.63	4.95	134.9%
Net cash movement	8,146	5,438	49.8%
Net cash	15,773	7,627	106.8%
Final dividend (unfranked) (cents)	1.75	1.25	40.0%
Dividends per share (cents)	3.00	2.00	50.0%

The Company has delivered a strong financial result for the twelve month period ended 30 June 2016 (FY2016) with a profit before tax of A\$10.8 million, a result at the top of the guidance range, and representing an increase of approximately 83% compared to the prior corresponding period (2015: A\$5.9 million).

The FY2016 result was achieved on a 14.3% increase in revenue from continuing operations of A\$47.9 million, compared to the prior corresponding period (2015: A\$41.9 million). Gross margins for the period were higher than the prior corresponding period due to improved operating performance and the delivery of several high margin software licence programs.

Earnings before interest, tax and depreciation (EBITDA) increased to A\$11.9 million, over 71% greater than the prior corresponding period (2015: A\$6.9 million). EBITDA margin for the period reflected higher gross margins and a continued improvement in operating performance.

Strong positive cash flow of A\$8.1 million (after dividend payments during the period of A\$2.0 million) has increased the Company's net cash balance as at 30 June 2016 to A\$15.8 million. This improved cash flow represents an increase when compared to the prior corresponding period (2015: A\$5.4 million) and is attributable to higher sales and program performance. All receivables from key customers remain on commercial and contracted terms.

Overall, FY2016 has been a year mixed with pleasing operational and financial success however, marked with sadness following the passing of the Company's former Chief Executive Officer, Seth Brown, in April 2016. Gary Pearson was promoted to the position of Chief Executive Officer in October 2015, having been the Chief Operating Officer and together with his team, delivered a strong financial result and consolidated the foundations for future earnings growth.

Adacel Technologies Limited
Year ended 30 June 2016

Business Segment Reporting

The approach to segment reporting adopted for the first half of FY2016 has been maintained and enhanced for the full year results to provide increased transparency for shareholders.

Systems

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

Services

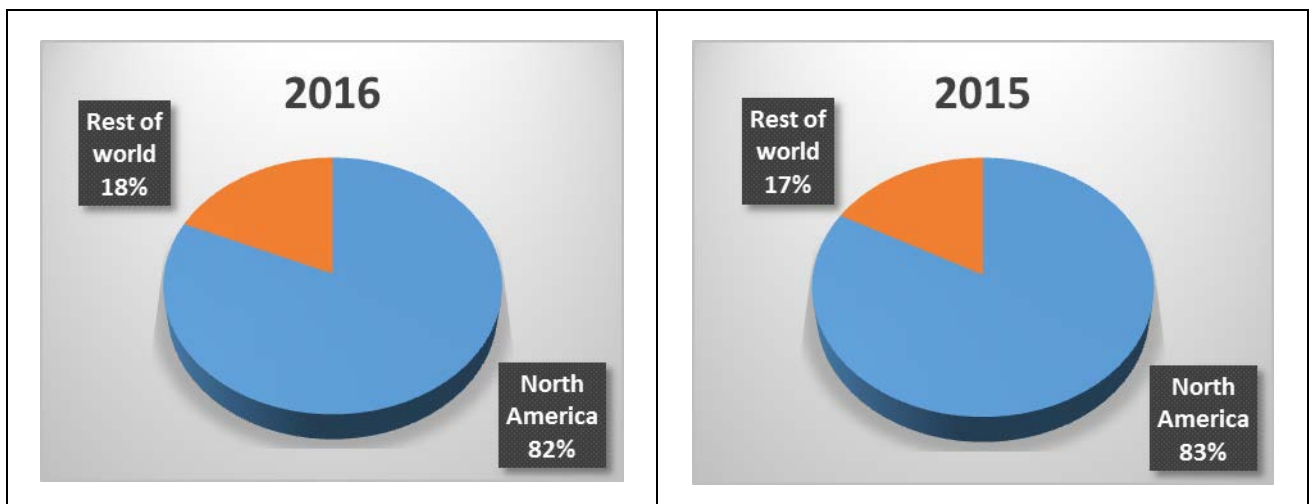
The Services Segment includes all potential recurring revenue, including software maintenance and all aspects of system support, field services and on-site technical services.

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

Business segment revenue	Twelve months ended 30 June				% change
	2016		2015		
	A\$'000	%	A\$'000	%	
Systems	17,806	37.2%	18,715	44.7%	(4.9)%
Services	30,111	62.8%	23,199	55.3%	29.8%
Total revenue	47,917	100.0%	41,914	100.0%	14.3%

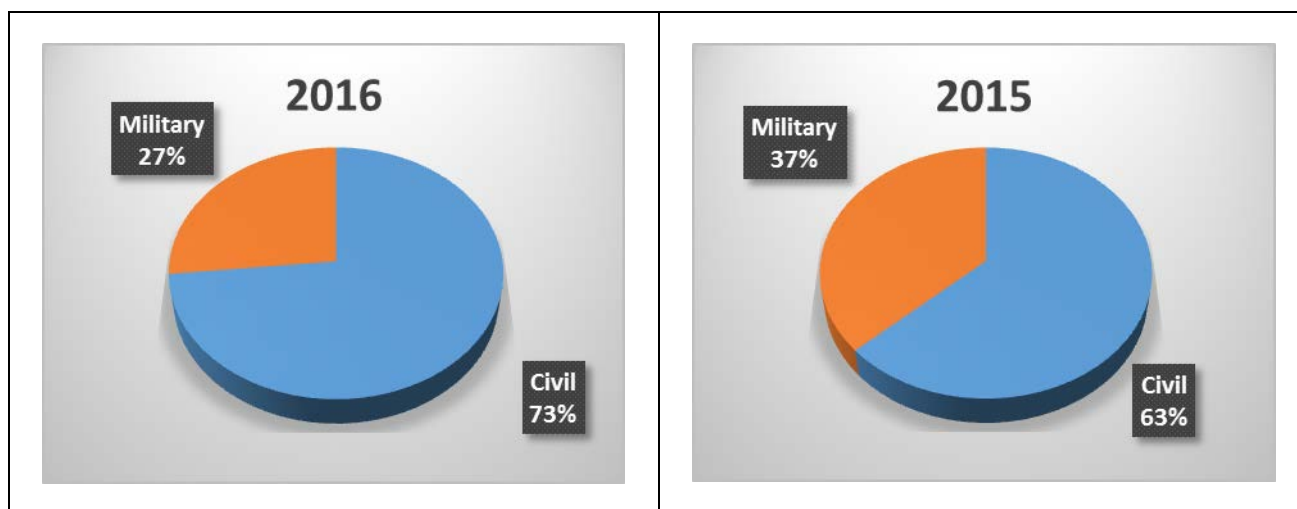
During the final quarter of FY2016, a number of program renewals and contract awards were achieved and have provided an opening order book for FY2017 that is higher than one year ago.

The split between North American and Rest-of-World revenues remain relatively the same year over year and is illustrated below:

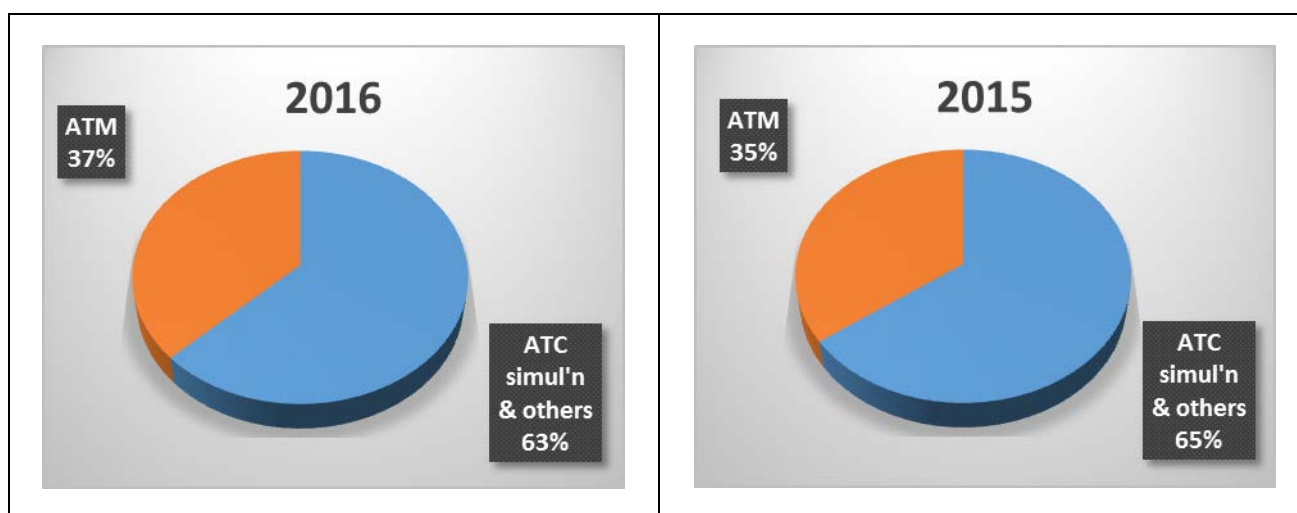


Adacel Technologies Limited
Year ended 30 June 2016

There has been an increase in civil business during the period resulting in a modest shift in revenue share between civil and military segments:



The revenue split has shifted slightly in favor of air traffic management and away from simulation and training products as can be seen in the following charts:



The relative gross margin contribution of the Systems Segment has increased due to continued improvement in operating performance and software licence sales; the Services Segment has seen a small decrease due to a changing business mix and, in particular, the addition of a number of competitive government services contracts.

Business segment gross margin	Twelve months ended 30 June					
	2016			2015		
	Revenue	GM	GM %	Revenue	GM	GM %
	A\$'000	A\$'000		A\$'000	A\$'000	
Systems	17,806	8,742	49.1%	18,715	6,935	37.1%
Services	30,111	12,893	42.8%	23,199	10,282	44.3%
Total	47,917	21,635	45.2%	41,914	17,217	41.1%

The gross margin contributions for the period illustrate the consistent shift in business activities towards more stable and annuity-style earnings, as represented by the Services Segment.

Adacel Technologies Limited

Year ended 30 June 2016

Overview of Operating Performance

The twelve month period ended 30 June 2016 was marked by a number of financial, strategic and foundational achievements that have positioned the Company for future earnings growth, including:

- Retention of key programs, including Federal Aviation Administration (FAA), United States Air Force (USAF), Lockheed Martin ATOP Program and Air Services Australia;
- Award and consolidation of new customer relationships, including French Territories, Kent State College, St Maarten Civil Aviation, US Army ATNAVICS Program and SAIC under the FAA CTC contract;
- Enhancement and expansion of programs with the Company's existing commercial partners; with software upgrades to the FAA; renewed contracts from Dallas Fort Worth Airport, NavPortugal and AustroControl;
- Early stage development, as well as soft launch, of new products/ technologies for both existing markets and potential adjacent market opportunities.

Systems

Activity in the Systems Segment, including hardware and software upgrades, during the period was driven primarily by the following programs:

- Installation and system acceptance in Norway for Avinor, in French Guiana under the French Territories ATM Modernisation Program, and new simulation systems for St Maarten;
- Hardware and system upgrades for Air Services Australia, AustroControl, Tulsa Community College, Norway and NavPortugal;
- Hardware upgrades and transition of certain aviation academies and universities to the Company's products, including Kent State University and Miami Dade College;
- Various hardware and software upgrades for the United States Army, the FAA, Dallas/ Fort Worth International Airport and the USAF.

Services

The installed base of air traffic control simulators and air traffic management systems has provided the Company with a global hardware and software footprint across various customers and jurisdictions. The diverse services contracts attaching to this installed base provide a high level of visibility for both business planning and activity and earnings. 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 Segment.

In the Services Segment, the activities include on-site simulator operators, field service representative services, system warranties services, air traffic control instructor services and long term software support contracts.

Adacel Technologies Limited

Year ended 30 June 2016

Customers in the Services Segment included:

- USAF;
- Lockheed Martin;
- NavPortugal;
- United States Army;
- FAA;
- SAIC;
- Universities and Aviation Colleges;
- Air Services Australia; and
- Royal Australian Air Force.

Other Activities

The Company continues to broaden its addressable market through the development of new technologies that have direct application to existing markets and new adjacent business areas. Research and development activities focused on the development of premium upgrades for simulation including the Insight 3D Image Generator, the expansion of the LEXIX speech recognition suite of products, incorporating the world's largest aviation speech corpus, and new capabilities for the Aurora air traffic management product.

In addition to the development of products and features for our existing markets, the technologies produced have direct applicability to new adjacent markets, including the voice activated cockpit for both civil and military aircraft, commercial driver training, flight training and additional simulators, where visual scene generation combined with motion detection and speech recognition are enabling new training domains. Furthermore, Adacel is at the forefront of the introduction of virtual and augmented reality for new classes of products within our market segments.

Complementing these business activities, Adacel recently signed a sub-contract agreement with Enroute Computer Solutions (ECS) on the FAA's SE2025 Program. This program provides the Company with the opportunity to deliver research and mission analysis, engineering, technical resources and strategic planning support services to support the FAA's Next Generation Air Transportation System (NextGen) and non-NextGen initiatives. All work on this program will be bid and released by task order. Continuing to build on the strong partnership with the FAA, the Company is cautiously optimistic about the role it can play in supporting ECS and the FAA under the SE2025 Program.

Dividend

The Board is pleased to declare an unfranked final dividend of 1.75 cents per share (2015: 1.25 cents per share), an increase of 40% over the prior corresponding period final dividend. The final dividend has a record date of 16 September 2016 and will be paid on 30 September 2016.

Total dividends to be paid for FY2016 will be 3.00 cents per share, a 50% increase on FY2015.

Adacel Technologies Limited

Year ended 30 June 2016

Key Risks and Business Challenges

The financial performance of the Company improved during the period, and delivered on its strategic plan, in line with the Board's expectation.

The Board believes that the Company is well placed under the leadership of the Company's Chief Executive Officer, Gary Pearson, to continue to take advantage of growth opportunities as they manifest, and to maximise shareholder returns.

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 our 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 and sometimes elongated 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 System's 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 relatively small number of key personnel contribute significantly to the Company's operational effectiveness and performance. Management and the Board have implemented strategies to retain those personnel, including participation in appropriate incentive arrangements.

Significant Changes in the State of Affairs

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

Key Financial Results

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

Outlook

The Board is pleased with the performance of the business, in particular the depth and diversity of the order book to start the 2017 financial year. While it is too early to provide specific guidance for 2017, the Board is focused on, and optimistic of, further earnings growth in 2017, subject to anticipated customer demand and on-going success with existing contracts.

Adacel Technologies Limited
Preliminary consolidated statement of comprehensive income
For the year ended 30 June 2016

		Consolidated	
		2016	2015
	Notes	\$000	\$000
Revenue from continuing operations		47,917	41,914
Other income		1,363	581
Net foreign exchange gain		14	139
Materials and consumables		(4,568)	(7,536)
Labour expense		(25,787)	(21,340)
Depreciation and amortisation expense		(775)	(699)
Finance costs		(341)	(326)
Lease rental expense		(1,108)	(1,069)
Professional fees		(2,651)	(1,623)
Insurance expense		(626)	(593)
Communications expense		(115)	(105)
Travel and entertainment expense		(527)	(536)
Trade shows		(342)	(250)
Repairs and maintenance		(369)	(326)
Bad and doubtful debts		365	(775)
All other expenses		(1,632)	(1,543)
Profit before tax		10,818	5,913
Income tax expense	5	(1,601)	(1,980)
Profit from continuing operations		9,217	3,933
Profit for the year		9,217	3,933
Other comprehensive income/(loss)			
Exchange differences on translation of foreign operations		(129)	1,136
Total comprehensive income for the year		9,088	5,069
Profit is attributable to:			
Owners of Adacel Technologies Limited		9,217	3,933
Total comprehensive income for the year is attributable to:			
Owners of Adacel Technologies Limited		9,088	5,069
Earnings per share for profit attributable to the ordinary equity holders of the company:		Cents	Cents
Basic earnings per share (cents per share)	9	11.63	4.95
Diluted earnings per share (cents per share)	9	11.63	4.95

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 2016

		Consolidated	
		2016	2015
	Notes	\$000	\$000
Current assets			
Cash and cash equivalents	2(a)	15,773	7,627
Receivables	2(b)	8,610	8,059
Current tax receivable	2(c)	769	-
Accrued revenue	2(b)	4,004	7,629
Inventories	2(d)	170	931
Other financial assets	2(e)	208	263
Total current assets		29,534	24,509
Non-current assets			
Property plant and equipment (net)	2(f)	1,658	1,836
Intangible assets (net)	2(g)	1,041	1,235
Other financial assets	2(e)	26	25
Total non-current assets		2,725	3,096
Total assets		32,259	27,605
Current liabilities			
Payables	2(h)	4,853	5,657
Advanced payments from customers	2(i)	2,349	3,512
Current tax liabilities	2(j)	1,929	1,706
Provisions	2(k)	348	459
Other current liabilities	2(l)	767	745
Total current liabilities		10,246	12,079
Non-current liabilities			
Other non-current liabilities	2(l)	1,751	2,373
Provisions	2(k)	8	5
Total non-current liabilities		1,759	2,378
Total liabilities		12,005	14,457
Net assets		20,254	13,148
Equity			
Contributed equity	2(m)	75,253	75,253
Reserves	2(n)	(1,248)	(1,119)
Retained profits/(accumulated losses)	7	(53,751)	(60,986)
Total equity		20,254	13,148

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 2016

	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 year	-	-	3,933	3,933
Exchange differences on translation of foreign operations	-	1,136	-	1,136
Total Comprehensive Income for the year	-	1,136	3,933	5,069
Transactions with owners in their capacity as owners:				
Share buyback equity reductions	(92)	-	-	(92)
Dividends provided for or paid	-	-	(594)	(594)
	(92)	-	(594)	(686)
Balance at 30 June 2015	75,253	(1,119)	(60,986)	13,148
Balance at 1 July 2015	75,253	(1,119)	(60,986)	13,148
Profit for the year	-	-	9,217	9,217
Exchange differences on translation of foreign operations	-	(129)	-	(129)
Total Comprehensive Income for the year	-	(129)	9,217	9,088
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(1,982)	(1,982)
	0	-	(1,982)	(1,982)
Balance at 30 June 2016	75,253	(1,248)	(53,751)	20,254

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 2016

	Consolidated	
	2016	2015
Notes	\$000	\$000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	51,455	39,872
Payments to suppliers and employees (inclusive of GST)	(36,869)	(33,988)
Payments for research and development expenditure (inclusive of GST)	(1,342)	(480)
Refund of security deposits	40	134
	13,284	5,538
Interest received	53	16
Income tax paid	(2,089)	(325)
Tax credits refunded	91	1,212
Finance costs	(9)	1
Net cash inflow from operating activities	11,330	6,442
	6	
Cash flows from investing activities		
Payments for property plant and equipment	(453)	(248)
Proceeds from sale of property plant and equipment	-	-
Payments for Intellectual Property	-	-
Net cash (outflow) from investing activities	(453)	(248)
Cash flows from financing activities		
Dividend Paid	(1,982)	(594)
Repayment of borrowings	-	(6)
Repayment of TPC Loan	(736)	(587)
Shares repurchased through on market share buy-back	-	(92)
Net cash (outflow) from financing activities	(2,718)	(1,279)
Net increase in cash held	8,159	4,915
Cash at beginning of the financial year	7,627	2,189
Effects of exchange rate changes on cash	(13)	523
Cash at end of the financial year	15,773	7,627
Reconciliation of cash		
Cash balance at the end of the year comprises:		
Cash assets - Cash at bank	15,773	7,627
	15,773	7,627

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 2016

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 3 to 8.

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 2016 was a net cash balance of \$15.8m as compared to a net cash balance of \$7.6m as at 30 June 2015. This is an increase in cash balances of \$8.1m. The overdraft facility in place is undrawn at 30 June 2016.

The major components of this increase are:

: Operating activities (excluding interest and tax) \$13.3m

Offset by Cash Outflows of

: Net Tax Paid \$2.0m

: Purchase of Fixed Assets \$0.4m

: Repayment of TPC Loan \$0.7m

: Dividend Paid \$2.0m

Note 2(b): Receivables & accrued revenue

Receivables and accrued revenue have decreased by a net amount of \$3.1m to \$12.6m as at 30 June 2016. Receivables have increased by \$0.6m to \$8.6m whilst accrued revenue has decreased by \$3.6m to \$4.0m. 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. This timing has also contributed to the small increase in receivables, as although the company continues its strict focus on collections, smaller accrued revenue indicates a greater value of invoices being raised.

Note 2(c): Current tax receivable

Current tax receivable has increased by \$0.8m to \$0.8m as at 30 June 2016. It represents tax to be recovered due to over paying provisional tax in ASI for the previous year.

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

Inventories have decreased by \$0.8m to \$0.2m as at 30 June 2016. Inventories are substantially comprised of contract work-in-progress for North American customers.

Note 2(e): Other financial assets

Other financial assets have decreased slightly for the year ending 30 June 2016. The decrease being a reduction in the 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 \$1.7m during the year ended 30 June 2016. New equipment acquisitions of \$0.4m has been offset by depreciation for the year of \$0.6m.

Note 2(g): Intangible Assets

There has been no material change in intangible assets which have decreased \$0.2m to \$1.0m as at 30 June 2016. Amortisation for the year was \$0.2m.

Note 2(h): Payables

Payables and accruals have decreased by \$0.8m to \$4.9m during the year. The company continues to pay its creditors as and when they become due.

Adacel Technologies Limited
Notes to the preliminary consolidated financial statements
30 June 2016

Note 2(i): Advance payments from customers

Advance payments from customers have decreased by \$1.2m to \$2.3m as at 30 June 2016. These customer payments are received under the terms of the contract for supply of equipment and services. This amount will vary according to the terms of the contracts being performed at the time.

Note 2(j): Current tax liabilities

Current tax liabilities have increased by \$0.2m to \$1.9m as at 30 June 2016. Tax credits have been utilised in Canada to minimise this amount.

Note 2(k): Provisions

Provisions have decreased by \$0.1m to \$0.4m as at 30 June 2016. The majority of this decrease relates to warranty provision which has reduced.

Note 2(l): Other liabilities

Other liabilities have decreased by \$0.6m to \$2.5m as at 30 June 2016. This amount represents the TPC royalty liability due to the Canadian Government for funding grants, and is recalculated each year to reflect payments made and updated forecasts.

Note 2(m): Contributed equity

There has been no change to the share capital of the company during the year ended 30 June 2016.

Note 2(n): Reserves

Reserves have increased by \$0.1m to \$1.2m as at 30 June 2016. This is solely due to exchange differences on the translation of foreign operations. The Australian dollar against the US and Canadian dollars has been reasonably stable for the year.

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 3 to 8.

Adacel Technologies Limited
Notes to the preliminary consolidated financial statements
30 June 2016

4. Segment information

a) 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.

	Systems		Services		Total	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Total segment revenue	17,806	18,715	30,111	23,199	47,917	41,914
Total segment margin	8,742	6,935	12,893	10,282	21,635	17,217
Other Income					1,310	565
Interest Revenue					53	16
Exchange Rate Gain					14	139
R&D Expenses					(1,656)	(884)
S&M Expenses					(3,518)	(3,440)
G&A Expenses					(5,343)	(6,440)
Redundancy Costs					(457)	(80)
Non-Operating Expenses					(104)	(155)
Depreciation & Amortisation					(775)	(699)
Interest and Finance Charges					(341)	(326)
Profit before income tax					10,818	5,913
Income tax expense					(1,601)	(1,980)
Profit for the period					9,217	3,933

b) Allocable Assets and Liabilities

	Systems		Services		Total	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Net Trade Debtors	1,708	3,300	3,434	2,496	5,142	5,796
Accrued Revenue	3,584	6,975	420	654	4,004	7,629
Inventories	136	924	34	7	170	931
Advance Payments from Customers	986	1,586	1,363	1,926	2,349	3,512

No Other Assets or Liabilities are able to be allocated reasonably to these segments

c) Geographical Information

The consolidated entity must provide the following geographical information in accordance with AASB 8
The Geographical Information is based upon the location of the operating entities of the group.

	USA		Canada		Australia		Total	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Total segment revenue	23,808	23,619	21,725	17,729	2,384	566	47,917	41,914
Total Non-Current Assets	508	308	2,202	2,779	15	9	2,725	3,096

Adacel Technologies Limited
Notes to the preliminary consolidated financial statements
30 June 2016

5. Income tax reconciliation

	2016	2015
	\$000	\$000
Reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax	10,818	5,913
Income tax expense calculated at applicable tax rates	<u>3,085</u>	<u>1,899</u>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Canadian Federal and Provincial income tax credits	(1,263)	(401)
Non-deductible items	110	63
Current year temporary differences not brought to account	(679)	397
Utilisation of previously unbooked tax losses and tax credits	(113)	(108)
Impact of changes in tax rates on deferred tax	1	-
Income tax under provided in prior years	379	6
Withholding tax on overseas remittances	125	124
Other items	(44)	-
Income tax expense	<u>1,601</u>	<u>1,980</u>

6. Reconciliation of profit after income tax to net cash flows from operating activities

	2016	2015
	\$000	\$000
Operating profit from ordinary activities after income tax	9,217	3,933
Non cash items:		
Depreciation and amortisation	775	699
Bad debts (reversed)/written off and Provision for Doubtful Debts	(365)	775
Net exchange differences	(14)	(139)
Changes in assets and liabilities:		
Decrease/(increase) in trade receivables and accrued revenue	4,838	(3,043)
(Increase)/decrease in other receivables and other assets	(1,340)	660
Decrease/(increase)/Decrease in inventory	787	(381)
Decrease in prepayments	160	102
(Increase)/decrease in deferred tax assets and liabilities and tax payable	(647)	1,642
(Decrease)/increase in trade and other creditors	(736)	1,464
Increase/(Decrease) in employee benefits provisions	6	(13)
(Decrease) in other provisions	(114)	(209)
(Decrease)/Increase in advanced payments from customers	(1,263)	1,064
Decrease/(Increase) in other non-current assets	26	(112)
Net cash inflow from operating activities	<u>11,330</u>	<u>6,442</u>

Adacel Technologies Limited
Notes to the preliminary consolidated financial statements
30 June 2016

7. Retained earnings/(accumulated losses)

	2016	2015
	\$000	\$000
Balance at the beginning of the year	(60,986)	(64,325)
Net profit for the year	9,454	3,933
Dividends provided for or paid	(1,982)	(594)
Balance at the end of the year	(53,514)	(60,986)

8. Net tangible asset backing

	2016	2015
(a) Net tangible asset backing per ordinary share (cents per share)	24.24	15.03
(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. Earnings per share

	2016	2015
Basic earnings per share (cents per share)	11.63	4.95
Diluted earnings per share (cents per share)	11.63	4.95

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

	2016	2015
	\$000	\$000
<i>Basic earnings per share</i>		
Profit from continuing operations	9,217	3,933
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	9,217	3,933
<i>Diluted earnings per share</i>		
Profit from continuing operations	9,217	3,933
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	9,217	3,933

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

	2016	2015
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	79,268,178	79,397,356
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	79,268,178	79,397,356

Adacel Technologies Limited
Notes to the preliminary consolidated financial statements
30 June 2016

10. Dividends

The Directors have declared an unfranked final dividend of 1.75 cents per share (2015 - 1.25 cents unfranked). The record date for the dividend is 16 September 2016 and the dividend will be paid on 30 September 2016. A 1.25 cent per share unfranked interim dividend was declared at the half year (2015 - 0.75 cents unfranked).

11. Contingent liabilities

Guarantees of \$0.5m (2015: \$0.7m) have been given to banks and customers in relation to contract warranties 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 not aware of any claims.

12. Financing facility

The Royal Bank of Canada (RBC) has provided the company an overdraft and guarantee facility for up to \$10,000,000 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 \$100,000 Canadian Dollars and \$25,000 US Dollars. The forward exchange contract facility is currently Unlimited, and contracts are issued as requested.

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.

13. Events occurring after reporting date

There were no significant events subsequent to balance date.

14. Audit

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