



Adacel Technologies Limited
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Adacel Technologies Limited

(ASX: ADA)

ASX & Media Release

Melbourne, 21 February 2017

Appendix 4D & Half Year Report for the period ended 31 December 2016

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the 30 June 2016 annual report

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Adacel Technologies Limited
Half-year ended 31 December 2016

(Previous corresponding period: Half-year ended 31 December 2015)



Results for Announcement to the Market

				\$000
Revenue from continuing operations	Down	19.0%	to	19,927
Profit for the period attributable to members	Down	34.3%	to	3,747

Dividends/distributions	Amount per security	Franked amount per security
Final dividend	-	-
Interim dividend	\$0.0175	\$0.0000

Record date for determining entitlements to the dividend

16 March 2017

Net Tangible Asset Backing	December 2016	June 2016
Net tangible asset backing per ordinary share (cents per share)	27.5	24.2
	<u><u> </u></u>	<u><u> </u></u>

Adacel Technologies Limited
Half year ended 31 December 2016
(Previous corresponding period: Half year ended 31 December 2015)



Adacel reports FY2017 first half results

Leading developer of advanced simulation and training solutions and operational air traffic systems, Adacel Technologies Limited (ASX: ADA) today announced its results for the six months ended 31 December 2016.

Overview

- Full year FY2017 profit before tax guidance – more than 10% above 2016
- Weaker H1 FY2017 consistent with previous guidance relating to timing
- Strong orders activity, albeit late in the first half, provides support for anticipated stronger second half performance, in particular in the Systems Segment
- Continued growth and diversity of programs within the Services Segment
- Increased interim dividend of 1.75 cents per share declared, an increase of 40% compared to prior corresponding period

Key financial measures	Six months ended 31 December		% change
	2016	2015	
A\$'000			
Revenue	19,927	24,613	(19.0)%
Gross margin	8,727	11,187	(22.0)%
Gross margin %	43.8%	45.5%	
EBITDA	4,669	6,824	(31.6)%
EBITDA %	23.4%	27.7%	
Profit before tax	4,166	6,274	(33.6)%
Net profit after tax	3,747	5,707	(34.3)%
Earnings per share (cents)	4.7	7.2	(34.7)%
Net cash flow	(877)	3,970	(122.1)%
Net cash	14,923	11,305	32.0%
Dividends per share (cents)	1.75	1.25	40.0%

Commenting on the results for the half, Chairman Peter Landos said: “This is a strong performance in the first half for Adacel, especially given the late receipt of a number of key orders in the period. We remain confident in the outlook for the balance of FY2017”.



Overview of Financial Performance

Revenue for the six months ended 31 December 2016 was A\$19.9 million, a decrease of 19.0% when compared to the prior corresponding period.

The revenue contributions for the Company's key business segments for the six months ended 31 December 2016 is summarised as follows:

Business segment revenue	Six months ended 31 December				% change
	2016		2015		
A\$'000					
Systems	3,794	19.0%	9,895	40.2%	(61.7)%
Services	16,133	81.0%	14,718	59.8%	9.6%
Total revenue	19,927	100.0%	24,613	100.0%	(19.0)%

The delay in the tender processes for key Systems Segment opportunities, a number of which have since been awarded, was the principal reason for the decline in revenue and cash flows in the period.

Gross margins on total sales were strong at approximately 43.8%, a slight reduction when compared to the prior corresponding period gross margin of 45.5%.

The relative gross margin contribution of each business segment for the six months ended 31 December 2016 is summarised as follows:

Business segment	Six months ended 31 December					
	2016			2015		
A\$'000	Revenue	GM	GM %	Revenue	GM	GM %
Systems	3,794	1,546	40.7%	9,895	4,625	46.7%
Services	16,133	7,181	44.5%	14,718	6,562	44.6%
Total	19,927	8,727	43.8%	24,613	11,187	45.5%

The reduction in gross margin percentage was largely driven by a change in business mix and a reduced proportion of higher margin activity in the Systems Segment of the business. This reduction is principally related to one competitive program award. The additional expense incurred on this program is anticipated to provide financial benefits for future awards of similar systems.

The gross margin contributions for the period illustrate the consistency in business activity towards more annuity-style earnings, as represented by the Services Segment. The Company anticipates that the contribution from the Systems Segment will be greater in the second half and accordingly, the relative contribution from each segment is expected to resemble historical levels.

Net cash as at 31 December 2016 of A\$14.9 million.

Directors have declared an interim dividend of 1.75 cents per share, unfranked, an increase of 40% over the interim dividend paid in the prior corresponding period. This interim dividend is payable on 30 March 2017 to shareholders on the register at 16 March 2017.



Overview of Operating Performance

Systems

The first half of FY2017 concluded with the confirmation of a number of new orders from existing customers in both simulation and air traffic management systems. A number of awards were recorded later in the first half than initially anticipated, the earnings of which are expected to manifest during the second half.

Under the French Guiana program, the French Territories placed an order for an extension of the ATM capabilities delivered in FY2016 and Hungaro Control upgraded its visual systems technology. Pleasingly, additional voice activated cockpit licences for the Leonardo (formerly Alenia Aermacchi) M346 jet trainer were ordered and the Company continued its successful relationship with the United States Marine Corps with an order to supply additional tactical air traffic control simulators for locations both in the United States and overseas.

A number of the Company's cornerstone partnerships, in particular the Federal Aviation Administration and the United States Air Force exercised options under their existing long term support contracts.

There were a number of new client relationships established, notably the delivery of air traffic control simulator systems for Aruba and Colombia as well as the delivery of a number of airport driver trainers for the Aeroporti di Roma in Italy.

Services

The services segment continues to provide a solid recurring revenue base with notable growth within its existing customer base.

The Company is actively pursuing a number of large United States government services contracts that are anticipated to be awarded towards the end of CY2017. In addition, there are plans by a number of aviation authorities in Asia-Pacific region to undertake substantial air traffic management system upgrade programs, similar to those deployed by the Company to French Guiana, Norway and Fiji.

Overheads and Operating Margins

Operating margins remain strong as the Company retains a strong focus on cost management and operational efficiencies.

Strategic Growth Initiatives and Capital Management

As a consequence of improved financial performance over recent periods leading to a significantly strengthened balance sheet, the Company has begun to place additional focus on the continued development of its core technologies as well as strategic growth initiatives, including potential acquisitions, in its core competencies and products. The Company has also attained clearance to participate in a number of large Government and US Military funded contract vehicles.

In the absence of any strategic acquisitions, the Company, in managing shareholders' capital efficiently shall consider various capital management initiatives.

Cash generation in the second half of FY2017 is anticipated to be considerably stronger than first half and with net cash levels expected to increase, the Company remains well positioned to invest in any strategic opportunities which may emerge.

Outlook

Commenting on the outlook for the balance of FY2017, Chief Executive Officer, Gary Pearson, said that significantly stronger performance is anticipated in the second half compared to the first half of FY2017.

The Board is pleased to confirm its earnings guidance that the Company's profit before tax for FY2017 is anticipated to be more than 10% higher than 2016.



Adacel Technologies Limited

ABN 015 079 672 281

Half-year ended 31 December 2016

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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 2016 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*.

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 2016.

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
Kevin Courtney (Until 18 Nov 2016)
Natalya Jurcheshin (From 7 Oct 2016)
Silvio Salom
David Smith
Julian Beale

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

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 2016 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 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
Chairman



David Smith
Director

Melbourne, 21 February 2017



Auditor's Independence Declaration

As lead auditor for the review of Adacel Technologies Limited for the half-year ended 31 December 2016, 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 black ink, appearing to be 'JP', written in a cursive style.

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
21 February 2017

Adacel Technologies Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2016



	Half-year ended 31 December	
Note	2016 \$'000	2015 \$'000
Revenue from continuing operations	19,927	24,613
Interest Income	24	12
Other income	1,256	873
Net foreign exchange gain	207	732
Materials and Consumables	(671)	(3,094)
Labour Expense	(12,337)	(12,787)
Depreciation and amortisation expense	(392)	(386)
Finance costs	(135)	(176)
Other expenses		
Travel & Entertainment Expenses	(326)	(192)
Professional Fees	(1,482)	(1,281)
Premises Rental Cost	(548)	(553)
Insurance	(333)	(311)
Communications Expense	(50)	(52)
Trade Shows	(64)	(111)
Repairs & Maintenance	(189)	(167)
Bad & Doubtful Debts reversed	34	28
All Other Expenses	(755)	(874)
Profit before tax	4,166	6,274
Income tax (expense)/benefit	(419)	(567)
Profit from continuing operations	3,747	5,707
Profit from discontinued operations	-	-
Profit for the half-year	3,747	5,707
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	102	(595)
Total comprehensive income for the half-year	3,849	5,112
Profit is attributable to:		
Owners of Adacel Technologies Limited	3,747	5,707
Total comprehensive income for the half-year is attributable to:		
Owners of Adacel Technologies Limited	3,849	5,112
Total comprehensive income for the half-year attributable to Owners of Adacel Technologies Limited arises from:		
Continuing Operations	3,849	5,112
Earnings per share for profit attributable to the ordinary equity holders of the company:	Cents	Cents
Basic earnings per share (cents per share)	4.7	7.2
Diluted earnings per share (cents per share)	4.7	7.2

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 2016



	31 December 2016 \$'000	30 June 2016 \$'000
Current assets		
Cash and cash equivalents	14,923	15,773
Receivables	9,699	8,610
Current tax asset	491	769
Accrued revenue	3,758	4,004
Inventories	863	170
Other financial assets	154	208
Total current assets	29,888	29,534
Non-current assets		
Plant and equipment	1,419	1,658
Intangible assets	941	1,041
Other financial assets	26	26
Total non-current assets	2,386	2,725
Total assets	32,274	32,259
Current liabilities		
Payables	3,964	4,853
Advanced payments from customers	1,340	2,349
Current tax liabilities	2,021	1,929
Provisions	375	348
Other financial liabilities	758	767
Total current liabilities	8,458	10,246
Non-current liabilities		
Provisions	11	8
Other non-current liabilities	1,089	1,751
Total non-current liabilities	1,100	1,759
Total liabilities	9,558	12,005
Net assets	22,716	20,254
Equity		
Contributed equity	75,253	75,253
Reserves	(1,146)	(1,248)
Accumulated losses	(51,391)	(53,751)
Total equity	22,716	20,254

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 2016



	Attributable to the owners of Adacel Technologies Limited			TOTAL EQUITY \$'000
	Contributed Equity \$'000	Reserves \$'000	Retained Earnings \$'000	
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	0	-	(991)	(991)
	0	-	(991)	(991)
Balance at 31 December 2015	75,253	(1,714)	(56,270)	17,269
Balance at 1 July 2016	75,253	(1,248)	(53,751)	20,254
Profit for the half year	-	-	3,747	3,747
Exchange differences on translation of foreign operations	-	102	-	102
Total Comprehensive Income for the half-year	-	102	3,747	3,849
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(1,387)	(1,387)
	-	-	(1,387)	(1,387)
Balance at 31 December 2016	75,253	(1,146)	(51,391)	22,716

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 2016



	Half-year ended 31 December	
	2016	2015
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	19,964	26,175
Payments to suppliers and employees (inclusive of GST)	(17,812)	(18,373)
Payments for development expenditure (inclusive of GST)	(869)	(666)
Refund of Security Deposits	58	61
	<u>1,341</u>	<u>7,197</u>
Interest received	24	12
Income tax payments	(6)	(1,293)
Finance costs	(6)	-
Net cash inflow from operating activities	<u>1,353</u>	<u>5,916</u>
Cash flows from investing activities		
Payments for plant and equipment	(85)	(256)
Net cash outflow from investing activities	<u>(85)</u>	<u>(256)</u>
Cash flows from financing activities		
Dividend Paid	(1,387)	(991)
Repayment of Grant	(758)	(699)
Net cash outflow from financing activities	<u>(2,145)</u>	<u>(1,690)</u>
Net (decrease)/increase in cash held	(877)	3,970
Cash at beginning of the financial year	15,773	7,627
Effects of exchange rate changes on cash	27	(292)
Cash at end of the half year	<u><u>14,923</u></u>	<u><u>11,305</u></u>
Reconciliation of cash		
Cash balance at the end of the period comprises:		
Cash assets	14,923	11,305
	<u><u>14,923</u></u>	<u><u>11,305</u></u>

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

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 2016 and 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 2016 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 2016 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 2016 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 (effective from 1 January 2018)

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) AASB 16 Leases (effective 1 January 2019)

AASB 16 Leases provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The standard is not applicable until 1 January 2019 but is available for early adoption. Management is currently assessing the impact of AASB 16 on the measurement and recognition of lease assets and liabilities. The group has not yet decided when to adopt AASB 16.

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 2016



2. Segment information

	Systems		Services		Total	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Total segment revenue	3,794	9,895	16,133	14,718	19,927	24,613
Total segment margin	1,546	4,625	7,181	6,562	8,727	11,187
Other Income					1,256	873
Interest Revenue					24	12
Exchange Rate Gain					207	732
R&D Expenses					(1,008)	(847)
S&M Expenses					(1,799)	(1,745)
G&A Expenses					(2,714)	(2,815)
Redundancy Costs					-	(457)
Non-Operating Expenses					-	(104)
Depreciation & Amortisation					(392)	(386)
Interest and Finance Charges					(135)	(176)
Profit/(loss) before income tax					4,166	6,274
Income tax expense					(419)	(567)
Profit for the period					3,747	5,707

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.

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.

3. Profit for the half-year

Included in the profit for the half-year is a foreign exchange gain of \$0.207M compared to a gain of \$0.732M in the comparative half-year ended 31 December 2015. 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 interim unfranked dividend of 1.75 cents per share. The Record Date for the Dividend is 16 March 2017 and will be paid on 30 March 2017. An unfranked dividend of 1.25 cents per share was announced for the previous corresponding period ended 31 December 2015.

5. Equity securities movements

31 December 2016 Shares	31 December 2015 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.

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5.2 Equity securities cancelled through Share Buyback program

No new Buyback program has been activated since 30 June 2015, therefore no shares have been purchased and therefore cancelled in their respective periods.

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6. Contingent liabilities

Guarantees of \$481,903 (30 June 2016: \$496,284) 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. Financing arrangements

As at 31 December 2016, 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.



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 2016 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.

A handwritten signature in black ink, appearing to read "Peter Landos".

Peter Landos
Chairman

A handwritten signature in black ink, appearing to read "D. Smith".

David Smith
Director

Melbourne, 21 February 2017



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 2016, 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 2016 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:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 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*.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script, appearing to be 'JP'.

Jason Perry
Partner

Melbourne
21 February 2017