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Adacel Technologies Limited (ASX: ADA)

17 August 2020

Appendix 4E - Preliminary Final Report

Year ended 30 June 2020

(Previous corresponding period: Year ended 30 June 2019)

Lodged with the ASX under Listing Rule 4.3A

Contents

Results for announcement to the market Annual Report and Financial Accounts

Results for Announcement to the Market

Revenue from continuing operations	Down	4.0%	То	\$39,714,000
Profit before tax for the period	Up	212.5%	То	\$2,198,000
Profit for the period attributable to owners	Up	234.7%	То	\$3,634,000

Dividends/Distributions

	Amount per security	Amount per security
Interim dividend (April 15 2020)	\$0.0100	-
Final dividend	\$0.0150	

Earnings per Ordinary Share (Cents per Share) FY2020 Earnings per Ordinary Share (Cents per Share) FY2019

4.71	
(3.50)	

Net Tangible Asset* Backing per Ordinary Share (Cents per Share) FY2020 Net Tangible Asset Backing per Ordinary Share (Cents per Share) FY2019

18.57	
45.04	
15.24	

^{*}All lease right-of-use assets and related liabilities have been included

This report is based on the consolidated financial statements which have been audited by PricewaterhouseCoopers. The audit report is included within the Group's Financial Report which accompanies this Appendix 4E. Additional Appendix 4E disclosure requirements can be found in the Annual Financial Statements attached, which contains the Directors' Report (including the annual audited Remuneration Report), the Directors' Declaration and the 30 June 2020 consolidated financial statements and accompanying notes.





YEAR ENDED 30 JUNE 2020



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DIRECTORS' REPORT



Your Directors submit their report on the consolidated entity (the Group), consisting of Adacel Technologies Limited and the entities it controlled at the end of or during the year ending 30 June 2020.

DIRECTORS

The names and details of the Directors of Adacel Technologies Limited in office during the whole of the financial year and up to the date of this report, unless stated otherwise, are:

- Michael McConnell
- Peter Landos
- Natalya Jurcheshin
- Silvio Salom

PRINCIPAL ACTIVITIES

The principal activities of Adacel Technologies Limited (Adacel or the Company) during the current and previous financial years were air traffic management, air traffic control simulation and training as well as software applications and services in the global civil and military aerospace sector. There has been no significant change in these activities during the year.

OPERATING RESULTS

The Company's operating results for the twelve months ended 30 June 2020 and 2019, respectively, are summarised in the following table:

Key	Financ	ial N	leasur	es
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Year ended 30 June

A\$'000	2020	2019
Revenue	39,714	41,357
Gross margin	13,980	11,043
Gross margin %	35.2%	26.7%
EBITDA *	4,502	(1,121)
EBITDA * %	11.3%	(2.7%)
Profit (loss) before tax	2,198	(1,954)
Net profit (loss) after tax	3,634	(2,697)
Non-recurring items*	2,597	239
Normalized EBITDA *	7,099	(882)
Normalized EBITDA * % revenues	17.9%	(2.1%)
Normalised PBT *	4,795	(1,715)
Normalised PBT* % revenues	12.1%	(4.1%)
Earnings (loss) per share (cents)	4.71	(3.50)
Net cash	5,177	2,511
Final dividend (unfranked) (cents)	1.50	-
Total interim dividends (unfranked) (cents)	1.00	1.00
Total dividends (cents)	2.50	1.00

^{*} Earnings before interest, taxes, depreciation, and amortization (EBITDA), Normalised EBITDA and Normalized profit-before-tax (PBT) are non-IFRS measures and are presented to provide users with additional insight into the Company's business and to facilitate incremental understanding of the Company's underlying financial performance. Non-IFRS information is not audited. Non-recurring items include litigation and related costs and the impact of the adoption of AASB 16 Leases.

For the year ended 30 June 2020, excluding \$2.6 million related to non-recurring litigation costs and the impact of the adoption of AASB 16 Leases, the Company delivered a normalised profit before tax (Normalised PBT*) of \$4.8 million compared to a loss of \$1.7 million for the previous year. Improved focus on our core products and services combined with improved execution resulted in a significant increase in



profitability. Reported PBT for the year amounted to \$2.2 million compared to a loss before tax of \$2.0 million for the year ended 30 June 2019.

The Company delivered revenues of \$39.7 million compared to \$41.4 million for the previous year. Whilst revenues decreased by \$1.7 million, gross margin, which includes an allocation of overhead and other fixed costs, improved by 26.6%, to \$14 million, or 35.2% of revenues (FY2019: 26.7%). The improvement in gross margin is attributable to higher revenues in our Services segment which generated almost \$2 million of additional gross margin when compared to FY2019. In addition, our Systems segment loss margin improved by \$1.2 million when compared to the prior year.

Normalized earnings before interest, tax, and depreciation (Normalised EBITDA*), excluding \$2.6 million related to non-recurring litigation costs, increased to \$7.1 million from a loss of \$0.9 million in FY2019. Reported EBITDA for the year amounted to \$4.5 million compared to an EBITDA* loss before tax of \$1.1 million for the year-ended 30 June 2019.

Profit after tax in FY2020 was \$3.6 million compared to a net loss after tax of \$2.7 million in 2019.

As at 30 June 2020, the Company's net cash balance was \$5.2 million compared to \$2.5 million last year end. During the period, a total of \$0.8 million (FY2019: \$6.6 million) was paid as dividends to shareholders.

BUSINESS SEGMENT REPORTING

Systems

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

Services

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

Segment Performance

Segment performance

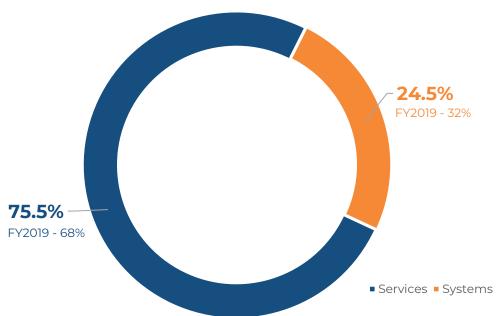
The Company's business segment performance is summarised as follows:

3						
		2020			2019	
	Revenue	GM	GM %	Revenue	GM	GM %
Systems	9,743	(1,169)	(12.0%)	13,401	(2,386)	(17.8%)
Services	29,971	15,149	50.5%	27,956	13,429	48.0%
Total	39,714	13,980	35.2%	41,357	11,043	26.7%

Year ended 30 June







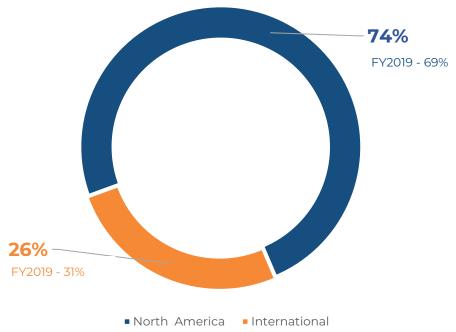
Total revenues for FY2020 decreased by almost 4% compared to the previous year. In our Systems segment, revenues decreased by \$3.7 million or 27.3% due to a lower number of systems projects as we focused on advancing our Aurora ATM implementations in Fiji, French Guyana, and Portugal. In FY2019, we completed simulator system implementations in Sri Lanka and Morocco totalling almost \$3.7 million. In our Services Segment, revenues increased by \$2.0 million or 7.2% driven mainly by increased revenues from our FAA ATOP program as well as higher maintenance and warranty revenues associated with system projects delivered in FY2019.

Services revenues now account for 75.5% of consolidated revenues compared to 68% for the preceding year.

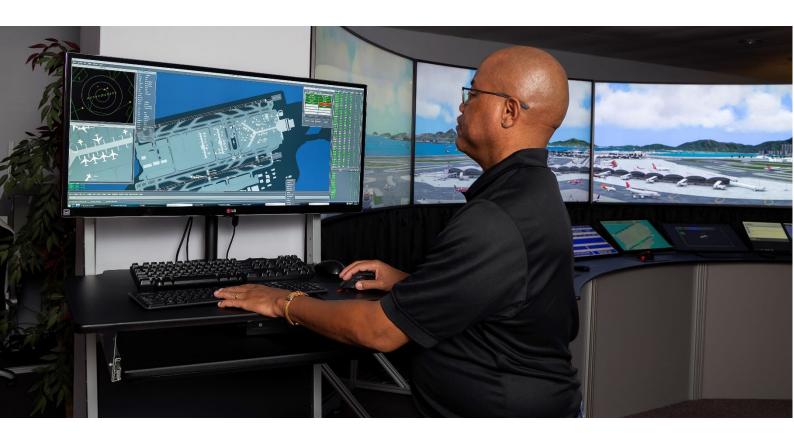
Gross margin for FY2020 increased by \$2.9 million or 26.6% as we saw improvements in both segments. The results in the Systems segment were impacted by the system installations in Guadeloupe and Fiji. These two projects represented the first development and implementations of Approach and Tower control systems, both of which required a high level of complexity the Company had not experienced in the past. Gross margin for our Services segment increased by \$1.7 million mainly due to revenues associated with our FAA ATOP program. International customers represent 26% of FY2020 revenues compared to 31% for the prior year while North American customers accounted for 74% of revenues, up from 69% for the previous period. As discussed earlier, in FY2019, we completed our simulator systems in Sri Lanka which resulted in higher international revenues in the prior year.





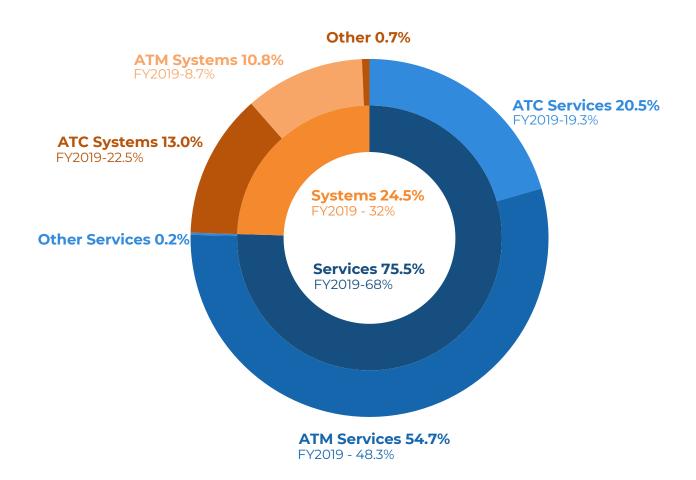


For FY2020, revenues from civil customers made up 77% of total revenues compared to 83% for the preceding year while revenues from military sources accounted for 23% compared to 17% last year.





FY2020 Revenue per Segment and Product



OPERATING PERFORMANCE

Systems

Revenues in our Systems segment decreased by \$3.7 million or 27.3%. In FY2019, we completed large program deliveries in Sri Lanka and Morocco which explain the reduction in revenues. As a result, ATC Systems revenues accounted for 13% of total revenue in FY2020 compared to 22.5% last year. ATM Systems revenues accounted for 10.8% of total revenue in FY2020 compared to 8.7% for the prior year. We completed the Fiji installation in June 2020 despite COVID-19 travel restrictions and have now moved to the maintenance and service portion of the contract. As at 30 June 2020, the expanded Guadeloupe project is over 93% complete.

Gross margin improved from a loss of \$2.4 million in FY2019 to a loss of \$1.2 million in FY2020. With respect to our large Aurora projects we expect to generate positive contribution margins for Fiji and Portugal and, as previously reported, the Guadeloupe project had a provision for onerous contract recorded in FY2019. Because gross margin includes an allocation of fixed costs incurred to support both segments, we reported a loss for the segment.

The competitive environment in winning these international systems contracts and the high level of software customisation required during the installation phase is expected to continue to impact gross margins in the Systems segment for FY2021. However, with the successful completion of the Fiji project in



FY2020, we are confident that our Aurora platform for Approach and Tower control systems can be successfully deployed to a number of new customers.

For FY2021, assuming modest and steady recovery from the COVID-19 disruption, we expect revenues from our Systems segment to increase. In addition, we expect the segment to generate a positive gross margin.

Services

In our Services segment, revenues increased by \$2.0 million or 7.2%, driven mainly by increased revenues from our FAA ATOP program.

The ATOP contract continues to be a significant contributor to the Services segment. ATM Services revenues accounted for 54.7% of consolidated revenues compared to 48.3% last year while ATC Services revenues accounted for 20.5% of FY2020 consolidated revenues compared to 19.3% last year. We continue to work closely with Leidos and the FAA to ensure the successful sustainment and enhancement of ATOP.

In FY2021, assuming modest and steady recovery from the COVID-19 disruption, the Company anticipates some revenue growth in the Services segment. While we expect revenues from the FAA ATOP program to be consistent with FY2020, we should benefit from the completion of service orders with our military customers which were delayed in FY2020 due to COVID-19.

TAX

Adacel has carry-forward tax losses and credits available in various jurisdictions to offset future taxable profits. At 30 June 2020, reflecting the Board's and management's confidence in future profitability, the Company has a net deferred tax asset of \$3.7 million (FY2019: \$4.3 million) relating mainly to available tax credits. This deferral resulted in a net tax benefit for the year ended 30 June 2020. Tax credits continue to be recognised and utilised in accordance with the Company's policy and applicable accounting standards.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to address the economic impact of the COVID-19 pandemic in the United States. Among other things, the CARES Act allows a five-year carryback period for tax losses generated in 2019 through 2021. As a result, an income tax benefit of \$2.6 million was recorded in 2020 in connection with tax losses generated during fiscal years 2019 and 2020 that the CARES Act will now allow to be carried back to 2015.

In addition to this amount, and not recorded on the balance sheet, the Company has tax losses available in Australia, Canada and United States. Their estimated net benefit, at the applicable tax rates, is \$11.7 million, \$8.9 million, and \$0.5 million, respectively.

DIVIDENDS

Given the Company's strong balance sheet and confidence in the future outlook, the Board is pleased to declare a final dividend of 1.50 cents per share, unfranked (FY2019: nil per share).



KEY RISKS AND BUSINESS CHALLENGES

COVID-19 Pandemic Risk Factors and Mitigation

The COVID-19 pandemic began to affect Adacel's operations in March 2020. At the onset of our response, Adacel's executive team activated the company's Disaster Recovery Plan. The majority of the Adacel team transitioned to a company-wide work-from-home policy. The Board of Directors and Adacel's Executive Team, charged with overseeing the company's health during this unique crisis, have also adopted a series of mitigation strategies to ensure the well-being of our employees while meeting our commitments to our customers and shareholders. These strategies include:

- Enhanced communications between the Board of Directors and Adacel's Executive Team about business risks, workplace health, and safety matters
- Closely assessing our customers' activities, financial stability, and their ability to pay on their obligations
- Implemented new protocols for offsite and remote customer support and software deployment

As an emerging risk, the duration and full financial and operational effects of the COVID-19 pandemic are unknown, and accordingly, its impact will continue to be reviewed during fiscal year 2021.

Business Risks

The Company plays a significant role in the global market of providing crucial software used in air traffic management systems and 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 its 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 tender and decision-making processes from the 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 Systems 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 Adacel's management and the Board continues to actively monitor and manage.

The talents of a number of key personnel contribute significantly to the Company's operational effectiveness and performance. The policies that management and the Board have in place to retain talent include participation in an appropriate incentive arrangement.

The Company remains well-placed under the leadership of its Chief Executive Officer Daniel Verret.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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



STRATEGIC ACTIVITIES AND OUTLOOK

The Company continues to focus on its core technologies and markets. It is actively pursuing initiatives aimed at mitigating the inherent lumpiness which exists in the Company's Systems segment, and the maturation in its key markets. The company will continue to expand its product and services capabilities and broaden its addressable markets.

This focus has manifested in a number of areas:

- The Company's capabilities in the delivery of ATM systems has grown and diversified. In the ATM market, the Company was historically known as having expertise in the delivery of oceanic ATM systems only. With the completion of the project in Fiji and the ongoing project in Guadeloupe which includes a number of enhancements requested by the customer, the Company is confident that it can now deliver smaller footprint land-based ATM systems.
- The Company continues to offer additional ATM products and features that complement the Aurora system allowing customers to choose from a more comprehensive ATM product suite. The purpose of these new suite of products is to broaden the Company's addressable ATM market.
- In the ATC simulation business, we will continue to seek new opportunities and to expand our product and service offerings.

While the COVID-19 pandemic has caused some delays in potential orders for both ATM and ATC, the Company remains confident of further opportunities in both markets as smaller countries look to upgrade their ageing ATM and ATC systems.

For FY2021, assuming modest and steady recovery from the COVID-19 disruption we anticipate a profit before tax of between \$6.3 million and \$6.8 million. Assuming no further delays caused by COVID-19, almost 80% of FY2021 revenues are in backlog. Excluding payment of future undeclared dividends, the Company is forecasting cash of approximately \$10.0 million at 30 June 2021.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

In July 2020, the Company granted 361,000 performance rights and 835,000 options to eligible employees. These performance rights and options will vest subject to the attainment of certain performance conditions. The performance rights have an exercise price of nil and the options have an exercise price of \$0.54.

During the year, the Company agreed to additional remuneration for the Chairman associated with executive support services that were provided during the 2019 executive transition. As at 30 June 2020, an accrual of \$150,000 has been recorded. Subsequent to year-end, the Company has agreed to issue 277,778 fully paid ordinary shares at \$0.54 per share for these services. The issue is subject to shareholder approval at the 2020 Annual General Meeting and the resulting shares will be held under a voluntary escrow for a period of 12 months from issue.

There were no other significant events after the balance sheet date.

ENVIRONMENTAL REGULATION

If required, at each Directors' meeting the Chief Executive Officer reports to the Board about any environmental and regulatory issues. There are no matters that the Board considers need to be stated in this report.



GREENHOUSE GAS AND ENERGY DATA REPORTING REQUIREMENTS

The Group is not subject to the reporting requirements of either the Energy Efficiency Opportunities Act 2006 or the National Greenhouse and Energy Reporting Act 2007.

INFORMATION ON DIRECTORS



Michael McConnell BA (Harvard), MBA (Virginia)

Non-Executive Chairman

Mr McConnell joined the Board as an Independent Non-executive Director on 1 May 2017 and was appointed Chairman on 1 April 2019. He is an experienced Director and private investor who is currently a Non-executive Director of Vonage, and Jacob Stern & Sons Inc. Previously, he was the Managing Director of Shamrock Capital Advisors. In addition, Michael is serving on numerous public and private company boards in the United States of America, Australia, New Zealand, Israel and Ireland. He has experience across a variety of Industries, including media, entertainment, enterprise software, radio broadcasting, cable distribution, basic materials, chemicals, e-commerce, and consumer products.

Interests in Shares and Options

950,000 ordinary shares in Adacel Technologies Limited. Nil options over ordinary shares in Adacel Technologies Limited.

Natalya Jurcheshin B.Comm, CA (Aust and NZ)



Non-Executive Director

Ms Jurcheshin joined the Board as an Independent Non-executive Director on 7 October 2016 and is the Chair of the Audit and Risk Management Committee and the Remuneration Committee. Natalya is a senior financial leader with a breadth and depth of experience in managing, improving, and growing finance functions of companies and playing an instrumental part in their strategic growth. She has over 25 years' experience in finance roles, starting her career in the audit and assurance practice at Arthur Andersen (now part of Ernst & Young), working with clients in a wide variety of industries in Australia and in Eastern Europe. She has 12 years' experience as a Chief Financial Officer with ASX listed biotech Circadian Technologies Limited (10 years) and the Melbourne Symphony Orchestra (2 years). Natalya does not currently hold and has not held directorships in other listed companies at any time in the 3 years immediately before the end of the financial year.

Interests in Shares and Options

Nil ordinary shares in Adacel Technologies Limited. Nil options over ordinary shares in Adacel Technologies Limited.





Peter Landos BEco (ANU)

Non-Executive Director

Mr. Landos was appointed as a Non-executive Director on 26 February 2009, was the Chairman from 16 November 2012 until 1 April 2019 and is Chair of the Remuneration Committee. Peter is the Chief Operating Officer of the Thorney Investment Group of companies with whom he has worked since September 2000, having previously worked at Macquarie Bank Limited. Peter has extensive business and corporate experience specialising in advising boards and management in mergers and acquisitions, divestments, business restructurings and capital markets. Peter is also a Non-executive Director of Gale Pacific Limited and Rural Press Pty Limited.

Interests in Shares and Options

Nil ordinary shares in Adacel Technologies Limited.
Nil options over ordinary shares in Adacel Technologies Limited.



Silvio Salom B Eng

Non-Executive Director

Mr Salom was the Managing Director of Adacel Technologies Limited from incorporation in October 1997 until 16 June 2006, and Non-executive Director since that date. Mr. Salom was the founder and Managing Director of the predecessor Adacel Pty Ltd from establishment in 1987. Silvio has extensive experience in the strategic and operational management of hitech companies with particular expertise in information technology related to the manufacturing, environmental, defence, transport, multimedia and telecommunications industry sectors. Silvio is a director in a number of private and public companies, however, he does not currently hold and has not held directorships in other listed companies at any time in the 3 years immediately before the end of the financial year.

Interests in Shares and Options

5,195,191 ordinary shares in Adacel Technologies Limited. Nil options over ordinary shares in Adacel Technologies Limited.



Hasaka Martin

Company Secretary

Hasaka is an employee of Boardroom Pty Limited, and is the appointed Company Secretary for a number of ASX listed companies. Hasaka is a fellow of the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia. He holds a Graduate Diploma in Applied Corporate Governance and postgraduate qualifications in corporate and securities law.



MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year and the number of meetings attended by each Director or their alternate were as follows:

			Meetings of Committees				
Directors	Meetings of Directors		Audit and Risk Management		Remuneration		
	Eligible	Attended	Eligible	Attended	Eligible	Attended	
Michael McConnell	9	9	8	7	0	0	
Natalya Jurcheshin	9	9	8	8	2	2	
Peter Landos	9	8	8	8	*	2*	
Silvio Salom	9	8	8	8	2	2	

^{*}Denotes that the Director was not a member of the relevant committee.

At the date of this report, the Company has an Audit and Risk Management Committee and a Remuneration Committee of the Board of Directors. The Company had a Nomination Committee for part of the year ended 30 June 2020 (although no meetings were held). However, since all the Directors were members of the Committee, the Nomination Committee function is now undertaken by the Board. The Nomination Committee, as a separate Board Committee, was dispensed with on 11 July 2019.

The current members of the Audit and Risk Management Committee are Natalya Jurcheshin, Michael McConnell, Peter Landos and Silvio Salom. The Chair of the Audit and Risk Management Committee is Natalya Jurcheshin.

The current members of the Remuneration Committee are Natalya Jurcheshin, Michael McConnell, and Silvio Salom. The Chair of the Remuneration Committee is Natalya Jurcheshin.







REMUNERATION REPORT



REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Details of remuneration
- C. Service agreements
- D. Share-based compensation

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

A. PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION.

The Adacel Board has determined policies in relation to the remuneration of directors and executives as follows:

Non-executive Directors

Non-executive Directors are remunerated by fixed annual fees, superannuation, and from time-to-time may also be issued share options or equity in place of higher cash fees.

The level of annual Directors' fees is reviewed by the Remuneration Committee and the Board, considering several factors, including the range of Directors' fees paid in the market, and the Company's costs and operating performance. The maximum total payable to Directors for Directors' Fees is approved from time to time by shareholders in general meeting and was last set at \$500,000 per annum at the 2013 Annual General Meeting.

Based on the Company's size and resources, from time-to-time, non-executive Directors may also be issued options or equity as part of their remuneration in place of a higher cash fee. Options or equity would be issued after consideration by the Remuneration Committee and the Board and are subject to shareholder approval at a general meeting.

Senior Executives

Under the Company's constitution, remuneration of the Chief Executive Officer or equivalent position, subject to other provisions in any contract between the executive and the Company, may be by fixed salary or participation in the profits of the Company and not be by commission on or percentage of operating revenue. Other senior executives are remunerated by fixed salary and performance-based bonuses. Remuneration packages will generally be set to be competitive to both retain executives and attract experienced executives to the Company.

Where packages comprise a fixed element and variable incentive components, the variable components will depend on the Company's and/or personal performance. Short-term incentives may include annual cash incentives on meeting specific performance criteria agreed upon at Board level. The amount of the incentive will depend upon the extent that the measure is exceeded.

To provide long-term incentives, senior executives may also participate in the Executive Share Option and Performance Rights Plan. The options and performance rights are issued with conditions linked to specific vesting conditions tied to the financial performance of the Company over the vesting period.



Short-Term Incentives

For a number of the executives in the consolidated entity, an element of their remuneration may be based upon annual bonuses, usually dependent on the satisfaction of various performance conditions. For the year ended 30 June 2020, the Board approved short-term incentives for these executives as shown in Section B below based on quantitative and qualitative performance factors in accordance with the provisions of the short-term incentive plan. The following table compares earnings and all bonuses paid or accrued over the past five years.

YEAR	Profit Before Tax \$'000's	Profit After Tax \$'000's	Range of Share Price	Bonus Earned	Ordinary Dividend Declared (per share)
	\$	\$	\$	\$'000's	Cents
2016	10,818	9,217	0.58 to 3.02	779	3.0
2017	7,851	9,279	2.14 to 3.40	555	4.0
2018	9,512	7,717	1.69 to 3.09	644	4.5
2019	(1,954)	(2,697)	0.40 to 1.66	-	2.0
2020	2,198	3,634	0.30 to 0.84	73	2.5

Long-Term Incentives

For a number of the executives in the consolidated entity, at the discretion of the remuneration committee, an element of their remuneration may be by way of participating in the Executive Share Option and Performance Rights Plan. Share options and performance rights are subject to performance conditions. Exercise prices of options are also set to ensure that employees will benefit by exercising their options if there has been a rise in the share price. The Executive Share Option and Performance Rights Plan is described in Note 38 and is summarised in Section D below.

Benefits

Executives receive benefits including health insurance and disability insurance.

B. DETAILS OF REMUNERATION.

Amounts of remuneration

Details of the nature and amount of each element of the emoluments of each Director of Adacel Technologies Limited, the key management personnel (as defined in AASB 124 Related Party Disclosures) and specified executives of the Group are set out in the following tables.

The key management personnel of the Group were the directors of Adacel Technologies Limited (see pages 11-12); the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), Mr. Daniel Verret; and the Vice President, Operations Mr. Kevin Pickett.

As announced to the Australian Securities Exchange on 15 April 2020, Daniel Verret was appointed Adacel's Chief Executive Officer.



2020 Emoluments of the Directors and Key Management Personnel

2020	Sh	ort-term en	nployee benef	fits	Post- employment benefits	Other	Share- based payments	
Name	Cash salary and fees \$	Cash bonus \$	Non monetary*	Other \$	Super- annuation \$	Termination benefits	Rights & Options \$	Total \$
Non-executive Directors								
Michael McConnell (Chairman)**	95,833	-	-	151,814	20,162	-	-	267,809
Peter Landos ***	50,000	-	-	-	4,750	-	-	54,750
Natalya Jurcheshin	60,000	-	-	-	5,700	-	-	65,700
Silvio Salom	50,000	-	-	-	4,750	-	-	54,750
Sub-total: Non-exec Directors	255,833	-	-	151,814	35,362	-	-	443,009
Other Key Management								
Daniel Verret ****	392,350	43,334	8,810	-	19,617	-	64,860	528,971
Kevin Pickett	275,940	30,337	29,196	149	13,790	-	64,860	414,272
Brian Hennessey (resigned 27/09/2019)	121,731	-	7,466	-	6,087	68,948	-	204,232
Sophie Karzis (resigned 30/01/2020)	35,000	-	-	-	-	-	-	35,000
Sub-total: Other Key Management	825,021	73,671	45,472	149	39,494	68,948	129,720	1,182,475
Total Key Management Personnel Compensation	1,080,854	73,671	45,472	151,963	74,856	68,948	129,720	1,625,484

^{*} Non-Monetary Remuneration is based upon actual costs to the Company.

^{****} Mr. Verret was appointed CEO on 15 April 2020. Prior to this, he held the position of Acting CEO and CFO from 1 July 2019.



^{**} The Company has agreed to additional remuneration for the Chairman (by way of equity) associated with executive support services that were provided during the 2019 executive transition. The Company has agreed to issue 277,778 fully paid ordinary shares at \$0.54 for these services. The issue is subject to shareholder approval at the 2020 Annual General Meeting and the resulting shares will be held under a voluntary escrow for a period of 12 months from issue.

^{***} Cash Salary and Fees paid to TIGA Trading Pty Ltd.



2019 Emoluments of the Directors and key management personnel

2019	Short	-term empl	oyee benefits		Post- employment benefits	Other	Share- based payments	
Name	Cash salary and fees \$	Cash bonus \$	Non monetary*	Other \$	Super- annuation \$	Termination benefits	Options \$	Total \$
Non-executive Directors								
Michael McConnell (Chairman from 1 April 2019)	62,500	-	-	-	378	-	_	62,878
Natalya Jurcheshin	50,000	-	-	-	4,750	-	-	54,750
Peter Landos ** (Chairman until 31 March 2019)	87,500	-	-	-	8,312	-	-	95,812
Silvio Salom	50,000	-	-	-	4,750	-	-	54,750
David Smith (resigned 28 February 2019)	33,333	-	-	-	3,166	-	-	36,499
Sub-total: Non-exec Directors	283,333	-	-	-	21,357		-	304,689
Other Key Management								
Daniel Verret (appointed 22/10/2018)	189,354	-	5,238	-	5,702	-	-	200,294
Kevin Pickett	233,567	-	26,258	139	14,260	-	-	274,224
Brian Hennessey	258,560	-	20,978	-	18,092	-	-	297,630
Sophie Karzis	57,600	-	-	-	-	-	-	57,600
Gary Pearson (resigned 31/03/2019)	450,196	-	29,830	-	12,090	-	-	492,116
Jean-Philippe Duval (resigned 22/10/2018)	104,686	-	367	-	4,050	50,163	-	159,266
Sub-total: Other Key Management	1,293,963	-	82,671	139	54,194	50,163	-	1,481,130
Total Key Management Personnel Compensation	1,577,296	-	82,671	139	75,551	50,163	-	1,785,819

^{*} Non-Monetary Remuneration is based upon actual costs to the Company.

C. SERVICE AGREEMENTS.

Remuneration and other terms of employment for the key management personnel are formalised in service agreements. The major provisions of the agreements relating to remuneration are set out below.

Daniel Verret (Chief Executive Officer)

- Terms of agreement Two-year fixed term agreement.
- Base salary, superannuation, automobile allowance, and medical/health insurance benefits for the year ended 30 June 2020 of \$420,777. This equates to 80% of his total earnings.
- In the event Mr. Verret's employment is terminated by Adacel without cause, 12 months' notice (or payment in lieu) is required.
- There is a contractual provision for performance-related and discretionary cash bonuses equal to 20%-30% of total Base Compensation which will be subject to performance metrics as determined by the Board. An amount of \$43,334 has been accrued for the year ended 30 June 2020. This equates to 8% of his total earnings.

^{**} Cash salary and fees paid to TIGA Trading Pty Ltd.



Participation, when eligible, in the Executive Share Option and Performance Rights Plan. During
the year, Mr. Verret received a grant of 94,000 Performance Rights that vested on 30 April 2020.
An amount of \$64,860 was recognized during the year. This equates to 12% of his total earnings.

Kevin Pickett (Vice President, Operations)

- Term of agreement No fixed term.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2020 of \$319,075. This equates to 77% of his total earnings.
- There is no defined contractual obligation to provide a benefit upon termination of employment, however, payment of early termination benefits, other than for cause, would be based on industry standards. There is no requirement of a minimum notice period
- There is no contractual provision for performance-related cash bonuses. However, Mr. Pickett is eligible for performance-related cash bonuses as determined by the Board. An amount of \$30,337 has been accrued for the year ended 30 June 2020. This equates to 7% of his total earnings.
- Participation, when eligible, in the Executive Share Option and Performance Rights Plan. During the year, Mr. Pickett received a grant of 94,000 Performance Rights that vested on 30 April 2020.
 An amount of \$64,860 was recognized during the year. This equates to 16% of his total earnings.

Brian Hennessey (Former Vice President, Business Development and Strategic Planning)

- Term of agreement Resigned on 27 September 2019.
- Base salary, superannuation, and medical/health insurance benefits for the year ended 30 June 2020 of \$135,284. This equates to 66% of his total earnings.
- There was no defined contractual obligation to provide a benefit upon termination of employment, however, a termination benefit of \$68,948 was paid.
- There was no contractual provision for performance-related cash bonuses. However,
 Mr. Hennessey was eligible for performance-related cash bonuses as determined by the Board.
 No amount has been accrued for the year ended 30 June 2020.
- Participation, when eligible, in the Executive Share Option and Performance Rights Plan.

Sophie Karzis (Former Company Secretary)

- Term of agreement resigned 30 January 2020.
- Ms Karzis provided services to the Company as a contractor on an agreed monthly fee basis.
- Fees for the year ended 30 June 2020 in respect of Company Secretarial activities of \$35,000 have been paid or accrued.





D. SHARE-BASED COMPENSATION.

EXECUTIVE SHARE OPTION AND PERFORMANCE RIGHTS PLAN

Options and performance rights may be granted under the Executive Share Option and Performance Rights Plan, which was approved by the shareholders at the Annual General Meeting in November 2017. Under this plan, Directors may issue options and performance rights to eligible employees. The Directors have the discretion about the number of options and performance rights to be issued and also the exercise periods and conditions precedent to the options and performance rights vesting. The options and performance rights are issued for no consideration and are not listed. Options and performance rights granted under the plan carry no dividend or voting rights. When exercisable, each option and performance right is convertible into one ordinary share. In the event of the resignation, redundancy or termination of employment of a participant in the plan, the options or performance rights issued under the Executive Share Option and Performance Rights Plan lapse immediately, unless the Directors, at their absolute discretion, determine otherwise. During the year ended 30 June 2019, the Executive Share Option and Performance Rights Plan is described in note 38 and is summarized below.

LTI Rights and Options Vesting (%)	FY20 LTI Rights and Options Vesting Conditions	FY21 LTI Rights and Options Vesting Conditions
	Continuous Employment until 30 June 2021	Continuous Employment until 30 June 2023
50%	For FY2020 an EBITDA of USD \$4.5 million or greater; and for FY2021 an EBITDA 10% higher than the base budget approved by the Board or greater.	For FY2021 the Board approved budgeted USD EBITDA; and a 10% or greater average annual growth rate, over the subsequent two financial years ending 30 June 2023.
50%	An average annual return on invested capital (ROIC) of 26% over the two years FY2020 to FY2021 (based on the audited consolidated financial statements).	An average annual return on invested capital (ROIC) of 26%, or greater, over the three years beginning with FY2021 (based on the audited consolidated financial statements).
Performance Rights	Daniel Verret – 223,000 Kevin Pickett – 158,000 Total 381,000	Daniel Verret – 226,000 Kevin Pickett – 135,000 Total 361,000
Performance Rights Fair Value	\$0.45	\$0.54
	Daniel Verret – 402,000	Daniel Verret – 523,000
	Kevin Pickett – 286,000	Kevin Pickett – 312,000
Options	Total 688,000	Total 835,000
Options Fair Value	\$0.25	\$0.23
Vesting date	30 June 2021	30 June 2023
Expiry	June 2026	June 2028
Option Exercise Price	\$0.45	\$0.54



SHARES PROVIDED ON EXERCISE OF OPTIONS OR PERFORMANCE RIGHTS

In August 2019, the Board granted 188,000 performance rights to eligible employees. These performance rights had an exercise price of nil and vested on April 30, 2020. The company incurred a share-based payment expense of AUD \$130,000 based on the vesting period. On May 1, 2020, eligible employees exercised their performance rights.

EQUITY INSTRUMENT DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

Option and performance rights holdings

There were no options or performance rights over ordinary shares in the Company held during the financial year by any of the directors of Adacel Technologies Limited nor other key management personnel of the Company, including their personally related parties.

SHARE HOLDINGS

The numbers of Company ordinary shares held during the financial year by each Director of Adacel Technologies Limited and other Company key management personnel, including their personally related parties, are set out below.

2020 Name	Balance at the start of the year	Granted during the year as remuneration	Received during the year on the exercise of rights & options	Acquisitions during the year	Disposals during the year	Change as a KMP during the year	Balance at the end of the year
Directors of Adac	el Technolo	gies limited					
Michael McConnell	287,842	-	-	342,158	-	-	630,000
Natalya Jurcheshin	-	-	-	-	-	-	-
Peter Landos	-	-	-	-	-	-	-
Silvio Salom	5,195,191	-	-	-			5,195,191
Other key manage	ement perso	onnel of the g	group				
Daniel Verret*	-	-	94,000	-	-	-	94,000
Brian Hennessey	125,157	-	-	-	-	-	125,157**
Kevin Pickett*	-	-	94,000	-	-	-	94,000
Sophie Karzis	13,000	-	-	-	-	-	13,000***

^{*}In August 2019, the Board granted 94,000 performance rights to Mr. Verret and 94,000 performance rights to Mr. Pickett. These performance rights had a fair value of \$0.45 per share had an exercise price of nil and vested on 30 April 2020. On 1 May 2020, the Performance Rights were exercised by Mr. Verret and Mr. Pickett.

^{**}Balance held at time of resignation – 27 September 2019

^{***} Balance held at time of resignation – 30 January 2020



2019 Name	Balance at the start of the year	Granted during the year as remuneration	Received during the year on the exercise of options	Acquisitions during the year	Disposals during the year	Change as a KMP during the year	Balance at the end of the year
Directors of Adac	el Technolo	gies limited					
Michael McConnell	-	-	-	287,842	-	-	287,842
Natalya Jurcheshin	-	-	-	-	-	-	-
Peter Landos	-	-	-	-	-	-	-
Silvio Salom	5,195,191	-	-	-			5,195,191
David Smith	2,951,922	-	-	-			2,951,922
Other key manage	ement perso	onnel of the g	group				
Daniel Verret	-	-	-	-	-	-	-
Gary Pearson							
Brian Hennessey	170,264	-	-	-	(45,107)	-	125,157
Kevin Pickett	-	-	-	-	-	-	-
Sophie Karzis	13,000	-	-	-	-	-	13,000

LOANS TO DIRECTORS AND KEY MANAGEMENT PERSONNEL

During the financial year, no loans were made, guaranteed or secured by Adacel Technologies Limited or any of its subsidiaries to any Director of Adacel Technologies Limited or any of the specified executives of the Group, including their personally related entities. No loans remain outstanding as at 30 June 2020 (FY2019: nil).

INSURANCE OF DIRECTORS AND OFFICERS AND INDEMNITIES

During the year, the Company paid a premium for a Directors and Officers Liability Insurance Policy. This policy covers Directors and Officers of the Company and the consolidated entity. In accordance with normal commercial practices under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of the premiums are confidential.

The Company has agreed to indemnify their auditors, PricewaterhouseCoopers, to the extent permitted by law, against any claim by a third party arising from the Company's breach of their agreement. The indemnity stipulates that Adacel Technologies Limited will meet the full amount of any such liabilities including a reasonable amount of legal costs.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has made any application under section 237 of the Corporations Act 2001.



NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

During the year, the following non-audit fees were paid or are payable for services provided by the auditor of the parent entity and its related practices:

Conso	lidated
2020	2019
18,870	19,722
	-
7,500	25,500
26,370	45,222
74,203	40,659
39,571	-
113,774	40,659
140,144	85,881
	18,870 7,500 26,370 74,203 39,571 113,774

AUDITORS' 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 25.



ROUNDING

The amounts contained in this report and in the financial 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 & Investment Commission Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191. The Company is an entity to which this Instrument applies.

AUDITOR

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Adacel Technologies Limited support and have adhered to the principles of corporate governance. The Company's corporate governance statement is available on the company's website as indicated on page 83.

Signed in accordance with a resolution of the Directors.

Michael McConnell

Chairman

Natalya Jurcheshin

N. Juchslin

Director

Melbourne, 14 August 2020

Michal g. Mc n



Auditor's Independence Declaration

As lead auditor for the audit of Adacel Technologies Limted for the year ended 30 June 2020, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Jason Perry

Partner

PricewaterhouseCoopers



ADACEL TECHNOLOGIES LIMITED ABN 15 079 672 281

ANNUAL FINANCIAL STATEMENTS – 30 JUNE 2020

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This financial report is for the consolidated entity consisting of Adacel Technologies Limited and its subsidiaries. The financial report is presented in the Australian currency.

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

Adacel Technologies Limited Unit 29 3 Westside Avenue PORT MELBOURNE, VIC, 3207

A description of the nature of the consolidated entity's operations, its principal activities and review of operations are included in the directors' report on pages 3 to 13, which does not form part of this financial report.

The financial report was authorised for issue by the directors on 14 August 2020. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available at our Shareholders' Centre on our website: www.adacel.com.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020

	Notes	Consolidated	
		2020 \$'000	2019 \$'000
Revenue from continuing operations	6	39,714	41,357
Interest income Other income	7 7	7 1,436	45 1,053
Net foreign exchange gain/(loss) Materials and consumables Labour expense Depreciation and amortisation expense Finance costs All other expenses Profit / (Loss) before tax	_	341 (6,084) (26,937) (1,915) (396) (3,968) 2,198	(198) (6,745) (31,233) (687) (146) (5,400) (1,954)
Income tax benefit / (expense) Profit / (Loss) from continuing operations	9 _	1,436 3,634	(743) (2,697)
Other comprehensive (loss)/income Items that may be reclassified to profit or loss: Exchange differences on translation of foreign operations Total other comprehensive (loss) / income, net of tax Total comprehensive income / (loss) for the year	26 _ _ _	(249) (249) 3,385	1,083 1,083 (1,614)
Profit / (Loss) for the year is attributable to: Owners of Adacel Technologies Limited	_	3,634	(2,697)
Total comprehensive income/(loss) for the year is attributable to: Owners of Adacel Technologies Limited	=	3,385	(1,614)
Earnings per share for profit / (loss) attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share (cents per share) Diluted earnings per share (cents per share)	37 37	4.71 4.71	(3.50) (3.50)

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



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated As at 30 June 2020 Notes 2020 2019 \$'000 \$'000 **Current assets** Cash and cash equivalents 10 5,177 2,511 Trade and other receivables 11,032 11 9,369 Accrued revenue 11 4,237 6,669 WIP and inventories 12 1,320 781 Other financial assets 14 167 55 **Total current assets** 21,821 19,497 Non-current assets Property, plant and equipment 16 755 834 Intangible assets 17 1.178 996 Right-of-use assets 2, 18 6,876 Long term tax receivable 9 2,630 Deferred tax asset 19 4,512 4,898 Other financial assets 15 50 42 **Total non-current assets** 16,001 6,770 37.822 **Total assets** 26,267 **Current liabilities** Trade and other payables 20 5,956 3,915 Advance payments from customers 4,041 4,416 Current tax liabilities 1,415 1,470 **Provisions** 23 2,335 3,012 Lease liabilities 2, 18 1,406 Other current liabilities 21 625 15,528 13,063 Total current liabilities Non-current liabilities Lease liabilities 2, 18 6,158 Deferred tax liability 19 763 584 **Total non-current liabilities** 6,921 584 **Total liabilities** 22,449 13,647 **Net assets** 15,373 12,620 **Equity** Contributed equity 25 71,338 71,468 Reserves 26 (476)(227)Accumulated losses 26 (58,491)(55,619)**Total equity** 15,373 12,620

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



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

Attributable to the owners of Adacel Technologies Limited

		Contributed Equity	Reserves	Accumulated Losses	Total Equity
	Notes	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2018		73,253	(1,310)	(49,162)	22,781
(Loss) / profit for the year		-	-	(2,697)	(2,697)
Exchange differences on translation of foreign operations	26	-	1,083	-	1,083
Total comprehensive income/(loss) for the year		-	1,083	(2,697)	(1,614)
Transactions with owners in their capacity as owners:					
Share buyback equity reductions	25	(1,915)	-	-	(1,915)
Dividends provided for or paid	26	-	-	(6,632)	(6,632)
		(1,915)	-	(6,632)	(8,547)
Balance at 30 June 2019		71,338	(227)	(58,491)	12,620
Balance at 1 July 2019		71,338	(227)	(58,491)	12,620
Profit / (loss) for the year		-	-	3,634	3,634
Exchange differences on translation of foreign operations	26	-	(249)	-	(249)
Total comprehensive income/(loss) for the year		-	(249)	3,634	3,385
Transactions with owners in their capacity as owners:					
Exercise of performance rights	25	130	-	-	130
Dividends provided for or paid	26	-	-	(762)	(762)
		130	-	(762)	(632)
Balance at 30 June 2020		71,468	(476)	(55,619)	15,373

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



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

·	Notes	Cons	olidated
		2020	2019
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		41,987	43,952
Payments to suppliers and employees (inclusive of GST)		(34,893)	(41,554)
Payments for research and development expenditure (inclusive of GST)		(541)	(1,248)
Refund of security deposits		123	-
	_	6,676	1,150
Interest received	7	7	45
Income tax paid		(755)	(2,751)
Tax credits refunded		577	1,211
Finance costs		(396)	(146)
Net cash inflow / (outflow) from operating activities	35	6,109	(491)
Cash flows from investing activities			
Payments for property, plant and equipment		(354)	(175)
Payments for intellectual property		(505)	(277)
Net cash outflow from investing activities	_	(859)	(452)
Cash flows from financing activities			
Dividend paid		(762)	(6,632)
Repayment of TPC grant		(625)	(909)
Principal elements of lease payments	2, 18	(1,039)	-
Shares repurchased through on market buy-back	25	-	(1,915)
Net cash outflow from financing activities		(2,426)	(9,456)
Net increase (decrease) in cash and cash equivalents		2,824	(10,399)
Cash and cash equivalents at the beginning of the financial year	10	2,511	12,525
Effects of exchange rate changes on cash and cash equivalents		(158)	385
Cash and cash equivalents at the end of the financial year	10	5,177	2,511

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



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Notes to the Financial Statements - 30 June 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Adacel Technologies Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Adacel Technologies Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of Adacel Technologies Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) (the financial statements). These financial statements have been approved by the Board on August 14, 2020.

Early adoption of standards

Adacel Technologies Limited does not intend to adopt any new standards prior to the due date.

Going concern basis of preparation

This general purpose financial report has been prepared on a going concern basis following the directors' consideration of the operating plans and budgets for the period of 12 months from the date of signing the financial statements, and the financing arrangements discussed in note 24.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Adacel Technologies Limited ("Company", "parent entity") as at 30 June 2020 and the results of all subsidiaries for the year then ended. Adacel Technologies Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Notes to the Financial Statements - 30 June 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CEO. The Group's segments are based upon an "income type" and are consistent with the previous year.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Adacel Technologies Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each profit and loss are translated at average exchange rates (unless
 this is not a reasonable approximation of the cumulative effect of the rates prevailing on the
 transaction dates, in which case income and expenses are translated at the dates of the
 transactions); and
- all resulting exchange differences are recognised in other comprehensive income.





1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, duties and taxes paid. Revenue is derived from various products and services which are accounted for differently at the point in time when performance obligations are considered met. The method used is selected on the basis of that which best represents the nature of the contract and the performance obligations within each contract whereby different methods of recognition can be used across separate performance obligations within a single contract.

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

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

Revenue from license sales of standard software products is recognised at a point in time when control has been transferred to the customer, usually only after the delivery and client acceptance of the products. These products are off-the-shelf and the customer does not have the ability to request specific tailoring.

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

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

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

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





1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Dividends are recognised as revenue when the right to receive payment is established.

Research and Development (R&D) Tax Credits are recognised in the period which the expenditure is incurred. An estimate is accrued based upon an analysis against the criteria in the related tax legislation and adjusted to the actual figure in subsequent periods once the tax return is completed.

(f) Government grants

Grants from governments are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit and loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and credited to the profit and loss on a straight-line basis over the expected lives of the related assets.

Government grants received which contain a repayment clause are treated as a liability and measured using the amortised cost method. The liability is discounted using the implicit effective interest rate in the grant contract and remeasured at each balance date. The unwind of the discounting is included within finance expense, and the remeasurement included within other expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if there is convincing evidence that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except where it relates to items recognised in other comprehensive income or directly in equity. If so, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(h) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown as part of current liabilities on the balance sheet.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Trade receivables and accrued revenue

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables payment terms are contained within the contract documents for each project and generally vary from between 30 to 60 days after the end of the month of invoice. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debtors, known to be uncollectible, are written off by reducing the carrying amount directly. In determining the recoverability of a trade or other receivable using the expected credit loss model, a risk analysis is performed by the Group considering the type and age of the outstanding receivables, the creditworthiness of the counterparty, contract provisions, letter of credit and timing of payment. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(ii) Accrued revenue

Accrued revenue represents revenue that has been recognised, but which has not been invoiced to the customer at balance date.

(j) Security deposits

Security deposits are carried at the amounts paid to suppliers in relation to contract performance or the rental of offices. Security deposits are refundable following successful performance of contractual obligations.

(k) Inventories

Works in progress are stated at the lower of cost and net realisable value.

Costs deferred to work in progress comprise direct materials and direct labour. These costs are charged as expenses when the related revenue is recognised.

(I) Investments and other financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (note 11). Loans and receivables are carried at amortised cost.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Adacel does not enter into hedges for specific transactions, however, may utilise forward exchange contracts for currencies that it may deal in. The entity may also enter into contracts with customers where the payment currency is not the functional currency of each company, and therefore giving rise to an embedded derivative. The remeasurement of these derivatives at balance date gives rise to a gain or loss which is recognised immediately in profit and loss.

(n) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Details on how the fair value of financial instruments is determined are disclosed in note 3.

(o) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation on plant & equipment assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Class of Fixed Assets	Depreciation Rate
Leasehold improvements	5 - 10 years
Furniture and fittings	4 - 8 years
Computer Equipment	4 - 8 years
Software	2 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit and loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Intangible assets

(i) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Intellectual property

Intellectual property (IP) is carried at cost and is amortised on a straight-line basis over the periods of the expected benefit. The Board has established a process to review the value of the Company's intellectual property assets, on a timely basis, for recoverable amount assessment purposes. The current IPs being amortised have been assessed as having between 5 and 10 years expected benefit.

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in profit and loss as an expense when it is incurred.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised as internally developed intangibles if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in profit and loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days after the month of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(r) Advance payments from customers

Advance payments from customers represent amounts invoiced to customers in excess of the amount of revenue recognised on contracts. Services for these contracts will be rendered and revenue will be recognised in future periods.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Leases (until 30 June 2019)

The Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described in note 2, as well as the impact of the change.

Until 30 June 2019, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost was charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

(t) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from the contract are less than the unavoidable costs of meeting the obligations under that contract, and only after any impairment losses to assets dedicated to that contract have been recognised. The provision recognised is based on the excess of the estimated cash flows to meet the unavoidable costs under the contract over the estimated cash flows to be received in relation to the contract, having regard to the risks of the activities relating to the contract. The net estimated cash flows are discounted using market yields at balance date on national government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the expected future payments, where the effect of discounting is material.

(u) Provisions

Provisions for legal claims and service warranties are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

For similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as an interest expense.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave, and long service leave are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for accumulating sick leave are recognized when the leave is taken and measured at the rates paid or payable. The liability for long service leave is recognized in the provision for employee benefits. All other short-term employee benefit obligations including annual leave are presented as payables.

(ii) Other long-term employee benefit obligations

These are liabilities for long service leave and annual leave which are not expected to be settled wholly within 12 months after the end of the period in which the employee renders the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(iii) Superannuation

Contributions are made by the consolidated entity to defined contribution employee superannuation funds and are charged as expenses when incurred. Amounts outstanding at balance date are recognised in trade creditors.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Executive Share Option and Performance Rights Plan. The fair value of options and performance rights granted under the Executive Share Option and Performance Rights Plan is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options and performance rights granted and likelihood of achieving performance conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options and performance rights that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fair value at grant date is independently determined using a variety of option and performance rights pricing models that take into account the exercise price, the term of the option and performance rights, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option or performance rights, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate.

(v) Bonus plans

The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Termination benefits

Liabilities for termination benefits are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised in those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised in other creditors unless the amount or timing of the payments is uncertain, in which case they are recognised as provisions.

(vii) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in the employee benefit liabilities and costs when the employment to which they relate has occurred.

(w) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g. as a result of a share buy-back, those instruments are deducted from the equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming their conversion.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(z) Parent entity financial information

The financial information for the parent entity, Adacel Technologies Limited, disclosed in note 39, has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

(aa) Rounding of amounts

The Company is an entity to which relief is available under the Australian Securities & Investment Commission Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191. The amounts contained in this financial report have been rounded off to the nearest thousand dollars, or in some cases to the nearest dollar.

(ab) New accounting standards and interpretations

- (i) The following amended standards and amendments became applicable and were applied for the current reporting period.
 - (a) AASB 16 Leases, (effective from 1 January 2019)
 - (b) AASB 2017-6 Amendments to Australian Accounting Standards Prepayment Features with Negative Compensation
 - (c) AASB 2017-7 Amendments to Australian Accounting Standards Long-term Interests in Associates and Joint Ventures
 - (d) AASB 2018-1 Amendments to Australian Accounting Standards Annual Improvements 2015-2017 Cycle
 - (e) AASB 2018-2 Amendments to Australian Accounting Standards Plan Amendment, Curtailment or Settlement
 - (f) Interpretation 23 Uncertainty over Income Tax Treatments.

For AASB 16 Leases, the Group changed its accounting policies. See note 2 for further information. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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



2. CHANGE IN ACCOUNTING POLICIES

The Group has adopted AASB 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4.40%.

The Group's leasing activities and how these are accounted for

The Group leases various offices and equipment. Rental contracts are typically made for a fixed period of 3 to 10 years but may have extension options. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 30 June 2019, leases were classified as either finance or operating leases. Payments made under operating leases were charged to profit and loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the lease asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments. The lease payments are discounted using the lessee's incremental borrowing rate. Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability less any lease incentives received.

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Reliance on previous assessments on whether leases are onerous
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease.*



Adjustment recognised on adoption of AASB 16

Impact of transition is as follows:	1 July 2019 \$'000
Operating lease commitments disclosed as at 30 June 2019	6,047
Discounted using the lessee's incremental borrowing rate of 4.40% at the date of initial application Add: adjustments as a result of a different treatment of extension	5,685
Add: adjustments as a result of a different treatment of extension options	2,825
_	8,510
Lease liability recognised as at 1 July 2019	
Current lease liabilities	1,349
Non-current lease liabilities	7,161
_	8,510

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of lease inducement recognised on the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The right-of-use assets relate to the following types of assets:

	1 July 2019
	\$'000
Properties	7,798
Equipment	143
Total right-of-use assets	7,941

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

		1 July 2019 \$'000
Right-of-use assets	Increase by	7,941
Deferred tax assets		-
Trade and other payables	Decrease by	568
Lease liabilities	Increase by	8,510
Retained earnings	•	-

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease if the lease is reasonably certain to be extended. Potential future cash outflows of \$2,293,000 have not been included in the lease liability because it is not reasonably certain that the lease will be extended.





3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risks (including currency risk and interest rate risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group may use derivative financial instruments such as foreign exchange contracts to manage certain risk exposures. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and aging analysis for credit risk.

Risk management is carried out by the Chief Financial Officer, or equivalent, under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as other specific policy areas such as foreign exchange risk, interest rate risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The consolidated entity holds the following financial instruments

	Consolidated		
	2020	2019	
	\$'000	\$'000	
Financial assets			
Cash and cash equivalents	5,177	2,511	
Trade receivables	7,639	6,097	
Accrued revenue	4,237	6,669	
Security Deposits with RBC & BMO	55	167	
	17,108	15,444	
Financial liabilities			
Trade and other payables	5,956	3,915	
Other liabilities (TPC grant repayment)	-	625	
Lease liabilities	7,564		
	13,520	4,540	

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk

(i) Foreign exchange risk

The consolidated entity operates internationally and is exposed to foreign exchange risk arising from currency exposures primarily to the US Dollar and European Euro.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. To minimise the exposure, the Group manages the natural hedges that may exist and, when significant transactions with external customers or suppliers are conducted in currencies other than the functional currency, forward exchange contracts may be put into place to minimise the risk.

The Group's exposure to foreign currency risk at the reporting date was as follows

Values are shown in foreign currencies	30 June	e 2020	30 June	2019
	USD	EURO	USD	EURO
	\$'000	E'000	\$'000	E'000
Cash and cash equivalents	276	993	22	67
Trade and other receivables	2,111	853	3,225	246
Accrued revenue / (unearned revenue)	809	(499)	287	157
Security Deposits with RBC & BMO	38	-	41	-
Trade and other payables	(332)	(18)	(50)	-

Sensitivity

Based on the financial instruments held at 30 June 2020, had the Australian dollar strengthened/weakened by 10% against the US Dollar, with all other variables held constant, the Group's post tax loss for the year would have been \$384,000 lower/\$470,000 higher (in 2019, the post-tax profit would have been \$457,000 lower/\$558,000 higher).

Had the Australian dollar strengthened/weakened by 10% against the EURO, with all other variables held constant, the Group's post tax loss for the year would have been \$198,000 lower/\$242,000 higher (in 2019, the post-tax profit would have been \$69,000 lower/\$85,000 higher).

Aside from the effect upon profit, there would be no further direct impact on equity resulting from this movement.

(ii) Price risk

The consolidated entity is not exposed to equity securities price risks since all investments are impaired and recorded at the impaired values. None of these impaired investments are in publicly traded equity vehicles. The consolidated entity is also not exposed to commodity price risk.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises on cash balances held and on its bank facility with the Royal Bank of Canada.

Cash at bank and borrowings under the facility are subject to variable interest rates. Excess cash is placed in short-term deposit or high-interest earning accounts, which is also subject to interest rate risk. The Group monitors the movements in interest rates, but to date has not deemed it necessary or cost effective to use derivative financial instruments to manage such risk. As at the end of the reporting period, the Group had the following deposits and borrowings subject to interest rate variations.

	Consolidated					
	30 June	2020	30 June 2019			
	Weighted average interest rate	Balance	Balance Weighted Ba average interest rate			
	%	AUD \$'000	%	AUD \$'000		
Cash at bank	0.09	5,177	0.18	2,511		
Net exposure to cash flow	v interest rate risk	5,177		2,511		

Sensitivity

The Group's main interest rate risk arises from cash equivalents, loans and other receivables with variable interest rates. However, the impact of any anticipated movements in interest rates would not have a material impact on the results of the Group.

(b) Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures to customers, including outstanding receivables. An analysis of outstanding receivables is included in note 11.

The Group has a significant concentration of risk due to having significant accounts receivable with US government or related entities, however, due to the nature of this customer base, there is no significant exposure to credit risk.

For banks and financial institutions each entity deals exclusively with a single bank with whom they have built up a long-standing relationship.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.



3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to much of the business being project driven, the Chief Financial Officer aims to maintain flexibility in funding by keeping committed credit lines available with the Royal Bank of Canada. Surplus funds are generally only invested in short-term bank deposits to enable ready access to the funds as required.

Financing arrangements

The consolidated entity had access to undrawn borrowing facilities at the reporting date as disclosed in note 24.

Maturities of financial instruments

The tables below analyse the consolidated entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group – At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years	Total contractual cash flows	Carrying Amount (assets) /liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	5,956	-	-	-	5,956	5,956
Other Liabilities	-	-	-	-	-	-
Lease liabilities	1,382	1,396	2,787	3,226	8,790	7,564
_						_
Total	7,338	1,396	2,787	3,226	14,746	13,520
Group – At 30 June 2019	Less	Between	Between	Greater	Total	Carrying
	than 1	1 and 2	2 and 5	than 5	contractual	Amount
	year	years	years	years	cash flows	(assets) /liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	3,915	-	-	-	3,915	3,915
Other Liabilities	625	-	-	-	625	625
Total	4,540	-	-	-	4,540	4,540

The book value of the liabilities above approximates fair value.



3. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- a. quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- b. inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- c. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

None of the consolidated entity's assets and liabilities were required to be measured and recognised at fair value for 30 June 2020 and 30 June 2019.

If they were required, the fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) would be determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. Fair value is established by reference to forward exchange rates quoted by specialist departments from financial institutions.





4. CRITICAL ACCOUNTING ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impact of COVID-19 pandemic

As at 30 June 2020, the Group performed an assessment of the impact of the uncertainties around the outbreak of the novel strain of the coronavirus, specifically identified as COVID-19 pandemic, on projects, assets and liabilities. This assessment, which required the use of significant judgements and estimates, had no material impact on the Group consolidated financial statements for the fiscal year ended 30 June 2020. As an emerging risk, the duration and full financial and operational effects of the COVID-19 pandemic are unknown, and accordingly estimates will continue to be reviewed during fiscal year 2021.

Contract revenue recognised at balance date

The Group reviews all contracts work in progress at the balance date to determine the percentage value of completion based on the forecasted costs to complete the project. Costs and revenues are brought to account based on the outcomes of the review, in accordance with the accounting policy stated in note 1(e). The judgements can only be finally confirmed at the point of completion of the contract and final delivery to the customer. This may result in differences between the revenue recognised at balance date and the amounts that are subsequently determined to be applicable. Any such differences are brought to account at the next contract review cycle.

Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

The Group recognises deferred tax assets relating to carried forward tax losses and tax credits to the extent that there is convincing evidence that there will be future taxable profits in the jurisdiction to which those losses relate. The directors continuously monitor this issue in all companies. The directors have reassessed that there is enough convincing evidence of future taxable profits being available in Adacel Inc. to support the continuation of the recognition of a deferred tax asset. The deferred tax asset is reassessed and remeasured half yearly.

Grant repayment liabilities

The Group has received grants that require repayment up to a capped amount through a royalty payable on specific revenue streams. The estimate of the liability payable at each balance sheet date is based on forecasts for these future revenue streams and represents management's best estimate of the discounted liability at that date. Subsequent changes in business performance may result in variations to these revenue forecasts with a consequential change in the grant repayment liability. Any change in the expected liability is recognised in the profit and loss in the period in which the estimate of future revenues is changed.



5. SEGMENT INFORMATION

(a) Description of segments

Management has determined the operating segments based on the reports that are used to make strategic decisions. These reports are prepared by the CEO and reviewed by the Board monthly. The consolidated entity is organised on a global basis into these 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 recurring revenue, including all aspects of support, field services and on-site technical services.

Segment margins result after the allocation of all direct project expenses, (labour, materials and other direct costs), as well as an allocation of costs from direct function areas such as engineering, testing and project management. Further costs from the indirect functions areas of HR, IT and Facilities are also allocated based upon direct labour heads.

(b) Notes to and forming part of the segment information

(i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and the accounting standard AASB 8 Segment Reporting. Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis.

(ii) Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arm's length" basis and are eliminated on consolidation.

(iii) Significant Customers

During the 2020 financial year, revenues of approximatively 70% have been derived from 3 external customers. These customers are in the North American region, and the amount of revenues from them during the year were \$19.7 million, \$5.5 million and \$2.5 million respectively. In 2019, 64% of revenues were from 3 customers, individually amounting to \$18.2 million, \$5.5 million and \$2.6 million respectively.

5. SEGMENT INFORMATION (CONTINUED)

(c) Segment Information for the year ended 30 June 2020

ı	Notes	Syste	ms	Services		Total	
		2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Operations Total segment revenue	6 -	9,743	13,401	29,971	27,956	39,714	41,357
Total segment margin	=	(1,169)	(2,386)	15,149	13,429	13,980	11,043
Other income Interest revenue Exchange rate (loss) R&D expenses S&M expenses G&A expenses Other expenses Depreciation & amortisation Interest & finance charges	7 7 8 8					1,436 7 341 (541) (3,365) (7,310) (39) (1,915) (396)	1,053 45 (198) (1,248) (4,026) (7,790) - (687) (146)
Profit / (Loss) before income tax					_	2,198	(1,954)
Income Tax Credit / (Expense))					1,436	(743)
Profit / (Loss) for the Period					-	3,634	(2,697)

Geographical Information

The consolidated entity is required to provide the following geographical information in accordance with AASB 8. This geographical information is based upon the location of the operating entities of the Group.

	USA		Canada		Australia		Total	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Total Segment Revenue	10,031	10,308	27,679	27,159	2,004	3,890	39,714	41,357
Total non-current assets	4,423	342	11,163	6,372	415	264	16,001	6,770



6. REVENUE FROM CONTINUING OPERATIONS	Consolidated	
	2020	2019
	\$'000	\$'000
Sales revenue		
Sale of services and systems	39,714	41,357
	39,714	41,357
Timing of revenue recognition		
At a point in time	3,050	3,625
Over time	36,664	37,732
	39.714	41.357

As of June 30, 2020, the unsatisfied performance obligation resulting from contracts is \$19,075,205 (2019: \$20,631,251). Management expects that 84% of the unsatisfied contracts will be recognised as revenue during the next reporting period. The remaining 16% is expected to be recognised as revenue by fiscal year 2031.

The Group also has a provision for onerous contracts. See note 23 for further information.

7. OTHER INCOME	Consolidated	
	2020	2019
	\$'000	\$'000
Other Income		
Quebec Tax Credits	694	1,053
Canada Temporary Wage Subsidy	742	-
Interest	7	45
	1,443	1,098

The Group is eligible for tax credits of \$694,000 (2019: \$1,053,000) from the Quebec government for R&D, Multimedia and E-business schemes. These tax credits have been accrued after analysing the applicable criteria. They will be adjusted to the actual amount once the tax return has been submitted and the amounts received. During fiscal year 2020, the Group also benefited from a Temporary Wage Subsidy. As at 30 June 2020, the Group was eligible for a grant of \$784,000. The Group did not benefit directly from any other forms of government assistance.



8. EXPENSES

o. EXPENSES	Consolidated	
	2020	2019
	\$'000	\$'000
Profit (loss) before income tax includes the following specific expenses:		
Depreciation/amortisation of property, plant & equipment:		
Leasehold improvements	153	138
Furniture, fittings and equipment	284	299
Total depreciation / amortisation	437	437
Amortisation of Intangibles	303	250
Amortisation of Right-of-use assets	1,175	-
Interest and finance charges paid/payable	396	146
Rental expense relating to operating leases	-	1,278
Legal fees and settlement	2,355	436
Net foreign exchange (gains)/losses	(341)	198
Defined contribution superannuation expense	1,340	1,286
Onerous contract provision movement	(786)	994
Research and development (inclusive of labour)	541	1,248
Bad and doubtful debts expensed/(recovered)	-	(28)
(Gain) / Loss on remeasurement of TPC Liability	-	(260)



9. INCOME TAX	Consolidated	
	2020	2019
	\$'000	\$'000
(a) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable		
(Loss) / Profit from continuing operations before income tax expense	2,198	(1,954)
Income tax calculated at Australian rate of 30% (2019 – 30%)	731	(586)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable	e income:	
Canadian Federal income tax credits	(1,224)	(1,751)
Other items (net)	(115)	153
Difference in overseas tax rates	-	241
Current year temporary differences not brought to account	-	82
Current year temporary differences brought to account	177	389
Current year tax losses not brought to account	676	-
(Recognition) / Reversal of previously booked tax losses	(292)	1,209
Recognition of previously unbooked tax losses	(2,221)	-
Impact of changes in tax rates on deferred tax	-	74
Income tax under provided in prior years	446	427
Withholding tax on overseas remittances	251	381
Other Items, including current year losses not brought to account	135	124
Income tax (benefit) / expense	(1,436)	743
(b) Income tax expense		
Current tax (benefit) / expense	(1,512)	1,195
Deferred tax (benefit) / expense	479	(879)
Adjustments for current tax of prior periods	(403)	427
	(1,436)	743
Income tax expense is wholly attributable to continuing operations		
(c) Estimated unrecognised tax losses and tax credits		
Australia – tax losses	38,818	39,238
Canada – Federal tax credits	59,771	66,928
United States – tax losses	2,047	5,846
Total gross tax losses and credits	100,636	112,012
Potential tax benefit at applicable tax rates**	21,170	23,222
-		
(d) Estimated unrecognised temporary differences		
Temporary differences for which no deferred tax asset/(liability) has been		
recognised	217	217
Potential tax benefit at applicable tax rates	65	65

^{**} Effective tax rates applicable are: Australia: 30%, Canada Federal: 15%, Canada Provincial 11.5%, USA: 24.14%.



9. INCOME TAX (CONTINUED)

On March 27, 2020, the CARES Act was enacted to address the economic impact of the COVID-19 pandemic in the United States. Among other things, the CARES Act allows a five-year carryback period for tax losses generated in 2019 through 2021. As a result, an income tax benefit of \$2.6 million was recorded in 2020 in connection with a tax loss generated during fiscal year 2019 and 2020 that the CARES Act will now allow to be carried back to 2015, a tax year when the U.S. federal income tax rate was 35%.

10. CURRENT ASSETS - CASH AND CASH EQUIVALENTS	Consolidated	
	2020	2019
	\$'000	\$'000
Cash at bank and in hand	5,177	2,511
	5,177	2,511
(a) Reconciliation to cash at the end of the year		
The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:		
Balances as above	5,177	2,511
Balances per statement of cash flows	5,177	2,511

(b) Cash at bank and in hand

Cash at bank is interest bearing at rates of 0.0% to 1.0% (2019 : 0.0% to 1.0%). Cash at bank is mainly at call but is invested in term deposits with maturity of 3 months or less from date of acquisition where possible.

(c) Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 3.

11. CURRENT ASSETS – TRADE, OTHER RECEIVABLES,		
ACCRUED REVENUE	Conso	lidated
	2020	2019
	\$'000	\$'000
Trade receivables	7,639	6,097
Provision for impairment of receivables	-	_
	7,639	6,097
Sundry debtors	844	222
Provincial tax credits	2,108	2,304
Prepayments	441	746
	11,032	9,369
Accrued revenue	4,237	6,669
_	4,237	6,669



11. CURRENT ASSETS – TRADE & OTHER RECEIVABLES & ACCRUED REVENUE (CONTINUED)

(a) Past due but not impaired

As of 30 June 2020, trade receivables of \$1,284,312 (2019: \$1,484,426) were past due but not impaired. Whilst these amounts are past due, dialogue continues with these customers and payment is expected to be received in full.

	Consc	Consolidated	
	2020	2019	
	\$'000	\$'000	
Up to 3 months	816	661	
3 to 6 months	143	7	
Over 6 months	325	816	
	1,284	1,484	

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables.

(b) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 3.

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 3 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

12. CURRENT ASSETS - WIP &

INVENTORIES	Consolidated	
	2020	2019
	\$'000	\$'000
Current		
Work-in-progress on contracts	1,320	781



13. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Instruments used by the Group

There are currently no financial instruments being utilised by the Group.

(b) Risk exposures

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 3.

14. CURRENT ASSETS - OTHER FINANCIAL ASSETS	Consolidated	
	2020	2019
	\$'000	\$'000
Restricted term Deposit with Royal Bank of Canada ("RBC") and Bank of Montreal ("BMO")	55	167
	55	167

The entity had a restricted term deposit with the RBC as security for their rental premises. This security deposit was released on September 1, 2019. The entity also has a restricted term deposit with the BMO as security for a Bank Guarantee.

15. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS	Consolidated	
	2020	2019
	\$'000	\$'000
Security Deposits – Orlando and Hampton East Offices	50	42





16. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

		Consolidated	
	Furniture, fittings & equipment	Leasehold improvements	Total
	\$'000	\$'000	\$'000
At 1 July 2018			
Cost	3,307	1,341	4,648
Accumulated depreciation/amortisation	(2,657)	(950)	(3,607)
Net book amount	650	391	1,041
Year ended 30 June 2019			
Opening net book value	650	391	1,041
Additions	143	32	175
Depreciation/amortisation expense	(299)	(138)	(437)
Exchange differences	34	21	55
Closing net book amount	528	306	834
At 30 June 2019			
Cost	3,615	1,459	5,074
Accumulated depreciation/amortisation	(3,087)	(1,153)	(4,240)
Net book amount	528	306	834
Year ended 30 June 2020			
Opening net book value	528	306	834
Additions	331	34	365
Depreciation/amortisation expense	(284)	(153)	(437)
Exchange differences	(7)	-	(7)
Closing net book amount	568	187	755
At 30 June 2020			
Cost	3,950	1,469	5,419
Accumulated depreciation/amortisation	(3,382)	(1,282)	(4,664)
Net book amount	568	187	755



17. NON-CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated

	Core intellectual property \$'000	Purchased intellectual property \$'000	Internally generated software \$'000	Goodwill \$'000	Total \$'000
At 1 July 2018	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Cost	15,423	1,258		2,469	19,150
Accum amortisation & impairment	(14,771)	(993)	-	(2,469)	(18,233)
Net book amount	652	265	<u> </u>	(2,409)	917
Net book amount	032	203		-	911
Year ended 30 June 2019					
Opening net book value	652	265	-	-	917
Additions	-	277	-	-	277
Amortisation expense	(158)	(92)	-	-	(250)
Exchange differences	37	15	-	-	52
Closing net book amount	531	465	-	-	996
At 30 June 2019					
Cost	15,996	1,559	-	2,524	20,079
Accum amortisation & impairment	(15,465)	(1,094)	-	(2,524)	(19,083)
Net book amount	531	465	-	-	996
Year ended 30 June 2020					
Opening net book value	531	465	_	_	996
Additions	-	131	379	-	510
Amortisation expense	(166)	(136)	_	_	(302)
Exchange differences	(6)	(2)	(18)	-	(26)
Closing net book amount	359	458	361	-	1,178
G					,
At 30 June 2020					
Cost	15,507	1,681	361	2,505	20,054
Accum amortisation & impairment	(15,148)	(1,223)		(2,505)	(18,876)
Net book amount	359	458	361	-	1,178



18. NON-CURRENT ASSETS - RIGHT-OF-USE ASSETS

The balance sheet shows the following amounts relating to leases:

	Consolidated	
	30 June 2020	1 July 2019
	\$'000	\$'000
Right-of-use assets		
Buildings	6,716	7,798
Equipment	113	143
Vehicles	47	-
	6,876	7,941
Lease liabilities		
Current	1,406	1,349
Non-current	6,158	7,161
	7,564	8,510
Additions of right-of-use assets	Cons	solidated
	2020	2019
	\$'000	\$'000
Building	108	-
Equipment	-	-
Vehicles	51	
	159	-

The statement of profit or loss shows the following amounts relating to leases:

	Consolidated	
	2020	
	\$'000	\$'000
Depreciation of right-of-use assets		
Buildings	(1,139)	-
Equipment	(33)	-
Vehicles	(3)	_
	(1,175)	_
Interest expense	(396)	

The total cash outflow for leases in 2020 was \$1,435,000.





19. DEFERRED TAX ASSETS & LIABILITIES

Deferred tax assets and liabilities have been recognised in relation to unused tax credits and temporary differences to the extent that the directors are confident that future profits will be available in the same taxation authority to use them.

	Consolidated	
	2020	2019
	\$'000	\$'000
Deferred tax assets comprise the following temporary differences attributable to:		
Unused tax credits brought to account	5,474	5,609
Lease incentive	-	112
Other items	443	695
Set off of deferred tax liabilities pursuant to set-off provisions	(1,405)	(1,518)
	4,512	4,898
Deferred tax liabilities comprise the following temporary differences attributable to:		
Temporary difference on unused tax credits brought to account	(1,451)	(1,489)
Temporary difference on utilised Federal tax credits	(311)	(272)
Temporary difference on utilised Provincial tax credits	(406)	(341)
Set off of deferred tax assets pursuant to set-off provisions	1,405	1,518
	(763)	(584)
Net amount of Deferred Tax Assets (Liabilities)	3,749	4,314
Movement reconciliation		
Opening Balance	4,314	3,204
(Charged) / credited to tax expense	(479)	879
(Charged) / credited to foreign currency translation reserve	(86)	231
Closing Balance	3,749	4,314



20. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES	Consolidated	
	2020	2019
	\$'000	\$'000
Trade payables	1,820	1,500
Accrued expenses	4,136	2,415
	5,956	3,915

The Company's former Chief Executive Officer ("CEO") filed a breach of contract claim against the Company. The Company received an adverse ruling in its arbitration with the former CEO in the state of Florida. The Company recorded an accrual of \$1,136,000 representing 12 months of salary and benefits, reimbursement of legal costs, arbitration costs and interest.

As at 30 June 2020, the Company has a dispute ongoing with a supplier over an amount of approximately A\$500,000. Management' and the directors' believe that the supplier's request is not founded and intend to defend the Company's position. The financial report recognises management's and the directors' best estimates of the resolution of such items. However, there is uncertainty as to the final amounts payable, if any.

(a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 3.

21. OTHER LIABILITIES	Consc	Consolidated	
	2020	2019	
	\$'000	\$'000	
Current			
TPC grants liability (a), (b)	-	625	
		625	
Non-Current			
TPC grants liability (a), (b)	-	-	
	-		
(a) TPC Grants Liability	-		

Adacel received grants from the Canadian Government during the period 2004 to 2008. The terms of the agreements obliged the Company to pay to the government future royalties for a set period based on a percentage of the Company's future revenue. The repayment liabilities have been calculated at amortised cost using a discounted cash flow analysis. The set period concluded on the 30 June 2019 and the final repayment was made in January 2020.



	Consolidated	
(b) Movements in TPC Grant Liability	2020	2019
	\$'000	\$'000
Carrying amount at the beginning of the year	625	1,559
Exchange Rate change on Opening Balance	-	136
Cash Repayments	(625)	(909)
Interest Applied	-	99
Change in Forecasts		(260)
Closing Balance	_	625

22. NON-CURRENT LIABILITIES - RETIREMENT BENEFIT OBLIGATIONS

All employees from the Group are entitled to benefits from accumulated benefits superannuation plans on retirement, disability or death. Australian employees are covered by the Australian Government's Superannuation Guarantee. Canadian employees are covered by a Deferred Profit Sharing Plan (DPSP) and the USA employees are covered by a 401k Plan. The expense recognised in relation to these defined contribution plans is disclosed in note 8.

23. LIABILITIES – PROVISIONS	Consc	Consolidated	
	2020	2019	
	\$'000	\$'000	
Current			
Employee benefits – long service leave (b), (c)	90	166	
Annual leave payable (c)	1,450	1,380	
Service and contract performance warranties (a),(b)	453	74	
Customer contract provisions	342	1,261	
Liquidated damage	-	131	
	2,335	3,012	
Non-Current			
Employee benefits – long service leave (c),(b)	-	-	
	-	-	

(a) Service and contract performance warranties

Provision is made for the estimated warranty claims in respect of contracts delivered which are still under warranty at balance date. These claims are expected to be settled in the next financial year. Management estimates the provision based on historical warranty claim information and any recent trends that may suggest future claims could differ from historical amounts.



(b) Movements in provisions

Movements in warranty and long service leave provisions during the financial year are set out below.

	Warranty	Long Service Leave
	\$'000	\$'000
Carrying amount at the beginning of the year	74	166
Charged/(credited) to the profit and loss		
-additional provisions recognised	794	123
-amounts used during the period	(397)	(199)
Foreign exchange impact	(18)	-
Carrying amount at the end of the year	453	90

(c) Amounts not expected to be settled within the next 12 months

The entire obligation for annual leave payable is presented as current, since the Group does not have an unconditional right to defer settlement. Similarly, the current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement.

However, based on past experience, the Group does not expect all employees to take their full amount of accrued annual leave and accrued long service leave nor require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.

	Consolidated	
	2020	2019
	\$'000	\$'000
Annual leave obligation expected to be settled after 12 months Long service leave obligation expected to be settled after 12 months	383	333
	90	86
	473	419



24. FINANCING ARRANGEMENTS	Consolidated	
	2020	2019
	\$'000	\$'000
Bank facilities available		
Overdraft	3,393	4,864
Guarantees	922	1,774
Lease facility	-	544
Forward exchange contracts	-	2,177
Credit card	548	549
	4,863	9,908
Bank facilities used at balance date Overdraft		
Guarantees	922	1,774
Lease facility	-	1,774
Forward exchange contracts	_	_
Credit card	12	57
	934	1,831
	_	
Bank facilities unused at balance date		
Overdraft	3,393	4,864
Guarantees	-	-
Lease facility	-	544
Forward exchange contracts Credit card	- -	2,177
Credit Card	536	492
	3,929	8,077

Adacel signed a facility agreement with the Royal Bank of Canada on 31 January 2020. The Bank has provided the Company a facility to address all of its requirements. The facility is governed by pre-agreed covenants with the bank and is repayable on demand. The facility comprises:

- A combined overdraft and guarantee facility of up to CAD \$4,000,000. The guarantees are limited to CAD \$2,000,000.
- A Visa credit card facility to the value of CAD \$175,000.

The facility is secured by a deed of movable hypothec (mortgage) over the assets and undertakings of Adacel Inc (Canadian operating entity), with guarantees and subordination agreements from Adacel Systems Inc, Adacel Technologies Inc and Adacel Technologies Holding Inc.

The Company also has American Express facilities. Adacel Inc has an approved limit of CAD\$100,000 and Adacel Systems Inc has an approved limit of USD \$175,000.

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

Risk exposures

Information about the Group's exposure to interest rate and foreign currency changes is set out in note 3.



25. CONTRIBUTED EQUITY

	Con	Consolidated	
	2020	2019	
	\$'000	\$'000	
(a) Share capital			
Ordinary shares	71,468	71,338	

(b) Movements in ordinary share capital

Date	Details	Number of Shares	\$'000
1 July 2018	Balance	78,330,060	73,253
01 Jul 18 – 30 Jun 19	Share Buy Back	(2,080,718)	(1,915)
30 June 2019	Balance	76,249,342	71,338
01 Jul 19 – 30 Jun 20	Exercise of performance rights Balance	188,000	130
30 June 2020		76,437,342	71,468

(c) Share options

At the end of the year there were no unissued ordinary shares under the Executive Share Option and Performance Rights Plan.

(d) Terms and conditions of ordinary shares

The ordinary shares of Adacel Technologies Limited have no par value. Ordinary shares have the right to receive dividends as declared and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(e) Terms and conditions of share options

Staff Share Option Plan Options

The terms and conditions of the options issued under the Executive Share Option and Performance Rights Plan are disclosed in note 38.

(f) Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.



26. RESERVES AND RETAINED PROFITS / ACCUMULATED		
LOSSES	Cons	solidated
	2020	2019
(a) Accumulated losses	\$'000	\$'000
Accumulated losses	(55,619)	(58,491)
Movements in accumulated losses were as follows:		
Balance at the beginning of the year	(58,491)	(49,162)
Net profit / (loss) for the year Dividends provided for or paid	3,634 (762)	(2,697) (6,632)
Balance at the end of the year	(55,619)	(58,491)
(b) Reserves Foreign currency translation reserve	(476)	(227)
(i) Nature and purpose of reserve Exchange differences arising on translation of foreign controlled entities are translation reserve, as described in note 1(d). The reserve is recognised in investment is disposed of.		
(ii) Movements in reserve Balance at the beginning of the year	(227)	(1,310)
Currency translation differences arising during the year	(249)	1,083
Balance at the end of the year	(476)	(227)
27. DIVIDENDS (a) Ordinary shares	2020 \$'000	2019 \$'000
An interim dividend of \$0.01 was paid during FY2020 (\$0.01 during FY 2019). All dividends were paid in cash.	(762)	(766)
(b) Dividends not recognised at the end of the reporting period In fiscal year 2020, a final dividend of \$0.015 will be paid. For fiscal year 2019, the directors have not recommended the payment of a final dividend or special dividend.		
Final dividend	(1,147)	-

(c) Franking balance

Adacel Technologies Limited and its Australian controlled entities have not paid Australian income tax. Accordingly there is a nil balance in the franking account of the Company.

Notes to the Financial Statements - 30 June 2020

28. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

Chitty, he related practices and her related addit limits.	Consolidated	
	2020 20	
	\$	\$
PricewaterhouseCoopers Australia		
(a) Audit and other assurance services		
Audit and review of financial statements	48,000	116,500
Total remuneration for audit and other assurance services	48,000	116,500
(b) Taxation services		
Tax compliance services	18,870	19,722
Tax consulting services	· -	_
Total remuneration for taxation services	18,870	19,722
(c) Other services		
Consulting services	7,500	25,500
	7,500	25,500
Total for PricewaterhouseCoopers Australia	74,370	161,722
Related firms of PricewaterhouseCoopers Australia		
(a) Audit and other assurance services		
Audit and review of financial statements	377,736	259,478
Total remuneration for audit and other assurance services	377,736	259,478
(b) Taxation services		
Tax compliance services	74,203	40,659
Tax consulting services	39,571	-
Total remuneration for taxation services	113,774	40,659
Total for related firms of PricewaterhouseCoopers Australia	491,510	300,137
Total for related fifths of FricewaterflouseCoopers Australia	491,010	300,137

The Group's policy is to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are considered important. These assignments are principally tax compliance, tax advice and advice relating to changes to the accounting compliance regulations. It is the Group's policy to seek competitive tenders for all major consulting projects.



29. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel compensation

	Consolidated	
	2020	2019
	\$	\$
Short-term employee benefits	1,351,531	1,660,105
Post-employment benefits	205,005	75,551
Termination benefits	68,948	50,163
	1,625,484	1,785,819

The detailed remuneration disclosures can be found in sections A – C of the remuneration report on pages 15 to 21.

30. CONTINGENCIES

As at 30 June 2020, the parent entity, Adacel Technologies Limited, will continue to provide financial support to subsidiaries that are in a net liability position.

Guarantees of \$868,682 (2019: \$1,774,003) have been given to banks and customers in relation to contract warranty and performance.

Other than above, there are no other known contingent liabilities.

31. COMMITMENTS

The Group leases various offices, equipment and vehicles under non-cancellable operating leases expiring within 2 to 9 years. The leases have varying terms and renewal rights.

From 1 July 2019, the Group has recognised right-of-use assets for these leases, see note 2 for further information.

	Consolidated	
	2020	2019
	\$'000	\$'000
(a) Operating leases expenditure commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases for office and office equipment rentals are payable as follows:		
Within one year	-	1,270
Later than one year and not later than 5 years	-	4,633
Later than 5 years	-	144
Commitments not recognised in the financial statements	-	6,047



Equity bolding *

Notes to the Financial Statements - 30 June 2020

(b) Other expenditure commitments

Commitments for payments in relation to non-cancellable contracts for the use of a new ERP system are payable as follows:

Within one year	-	107
Later than one year and not later than 5 years	-	-
Later than 5 years		
Commitments not recognised in the financial statements		107

32. RELATED PARTY TRANSACTIONS

(a) Parent entity

Adacel Technologies Limited, incorporated in Australia, is the ultimate parent entity.

(b) Subsidiaries

Interests in subsidiaries are disclosed in note 33.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 29.

(d) Transactions with related Parties

There were no transactions with related parties during financial year 2020. During the financial year 2019, Adacel Technologies Limited entered into transactions with a company that has a director who was also a senior executive of Adacel. The transactions were for the receipt of licences, support and services to the value of AUD\$179K.

(e) Terms and conditions

All transactions between Adacel Technologies Limited and its controlled entities were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. The current payables, however, are all considered to be short-term and are expected to be repaid periodically. Therefore, no interest has been charged from June 2008 onwards.

33. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b).

			Equity n	olaing "
	Country of	Class of	2020	2019
Name of entity	incorporation	shares	% held	% held
Adacel Inc	Canada	Ordinary	100	100
Adacel Technologies Holdings Inc	USA	Ordinary	100	100
Adacel Technologies Inc	USA	Ordinary	100	100
Adacel Systems Inc	USA	Ordinary	100	100
Adacel Technical Services Inc	USA	Ordinary	100	100

^{*} The proportion of ownership interest is equal to the proportion of voting power held.



34. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In July 2020, the Company granted 361,000 performance rights and 835,000 options to eligible employees. These performance rights and options will vest subject to the attainment of certain performance conditions. The performance rights have an exercise price of nil and the options have an exercise price of \$0.54.

During the year, the Company agreed to additional remuneration for the Chairman associated with executive support services that were provided during the 2019 executive transition. As at 30 June 2020, an accrual of \$150,000 has been recorded. Subsequent to year-end, the Company has agreed to issue 277,778 fully paid ordinary shares at \$0.54 for these services. The issue is subject to shareholder approval at the 2020 Annual General Meeting and the resulting shares will be held under a voluntary escrow for a period of 12-months from issue.

35. RECONCILIATION OF PROFIT (LOSS) AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Consolidated	
	2020 201	
	\$'000	\$'000
Operating profit / (loss) from ordinary activities after income tax	3,634	(2,697)
Depreciation and amortisation	740	687
Amortisation of right-of-use assets	1,175	-
Bad debts (reversed) during the year	-	(28)
Performance rights expenses	130	-
Net exchange differences	(341)	198
Changes in assets and liabilities:		
Decrease / (increase) in trade receivables and accrued revenue	875	(177)
(Increase) / decrease in other receivables and other assets	(352)	645
(Increase) / decrease in inventory / WIP	(550)	2,118
Decrease in prepayments	311	139
Decrease / (increase) in deferred tax assets, liabilities and tax payable	(2,181)	(2,134)
Increase / (decrease) in trade and other creditors	2,857	(1,571)
Increase / (decrease) in employee benefits provisions	11	(98)
(Decrease) / increase in other provisions	(631)	1,339
Increase in advanced payments from customers	431	1,088
Net cash (outflow) / inflow from operating activities	6,109	(491)



Notes to the Financial Statements - 30 June 2020

36. NON-CASH INVESTING AND FINANCING ACTIVITIES

Non-cash investing and financing activities disclosed in other notes are:

- Acquisition of right-of-use assets note 18
- Performance rights exercised under the ADA Executive Share Option and Performance Rights Plan. note 38

Net debt reconciliation

	\$'000
Net debt as at 30 June 2019	-
Recognised on adoption of AASB 16	(7,941)
	(7,941)
Cash flow	1,039
Acquisition – leases	(159)
Foreign exchange adjustments	(107)
Other changes	(396)
Net debt as at 30 June 2020	(7,564)

37. EARNINGS PER SHARE	Consolidated	
	2020	2019
Basic earnings per share (cents per share)	4.71	(3.50)
Diluted earnings per share (cents per share)	4.71	(3.50)
(a) Reconciliations of earnings used in calculating earnings per share	Cons	olidated
	2020	2019
	\$'000	\$'000
Basic earnings per share		
Profit (loss) from continuing operations	3,634	(2,697)
Profit (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	3,634	(2,697)
used in calculating basic earnings per share	3,634	(2,091)
Diluted earnings per share		
Profit (loss) from continuing operations	3,634	(2,697)
Profit (loss) attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	3,634	(2,697)
<u> </u>		



Notes to the Financial Statements - 30 June 2020

(b) Weighted average number of ordinary shares used as the denominator	age number of ordinary shares used as the Consolidat	
	2020	2019
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	77,187,174	71,155,755
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	77,187,174	71,155,755

(c) Information concerning the classification of securities

Executive Share Option and Performance Rights Plan options and performance rights are considered to be potential ordinary shares and would be included in the determination of diluted earnings per share to the extent to which they are dilutive. There were no outstanding options or performance rights that met the performance conditions attached to them at 30 June 2020 nor 30 June 2019, and hence have not been included in the determination of basic earnings per share for these years. Details of options and performance rights are set out in note 38.

(d) Conversions, calls, subscription or issues after 30 June 2020

There are no current holders of option or performance rights certificates and therefore there has been no movement since 30 June 2020.

38. SHARE-BASED PAYMENTS

Executive Share Option and Performance Rights Plan

The ADA Executive Share Option and Performance Rights Plan was approved by the shareholders at the Annual General Meeting in November 2017. In August 2019, the Board granted 188,000 performance rights to eligible employees. These performance rights have an exercise price of nil and vested on 30 April 2020. The company incurred a share-based payment expenses of AUD \$130,000 based on vesting period. On May 1, 2020, eligible employees exercised their performance rights.

In addition, in August 2019, the Board granted 381,000 performance rights to eligible employees. These performance rights have an exercise price of nil and will vest subject to the attainment of certain performance conditions. During the year ended 30 June 2020, no performance rights were exercised and no amount was recognised as it is too early to determine whether the performance conditions will be met.

Lastly, in August 2019, the Board granted 688,000 options to eligible employees. These options have an exercise price of \$0.455 per options and will vest subject to the attainment of certain performance conditions. During the year ended 30 June 2020, no options were exercised and no amount was recognised as it is too early to determine whether the performance conditions will be met.





39. PARENT ENTITY FINANCIAL INFORMATION

	2020	2019
(a) Summary financial information	\$'000	\$'000

The individual financial statements for the parent entity show the following aggregate amounts:

Balance Sheet		
Current Assets	5,810	1,825
Total Assets	11,407	10,099
Current Liabilities	4,906	3,223
Total Liabilities	4,982	3,223
Shareholder's Equity		
Issued Capital	71,468	71,338
Accumulated Losses	(65,043)	(64,462)
Total Equity	6,425	6,876
Profit for the year	402	7,133
Total comprehensive income	402	7,133

(b) Guarantees entered into by the parent entity

There have been no guarantees entered into by the parent entity and therefore no liability has been recognised by the parent entity in relation to guarantees.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2020 or 30 June 2019. For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment.

The parent entity did not have any material contractual commitments for the acquisition of property, plant or equipment as at 30 June 2020 or 30 June 2019.



DIRECTORS' DECLARATION

In the Directors' opinion:

- a. the financial statements and notes set out on pages 26 to 76 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 30 June 2020 and of its performance for the financial year ended on that date; and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- c. The remuneration disclosures set out on pages 14 to 22 of the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the Corporations Act 2001.

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

Michael McConnell

Michael g. McCh

Melbourne, 14 August 2020

Chairman

Natalya Jurcheshin

N. Grebslin

Director



Independent auditor's report

To the members of Adacel Technologies Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Adacel Technologies Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2020
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if

PricewaterhouseCoopers, ABN 52 780 433 757

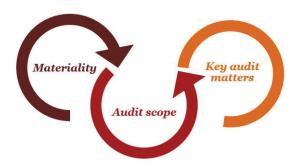
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001 T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au



individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group is a developer of advanced simulation training systems and air traffic management automation solutions for the military and civil sectors. The Group's operations and executive team are based primarily in North America. The Group's operations are broken down into systems and services operating segments. The systems segment includes sale of advanced systems, technical software and hardware. The services segment includes development and support, and field technical services.



Materiality

on, the

Key audit matters

- For the purpose of our audit we used overall Group materiality of \$0.4 million, which represents approximately 1% of the Group's revenue.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group revenue because, in our view, it is the measure that is most representative of the Group's operations.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable revenue related thresholds.

 Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

Audit scope

- Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Management Committee:
 - Revenue recognition
 - Recoverability of deferred tax assets
- These are further described in the Key audit matters section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of



our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter

How our audit addressed the key audit matter

Revenue recognition

(Refer to note 6 Revenue from continuing operations and note 11 Trade, other receivables, accrued revenue)

The Group's revenue includes project based revenue under contracts with customers. These projects are generally tailored applications developed for specific customers and are often completed across a number of months.

Project based revenue is recognised over time under the percentage of completion method, as described in note 1(e) and is subject to the Group's assessment of the nature and type of performance obligations in the contract and estimates of the:

- total labour costs required to complete a project
- forecast profitability of the project

When losses are forecast on contracts these are recognised in the period they are identified.

Invoicing and subsequent collection of these amounts are subject to the customer's agreement of milestone completion and are sometimes delayed due to the nature of the projects and customers, resulting in accrued revenue balances.

The potential future impact of COVID-19 may affect the ability of customers to progress with contractual work as agreed thereby impacting the recoverability of debtor and accrued revenue balances.

We considered this a key audit matter due to the:

- financial significance of the trade and other receivables balance and the accrued revenue balance.
- complexity involved in identifying performance obligations required by Australian Accounting Standards given the bespoke terms and conditions in and long term nature of contracts with customers.
- judgement required by the Group in determining the timing of recognising project based revenue (refer above).

We performed the following procedures, amongst others over revenue recognition:

- Updated our understanding of the nature of the project based activities of the Group and terms of customer contracts.
- Developed an understanding of relevant controls over recognition of project based revenue and assessed whether they were appropriately designed and whether a sample of these controls were operating effectively throughout the year.
- Inspected the Group's analysis of customer contracts and considered the key judgements made related to its performance obligations under those contracts, and the determination of revenue recognition at either a point in time or over time against the requirements of Australian Accounting Standards.
- Assessed revenue recognised for customer contracts by performing the following procedures amongst others:
 - Re-performing calculations over the mathematical accuracy of a sample of percentage of completion calculations.
 - Agreeing a sample of actual labour costs to approved timesheets and payroll records.
 - Agreeing a sample of accrued costs (for example contractor costs) to date to supporting evidence or calculations.
 - Comparing forecast costs to complete a project to the approved project budgets less the actual costs incurred to date.
 - On a sample basis, checking whether monthly management project status reviews were performed.
- Compared actual and forecast contract profitability and enquired with management on any projects where margins had deviated significantly from forecasts.
- Agreed a sample of significant accrued revenue and outstanding accounts receivable balances to cash receipts subsequent to year end.



Key audit matter

How our audit addressed the key audit matter

Recoverability of deferred tax assets (Refer to note 9 Income tax and note 19 Deferred tax assets and liabilities)

The Group has unrecognised carry forward gross tax losses and tax credits amounting to \$101 million as at 30 June 2020. These arise from different jurisdictions across the North American and Australian operations. While tax losses have no expiry date, Canadian Federal and Provincial tax credits expire after 10 years. The Group has assessed that there is convincing evidence of future taxable profits available in Canada sufficient to carry forward deferred tax assets of \$4.5 million.

Australian Accounting Standards require deferred tax assets to be recognised only to the extent that it is probable that sufficient future taxable profits will be generated in order for the benefits of the deferred tax assets to be realised. These benefits are realised by reducing tax payable on future taxable profits.

We considered this a key audit matter due to the significant judgement required by the Group in assessing the timing and quantum of future taxable profits, which is further exacerbated by the impact of COVID-19.

Together with PwC tax experts, we performed the following procedures amongst others:

- Assessed the appropriateness of the Group's policy for recognition of deferred tax assets in the context of the requirements of Australian Accounting Standards and considering the historical and forecast results of the Group.
- Re-performed calculations over the mathematical accuracy of deferred tax calculations.
- Agreed tax rates used for deferred tax calculations to enacted or substantially enacted tax rates in each jurisdiction in which tax losses and tax credits existed.
- Agreed available carry forward tax losses and tax credits to the Group's filed tax returns.
- Compared the utilisation of deferred tax assets in the Group's current year filed tax returns to the Board approved forecasts made in the prior year, to determine the accuracy of the Group's budgeting process.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 14 to 22 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Adacel Technologies Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Vicewaterhour Coops

PricewaterhouseCoopers

Jason Perry Partner Melbourne 14 August 2020



ADDITIONAL SECURITIES EXCHANGE INFORMATION

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information is current as at 12 August 2020 (**Reporting Date**).

Corporate Governance Statement

The Company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations (**Corporate Governance Statement**).

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement will be available for review on Adacel's website (https://www.adacel.com/investors) and will be lodged together with an Appendix 4G with ASX at the same time that this Annual Report is lodged with ASX.

Number of Holdings of Equity Securities

As at the Reporting Date, the number of holders in each class of equity securities on issue in Adacel is as follows:

The fully paid issued capital of the Company consisted of **76,437,342** ordinary fully paid shares held by **3,444** shareholders. Each share entitles the holder to one vote.

There are no performance rights.

Voting Rights of Equity Securities

The only class of equity securities on issue in the Company which carry voting rights is ordinary shares.

At a general meeting of the Company, every holder of ordinary shares is entitled to vote in person or by proxy or attorney or, in the case of a body corporate, its duly authorised representative; and on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney or duly authorised representative has one vote for each ordinary share held by that person, except that in the case of partly paid shares the voting rights of a shareholder are pro rata to the proportion of the total issued price paid up (not credited) on the shares.

Preference shareholders have the right to vote at any meeting convened for the purpose of reducing the capital, or approving the terms of a buy-back agreement, or winding up, or sanctioning a sale of the whole of the Company's property, business and undertaking or where the proposition to be submitted directly affects their rights and privileges or when the dividend or part of the dividend on the preference shares is in arrears.

Distribution of Holders of Equity Securities

Class of Equity Security			
	Total Holders	Units	% Units
1 - 1,000	918	513,470	0.67
1,001 - 5,000	1447	3,995,369	5.23
5,001 - 10,000	496	3,867,599	5.06
10,001 - 100,000	539	15,459,467	20.23
100,001 Over	44	52,601,437	68.82
Totals	3,444	76,437,342	100.00



Unmarketable Parcels

The number of holders of less than a marketable parcel of ordinary shares as at the Reporting Date is as follows:

Unmarketable Parcels as at 12 August 2020	Minimum Parcel Size	Holders	Units
Minimum \$500.00 parcel at \$0.54 per unit	926	702	298.144

Substantial holders

As at the Reporting Date, the names of the substantial holders of Adacel and the number of equity securities in which those substantial holders and their associates have a relevant interest, as disclosed in substantial holding notices given to Adacel, are as follows:

Shareholder	No. of Shares Held	% of Issued Capital
Thorney Technologies Limited	25,542,818	33.42%
Silvio Salom	5,195,191	6.80%

Twenty Largest Holders of Quoted Equity Securities

The Company only has one class of quoted securities, being ordinary shares. The names of the 20 largest holders of ordinary shares, the number of ordinary shares and the percentage of capital held by each holder is as follows:

Shareholder Name	Shares Held	% Held
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	25,874,921	33.85
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	6,730,077	8.80
MR SILVIO SALOM	4,230,026	5.53
D & E SMITH SUPERANNUATION NOMINEES PTY LTD	2,225,665	2.91
NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	1,078,862	1.41
OBENA RIDGE PTY LIMITED	1,062,276	1.39
CITICORP NOMINEES PTY LIMITED	993,264	1.30
MR MICHAEL MCCONNELL	950,000	1.24
COALWELL PTY LTD	796,182	1.04
MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY		
LIMITED <no 1="" account=""></no>	793,810	1.04
MR DAVID WALLACE SMITH	726,257	0.95
MRS EMMA JANE GRACEY	600,000	0.78
MR JAMES DOUGLAS CARNEGIE < JAMES CARNEGIE FAMILY A/C>	599,564	0.78
NATIONAL NOMINEES LIMITED	483,143	0.63
IAN HARRISS SUPER PTY LTD <ian a="" c="" harriss="" super=""></ian>	378,074	0.49
E J FRASER PTY LTD <stableford a="" c="" sf=""></stableford>	365,918	0.48
BISSAPP SOFTWARE PTY LTD <super account="" fund=""></super>	332,699	0.44
MISS SHARON MARGARET STACEY	300,093	0.39
WESTOR ASSET MANAGEMENT PTY LTD <value partnership<="" td=""><td></td><td></td></value>		
A/C>	265,827	0.35
EAGLE EYE EQUITIES PTY LTD	218,733	0.29
Total number of shares of Top 20 Holders	49,005,391	64.11
Total Remaining Holders Balance	27,431,951	35.89



Other Information

The name of the Company Secretary is Mr Hasaka Martin. The address of the principal registered office in Australia, and the principal administrative office is Unit 29, 3 Westside Avenue, Port Melbourne, Victoria, 3207, Australia and the telephone is (03) 8530 7777. The Company is listed on the Australian Securities Exchange. The home exchange is Melbourne. Registers of securities are held by Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria, Australia, local call is 1300 850 505, international call is +61 3 9415 4000.

Stock Exchange Listing

Adacel's ordinary shares are quoted on the Australian Securities Exchange (ASX issuer code: ADA).

Voluntary Escrow

There are no securities on issue in Adacel that are subject to voluntary escrow.

Unquoted equity securities

There are no unquoted equity securities on issue in Adacel.

Buyback

The Company did not conduct a buy back in the year ended 30 June 2020.

Issues of Securities

There are no issues of securities approved for the purpose of Item 7 of Section 611 of the Corporations Act which have not yet been completed.

Securities purchased on-market

No securities were purchased on-market during the reporting period under or for the purposes of an employee incentive scheme or to satisfy the entitlements of the holders of options or other rights to acquire securities granted under an employee incentive scheme.



CORPORATE DIRECTORY

Adacel Technologies Limited ABN 15 079 672 281

Registered Office

Unit 29, 3 Westside Avenue, Port Melbourne Victoria Australia 3207 Telephone +61 3 8530 7777 Facsimile +61 3 9555 0068 www.adacel.com

Board of Directors

Michael McConnell (Non-Executive Chairman) Peter Landos (Non-Executive Director) Natalya Jurcheshin (Non-Executive Director) Silvio Salom (Non-Executive Director)

Company Secretary

Hasaka Martin

Bank

Royal Bank of Canada 1 Place Ville Marie, 8th Floor, East Wing Montreal Quebec H3C 3A9 Canada

Solicitors - Australia

Ashurst Australia Level 26 181 William Street Melbourne Victoria 3000

Solicitors- USA

Morrison Foerster 425 Market Street San Francisco, CA 94105-2482

Auditor

PricewaterhouseCoopers 2 Riverside Quay Southbank Victoria 3006

Share Registry

Computershare Investor Services Yarra Falls 452 Johnston Street Abbotsford Victoria 3067 web.queries@computershare.com.au