ADACEL

Adacel Technologies Limited

ABN 15 079 672 281

Financial Report, Directors' Report, Auditor's Report & Additional Information

30 June 2006

Adacel Technologies Limited

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Board of Directors

Julian Beale (Chairman)
Kevin Courtney
Silvio Salom
David Smith
Alex Waislitz
Peter Landos (Alternate to Mr Waislitz)

Company Secretary

Mike Woodgate

Bank

Royal Bank of Canada

1 Place Ville Marie
7th Floor East Wing
Montreal
Quebec H3C 3A9
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Solicitors

Deacons

RACV Tower
485 Bourke Street
Melbourne Victoria 3000

Blake Dawson Waldron

Level 39
101 Collins Street
Melbourne Victoria 3000

Auditor

PricewaterhouseCoopers

Freshwater Place
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2 Southbank Boulevard
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Share Registry

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452 Johnston Street
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DIRECTORS' REPORT

Your Directors submit their report on the consolidated entity consisting of Adacel Technologies Limited and the entities it controlled at the end of, or during the year ended 30 June 2006.

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 are:

Julian Beale (Chairman)
Kevin Courtney
Silvio Salom
David Smith
Alex Waislitz
Peter Landos (alternate for Alex Waislitz).

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year were simulation and software applications and services. There were no significant changes in the nature of the consolidated entity's activities during the year, other than described in the review of operations.

REVIEW OF OPERATIONS

Summary

Adacel Technologies Limited has reported a return to profitability and strong cash inflows from operations for the twelve months to 30 June 2006.

A key factor in the turnaround has been the implementation of the Board's strategy that has seen the company establish a US–based management team and concentrate its efforts on its core aviation and defence simulation and air traffic control operations based out of North America. This focus has allowed the company to continue to lead the market in these areas. In addition, with the introduction of on–site personnel services as well as annual support and maintenance and ongoing ATM software support programs, recurring revenues have grown to account for more than 45% of group revenues.

The full year result was helped by a significant lift in second half profitability due to improved operating margins and revenue growths compared with the first half.

Revenues

Adacel's total group operating revenues rose 40 per cent to $52,394,000 in the year to 30 June 2006, compared with $37,294,000 previously. Revenues from North American operations rose to $52,079,000 from $36,329,000 previously, while revenues from Australian and UK operations decreased to $752,000 from $2,173,000 reflecting the wind down of non–core activities in the 2005 year.

Earnings

Earnings before interest, tax, depreciation and amortisation (EBITDA) were $5,642,000, which was a substantial turnaround from the EBITDA loss of $7,179,000 in the previous year.

Amortisation and depreciation of $1,469,000 remained at similar levels to the previous year's $1,487,000 and finance costs were $241,000 compared with $414,000 previously.

With a tax benefit of $1,007,000 (largely resulting from tax benefits from R&D expenditure) compared with tax expenses of $756,000 previously, the group after–tax profit was $4,939,000, an improvement on the after–tax loss of $9,836,000 in the previous year.

The group result was assisted by continuation of improved sales performance and margins in the June half as well as further improvements in operational focus, program performance and operating overhead control.

Cash

Net cash inflow from operations strongly rebounded to $5,912,000 for the year compared to a cash outflow of $3,184,000 in the previous year. At June 30, the group's net cash in bank position was $2,152,000 plus an additional $2,292,000 in other current financial assets

No Dividend declared

Directors have not declared a dividend for the 2006 year.

Operational Performance

Adacel's group operations performed well during the year, with continued leadership in the North American market, a strengthened position in Europe and awarding of initial orders for several of the company's new products and services.

In North America, Adacel's position in the air traffic control simulation market was further consolidated during the period by contract awards from the US Air Force and US Marines, the Federal Aviation Administration and the US aviation college sector. In addition, in air traffic management the company was awarded contract extensions from Lockheed Martin for work on the US Oceanic ATM system.

In Europe, Adacel strengthened its market presence with contracts totalling in excess of $12 million from Italy's air traffic authority ENAV for ATC training simulators, as well as continuing to work with Austrian and Hungarian ATC providers. Adacel also received a further contract from Airbus for Adacel's simulation technology in research and evaluation of Airbus flight components and continued to provide support for Portugal's Oceanic ATM system.

During the 2006 year, Adacel launched its new Precision Approach Radar training system into the market, winning an order from the US Air Force. The company also introduced a new on–site support service for its ATC simulator customers and won contracts from the US Army and from the FAA for its Chicago, Miami and Ontario (California) centers.

Adacel also launched its Security Control Room simulator into the Homeland Security market, winning a contract from the national research facility, Sandia.

In cockpit voice control, Adacel continued its work on the Joint Strike Fighter program and progressed the market development of the technology for other aircraft.

Additional comments on the company's operations are included in the 2006 Annual Report. Shareholders will be updated on developments at the Annual General Meeting.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs during the current year, except as noted in the review of operations.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There were no significant events after the balance date.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

In the 2007 financial year, we expect a continuation of improved margins and will continue to focus on costs and profitability. On the basis of this and the current opportunities, we expect earnings in the current December half to exceed those in the first half of the 2006 year, with the full 2007 financial year result a further improvement on the 2006 profit. The final 2007 result will be dependent on timing of contracts and deliveries, which we will closely monitor and manage.

In the following years, we expect further growth in our markets.

In ATC Simulation we expect market growth to be driven in the US by the requirement for a significant increase in new controllers to replace a large number due to retire, and internationally by emerging markets such as China, India and the Middle East.

In our Advanced Programs, our voice activated cockpit technology has significant potential in both military and civil aviation markets, while the market for our Air Traffic Control in a Box could grow quickly, driven by new standards being introduced for pilot training.

In ATM, with the FAA ATOP system now in the initial phase of operation in both the Atlantic and Pacific Oceanic flight regions, we see further opportunities to upgrade the ATM systems of those countries managing adjacent Oceanic airspace.

For the future, Adacel is strategically well placed, with excellent market position and a growing reputation for producing leading edge products and services that meet a real market need.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

ENVIRONMENTAL REGULATION

The Chief Executive Officer or equivalent reports to the Board on any environmental and regulatory issues at each Directors meeting. There are no matters that the Board considers need to be reported in this report.

INFORMATION ON DIRECTORS

Julian Beale BE (Syd), MBA (Harvard)
Non–Executive Chairman

Appointed as an independent non–executive Director in June 2003. Mr. Beale has extensive international business and capital markets experience and a background in private and public companies at both Board and management level. Mr. Beale held senior positions in a range of Australian companies including English Electric and Esso Australia (now Exxon) and was Managing Director of a resources group with interests in petroleum production, pipelines and minerals. He also established a plastics processing company in Melbourne and was a key participant in the successful transition of Moldflow, a developer of software for injection moulding machines, to the United States NASDAQ capital market. Mr. Beale was also a member of the Federal Parliament for 11 years from 1984 as the Member for Deakin and later Bruce. During this time he held many Shadow Ministerial portfolios. Mr. Beale 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
1,816,867 ordinary shares in Adacel Technologies Limited.
300,000 options over ordinary shares in Adacel Technologies Limited.

Kevin Courtney FCA, FAICD
Non–Executive Director

Independent non–executive Director since October 1998. Mr. Courtney is a chartered accountant and a former regional managing partner of Ernst & Young. He is a Director of National Markets Group Limited a member of the National Australia Bank group of companies. He is Chairman of Adacel's audit committee. Mr. Courtney has been a Commissioner of the City of Melbourne and a Director of Connect.com.au, the internet service provider sold to AAPT Telecommunications Ltd. He has been Chair of the audit committees of the Victorian Workcover Authority, the Sunraysia Rural Water Authority and the National Competition Council. Mr. Courtney is a Director of the DOXA Social Club assisting underprivileged youth. Mr. Courtney was a director of Melbourne IT Limited from October 1999 until his retirement in April 2003 and a director of MLC Nominees Pty Ltd and National Australia Superannuation Pty Ltd from 2003 to 2006.

Interests in Shares and Options
Nil ordinary shares in Adacel Technologies Limited.
Nil options over ordinary shares in Adacel Technologies Limited.

Silvio Salom BEng (Electrical)
Non–Executive Director

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 founder and Managing Director of the predecessor Adacel Pty Ltd from establishment in 1987. Mr. Salom has extensive experience in the strategic and operational management of hi–tech companies with particular expertise in information technology related to the manufacturing, environmental, defence, transport, multimedia and telecommunications industry sectors. Mr. Salom 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
14,496,659 ordinary shares in Adacel Technologies Limited.
37,000 options over ordinary shares in Adacel Technologies Limited.

David Smith BE (Electronics)
Non–Executive Director

Non–executive Director since July 2000 and prior to that date an executive director from incorporation in October 1997. Mr. Smith was a senior executive of the company and has extensive experience in software development, project and operations management in the military, aviation and transport domains. Mr. Smith 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
10,060,558 ordinary shares in Adacel Technologies Limited.
Nil options over ordinary shares in Adacel Technologies Limited.

Alex Waislitz BEc (Mon), LLB (Mon)
Non–Executive Director

Non–executive Director since August 2003. Mr. Waislitz is Executive Chairman of the Thorney Investment Group. He has extensive business experience, and is a director of various Pratt Group and Visy Board companies. Mr. Waislitz is a Director of McPhersons Limited and Vice President of Collingwood Football Club.

Interests in Shares and Options
Nil ordinary shares in Adacel Technologies Limited.
Nil options over ordinary shares in Adacel Technologies Limited.

Alex Waislitz is the Executive Chairman of the Thorney Investment Group. A member of the Thorney Investment Group, namely Thorney Holdings Pty Ltd, is a major shareholder of Adacel Technologies Limited. During the year ended 30 June 2006, Thorney Holdings Pty Ltd acquired no on-market ordinary shares in Adacel Technologies Limited on normal commercial terms and conditions. As at 30 June 2006, Thorney Holdings Pty Ltd holds 28,107,712 ordinary shares in Adacel Technologies Limited. There has been no change in the shares held at the date of this directors report.

Invia Custodian Pty Ltd is a custodial entity which holds a number of shares for the Thorney Investment Group as nominee. During the year ended 30 June 2006, Invia Custodian Pty Ltd acquired on-market 2,316,255 ordinary shares in Adacel Technologies Limited on normal commercial terms and conditions. As at 30 June 2006, Invia Custodian Pty Ltd holds 4,296,325 ordinary shares in Adacel Technologies Limited. Since 30 June, 263,388 shares have been acquired and the total shareholding by Invia Custodian Pty Ltd is 4,559,713 at the date of this directors report.

Peter Landos BEco (ANU)
Alternate to Alex Waislitz

Non–executive Director alternate to Mr. Waislitz since August 2003. Mr. Landos is an Investment Manager with the Thorney Investment Group. He joined Thorney in 2000 after five years at Macquarie Bank Limited. Mr. Landos is an alternate Director to Alex Waislitz on the McPhersons Limited Board. Mr. Landos is also a Director of Biological Wool Harvesting Holding Company Limited, an unlisted public company, and Rattoon Holdings Limited, an investment company listed on the Stock Exchange of Newcastle.

Interests in Shares and Options
Nil ordinary shares in Adacel Technologies Limited.
Nil options over ordinary shares in Adacel Technologies Limited.

COMPANY SECRETARIES

Michael Woodgate MBA (Melb)

Mr. Woodgate was appointed Company Secretary of Adacel Technologies Limited from 20 May 2006. Mr. Woodgate joined Adacel in 1999 and previously worked in the corporate, government and consulting sectors in industry policy, corporate strategy and corporate communications. Mr. Woodgate is also corporate affairs advisor to Adacel Technologies Limited.

Michael Smith CA, BCom (Melb)

Mr. Smith was the Group Chief Financial Officer and Company Secretary of Adacel Technologies Limited from 1 January 2006 until 19 May 2006. Mr. Smith was Adacel's Group Accounting Manager from December 2001 to 31 December 2005. Prior to joining Adacel in 2001, Mr. Smith worked with PricewaterhouseCoopers in the Assurance and Business Services division and the Strategic Risk Management division, primarily consulting to listed Australian and multinational organisations.

Errol Turner CPA, FCIS, MAICD, BBus (Accounting)

Mr. Turner was the Group Chief Financial Officer and Company Secretary of Adacel Technologies Limited from December 2000 until 31 December 2005. Mr. Turner has an extensive background in financial and commercial management in internationally focused technology companies and large diversified Australian companies. Prior to joining Adacel, Mr. Turner was CFO and Company Secretary of an ASX–listed entity and has previously held senior financial management positions.

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 were as follows:

	Meetings of Directors		Meetings of Committees					
	Board		Audit		Remuneration		Nominations	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Julian Beale **	13	13	3	3	1	1	1	1
Kevin Courtney **	13	11	3	3	1	1	1	–
Silvio Salom **	13	13	*	*	*	*	1	1
David Smith **	13	11	*	*	*	*	1	1
Alex Waislitz **	13	5	3	1	1	1	1	1
Peter Landos ** (alternate to Alex Waislitz – attending at times of Alex Waislitz's absence)	13	8	3	2	1	–	1	–

* Denotes that the Director is not a member of the relevant committee.

** Denotes that the Director is a non–executive director.

As at the date of this report, the company has an Audit Committee, a Remuneration Committee and a Nominations Committee of the Board of Directors.

The members of the Audit Committee are Kevin Courtney, Julian Beale and Alex Waislitz. The Chairman of the Audit Committee is Kevin Courtney.

The members of the Remuneration Committee are Julian Beale, Kevin Courtney and Alex Waislitz. The Chairman of the Remuneration Committee is Julian Beale.

The members of the Nominations Committee are all members of the Board of Directors. The Chairman of the Nominations Committee is Julian Beale.

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
E. Additional information

The information provided under headings A–D includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in section E are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001*, which have not been audited.

A. Principles used to determine the nature and amount of remuneration (audited)

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 in place of higher cash fees.

The level of annual Directors' fees is reviewed by the Remuneration Committee and the Board, taking into account a number of factors, including the range of Directors' fees paid in the market, and the company's costs and operating performance. The maximum total for annual fees for Directors is approved from time to time by shareholders in general meeting and was last set at $300,000 per annum at the 1999 Annual General Meeting.

Non–executive Directors may also, in view of the company's size and resources, from time–to–time be issued options as part of their remuneration in place of a higher cash fee. Options would be issued after consideration by the Remuneration Committee and the Board and subject to shareholder approval at general meeting. These options would be issued separately to the Adacel Staff Share Option Plan and with conditions that were designed to provide a link with company share price performance.

Directors are not paid additional fees for work on Board committees and are not entitled to a retirement benefit.

Senior Executives

Under the company's constitution, remuneration of the Managing Director, subject to other provisions in any contract between the executive and the company, may be by way of fixed salary or participation in the profits of the company but may not be by way of commission on or percentage of operating revenue. Other senior executives, including the company secretary, may be 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 company and personal performance. Short–term incentives may include annual cash incentives on meeting specific profit and performance criteria that has been agreed to in plans set with the Board. Criteria to be met may include group and/ or business unit orders, revenue and profit performance and personal Key Performance Indicators. The amount of the incentive will depend upon the extent that the measure is exceeded. These conditions help to ensure that the short–term incentives are aligned with the interests of shareholders in the current period.

To provide long–term incentives, senior executives may also participate in the Adacel Staff Share Option plan. The options are issued with conditions to help ensure that the remuneration of senior executives is aligned with the long–term interests of shareholders.

The overall level of executive reward takes into account the performance of the company over a number of years, with greater emphasis given to the current year. Prior to the current financial year, the past 5 years of company's earnings and share price performance have been disappointing and accordingly, the increase in the remuneration of executives and the payment of bonuses, have been limited.

Short Term Incentives

For a number of the executives in the consolidated entity, an element of their remuneration is dependent on the satisfaction of various performance conditions.

For the year ended 30 June 2006, the performance conditions included financial targets (primarily new orders, revenue, earnings and cash generation) and other strategic and milestone criteria. Under the incentive scheme, budget earnings must be achieved prior to any bonus payments being made. For the year ended 30 June 2006, the performance conditions and financial targets were achieved and the eligible executives have been awarded bonus payments. The total pool of bonus to be paid for the year amounted to A$337,096.

These performance criteria were chosen to provide an incentive to the executives in the consolidated entity to generate earnings and grow shareholder wealth.

Benefits

Executives receive benefits including health insurance and disability insurance.

B. Details of remuneration (audited)

Amounts of remuneration

Details of the nature and amount of each element of the emoluments of each Director of Adacel Technologies Limited, each of the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of the Group, are as follows:

Key management personnel of Adacel Technologies Limited

2006	Short–term benefits			Post–employment benefits	Other	Share–based payment	
Name	Cash salary and fees $	Cash bonus $	Non monetary $	Super–annuation $	Termination benefits $	Options $	Total $
Non–executive Directors							
Julian Beale (Chairman)	38,150	–	–	–	–	3,941	42,091
Kevin Courtney	35,000	–	–	3,150	–	–	38,150
Silvio Salom	1,696	–	–	–	–	–	1,696
David Smith	35,000	–	–	3,150	–	–	38,150
Alex Waislitz [(2)]	35,000	–	–	3,150	–	–	38,150
Peter Landos (alternate to Alex Waislitz)	–	–	–	–	–	–	–
Sub–total non–executive directors	**144,846**	**–**	**–**	**9,450**	**–**	**3,941**	**158,237**
Executive directors							
Silvio Salom [(1)]	648,671	–	10,909	12,139	210,858	–	882,577
Other key management personnel							
Michael Woodgate	3,600	–	–	–	–	–	3,600
Michael Smith [(3)]	69,030	–	–	4,918	–	22,575	96,523
Errol Turner	54,546	–	–	–	–	2,156	56,702
Total	**920,693**	**–**	**10,909**	**26,507**	**210,858**	**28,672**	**1,197,639**

(1) Cash salary and fees includes an amount of $369,861 for unused annual leave and long service leave entitlements paid out at the date of ceasing to be an employee of the company.
The termination payment of $210,858 was approved by the Board of Directors.

(2) As at 30 June 2006, director fees in relation to the financial years 30 June 2006, 2005 and 2004 totalling $106,275 have not yet been paid.

(3) Cash salary and fees includes an amount of $3,392 for unused annual leave entitlements paid out at the date of ceasing to be an employee of the company.

Key management personnel of the Group

2006	Short–term benefits			Post–employment benefits	Other	Share–based payment	
Name	Cash salary and fees $	Cash bonus $	Non monetary $	Super–annuation $	Termination benefits $	Options $	Total $
Non–executive Directors							
Julian Beale (Chairman)	38,150	–	–	–	–	3,941	42,091
Kevin Courtney	35,000	–	–	3,150	–	–	38,150
Silvio Salom	1,696	–	–	–	–	–	1,696
David Smith	35,000	–	–	3,150	–	–	38,150
Alex Waislitz	35,000	–	–	3,150	–	–	38,150
Peter Landos (alternate to Alex Waislitz)	–	–	–	–	–	–	–
Sub–total non–executive directors	**144,846**	**–**	**–**	**9,450**	**–**	**3,941**	**158,237**
Executive directors							
Silvio Salom	648,671	–	10,909	12,139	210,858	–	882,577
Other key management personnel							
Georges Ata	211,792	33,195	3,828	10,590	–	14,228	273,633
Seth Brown	238,269	69,266	20,827	7,168	–	67,035	402,565
Mark Creasap	176,306	38,315	20,743	5,320	–	20,482	261,166
William Lang	228,964	21,110	4,607	11,448	–	20,025	286,154
Gary Pearson	175,160	26,123	10,137	6,228	–	20,025	237,673
Steve Piller	217,043	30,873	11,647	3,907	–	47,780	311,250
Fred Sheldon	325,564	94,994	20,827	9,762	–	199,645	650,792
Michael Woodgate	3,600	–	–	–	–	–	3,600
Michael Smith	69,030	–	–	4,918	–	22,575	96,523
Errol Turner	54,546	–	–	–	–	2,156	56,702
Total	**2,493,791**	**313,876**	**103,525**	**80,930**	**210,858**	**417,892**	**3,620,872**

Key management personnel of Adacel Technologies Limited

2005	Short–term benefits			Post–employment benefits	Other	Share–based payment	
Name	Cash salary and fees $	Cash bonus $	Non monetary $	Super annuation $	Termination benefits $	Options $	Total $
Non–executive Directors							
Julian Beale (Chairman)	30,000	–	–	2,700	–	27,431	60,131
Kevin Courtney	30,000	–	–	2,700	–	–	32,700
Ian Shiers [(1)]	62,200	–	–	965	–	5,621	68,786
David Smith	30,000	–	–	2,700	–	–	32,700
Alex Waislitz [(2)]	30,000	–	–	2,700	–	–	32,700
Peter Landos (alternate to Alex Waislitz)	–	–	–	–	–	–	–
Sub–total non–executive directors	**182,200**	**–**	**–**	**11,765**	**–**	**33,052**	**227,017**
Executive directors							
Silvio Salom	290,130	–	12,652	11,585	–	–	314,367
Other key management personnel							
Errol Turner	201,885	–	–	6,758	63,858	–	272,501
Totals	**674,215**	**–**	**12,652**	**30,108**	**63,858**	**33,052**	**813,885**

(1) Cash salary and fees includes an amount of $33,856 for unused annual leave entitlements paid out at the date of ceasing to be a director and employee of the company.

(2) As at 30 June 2005, director fees in relation to the financial years 30 June 2005 and 2004 totalling $68,125 have not yet been paid.

Key management personnel of the Group

2005	Short–term benefits			Post–employment benefits	Other	Share–based payment	
Name	Cash salary and fees $	Cash bonus $	Non monetary $	Super annuation $	Termination benefits $	Options $	Total $
Non–executive Directors							
Julian Beale (Chairman)	30,000	–	–	2,700	–	27,431	60,131
Kevin Courtney	30,000	–	–	2,700	–	–	32,700
Ian Shiers (1)	62,200	–	–	965	–	5,621	68,786
David Smith	30,000	–	–	2,700	–	–	32,700
Alex Waislitz (2)	30,000	–	–	2,700	–	–	32,700
Peter Landos (alternate to Alex Waislitz)	–	–	–	–	–	–	–
Sub–total non–executive directors	**182,200**	**–**	**–**	**11,765**	**–**	**33,052**	**227,017**
Executive directors							
Silvio Salom	290,130	–	12,652	11,585	–	–	314,367
Other key management personnel							
Lionel Leveille	254,574	–	–	11,367	287,972	–	553,913
Seth Brown	102,087	40,204	–	3,417	–	8,790	154,498
Mark Creasap	191,540	–	–	5,146	–	–	196,686
William Lang	180,375	–	–	8,796	–	–	189,171
Gary Pearson	164,708	–	–	8,120	–	–	172,828
Yves Gosselin	185,787	–	–	9,067	169,969	–	364,823
Fred Sheldon	292,698	–	–	8,176	–	–	300,874
Errol Turner	201,885	–	–	6,758	63,858	–	272,501
Total	**2,045,984**	**40,204**	**12,652**	**84,197**	**521,799**	**41,842**	**2,746,678**

C. Service agreements (audited)

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.

Silvio Salom (Non–executive director)
(as Managing Director)

- A written agreement was drafted but not put into effect by the time that Mr. Salom ceased to act in this capacity.
- Base salary, inclusive of superannuation for the period to 18 June 2006 of $290,949.
- Termination payments of $210,858 were approved by the Board of Directors.
- Access to motor vehicle, which is leased by the company, for business and private use.
- No performance-related cash bonus was paid during the year.
- Participation, when eligible, in the Staff Share Option Plan.

(as Non-executive director)

- Effective 19 June 2006, the company entered into a consulting agreement with Mr. Salom with no fixed term.
- The agreement provides for assistance in identifying business opportunities in relation to specific business customers in Australia.
- The agreement is to provide services on a 1 day per week basis, and the fee for the service is $1,500 per day.

Georges Ata (Vice President – Engineering & Operations)

- Term of agreement – ongoing. On 1 July 2005, Georges Ata was promoted to the position of Vice President – Engineering & Operations.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2006 of $226,210.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to an amount agreed to between the parties to the employment agreement.
- Provision of performance–related cash bonuses (up to 40% of base salary). A bonus became payable in respect of the year ended 30 June 2006 of $33,195.
- Participation, when eligible, in the Staff Share Option Plan.

Seth Brown (Chief Financial Officer – North America)

- Term of agreement – ongoing.
- Base salary, superannuation, medical/health insurance and other benefits for the year ended 30 June 2006 of $266,264.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months base salary and superannuation.
- Provision of performance–related cash bonuses (up to 40% of base salary). A bonus became payable in respect of the year ended 30 June 2006 of $69,266.
- Participation, when eligible, in the Staff Share Option Plan.

Mark Creasap (Vice President – US Simulation and Training – North America)

- Term of agreement – ongoing.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2006 of $202,369.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to an amount agreed to between the parties to the employment agreement.
- Provision of performance–related cash bonuses (up to 40% of base salary). A bonus became payable in respect of the year ended 30 June 2006 of $38,315.
- Participation, when eligible, in the Staff Share Option Plan.

William Lang (Senior Vice President – Air Traffic Management & International Operations and General Manager – Canada)

- Term of agreement – ongoing.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2006 of $245,019.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to a minimum of 0.5 time base salary, superannuation and medical/health insurance.
- Provision of performance–related cash bonuses (up to 40% of base salary). A bonus became payable in respect of the year ended 30 June 2006 of $21,110.
- Participation, when eligible, in the Staff Share Option Plan.

Gary Pearson (Vice President – Advanced Programs – North America)

- Term of agreement – ongoing.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2006 of $191,525.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to an amount agreed to between the parties to the employment agreement.
- Provision of performance–related cash bonuses (up to 40% of base salary). A bonus became payable in respect of the year ended 30 June 2006 of $26,123.
- Participation, when eligible, in the Staff Share Option Plan.

Steve Piller (Senior Vice President – Business Development North America)

- Term of agreement – ongoing. Steve Piller commenced employment with the company on 6 September 2005.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2006 of $232,597.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to an amount agreed to between the parties to the employment agreement.
- Provision of performance–related cash bonuses (up to 40% of base salary). A bonus became payable in respect of the year ended 30 June 2006 of $30,873.
- Participation, when eligible, in the Staff Share Option Plan.

Fred Sheldon (Chief Executive Officer – North America)

- Term of agreement – ongoing.
- Base salary, superannuation, medical/health insurance and other benefits for the year ended 30 June 2006 of $356,153.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months base salary and superannuation.
- Provision of performance–related cash bonuses (up to 45% of base salary). A bonus became payable in respect of the year ended 30 June 2006 of $94,994
- Participation, when eligible, in the Staff Share Option Plan.

Michael Woodgate (Company Secretary)

- Effective 20 May 2006 Michael Woodgate was appointed as Company Secretary and provides services to the company as a contractor.
- Fees for the year ended 30 June 2006 in respect of Company Secretarial activities of $3,600.
- Fees for the year ended 30 June 2006 in respect of corporate affairs services activities of $65,000.

Michael Smith (Group Chief Financial Officer and Company Secretary)

- Michael Smith was appointed to the position of CFO & Company Secretary on 1 January 2006 and ceased employment with the company on 19 May 2006. Prior to this appointment he was the parent company's Group Accounting Manager.
- Base salary and superannuation for the above period of $73,948.
- The Board of Directors resolved that a portion of Michael Smith's options issued under the Staff Share Option Plan would not lapse upon termination of his employment contract.

Errol Turner (Group Chief Financial Officer and Company Secretary)

- Effective 31 January 2005, Errol Turner's ongoing employment contract was terminated; however, Errol Turner continued to provide services to the company as a contractor until 31 December 2005.
- Fees for the year ended 30 June 2006 of $54,546.
- The Board of Directors resolved that Errol Turner's options issued under the Staff Share Option Plan would not lapse upon termination of his employment contract.

D. Share–based compensation (audited)

Staff Share Option Plan

Options are granted under the Adacel Technologies Staff Share Option Plan which was approved by the shareholders at the Annual General Meeting on the 15 November 2000. Under this plan, Directors can issue options (up to 10% of the company's issued capital) to eligible employees. The Directors have the discretion as to the number of options to be issued and exercise periods. The options are issued for no consideration from Directors or employees. The options are not listed. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

Staff Share Option Plan options may be issued with conditions precedent to the options vesting. The conditions precedent for the options on issue are one of the following:

(a) Set time periods are achieved (the anniversary dates); and
On the anniversary date or any subsequent date, the weighted average sale price of all ordinary shares in the capital of the company sold on ASX during the 5 trading days immediately preceding that date or any subsequent date is determined to be at least 15% higher on an annual compound basis than the exercise price of the options. Once this price threshold is achieved, a subsequent fall in the company's share price will not affect the right to exercise the options.

(b) Set time periods are achieved.

(c) The company's share price is greater than or equal to the exercise price plus a pre agreed amount for a period of 10 consecutive days; and for a period of 90 days thereafter, the average share price is greater than or equal to the exercise price plus a pre agreed amount. Once this price threshold is achieved, a subsequent fall in company's share price will not affect the right to exercise the options.

(d) The achievement of the fiscal year EBITDA as set forth in the Board approved annual budget.

In the event of the resignation, redundancy or termination of employment of an option holder, the options issued under the Staff Share Option Plan lapse immediately, unless the Directors, at their absolute discretion, determine otherwise.

The service and performance criteria used to determine the amount of the options granted as remuneration are set out in section A of this remuneration report.

Chairman's Options

Options issued to the Chairman were issued on 30 November 2004 following approval by the shareholders at the Annual General Meeting on the 19 November 2004. The options were issued as part of remuneration for acting as the non–executive chairman of the Board. 50% of the options vested immediately on issue and the remaining 50% vested on 12 September 2005. The options are not listed. The options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price is $0.61, payable immediately on exercise. The expiry date of these options is 12 September 2008.

The terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Vesting conditions	Date exercisable from
Staff Share Option Plan					
4 April 2003	4 April 2008	$0.71	$0.36	(a)	4 April 2004 & 4 April 2005
2 April 2004	2 April 2009	$0.66	$0.30	(a)	2 April 2005 & 2 April 2006
4 July 2004	4 July 2009	$0.45	$0.27	(a)	4 July 2005 & 4 July 2006
1 October 2004	1 October 2009	$0.60	$0.13	(d)	1 August 2005 & 1 June 2006 & 1 April 2007 & 1 February 2008 & 1 December 2008
17 January 2005	17 January 2010	$0.60	$0.10	(c)	17 January 2005
5 September 2005	5 September 2010	$0.60	$0.05	(c)	5 September 2005
20 November 2005	20 November 2010	$0.35	$0.15	(b)	20 November 2005 & 17 January 2006 & 6 September 2006
20 November 2005	20 November 2010	$0.60	$0.09	(b)	31 December 2006 & 17 April 2007 & 6 December 2007
28 April 2006	28 April 2011	$0.60	$0.24	(b)	28 April 2007
Chairman's Options					
30 November 2004	12 September 2008	$0.61	$0.10	(b)	30 November 2004 and 12 September 2005

The conditions precedent for the options set out above are as follows:

(a) Set time periods are achieved (the anniversary dates); and,
on the anniversary date or any subsequent date, the weighted average sale price of all ordinary shares in the capital of the company sold on ASX during the 5 trading days immediately preceding that date or any subsequent date is determined to be at least 15% higher on an annual compound basis than the exercise price of the options (Hurdle Share Price). Once this price threshold is achieved, a subsequent fall in the company's share price will not affect the right to exercise the options.

(b) Set time periods are achieved.

(c) The achievement of the fiscal year EBITDA as set forth in the Board approved annual budget.

(d) Set time periods are achieved; and
The weighted average sale price of all ordinary shares in the capital of the company sold on ASX for a period of 10 trading days reaches a defined price, and
For a period of 90 days thereafter the average price per share is greater than, or equal to, the same defined price. Once this price threshold is achieved, a subsequent fall in the company's share price will not affect the right to exercise the options.

The Staff Share Option Plan is described in note 35 and the Chairman's Options are described in note 35.

The service and performance criteria used to determine the amount of the options granted as remuneration are set out on pages 5 & 6 of the remuneration report.

Details of options over ordinary shares in the company provided as remuneration to each Director of Adacel Technologies Limited and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Adacel Technologies Limited. Further information on the options is set out in note 35 to the financial statements.

	Number of options granted during the year		Number of options vested during the year	
Name	**2006**	**2005**	**2006**	**2005**
Directors of Adacel Technologies Limited				
Julian Beale (Chairman)	–	300,000	150,000	150,000
Kevin Courtney	–	–	–	–
Silvio Salom	–	–	–	–
David Smith	–	–	–	–
Alex Waislitz	–	–	–	–
Peter Landos				
(alternate to Alex Waislitz)	–	–	–	–
Other key management personnel of the Group				
Georges Ata	200,000	–	50,000	–
Seth Brown	500,000	500,000	250,000	–
Mark Creasap	200,000	–	100,000	–
William Lang	200,000	–	100,000	–
Gary Pearson	200,000	–	100,000	–
Steve Piller	1,000,000	–	500,000	–
Fred Sheldon	1,750,000	1,250,000	625,000	–
Michael Woodgate	–	–	–	–
Michael Smith	300,000		150,000	–
Errol Turner	–	–	60,000	–

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. The fair value at grant date is independently determined using a Black–Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non–tradeable nature of the option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk–free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2006 and for the year ended 30 June 2005 can be found in note 35 to the financial statements.

No options have been issued to directors or any of the key management personnel as part of their remuneration at the date of signing this financial report.

Shares provided on exercise of remuneration options

During the year, no ordinary shares in the company were provided as a result of the exercise of remuneration options.

E. Additional information – unaudited

Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance.

The overall level of executive reward takes into account the performance of the company over a number of years, with greater emphasis given to the current year. Prior to the current financial year, the past 5 years of company's earnings and share price performance have been disappointing and accordingly, the increase in the remuneration of executives and the payment of bonuses have been limited.

Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the above tables, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria as set out below. No part of the bonuses are payable in future years. The options vest over the period determined at the time of issue, provided the vesting conditions are met. No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined by reference to the exercise price of the options.

	Cash bonus		Options					
Name	Paid %	Forfeited %	Year granted	Vested %	Forfeited %	Financial years in which options may vest	Minimun total value of grant yet to vest $	Maximun total value of grant yet to vest $
Julian Beale	–	–	2005	50%	–	–	–	–
Georges Ata	39%	61%	2002	–	–	2007	–	1,820
			2003	–	–	2007/8	–	1,420
			2006	100%	–	–	–	–
			2006	–	–	2007	–	30,000
			2006	–	–	2007	–	60,000
Seth Brown	73%	27%	2005	30%	–	2007/10	–	210,000
			2006	100%	–	–	–	–
			2006	–	–	2007	–	150,000
Mark Creasap	54%	46%	2004	–	–	2007/8	–	5,680
			2005	–	–	2007/9	–	5,280
			2006	100%	–	–	–	–
			2006	–	–	2007/11	–	60,000
William Lang	23%	77%	2002	–	–	2007	–	20,020
			2006	100%	–	–	–	–
			2006	–	–	2007	–	60,000
Gary Pearson	37%	63%	2002	–	–	2007	–	6,480
			2003	–	–	2008	–	3,560
			2006	100%	–	–	–	–
			2006	–	–	2007/11	–	60,000
Steve Piller	36%	64%	2006	30%	–	2007/10	–	210,000
			2006	–	–	2007	–	87,500
			2006	–	–	2008	–	150,000
Fred Sheldon	65%	35%	2005	–	–	2007/10	–	750,000
			2006	100%	–	–	–	–
			2006	–	–	2007/11	–	375,000
			2006	–	–	2007	–	300,000
Michael Woodgate	–	–	–	–	–	–	–	–
Michael Smith	–	–	2003	–	–	2007/8	–	58,740
			2006	100%	–	–	–	–
			2006	–	100%	–	–	–
Errol Turner	–	–	2003	–	–	2007/8	–	75,400

Share–based compensation: Options

Further details relating to options are set out below:

Name	A Remuneration consisting of options	B Value at grant date $	C Value at exercise date $	D Value at lapse date $	E Total of columns B–D $
Julian Beale	9.4%	–	–	–	–
Kevin Courtney	–	–	–	–	–
Silvio Salom	–	–	–	–	–
David Smith	–	–	–	–	–
Alex Waislitz	–	–	–	–	–
Peter Landos (alternate to Alex Waislitz)	–	–	–	–	–
Michael Woodgate	–	–	–	–	–
Michael Smith	23.4%	36,255	–	13,680	49,935
Errol Turner	3.8%	–	–	–	–
Georges Ata	5.2%	36,575	–	–	36,575
Seth Brown	16.7%	60,425	–	–	60,425
Mark Creasap	7.8%	24,170	–	–	24,170
William Lang	7.0%	24,170	–	–	24,170
Gary Pearson	8.4%	24,170	–	–	24,170
Steve Piller	15.4%	86,425	–	–	86,425
Fred Sheldon	30.7%	273,513	–	–	273,513

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.

B = The value at grant date calculated in accordance with AASB 2 *Share–based Payments* of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

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 2006 (2005 = nil).

SHARE OPTIONS GRANTED TO DIRECTORS AND THE MOST HIGHLY REMUNERATED OFFICERS

Details of options granted over unissued ordinary shares in Adacel Technologies Limited during or since the end of the year to any Directors, any of the most highly remunerated officers of the consolidated entity, or the one officer of the company as part of their remuneration were as follows:

Directors of Adacel Technologies Limited

	Options granted	Exercise price	Expiry date	Vesting date	Options Vested
Julian Beale	–	–	–	–	–
Kevin Courtney	–	–	–	–	–
Silvio Salom	–	–	–	–	–
David Smith	–	–	–	–	–
Alex Waislitz	–	–	–	–	–
Peter Landos (alternate to Alex Waislitz)	–	–	–	–	–

Executive Officers of Adacel Technologies Limited

	Options granted	Exercise price	Expiry date	Vesting date	Options Vested
Michael Woodgate	–	–	–	–	–
Michael Smith	150,000	$0.35	19 May 2007	20 November 2005	150,000
Michael Smith	150,000	$0.60	19 May 2006	–	–
Errol Turner		–	–	–	–

Executive Officers of the Consolidated Entity

	Options granted	Exercise price	Expiry date	Vesting date	Options Vested
Georges Ata	50,000	$0.35	20 November 2010	20 November 2005	50,000
Georges Ata	50,000	$0.60	20 November 2010	31 December 2006	–
Georges Ata	100,000	$0.60	28 April 2011	28 April 2007	–
Seth Brown	250,000	$0.35	20 November 2010	17 January 2006	250,000
Seth Brown	250,000	$0.60	20 November 2010	17 April 2007	–
Mark Creasap	100,000	$0,35	20 November 2010	20 November 2005	100,000
Mark Creasap	100,000	$0.60	20 November 2010	31 December 2006	–
William Lang	100,000	$0.35	20 November 2010	20 November 2005	100,000
William Lang	100,000	$0.60	20 November 2010	31 December 2006	–
Gary Pearson	100,000	$0.35	20 November 2010	20 November 2005	100,000
Gary Pearson	100,000	$0.60	20 November 2010	31 December 2006	–
Steve Piller	150,000	$0.60	5 September 2010	30 June 2006	150,000
Steve Piller	150,000	$0.60	5 September 2010	30 June 2006	–
Steve Piller	150,000	$0.60	5 September 2010	30 June 2006	–
Steve Piller	50,000	$0.60	5 September 2010	30 June 2006	–
Steve Piller	250,000	$0.35	20 November 2010	6 September 2006	–
Steve Piller	250,000	$0.60	20 November 2010	6 December 2007	–
Fred Sheldon	625,000	$0.35	20 November 2010	20 November 2005	625,000
Fred Sheldon	625,000	$0.60	20 November 2010	31 December 2006	–
Fred Sheldon	500,000	$0.60	28 April 2011	28 April 2007	–
Michael Woodgate	–	–	–	–	–
Michael Smith	150,000	$0.35	19 May 2007	20 November 2005	150,000
Michael Smith	150,000	$0.60	19 May 2006	–	–
Errol Turner	–	–	–	–	–

* The conditions precedent to the options vesting also includes the company's share price achieving pre agreed levels in the future.

SHARES UNDER OPTION

Details of unissued ordinary shares in Adacel Technologies Limited under option at the date of this report are as follows:

Plan	Grant Date	Number	Expiry Date	Exercise Price
Staff Share Option Plan	1 November 2001	19,000	1 November 2006	$1.05
Staff Share Option Plan	12 November 2001	100,000	12 November 2006	$1.05
Staff Share Option Plan	25 February 2002	130,000	25 February 2007	$1.02
Staff Share Option Plan	25 February 2002	100,000	25 February 2007	$1.00
Staff Share Option Plan	5 April 2002	323,000	5 April 2007	$0.91
Staff Share Option Plan	2 May 2002	500,000	2 May 2007	$0.90
Staff Share Option Plan	5 July 2002	14,000	5 July 2007	$0.89
Staff Share Option Plan	4 October 2002	35,000	4 October 2007	$0.66
Staff Share Option Plan	11 November 2002	200,000	11 November 2007	$0.58
Staff Share Option Plan	10 January 2003	51,000	10 January 2008	$0.81
Staff Share Option Plan	25 February 2003	100,000	25 February 2008	$1.00
Staff Share Option Plan	4 April 2003	69,000	4 April 2008	$0.71
Staff Share Option Plan	4 July 2003	60,000	4 July 2008	$0.75
Staff Share Option Plan	3 October 2003	22,000	3 October 2008	$0.75
Staff Share Option Plan	9 January 2004	28,000	9 January 2009	$0.85
Staff Share Option Plan	25 February 2003	100,000	25 February 2009	$1.00
Staff Share Option Plan	2 April 2004	62,000	2 April 2009	$0.66
Staff Share Option Plan	4 July 2004	49,000	4 July 2009	$0.45
Staff Share Option Plan	1 October 2004	7,000	1 October 2009	$0.39
Staff Share Option Plan	1 October 2004	1,250,000	1 October 2009	$0.60
Staff Share Option Plan	17 January 2005	500,000	17 January 2010	$0.60
Staff Share Option Plan	1 April 2005	12,000	1 April 2010	$0.33
Staff Share Option Plan	1 July 2005	13,000	1 July 2010	$0.26
Staff Share Option Plan	5 September 2005	500,000	5 September 2010	$0.60
Staff Share Option Plan	7 October 2005	5,000	7 October 2010	$0.24
Staff Share Option Plan	20 November 2005	1,500,000	20 November 2010	$0.35
Staff Share Option Plan	20 November 2005	150,000	19 May 2007	$0.35
Staff Share Option Plan	20 November 2005	1,500,000	20 November 2010	$0.60
Staff Share Option Plan	6 January 2006	4,000	6 January 2011	$0.42
Staff Share Option Plan	7 April 2006	28,000	7 April 2011	$0.50
Staff Share Option Plan	28 April 2006	600,000	28 April 2011	$0.60
Staff Share Option Plan	7 July 2006	21,000	7 July 2011	$0.47
Chairman's Options	30 November 2004	300,000	12 September 2008	$0.61
		8,352,000		

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate except in exercising the relevant options.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

During the year ended 30 June 2006 and since that date until the date of this report, no ordinary shares of Adacel Technologies Limited were issued on the exercise of options granted.

INSURANCE OF DIRECTORS AND OFFICERS

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.

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 audit and 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 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 Professional Statement F1, 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 fees were paid or payable for services provided by the auditor of the parent entity, and its related practices:

	Consolidated	
	2006 **$**	**2005** **$**
Assurance services		
(a) Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	119,375	147,900
Related practices of PricewaterhouseCoopers Australian firm	232,282	332,511
Total remuneration for audit services	351,657	480,411
(b) Other assurance services		
PricewaterhouseCoopers Australian firm		
AIFRS related services	13,585	50,100
Other services	10,115	–
Related practices of PricewaterhouseCoopers Australian firm	16,908	–
Total remuneration for other assurance services	40,608	50,100
Total remuneration for assurance services	392,265	530,511
Taxation services		
PricewaterhouseCoopers Australian firm		
Tax compliance services, including review of company income tax returns, international tax consulting and tax advice on group structuring	342,122	152,920
Related practices of PricewaterhouseCoopers Australian firm	273,033	51,835
Total remuneration for taxation services	615,155	204,755

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 20.

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 option available to the company under Australian Securities & Investment Commission Class Order 98/0100. The company is an entity to which the Class Order 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 contained in the Corporate Governance Statement section of this annual report.

Signed in accordance with a resolution of the Directors.

Julian Beale
Chairman

David Smith
Director

Melbourne, 29 September 2006

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Adacel Technologies Limited for the year ended 30 June 2006, 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 and the entities it controlled during the period.

SC Bannatyne
Partner
PricewaterhouseCoopers

Melbourne
29 September 2006

Liability limited by a scheme approved under Professional Standards Legislation

INCOME STATEMENTS

For the year ended 30 June 2006	Notes	Consolidated		Parent entity	
		2006 $'000	**2005** $'000	**2006** $'000	**2005** $'000
Revenue from continuing operations	5	52,394	37,294	839	5,110
Other income	6	398	1,132	3,702	43
Materials and consumables		(17,651)	(12,087)	(23)	(52)
Labour expense		(23,195)	(26,891)	(2,063)	(2,383)
Fair value adjustment to investments in other entities	7	–	(34)	–	(34)
Fair value adjustment to inter–company loans	7	–	–	10,395	(3,157)
Provision for diminution of investments in subsidiaries	7	–	–	(1,498)	(6,983)
Net foreign exchange gain/(loss)		70	(325)	(4)	–
Depreciation and amortisation expense	7	(1,469)	(1,487)	(3)	(891)
Finance costs	7	(241)	(414)	(740)	(503)
Lease rental expenses	7	(1,405)	(1,683)	(46)	(372)
Professional fees	26	(1,007)	(735)	(485)	(350)
All other expenses		(3,962)	(3,850)	(694)	(607)
Profit/(loss) before tax		3,932	(9,080)	9,380	(10,179)
Income tax (expense)/benefit	8	1,007	(756)	–	–
Profit/(loss) for the year		4,939	(9,836)	9,380	(10,179)
Profit/(loss) for the period attributable to members of Adacel Technologies Limited		4,939	(9,836)	9,380	(10,179)
Earnings/(loss) per share for profit attributable to the ordinary equity holders of the company		**Cents**	**Cents**		
Basic earnings/(loss) per share	34	5.6	(13.0)		
Diluted earnings/(loss) per share	34	5.6	(13.0)		

The above income statements should be read in conjunction with the accompanying notes.

BALANCE SHEETS

As at 30 June 2006	Notes	Consolidated		Parent entity	
		2006 $'000	**2005** $'000	**2006** $'000	**2005** $'000
Current assets					
Cash and cash equivalents	9	2,152	4,002	309	888
Receivables	10	12,820	11,181	211	282
Current tax asset		1,614	1,003	–	–
Accrued revenue		6,177	2,830	–	246
Inventories	11	226	758	–	–
Other financial assets	13	2,292	–	–	–
Total current assets		25,281	19,774	520	1,416
Non–current assets					
Receivables	12	–	–	1,359	3,316
Accrued revenue		–	176	–	176
Plant and equipment	14	870	877	–	–
Intangible assets	15	2,843	3,701	–	3,701
Other financial assets at fair value through profit and loss	13	–	–	–	–
Other financial assets	13	–	–	15,702	14
Total non–current assets		3,713	4,754	17,061	7,207
Total assets		28,994	24,528	17,581	8,623
Current liabilities					
Borrowings	17	13	4,846	13	12
Payables	16	11,203	8,080	1,229	1,539
Advance payments from customers		3,596	2,898	1	1
Current tax liabilities		484	185	–	–
Provisions	18	1,132	1,146	33	156
Total current liabilities		16,428	17,155	1,276	1,708
Non–current liabilities					
Borrowings	20	109	115	102	115
Payables	19	–	509	–	264
Provisions	21	128	268	128	268
Total non–current liabilities		237	892	230	647
Total liabilities		16,665	18,047	1,506	2,355
Net assets		12,329	6,481	16,075	6,268
Equity					
Contributed equity	22	79,200	79,200	79,200	79,200
Reserves	23	867	(42)	650	223
Retained profits/(accumulated losses)	23	(67,738)	(72,677)	(63,775)	(73,155)
Total equity		12,329	6,481	16,075	6,268

The above balance sheets should be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2006	Notes	Consolidated		Parent entity	
		2006 $'000	**2005** $'000	**2006** $'000	**2005** $'000
Total equity at the beginning of the period		6,481	10,338	6,268	10,203
Exchange differences on translation of foreign operations	23	482	(265)	–	–
Net income/(expense) recognised directly in equity		482	(265)	–	–
Profit/(loss) for the period		4,939	(9,836)	9,380	(10,179)
Total recognised income/(expense) for the period		5,421	(10,101)	9,380	(10,179)
Contributions of equity, net of transaction costs	22	–	6,097	–	6,097
Employee share options	23	427	147	427	147
Total transactions with equity holders in their capacity as equity holders		427	6,244	427	6,244
Total equity at the end of the period		12,329	6,481	16,075	6,268

The above statements of changes in equity should be read in conjunction with the accompanying notes.

CASH FLOWS STATEMENT

For the year ended 30 June 2006	Notes	Consolidated		Parent entity	
		2006 $'000	2005 $'000	2006 $'000	2005 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		49,693	47,870	545	1,253
Payments to suppliers and employees (inclusive of GST)		(43,929)	(49,216)	(3,430)	(5,219)
Payments for development expenditure (inclusive of GST)		(485)	(1,362)	–	–
		5,279	(2,708)	(2,885)	(3,966)
Interest received		104	65	27	62
Income tax paid		(168)	(127)	–	–
Tax credits refunded		938	–	–	–
Finance costs		(241)	(414)	(24)	(405)
Net cash inflow/(outflow) from operating activities	32	5,912	(3,184)	(2,882)	(4,309)
Cash flows from investing activities					
Payments for plant and equipment		(530)	(183)	(3)	(25)
Proceeds from sale of plant and equipment		7	27	3	27
Proceeds from /(payment for) deposits		(164)	(35)	4	4
Net cash inflow/(outflow) from investing activities		(687)	(191)	4	6
Cash flows from financing activities					
Proceeds from shares issued		–	6,506	–	6,506
Share issue costs		–	(409)	–	(409)
Repayment of borrowing		(13)	(91)	(12)	(80)
Payment of security deposit to bank facility provider		(2,292)	–	–	–
Loans from controlled entities		–	–	2,466	–
Loans (to) controlled entities		–	–	(155)	3,589
Net cash inflow/(outflow) from financing activities		(2,305)	6,006	2,299	9,606
Net increase/(decrease) in cash and cash equivalents		2,920	2,631	(579)	5,303
Cash and cash equivalents at the beginning of the financial year		(824)	(3,043)	888	(4,415)
Effects of exchange rate changes on cash and cash equivalents		56	(412)	–	–
Cash and cash equivalents at the end of the financial year	9	2,152	(824)	309	888

Non–cash financing and investing activities	33
Financing arrangements	20

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

NOTES TO FINANCIAL STATEMENTS

Contents of the notes to the financial statements **Page**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

This general purpose financial report for the full year reporting period ended 30 June 2006 has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standard Board, Urgent Issues Group Consensus Views and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRS ensures that the consolidated financial statements and notes comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and the notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

Application of AASB 1 First–time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Adacel Technologies Limited financial statements to be prepared in accordance with AIFRS. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Adacel Technologies Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Adacel Technologies Limited 2006 financial statements, management have amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net income/(loss) are given in note 37.

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 in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(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 2006 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. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de–consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(i)).

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(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 the income statement, except when deferred in equity as qualifying net investment hedges.

(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 income statement 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 as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold or borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(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 and duties and taxes paid.

Revenue from the sale of product is recognised when the product has been dispatched to a customer pursuant to a sales order and the associated risks have passed to the carrier or the customer.

Revenue from the provision of services is recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be reliably estimated. Where the outcome of a contract to provide services cannot be reliably estimated, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

For fixed price contracts, the stage of completion is measured by reference to:

(a) the milestones within the contract that have been completed by the company or economic entity and have been accepted by the customer,
(b) the labour costs incurred to date as a percentage of total estimated labour costs, or
(c) the total costs incurred to date as a percentage of total estimated costs.

The method used is selected on the basis of that which best represents services performed and is dependent upon the nature of the contract.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Government grants

Grants from the government 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 income statement 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 are credited to the income statement on a straight–line basis over the expected lives of the related assets.

(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 national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable 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 controlled entities where the parent entity 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.

Adacel Technologies Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002.

The head entity, Adacel Technologies Limited, and the controlled entities in the tax–consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax–consolidated group continues to be a stand–alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Adacel Technologies Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax–consolidated group.

Assets or liabilities arising under tax funding agreements with the tax–consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax–consolidated entities.

(h) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is 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 is charged to the income statement 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.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight–line basis over the period of the lease.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Acquisitions of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(q)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(k) Cash and cash equivalents

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 overdraft is shown as part of current liabilities on the balance sheet.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

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

(m) Inventories

Work in progress and finished goods 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.

(n) Investments and other financial assets

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. There has been no effect on translation as the investments were fully written down.

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non–current assets. Loans and receivables are included in receivables in the balance sheet and carried at amortised cost.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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.

(p) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 income statement during the financial period in which they are incurred.

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

Class of Fixed Assets	Depreciation / Amortisation Rate
Leasehold improvements	20%
Motor vehicles	25%
Computers and office equipment	25–50%
Furniture and fittings	10%
Leased plant and equipment	15–25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 (note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement when sold.

(q) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations 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.

The carrying value of goodwill on the balance sheet is nil as at 30 June 2006 and 30 June 2005.

(ii) Intellectual property

Intellectual property is carried at cost and is amortised on a straight–line basis over the periods of their 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. During the year ended 30 June 2004, the company reassessed the useful life from 15 years to 5 years.

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement 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 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 the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation.

At 30 June 2006 and 30 June 2005, no expenditure on development activities has been capitalised.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(s) 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.

(t) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(u) Finance costs

Finance costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other finance costs are expensed.

The capitalisation rate used to determine the amount of finance costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year. No finance costs were capitalised during the year.

(v) 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 more likely than not 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.

Where there are a number of 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 may be small.

(w) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non–monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non–accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is 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 reporting date using the projected unit credit method. 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 reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Superannuation

Contributions are made by the consolidated entity to a defined contribution employees superannuation fund and are charged as expenses when incurred. Amounts outstanding at balance date are recognised in other creditors.

(iv) Share–based payments

Share–based compensation benefits are provided to employees via the Adacel Staff Share Option Plan.

Shares options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Shares options granted after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the Adacel Staff Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fair value at grant date is independently determined using a Black–Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non–tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk–free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non–market vesting conditions (for example, profitability). Non–market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share–based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

(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.

Liabilities for termination benefits expected to be settled within 12 months are measured at the amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the reporting date are measured as the estimated cash outflows, discounted using market yields at the reporting date on national government bonds with terms of maturity and currency that match, as closely as possible, the estimated future payments, where the effect of the discounting is material.

(x) 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, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(y) 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 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 shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) 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.

(ab) Web site costs

Costs relating to the company's website are charged as expenses in the period in which they are incurred unless they relate to the acquisition of an asset, in which case they are capitalised and amortised over the period of expected benefit.

(ac) Rounding of amounts

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

(ad) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group has assessed the requirements of these standards and interpretations. The changes introduced by AASB 2005 – 9 apply to reporting periods beginning on or after 1 January 2006. The Group has not elected to adopt amendments early. Adacel Technologies Limited is party to a financial guarantee contract whereby the company has provided a financial guarantee on behalf of entities within the Group to the bank. The application of these amendments will result in this financial contract being recognized on the balance sheet and subsequently being measured at the higher of the amount recognized as a provision and the amount initially recorded less cumulative amortisation in accordance with revenue recognition policies. The fair value of the guarantees is not yet known.

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risks (including currency risk, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate 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 uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures.

The Group Chief Financial Officer, or equivalent, under policies approved by the Board of Directors carries out risk management.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures primarily to the US dollar, Canadian dollar, Euro and British Pound.

To minimise the exposure, the Group manages the natural hedges that may exist and may also enter into certain forward exchange contracts.

A high proportion of foreign exchange risk within the group results from transactions between members of the group, and there is therefore no currency risk to the group resulting from these transactions.

When significant transactions with external customers or suppliers are conducted in non–functional currency, forward exchange contracts are put into place to fix the risk.

(ii) Price Risk

The group is not exposed to equity securities price risks since all investments are impaired and recorded at the impairment values.

(iii) Fair value interest rate risk

Refer to (d) below.

(b) Credit risk

The Group has no significant concentrations of credit risk, other than a significant billing to a joint stock government controlled company in Italy. The outstanding debt at balance date is A$5,992,901.

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and credit facilities to meet the needs of the business operations.

The company has access to a facility with the Royal Bank of Canada for up to $5 million Canadian Dollars. Access to the facility is governed by pre–agreed covenants with the bank and is repayable on demand. The facility is secured by a fixed and floating charge over the assets and undertakings of Adacel Inc (Canadian operating entity) and by a $1.5 million Canadian Dollars security deposit. Adacel Technologies Limited (the parent entity) and the other North American entities (being Adacel Systems Inc, Adacel Technologies Holdings Inc and Adacel Technologies Inc) have also agreed to provide a guarantee to the bank for the facility.

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

(d) Cash flow and interest rate risk

The Group's interest rate risk arises on its bank facility with the Royal Bank of Canada. Borrowings under the facility are subject to a variable interest rate. 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 a risk exposure.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events 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.

Contract revenue recognised at balance date

The Group reviews all contracts work in process at the balance date to determine the value of completion. 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 on 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.

Estimated useful life of intangible assets

The Group amortises intellectual property over five years, which is the estimated period over which the expected benefits are expected to derive. There are inherent judgements in estimating this period as it is dependent on future product sales. This may result in a change in the amortisation period.

4. SEGMENT INFORMATION

(a) Description of segments

Geographical segments
The consolidated entity is organised on a global basis into two main geographical areas:

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

Australia and the United Kingdom
Servicing the Australian domestic market as well as international markets for software development services and simulation e–learning solutions.

Business segments
Although the consolidated entity's divisions are managed on a global basis they operate in the following divisions by product and service type.

Simulation
Encompassing defence and aviation simulation, simulation e–learning, services and support.

Software Engineering
Encompassing Oceanic air traffic management systems, real time software and systems development.

4. SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting – geographical segments	Notes	Australia and the United Kingdom		North America	
		2006 $'000	2005 $'000	2006 $'000	2005 $'000
Sales to external customers		679	1,971	51,611	35,224
Intersegment sales		69	163	–	–
Total sales revenue	5	748	2,134	51,611	35,224
Other revenue/income	5,6	4	39	468	1,105
Total segment revenue/income		752	2,173	52,079	36,329
Segment result prior to the following items:		(496)	(665)	7,366	(3,604)
Profit/(loss) on disposed businesses		–	34	–	–
Redundancies		(53)	(76)	–	(626)
Royalties due to parent entity		–	–	113	(283)
Segment result		(549)	(707)	7,479	(4,513)
Corporate office costs		–	–	–	–
Management fees		(443)	(659)	(472)	(1,183)
Interest on funds advanced – intergroup		(379)	(1,497)	1,123	(1,076)
Financial costs – external		(3)	(4)	(214)	(5)
Profit/(loss) before income tax		(1,374)	(2,867)	7,916	(6,777)
Income tax (expense)/benefit					
Profit/(loss) after income tax					
Segment assets		131	1,655	41,085	21,675
Unallocated assets					
Total assets					
Segment liabilities		30,404	46,440	20,569	31,919
Unallocated liabilities					
Total liabilities					
Acquisitions of plant and equipment		–	–	526	158
Depreciation and amortisation expense	7	14	21	1,626	575
Impairment of trade receivables		–	–	–	–
Other non–cash expenses		(4)	(36)	–	–

(c) Secondary reporting format – business segments	Notes	Simulation		Software Engineering	
		2006 $'000	2005 $'000	2006 $'000	2005 $'000
Sales to external customers		34,652	20,151	17,638	17,044
Intersegment sales		–	6	69	143
Total sales revenue	5	34,652	20,157	17,707	17,187
Other revenue/income	5,6	472	1,108	–	36
Total segment revenue/income		35,124	21,265	17,707	17,223
Segment assets		41,137	22,528	79	762
Unallocated assets					
Total assets					
Acquisitions of plant & equipment		410	158	116	–

Corporate Office		Intersegment Eliminations		Total	
2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
–	–	–	–	52,290	37,195
–	–	(69)	(163)	–	–
–	–	(69)	(163)	52,290	37,195
30	87	–	–	502	1,231
30	87	(69)	(163)	52,792	38,426
–	–	–	–	6,870	(4,269)
–	–	–	–	–	34
(211)	(91)	–	–	(264)	(793)
(113)	283	–	–	–	–
(324)	192	–	–	6,006	(5,028)
(2,433)	(3,638)	–	–	(2,433)	(3,638)
915	1,842	–	–	–	–
(744)	2,573	–	–	–	–
(24)	(405)	–	–	(241)	(414)
(2 ,610)	564	–	–	3,932	(9,080)
				1,007	(756)
				4,939	(9,836)
17,502	32,706	(29,724)	(31,508)	28,994	24,528
				–	–
				28,994	24,528
1,175	5,214	(35,605)	(65,661)	16,543	17,912
				122	135
				16,665	18,047
4	25	–	–	530	183
3	891	(174)	–	1,469	1,487
(16)	(130)	–	–	(16)	(130)
(3)	(25)	–	–	(7)	(61)

Corporate Office		Intersegment Eliminations		Total	
2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
–	–	–	–	52,290	37,195
–	–	(69)	(149)	–	–
–	–	(69)	(149)	52,290	37,195
30	87	–	–	502	1,231
30	87	(69)	(149)	52,792	38,426
17,502	32,706	(29,724)	(31,468)	28,994	24,528
				–	–
				28,994	24,528
4	25	–	–	530	183

4. SEGMENT INFORMATION (CONTINUED)

(d) 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 114 *Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of cash, receivables, accrued revenues, inventories, other plant and equipment and intangible assets net of related provisions. While most of the assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors, advanced payments from customers, employee entitlements and other provisions.

(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.

	Consolidated		Parent entity	
	2006 $'000	**2005** $'000	**2006** $'000	**2005** $'000
5. REVENUE				
From continuing operations				
Sales revenue				
Sale of services and systems	52,290	37,195	251	750
	52,290	37,195	251	750
Other revenue				
Interest	104	65	–	2,733
Royalties	–	–	–	283
Management fee	–	–	588	1,344
Net profit on sale of business	–	34	–	–
	104	99	588	4,360
	52,394	37,294	839	5,110

	Consolidated		Parent entity	
	2006 $'000	**2005** $'000	**2006** $'000	**2005** $'000
6. OTHER INCOME				
Grant income	391	1,105	–	–
Net Profit on sale of intellectual property	–	–	3,699	–
Net profit on disposal of plant and equipment	7	27	3	43
	398	1,132	3,702	43

(a) Government grants

Government grants recognised as other income by the Group during the financial year comprise $391,000. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

(b) Intellectual property

Ownership of the intellectual property of Adacel Technologies Limited was sold to Adacel Inc from 1 July 2005. The arms length pricing resulted in a profit on the sale within the Parent entity. The transfer of the assets is consistent with the consolidation of the business activities within North America.

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
7. EXPENSES				
Profit/(loss) before income tax includes the following specific expenses:				
Depreciation/amortisation of property, plant & equipment				
Leasehold improvements	25	17	–	–
Furniture, fittings and equipment	569	598	3	25
Motor vehicles	14	6	–	–
	608	621	3	25
Amortisation of intangibles				
Intellectual property	861	866	–	866
	861	866	–	866
Interest and finance charges paid/payable	241	414	740	503
Rental expense relating to operating leases	1,405	1,683	46	372
Net foreign exchange losses/(gains)	(70)	325	4	–
Defined contribution superannuation expense	650	736	70	99
Research and development	615	2,785	–	(4)
Bad and doubtful debts – trade debtors	(16)	(130)	(16)	(130)
Fair value adjustment to inter–company loans [(a)]	–	–	(10,395)	3,157
Provision for diminution of investments in subsidiaries	–	–	1,498	6,983
Fair value adjustment to investments in other entities	–	34	–	34

[(a)] On 1 July 2005 the indebtedness of the non–trading companies within the group to the parent entity as at 30 June 2005 was restructured and this resulted in the write back of the provision for non–recovery of the loans amounting to $10,395,000 (2005 = Nil) to the income statement.

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
8. INCOME TAX				
(a) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit/(loss) from continuing operations before income tax	3,932	(9,080)	9,380	(10,179)
Income tax calculated at applicable tax rates	1,338	(2,468)	2,814	(3,010)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Provision for diminution of investments	–	11	449	2,105
Increase/(decrease) of provision for diminution of intercompany loans	–	–	(7,968)	958
Canadian Federal and Provincial income tax credits	(1,042)	(861)	–	–
Forgiveness of intergroup loans	–	–	5,652	–
Non–deductible interest	434	358	–	–
Non–deductible royalties	–	436	–	–
Other items (net)	16	(284)	1	(3)
Current year tax losses and temporary differences not brought to account	779	3,547	(948)	(50)
Reversal of previously booked tax losses	–	103	–	–
Utilisation of previously unbooked tax losses and research and development tax credits	(2,101)	–	–	–
Income tax under/(over) provided in prior years	(431)	(86)	–	–
Income tax expense/(benefit)	(1,007)	756	–	–

	Consolidated		Parent entity	
	2006 $'000	**2005** $'000	**2006** $'000	**2005** $'000
8. INCOME TAX (CONTINUED)				
(b) Income tax (expense)/benefit				
Current tax	1,438	(842)	–	–
Deferred tax	–	–	–	–
(Under)/over provided in prior years	(431)	86	–	–
	1,007	(756)	–	–
Income tax (expense)/benefit is wholly attributable to continuing operations				
(c) Estimated Unconfirmed Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	40,212	37,415	29,937	24,885
Potential tax benefit at applicable tax rates	12,209	11,420	8,381	7,466
(d) Unrecognised temporary differences				
Temporary differences for which no deferred tax asset or liability has been recognised	10,314	30,886	1,439	7,209
Potential tax benefit at applicable tax rates*	5,991	9,615	432	2,163

* Tax rates applicable are 30%, 31.52%, 34%, 40%.
Tax rates for the prior year are 30%, 31.02%, 34%, 40%.

These are the income tax rates applicable in Australia, Canada, USA and UK.

	Consolidated		Parent entity	
	2006 $'000	**2005** $'000	**2006** $'000	**2005** $'000
9. CURRENT ASSETS – CASH AND CASH EQUIVALENTS				
Current				
Cash at bank and in hand	2,152	4,002	309	888
	2,152	4,002	309	888
(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	2,152	4,002	309	888
Bank overdrafts (note 17)	–	(4,826)	–	–
Balances per statement of cash flows	2,152	(824)	309	888

(b) Cash at bank and in hand

Cash at bank is interest bearing at rates of 2.6% to 4.71%.
Cash at bank is at call.

	Consolidated		Parent entity	
	2006	**2005**	**2006**	**2005**
	$'000	$'000	$'000	$'000
10. CURRENT ASSETS – TRADE & OTHER RECEIVABLES				
Current				
Trade receivables	11,582	10,066	63	165
Provision for doubtful receivables	(42)	(140)	(42)	(140)
	11,540	9,926	21	25
Sundry debtors	645	583	6	16
Security deposits	225	56	15	19
Prepayments	410	616	169	222
	12,820	11,181	211	282

(a) Credit risk

There is no concentration of credit risk with respect to receivables, other than a significant billing to a joint stock government controlled company in Italy. The outstanding debt at balance date is A$5,992,901. The Group has numerous customers, internationally dispersed.

(b) Bad and doubtful trade receivables

The group has recognised a gain of $16,000 (2005: gain $130,000) in respect of bad and doubtful receivables during the year ended 30 June 2006.

(c) Effective interest rates

Details of the group's exposure to interest rate changes on borrowings are set out in note 36.

	Consolidated		Parent entity	
	2006	**2005**	**2006**	**2005**
	$'000	$'000	$'000	$'000
11. CURRENT ASSETS – INVENTORIES				
Current				
Work–in–progress on contracts – at cost	226	758	–	–

	Consolidated		Parent entity	
	2006	**2005**	**2006**	**2005**
	$'000	$'000	$'000	$'000
12. NON–CURRENT ASSETS – RECEIVABLES				
Receivable from subsidiaries	–	–	11,303	39,820
Provision for non–recovery of amounts receivable from subsidiaries	–	–	(9,944)	(36,504)
	–	–	1,359	3,316

(a) Credit risk

There is no concentration of credit risk with respect to receivables, as these are all within the group

(b) Interest rate risk exposure

Details of the group's exposure to interest rate changes is set out in note 36.

(c) Fair Value Disclosures

The carrying amount of the non–current receivables equates to fair value.

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
13. NON–CURRENT ASSETS – OTHER FINANCIAL ASSETS				
(1) Other financial assets at fair value through /profit or Loss				
Non Current				
Unlisted shares – fair value	–	–	–	–

(a) Unlisted shares

Adacel Technologies Limited holds approximately a 47% interest in Logo Media Inc, a company established in the USA for the purpose of Machine Language Translation. The principal activities of the company are internet language translation services. As at 30 June 2006 the cost of this investment was $14,050,000 (2005: $14,050,000). ATL does not have significant influence or control over Logo Media Inc. This company is an unlisted entity and ATL does not have any representation on the board of directors or any direct trading relationship with the entity. Dividends have not been received during the time that the investment has been in place.

Adacel Technologies Ltd also has an investment in IT&T Skills Exchange Pty Ltd for a cost of $150,000 (2005: $150,000) and an investment in Smart Internet Technology CRC for a cost of $346,000 (2005: $346,000). Adacel Technologies Ltd has less than 20% holding in both these entities and does not have control or significant influence.

All of the interests in these entities described above have been fully provided for.

(b) Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the date of transition to these standards on 1 July 2005, for both the Group and the parent entity, equity securities with a cost of $14,546,000 and a carrying value of nil under previous AGAAP, were designated and reclassified as other financial assets at fair value through profit and loss and measured at fair value of nil.

	Notes	Consolidated		Parent entity	
		2006 $'000	2005 $'000	2006 $'000	2005 $'000
(2) Other Financial Assets					
Current					
Cash security deposit held by bank facility provider		1,809	–	–	–
Cash security deposit held by bank against a customer performance guarantee		483	–	–	–
		2,292	–	–	–
Non Current					
Shares in subsidiaries (unlisted) – at cost	30	–	–	24,183	6,997
Provision for diminution		–	–	(8,481)	(6,983)
		–	–	15,702	14

(a) Security Deposits

The security deposits earn interest at the following rates

- Security deposit to the Bank – 2.6%
- Security deposit against performance guarantees – 2.5%

(b) Shares in Subsidiaries

Preference shares have been issued by Adacel Inc ($15,698,000) to satisfy the elimination of the inter–company loan account with the Parent entity.

The Parent company converted the loan to Adacel Technologies Holdings Inc ($1,488,000) into an additional capital payment. This capital injection has been fully provided within the provision for diminution.

14. NON–CURRENT ASSETS – PLANT AND EQUIPMENT

Consolidated	Furniture, fittings & equipment $'000	Motor vehicles $'000	Equipment under finance lease $'000	Leasehold improvements $'000	Total $'000
At 1 July 2004					
Cost	7,648	29	196	776	8,649
Accumulated depreciation/amortisation	(6,397)	(8)	(196)	(694)	(7,295)
Net book amount	1,251	21	–	82	1,354
Year ended 30 June 2005					
Opening net book value	1,251	21	–	82	1,354
Additions	183	–	–	–	183
Disposals	–	–	–	–	–
Depreciation/amortisation expense	(598)	(6)	–	(17)	(621)
Exchange differences	(36)	(1)	–	(2)	(39)
Closing net book amount	800	14	–	63	877
At 30 June 2005					
Cost	7,200	27	170	765	8,162
Accumulated depreciation/amortisation	(6,400)	(13)	(170)	(702)	(7,285)
Net book amount	800	14	–	63	877
Year ended 30 June 2006					
Opening net book value	800	14	–	63	877
Additions	370	120	–	40	530
Disposals	–	–	–	–	–
Depreciation/amortisation expense	(569)	(14)	–	(25)	(608)
Exchange differences	65	–	–	6	71
Closing net book amount	666	120	–	84	870
At 30 June 2006					
Cost	7,687	142	170	263	8,262
Accumulated depreciation/amortisation	(7,021)	(22)	(170)	(179)	(7,392)
Net book amount	666	120	–	84	870

14. NON–CURRENT ASSETS – PLANT AND EQUIPMENT (CONTINUED)

Parent	Furniture, fittings & equipment $'000	Motor vehicles $'000	Equipment under finance lease $'000	Leasehold improve-ments $'000	Total $'000
At 1 July 2004					
Cost	4,357	–	196	573	5,126
Accumulated depreciation/amortisation	(4,357)	–	(196)	(573)	(5,126)
Net book amount	–	–	–	–	–
Year ended 30 June 2005					
Opening net book value	–	–	–	–	–
Additions	25	–	–	–	25
Disposals	–	–	–	–	–
Depreciation/amortisation expense	(25)	–	–	–	(25)
Closing net book amount	–	–	–	–	–
At 30 June 2005					
Cost	4,098	–	170	563	4,831
Accumulated depreciation/amortisation	(4,098)	–	(170)	(563)	(4,831)
Net book amount	–	–	–	–	–
Year ended 30 June 2006					
Opening net book value	–	–	–	–	–
Additions	4	–	–	–	4
Disposals	–	–	–	–	–
Depreciation/amortisation expense	(4)	–	–	–	(4)
Closing net book amount	–	–	–	–	
At 30 June 2006					
Cost	4,018	–	170	–	4,188
Accumulated depreciation/amortisation	(4,018)	–	(170)	–	(4,188)
Net book amount	–	–	–	–	–

(a) Non–current assets pledged as security

Refer to note 20 for information on non–current assets pledged as security by the parent entity and its controlled entities

15. NON–CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated	Core intellectual property $'000	Purchased intellectual property $'000	Total intellectual property $'000	Goodwill $'000	Total $'000
At 1 July 2004					
Cost	21,233	919	22,152	3,610	25,762
Accumulated amortisation	(16,666)	(919)	(17,585)	(3,610)	(21,195)
Net book amount	4,567	–	4,567	–	4,567
Year ended 30 June 2005					
Opening net book value	4,567	–	4,567	–	4,567
Amortisation expense	(866)	–	(866)	–	(866)
Exchange differences	–	–	–	–	–
Closing net book amount	3,701	–	3,701	–	3,701
At 30 June 2005					
Cost	21,037	919	21,956	3,604	25,560
Accumulated depreciation/amortisation	(17,336)	(919)	(18,255)	(3,604)	(21,859)
Net book amount	3,701	–	3,701	–	3,701
Year ended 30 June 2006					
Opening net book value	3,701	–	3,701	–	3,701
Amortisation expense **	(861)	–	(861)	–	(861)
Exchange differences	3	–	3	–	3
Closing net book amount	2,843	–	2,843	–	2,843
At 30 June 2006					
Cost	21,136	919	22,055	3,705	25,760
Accumulated depreciation/amortisation	(18,293)	(919)	(19,212)	(3,705)	(22,917)
Net book amount	2,843	–	2,843	–	2,843

** Amortisation of $861,000 (2005: $866,000) is included in depreciation and amortisation expense in the income statement

15. NON–CURRENT ASSETS – INTANGIBLE ASSETS (CONTINUED)

Parent	Core intellectual property $'000	Purchased intellectual property $'000	Total intellectual property $'000	Goodwill $'000	Total $'000
At 1 July 2004					
Cost	13,376	919	14,295	1,607	15,902
Accumulated amortisation	(8,809)	(919)	(9,728)	(1,607)	(11,335)
Net book amount	4,567	–	4,567	–	4,567
Year ended 30 June 2005					
Opening net book value	4,567	–	4,567	–	4,567
Amortisation expense	(866)	–	(866)	–	(866)
Closing net book amount	3,701	–	3,701	–	3,701
At 30 June 2005					
Cost	13,376	919	14,295	1,607	15,902
Accumulated amortisation	(9,675)	(919)	(10,594)	(1,607)	(12,201)
Net book amount	3,701	–	3,701	–	3,701
Year ended 30 June 2006					
Opening net book value	3,701	–	3,701	–	3701
Disposals	(3,701)	–	(3,701)	–	(3,701)
Closing net book amount	–	–	–	–	–
At 30 June 2006					
Cost	–	919	919	1,607	2,526
Accumulated depreciation/amortisation	–	(919)	(919)	(1,607)	(2,526)
Net book amount	–	–	–	–	–

	Consolidated		Parent entity	
	2006 $'000	**2005** $'000	**2006** $'000	**2005** $'000
16. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES				
Trade Payables	10,078	7,347	1,158	1,465
Other Payables	1,125	733	71	74
	11,203	8,080	1,229	1,539

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
17. CURRENT LIABILITIES – BORROWINGS					
Current					
Bank overdraft		–	4,826	–	–
Finance lease liabilities – secured	20	13	20	13	12
Total Current Borrowings		13	4,846	13	12

(a) Interest rate risk exposure
Details of the group's exposure to interest rate changes on borrowings are set out in note 36.

(b) Fair Value Disclosures
Details of the fair value of the borrowings for the group are set out in note 36.

(c) Security
The finance lease liabilities are hire purchase creditors and are secured against the assets being leased.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
18. CURRENT LIABILITIES – PROVISIONS				
Current				
Employee benefits – Long service leave	33	63	33	63
Contract loss	1,099	990	–	–
Rebates	–	93	–	93
	1,132	1,146	33	156

(a) Contract loss
This represents the value of Government Grant yet to be received against work already performed. Until the grant is received the contract is deemed to be an onerous contract with full provision against the expected contract loss recorded in the financial results.

(b) Rebates
Rebates are no longer paid following the transfer of the business giving rise to this type of transaction. The SAP consultancy business was sold in March 2003, and the rebates provision was set up in the event that this was needed to pay for customer rebates under prior sales agreements. There is no longer any requirement for the provision and this has been reversed in the income statement in 2006.

(c) Movements in provisions
Movements in each class of provision during the financial year, other than employee benefits are set out below.

	Consolidated $'000	Parent entity $'000
Contract loss		
Carrying amount at the beginning of the year	990	–
Foreign exchange impact on opening balance	109	–
Carrying amount at the end of the year	1,099	–
Rebates		
Carrying amount at the beginning of the year	93	93
Unused amounts reversed	(93)	(93)
Carrying amount at the end of the year	–	–

19. NON–CURRENT LIABILITIES – PAYABLES	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Employee benefits – Other payables	–	509	–	264
	–	509	–	264

20. NON–CURRENT LIABILITIES – BORROWINGS	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
FINANCING ARRANGEMENTS				
Bank facilities				
Overdraft	5,790	9,644	–	–
Guarantees	4,146	3,698	–	–
Credit card	299	109	10	–
	10,235	13,450	10	–
Bank facilities used at balance date				
Overdraft	–	4,826	–	–
Guarantees	3,905	2,643	–	–
Credit card	15	–	–	–
	3,920	7,469	–	–
Bank facilities unused at balance date				
Overdraft	5,790	4,818	–	–
Guarantees	241	1,054	–	–
Credit card	284	109	10	–
	6,315	5,981	10	–

The Royal Bank of Canada has provided the company a facility for up to $5 million Canadian Dollars. Access to the facility is governed by pre–agreed covenants with the bank and is repayable on demand. The facility is secured by a fixed and floating charge over the assets and undertakings of Adacel Inc (Canadian operating entity) and by a $1.5 million Canadian Dollars security deposit. Adacel Technologies Limited (the parent entity) and the other North American entities (being Adacel Systems Inc, Adacel Technologies Holdings Inc and Adacel Technologies Inc) have also agreed to provide a guarantee to the bank for the facility.

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

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Secured				
Lease liabilities	109	115	102	115
	109	115	102	115

(a) Interest rate risk exposure
Details of the group's exposure to interest rate changes is set out in note 36.

(b) Security
The finance lease liabilities are hire purchase creditors and are secured against the assets being leased.

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
21. NON–CURRENT LIABILITIES – PROVISIONS				
Employee benefits – Long service leave	128	268	128	268
	128	268	128	268

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
22. CONTRIBUTED EQUITY				
(a) Share capital				
Ordinary shares	79,200	79,200	79,200	79,200

(b) Movements in ordinary share capital

Date	Details	Number of Shares	Issue Price	$'000
1 July 2004	Balance	65,843,273		73,103
19 January 2005	Non renounceable rights issue	21,685,251	$0.30	6,506
	Less : transaction costs arising on share issues			(409)
30 June 2005	Balance	87,528,524		79,200
	Movement in Share capital for the year	–		–
30 June 2006	Balance	87,528,524		79,200

(c) Share options

(i)At the end of the year there were 8,107,000 unissued ordinary shares under the Staff Share Option Plan.

(ii)At the end of the year there were 300,000 unissued ordinary shares under option to the chairman of the Board of Directors following approval by the shareholders at the Annual General Meeting on the 19 November 2004.

(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 Staff Share Option Plan are disclosed in note 35.

Chairman's Options

The terms and conditions of the options issued to the Chairman are disclosed in note 35.

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
23. RESERVES AND RETAINED PROFITS / ACCUMULATED LOSSES					
(a) Retained profits/(Accumulated losses)					
Retained profits/(accumulated losses)		(67,738)	(72,677)	(63,775)	(73,155)
Movements in retained profits/(accumulated losses) were as follows:					
Balance at the beginning of the year		(72,677)	(62,841)	(73,155)	(62,976)
Net profit/(loss) for the year		4,939	(9,836)	9,380	(10,179)
Balance at the end of the year		(67,738)	(72,677)	(63,775)	(73,155)
(b) Reserves					
Property, land and equipment revaluation reserve		10	10	10	10
Foreign currency translation reserve		217	(265)	–	–
Share–based payments reserve		640	213	640	213
		867	(42)	650	223

(1) Property, land and equipment revaluation reserve

(i) Nature and purpose of reserve

The property, land and equipment revaluation reserve is used to record increments and decrements in the value of non–current assets. The reserve can only be used to pay dividends in limited circumstances as permitted by law.

(ii) Movements in reserve

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Balance at the beginning and end of the year		10	10	10	10

(2) Foreign currency translation reserve

(i) Nature and purpose of reserve

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

(ii) Movements in reserve

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Balance at the beginning of the year		(265)	–	–	–
Currency translation differences arising during the year		482	(265)	–	–
Balance at the end of the year		217	(265)	–	–

(3) Share–based payments reserve

(i) Nature and purpose of reserve

The share–based payments reserve is used to recognise the fair value of options issued but not exercised.

(ii) Movements in reserve

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Balance at the beginning of the year		213	66	213	66
Option expense	35	427	147	427	147
Balance at the end of the year		640	213	640	213

24. DIVIDENDS

(a) Ordinary shares
No dividends were provided for or paid during the current or prior financial years.

(b) 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.

25. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors
The following persons were Directors of Adacel Technologies Limited during the financial year:

Chairman – non–executive
Julian Beale

Executive director
Silvio Salom (Managing Director until 16 June 2006)

Non–executive directors
Kevin Courtney
Silvio Salom (from 17 June 2006)
David Smith
Alex Waislitz
Peter Landos (alternate to Alex Waislitz)

Since 30 June 2006, no changes have occurred.

(b) Other key management personnel
The following persons were the executives with the greatest authority for the strategic direction and management of the consolidated entity ("specified executives") during the financial year:

Name	Position	Employer
Georges Ata	Vice President – Engineering and Operations	Adacel Inc
Seth Brown	Chief Financial Officer – North America	Adacel Systems Inc
Mark Creasap	Vice President – US Simulation & Training – North America	Adacel Systems Inc
William Lang	Senior Vice President – Air Traffic Management & International Operation and General Manager – Canada	Adacel Inc
Gary Pearson	Vice President – Advanced Programs – North America	Adacel Systems Inc
Steve Piller	Senior Vice President – Business Development – North America	Adacel Systems Inc
Fred Sheldon	Chief Executive Officer – North America	Adacel Systems Inc
Michael Woodgate	Company Secretary	Adacel Technologies Limited
Michael Smith	Group Chief Financial Officer and Company Secretary	Adacel Technologies Limited
Errol Turner	Group Chief Financial Officer and Company Secretary	Adacel Technologies Limited

Seth Brown, Mark Creasap, William Lang, Gary Pearson and Fred Sheldon were specified executives during the whole of the current and prior financial years.

Georges Ata, has been included as a specified executive for the current year following the termination of employment of Yves Gosselin, who was a specified executive during the prior financial year.

On 6 September 2005, Steve Piller commenced employment as Senior Vice–President – Business Development of Adacel's North American operations. This position has been classified as a "specified executive".

Effective 31 December 2005, Errol Turner ceased to provide contracting services to the company as the Group Chief Financial Officer and Company Secretary.

Effective 1 January 2006, Michael Smith was promoted to the position of Group Chief Financial Officer and Company Secretary. This position has been classified as a "specified executive". Effective 19 May 2006, Michael Smith ceased employment with the company.

Effective 19 June 2006, the company entered into a consulting agreement with Mr. Salom. The agreement provides for assistance in identifying business opportunities in relation to specific business customers in Australia. The agreement is to provide services on a 1 day per week basis, and the fee for the service is $1,500 per day.

25. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Effective 20 May 2006 Michael Woodgate was appointed to the position of Company Secretary. This position has been classified as a "specified executive".

(c) Key management personnel compensation

	Consolidated		Parent entity	
	2006	**2005**	**2006**	**2005**
	$	$	$	$
Short–term employee benefits	2,911,192	2,098,840	931,602	686,867
Post–employment benefits	80,930	84,197	26,507	30,108
Share–based payments	417,892	41,842	28,672	33,052
Other	210,858	521,799	210,858	63,858
	3,620,872	2,746,678	1,197,639	813,885

The company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A – C of the remuneration report on pages 5 to 11.

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options.

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on pages 11 to 13.

(ii) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Adacel Technologies Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2006

Name	Balance at the start of the year	Granted during the year as remune–ration	Became a specified executive during the year	Exercised during the year	Lapsed during the year	Ceased to be a specified executive during the year	Balance at the end of the year	Vested at the reporting date	Vested and exercis-able at the reporting date	Vested and unexer–cisable at the reporting date
Directors of Adacel Technologies limited										
Julian Beale	445,719	–	–	–	(145,719)	–	300,000	300,000	300,000	–
Kevin Courtney	–	–	–	–	–	–	–	–	–	–
Silvio Salom	74,000	–	–	–	(37,000)	–	37,000	37,000	–	37,000
David Smith	–	–	–	–	–	–	–	–	–	–
Alex Waislitz	–	–	–	–	–	–	–	–	–	–
Peter Landos	–	–	–	–	–	–	–	–	–	–
Other key management personnel of the group										
Georges Ata	–	200,000	4,000	–	–	–	204,000	54,000	50,000	4,000
Seth Brown	500,000	500,000	–	–	–	–	1,000,000	750,000	400,000	350,000
Mark Creasap	16,000	200,000	–	–	–	–	216,000	116,000	100,000	16,000
William Lang	44,000	200,000	–	–	(22,000)	–	222,000	122,000	100,000	22,000
Lionel Léveillé	374,000	–	–	–	–	(374,000)	–	–	–	–
Gary Pearson	8,000	200,000	–	–	–	–	208,000	108,000	100,000	8,000
Steve Piller	–	1,000,000	–	–	–	–	1,000,000	500,000	150,000	350,000
Fred Sheldon	1,250,000	1,750,000	–	–	–	–	3,000,000	1,875,000	625,000	1,250,00
Michael Woodgate	–	–	–	–	–	–	–	–	–	–
Michael Smith	–	300,000	66,000	–	(150,000)	(216,000)	–	–	–	–
Errol Turner	500,000	–	–	–	(300,000)	(200,000)	–	–	–	–

25. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

2005

Name	Balance at the start of the year	Granted during the year as remune–ration	Became a specified executive during the year	Exercised during the year	Lapsed during the year	Ceased to be a specified executive during the year	Balance at the end of the year	Vested at the reporting date	Vested and exercis-able at the reporting date	Vested and unexer–cisable at the reporting date
Directors of Adacel Technologies limited										
Julian Beale	145,719	300,000	–	–	–	–	445,719	295,719	295,719	–
Kevin Courtney	–	–	–	–	–	–	–	–	–	–
Silvio Salom	74,000	–	–	–	–	–	74,000	–	–	–
David Smith	–	–	–	–	–	–	–	–	–	–
Alex Waislitz	–	–	–	–	–	–	–	–	–	–
Peter Landos	–	–	–	–	–	–	–	–	–	–
Other key management personnel of the group										
Seth Brown	–	500,000	–	–	–	–	500,000	–	–	–
Mark Creasap	16,000	–	–	–	–	–	16,000	–	–	–
William Lang	44,000	–	–	–	–	–	44,000	–	–	–
Lionel Léveillé	374,000	–	–	–	–	–	374,000	–	–	–
Gary Pearson	8,000	–	–	–	–	–	8,000	–	–	–
Fred Sheldon	–	1,250,000	–	–	–	–	1,250,000	–	–	–
Errol Turner	500,000	–	–	–	–	–	500,000	70,000	70,000	–

25. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(iii) Share holdings

The numbers of ordinary shares in the company held during the financial year by each Director of Adacel Technologies Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2006

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	Ceased to be an employee during the year	Balance at the end of the year
Directors of Adacel Technologies limited							
Julian Beale	1,816,867	–	–	–	–	–	1,816,867
Kevin Courtney	–	–	–	–	–	–	–
Silvio Salom	14,496,659	–	–	–	–	–	14,496,659
David Smith	10,060,558	–	–	–	–	–	10,060,558
Alex Waislitz	–	–	–	–	–	–	–
Peter Landos	–	–	–	–	–	–	–
Other key management personnel of the group							
Georges Ata	–	–	–	–	–	–	–
Seth Brown	–	–	–	–	–	–	–
Mark Creasap	–	–	–	–	–	–	–
William Lang	–	–	–	–	–	–	–
Gary Pearson	–	–	–	–	–	–	–
Steve Piller	–	–	–	–	–	–	–
Fred Sheldon	100,000	–	–	–	–	–	100,000
Michael Woodgate	15,500	–	–	–	–	–	15,500
Michael Smith	–	–	–	–	–	–	–
Errol Turner	–	–	–	–	–	–	–

2005

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	Ceased to be an employee during the year	Balance at the end of the year
Directors of Adacel Technologies limited							
Julian Beale	910,078	–	–	906,789	–	–	1,816,867
Kevin Courtney	–	–	–	–	–	–	–
Silvio Salom	10,852,493	–	–	3,624,166	–	–	14,496,659
David Smith	7,774,939	–	–	2,285,619	–	–	10,060,558
Alex Waislitz	–	–	–	–	–	–	–
Peter Landos	–	–	–	–	–	–	–
Other key management personnel of the group							
Seth Brown	–	–	–	–	–	–	–
Mark Creasap	–	–	–	–	–	–	–
William Lang	–	–	–	–	–	–	–
Gary Pearson	–	–	–	–	–	–	–
Steve Piller	–	–	–	–	–	–	–
Fred Sheldon	100,000	–	–	–	–	–	100,000
Errol Turner	–	–	–	–	–	–	–

25. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(e) Loans to 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 key management personnel of the Group.

No such loans were made during the previous year.

(f) Other transactions with directors and executives

During the financial year, no transactions were entered into between Adacel Technologies Limited or any of its subsidiaries and any director of Adacel Technologies Limited or any of the specified executives of the consolidated entity, including their personally–related entities; other than those set out below. At 30 June 2006, there are no payable or receivable balances outstanding relating to other transactions.

Alex Waislitz is the Executive Chairman of the Thorney Investment Group. A member of the Thorney Investment Group, namely Thorney Holdings Pty Ltd, is a major shareholder of Adacel Technologies Limited. During the year ended 30 June 2006, Thorney Holdings Pty Ltd acquired no on–market ordinary shares in Adacel Technologies Limited on normal commercial terms and conditions. As at 30 June 2006, Thorney Holdings Pty Ltd holds 28,107,712 ordinary shares in Adacel Technologies Limited (2005: 28,107,712).

Invia Custodian Pty Ltd is a custodial entity which holds a number of shares for the Thorney Investment Group as nominee. During the year ended 30 June 2006, Invia Custodian Pty Ltd acquired on–market 2,316,255 ordinary shares in Adacel Technologies Limited on normal commercial terms and conditions. As at 30 June 2006, Invia Custodian Pty Ltd holds 4,296,325 ordinary shares in Adacel Technologies Limited (2005: 1,980,070).

	Consolidated		Parent entity	
	2006 $	2005 $	2006 $	2005 $
26. REMUNERATION OF AUDITORS				
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, and its related practices:				
Assurance services				
(a) Audit services				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	119,375	147,900	119,375	147,900
Related practices of PricewaterhouseCoopers Australian firm	232,282	332,511	–	–
Total remuneration for audit services	351,657	480,411	119,375	147,900
(b) Other assurance services				
PricewaterhouseCoopers Australian firm				
AIFRS related services	13,585	50,100	13,585	50,100
Other services	10,115	–	10,115	–
Related practices of PricewaterhouseCoopers Australian firm	16,908	–	–	–
Total remuneration for other assurance services	40,608	50,100	23,700	50,100
Total remuneration for assurance services	392,265	530,511	143,075	198,000
Taxation services				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns, international tax consulting and tax advice on group structuring	342,122	152,920	342,122	152,920
Related practices of PricewaterhouseCoopers Australian firm	273,033	51,835	–	–
Total remuneration for taxation services	615,155	204,755	342,122	152,920

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally 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.

27. CONTINGENCIES

As at 30 June 2006, the parent entity, Adacel Technologies Limited, will continue to provide financial support to subsidiaries that are in a net liability position.

Guarantees of $3,904,899 (2005: $2,643,000) have been given to banks and customers in relation to contract warranty and performance and in relation to rental of properties.

In the process of prosecuting a claim against one of its debtors, a counterclaim was lodged against the company during a previous year. The company has denied liability and is vigorously defending the action and believes that the likelihood of any significant liability is remote. At balance date, the counterclaim has been discontinued. The debtor is now in liquidation.

A claim has been lodged against the company during the year from a vendor of a business acquisition made several years ago. This claim is currently in arbitration and the company is vigorously defending the action and an estimate of any potential financial effect is not practicable at this stage.

Adacel Technologies Limited is the holder of a lease over offices at 268 Bay Street, North Brighton, which is occupied by a third party tenant who is paying the rent and outgoings directly to the lessor. In the event that the tenant defaults, ATL would become responsible for the costs of this premises until expiry of the lease on 9 November 2006.

	Consolidated		Parent entity	
	2006 $'000	**2005** $'000	**2006** $'000	**2005** $'000
28. COMMITMENTS				
(a) Operating leases expenditure commitments				
Commitments for minimum lease payments in relation to non–cancellable operating leases are payable as follows:				
Within one year	1,318	1,244	54	48
Later than one year and not later than 5 years	1,549	2,536	12	58
Later than 5 years	–	–	–	–
Commitments not recognised in the financial statements	2,867	3,780	66	106
The above operating lease commitments are for the rental of offices and for various office and computer equipment.				
(b) Finance leases expenditure commitments				
Commitments in relation to finance leases are payable as follows:				
Within one year	21	33	21	21
Later than one year and not later than 5 years	114	126	105	126
Later than 5 years	–	–	–	–
Total minimum lease payments	135	159	126	147
Future finance charges	(13)	(24)	(11)	(20)
Total lease liabilities	122	135	115	127
Representing lease liabilities for:				
Current (note 17)	13	20	13	12
Non–current (note 20)	109	115	102	115
Total lease liabilities	122	135	115	127

The above finance lease commitments are for various office and computer equipment and a motor vehicle.

The group has not entered into any non–cancellable capital expenditure or leasing commitments at the date of this report

(c) Remuneration Commitments

Commitments arising from service contracts of key management personnel are detailed in section C of the remuneration report.

29. RELATED PARTY TRANSACTIONS

(a) Parent entity

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

(b) Subsidiaries

Interests in subsidiaries are disclosed in note 30.

(c) Directors and specified executives

Disclosures relating to directors and specified executives are set out in note 25.

(d) Transactions with related parties

The following transactions occurred with related entities:

	Consolidated		Parent entity	
	2006	2005	2006	2005
	$	$	$	$
Issue of shares by subsidiaries to the parent entity	–	–	(17,186,128)	–
Loans to subsidiaries forgiven by the parent entity	–	–	(16,163,987)	–
Cash advanced by the parent entity to subsidiaries	–	–	155,390	5,269,274
Cash advanced by subsidiaries to the parent entity	–	–	(2,903,064)	(8,887,846)
Cash received by subsidiaries on behalf of the parent entity	–	–	–	108,561
Cash received by the parent entity on behalf of subsidiaries	–	–	–	(838,059)
Payments made by the parent entity on behalf of subsidiaries	–	–	491,422	867,472
Payments made by subsidiaries on behalf of the parent entity	–	–	(54,648)	(29,085)
Sales of services by the parent entity to subsidiaries	–	–	70,499	157,715
Sale of IP to subsidiaries by the parent entity	–	–	7,400,000	–
Reversal of provision for/(provision for) non–recovery of amounts loaned to subsidiaries	–	–	26,560,000	(3,191,000)
Interest charged/(reversed) by the parent entity to subsidiaries	–	–	(743,223)	2,670,755
Interest charged by subsidiaries to the parent entity	–	–	–	(97,951)
Royalties charged/(reversed) by the parent entity to subsidiaries	–	–	(113,000)	283,070
Management fees charged by the parent entity to subsidiaries	–	–	588,458	1,343,189

(e) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated 2006 $	Consolidated 2005 $	Parent entity 2006 $	Parent entity 2005 $
Receivables (non–current) – amounts loaned to subsidiaries	–	–	11,302,837	39,819,868
Receivables (non–current) – provision for non–recovery of amounts loaned to subsidiaries	–	–	(9,944,000)	(36,504,000)
	–	–	1,358,837	3,315,868

(f) 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 average interest rate on the intercompany loans during the year was 7.0% (2005: 8.6%). Trade payables and receivables are interest free.

30. 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).

Name of entity	Country of incorporation	Class of shares	Equity holding* 2006 % held	Equity holding* 2005 % held
Adacel Multimedia Pty Ltd	Australia	Ordinary	100	100
Rami Logistics Pty Ltd	Australia	Ordinary	100	100
Brightstar Consulting Services Pty Ltd	Australia	Ordinary	100	100
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 Technologies (Europe) Ltd	UK	Ordinary	100	100

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

31. EVENTS OCCURING AFTER REPORTING DATE

There were no significant events subsequent to balance date.

32. RECONCILIATION OF PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Operating Profit/(loss) from ordinary activities after income tax	4,939	(9,836)	9,380	(10,179)
Non–cash items:				
Depreciation and amortisation	1,469	1,487	3	891
Net (profit)/loss on sale of businesses	–	(34)	–	–
Net (profit)/loss on sale of plant and equipment	(7)	(27)	(3)	(27)
Net (profit)/loss on sale of intellectual property	–	–	(3,699)	–
Provision for doubtful debts	(16)	(130)	(16)	(130)
Fair value adjustment to investments in other entities	–	34	–	34
Provision for diminution of investments in subsidiaries	–	–	1,498	6,983
Provision for/(reversal of provision for) non–recovery of intercompany loans	–	–	(10,395)	3,191
Employee share options expense	427	147	427	147
Net exchange differences	(70)	325	4	(16)
Changes in assets and liabilities:				
(Increase)/decrease in trade receivables and accrued revenue	(3,536)	8,378	315	550
(Increase)/decrease in other receivables and other assets	2	(1,048)	10	1
(Increase)/decrease in inventory	591	6,191	–	–
(Increase)/decrease in prepayments	242	283	53	299
(Increase)/decrease in deferred tax assets and liabilities and tax payable	(237)	1,180	–	–
(Increase)/decrease in investments	–	(34)	–	(34)
Increase/(decrease) in trade and other creditors	1,699	(12,013)	(542)	(1,607)
Increase/(decrease) in employee benefits provisions	(171)	(122)	(171)	(101)
Increase/(decrease) in other provisions	64	978	–	(1)
Increase/(decrease) in advanced payments from customers	516	1,057	–	(17)
(Increase)/decrease in intercompany loans	–	–	254	(4,293)
Net cash inflow/(outflow) from operating activities	5,912	(3,184)	(2,882)	(4,309)

33. NON–CASH INVESTING AND FINANCING ACTIVITIES

There were no non–cash investing and financing activities during the years ended 30 June 2006 and 2005.

	Consolidated	
	2006	**2005**
34. EARNINGS PER SHARE		
Basic earnings/(loss) per share (cents per share)	5.6	(13.0)
Diluted earnings/(loss) per share (cents per share)	5.6	(13.0)
(a) Reconciliations of earnings used in calculating earnings per share	$'000	$'000
Basic earnings per share		
Profit / (loss) from continuing operations	4,939	(9,836)
Profit / (loss) attributable to the ordinary equity holders of the company used in calculating basic earnings per share	4,939	(9,836)
Diluted earnings per share		
Profit / (loss) from continuing operations	4,939	(9,836)
Profit / (loss) attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	4,939	(9,836)
(b) Weighted average number of ordinary shares used as the denominator	shares	shares
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	87,528,524	75,646,195
Adjustments for calculation of diluted earnings per share		
Options	183,680	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	87,712,204	75,646,195

(c) Information concerning the classification of securities

(i) Staff Share Option Plan

Staff Share Option Plan options are considered to be potential ordinary shares. For the year ended 30 June 2006, these options have been included in the determination of diluted earnings per share to the extent to which they are dilutive. For the year ended 30 June 2005, these options were not included in the determination of diluted earnings per share, because their inclusion would decrease the net loss per share. These options have not been included in the determination of basic earnings per share for the year ended 30 June 2006 and 2005. Details of the options are set out in note 35.

(ii) Chairman's Options

The Chairman's options are considered to be potential ordinary shares. For the year ended 30 June 2006, these options have been included in the determination of diluted earnings per share to the extent to which they are dilutive. For the year ended 30 June 2005, these options were not included in the determination of diluted earnings per share, because their inclusion would decrease the net loss per share. These options have not been included in the determination of basic earnings per share for the year ended 30 June 2006 and 2005. Details of the options are set out in note 35.

(d) Conversions, calls, subscription or issues after 30 June 2006

Holders of option certificates have not exercised any options to acquire ordinary shares since 30 June 2006. Since the end of the year, 21,000 options have been issued and 76,000 options have lapsed.

35. SHARE–BASED PAYMENTS

(a) Staff Share Option Plan

The Staff Share Option Plan was approved by the shareholders at the Annual General Meeting on the 15 November 2000. Under this plan, Directors can issue options (up to 10% of the company's issued capital) to eligible employees. The Directors have the discretion as to the number of options to be issued and exercise periods. The options are issued for no consideration from Directors or employees. The options are not listed. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

Staff Share Option Plan options may be issued with conditions precedent to the options vesting. The conditions precedent for the options on issue are one of the following:

(i) Set time periods are achieved (the anniversary dates); and
On the anniversary date or any subsequent date, the weighted average sale price of all ordinary shares in the capital of the company sold on ASX during the 5 trading days immediately preceding that date or any subsequent date is determined to be at least 15% higher on an annual compound basis than the exercise price of the options. Once this price threshold is achieved, a subsequent fall in the company's share price will not affect the right to exercise the options.

(ii) Set time periods are achieved.

(iii) The company's share price is greater than or equal to the exercise price plus a pre agreed amount for a period of 10 consecutive days; and for a period of 90 days thereafter, the average share price is greater than or equal to the exercise price plus a pre agreed amount. Once this price threshold is achieved, a subsequent fall in company's share price will not affect the right to exercise the options.

(iv) The achievement of the fiscal year EBITDA as set forth in the Board approved annual budget.

In the event of the resignation, redundancy or termination of employment of an option holder, the options issued under the Staff Share Option Plan lapse immediately, unless the Directors, at their absolute discretion, determine otherwise.

During the year ended 30 June 2006 no options were exercised, 4,461,000 options were issued and 1,170,000 options lapsed.

Future issues to eligible employees will be made quarterly. There are currently 141 employees eligible under the plan.

35. SHARE–BASED PAYMENTS (CONTINUED)

Set out below is a reconciliation of options on issue under the plan:

Plan	Exercise Price $	No of Options on Issue at 30 June 2005	Issued	Exercised	Lapsed	No of Options on Issue at 30 June 2006	Issue Date	Expiry Date
Staff Share Option Plan	$1.44	878,000	–	–	(878,000)	–	11 May 2001	11 May 2006
Staff Share Option Plan	$1.62	11,000	–	–	(3,000)	8,000	19 July 2001	19 July 2006
Staff Share Option Plan	$1.05	28,000	–	–	(9,000)	19,000	1 November 2001	1 November 2006
Staff Share Option Plan	$1.05	100,000	–	–	–	100,000	12 November 2001	12 November 2006
Staff Share Option Plan	$1.02	136,000	–	–	(6,000)	130,000	25 February 2002	25 February 2007
Staff Share Option Plan	$1.00	100,000	–	–	–	100,000	25 February 2002	25 February 2007
Staff Share Option Plan	$0.91	337,000	–	–	(14,000)	323,000	5 April 2002	5 April 2007
Staff Share Option Plan	$0.90	500,000	–	–	–	500,000	2 May 2002	2 May 2007
Staff Share Option Plan	$0.89	88,000	–	–	(8,000)	80,000	5 July 2002	5 July 2007
Staff Share Option Plan	$0.66	52,000	–	–	(17,000)	35,000	4 October 2002	4 October 2007
Staff Share Option Plan	$0.58	200,000	–	–	–	200,000	11 November 2002	11 November 2007
Staff Share Option Plan	$0.81	60,000	–	–	(9,000)	51,000	10 January 2003	10 January 2008
Staff Share Option Plan	$1.00	100,000	–	–	–	100,000	25 February 2003	25 February 2008
Staff Share Option Plan	$0.71	75,000	–	–	(6,000)	69,000	4 April 2003	4 April 2008
Staff Share Option Plan	$0.75	62,000	–	–	(2,000)	60,000	4 July 2003	4 July 2008
Staff Share Option Plan	$0.75	35,000	–	–	(13,000)	22,000	3 October 2003	3 October 2008
Staff Share Option Plan	$0.85	32,000	–	–	(4,000)	28,000	9 January 2004	9 January 2009
Staff Share Option Plan	$1.00	100,000	–	–	–	100,000	25 February 2004	25 February 2009
Staff Share Option Plan	$0.66	73,000	–	–	(11,000)	62,000	2 April 2004	2 April 2009
Staff Share Option Plan	$0.45	63,000	–	–	(14,000)	49,000	4 July 2004	4 July 2009
Staff Share Option Plan	$0.39	15,000	–	–	(8,000)	7,000	1 October 2004	1 October 2009
Staff Share Option Plan	$0.60	1,250,000	–	–	–	1,250,000	1 October 2004	1 October 2009
Staff Share Option Plan	$0.31	3,000	–	–	(3,000)	–	7 January 2005	7 January 2010
Staff Share Option Plan	$0.60	500,000	–	–	–	500,000	17 January 2005	17 January 2010
Staff Share Option Plan	$0.33	18,000	–	–	(6,000)	12,000	1 April 2005	1 April 2010
Staff Share Option Plan	$0.26	–	23,000	–	(8,000)	15,000	1 July 2005	1 July 2010
Staff Share Option Plan	$0.60	–	500,000	–	–	500,000	5 September 2005	5 September 2010
Staff Share Option Plan	$0.24	–	6,000	–	(1,000)	5,000	7 October 2005	7 October 2010
Staff Share Option Plan	$0.35	–	1,500,000	–	–	1,500,000	20 November 2005	20 November 2010
Staff Share Option Plan	$0.35	–	150,000	–	–	150,000	20 November 2005	19 May 2007
Staff Share Option Plan	$0.60	–	1,650,000	–	(150,000)	1,500,000	20 November 2005	20 November 2010
Staff Share Option Plan	$0.42	–	4,000	–	–	4,000	6 January 2006	6 January 2011
Staff Share Option Plan	$0.50	–	28,000	–	–	28,000	7 April 2006	7 April 2011
Staff Share Option Plan	$0.60	–	600,000	–	–	600,000	28 April 2006	28 April 2011
		4,816,000	4,461,000	–	(1,170,000)	8,107,000		
Weighted average exercise price		$0.87	$0.50	Nil	$1.24	$0.61		

Weighted average exercise price

The weighted average share price at the date of exercise of options during the period was $nil. No options were exercised during the year ended 30 June 2006.

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.4 years (2005 – 2.8 years).

Total number of options that have met the conditions precedent as described above, and as a result have vested as at 30 June 2006 is 5,653,000.

35. SHARE–BASED PAYMENTS (CONTINUED)

Fair value of options granted

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables shown in the Directors report. The fair value at grant date is independently determined using a Black–Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non–tradeable nature of the option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk–free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2006 included:

Option Type PP

(a) granted for no consideration,
(b) have a 5 year life,
(c) 50% of each tranche vests after each of the first two anniversaries of the date of grant. The options are exercisable provided that the 5 Day weighted average sale price of ordinary shares has achieved a 15% increase on an annual compound basis at any date on or after the vesting date.
(d) exercise price: $0.26
(e) grant date: 01 Jul 2005
(f) expiry date: 01 Jul 2010
(g) share price at grant date: $0.30
(h) expected price volatility of the company's shares: 47%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 5.07%

Option Type QQ

(a) granted for no consideration,
(b) have a 5 year life,
(c) 150,000 vests and is exercisable after achieving each years Board Approved EBITDA, with no more than 500,000 able to vest over the 5 years.
(d) exercise price: $0.60
(e) grant date: 05 Sep 2005
(f) expiry date: 05 Sep 2010
(g) share price at grant date: $0.24
(h) expected price volatility of the company's shares: 47%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 4.96%

Option Type RR

(a) granted for no consideration,
(b) have a 5 year life,
(c) 50% of each tranche vests after each of the first two anniversaries of the date of grant. The options are exercisable provided that the 5 day weighted average sale price of ordinary shares has achieved a 15% increase on an annual compound basis at any date on or after the vesting date.
(d) exercise price: $0.24
(e) grant date: 07 Oct 2005
(f) expiry date: 07 Oct 2010
(g) share price at grant date: $0.25
(h) expected price volatility of the company's shares: 41%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 5.32%

35. SHARE–BASED PAYMENTS (CONTINUED)

Option Type SS/TT

(a) granted for no consideration,
(b) have a 5 year life,
(c) tranche 1 (50%) vests and is exercisable immediately and tranche 2 (50%) vests and is exercisable on 31 Dec 2006.
(d) exercise price: tranche 1 $0.35, tranche 2 $0.60
(e) grant date: 20 Nov 2005
(f) expiry date: 20 Nov 2010
(g) share price at grant date: $0.35
(h) expected price volatility of the company's shares: 41%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 5.31%

Option Type UU/VV/WW/XX

(a) granted for no consideration,
(b) have a 5 year life,
(c) tranche 1 (50%) vests and is exercisable 12 months after employment date and tranche 2 (50%) vests and is exercisable 27 months after employment date.
(d) exercise price: tranche 1 $0.35, tranche 2 $0.60
(e) grant date: 20 Nov 2005
(f) expiry date: 20 Nov 2010
(g) share price at grant date: $0.35
(h) expected price volatility of the company's shares: 41%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 5.31%

Option Type YY

(a) granted for no consideration,
(b) have a 5 year life,
(c) 50% of each tranche vests after each of the first two anniversaries of the date of grant. The options are exercisable provided that the 5 day weighted average sale price of ordinary shares has achieved a 15% increase on an annual compound basis at any date on or after the vesting date.
(d) exercise price: $0.42
(e) grant date: 06 Jan 2006
(f) expiry date: 06 Jan 2011
(g) share price at grant date: $0.42
(h) expected price volatility of the company's shares: 48%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 5.16%

Option Type ZZ

(a) granted for no consideration,
(b) have a 5 year life,
(c) 50% of each tranche vests after each of the first two anniversaries of the date of grant. The options are exercisable provided that the 5 day weighted average sale price of ordinary shares has achieved a 15% increase on an annual compound basis at any date on or after the vesting date.
(d) exercise price: $0.50
(e) grant date: 07 Apr 2006
(f) expiry date: 07 Apr 2011
(g) share price at grant date: $0.48
(h) expected price volatility of the company's shares: 53%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 5.50%

35. SHARE–BASED PAYMENTS (CONTINUED)

Option Type AAA

(a) granted for no consideration,
(b) have a 5 year life,
(c) 100% vests and is exercisable on the anniversary of the date of grant,
(d) exercise price: $0.60
(e) grant date: 28 Apr 2006
(f) expiry date: 28 Apr 2011
(g) share price at grant date: $0.51
(h) expected price volatility of the company's shares: 53%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 5.67%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

The model inputs for options granted during the previous year ended 30 June 2005 were:

Option Type J

(a) granted for no consideration,
(b) have a 5 year life,
(c) 100% vests on the second anniversary of the date of grant. The options are exercisable provided that the 5 day weighted average sale price of ordinary shares has achieved a 15% increase on an annual compound basis at any date on or after the vesting date.
(d) exercise price: $0.45
(e) grant date: 04 Jul 2004
(f) expiry date: 04 Jul 2009
(g) share price at grant date: $0.51
(h) expected price volatility of the company's shares: 48%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 5.69%

Option Type X

(a) granted for no consideration,
(b) have a 5 year life,
(c) 50% of each tranche vests after each of the first two anniversaries of the date of grant. The options are exercisable provided that the 5 day weighted average sale price of ordinary shares has achieved a 15% increase on an annual compound basis at any date on or after the vesting date.
(d) exercise price: $0.45
(e) grant date: 04 Jul 2004
(f) expiry date: 04 Jul 2009
(g) share price at grant date: $0.51
(h) expected price volatility of the company's shares: 48%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 5.69%

Option Type Y

(a) granted for no consideration,
(b) have a 5 year life,
(c) 50% of each tranche vests after each of the first two anniversaries of the date of grant. The options are exercisable provided that the 5 day weighted average sale price of ordinary shares has achieved a 15% increase on an annual compound basis at any date on or after the vesting date.
(d) exercise price: $0.39
(e) grant date: 01 Oct 2004
(f) expiry date: 01 Oct 2009
(g) share price at grant date: $0.38
(h) expected price volatility of the company's shares: 48%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 5.32%

35. SHARE–BASED PAYMENTS (CONTINUED)

Option Type MM

(a) granted for no consideration,
(b) have a 5 year life,
(c) 100% vest immediately. 20% are exercisable once the average share price stays at or above $1.60 for 10 consecutive days and the average price is above $1.60 for any period of 90 days thereafter. 20% are exercisable once the average share price stays at or above $2.60 for 10 consecutive days and the average price is above $2.60 for any period of 90 days thereafter. 20% are exercisable once the average share price stays at or above $3.60 for 10 consecutive days and the average price is above $3.60 for any period of 90 days thereafter. 20% are exercisable once the average share price stays at or above $4.60 for 10 consecutive days and the average price is above $4.60 for any period of 90 days thereafter. 20% are exercisable once the average share price stays at or above $5.60 for 10 consecutive days and the average price is above $5.60 for any period of 90 days thereafter.
(d) exercise price: $0.60
(e) grant date: 01 Oct 2004
(f) expiry date: 01 Oct 2009
(g) share price at grant date: $0.38
(h) expected price volatility of the company's shares: 48%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 5.32%

Option Type Z

(a) granted for no consideration,
(b) have a 5 year life,
(c) 50% of each tranche vests after each of the first two anniversaries of the date of grant. The options are exercisable provided that the 5 day weighted average sale price of ordinary shares has achieved a 15% increase on an annual compound basis at any date on or after the vesting date.
(d) exercise price: $0.31
(e) grant date: 07 Jan 2005
(f) expiry date: 07 Jan 2010
(g) share price at grant date: $0.31
(h) expected price volatility of the company's shares: 47%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 5.28%

Option Type NN

(a) granted for no consideration,
(b) have a 5 year life,
(c) 150,000 vests and is exercisable after achieving each years Board Approved EBITDA, with no more than 500,000 able to vest over the 5 years.
(d) exercise price: $0.60
(e) grant date: 17 Jan 2005
(f) expiry date: 17 Jan 2010
(g) share price at grant date: $0.33
(h) expected price volatility of the company's shares: 47%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 5.17%

Option Type AA

(a) granted for no consideration,
(b) have a 5 year life,
(c) 50% of each tranche vests after each of the first two anniversaries of the date of grant. The options are exercisable provided that the 5 day weighted average sale price of ordinary shares has achieved a 15% increase on an annual compound basis at any date on or after the vesting date.
(d) exercise price: $0.33
(e) grant date: 01 Apr 2005
(f) expiry date: 01 Apr 2010
(g) share price at grant date: $0.33
(h) expected price volatility of the company's shares: 47%
(i) expected dividend yield: 0%
(j) risk–free interest rate: 5.61%

35. SHARE–BASED PAYMENTS (CONTINUED)

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(b) Chairman's Options

300,000 options were issued to the Chairman on 30 November 2004 following approval by the shareholders at the Annual General Meeting on the 19 November 2004. The options were issued as part of remuneration for acting as the non–executive chairman of the Board. 50% of the options vest immediately on issue and the remaining 50% vested on 12 September 2005. The options are not listed. The options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price is $0.61, payable immediately on exercise. The expiry date of these options is 12 September 2008. As at 30 June 2006 these options have not been exercised.

During the year ended 30 June 2006 no options were issued, exercised or lapsed.

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.2 years (2005 – 3.2 years).

(c) Expenses arising from share–based payment transactions

Total expenses arising from share–based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated		Parent entity	
	2006 $'000	**2005** $'000	**2006** $'000	**2005** $'000
Options issued under the Staff Share Option Plan	423	135	423	135
Options issued as Chairman's Options	4	12	4	12
	427	147	427	147

36. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures

The consolidated entity's exposure to interest rate risks and the effective weighted average interest rates of financial assets and financial liabilities, are as follows:

		Floating interest rate		Fixed interest rate maturing in: 1 year or less		Over 1 to 5 years		More than 5 years		Non–interest bearing		Total		Weighted average interest rate	
	Notes	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 %	2005 %
(i) Financial assets															
Cash	9	2,152	4,002	–	–	–	–	–	–	–	–	2,152	4,002	3.0	4.9
Trade debtors	10	–	–	–	–	–	–	–	–	11,540	9,926	11,540	9,926	–	–
Sundry debtors	10	–	–	–	–	–	–	–	–	645	583	645	583	–	–
Security deposits	10	–	–	–	–	–	–	–	–	225	56	225	56	–	–
Prepayments	10	–	–	–	–	–	–	–	–	410	616	410	616	–	–
Tax receivable		–	–	–	–	–	–	–	–	1,614	1,003	1,614	1,003	–	–
Accrued revenue		–	–	–	–	–	–	–	–	6,177	3,006	6,177	3,006	–	–
Other financial assets	13	2,292	–	–	–	–	–	–	–	–	–	2,292	–	2.58	–
Total financial assets		4,444	4,002	–	–	–	–	–	–	20,611	15,190	25,055	19,192		
(ii) Financial liabilities															
Bank overdraft	17	–	4,826	–	–	–	–	–	–	–	–	–	4,826	–	11.2
Finance lease liabilities	17	–	–	13	20	109	115	–	–	–	–	122	135	7.0	7.0
Trade creditors and accrued expenses	16	–	–	–	–	–	–	–	–	11,203	8,080	11,203	8,080	–	–
Income tax liabilities		–	–	–	–	–	–	–	–	484	185	484	185	–	–
Total financial liabilities		–	4,826	13	20	109	115	–	–	11,687	8,265	11,809	13,226		

(b) Net fair values

The net fair values of financial assets and liabilities are equivalent to their carrying amounts as shown in the Balance Sheet. The carrying amount approximates fair value because of their short term to maturity. No financial assets or liabilities are readily traded on organised markets.

(c) Credit risk exposure

The credit risk on financial assets of the consolidated entity, which have been recognised on the Balance Sheet is generally the carrying amount, net of any provisions for doubtful debts. There is no concentration of credit risk with respect to receivables, other than a significant billing to a joint stock government controlled company in Italy. The debt is denominated in Euro (E4,225,000) and has been converted to A$5,992,901 (C$4,968,115) at the balance date. The Group has numerous customers, internationally dispersed.

37. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

		Consolidated			Parent entity		
	Notes	Previous AGAAP	Effect of transition to AIFRS	AIFRS	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		$'000	$'000	$'000	$'000	$'000	$'000
Current assets							
Cash and cash equivalents		1,311	–	1,311	–	–	–
Receivables	(f)	17,950	1,021	18,971	342	561	903
Current tax asset		454	–	454	–	–	–
Accrued revenue		3,428	–	3,428	262	–	262
Inventories		7,317	–	7,317	–	–	–
Other financial assets	(f)	104	(104)	–	40	(40)	–
Other assets	(f)	917	(917)	–	521	(521)	–
Total current assets		31,481	–	31,481	1,165	–	1,165
Non–current assets							
Receivables		–	–	–	5,803	–	5,803
Accrued revenue		264	–	264	264	–	264
Plant and equipment		1,354	–	1,354	–	–	–
Intangible assets		4,567	–	4,567	4,567	–	4,567
Deferred tax assets		1,368	–	1,368	–	–	–
Other financial assets		–	–	–	6,997	–	6,997
Total non–current assets		7,553	–	7,553	17,631	–	17,631
Total assets		39,034	–	39,034	18,796	–	18,796
Current liabilities							
Interest bearing liabilities		4,412	–	4,412	4,462	–	4,462
Payables		20,879	–	20,879	3,129	–	3,129
Advance payments from customers		1,941	–	1,941	18	–	18
Current tax liabilities		146	–	146	–	–	–
Provisions		191	–	191	191	–	191
Total current liabilities		27,569	–	27,569	7,800	–	7,800
Non–current liabilities							
Payables		418	–	418	298	–	298
Interest bearing liabilities		169	–	169	160	–	160
Deferred tax liabilities		184	–	184	–	–	–
Provisions		356	–	356	335	–	335
Total non–current liabilities		1,127	–	1,127	793	–	793
Total liabilities		28,696	–	28,696	8,593	–	8,593
Net assets		10,338	–	10,338	10,203	–	10,203
Equity							
Contributed equity		73,103	–	73,103	73,103	–	73,103
Reserves	(a),(b)	(2,441)	2,517	76	10	66	76
Retained profits/ (accumulated losses)	(a),(b)	(60,324)	(2,517)	(62,841)	(62,910)	(66)	(62,976)
Total equity		10,338	–	10,338	10,203	–	10,203

37. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs (CONTINUED)

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

		Consolidated			Parent entity		
	Notes	Previous AGAAP	Effect of transition to AIFRS	AIFRS	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		$'000	$'000	$'000	$'000	$'000	$'000
Current assets							
Cash and cash equivalents		4,002	–	4,002	888	–	888
Receivables	(f)	9,926	1,255	11,181	25	257	282
Current tax asset		1,003	–	1,003	–	–	–
Accrued revenue		2,830	–	2,830	246	–	246
Inventories		758	–	758	–	–	–
Other financial assets	(f)	639	(639)	–	35	(35)	–
Other assets	(f)	616	(616)	–	222	(222)	–
Total current assets		19,774	–	19,774	1,416	–	1,416
Non–current assets							
Receivables		–	–	–	3,316	–	3,316
Accrued revenue		176	–	176	176	–	176
Plant and equipment		877	–	877	–	–	–
Intangible assets		3,701	–	3,701	3,701	–	3,701
Deferred tax assets		–	–	–	–	–	–
Other financial assets		–	–	–	14	–	14
Total non–current assets		4,754	–	4,754	7,207	–	7,207
Total assets		24,528	–	24,528	8,623	–	8,623
Current liabilities							
Interest bearing liabilities		4,846	–	4,846	12	–	12
Payables		8,080	–	8,080	1,539	–	1,539
Advance payments from customers		2,898	–	2,898	1	–	1
Current tax liabilities		185	–	185	–	–	–
Provisions		1,146	–	1,146	156	–	156
Total current liabilities		17,155	–	17,155	1,708	–	1,708
Non–current liabilities							
Payables		509	–	509	264	–	264
Interest bearing liabilities		115	–	115	115	–	115
Provisions		268	–	268	268	–	268
Total non–current liabilities		892	–	892	647	–	647
Total liabilities		18,047	–	18,047	2,355	–	2,355
Net assets		6,481	–	6,481	6,268	–	6,268
Equity							
Contributed equity		79,200	–	79,200	79,200	–	79,200
Reserves	(a),(b),(c)	(3,245)	3,203	(42)	10	213	223
Retained profits/ (accumulated losses)	(a),(b),(c)	(69,474)	(3,203)	(72,677)	(72,942)	(213)	(73,155)
Total equity		6,481	–	6,481	6,268	–	6,268

37. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs (CONTINUED)

(2) Reconciliation of profit/loss for the year ended 30 June 2005

		Consolidated			Parent entity		
	Notes	Previous AGAAP	Effect of transition to AIFRS	AIFRS	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		$'000	$'000	$'000	$'000	$'000	$'000
Revenue from continuing operations	(d),(e)	38,426	(1,132)	37,294	5,137	(27)	5,110
Other income	(d),(e)	–	1,132	1,132	–	43	43
Materials and consumables		(12,087)	–	(12,087)	(52)	–	(52)
Labour expense	(b)	(26,744)	(147)	(26,891)	(2,236)	(147)	(2,383)
Fair value adjustment to investments in other entities		(34)	–	(34)	(34)	–	(34)
Fair value adjustment to intercompany loans		–	–	–	(3,157)	–	(3,157)
Provision for diminution of investments in subsidiaries		–	–	–	(6,983)	–	(6,983)
Net foreign exchange (loss)/gain	(c),(e)	214	(539)	(325)	16	(16)	–
Depreciation and amortisation expense		(1,487)	–	(1,487)	(891)	–	(891)
Finance costs		(414)	–	(414)	(503)	–	(503)
Lease rental expense		(1,683)	–	(1,683)	(372)	–	(372)
Professional fees		(735)	–	(735)	(350)	–	(350)
All other expenses		(3,850)	–	(3,850)	(607)	–	(607)
Profit/(loss) before tax		(8,394)	(686)	(9,080)	(10,032)	(147)	(10,179)
Income tax (expense)/benefit		(756)	–	(756)	–	–	–
Profit/(loss) for the period		(9,150)	(686)	(9,836)	(10,032)	(147)	(10,179)
Profit/(loss) for the period attributable to members of Adacel Technologies Limited		(9,150)	(686)	(9,836)	(10,032)	(147)	(10,179)

(3) Reconciliation of cash flow statements for the year ended 30 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Foreign currency translation reserve: cumulative translation differences

The Group has elected to apply the exemption in AASB 1 *First–time Adoption of Australian Equivalents to International Financial Reporting Standards*. The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve are deemed to be zero at the date of transition to AIFRSs.

The effect is:

(i) At 1 July 2004

For the Group the balance in the foreign currency translation reserve is reduced by $2,451,000 to zero. Accumulated losses are increased by this amount. For the parent entity there is no impact.

(ii) At 30 June 2005

For the Group the balance in the foreign currency translation reserve is reduced by $2,451,000. Accumulated losses are increased by this amount. For the parent entity there is no impact.

(iii) For the year ended 30 June 2005

There is no effect on the Group or parent entity.

37. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs (CONTINUED)

(b) Share–based payments

Under AASB 2 *Share–based Payment* from 1 July 2004 the Group is required to recognise an expense for those options that were issued to employees under the Adacel Staff Share Option Plan after 7 November 2002 but that had not vested by 1 January 2005.

The effect of this is:

(i) At 1 July 2004

For the Group and the parent entity there has been an increase in accumulated losses of $66,000 and a corresponding credit to the share based payments reserve.

(ii) At 30 June 2005

For the Group and the parent entity there has been an increase in accumulated losses of $213,000 and a corresponding credit to the share based payments reserve.

(iii) For the year ended 30 June 2005

For the Group and the parent entity there has been an increase in labour expense of $147,000.

(c) Translation of financial reports of overseas operations

Under the previous Australian GAAP, a foreign subsidiary of the Group was classified as an integrated operation and as such the resulting exchange differences arising on conversion of the foreign entities financial statements to Australian dollars were recognised in the income statement.

Under AIFRS, AASB 121 *The Effects of Changes in Foreign Exchange Rates* does not distinguish between foreign operations that are integrated and those that are self–sustaining. Rather, each entity must identify its functional currency by giving consideration to the determining factors as listed in that standard. These factors include both primary considerations as well as additional secondary factors that might further provide evidence of an entity's functional currency. The factors that resulted in the classification of these operations under the previous Australian GAAP are given less weight than others under AIFRS.

Under AIFRS, the functional currency of the foreign entity has been determined to be other than Australian dollars. On conversion of the foreign entities financial statements to Australian dollars, the resulting exchange differences arising have been recognised as a separate component of equity.

In addition, on consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to shareholders' equity.

The effect of this is:

(i) At 1 July 2004

There is no effect on the Group or the parent entity.

(ii) At 30 June 2005

For the Group there has been an increase in accumulated losses of $539,000 and a corresponding credit to the foreign currency translation reserve. For the parent entity there is no impact.

(iii) For the year ended 30 June 2005

For the Group there has been an additional foreign exchange loss of $539,000 and a corresponding credit to the foreign currency translation reserve. For the parent entity there is no impact.

(d) Revenue disclosures in relation to the sale of non–current assets

Under AIFRS, the revenue recognised in relation to the sale of non–current assets is the net gain on the sale. This is in contrast to the previous Australian GAAP treatment under which the gross proceeds from the sale are recognised as revenue and the carrying amount of the assets sold is recognised as an expense. The net impact on the profit or loss of this difference is nil.

The effect of this is:

(i) At 1 July 2004

There is no effect on the Group or the parent entity.

37. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs (CONTINUED)

(ii) At 30 June 2005
There is no effect on the Group or the parent entity.

(ii) For the year ended 30 June 2005
For the Group and the parent entity, other income is $27,000 higher and revenue from continuing operations is $27,000 lower.

(e) Reclassification of other income
Under AIFRS, foreign exchange gains and government grants are classified as other income. This is in contrast to the previous Australian GAAP treatment under which such items are classified as revenue.

The effect of this is:

(i) At 1 July 2004
There is no effect on the Group or the parent entity.

(ii) At 30 June 2005
There is no effect on the Group or the parent entity.

(iii) For the year ended 30 June 2005
For the Group, other income is $1,105,000 higher and revenue from continuing operations (grant revenue) is $1,105,000 lower. For the parent entity, other income is $16,000 higher and net foreign exchange losses/gains is $16,000 lower.

(f) Reclassification of other assets (current) and other financial assets (current) to receivables (current)
Under previous Australian GAAP, certain balances were disclosed as other assets or other financial assets. Under AIFRS, these balances have been reclassified as receivables.

The effect of this is:

(i) At 1 July 2004
For the Group, other assets (current) decreases by $917,000, other financial assets (current) decreases by $104,000 and receivables increases (current) by $1,021,000. For the parent entity, other assets (current) decreases by $521,000, other financial assets (current) decreases by $40,000 and receivables (current) increases by $561,000.

(ii) At 30 June 2005
For the Group, other assets (current) decreases by $616,000, other financial assets (current) decreases by $639,000 and receivables (current) increases by $1,255,000. For the parent entity, other assets (current) decreases by $222,000, other financial assets (current) decreases by $35,000 and receivables (current) increases by $257,000.

(iii) For the year ended 30 June 2005
There is no effect on the Group or the parent entity.

(g) Retained earnings

		Consolidated		Parent entity	
	Notes	**1 July 2004** $'000	**30 June 2005** $'000	**1 July 2004** $'000	**30 June 2005** $'000
Foreign currency translation reserve	(a)	(2,451)	(2,451)	–	–
Share–based payments	(b)	(66)	(213)	(66)	(213)
Translation of financial reports of overseas operations	(c)	–	(539)	–	–
		(2,517)	(3,203)	(66)	(213)

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 21 to 72 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 company's and consolidated entity's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations, changes in equity and their cash flows 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 audited remuneration disclosures set out on pages 5 to 13 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

The Directors have been given the declarations by the chief executive officer or equivalent and the chief financial officer or equivalent, required by section 295A of the *Corporations Act 2001*.

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

Julian Beale
Chairman

David Smith
Director

Melbourne, 29 September 2006

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Independent audit report to the members of Adacel Technologies Limited

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report and remuneration disclosures of Adacel Technologies Limited (the Company) and the Adacel Technologies Group (defined below) for the financial year ended 30 June 2006 included on Adacel Technologies Limited web site. The Company's directors are responsible for the integrity of the Adacel Technologies Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

Audit opinion

In our opinion

1. the financial report of Adacel Technologies Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Adacel Technologies Limited (the Company) and the Adacel Technologies Limited Group (defined below) as at 30 June 2006, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*; and

2. the audited remuneration disclosures that are contained on pages 5 to 13 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for both Adacel Technologies Limited and the Adacel Technologies Limited Group (the consolidated entity), for the year ended 30 June 2006. The consolidated entity contains both the company and the entities that it controlled during that year.

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" on pages 5 to 13 of the directors' report, as permitted by the *Corporations Regulations 2001*.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Liability limited by a scheme approved under Professional Standards Legislation

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

SC Bannatyne
Partner

Melbourne
29 September 2006

Additional information required by the Australian Stock Exchange Ltd. and not shown elsewhere in this report is as follows.

The information is complete up to 8 September 2006.

(a) Equity security holders

(i) Top 20 largest holders of quoted ordinary shares

	Fully Paid Ordinary Shares		
	Top 20 Shareholders		Substantial Shareholdings
	No. of shares held	% held	No. of shares held
Thorney Holdings Pty Ltd	27,945,046	31.93	32,404,037
ANZ Nominees Limited – (Cash Income A/C) – Silvio Salom	13,755,342	15.72	14,496,659
Mr David Wallace Smith	9,718,083	11.10	10,060,558
Invia Custodian Pty Limited (Thirty Five A/C)	2,316,255	2.65	
Invia Custodian Pty Limited (Black A/C)	2,140,001	2.44	
Kildrummie Pastoral Co Pty Ltd	1,337,800	1.53	
Mrs Boh Hua Tan	990,000	1.13	
Mr James Douglas Carnegie (James Carnegie Family A/C)	880,000	1.01	
Merrill Lynch (Australia) Nominees Pty Ltd (Berndale A/C)	832,948	0.95	
Coalwell Pty Ltd	796,182	0.91	
D&D Nominees Pty Ltd	714,134	0.82	
Russell Professional Consulting Services P/L (I&G Russell Super Fund A/C)	685,051	0.78	
Obena Ridge Pty Limited	676,775	0.77	
Mr Anthony Mark Van Der Steeg	659,727	0.75	
Obena Ridge Pty Limited	595,095	0.68	
Bissapp Software Pty Ltd (Super Fund A/C)	584,000	0.67	
Mr Brian Hennessey	545,764	0.62	
Valwren Pty Limited (WFIT Account)	500,000	0.57	
Aznanob Pty Ltd	460,934	0.53	
Mr Thomas James Hannaford	410,000	0.47	
	66,543,137	76.03	

(ii) Unquoted options over ordinary shares

Plan	Number	Expiry Date	Exercise Price	Number Of Holders
Staff Share Option Plan	19,000	1 November 2006	$1.05	5
Staff Share Option Plan	100,000	12 November 2006	$1.05	1
Staff Share Option Plan	130,000	25 February 2007	$1.02	13
Staff Share Option Plan	100,000	25 February 2007	$1.00	1
Staff Share Option Plan	323,000	5 April 2007	$0.91	44
Staff Share Option Plan	500,000	2 May 2007	$0.90	1
Staff Share Option Plan	14,000	5 July 2007	$0.89	4
Staff Share Option Plan	35,000	4 October 2007	$0.66	16
Staff Share Option Plan	200,000	11 November 2007	$0.58	1
Staff Share Option Plan	51,000	10 January 2008	$0.81	23
Staff Share Option Plan	100,000	25 February 2008	$1.00	1
Staff Share Option Plan	69,000	4 April 2008	$0.71	18
Staff Share Option Plan	60,000	4 July 2008	$0.75	10
Staff Share Option Plan	22,000	3 October 2008	$0.75	10
Staff Share Option Plan	28,000	9 January 2009	$0.85	14
Staff Share Option Plan	100,000	25 February 2009	$1.00	1
Staff Share Option Plan	62,000	2 April 2009	$0.66	14
Staff Share Option Plan	49,000	4 July 2009	$0.45	9
Staff Share Option Plan	7,000	1 October 2009	$0.39	3
Staff Share Option Plan	1,250,000	1 October 2009	$0.60	1
Staff Share Option Plan	500,000	17 January 2010	$0.60	1
Staff Share Option Plan	12,000	1 April 2010	$0.33	5
Staff Share Option Plan	13,000	1 July 2010	$0.26	8
Staff Share Option Plan	500,000	5 September 2010	$0.60	1
Staff Share Option Plan	5,000	7 October 2010	$0.24	3
Staff Share Option Plan	1,500,000	20 November 2010	$0.35	8
Staff Share Option Plan	150,000	19 May 2007	$0.35	1
Staff Share Option Plan	1,500,000	20 November 2010	$0.60	8
Staff Share Option Plan	4,000	6 January 2011	$0.42	3
Staff Share Option Plan	28,000	7 April 2011	$0.50	11
Staff Share Option Plan	600,000	28 April 2011	$0.60	2
Staff Share Option Plan	21,000	7 July 2011	$0.47	10
Chairman's Options	300,000	12 September 2008	$0.61	1
	8,352,000			

(b) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Class of equity security Ordinary Shares	
	Shares	Options
100,001 and over	55	11
10,001 to 100,000	362	12
5,001 to 10,000	302	15
1,001 to 5,000	680	85
1 to 1,000	300	26
	1,699	149

There were 302 holders of less than marketable parcel of ordinary shares.

(c) Voting rights

(i) All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(ii) All options have no voting rights.

This statement outlines the main corporate governance practices of Adacel. The framework for Adacel's company policies and procedures was established through the company's 'Adacel Management Practices', which were issued in 1998. These have been reviewed since then and, some policies and procedures have been revised and others added. During the 2004 financial year, management and the Board reviewed and in some cases revised or added to these policies in light of the ASX Corporate Governance Council (Council) best practice recommendations for good corporate governance. Unless otherwise stated, Adacel's corporate governance practices outlined in this statement were in place throughout the 2006 year and comply with the Council's best practice recommendations. Post balance date, the Corporate Governance Statement has been updated to reflect changes in Adacel's management structure. The revised Corporate Governance Statement is available on Adacel's website (www.adacel.com).

As recognised by the Council, corporate governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed and how performance is optimised. There is no single model of good corporate governance. For Adacel, what constitutes good corporate governance will evolve with our changing circumstances and will be tailored to meet those circumstances.

Adacel's Corporate Governance Statement follows the framework of the ASX Corporate Governance Council's ten principles for Corporate Governance.

1.0 Role of the Board and Management

Council Recommendation 1.1: Formalise and disclose the functions reserved to the board and those delegated to management

The Board of Directors

The Board of Directors of Adacel Technologies Limited is responsible for the corporate governance of the consolidated entity, including the establishment of strategic direction, goals for management and monitoring the achievement of those goals.

The Board is responsible for guiding and monitoring the company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board reviews with management areas of significant identified business risk and oversees management arrangements to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established practices for the nomination and selection of directors, referred to under section 2 of this statement, and for the operation of the Board, referred to below.

The responsibility for the operation and administration of the company is delegated, by the Board, to the Managing Director and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the company, in discharging its stewardship it makes use of sub–committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end the Board has established the following committees, details of which are included later in this Corporate Governance Statement:

- Audit Committee
- Remuneration Committee
- Nomination Committee, comprising the whole Board.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Board approval of strategic plans designed to meet stakeholders' needs and manage business risk;
- Ongoing development of strategic plans and approving initiatives and strategies designed to ensure the continued growth and success of the entity; and
- Implementation of budgets by management and monitoring progress against budget – via the establishment and reporting of both financial and non–financial key performance indicators.

Other functions reserved to the Board include:

- Approval of the annual and half–yearly financial reports
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored
- Reporting to shareholders.

Details of the matters delegated to the Board are posted on our website (www.adacel.com).

Managing Director and Senior Management

The Managing Director's role is to develop and agree with the Board the corporate strategy and vision and to oversee implementation of the strategy and management of the company to achieve the agreed vision in accordance with the strategies, policies and programs set by the Board.

The Managing Director will not have to retire as a Director by rotation or stand for reappointment as a Director in accordance with the constitution.

Responsibilities include

- Formulating and reviewing, with the Board, the vision and strategy and developing actions and plans to achieve the vision and implement the strategy. Reporting to the Board on the progress against those plans.
- Appointing a management team and negotiating terms and conditions for approval by the Remuneration Committee or the Board. Providing leadership to and overseeing the senior management team, ensuring employees are properly instructed to achieve a safe workplace and ensuring compliance with laws and company policies and that a high level of ethical behaviour is expected.
- Reporting to the Board on various matters, including all matters requiring review or approval, significant changes to the risk profile, certification (with the CFO) to the Board on the fairness of the financial statements and adequacy of policies as regards risk management, monthly reporting on performance of businesses and continual education of directors on the company, its business environment and relevant changes of law.
- Acting within delegated authority levels for capital expenditure, sale of assets, appointment and termination of executives.
- All other matters necessary for the day–to–day management of the company and not reserved for the Board.

The Chief Executive Officer North America's role is to develop, agree with the Board and implement the strategy for development of the North American–based aviation and defence simulation and air traffic control operations of the company in accordance with the strategies, policies and programs set by the Board. It was announced in May 2005 that as part of the progressive focus of the company on the North American–based operations, the CEO North America would report to the Board.

The CEO North America will provide leadership and direction of the North American–based executive team responsible for the company's day–to–day operations, with a strong emphasis on profitability and cash management, coupled with an emphasis on teamwork, communications, customer satisfaction, and continued quality improvement and ensuring the highest standards of integrity.

2.0 Board structure

Council Recommendation 2.1: A majority of the board should be independent directors

Composition of the Board

Under the company's Constitution, the Board is to be comprised of not less than three nor more than ten Directors. This number may be increased where it is felt that additional expertise is required in specific areas, or where an outstanding candidate emerges. The Board currently numbers five and an Alternate Director.

The Board comprises a majority of non–executive Directors but does not currently have a majority of independent Directors. This is a departure from the ASX Corporate Governance Council recommendation 2.1.

The Board believes that the interests of the shareholders are best served by

- Directors having the appropriate skills and experience, and providing a mix of industry, technical, financial, capital markets and business skills and contacts,
- A number of directors being independent, as defined in the Council corporate governance guidelines. The independence of each Director is reviewed by the Board against these Council Independence guidelines and materiality thresholds. Materiality for these purposes is determined on both quantitative and qualitative bases. A shareholding over 5%, or a contractual relationship amounting to more than 5% of annual turnover of the company or 5% of the individual Director's net worth is considered material for these purposes. The independence of each Director is noted in the profile of Directors in the Directors' Report in the Annual Report and on the company website.
- Various significant parties that have supported the development of the company being represented on the Board.

Consequently, at various times there may not be a majority of the directors classified being independent. However, all Directors, both non–executive and executive, acknowledge the need to act in good faith in the interests of all shareholders. The Board has a specific Code of Conduct for Directors and senior management (referred to in Section 3.0 of this Statement). As part of this, where any director has a material personal interest in a matter, the director will not be permitted to be present during discussions or to vote on the matter. The enforcement of this requirement should ensure that the interest of shareholders, as a whole, are pursued and not jeopardised by a lack of a majority of independent directors. The Board will review its governance structures, including the level of independent Directors as the company develops and changes to ensure that it continues to meet effective governance for the circumstances of the company.

The names of Directors in office and their term in office at the date of this statement, and their standing as executive or non–executive and independent, are given in the Directors Report contained in the Annual Report and on the Board of Directors page of Adacel's website.

Independence of Chairman

Council Recommendation 2.2: The chairperson should be an independent director

Adacel's Chairman is an independent non–executive Director.

Roles of Chairman and CEO

Council Recommendation 2.3: The roles of chairperson and chief executive officer should not be exercised by the same individual

The roles of Chairman and the Managing Director are not exercised by the same individual.

Access to independent professional advice

Council Recommendation 2.5: Other matters requiring disclosure

Each Director has the right to seek a reasonable level of independent professional advice on matters concerning the company at the company's expense.

Nomination Committee

Council Recommendation 2.4: The board should establish a nomination committee

In consideration of the size of the company and the Board, in December 2003, Directors resolved that the Board as a whole would comprise a Nomination Committee. The members of the Nomination Committee during the year and their attendance at meetings of the Committee are disclosed in the Directors' Report in the Annual Report.

In this role, the Board as Nomination Committee:

- Reviews the structure, size and composition of the Board
- Identifies, considers and selects candidates with appropriate capabilities, to fill Board vacancies when they arise
- Ensures candidates have adequate time available to fulfil their role as a director
- Undertakes or arranges for annual performance evaluation of the Board, its committees and directors, and
- Reviews the:
  - continuation of the chairman after the initial term of appointment and subsequent re–appointments
  - re–election of directors who retire by rotation
  - membership of committees

The charter of the Nomination Committee is posted on the company's website.

Procedure for the selection and appointment of directors

Council Recommendation 2.5: Other matters requiring disclosure

If the need for a new Board member is identified, the Board in its role as Nomination Committee, may initiate a search or nominate eligible candidates, who are interviewed by the Chairman and considered by the Board. The Board then appoints the most suitable candidate, who must stand for election at the next general meeting of the shareholders. New Directors are provided with a letter of appointment setting out their responsibilities and rights.

Adacel's procedure for the selection and appointment of directors is posted on the company's web site.

Policy on appointment of directors and Board composition

Council Recommendation 2.5: Other matters requiring disclosure

The Adacel Board has a policy on the appointment of directors and the composition of the Board. The policy is posted on the company's website.

3.0 Ethical and responsible decision–making

Code of Conduct for Directors and senior managers

Council Recommendation 3.1: Establish a code of conduct to guide directors, CEO, CFO and other key executives

Adacel has a formal Ethics Policy for employees and a specific Code of Conduct for Directors and Senior Managers (being the Managing Director and senior managers reporting the Managing Director). The Code of Conduct has the commitment of the directors and senior management to ensure practices are operating that are necessary to maintain confidence in the company's integrity, and responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Under the Code of Conduct, the directors and senior management are expected to:

- act honestly and in good faith
- exercise due care and diligence in fulfilling the functions of office
- use their powers to act in the best interests of the company as a whole
- avoid conflicts and make full disclosure of any possible conflicts of interest
- comply with the law
- directors are obliged to be independent in judgement and ensure all reasonable steps are taken to be satisfied as to the soundness of Board decisions
- encourage the reporting and investigating of unlawful and unethical behaviour.

Adacel's Code of Conduct is posted on the company's web site.

Trading in Adacel securities

Council Recommendation 3.2: Disclose the policy concerning trading in company securities by directors, officers and employees

The company has a policy concerning the trading in the company's securities by Directors, senior managers and employees. In summary, Directors, senior managers and employees must not deal in Adacel securities when they are in possession of insider information. Directors and senior managers must not trade during the "trading blackout" beginning at the end of the Half Year and Full Year reporting period until the release to the ASX of the Financial Results for the relevant period. Directors are expected to discuss the matter with the Chairman and senior executives are expected to discuss the matter with the Managing Director.

Details of Adacel's trading policy are posted on our web site.

4.0 Integrity in financial reporting

Corporate Reporting

Council Recommendation 4.1: Chief executive officer and chief financial officer to sign a certificate regarding financial reports giving a true and fair view and are in accordance with accounting standards

The Managing Director, or equivalent, and Chief Financial Officer, or equivalent, have made the following certifications to the Board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operating results of the company and are in accordance with the relevant accounting standards
- all reasonable steps have been undertaken to ensure that the above statement is founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the Board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects

The company adopted this reporting structure in regard to the 2004 financial year and all subsequent reports.

Audit Committee

Council Recommendation 4.2 and 4.4: The board should establish an audit committee and have an audit committee charter

The Board has an Audit Committee that reports to the Board.

The role of the Audit Committee is to advise on the establishment and maintenance of a framework of internal controls and appropriate ethical standards for the management of the Company and to advise on financial information prepared for use by the Board or for inclusion in financial statements.

The responsibilities of the Audit Committee include:

- Reviewing audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- Liaising with the auditors and ensuring that the annual statutory audits are conducted in an effective manner;
- Monitoring management efforts to improve continuously the quality of the accounting function;
- Reviewing the half–year and annual reporting and financial statements prior to lodgement of those documents with the Australian Stock Exchange and to make the necessary recommendations to the Board for the approval of these documents;
- Providing the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports;
- Recommending to the Board the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement the scope and quality of the audit.
- Assessing the attention being given by management to matters likely to impact on the financial performance of the Company, including monitoring of compliance with laws and regulations and monitoring and control of business risks
- Management information and other systems of internal control and risk management
- Ethical policies and practices for corporate conduct are in place and being adhered to.

The auditors, the Chief Financial Officer and the company Managers are invited to the Audit Committee meetings at the discretion of the Committee.

The Audit Committee charter is posted on the company's web site.

Composition of Audit Committee

Council Recommendation 4.3: Structure the audit committee so that it consists of only non–executive directors, a majority of independent directors, an independent chairperson (who is not chairperson of the board) and at least three members

The Company's Audit Committee comprises:

- only non–executive directors
- a majority of independent directors
- an independent chairperson, who is not chairperson of the Board
- at least three members

The members of the Audit Committee during the year and attendance at meetings of the Committee are disclosed in the Directors' Report in the Annual Report.

External Auditors

Council Recommendation 4.4: Other matters – Procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners

The Board, with the involvement of the Audit Committee, has established procedures in relation to the external auditor selection and appointment and for discussing with the auditor the rotation of the lead partner. Procedures for the selection and appointment of external auditors and rotation of engagement partners are posted on the company's web site.

5.0 Timely and balanced disclosures

Council Recommendation 5.1:Establish written policies and procedures designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior level for that compliance

Continuous Disclosure

The Company has written policies and procedures on information disclosure. The focus of these procedures is on continuous disclosure of any information concerning the company that a reasonable person would expect to have a material effect on the price of the Company's securities and improving access to information for all investors.

The company has nominated the Company Secretary and the Group Manager Corporate Affairs & Strategy Support to be responsible for communications with the Australian Stock Exchange. This role includes:

- overseeing compliance with the continuous disclosure requirements in the ASX Listing Rules
- overseeing and coordinating information disclosure to the ASX, shareholders, analysts, brokers, the media and the public, and
- educating Directors and staff on the company's disclosure policies and procedures and raising awareness of the principles underlying continuous disclosure.

Price sensitive information is publicly released through the ASX before disclosing it to analysts or others outside the company. Further dissemination to investors through the ASX website and other information providers is also managed through the stock exchange.

Information is posted on the company's website as soon as practicable after the stock exchange confirms an announcement has been made, with the aim of making the information accessible to the widest audience.

Procedures have also been developed for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market. Procedures are also in place to respond to market rumours or leaks.

The policy on continuous disclosure is posted on the company's web site.

6.0 Rights of shareholders

Shareholder communication and participation

Council Recommendation 6.1: Design and disclose a communication strategy to promote effective communication with shareholders and encourage effective participation at general meetings

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the state of affairs of the company. Information is communicated to shareholders through: the annual report, the interim report, disclosures made to the Australian stock exchange, notices and explanatory memoranda of annual and extraordinary general meetings, the annual general meeting, occasional letters to shareholders where appropriate, and the company's website, www.adacel.com, which has a dedicated investor relations section.

The website also includes a feedback mechanism and an option for shareholders to register their email address for direct email updates of company matters.

The Board encourages full participation of shareholders at the annual general meeting to ensure a high level of accountability and identification with the company's strategy and goals. Important issues are presented to the shareholders as single resolutions.

Auditor presence at AGM

Council Recommendation 6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report

The company requires the lead audit partner or their partner delegate to attend each annual general meeting of the company and to be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

7.0 Recognising and managing risk

Risk management

Council Recommendation 7.1: The board or appropriate board committee should establish policies on risk oversight and management

The Board oversees policies on risk assessment and management and has delegated certain responsibilities in these matters to the Audit Committee. The company has established policies and procedures to identify, assess and manage critical areas of financial and operating risk. The company's Risk Management policy is posted on the company's website.

CEO and CFO certification

Council Recommendation 7.2: The chief executive officer and chief financial officer should state to the board in writing; 1) the statement given in accordance with company practice 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board; 2) the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

At the time the Board considers the draft half year and full year financial statements and reports, the Managing Director, or equivalent, and Chief Financial Officer, or equivalent, are required to provide a signed certificate that the statements and reports are founded on a sound system of risk management and internal compliance and control that implements the policies adopted by the Board, and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

The company adopted this reporting structure in regard to the 2004 financial year report and all subsequent reports.

These statements are included in the policy on CEO and CFO certification referred to in Section 4.0 of this Corporate Governance Statement.

8.0 Enhancing performance

Council Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives

Performance Assessment

The Board as Nomination Committee undertook a self assessment in May 2006 of its collective performance, the performance of the Chairman and of its Committees. This is an annual process. Management are invited to contribute to this appraisal process. The assessment of the performance of individual Directors is undertaken by the Chairman who meets privately with each Director to discuss this assessment.

Descriptions of the process for performance assessment for the Board and senior executives are available on the website.

New Directors are provided with a letter of appointment setting out the company's expectations, their responsibilities, rights and terms and conditions of their employment.

By way of induction, new Directors meet with the Company Secretary, Managing Director and the Chairman. These briefings cover the operation of the Board and its Committees and financial, strategic, operations and risk management issues.

9.0 Remuneration of Directors and senior executives

Remuneration practice

Council Recommendation 9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand: (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance

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 in place of higher cash fees.

The level of annual Directors' fees is reviewed by the Remuneration Committee and the Board, taking into account a number of factors, including the range of Directors' fees paid in the market, and the company's costs and operating performance. The maximum total for annual fees for Directors is approved from time to time by shareholders in general meeting and was last set at $300,000 per annum at the 1999 Annual General Meeting.

Non–executive Directors may also, in view of the company's size and resources, from time–to–time be issued options as part of their remuneration in place of a higher cash fee. Options would be issued after consideration by the Remuneration Committee and the Board and subject to shareholder approval at general meeting. These options would be issued separately to the Adacel Staff Option Plan and with conditions that were designed to provide a link with company share price performance.

Directors are not paid additional fees for work on Board committees and are not entitled to a retirement benefit.

Senior Executives

Under the company's constitution, remuneration of the Managing Director and Executive Directors, subject to other provisions in any contract between these executives and the company, may be by way of fixed salary or participation in the profits of the company but may not be by way of commission on or percentage of operating revenue. Other senior executives, including the company secretary, may be 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 company and personal performance. Short term incentives may include annual cash incentives on meeting specific profit and performance criteria that has been agreed to in plans set with the Managing Director and the Board. Criteria to be met may include group and/ or business unit profit performance and personal Key Performance Indicators. The amount of the incentive will depend upon the extent that the measure is exceeded. These conditions help to ensure that the short term incentives are aligned with the interests of shareholders in the current period.

To provide long term incentives, senior executives may also participate in the Adacel Staff Share Option plan. The options are issued with conditions to help ensure that the remuneration of senior executives is aligned with the long term interests of shareholders.

The total costs of Director and Senior Manager remuneration packages, including the fair value of options, is listed in the Directors Report and Financial Statements in the Annual Report.

Remuneration Committee
Council Recommendation 9.2: The board should establish a remuneration committee

The Board has established a remuneration committee. The role of the Remuneration Committee is to review and make recommendations to the Board on remuneration packages and practices applicable to the Managing Director, senior executives and Directors themselves. This role also includes responsibility for share option schemes incentive performance packages and retirement and termination entitlements. Remuneration levels are competitively set to attract the most qualified and experienced Directors and senior executives. The Remuneration Committee may obtain independent advice on the appropriateness of remuneration packages.

The members of the Remuneration Committee during the year and attendance at meetings of the Committee are disclosed in the Directors' Report in the Annual Report

The Remuneration Committee charter is posted on our web site.

Non–executive Director remuneration
Council Recommendation 9.3: Clearly distinguish the structure of non–executives directors' remuneration from that of executives

The Adacel Board has determined that non–executive directors will be remunerated differently from executives in the following ways:

- Non–executive directors will receive fees in the form of cash fees and statutory superannuation,
- Non–executive directors may be issued options as approved by shareholders, but will not participate in the Adacel Staff Share Option plan or receive bonus payments
- Non–executive directors will not receive retirement benefits other than superannuation

Equity–based remuneration
Council Recommendation 9.4: Ensure that payment of equity–based executive remuneration is made in accordance with thresholds set in plans approved by shareholders

The Adacel Board has determined that executives will only participate in equity–based plans where the plan has been approved by shareholders, and participation in a benefit is subject to share price performance measures of the company being met.

Retirement benefits
Council Recommendation 9.5:Other matters (if applicable) – Disclose the existence and terms of any schemes for retirement benefits, other than statutory superannuation, for non–executive directors

Non–executive Directors do not receive retirement benefits other than statutory superannuation.

10.0 Recognising the legitimate interests of stakeholders

Council Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders

Code of Conduct
The Adacel Board has established a code of conduct for all employees, called Adacel's Ethics Policy, to assist in maintaining integrity, ethics and sound business practices. Employees are advised of the company's ethics and other management policies and procedures, which are posted on the company's intranet.

The purposes of this Ethics Policy are to:
- Ensure compliance with all relevant legislation
- Fulfil the reasonable expectations of the communities in which the company operates, by acknowledging the rights of various stakeholders
- Enhance the reputation of the company with its stakeholders
- Improve the performance of the company
- Inform employees of the Board's expectations of them, including the obligations of raising and pursuing concerns of non–compliance or unethical behaviour
- Assist in achieving the company vision.

The company's ethics policy is posted on the website.