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Adacel Technologies Limited (ASX: ADA)

12 August 2021

Appendix 4E - Preliminary Final Report

Year ended 30 June 2021

(Previous corresponding period: Year ended 30 June 2020)

Lodged with the ASX under Listing Rule 4.3A

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Results for announcement to the market
Annual Report and Financial Accounts

Results for Announcement to the Market

In AUD\$

Revenue from continuing operations	Up	1.1%	To	\$40,162,000
Profit before tax for the period	Up	248.4%	To	\$7,658,000
Profit for the period attributable to owners	Up	101.7%	To	\$7,331,000

Dividends/Distributions

	Amount per security	Amount per security
Interim dividend (April 15, 2021)	\$0.0275	-
Final dividend	\$0.0325	

Earnings per Ordinary Share (Cents per Share) FY2021
Earnings per Ordinary Share (Cents per Share) FY2020

9.59

4.71

Net Tangible Asset* Backing per Ordinary Share (Cents per Share) FY2021
Net Tangible Asset* Backing per Ordinary Share (Cents per Share) FY2020

23.22

18.57

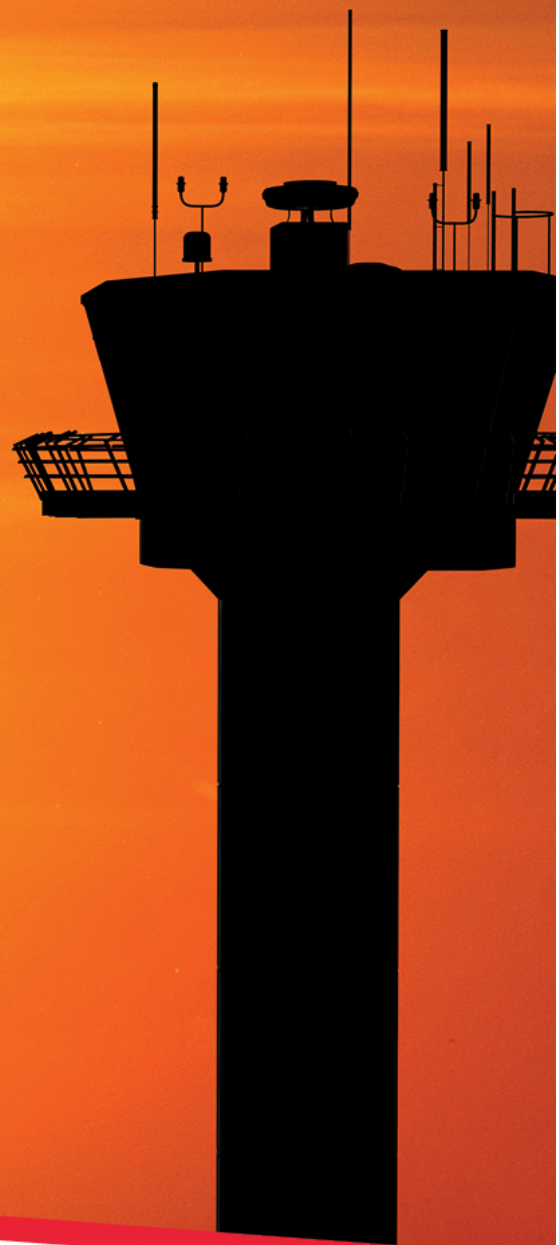
Record date for determining entitlements to the final and special dividends
Payment date of the final and special dividends

1 September 2021

15 September 2021

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

This report is based on the consolidated financial statements which have been audited by PricewaterhouseCoopers. The audit report is included within the Group's Financial Report which accompanies this Appendix 4E. Additional Appendix 4E disclosure requirements can be found in the Annual Report attached, which contains the Directors' Report (including the annual audited Remuneration Report), the Directors' Declaration and the 30 June 2021 consolidated financial statements and accompanying notes.



ANNUAL REPORT

YEAR ENDED // 30 JUNE 2021



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DIRECTOR'S REPORT



Your Directors submit their report on the consolidated entity (the Group), consisting of Adacel Technologies Limited and the entities it controlled at the end of or during the year ending 30 June 2021.

DIRECTORS

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

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

PRINCIPAL ACTIVITIES

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

OPERATING RESULTS

The Company's operating results for the twelve months ended 30 June 2021 and 2020, respectively, are summarised in the following table.

Key Financial Measures	Year ended 30 June	
	2021	2020
AUD\$'000		
Revenue	40,162	39,714
Gross margin	16,110	13,980
Gross margin %	40.1%	35.2%
EBITDA *	9,797	4,502
EBITDA * %	24.4%	11.3%
Profit before tax (PBT)	7,658	2,198
Net profit after tax	7,331	3,634
Non-recurring items**	-	2,597
PBT % of Revenues	19.1%	5.5%
Normalised EBITDA*	-	7,099
Normalised PBT*	-	4,795
Earnings per share (cents)	9.59	4.71
Net cash	11,597	5,177
Final dividend (unfranked) (cents)	3.25	1.50
Total interim dividends (unfranked) (cents)	2.75	1.00
Total dividends (cents)	6.00	2.50

* Earnings before interest, taxes, depreciation, and amortization (EBITDA), Normalized EBITDA and Normalized profit-before-tax (PBT) are non-IFRS measures and is presented to provide users with additional insight into the Company's business and to facilitate incremental understanding of the Company's underlying financial performance. Non-IFRS information is not audited.

**Non-recurring items include litigation and related costs and the impact of the adoption of AASB 16 Leases.

For the year ended 30 June 2021, the Company delivered a profit before tax (PBT) of \$7.7 million compared to \$2.2 million for the previous year. This improved financial performance and increased profitability continues to be a result of the company's enhanced focus on its core products and services combined with better execution and a more profitable revenue mix. For the year ended 30 June 2020, the company incurred \$2.6 million related to non-recurring litigation costs and the impact of the adoption of AASB 16 Leases and reported Normalized PBT of \$4.8 million. During the FY2021, Adacel also recorded net COVID-19 related government grants of \$1.7 million.

The Company delivered revenues of \$40.2 million compared to \$39.7 million the previous year. Along with the increased revenues, Adacel recorded a notably higher gross margin of \$16.1 million as compared to \$14.0 million in FY2020. The gross margin includes the allocations of overhead and other fixed costs. The improvement in gross margin is attributable to lower operating costs and a more profitable revenue mix. In FY2021, Adacel increased EBITDA by 118% to \$9.8 million compared to \$4.5 million for the year ended 30 June 2020. In FY2020, the company incurred \$2.6 million related to non-recurring litigation costs and the impact of the adoption of AASB 16 Leases and reported Normalized EBITDA of \$7.1 million.

The net profit after tax in FY2021 reached \$7.3 million, more than double the previous FY2020 of \$3.6 million.

As of 30 June 2021, the Company's net cash balance was \$11.6 million, compared to \$5.2 million recorded at FY2020 year-end. During the FY2021, a total of \$3.2 million (FY2020: \$0.8 million) was paid as dividends to shareholders.

BUSINESS SEGMENT REPORTING

Systems

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

Services

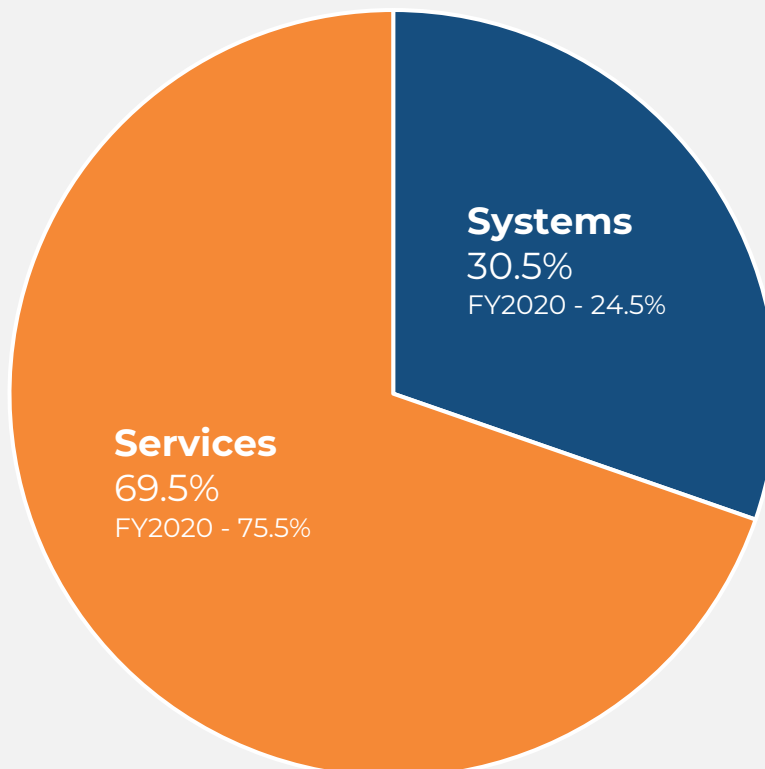
The Services segment includes all recurring revenue, including software maintenance and all aspects of system support, field services, and on-site technical services.

Segment Performance

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

Segment performance	Year ended 30 June					
	2021			2020		
	Revenue	GM	GM%	Revenue	GM	GM %
Systems	12,266	1,508	12.3%	9,743	(1,169)	(12.0%)
Services	27,896	14,602	52.3%	29,971	15,149	50.5%
Total	40,162	16,110	40.1%	39,714	13,980	35.2%

FY2021 % REVENUE PER SEGMENT



During FY2021, revenues in our Systems segment increased from \$9.7 million to \$12.3 million. The increase is a result of a higher number of systems implemented, including the delivery of additional Air Traffic Control Common Simulators (ACS) units to the US Army via General Dynamics, which was completed during FY2021. The Company received new orders for ATM systems from its French DSNA/DTI customer for a complete technical refresh of the Cayenne ATM system infrastructure that Adacel completed in FY2021. Adacel delivered new MaxSim functionalities for USAF as well as the Technical Refresh for RAAF. In addition, the Company completed two phases of its implementation of Performance Based Operations (PBO) for NavPortugal.

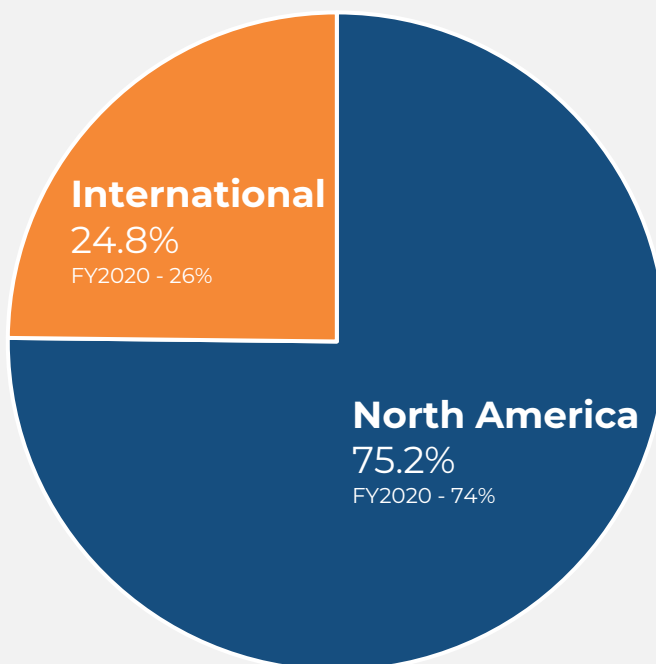
Also, Adacel has achieved a significant improvement in its Systems' Gross margin. The Systems Gross margin in FY2021 was 1.5 million (12.3%), while in FY2020 the Company recorded a loss of \$1.2 million in its Systems business. The improvement is due to a more profitable revenue mix.

The Company's revenues from services were impacted by the decline of the US dollar. Adacel recorded a 6.9% reduction in the Services revenue, from \$30.0 million in FY2020 to \$27.9 million in FY2021. In US dollars, Services revenues were actually higher by 3.7%. In FY2021, Services revenues made up 69.5% of total revenues.

Although we experienced lower revenues in the Services segment because of negative currency headwind, Adacel delivered an improved gross margin of 52.3% in FY2021 compared to 50.5% during FY2020. The improvement is due to revenue mix, increased productivity, and lower overall costs.

The Company's Gross margin in FY2021 improved by \$2.1 million or 15.2%, a positive change driven mainly by our systems' successful installations throughout FY2021.

REVENUE BY GEOGRAPHICAL PRESENCE



The revenues from international customers slightly decreased in FY2021, which recorded 24.8% of the total business as compared to 26% for the prior year. The revenues from the North American customers accounted for 75.2% of Adacel's total revenues, a marginal increase from 74% in FY2020. Over the last several years, Adacel recorded a slight percentage increase year-over-year of revenues generated from North America, due primarily to the recurring revenues tied to multi-year contracts. In FY2021, revenues from civil customers made up 64.8% of total revenues compared to 77% for the preceding year while revenues from military sources accounted for 35.2% compared to 23% last year.

OPERATING PERFORMANCE

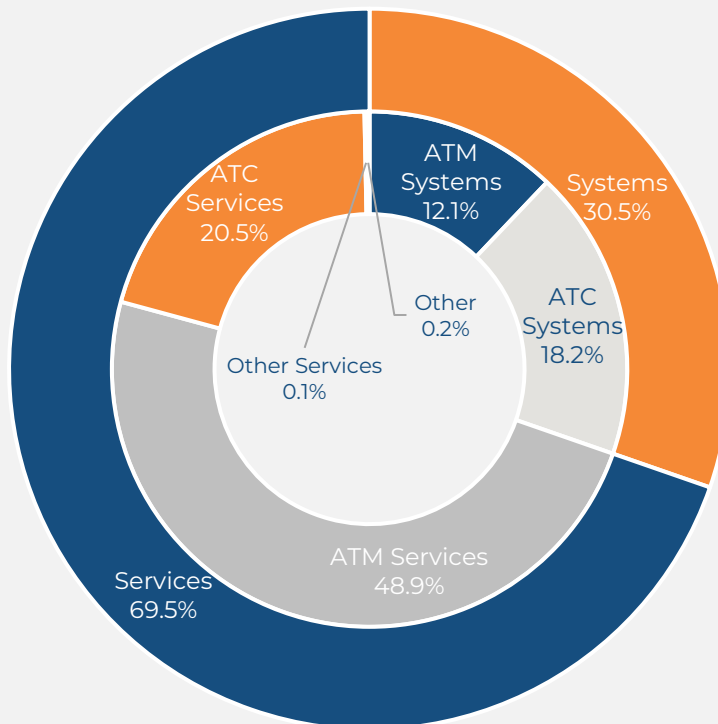
Systems

In FY2021 Adacel recorded a strong revenue improvement in our Systems segment. The revenues rose from \$9.7 million in FY2020 to \$12.3 million in FY2021, representing a 26.0% increase. ATC Systems accounted for 18.2% of the Company's revenue, up from 13% of total revenue in FY2020. The increase is a result of the General Dynamics' order for additional Air Traffic Control Common Simulators (ACS) units to the US Army.

ATM Systems revenues accounted for 12.1% of total revenue in FY2021 compared to 10.8% in the prior fiscal year, amounting to \$4.9 million in revenues versus \$4.3 million in FY2020, a 13.9% increase year-over-year. The expansion of the DSNA's project in Guadeloupe, the completion of the DSNA/DTI technical refresh in Cayenne have contributed to the revenue growth in the ATM Systems segment.

Most notably, after two years of losses, we recorded positive gross margins in the ATM Systems. The ATM Systems gross margins improved from a loss of \$1.2 million in FY2020 to a positive gross margin of \$1.5 million in FY2021.

FY2021 REVENUE PER SEGMENT & PRODUCT



During FY2021, Adacel was awarded two major ATM systems contracts from Saint Lucia Air and Seaports Authority (SLASPA) in January 2021 and Seychelles Civil Aviation Authority (SCAA) in June 2021. With the successful completion of the Fiji behind us and Guadeloupe expected to be completed in FY2022, we expect the Aurora ATM system with Approach and Tower Control capabilities to deliver positive financial performance with the two new contracts won in FY2021.

Services

In our Services segment, revenues decreased by \$2.1 million or 6.9%, driven primarily by the decline of the US dollar, which directly impacts the reported revenue from our FAA ATOP program. In US\$, Services revenues increased by 3.7%. The ATOP contract continues to be a significant contributor to the services segment. ATM services revenues accounted for 48.9% of consolidated revenues in FY2021, compared to 54.7% last year. The ATC services revenues accounted for 20.5% of FY2021 consolidated revenues, virtually unchanged from FY2020. We continue to work closely with Leidos and the FAA to ensure the successful sustainment and enhancement of ATOP.

FINANCIAL POSITION

The company’s net assets increased by 27.3%, compared with the previous year which was largely attributable to the current year’s profit and cash generation.

The company’s receivables and cash flow management continue to support overall strength in working capital. Cash and cash equivalents more than doubled when compared to prior year. Strong cash conversion from projects completed in FY2021, the collection of accounts receivable as well as proceeds of various government grants all contributed to an increase in cash. Trade receivables decreased during the year,

despite the slight increase in overall sales, mainly because of to the timing of contracts, completion of key milestones, and the timing of collection.

Trade & other payables decreased during the year due to the settlement of the previous year's non-recurring litigation costs.

TAX

Adacel has carry-forward tax losses and credits available in various jurisdictions to offset future taxable profits. At 30 June 2021, reflecting the Board's and management's confidence in future profitability, the Company has a net deferred tax asset of \$3.6 million (FY2020: \$3.7 million) relating to available tax credits. This deferral resulted in a net tax expense for the year ended 30 June 2021. Tax credits continue to be recognised and utilised in accordance with the Company's policy and applicable accounting standards.

COVID-19 SUPPORT

During fiscal year 2021, the Company was eligible for a grant of \$1,601,000 under the CEWS program (2020: \$784,000) and \$106,000 under the CERS program (2020: \$nil). The Company was eligible for government assistance of \$810,000 under the Coronavirus Aid, Relief and Economic Security Act (CARES Act) in the United States. Of this amount, \$786,000 was repaid directly to affected employees.

On 13 April 2021, the Company also received loan proceeds of USD \$770,289 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The Small Business Administration ("SBA") will forgive the proceeds received if eligibility and other criteria are met related to use of the funds, at which time the Company will recognize the forgiven amount as income. The unforgiven portion of the PPP loan is payable over five years at an interest rate of 1%, with a deferral of payments for the first 16 months.

DIVIDENDS

The Board has declared a final dividend of 3.25 cents per share, unfranked. The total dividends declared for the year of 6.00 cents per share amount to approximately 60% of PBT for FY2021. The dividend will have a Record Date of 1 September 2021 and will be paid on 15 September 2021.

KEY RISKS AND BUSINESS CHALLENGES

COVID-19 Pandemic Risk Factors Mitigation

Throughout the FY2021, we continued to operate based on our company's Disaster Recovery Plan as the majority of the Adacel team telecommuted. The Board of Directors and Adacel's Executive Team, charged with overseeing the company's health during this unique crisis, continued with its adopted mitigation strategies to ensure the well-being of our employees while meeting our commitments to Adacel's customers and shareholders.

COVID-19 continues to be a global risk. As vaccines became more available worldwide, different industries and operations were starting to slowly resume operations. Yet, lack of inoculations combined with new variants, such as Delta, continue to threaten a steady economic recovery. In FY2021, the Adacel

team members resumed annual visits at customer locations, and we started, once again, to host training classes in the Orlando office. We foresee the COVID-19 pandemic to continue to affect our operations, but to a lesser degree, as businesses adjust to a new normal.

Business Risks

The Company plays a significant role in the global market of providing crucial software used in air traffic management systems and critical tools used in the training of air traffic controllers, for both civil and military organisations. Adacel also provides a comprehensive suite of services to assist its customers and global aviation authorities in delivering high levels of safety and efficiency for global air travel.

Below are the key risks for Adacel that we are closely monitoring and mitigating.

- **Competition/Revenue:** The Company sells its products and services in highly competitive international markets. New participants have emerged in recent years and the competitive environment includes companies positioning themselves to increase their market share. Most of the Company's competitors in the simulation and air traffic management markets are also involved in other major segments of the aerospace and defence industry. Some of them are larger than Adacel, and may have greater financial, technical, marketing, manufacturing and distribution resources which could adversely affect Adacel's ability to compete successfully and grow. This risk is being addressed through the recent restructuring of the business development function and the expansion of product and service capabilities through technological improvements. The Company is also assessing the potential to acquire complimentary businesses.
- **Customer Concentration:** During the 2021 financial year, revenues of approximately 69% have been derived from 3 external customers. While the Company has been successful in extending many of its contracts with major partners, there is always a risk about the continuity of these programs. The renewal of contracts remains a risk that Adacel's management and the Board continues to actively monitor and manage. The Company continues to work closely with its customers to ensure we anticipate their business needs. We are also proactive in proposing alternative solutions and services.
- **Intellectual property:** the risk of the Company's intellectual property being infringed (illegally used by others) is being mitigated by way copyrights and contractual restrictions, such as confidentiality agreements, patents and licences as well as encryption.
- **Product integration and program management:** The Company could be negatively affected if its products do not successfully integrate or operate with other sophisticated software, hardware, computing, and communications systems that are also continually evolving. If significant, unexpected difficulties on a project occur, additional engineering and other resources may be required which may impact timing and profitability. Management monitors progress on all projects and works closely with its customers to ensure we can resolve unexpected difficulties in a timely and efficient manner.
- **Talent:** The talents of a number of key personnel contribute significantly to the Company's operational effectiveness and performance. The policies that management and the Board have in place to retain talent include participation in an appropriate incentive arrangement.

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

STRATEGIC ACTIVITIES AND OUTLOOK

With the appointment of the new Vice President, Business Development and Strategy, the Company continues to focus on its core technologies and markets. Adacel is actively pursuing initiatives aimed at improving the Company's Systems segment and the maturation in its key markets. With the restructuring of its business development force, Adacel will take a fresh approach on key international markets and further refine and expand its product and services capabilities.

Notable developments:

- In FY2021, Fiji Airports commissioned the new Aurora for En Route and Tower Control. The Aurora system, which has been historically known as an oceanic ATM system, now integrates oceanic, approach, and tower control capabilities. With other Aurora projects under way and new contracts wins in FY2021 from St. Lucia Air and Seaports Authority and Seychelles Civil Aviation Authority, we are confident Adacel can deliver smaller land-based ATM systems throughout the world.
- In the ATC segment, in FY2021 the team has launched several enhancements to streamline troubleshooting and testing processes with our customers, most notably the MaxSim Cloud. We will further expand this product, which we believe will not only enhance customer experience, but it will also improve our productivity and help expand the list of services, such as remote training.

COVID-19 pandemic will continue to affect our business. Air Navigation Service Providers' and Airport Authorities' revenues were especially hard hit by the pandemic. As a result, short-term, some of these providers will face challenges to fund new projects. At the same time, we remain confident opportunities will continue to exist in both ATC and ATM markets, as ageing ATM and ATC systems will require replacement to meet the ever-evolving technology and regulation safety requirements.

The Company has elected to change its presentation currency from Australian dollars to United States dollars effective 1 July 2021. For FY2022 assuming a steady recovery from the COVID-19 disruption we anticipate a profit before tax of between \$5.7 million and \$6.0 million compared to approximately US\$5.7 million in FY2021.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There were no significant events after the balance sheet date.

ENVIRONMENTAL REGULATION

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

GREENHOUSE GAS AND ENERGY DATA REPORTING REQUIREMENTS

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

INFORMATION ON DIRECTORS



Michael McConnell BA (Harvard), MBA (Virginia)

Non-Executive Chairman

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

Interests in Shares and Options:

1,227,778 ordinary shares in Adacel Technologies Limited.
Nil options over ordinary shares in Adacel Technologies Limited.



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

Non-Executive Director

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

Interests in Shares and Options:

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



Peter Landos BEco (ANU)

Non-Executive Director

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

Interests in Shares and Options:

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



Silvio Salom B Eng

Non-Executive Director

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

Interests in Shares and Options:

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



Rebecca Weir

Company Secretary

Rebecca is an employee of Boardroom Pty Limited (the Company's Corporate Secretarial provider) and is the appointed Company Secretary for a number of Companies, including ASX listed, private unlisted, and smaller private start-up companies. Rebecca has a Bachelor of Laws Degree (LLB) from Keele University (UK) and has detailed knowledge of regulatory requirements, including ASIC and the ASX as well as best practices in Corporate Governance. Rebecca has completed the Graduate Diploma in Applied Corporate Governance and Risk Management and was awarded the Victorian Dux award (best in class) in Corporate Governance. Rebecca is an Associate Member of the Governance Institute of Australia (AGIA) and an Affiliated Member of the Chartered Governance Institute (ACGI).

MEETINGS OF DIRECTORS

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

Directors	Meetings of committees					
	Meetings of Directors		Audit and risk management		Remuneration	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Michael McConnell	7	7	4	3	2	2
Natalya Jurcheshin	7	7	4	4	2	2
Peter Landos	7	7	4	4	*	2
Silvio Salom	7	7	4	4	2	2

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

At the date of this report, the Company has an Audit and Risk Management Committee and a Remuneration Committee of the Board of Directors.

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

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





REMUNERATION REPORT



REMUNERATION REPORT

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

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

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

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

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

Non-executive Directors

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

The level of annual Directors' fees is reviewed by the Remuneration Committee and the Board, considering several factors, including the range of Directors' fees paid in the market, and the Company's costs and operating performance. The maximum total payable to Directors for Directors' Fees is approved from time to time by shareholders in general meeting and was last set at \$500,000 per annum at the 2013 Annual General Meeting. At the 17 November 2020 AGM, 89.01% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2021. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

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

Senior Executives

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

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

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

Short-Term Incentives

For several executives in the consolidated entity, an element of their remuneration may be based upon annual bonuses, usually dependent on the satisfaction of various performance conditions. For the year ended 30 June 2021, the Board approved short-term incentives for these executives as shown in Section B below based on quantitative and qualitative performance factors in accordance with the provisions of the short-term incentive plan. The following table compares earnings and all bonuses paid or accrued over the past five years.

YEAR	Profit Before Tax \$'000's	Profit After Tax \$'000's	Range of Share Price	Bonus Earned \$'000's	Ordinary Dividend Declared (per share) Cents
2017	7,851	9,279	2.14 to 3.40	555	4.0
2018	9,512	7,717	1.69 to 3.09	644	4.5
2019	(1,954)	(2,697)	0.40 to 1.66	-	2.0
2020	2,198	3,634	0.30 to 0.84	73	2.5
2021	7,658	7,331	0.43 to 1.01	241	6.0

Long-Term Incentives

For a number of the executives in the consolidated entity, at the discretion of the Remuneration Committee, an element of their remuneration may be by way of participating in the Executive Share Option and Performance Rights Plan. Share options and performance rights are subject to performance conditions. Exercise prices of options are also set to ensure that employees will benefit by exercising their options if there has been a rise in the share price. The Executive Share Option and Performance Rights Plan is described in Note 36 and is summarised in Section D below.

Benefits

Executives receive benefits including health insurance and disability insurance.

B. DETAILS OF REMUNERATION.

Amounts of remuneration

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

The key management personnel of the Group were the directors of Adacel Technologies Limited (see pages 14-15); the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), Mr. Daniel Verret; the Vice President, Operations Mr. Kevin Pickett, and the newly appointed Vice President, Business Development and Strategy, Michael Saunders.

2021 Emoluments of the Directors and Key Management Personnel

2021 In AUD\$	Short-term employee benefits				Post-employment benefits	Other	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non monetary*	Other	Super-annuation	Termination benefits	Rights & Options	
Name								
Non-executive Directors								
Michael McConnell (<i>Chairman</i>)	95,000	-	-	-	27,193	-	-	122,193
Peter Landos**	50,000	-	-	-	4,750	-	-	54,750
Natalya Jurcheshin	60,000	-	-	-	5,700	-	-	65,700
Silvio Salom	50,000	-	-	-	4,750	-	-	54,750
Sub-total: Non-exec Directors	255,000	-	-	-	42,393	-	-	297,393
Other Key Management								
Daniel Verret	428,109	118,970	28,598	-	19,415	-	200,850	795,942
Kevin Pickett	247,659	53,087	28,208	-	12,376	-	142,600	483,930
Michael Saunders***	44,170	-	5,740	-	-	-	-	49,910
Sub-total: Other Key Management	719,938	172,057	62,546	-	31,791	-	343,450	1,329,782
Total Key Management Personnel Compensation	974,938	172,057	62,546	-	74,184	-	343,450	1,627,175

*Non-monetary benefits include medical, dental, short-term and long-term disability insurance, life & AD&D insurance, car and phone allowances, employer National Insurance Contribution (NIC), Health Savings Account (HSA) contributions.

** Cash Salary and Fees paid to TIGA Trading Pty Ltd.;

***Michael Saunders joined Adacel on 3 May, 2021.



2020 Emoluments of the Directors and Key Management Personnel

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

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

** The Company has agreed to additional remuneration for the Chairman (by way of equity) associated with executive support services that were provided during the 2019 executive transition. The Company has agreed to issue 277,778 fully paid ordinary shares at \$0.54 for these services.

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

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

C. SERVICE AGREEMENTS.

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

Daniel Verret (Chief Executive Officer)

- Terms of agreement - Two-year fixed-term agreement.
- Base salary, superannuation, automobile allowance, and medical/health insurance benefits for the year ended 30 June 2021 of \$476,122. This equates to 59.8% of his total earnings.
- Payment of termination benefit on early termination by the employer, other than for cause, equal to 12 months' base salary.
- There is a contractual provision for performance-related and discretionary cash bonuses as determined by the Board. An amount of \$118,970 has been accrued for the year ended 30 June 2021. This equates to 14.9% of his total earnings.
- Participation, when eligible, in the Executive Share Option and Performance Rights Plan. During fiscal year 2020, Mr. Verret received a grant of 402,000 options and 223,000 performance rights. They will vest on August 12, 2021. An amount of \$200,850 was recognized during the year. This equates to 25.3% of his total earnings.

Kevin Pickett (Vice President, Operations)

- Term of agreement - No fixed term.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2021 of \$288,243. This equates to 59.6% of his total earnings.
- There is no defined contractual obligation to provide a benefit upon termination of employment, however, payment of early termination benefits, other than for cause, would be based on industry standards.
- There is no contractual provision for performance-related cash bonuses. However, Mr. Pickett is eligible for performance-related cash bonuses as determined by the Board. An amount of \$53,087 has been accrued for the year ended 30 June 2021. This equates to 10.9% of his total earnings.
- Participation, when eligible, in the Executive Share Option and Performance Rights Plan. During fiscal year 2020, Mr. Pickett received a grant of 286,000 options and 158,000 performance rights. They will vest on August 12, 2021. An amount of \$142,600 was recognized during the year. This equates to 29.5% of his total earnings.

Michael Saunders (Vice President, Business Development and Strategy)

- Mr. Saunders joined Adacel on 3 May, 2021.
- Term of agreement - No fixed term.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2021 of \$49,910. This equates to 100% of his total earnings.
- There is no defined contractual obligation to provide a benefit upon termination of employment, however, payment of early termination benefits, other than for cause, would be based on industry standards.

Hasaka Martin (Company Secretary) – resigned 9 October, 2020

- Term of agreement – Effective 30 January 2020. Mr. Martin resigned 9 October, 2020
- Mr. Martin is an employee of Boardroom Pty Limited who provides Company Secretarial services to the Company on an agreed monthly fee basis.
- Fees for the year ended 30 June 2021 in respect of Company Secretarial activities of \$16,452 have been paid or accrued.

Rebecca Weir (Company Secretary) – appointed 9 October, 2020

- Term of agreement – Effective 9 October, 2020.
- Ms. Weir is an employee of Boardroom Pty Limited who provides Company Secretarial services to the Company on an agreed monthly fee basis.
- Fees for the year ended 30 June 2021 in respect of Company Secretarial activities of \$43,548 have been paid or accrued.



D. SHARE-BASED COMPENSATION.

EXECUTIVE SHARE OPTION AND PERFORMANCE RIGHTS PLAN

Options and performance rights may be granted under the Executive Share Option and Performance Rights Plan, which was approved by the shareholders at the Annual General Meeting in November 2017 and subsequently re-approved by the shareholders (in accordance with ASX Listing Rule 7.2 and section 259A and section 260A Corporations Act 2001 (Cth)) at the Annual General Meeting in November 2020. Under this plan, Directors may issue options and performance rights to eligible employees. The Directors have the discretion about the number of options and performance rights to be issued and also the exercise periods and conditions precedent to the options and performance rights vesting. The options and performance rights are issued for no consideration and are not listed. Options and performance rights granted under the plan carry no dividend or voting rights. When exercisable, each option and performance right is convertible into one ordinary share. In the event of the resignation, redundancy or termination of employment of a participant in the plan, the options or performance rights issued under the Executive Share Option and Performance Rights Plan lapse immediately, unless the Directors, at their absolute discretion, determine otherwise. For the year ended 30 June 2021, the Executive Share Option and Performance Rights Plan is described in note 36 and is summarized below.

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

*The Performance Rights Fair Value reflects the market price the day they were granted.

**Options Fair Value was calculated using the Black & Scholes valuation model.

At 30 June 2021, the options and performance rights vested or exercisable are nil.

SHARES PROVIDED ON EXERCISE OF OPTIONS OR PERFORMANCE RIGHTS

In July 2020, the Board granted an additional 361,000 performance rights to eligible employees. These performance rights have an exercise price of nil and are subject to the attainment of certain performance conditions and continuous employment until after the release of the fiscal year 2023 audited consolidated financial statements. During the year ended 30 June 2021, no performance rights were exercised, and no amount was recognised as it is too early to determine whether the performance conditions will be met.

In July 2020, the Board also granted an additional 835,000 options to eligible employees. These options have an exercise price of \$0.54 per option and will vest subject to the attainment of certain performance conditions and continuous employment until after the release of the fiscal year 2023 audited consolidated financial statements. The options expire on 30 June 2028. During the year ended 30 June 2021, no options were exercised, and no amount was recognised as it is too early to determine whether the performance conditions will be met.

SHARE HOLDINGS

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

2021							
Name	Balance at the start of the year	Granted during the year as remuneration	Received during the year on the exercise of rights & options	Acquisitions during the year	Disposals during the year	Change as a KMP during the year	Balance at the end of the year
Directors of Adacel Technologies limited							
Michael McConnell	630,000	277,778	-	320,000	-	-	1,227,778
Natalya Jurcheshin	-	-	-	-	-	-	-
Peter Landos	-	-	-	-	-	-	-
Silvio Salom	5,195,191	-	-	-	-	-	5,195,191
Other key management personnel of the group							
Daniel Verret	94,000	-	-	-	-	-	94,000
Kevin Pickett	94,000	-	-	-	-	-	94,000
Michael Saunders*	-	-	-	-	-	-	-

*Michael Saunders joined Adacel on 3 May 2021.



2020							
Name	Balance at the start of the year	Granted during the year as remuneration	Received during the year on the exercise of options	Acquisitions during the year	Disposals during the year	Change as a KMP during the year	Balance at the end of the year
Directors of Adacel Technologies limited							
Michael McConnell	287,842	-	-	342,158	-	-	630,000
Natalya Jurcheshin	-	-	-	-	-	-	-
Peter Landos	-	-	-	-	-	-	-
Silvio Salom	5,195,191	-	-	-	-	-	5,195,191
Other key management personnel of the group							
Daniel Verret*	-	-	94,000	-	-	-	94,000*
Brian Hennessey	125,157	-	-	-	-	-	125,157**
Kevin Pickett	-	-	94,000	-	-	-	94,000*
Sophie Karzis	13,000	-	-	-	-	-	13,000***

*In August 2019, the Board granted 94,000 performance rights to Mr. Verret and 94,000 performance rights to Mr. Pickett. These performance rights had an exercise price of nil and vested on 30 April 2020. On 1 May 2020, the Performance Rights were exercised by Mr. Verret and Mr. Pickett.

**Balance held at time of resignation – 27 September 2019.

*** Balance held at time of resignation – 30 January 2020.

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 2021 (FY2020: nil).

INSURANCE OF DIRECTORS AND OFFICERS AND INDEMNITIES

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

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

NON-AUDIT SERVICES

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

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

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

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

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

	Consolidated	
	2021	2020
Taxation services		
PricewaterhouseCoopers Australian firm		
Tax compliance services	9,750	18,870
Consulting services		7,500
	9,750	26,370
Related practices of PricewaterhouseCoopers Australian firm		
Tax compliance services	123,834	74,203
Tax consulting services	17,665	39,571
	141,499	113,774
Other Consulting Services	74,187	-
	74,187	
Total remuneration for taxation services	225,436	140,144

AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration, as required under section 307C of the Corporations Act 2001, is set out on page 25.

ROUNDING

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

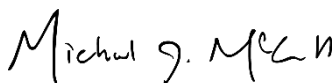
AUDITOR

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

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Adacel Technologies Limited support and have adhered to the principles of corporate governance. The Company's corporate governance statement is available on the company's website as indicated on page 84.

Signed in accordance with a resolution of the Directors.



Michael McConnell

Chairman

Melbourne, 12 August 2021



Natalya Jurcheshin

Director



Auditor's Independence Declaration

As lead auditor for the audit of Adacel Technologies Limited for the year ended 30 June 2021, 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 Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to be 'JP', written in a cursive style.

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
12 August 2021

ADACEL TECHNOLOGIES LIMITED
ABN 15 079 672 281
ANNUAL FINANCIAL STATEMENTS – 30 JUNE 2021

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

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

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

A description of the nature of the consolidated entity's operations, its principal activities and review of operations is included in the directors' report on pages 2 to 13, which does not form part of this financial report.

The financial report was authorised for issue by the directors on 12 August 2021. The Company has the power to amend and reissue the financial report.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2021

	Notes	Consolidated	
		2021 \$'000	2020 \$'000
Revenue from contracts with customers	5	40,162	39,714
Interest income	6	6	7
Other income	6	3,914	1,436
Net foreign exchange (loss)/gain		(622)	341
Materials and consumables		(6,563)	(6,084)
Labour expense		(24,802)	(26,937)
Depreciation and amortisation expense		(1,823)	(1,915)
Finance costs		(322)	(396)
All other expenses		(2,292)	(3,968)
Profit before tax		7,658	2,198
Income tax (expense)/benefit	8	(327)	1,436
Profit from continuing operations, net of tax		7,331	3,634
Other comprehensive income			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations	25	368	(249)
Total other comprehensive income/ (loss), net of tax		368	(249)
Total comprehensive income for the year		7,699	3,385
Profit for the year is attributable to:			
Owners of Adacel Technologies Limited		7,331	3,634
Total comprehensive income for the year is attributable to:			
Owners of Adacel Technologies Limited		7,699	3,385
Earnings per share for profit attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share (cents per share)	35	9.59	4.71
Diluted earnings per share (cents per share)	35	9.51	4.71

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	Consolidated	
		2021 \$'000	2020 \$'000
Current assets			
Cash and cash equivalents	9	11,597	5,177
Trade and other receivables	10	6,742	11,032
Accrued revenue	10	5,727	4,237
WIP and Inventories	11	534	1,320
Tax receivable	8	2,398	-
Other financial assets	13	50	55
Total current assets		27,048	21,821
Non-current assets			
Property, plant and equipment	15	746	755
Intangible assets	16	1,933	1,178
Right-of-use assets	17	5,708	6,876
Tax receivable	8	-	2,630
Deferred tax asset	18	4,420	4,512
Other financial assets	14	47	50
Total non-current assets		12,854	16,001
Total assets		39,902	37,822
Current liabilities			
Trade and other payables	19	4,503	5,956
Advance payments from customers		4,097	4,416
Current tax liabilities		636	1,415
Provisions	21	2,752	2,335
Lease liabilities	17	1,378	1,406
Total current liabilities		13,366	15,528
Non-current liabilities			
Lease liabilities	17	5,079	6,158
Deferred tax liability	18	861	763
Government loans	23	1,024	-
Total non-current liabilities		6,964	6,921
Total liabilities		20,330	22,449
Net assets		19,572	15,373
Equity			
Contributed equity	24	70,873	71,468
Reserves	25	235	(476)
Accumulated losses	25	(51,536)	(55,619)
Total equity		19,572	15,373

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2021

		Attributable to the owners of Adacel Technologies Limited			
		Contributed Equity	Reserves	Accumulated Losses	Total Equity
		\$'000	\$'000	\$'000	\$'000
Notes					
	Balance at 1 July 2019	71,338	(227)	(58,491)	12,620
	Profit for the year	-	-	3,634	3,634
	Exchange differences on translation of foreign operations	25	(249)	-	(249)
	Total comprehensive income for the year	-	(249)	3,634	3,385
Transactions with owners in their capacity as owners:					
	Exercise of performance rights	24	130	-	130
	Dividends provided for or paid	26	-	(762)	(762)
			130	(762)	(632)
	Balance at 30 June 2020	71,468	(476)	(55,619)	15,373
	Balance at 1 July 2020	71,468	(476)	(55,619)	15,373
	Profit for the year	-	-	7,331	7,331
	Exchange differences on translation of foreign operations	25	-	368	368
	Total comprehensive income for the year	-	368	7,331	7,699
Transactions with owners in their capacity as owners:					
	Share buyback equity reductions	24	(745)	-	(745)
	Issue of ordinary shares	24	150	-	150
	Employee share schemes – value of employee services	36	-	343	343
	Dividends provided for or paid	26	-	(3,248)	(3,248)
			(595)	343	(3,500)
	Balance at 30 June 2021	70,873	235	(51,536)	19,572

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2021

	Notes	Consolidated	
		2021 \$'000	2020 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		43,477	41,987
Receipts from government grants		3,074	-
Payments to suppliers and employees (inclusive of GST)		(35,000)	(34,893)
Payments for research and development expenditure (inclusive of GST)		(309)	(541)
Refund of security deposits		-	123
		<u>11,242</u>	<u>6,676</u>
Interest received	6	6	7
Income tax paid		(1,047)	(755)
Tax credits refunded		1,822	577
Finance costs		(322)	(396)
Net cash inflow from operating activities	32	<u>11,701</u>	<u>6,109</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(428)	(354)
Payments for internally generated software		(1,023)	(505)
Net cash outflow from investing activities		<u>(1,451)</u>	<u>(859)</u>
Cash flows from financing activities			
Dividend paid	26	(3,248)	(762)
Repayment of TPC grant		-	(625)
Principal elements of lease payments	17	(1,048)	(1,039)
Proceeds from borrowing	23	1,001	-
Shares repurchased through on market buy-back	24	(745)	-
Net cash outflow from financing activities		<u>(4,040)</u>	<u>(2,426)</u>
Net increase in cash and cash equivalents		6,210	2,824
Cash and cash equivalents at the beginning of the financial year	9	5,177	2,511
Effects of exchange rate changes on cash and cash equivalents		210	(158)
Cash and cash equivalents at the end of the financial year	9	<u>11,597</u>	<u>5,177</u>

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

Notes to the Financial Statements - 30 June 2021

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

Compliance with IFRS

The consolidated financial statements of Adacel Technologies Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) (the financial statements). These financial statements have been approved by the Board on August 12, 2021.

Early adoption of standards

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

Going concern basis of preparation

This general purpose financial report has been prepared on a going concern basis following the directors' consideration of the operating plans and budgets for the period of 12 months from the date of signing the financial statements, and the financing arrangements discussed in note 22.

Historical cost convention

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

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 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 2021 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 Company or the consolidated entity.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Company's entities

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Revenue recognition

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

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

(f) Government grants

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

Government grants relating to costs are deferred and recognised in the profit and loss as other income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and credited to the profit and loss on a straight-line basis over the expected lives of the related assets.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Income tax

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

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

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

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

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

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

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

(h) Cash and cash equivalents

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Trade receivables and accrued revenue

(i) Trade receivables

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

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

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

(ii) Accrued revenue

Accrued revenue represents revenue that has been recognised, but which has not been invoiced to the customer at the statement of financial position date.

(j) Security deposits

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

(k) Inventories

Works in progress is 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.

(l) Investments and other financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (note 10). Loans and receivables are carried at amortised cost.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Derivatives and hedging activities

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

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

(n) Fair Value Estimation

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

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

Details on how the fair value of financial instruments is determined are disclosed in note 2.

(o) Property, plant and equipment

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Intangible assets

(i) Goodwill

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

(ii) Intellectual property

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

(iii) Research and development

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

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

Capitalised assets are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(q) Trade and other payables

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

(r) Advance payments from customers

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Leases

The Company leases various offices and equipment. Rental contracts are typically made for a fixed period of 3 to 10 years but may have extension options. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the lease asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight-line basis.

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

(t) Onerous contracts

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

(u) Provisions

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

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

(iii) Superannuation

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

(iv) Share-based payments

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(v) Bonus plans

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

(vi) Termination benefits

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

(vii) Employee benefit on-costs

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

(w) Contributed equity

Ordinary shares are classified as equity.

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

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

(x) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Goods and Services Tax (GST)

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

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

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

(z) Parent entity financial information

The financial information for the parent entity, Adacel Technologies Limited, disclosed in note 37, has been prepared on the same basis as the consolidated financial statements, except as set out below.

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

(aa) Rounding of amounts

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

(ab) New accounting standards and interpretations

- (i) New and amended standards adopted by the Company
 - (a) AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material
 - (b) AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business
 - (c) AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform
 - (d) AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet issued in Australia
 - (e) Conceptual Framework for Financial Reporting and AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Notes to the Financial Statements - 30 June 2021

2. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks; market risks (including currency risk and interest rate risk), credit risk, and liquidity risk. The Company'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 Company. The Company may use derivative financial instruments such as foreign exchange contracts to manage certain risk exposures. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and aging analysis for credit risk.

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

The consolidated entity holds the following financial instruments

	Consolidated	
	2021	2020
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	11,597	5,177
Trade and other receivables	3,934	7,639
Accrued revenue	5,727	4,237
Security Deposits with RBC & BMO	50	55
	21,308	17,108
Financial liabilities		
Trade and other payables	4,503	5,956
Lease liabilities	6,457	7,564
Government loan	1,024	-
	11,984	13,520

Notes to the Financial Statements - 30 June 2021

2. FINANCIAL RISK MANAGEMENT (CONTINUED)**(a) Market risk***(i) Foreign exchange risk*

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

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

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

Values are shown in foreign currencies	30 June 2021		30 June 2020	
	USD	EURO	USD	EURO
	\$'000	E'000	\$'000	E'000
Cash and cash equivalents	2,572	1,437	276	993
Trade and other receivables	2,105	129	2,111	853
Accrued revenues	531	2,648	809	(499)
Security Deposits with RBC & BMO	38	-	38	-
Trade and other payables	(32)	(19)	(332)	(18)

Sensitivity

Based on the financial instruments held at 30 June 2021, had the Australian dollar strengthened/weakened by 10% against the US Dollar, with all other variables held constant, the Company's post tax profit for the year would have been \$771,000 lower/\$630,000 higher (in 2020, the post-tax profit would have been \$384,000 lower/\$470,000 higher).

Had the Australian dollar strengthened/weakened by 10% against the EURO, with all other variables held constant, the Company's post tax profit for the year would have been \$738,000 lower/\$603,000 higher (in 2020, the post-tax profit would have been \$198,000 lower/\$242,000 higher).

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

(ii) Price risk

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

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Cash flow and fair value interest rate risk

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

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

	Consolidated			
	30 June 2021		30 June 2020	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	AUD \$'000	%	AUD \$'000
Cash at bank	0.00	11,597	0.09	5,177
Net exposure to cash flow interest rate risk		<u>11,597</u>		<u>5,177</u>

Sensitivity

The Company's main interest rate risk arises from cash equivalents, loans and other receivables with variable interest rates. However, the impact of any anticipated movements in interest rates would not have a material impact on the results of the Company. See note 23 for information on the fair value of loan.

(b) Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures to customers, including outstanding receivables. An analysis of outstanding receivables is included in note 10.

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

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

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

Notes to the Financial Statements - 30 June 2021

2. FINANCIAL RISK MANAGEMENT (CONTINUED)**(c) Liquidity risk**

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

Financing arrangements

The consolidated entity had access to undrawn borrowing facilities at the reporting date as disclosed in note 22.

Maturities of financial instruments

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

Company – At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years	Total contractual cash flows	Carrying Amount (assets) /liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	4,503	-	-	-	4,503	4,503
Lease liabilities	1,354	1,189	2,383	2,487	7,413	6,457
Government loan	-	272	786	-	1,058	1,024
Total	5,857	1,461	3,169	2,487	12,974	11,984
Company – At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years	Total contractual cash flows	Carrying Amount (assets) /liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	5,956	-	-	-	5,956	5,956
Lease liabilities	1,382	1,396	2,787	3,226	8,790	7,564
Total	7,338	1,396	2,787	3,226	14,746	13,520

The book value of the liabilities above approximates fair value.

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Fair value measurements

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

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

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

None of the consolidated entity's assets and liabilities were required to be measured and recognised at fair value for 30 June 2021 and 30 June 2020.

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

3. CRITICAL ACCOUNTING ESTIMATES

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

Impact of COVID-19 pandemic

As at 30 June 2021, the Company performed an assessment of the impact of the uncertainties around the outbreak of the novel strain of the coronavirus, specifically identified as COVID-19 pandemic, on projects, assets and liabilities. This assessment, which required the use of significant judgements and estimates, had no material impact on the Company's projects, assets and liabilities. Various forms of government support were received during the financial year as disclosed in note 6 and note 23. As an evolving risk, the duration and full financial and operational effects of the COVID-19 pandemic are unknown, and accordingly estimates will continue to be reviewed during fiscal year 2022.

Contract revenue recognised at balance date

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

Income taxes

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

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

4. SEGMENT INFORMATION

(a) Description of segments

Management has determined the operating segments based on the reports that are used to make strategic decisions. These reports are prepared by the CEO and reviewed by the Board monthly. The consolidated entity is organised on a global basis into these following segments:

Systems – Includes all sales of complex systems and products covering operational control as well as simulation and training. This segment also includes all hardware and software upgrade sales.

Services – Includes all recurring revenue, including all aspects of support, field services and on-site technical services.

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

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

(i) Accounting policies

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

(ii) Inter-segment transfers

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

(iii) Significant Customers

During the 2021 financial year, revenues of approximately 69% have been derived from 3 external customers. These customers are in North America and Europe, and the amount of revenues from them during the year were \$17.7 million, \$5.8 million and \$4.2 million respectively. In 2020, 70% of revenues were from 3 customers, individually amounting to \$19.7 million, \$5.5 million and \$2.5 million respectively.

Notes to the Financial Statements - 30 June 2021

4. SEGMENT INFORMATION (CONTINUED)**(c) Segment Information for the year ended 30 June 2021**

	Notes	Systems		Services		Total	
		2021	2020	2021	2020	2021	2020
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operations							
Total segment revenue	5	12,266	9,743	27,896	29,971	40,162	39,714
Total segment margin		1,508	(1,169)	14,602	15,149	16,110	13,980
Other income	6					3,914	1,436
Interest revenue	6					6	7
Exchange rate (loss) gain						(622)	341
R&D expenses						(309)	(541)
S&M expenses						(3,044)	(3,365)
G&A expenses						(5,486)	(7,310)
Other expenses						(766)	(39)
Depreciation & amortisation	7					(1,823)	(1,915)
Interest & finance charges	7					(322)	(396)
Profit before income tax						7,658	2,198
Income Tax (Expense) / Benefit						(327)	1,436
Profit for the Period						7,331	3,634

Geographical Information

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

	USA		Canada		Australia		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total Segment Revenue	12,515	10,031	25,965	27,679	1,682	2,004	40,162	39,714
Total non-current assets	1,119	4,423	11,406	11,163	329	415	12,854	16,001

Notes to the Financial Statements - 30 June 2021

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

	Consolidated	
	2021	2020
	\$'000	\$'000
<i>Sales revenue</i>		
Sale of services and systems	40,162	39,714
	40,162	39,714
<i>Timing of revenue recognition</i>		
At a point in time	6,611	3,050
Over time	33,551	36,664
	40,162	39,714

As of June 30, 2021, the unsatisfied performance obligation resulting from contracts is \$19,497,494 (2020: \$19,075,205). Management expects that 73% of the unsatisfied contracts will be recognised as revenue during the next annual reporting period. The remaining 27% is expected to be recognised as revenue by fiscal year 2031.

The Company also has a provision for onerous contracts. See note 21 for further information.

6. OTHER INCOME

	Consolidated	
	2021	2020
	\$'000	\$'000
<i>Other Income</i>		
Quebec Tax Credits	1,377	694
Canada Emergency Wage Subsidy (CEWS)	1,558	742
Canada Emergency Rent Subsidy (CERS)	106	-
CARES Act	810	-
Other	63	-
Interest	6	7
	3,920	1,443

The Company is eligible for tax credits of \$1,377,000 (2020: \$694,000) from the Quebec government for R&D, Multimedia and E-business schemes. These tax credits have been accrued after analysing the applicable criteria. They will be adjusted to the actual amount once the tax return has been submitted and the amounts received. During fiscal year 2021, the Company was eligible for a grant of \$1,601,000 under the CEWS program (2020: \$784,000) and \$106,000 under the CERS program (2020: \$nil). The Company was eligible for government assistance of \$810,000 under the Coronavirus Aid, Relief and Economic Security Act (CARES Act) in the United States. Of this amount, \$786,000 was repaid directly to affected employees. The Company also received a Paycheck Protection Program loan. See note 23 for further information.

7. EXPENSES

	Consolidated	
	2021	2020
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
Depreciation of property, plant & equipment:		
Leasehold improvements	129	153
Furniture, fittings and equipment	282	284
Total depreciation	411	437
Amortisation of Intangibles	302	303
Amortisation of Right-of-use assets	1,110	1,175
Interest and finance charges paid/payable	322	396
Legal fees and settlements	325	2,355
Net foreign exchange losses/(gains)	622	(341)
Defined contribution superannuation expense	1,300	1,340
Onerous contract	212	(786)
Research and development (inclusive of labour)	309	541

Notes to the Financial Statements - 30 June 2021

8. INCOME TAX

	Consolidated	
	2021	2020
	\$'000	\$'000
(a) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable		
Profit from continuing operations before income tax expense	7,658	2,198
Income tax calculated at Australian rate of 30% (2020 – 30%)	1,991	731
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Canadian Federal income tax credits	(1,321)	(1,224)
Other items (net)	(278)	(115)
Current year temporary differences brought to account	539	177
Current year tax losses not brought to account	191	676
Utilisation of previously unbooked tax losses and tax credits	(205)	-
Recognition of previously unbooked tax losses	(545)	(2,221)
Income tax under provided in prior years	313	446
Withholding tax on overseas remittances	6	251
Other Items	(364)	(161)
Income tax expense / (benefit)	327	(1,436)
(b) Income tax expense		
Current tax expense / (benefit)	835	(1,512)
Deferred tax expense	7	479
Adjustments for current tax of prior periods	(515)	(403)
	327	(1,436)
Income tax expense / (benefit) is wholly attributable to continuing operations		
(c) Estimated unrecognised tax losses and tax credits		
Australia – tax losses	39,382	38,818
Canada – Federal tax credits	55,559	59,771
United States – tax losses	1,869	2,047
Total gross tax losses and credits	96,810	100,636
Potential tax benefit at applicable tax rates**	20,583	21,170
(d) Estimated unrecognised temporary differences		
Temporary differences for which no deferred tax asset/(liability) has been recognised	217	217
Potential tax benefit at applicable tax rates**	65	65

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

Notes to the Financial Statements - 30 June 2021

8. INCOME TAX (CONTINUED)

On March 27, 2020, the CARES Act was enacted to address the economic impact of the COVID-19 pandemic in the United States. Among other things, the CARES Act allows a five-year carryback period for tax losses generated in 2019 through 2021. As a result, an income tax benefit of \$2.6 million was recorded in 2020 in connection with a tax loss generated during fiscal year 2020 that the CARES Act will now allow to be carried back to 2015, a tax year when the U.S. federal income tax rate was 35%. There is no income tax benefit for fiscal year 2021.

9. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated	
	2021	2020
	\$'000	\$'000
Cash at bank and in hand	11,597	5,177
	11,597	5,177

(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	11,597	5,177
Balances per statement of cash flows	11,597	5,177

(b) Cash at bank and in hand

Cash at bank is interest bearing at rates of 0.0% to 1.0% (2020: 0.0% to 1.0%). Cash at bank is mainly at call but is invested in term deposits with maturity of 3 months or less from date of acquisition where possible.

(c) Interest rate risk exposure

The Company's exposure to interest rate risk is discussed in note 2.

10. CURRENT ASSETS – TRADE, OTHER RECEIVABLES, ACCRUED REVENUE

	Consolidated	
	2021	2020
	\$'000	\$'000
Trade receivables	3,934	7,639
Provision for impairment of receivables	-	-
	3,934	7,639
Sundry debtors	290	844
Provincial tax credits	1,892	2,108
Prepayments	626	441
	6,742	11,032
Accrued revenue	5,727	4,237
	5,727	4,237

Notes to the Financial Statements - 30 June 2021

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

(a) Past due but not impaired

As of 30 June 2021, trade receivables of \$1,166,700 (2020: \$2,540,388) were past due but not impaired. Whilst these amounts are past due, dialogue continues with these customers and payment is expected to be received in full.

	Consolidated	
	2021	2020
	\$'000	\$'000
Up to 3 months	1,008	1,757
3 to 6 months	8	326
Over 6 months	151	457
	1,167	2,540

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

(b) Foreign exchange and interest rate risk

Information about the Company's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 2.

(c) Fair value and credit risk

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

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Company and the credit quality of the entity's trade receivables.

11. CURRENT ASSETS – WIP & INVENTORIES

	Consolidated	
	2021	2020
	\$'000	\$'000
Current		
Inventory	327	255
Work-in-progress on contracts	207	1,065
	534	1,320



12. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Instruments used by the Company

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

(b) Risk exposures

Information about the Company's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

13. CURRENT ASSETS - OTHER FINANCIAL ASSETS

	Consolidated	
	2021	2020
	\$'000	\$'000
Restricted term Deposit with Royal Bank of Canada ("RBC") and Bank of Montreal ("BMO")	50	55
	50	55

The entity has a restricted term deposit with the BMO as security for a Bank Guarantee.

14. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

	Consolidated	
	2021	2020
	\$'000	\$'000
Security Deposits – Orlando and Hampton East Offices	47	50

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

	Consolidated		Total
	Furniture, fittings & equipment	Leasehold improvements	
	\$'000	\$'000	
At 1 July 2019			
Cost	3,615	1,459	5,074
Accumulated depreciation/amortisation	(3,087)	(1,153)	(4,240)
Net book amount	528	306	834
Year ended 30 June 2020			
Opening net book value	528	306	834
Additions	331	34	365
Depreciation/amortisation expense	(284)	(153)	(437)
Exchange differences	(7)	-	(7)
Closing net book amount	568	187	755
At 30 June 2020			
Cost	3,950	1,469	5,419
Accumulated depreciation/amortisation	(3,382)	(1,282)	(4,664)
Net book amount	568	187	755
Year ended 30 June 2021			
Opening net book value	568	187	755
Additions	422	-	422
Depreciation/amortisation expense	(282)	(129)	(411)
Exchange differences	(13)	(7)	(20)
Closing net book amount	695	51	746
At 30 June 2021			
Cost	4,203	1,459	5,662
Accumulated depreciation/amortisation	(3,508)	(1,408)	(4,916)
Net book amount	695	51	746

16. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Consolidated				
	Core intellectual property \$'000	Purchased intellectual property \$'000	Internally generated software \$'000	Goodwill \$'000	Total \$'000
At 1 July 2019					
Cost	15,996	1,559	-	2,524	20,079
Accum amortisation & impairment	(15,465)	(1,094)	-	(2,524)	(19,083)
Net book amount	531	465	-	-	996
Year ended 30 June 2020					
Opening net book value	531	465	-	-	996
Additions	-	131	379	-	510
Amortisation expense	(166)	(136)	-	-	(302)
Exchange differences	(6)	(2)	(18)	-	(26)
Closing net book amount	359	458	361	-	1,178
At 30 June 2020					
Cost	15,507	1,681	361	2,505	20,054
Accum amortisation & impairment	(15,148)	(1,223)	-	(2,505)	(18,876)
Net book amount	359	458	361	-	1,178
Year ended 30 June 2021					
Opening net book value	359	458	361	-	1,178
Additions	-	-	1,027	-	1,027
Amortisation expense	(158)	(126)	(18)	-	(302)
Exchange differences	(2)	-	32	-	30
Closing net book amount	199	332	1,402	-	1,933
At 30 June 2021					
Cost	15,576	1,685	1,419	2,511	21,191
Accum amortisation & impairment	(15,377)	(1,353)	(17)	(2,511)	(19,258)
Net book amount	199	332	1,402	-	1,933

Notes to the Financial Statements - 30 June 2021

17. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The balance sheet shows the following amounts relating to leases:

	Consolidated	
	30 June 2021	1 July 2020
	\$'000	\$'000
Right-of-use assets		
Buildings	5,604	6,716
Equipment	74	113
Vehicles	30	47
	<u>5,708</u>	<u>6,876</u>
Lease liabilities		
Current	1,378	1,406
Non-current	5,079	6,158
	<u>6,457</u>	<u>7,564</u>
Additions of right-of-use assets		
Building	41	108
Equipment	-	-
Vehicles	-	51
	<u>41</u>	<u>159</u>

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

	Consolidated	
	2021	2020
	\$'000	\$'000
Depreciation of right-of-use assets		
Buildings	(1,062)	(1,139)
Equipment	(31)	(33)
Vehicles	(17)	(3)
	<u>(1,110)</u>	<u>(1,175)</u>
Interest expense	(322)	(396)

The total cash outflow for leases in 2021 was \$1,370,000 (2020: \$1,435,000).

Notes to the Financial Statements - 30 June 2021

18. DEFERRED TAX ASSETS & LIABILITIES

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

	Consolidated	
	2021	2020
	\$'000	\$'000
Deferred tax assets comprise the following temporary differences attributable to:		
Unused tax credits brought to account	5,514	5,474
Other items	495	443
Set off of deferred tax liabilities pursuant to set-off provisions	(1,589)	(1,408)
	4,420	4,512
Deferred tax liabilities comprise the following temporary differences attributable to:		
Temporary difference on unused tax credits brought to account	(1,461)	(1,451)
Temporary difference on utilised Federal tax credits	(360)	(311)
Temporary difference on utilised Provincial tax credits	(629)	(406)
Set off of deferred tax assets pursuant to set-off provisions	1,589	1,405
	(861)	(763)
	3,559	3,749
Net amount of Deferred Tax Assets (Liabilities)	3,559	3,749
Movement reconciliation		
Opening Balance	3,749	4,314
(Charged) to tax expense	(218)	(479)
Credited / (Charged) to foreign currency translation reserve	28	(86)
Closing Balance	3,559	3,749

Notes to the Financial Statements - 30 June 2021

19. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2021	2020
	\$'000	\$'000
Trade payables	1,490	1,820
Accrued expenses	3,013	4,136
	4,503	5,956

The Company's former Chief Executive Officer ("CEO") filed a breach of contract claim against the Company. During fiscal year 2020, the Company received an adverse ruling in its arbitration with the former CEO in the state of Florida. The Company recorded an accrual of \$1,136,000 representing 12 months of salary and benefits, reimbursement of legal costs, arbitration costs and interest. The amount has been paid in fiscal year 2021.

(a) Risk exposure

Information about the Company's exposure to foreign exchange risk is provided in note 2.

20. NON-CURRENT LIABILITIES - RETIREMENT BENEFIT OBLIGATIONS

All employees from the Company are entitled to benefits from accumulated benefits superannuation plans on retirement, disability or death. Australian employees are covered by the Australian Government's Superannuation Guarantee. Canadian employees are covered by a Deferred Profit Sharing Plan (DPSP) and the USA employees are covered by a 401k Plan. The expense recognised in relation to these defined contribution plans is disclosed in note 7.

21. LIABILITIES – PROVISIONS

	Consolidated	
	2021	2020
	\$'000	\$'000
Current		
Employee benefits – long service leave (b), (c)	248	90
Annual leave payable (c)	1,672	1,450
Service and contract performance warranties (a),(b)	136	453
Customer contract provisions	696	342
	2,752	2,335
Non-Current		
Employee benefits – long service leave (b),(c)	-	-
	-	-

(a) Service and contract performance warranties

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

Notes to the Financial Statements - 30 June 2021

21. LIABILITIES – PROVISIONS (CONTINUED)**(b) Movements in provisions**

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

	Warranty	Long Service Leave
	\$'000	\$'000
Carrying amount at the beginning of the year	453	90
Charged/(credited) to the profit and loss		
-additional provisions recognised	240	158
-amounts used during the period	(553)	-
Foreign exchange impact	(4)	-
Carrying amount at the end of the year	136	248

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

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

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

	Consolidated	
	2021	2020
	\$'000	\$'000
Annual leave obligation expected to be settled after 12 months	518	383
Long service leave obligation expected to be settled after 12 months	248	90
	766	473

Notes to the Financial Statements - 30 June 2021

22. FINANCING ARRANGEMENTS

	Consolidated	
	2021	2020
	\$'000	\$'000
Bank facilities available		
Overdraft	3,040	3,393
Guarantees	1,130	922
Credit card	528	548
	4,698	4,863
Bank facilities used at balance date		
Overdraft	-	-
Guarantees	1,130	922
Credit card	86	12
	1,216	934
Bank facilities unused at balance date		
Overdraft	3,040	3,393
Guarantees	-	-
Credit card	442	536
	3,482	3,929

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

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

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

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

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

Notes to the Financial Statements - 30 June 2021

23. BORROWINGS

	Consolidated	
	2021	2020
	\$'000	\$'000
Current	-	-
Non-current	1,024	-
	1,024	-

On 13 April 2021, the Company received loan proceeds of USD \$770,289 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The Small Business Administration (“SBA”) will forgive the proceeds received if eligibility and other criteria are met related to use of the funds, at which time the Company will recognize the forgiven amount as income. The unforgiven portion of the PPP loan is payable over five years at an interest rate of 1%, with a deferral of payments for the first 16 months.

Fair value

	Consolidated			
	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$'000	\$'000	\$'000	\$'000
Paycheck Protection Program loan	1,024	1,030	-	-
	1,024	1,030	-	-

The fair values of non-current borrowings are based on discounted cash flows using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy due to the use of unobservable inputs, including own credit risk.

Risk exposures

Information about the Company’s exposure to interest rate and foreign currency changes is set out in note 2.

24. CONTRIBUTED EQUITY

		Consolidated	
		2021	2020
		\$'000	\$'000
(a) Share capital			
Ordinary shares		70,873	71,468
(b) Movements in ordinary share capital			
Date	Details	Number of Shares	\$'000
1 July 2019	Balance	76,249,342	71,338
01 Jul 19 – 30 Jun 20	Exercise of performance rights	188,000	130
30 June 2020	Balance	<u>76,437,342</u>	<u>71,468</u>
01 Jul 20 – 30 Jun 21	Issues of ordinary shares	277,778	150
01 Jul 20 – 30 Jun 21	Share Buy Back	(763,468)	(745)
30 June 2021	Balance	<u>75,951,652</u>	<u>70,873</u>

The Company bought an additional 77,234 ordinary shares during fiscal year 2021 for an average price of \$0.8725. The Company will cancel the shares at the beginning of fiscal year 2022.

(c) Share options

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

(d) Terms and conditions of ordinary shares

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

(e) Terms and conditions of share options

Staff Share Options

The terms and conditions of the options issued under the Executive Share Option and Performance Rights Plan are disclosed in note 36.

(f) Capital risk management

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

Notes to the Financial Statements - 30 June 2021

25. RESERVES AND RETAINED PROFITS / ACCUMULATED LOSSES

	Consolidated	
	2021	2020
	\$'000	\$'000
(a) Accumulated losses		
Accumulated losses	<u>(51,536)</u>	(55,619)
<i>Movements in accumulated losses were as follows:</i>		
Balance at the beginning of the year	(55,619)	(58,491)
Net profit for the year	7,331	3,634
Dividends provided for or paid	(3,248)	(762)
Balance at the end of the year	<u>(51,536)</u>	<u>(55,619)</u>
(b) Reserves		
Foreign currency translation reserve	(108)	(476)
Employee share schemes	343	-
	<u>235</u>	<u>(476)</u>

(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

Balance at the beginning of the year	(476)	(227)
Currency translation differences arising during the year	368	(249)
Employee share schemes	343	-
Balance at the end of the year	<u>235</u>	<u>(476)</u>

26. DIVIDENDS

	2021	2020
	\$'000	\$'000
(a) Ordinary shares		
An interim dividend of \$0.0275 was paid during FY2021 (\$0.01 during FY 2020). All dividends were paid in cash.	(2,101)	(762)
(b) Dividends not recognised at the end of the reporting period		
In fiscal year 2021, a final dividend of \$0.0325 will be paid (\$0.015 during FY2020).		
Final dividend	2,466	1,147

(c) Franking balance

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

Notes to the Financial Statements - 30 June 2021

27. REMUNERATION OF AUDITORS

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

	Consolidated	
	2021	2020
	\$	\$
PricewaterhouseCoopers Australia		
<i>(a) Audit and other assurance services</i>		
Audit and review of financial statements	48,000	48,000
Total remuneration for audit and other assurance services	48,000	48,000
<i>(b) Taxation services</i>		
Tax compliance services	9,750	18,870
Tax consulting services	-	-
Total remuneration for taxation services	9,750	18,870
<i>(c) Other services</i>		
Consulting services	-	7,500
	-	7,500
Total for PricewaterhouseCoopers Australia	57,750	74,370
Related firms of PricewaterhouseCoopers Australia		
<i>(a) Audit and other assurance services</i>		
Audit and review of financial statements	292,367	377,736
Total remuneration for audit and other assurance services	292,367	377,736
<i>(b) Taxation services</i>		
Tax compliance services	123,834	74,203
Tax consulting services	17,665	39,571
Total remuneration for taxation services	141,499	113,774
<i>(c) Other services</i>		
Consulting services	74,187	-
	74,187	-
Total for related firms of PricewaterhouseCoopers Australia	508,053	491,510

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

28. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel compensation

	Consolidated	
	2021	2020
	\$	\$
Short-term employee benefits	1,209,540	1,351,531
Post-employment benefits	417,635	205,005
Termination benefits	-	68,948
	1,627,175	1,625,484

The detailed remuneration disclosures can be found in sections A – C of the remuneration report on pages 14 to 23.

29. CONTINGENCIES

As at 30 June 2021, the parent entity, Adacel Technologies Limited, will continue to provide financial support to subsidiaries that are in a net liability position.

Guarantees of \$1,130,137 (2020: \$868,682) have been given to banks and customers in relation to contract warranty and performance.

As at 30 June 2021, the Company has a dispute ongoing with a supplier over an amount of approximately A\$500,000. Management and the directors believe that the supplier's request is not founded and intend to defend the company's position. The financial report recognises management's and the directors' best estimates of the resolution of such items. However, there is uncertainty as to the final amounts payable, if any.

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

30. RELATED PARTY TRANSACTIONS

(a) Parent entity

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

(b) Subsidiaries

Interests in subsidiaries are disclosed in note 31.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 28.

(d) Transactions with related Parties

During fiscal year 2021 and 2020, there were no transactions with related parties.

(e) Terms and conditions

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

31. 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 *	
			2021 % held	2020 % held
Adacel Inc	Canada	Ordinary	100	100
Adacel Technologies Holdings Inc	USA	Ordinary	100	100
Adacel Technologies Inc	USA	Ordinary	100	100
Adacel Systems Inc	USA	Ordinary	100	100
Adacel Technical Services Inc	USA	Ordinary	100	100
Adacel Limited	UK	Ordinary	100	-

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

32. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Consolidated	
	2021	2020
	\$'000	\$'000
Operating profit from ordinary activities after income tax	7,331	3,634
Depreciation and amortisation	713	740
Amortisation of right-of-use assets	1,110	1,175
Performance rights expenses	343	130
Net exchange differences	622	(341)
Changes in assets and liabilities:		
Decrease in trade receivables and accrued revenue	2,016	875
Decrease / (increase) in other receivables and other assets	726	(352)
Decrease / (increase) in inventory / WIP	683	(550)
(Increase) / decrease in prepayments	(202)	311
(Increase) in deferred tax assets, liabilities, tax payable/receivable	(486)	(2,181)
(Decrease) / increase in trade and other creditors	(1,327)	2,857
Increase in employee benefits provisions	401	11
Increase / (decrease) in other provisions	37	(631)
(Decrease) / increase in advanced payments from customers	(266)	431
Net cash inflow from operating activities	11,701	6,109

Notes to the Financial Statements - 30 June 2021

33. NON-CASH INVESTING AND FINANCING ACTIVITIES

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

- Acquisition of right-of-use assets – note 17
- Performance rights exercised under the ADA Executive Share Option and Performance Rights Plan. – note 36

Net debt reconciliation

	\$'000
Net debt as at 30 June 2019	-
Recognised on adoption of AASB 16	(7,941)
	(7,941)
Cash flow	1,039
Acquisition – leases	(159)
Foreign exchange adjustments	(107)
Other changes	(396)
Net debt as at 30 June 2020	(7,564)
Cash flow	1,048
Acquisition – leases	(41)
Foreign exchange adjustments	100
Net debt as at 30 June 2021	(6,457)

34. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There were no significant events after the balance date.

35. EARNINGS PER SHARE

	Consolidated	
	2021	2020
Basic earnings per share (cents per share)	9.59	4.71
Diluted earnings per share (cents per share)	9.51	4.71

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

	Consolidated	
	2021	2020
	\$'000	\$'000
<i>Basic earnings per share</i>		
Profit from continuing operations	7,331	3,634
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	7,331	3,634
<i>Diluted earnings per share</i>		
Profit from continuing operations	7,331	3,634
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	7,331	3,634

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

	Consolidated	
	2021	2020
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	76,406,941	77,187,174
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	77,080,141	77,187,174

(c) Information concerning the classification of securities

Executive Share Option and Performance Rights Plan options and performance rights are considered to be potential ordinary shares and would be included in the determination of diluted earnings per share to the extent to which they are dilutive. There were 1,069,000 outstanding options and performance rights at 30 June 2021(2020: nil), and hence have been included in the determination of basic earnings per share for this year. Details of options and performance rights are set out in note 36.

(d) Conversions, calls, subscription or issues after 30 June 2021

There are no current holders of option or performance rights certificates and therefore there has been no movement since 30 June 2021.

36. SHARE-BASED PAYMENTS

a) Executive Share Option and Performance Rights Plan

The ADA Executive Share Option and Performance Rights Plan was originally approved by shareholders at the November 2017 Annual General Meeting and subsequently re-approved by the shareholders (in accordance with ASX Listing Rule 7.2 and section 259A and section 260A Corporations Act 2001 (Cth)) at the Annual General Meeting in November 2020.

Performance Rights

In August 2019, the Board granted 188,000 performance rights with an exercise price of nil. These performance rights vested on 30 April 2020 and were subsequently converted to fully paid ordinary shares in the Company on 1 May 2020. The Board also granted 381,000 performance rights with an exercise price of nil. These performance rights will vest subject to the attainment of certain performance conditions and continuous employment until 30 June 2021. During the year ended 30 June 2021, no performance rights were exercised, and an amount of AUD \$171,450 was recognised as it became probable that the performance conditions would be met (\$nil for 2020).

In July 2020, the Board granted an additional 361,000 performance rights to eligible employees. These performance rights have an exercise price of nil and are subject to the attainment of certain performance conditions and continuous employment until after the release of the fiscal year 2023 audited consolidated financial statements. During the year ended 30 June 2021, no performance rights were exercised, and no amount was recognised as it is too early to determine whether the performance conditions will be met.

Employee Share Options

In August 2019, the Board granted 688,000 options to eligible employees. These options have an exercise price of \$0.455 per option and will vest subject to the attainment of certain performance conditions and continuous employment until 30 June 2021. The options expire on 30 June 2026. During the year ended 30 June 2021, no options were exercised, and an amount of AUD \$172,000 was recognised as it became probable that the performance conditions would be met (\$nil for 2020).

In July 2020, the Board granted an additional 835,000 options to eligible employees. These options have an exercise price of \$0.54 per option and will vest subject to the attainment of certain performance conditions and continuous employment until after the release of the fiscal year 2023 audited consolidated financial statements. The options expire on 30 June 2028. During the year ended 30 June 2021, no options were exercised, and no amount was recognised as it is too early to determine whether the performance conditions will be met.

b) Other share-based payments

At the November 2020 Annual General Meeting, shareholders approved the issue of 277,778 fully paid ordinary shares at \$0.54 for services provided by the Chairman during a transition period of executive management. The related expense of \$150,000 was recorded in fiscal year 2020 and issues of securities has been recorded during the year ended 30 June 2021.

37. PARENT ENTITY FINANCIAL INFORMATION

	2021	2020
(a) Summary financial information	\$'000	\$'000

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

Balance Sheet

Current Assets	<u>513</u>	5,810
Total Assets	<u>3,286</u>	11,407
Current Liabilities	<u>943</u>	4,906
Total Liabilities	<u>998</u>	4,982
<i>Shareholder's Equity</i>		
Issued Capital	70,873	71,468
Accumulated Losses	(68,928)	(65,043)
Reserves	<u>343</u>	-
Total Equity	<u>2,288</u>	6,425
(Loss) Profit for the year	(637)	402
Total comprehensive (loss) income	(637)	402

(b) Guarantees entered into by the parent entity

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

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2021 or 30 June 2020. For information about guarantees given by the parent entity, please see above.

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

The parent entity did not have any material contractual commitments for the acquisition of property, plant or equipment as at 30 June 2021 or 30 June 2020.

DIRECTORS' DECLARATION

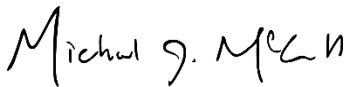
In the Directors' opinion:

- a. the financial statements and notes set out on pages 28 to 76 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- c. The remuneration disclosures set out on pages 14 to 23 of the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

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

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

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



Michael McConnell
Chairman



Natalya Jurcheshin
Director

Melbourne, 12 August 2021



Independent auditor's report

To the members of Adacel Technologies Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2021
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

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

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

Independence

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

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Liability limited by a scheme approved under Professional Standards Legislation.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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

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



<i>Materiality</i>	<i>Audit scope</i>	<i>Key audit matters</i>
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$0.4 million, which represents approximately 1% of the Group's revenue. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose Group revenue because, in our view, it is the measure that is most representative of the Group's operations. We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable revenue related thresholds. 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Management Committee: <ul style="list-style-type: none"> – Revenue recognition – Recoverability of deferred tax assets These are further described in the <i>Key audit matters</i> section of our report.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition (Refer to note 5 Revenue from continuing operations and note 10 Trade, other receivables, accrued revenue)</p> <p>The Group's revenue includes project based revenue under contracts with customers. These projects are generally tailored applications developed for specific customers and are often completed across a number of months.</p> <p>Project based revenue is recognised over time under the percentage of completion method, as described in note 1(e) and is subject to the Group's assessment of the nature and type of performance obligations in the contract and estimates of the:</p> <ul style="list-style-type: none">total labour costs expected to be provided over the life of the projectforecast profitability of the project <p>When losses are forecast on contracts these are recognised in the period they are identified.</p> <p>Invoicing and subsequent collection of these amounts are subject to the customer's agreement of milestone completion and are sometimes delayed due to the nature of the projects and customers, resulting in accrued revenue balances.</p> <p>We considered this a key audit matter due to the:</p> <ul style="list-style-type: none">financial significance of the trade and other receivables balance and the accrued revenue balance.complexity involved in identifying performance obligations required by Australian Accounting Standards given the bespoke terms and conditions in and long term nature of contracts with customers.judgement required by the Group in determining	<p>We performed the following procedures, amongst others over revenue recognition:</p> <ul style="list-style-type: none">Updated our understanding of the nature of the project based activities of the Group and terms of customer contracts.Developed an understanding of relevant controls over recognition of project based revenue and assessed whether they were appropriately designed and whether a sample of these controls were operating effectively throughout the year.Inspected the Group's analysis of customer contracts and considered the appropriateness of significant judgements made related to its performance obligations under those contracts, in the determination of revenue recognition at either a point in time or over time against the requirements of Australian Accounting Standards.Assessed revenue recognised for customer contracts by performing the following procedures amongst others:<ul style="list-style-type: none">Re-performing calculations over the mathematical accuracy of a sample of percentage of completion calculations.Agreeing a sample of actual labour costs to approved timesheets and payroll records.Agreeing a sample of accrued costs (for example contractor costs) to date to supporting evidence or calculations.Comparing forecast costs to complete a project to the approved project budgets less the actual costs incurred to date.On a sample basis, checking whether monthly management project status reviews were performed.Compared actual and forecast contract profitability and enquired with management on a sample of projects where margins had deviated from forecasts.



<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
the timing of recognising project based revenue (refer above).	<ul style="list-style-type: none">● Agreed a sample of significant accrued revenue and outstanding accounts receivable balances to cash receipts subsequent to year end and enquired with management on significant unpaid balances.● Evaluated the reasonableness of the disclosures made in note 1(e) and note 5 against the requirements of Australian Accounting Standards.

Recoverability of deferred tax assets
(Refer to note 8 Income tax and note 18 Deferred tax assets and liabilities)

The Group has unrecognised carry forward gross tax losses and tax credits amounting to \$96.8 million as at 30 June 2021. These arise from different jurisdictions across the North American and Australian operations. While tax losses have no expiry date, Canadian Federal and Provincial tax credits expire after 10 years. The Group has assessed that there is convincing evidence of future taxable profits available in Canada sufficient to carry forward deferred tax assets of \$4.4 million.

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

We considered this a key audit matter due to the significant judgement required by the Group in assessing the timing and quantum of future taxable profits.

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

- Assessed the appropriateness of the Group's policy for recognition of deferred tax assets in the context of the requirements of Australian Accounting Standards, considering the historical results and the appropriateness of significant assumptions used in the forecast results of the Group.
- Re-performed calculations over the mathematical accuracy of deferred tax calculations.
- Agreed tax rates used for deferred tax calculations to enacted or substantially enacted tax rates in each jurisdiction in which tax losses and tax credits existed.
- Agreed available carry forward tax losses and tax credits to the Group's filed tax returns.
- Compared the utilisation of deferred tax assets in the Group's current year filed tax returns to the Board approved forecasts made in the prior year, to determine the accuracy of the Group's budgeting process.
- Evaluated the reasonableness of the disclosures made in note 8 and 18 against the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

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



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

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

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

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

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

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 14 to 24 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of Adacel Technologies Limited for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.



Responsibilities

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

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

PricewaterhouseCoopers

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

Jason Perry
Partner

Melbourne
12 August 2021

ADDITIONAL SECURITIES EXCHANGE INFORMATION

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information is current as at 4 August 2021 (**Reporting Date**).

Corporate Governance Statement

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

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

Number of Holdings of Equity Securities

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

Security Type	No of Securities	No of Shareholders
Fully Paid Ordinary Shares	75,596,640	3,358
Fully Paid Ordinary Shares restricted until 23 November 2021	277,778	1
Performance Rights	742,000	2
Performance Options	1,523,000	2

Voting Rights of Equity Securities

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

At a general meeting of the Company, every holder of ordinary shares present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each ordinary share held. On a poll, every member (or his or her proxy, attorney or representative) is entitled to vote for each fully paid share held and in respect of each partly paid share, is entitled to a fraction of a vote equivalent to the proportion which the amount paid up (not credited) on that partly paid share bears to the total amounts paid and payable (excluding amounts credited) on that share. Amounts paid in advance of a call are ignored when calculating the proportion.

Distribution of Holders of Ordinary Shares

	Class of Equity Security		% Units
	Total Holders	Units	
1 - 1,000	921	515,120	0.68
1,001 - 5,000	1,385	3,812,380	5.02
5,001 - 10,000	482	3,790,460	5.00
10,001 - 100,000	519	14,788,460	19.49
100,001 Over	51	52,967,998	69.81
Totals	3,358	75,874,418	100.00

Distribution of Holders of Performance Rights

	Class of Performance Rights		% Units
	Total Holders	Units	
1 - 1,000	0	0	0
1,001 - 5,000	0	0	0
5,001 - 10,000	0	0	0
10,001 - 100,000	0	0	0
100,001 Over	2	361,000	100
Totals	2	361,000	100.00

Distribution of Holders of Performance Options

	Class of Performance Options		% Units
	Total Holders	Units	
1 - 1,000	0	0	0
1,001 - 5,000	0	0	0
5,001 - 10,000	0	0	0
10,001 - 100,000	0	0	0
100,001 Over	2	1,523,000	100
Totals	2	1,523,000	100.00

Unmarketable Parcels

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

Unmarketable Parcels as at 4 August 2021	Minimum Parcel Size	Holders	Units
Minimum \$500.00 parcel at \$1.0100 per unit	496	367	78,255

Substantial holders

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

Shareholder	No. of Shares Held	% of Issued Capital
Thorney Holdings Proprietary Limited	25,542,818	33.42%
Silvio Salom	5,861,858	7.40%

Twenty Largest Holders of Quoted Equity Securities

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

Shareholder Name	Shares Held	% Held
THORNEY HOLDINGS PTY LTD	24,597,118	32.42
MR SILVIO SALOM	4,230,026	5.58
CITICORP NOMINEES PTY LIMITED	3,840,438	5.06
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	3,194,472	4.21
D & E SMITH SUPERANNUATION NOMINEES PTY LTD	2,225,665	2.93
OBENA RIDGE PTY LIMITED	1,062,276	1.40
NEWECOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	1,024,453	1.35
MRS EMMA JANE GRACEY	1,000,000	1.32
MR MICHAEL MCCONNELL	950,000	1.25
UBS NOMINEES PTY LTD	945,700	1.25
COALWELL PTY LTD	796,182	1.05
MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT>	758,212	1.00
MR DAVID WALLACE SMITH	726,257	0.96
MR JAMES DOUGLAS CARNEGIE <JAMES CARNEGIE FAMILY A/C>	599,564	0.79
BNP PARIBAS NOMS PTY LTD <DRP>	527,066	0.69
IAN HARRISS SUPER PTY LTD <IAN HARRISS SUPER A/C>	378,074	0.50
BISSAPP SOFTWARE PTY LTD <SUPER FUND ACCOUNT>	329,199	0.43
MICHAEL MCCONNELL	277,778	0.37
MR MICHAEL MURRAY	274,470	0.36
WESTOR ASSET MANAGEMENT PTY LTD <VALUE PARTNERSHIP A/C>	270,610	0.36
Total number of shares of Top 20 Holders	48,007,560	63.27
Total Remaining Holders Balance	27,866,858	36.73

Unquoted equity securities

Performance Rights	742,000
Options expiring various dates exercisable at various prices	1,523,000

Escrow

Class of restricted securities	Type of restriction	Number of securities	End date of escrow period
Ordinary shares	Voluntary escrow	277,778	23 November 2021

Company Secretary

The Company Secretary is Ms Rebecca Weir

Registered Office

The address and telephone number of the Company's registered office is:

Unit 29, 3 Westside Avenue,
Port Melbourne Victoria Australia 3207

Telephone +61 3 8530 7777

Share Registry

The address and telephone number of the Company's share registry, Computershare

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067
Phone No: 03 9415 5000

Stock Exchange Listing

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

Other Information

The Company conducted on-market share buy-back starting from 11 January 2021 and to be ended on 10 January 2022.

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

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

CORPORATE DIRECTORY

Adacel Technologies Limited **ABN 15 079 672 281**

Registered Office

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

Principal Place of Business

Unit 29, 3 Westside Avenue,
Port Melbourne Victoria Australia 3207
Telephone +61 3 8530 7777

Board of Directors

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

Company Secretary

Rebecca Weir

Bank

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

Solicitors – Australia

Ashurst Australia
Level 16
80 Collins Street
South Tower, Melbourne Victoria 3000

Solicitors- USA

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

Auditor

PricewaterhouseCoopers
2 Riverside Quay
Southbank Victoria 3006

Share Registry

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067 w
essential.registry@computershare.com.au
Phone No: 03 9415 5000

Stock Exchange

Australia Securities Exchange (ASX:ADA)