22 January, 2016

The Manager
Company Announcements Office
Australian Stock Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

Notice of General Meeting

In accordance with the Listing Rules, we attach copies of the following documents which are to be dispatched to shareholders of Orbital Corporation Limited today:

1. Notice of General Meeting;
2. Explanatory Memorandum, including Independent Expert's Report;
3. Sample Proxy Form; and
4. Email Collection Form.

Yours faithfully

Ian Veitch ACA ACIS
Chief Financial Officer
& Company Secretary

ORBITAL CORPORATION LIMITED
ACN 009 344 058

NOTICE OF GENERAL MEETING

A general meeting of the Company will be held in the Conference Room, BGC Centre, 28 The Esplanade, Perth, Western Australia on Friday, 26 February, 2016 at 12:30pm (WST).

This Notice should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

Should you wish to discuss any matter please do not hesitate to contact the Company by telephone on +61 8 9441 2311

ORBITAL CORPORATION LIMITED
ACN 009 344 058

NOTICE OF GENERAL MEETING

Notice is hereby given that a general meeting of shareholders of Orbital Corporation Limited (**Company**) will be held in the Conference Room, BGC Centre, 28 The Esplanade, Perth, Western Australia on Friday, 26 February, 2016 at 12:30pm (WST) (**Meeting**).

The Explanatory Memorandum provides additional information on matters to be considered at the Meeting. The Explanatory Memorandum and the Proxy Form form part of this Notice.

The Directors have determined pursuant to regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Meeting are those who are registered as Shareholders on Wednesday, 24 February, 2016 at 4:00pm (WST).

Terms and abbreviations used in this Notice (including the Explanatory Memorandum) will, unless the context requires otherwise, have the meaning given to them in Schedule 1.

AGENDA

1. RESOLUTION - APPROVAL OF BCB SHARE ISSUE

To consider and, if thought fit, to pass with or without amendment, as an ordinary resolution the following:

"That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, Shareholders approve the allotment and issue to Bermuda Commercial Bank Limited of 15,000,000 Shares pursuant to the conversion of the BCB Convertible Notes and the acquisition by the UIL Entities of a Relevant Interest in those Shares on the terms and conditions set out in the Explanatory Memorandum".

Voting Exclusion

The Company will disregard any votes cast on this Resolution by UIL Entities (and any of their Associates) and any person who might obtain a benefit (except a benefit solely in their capacity as holders of ordinary securities) if the Resolution is passed, or an Associate of that person.

However, the Company will not disregard a vote if:

(a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or

(b) it is cast by the Chairperson as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Independent Expert's Report

Shareholders should carefully consider the Independent Expert's Report accompanying the Explanatory Memorandum in Schedule 2. The Independent Expert has determined that the proposed issue of Shares pursuant to the Resolution is NOT FAIR but REASONABLE to Shareholders.

Dated: 22 January, 2016

By order of the Board

I G Veitch
Company Secretary

ORBITAL CORPORATION LIMITED
ACN 009 344 058

EXPLANATORY MEMORANDUM

1. INTRODUCTION

This Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business to be conducted at the Meeting to be held in the Conference Room, BGC Centre, 28 The Esplanade, Perth, Western Australia on Friday, 26 February 2016 at 12:30pm (WST).

This Explanatory Memorandum forms part of the Notice which should be read in its entirety. This Explanatory Memorandum contains the terms and conditions on which the Resolution will be voted.

A Proxy Form is located at the end of this Explanatory Memorandum.

2. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders should read the Notice including this Explanatory Memorandum carefully before deciding how to vote on the Resolution.

2.1 Proxies

A Proxy Form is attached to the Notice. This is to be used by Shareholders if they wish to appoint a representative (a "proxy") to vote in their place. All Shareholders are invited and encouraged to attend the Meeting or, if they are unable to attend in person, sign and return the Proxy Form to the Company in accordance with the instructions thereon. Returning the Proxy Form will not preclude a Shareholder from attending and voting at the Meeting in person.

Please note that:

(a) a member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy;

(b) a proxy need not be a member of the Company; and

(c) a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. Where the proportion or number is not specified, each proxy may exercise half of the votes.

Proxy Forms must be received by the Company no later than 12:30pm (WST) on Wednesday, 24 February 2016, being at least 48 hours before the Meeting

The Proxy Form provides further details on appointing proxies and lodging Proxy Forms.

3. BACKGROUND

3.1 Convertible Note Issue

On 21 January 2015 the Company held a general meeting (**Previous General Meeting**) at which Shareholders approved the issue of 200 convertible notes having the Convertible Note Terms and Conditions (**Convertible Notes**). Pursuant to the approval, the Convertible Notes were issued in the following tranches:

(a) Tranche 1 (3 February 2015) - 110 Convertible Notes;

(b) Tranche 2 (10 February 2015) - 17 Convertible Notes;

(c) Tranche 3 (17 February 2015) - 13 Convertible Notes; and

(d) Tranche 4 (17 April 2015) - 60 Convertible Notes,

to Sophisticated Investors and/or Professional Investors (**Convertible Note Placement**).

Bermuda Commercial Bank Limited (**BCB**) was issued 120 Convertible Notes as part of the Convertible Note Placement (**BCB Convertible Notes**).

3.2 Convertible Note Terms and Conditions

The Convertible Notes were issued pursuant to a trust deed between Theta Asset Management Limited (**Trustee**) and the Company (**Trust Deed**). The key terms and conditions of the Convertible Notes (including the BCB Convertible Notes) are as follows:

Face Value:	$50,000 per Convertible Note
Issue Date	The date that is shown on the original convertible note certificate issued in respect of each Convertible Note or such other date as may be agreed between the Company the Holder (**Issue Date**)
Maturity Date:	The date that is 24 months from the issue of the first Note (**Maturity Date**)
Interest:	10% per annum payable quarterly to Holders, in cash or as Interest Shares, at the election of the Holders subject to the applicable law and regulation. The number of Interest Shares to be issued to a Holder, so electing, will be equal to the amount of interest due divided by the Issue Price Formula.
Redemption:	Redeemable by the Holders on the Maturity Date or on specified events of default. Early redemption provisions are available for the Company to redeem at any time during the period commencing 6 months after the Issue Date and ending on the Maturity Date (**Early Redemption Right**).
Conversion:	Convertible by the Holder into Shares at any time from the Issue Date on the basis of the following formula:

$$S = \frac{(FV - T)}{CP}$$

Where:

S = the number of Shares to be issued to the Holder;

FV = the relevant aggregate face value of the Convertible Notes to be converted into Shares and issued to the Holder;

T = the necessary amount required to be withheld for any tax; and

CP = $0.40

(**Conversion Right**)

If the Company exercises the Early Redemption Right the Holder has the right to exercise the Conversion Right until the date specified by the Company as the date the redemption will occur, which must be no less than 20 business days after notice of the exercise of the Early Redemption Right is provided to the Holder.

If the Holder exercises the Conversion Right and an issue of Shares in satisfaction of the Conversion Right will result in:

a) a contravention of any provision of the Listing Rules or waiver or dispensation granted by the ASX to the Company in accordance with the Listing Rules; or

b) any breach of the Corporations Act, including without limitation to section 606 of the Corporations Act, or any other applicable laws,

the Company at its own discretion and expense may, but shall have no obligation to, convene a general meeting of shareholders to seek approval for the issue of Shares.

Security: First ranking security granted to the Trustee for the benefit of the Holders

3.3 UIL Entities

BCB:

(a) is incorporated in Bermuda as an exempted limited liability company;

(b) is one of Bermuda's four licenced banks;

(c) is headquartered in Hamilton, Bermuda and services commercial, corporate and high net worth clients; and

(d) is a wholly owned subsidiary of Somers

Somers is an investment holding company specialising in the financial services sector. Somers is incorporated in Bermuda as an exempted limited liability company and is listed on the BSX. Apart from BCB, Somers other major asset is a 62.5% holding in Waverton Investment Management, a UK based wealth manager. UIL holds 49.8% of the issued share capital of Somers.

UIL Limited (**UIL**) is an investment company incorporated in Bermuda as an exempted limited liability company. It was previously known as "Utilico Investment Limited" and has been listed on the London Stock Exchange since 20 June 2007.

UIL is a value focused fund with a preference for utilities companies in areas such as water, sewerage, waste, electricity, gas, telecommunications, ports, airports, service companies, rail and roads. UIL is mandated to invest in shares, bonds, convertible notes, junk bonds and unlisted securities. It is also mandated to use derivative instruments and leverage in combination with its investments.

BCB, Somers and UIL all have a common investment manager. Bermuda based fund manager and corporate finance advisor ICM Limited provides investment management services including stock selection, portfolio monitoring and research to each of the UIL Entities.

Further information on:

(a) BCB can be found at: http://www.bcb.bm

(b) Somers can be found at: http://www.somers.bm

(c) UIL can be found at: http://www.uil.limited/

(d) ICM Limited can be found at: http://www.icm.limited

3.4 Conversion of BCB Convertible Notes

As announced on 18 January, 2016 the Company has exercised its Early Redemption Right in relation to all of the Convertible Notes, including the BCB Convertible Notes.

As detailed in Section 3.2, under the Convertible Note Terms and Conditions, the Company cannot complete a conversion of a Convertible Note if the issue of Shares would result in a breach of the Corporations Act. The conversion of all the BCB Convertible Notes will, without Shareholder approval under item 7, section 611 Corporations Act, breach section 606 Corporations Act (refer to Section 4.3 for more detail).

Section 606 of the Corporations Act prohibits a person acquiring a Relevant Interest in the issued voting shares of a company if, that person's or another person's voting power in the company increases from:

(a) 20% or below to more than 20%; or

(b) a starting point that is above 20% and below 90%.

The conversion of all of the BCB Convertible Notes will result in the issue of 15,000,000 Shares to BCB (**BCB Share Issue**). All of the UIL Entities are deemed under section 608 Corporations Act to have a Relevant Interest in the Shares issued pursuant to the BCB Share Issue (refer to section 4.4(b) - (d) for more detail).

The BCB Shares Issue will bring the UIL Entities' voting power in the Company to between 27.64% and 30.89%. The exact increase in the UIL Entities' voting power upon the BCB Share Issue is dependent upon whether the other Holders exercise their Conversion Right.

The Company has included the Resolution to seek Shareholder approval to the BCB Share Issue. Under the Convertible Note Terms and Conditions, if the Shareholders:

(a) approve the BCB Share Issue, the Company will be able to issue the 15,000,000 Shares to BCB.

(b) do not approve the BCB Share Issue, the Company will be required to pay BCB up to $3,021,000 in cash.

4. RESOLUTION - APPROVAL OF BCB SHARE ISSUE

4.1 General

The Resolution seeks Shareholder approval for the Company to complete the BCB Share Issue and the acquisition of a Relevant Interest in those Shares by the UIL Entities.

Refer to Section 3 for further details regarding the background to the Resolution.

The Resolution is an ordinary resolution.

The Chairperson will cast all available proxies in favour of the Resolution.

4.2 Listing Rule 7.1

Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

Shareholder approval for the BCB Share Issue is not required under Listing Rule 7.1 because:

(a) an exception to Listing Rule 7.1 applies where the issue of shares is for the conversion of convertible securities that were issued in compliance with the Listing Rules (refer to Listing Rule 7.2 exception 4). The issue of the Convertible Notes at the Previous General Meeting was in compliance with the Listing Rules; and

(b) an exception to Listing Rule 7.1 also exists where the issue is approved by Shareholders in a general meeting pursuant to item 7, Section 611 Corporations Act (refer to Listing Rule 7.2 exception 16). The Resolution seeks Shareholder approval pursuant to item 7, Section 611 Corporations Act.

4.3 Section 611 of the Corporations Act

(a) Section 606 of the Corporations Act prohibits a person acquiring a Relevant Interest in the issued voting shares of a company if, that person's or another person's voting power in the company increases from:

(i) 20% or below to more than 20%; or

(ii) a starting point that is above 20% and below 90%.

(b) The voting power of a person in a company is determined by reference to section 610 of the Corporations Act. A person's voting power in a company is the total of the votes attaching to the shares in the company in which that person and that person's Associates (within the meaning of the Corporations Act) have a Relevant Interest.

(c) Under section 608 of the Corporations Act, a person will have a Relevant Interest in shares if:

(i) the person is the registered holder of the shares;

(ii) the person has the power to exercise or control the exercise of votes or disposal of the shares; or

(iii) the person has over 20% of the voting power in a company that has a Relevant Interest in shares, then the person has a Relevant Interest in said shares (section 608(3) of the Corporations Act).

(d) For the purpose of determining who is an Associate it is necessary to consider section 12 of the Corporations Act. Any reference to associate in Chapters 6 to 6C of the Corporations Act has the meaning give to that term in section 12. A person is only an associate for the purpose of Chapters 6 to 6C if that person is an associate under section 12.

(e) Section 12 of the Corporations Act provides that a person (**first person**) will be an associate of the other person (**second person**) if:

(i) the first person is a body corporate and the second person is:

(A) a body corporate the first person controls;

(B) a body corporate that controls the first person: or

(C) a body corporate that is controlled by an entity that controls the first person;

(ii) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the Board or the conduct of the designated body's affairs; or

(iii) the second person is a person with whom the first person is acting or proposes to act, in concert in relation to the designated body's affairs.

(f) The Corporations Act defines "control" and "relevant agreement" very broadly as follows:

(i) section 50AA of the Corporations Act defines "control" as the capacity to determine the outcome of decisions about the financial and operating policies of a company. In determining the capacity it is necessary to take into account the practical influence a person can exert and any practice or pattern of behaviour affecting the Company's financial or operating policies; and

(ii) section 9 of the Corporations Act defines "relevant agreement" as an agreement, arrangement or understanding:

(A) whether formal or informal or partly informal and partly informal;

(B) whether written or oral or partly written and partly oral; and

(C) whether or not having legal or equitable force and whether or not based on legal or equitable rights.

(g) Associates are determined as a matter of fact. For example where a person controls or influences the board or the conduct of a company's business affairs, or acts in concert with a person in relation to the company's business affairs.

(h) Section 611 of the Corporations Act contains exceptions to the prohibition in section 606 of the Corporations Act. Item 7 of section 611 of the Corporations Act provides a mechanism by which shareholders of a company may approve an issue of shares to a person which results in that person’s or another person’s voting power in the company increasing from:

(i) 20% or below to more than 20%; or

(ii) a starting point that is above 20% and below 90%.

4.4 Relevant Interests and voting power of UIL Entities

(a) As at the date of this Notice, UIL has a Relevant Interest in 5,401,544 Shares, representing voting power of 10.6% in the Company, by virtue of being the registered holder of those Shares.

(b) BCB will have a Relevant Interest in the Shares issued pursuant to the BCB Share Issue, representing voting power of between 17.08% and 20.33% in the Company, by virtue of being the registered holder of those Shares.

(c) Somers will also have a Relevant interest in the Shares issued pursuant to the BCB Share Issue by virtue of controlling the registered holder of those Shares (BCB).

(d) UIL will also have a Relevant Interest in the Shares issued pursuant to the BCB Share Issue by virtue holding over 20% of the voting power in a company that has a Relevant Interest in the Shares (Somers).

(e) Following the BCB Share Issue, UIL will have a Relevant Interest in the Company of between 27.64% and 30.89%.

(f) UIL, Somers and BCB are Associates of each other as they intend to act in concert in relation to the affairs of the Company and therefore following the BCB Share Issue the voting power of BCB and Somers in the Company will also be between 27.64% and 30.89%.

(g) Upon completion of the BCB Share Issue, the UIL Entities will acquire a Relevant Interest in the Company above 20% and therefore the BCB Share Issue requires Shareholder approval under item 7 of Section 611 of the Corporations Act.

To comply with the requirements of the Corporations Act and ASIC Regulatory Guide 74, the Company provides the information in Section 4.7 to Shareholders in relation to the Resolution.

4.5 Independent Expert's Report

In order to assist Shareholders to assess the BCB Share Issue and whether to vote in favour of the Resolution, the Company appointed BDO Corporate Finance (WA) Pty Ltd (**Independent Expert**) as an independent expert and commissioned it to prepare a report (**Independent Expert's Report**) to provide an opinion as to whether or not the BCB Share Issue is fair and reasonable to the Shareholders.

The Independent Expert's Report was prepared to satisfy the recommendation of the ASIC Regulatory Guide 74. The UIL Entities will acquire a Relevant Interest in more than 20% of the Company if the Resolution is approved and the BCB Share Issue occurs.

The Independent Expert assessed the BCB Share Issue and concluded that it was not fair because the value of a Share following the BCB Share Issue on a minority basis is less than the value of a Share prior to the BCB Share Issue on a controlling basis. However, the Independent Expert did conclude that the BCB Share Issue was reasonable because the advantages of the BCB Share Issue were greater than the disadvantages.

The Directors Recommend that you read the Independent Expert's Report in full, a copy of which is in Schedule 2.

4.6 Basis of the Independent Expert's Report

In coming to its view regarding the fairness of the BCB Share Issue the Independent Expert considered the BCB Share Issue and assessed the value of a Share prior to the BCB Share Issue and after the BCB Share Issue. To determine the value of a Share prior to the BCB Share Issue the Independent Expert used the "sum-of-parts" method and the quoted market value of a Share. The sum-of-parts method estimates the fair market value of the Company by aggregating the estimated fair market value of its underlying assets and liabilities.

The Independent Expert considered that because the BCB Share Issue will provide the UIL Entities with a controlling interest and each of the other Shareholders with a minority interest that the value of the UIL Entities' shareholding should be increased by between 25% to 30% and the value of the other Shareholder's shareholding should be discounted by between 20% to 23%. Ultimately the Independent Expert concluded that the value of a Share prior to the BCB Share Issue was more than the value of a Share after the BCB Share Issue and that the BCB Share Issue was therefore not fair.

In coming to its view regarding the reasonableness of the transaction the Independent Expert considered the advantages and the disadvantages of the BCB Share Issue, which are set out in summary form below.

The advantages of the BCB Share Issue identified by the Independent Expert are that it:

(a) allows the Company's cash to be invested in its future development;

(b) reduces the interest and principal repayment burden on the Company resulting in increased cash flow;

(c) introduces a cornerstone investor in the Company;

(d) increases the attractiveness of the Company to bank lenders;

(e) improves the Company's net asset position through a reduction in its liability;

(f) does not result in any changes to the current operating and financial arrangements of the Company; and

(g) improves the flexibility of the Company's capital structure.

The disadvantages of the BCB Share Issue identified by the Independent Expert are that the BCB Share Issue is not fair (as outlined above) and that it results in the dilution of the interests of existing Shareholders.

4.7 Information required by item 7 of section 611 of the Corporations Act and ASIC Regulatory Guide 74

The information that Shareholders require under item 7 of section 611 of the Corporations Act and ASIC Regulatory Guide 74 is as follows:

(a) **The identity of the persons who will acquire a Relevant Interest in the Shares issued pursuant to the BCB Share Issue and their Associates**

The persons who will have a Relevant Interest in the Shares issued under the BCB Share Issue are as follows:

	Number of Shares
UIL	15,000,000
Somers	15,000,000
BCB	15,000,000

(b) **The maximum extent of the increase in the UIL Entities' voting power in the Company**

Immediately after the Resolution is passed, the UIL Entities' voting power in the Company will increase from between 10.6% to a maximum of 30.89%, a maximum increase of 20.33%.

(c) **The voting power the UIL Entities would have as a result of the acquisition**

Immediately after the Resolution is passed, the maximum voting power the UIL Entities will have in the Company is 30.89%.

(d) **The maximum extent of the increase in voting power of each of the acquirer's Associates that would result from the acquisition**

The maximum extent of the increase in the voting power of:

(i) UIL is from 10.6% to 30.89%, an increase of 20.33%;

(ii) Somers is from 0% to 30.89%, an increase of 30.89%; and

(iii) BCB is from 0% to 30.89%, and increase of 30.89%.

(e) **The voting power of each of UIL's Associates would have as a result of the acquisition**

The maximum voting power of UIL, Somers and BSB is 30.89%.

(f) **An explanation of the reasons for the proposed issue of the Shares to BCB**

The BCB Share Issue is occurring because BCB wishes to exercise its Conversion Right under all of the BCB Convertible Notes. Refer to Section 3 for the background to the BCB Share Issue.

(g) **When the proposed acquisition is to occur.**

If the Resolution is passed, the Shares are expected to be issued to BCB on or about Monday, 29 February, 2016.

(h) **The material terms of the proposed acquisition**

Refer to Section 3 for the details of the BCB Convertible Notes and the BCB Share Issue.

(i) **Details of any other relevant agreement between the acquirer and the target entity or vendor (or any of their Associates) that is conditional on (or directly or indirectly depends on) members' approval of the proposed acquisition.**

There are no other contracts or proposed contracts between the Company and any of the UIL Entities or their Associates which are conditional upon, or directly or indirectly dependent on, the Shareholders' approval of the Resolution.

(j) **A statement of the acquirer's intentions regarding the future of the target entity if members approve the acquisition and, in particular**

(i) **Any intention to change the business of the entity**

The UIL Entities have no present intention of making changes to the business of the Company.

(ii) **Any intention to inject further capital into the entity**

The UIL Entities have no present intention to inject further capital into the Company.

(iii) **The future employment of present employees of the entity**

The UIL Entities have no present intention of making changes regarding the future employment of the present employees of the Company.

(iv) **Any proposal where assets will be transferred between the entity and the acquirer or the vendor or their Associate**

The UIL Entities do not intend to transfer any property between the Company and any of the UIL Entities or their Associated entities.

(v) **Any intention to otherwise redeploy the fixed assets of the entity**

The UIL Entities do not intend to redeploy any fixed assets of the Company.

(k) **Any intention of the acquirer to significantly change the financial or dividend policies of the entity**

The UIL Entities have no intention to change the Company's existing policies in relation to financial matters or dividends

(l) **The interests that any Director has in the acquisition or any relevant agreement disclosed under paragraph (i) above**

Nil.

(m) **Details about any person who it is intended will become a director if members approve the acquisition**

Nil.

(n) **Identity of the Directors who approved or voted against the proposal to put the Resolution to Shareholders**

All of the Directors approved the proposal to put the Resolution to Shareholders.

(o) **Recommendation of each Director as to whether Shareholders should approve the Resolution**.

The Directors unanimously recommend that Shareholders vote in favour of the Resolution.

4.8 Voting prohibition statement

In accordance with section 611 of the Corporations Act, none of the UIL Entities or their Associates are permitted to vote in favour of the Resolution.

SCHEDULE 1: DEFINITIONS

In the Notice and this Explanatory Memorandum, words importing the singular include the plural and vice versa.

$ means Australian Dollars.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to that term in the Corporations Act, as summarised in Section 4.3(d) - (g).

ASX means ASX Limited (ACN 008 624 691) and, where the context permits, the Australian Securities Exchange operated by ASX.

Board means the board of Directors.

BCB has the meaning given in Section 3.1.

BCB Convertible Notes has the meaning given in Section 3.1.

BCB Share Issue has the meaning given in the Section 3.3.

BSX has the meaning given in Section 3.3.

Chairman means the person appointed to chair the Meeting, or part of the Meeting, convened by the Notice.

Company means Orbital Corporation Limited (ACN 009 344 058).

Conversion Right has the meaning given in Section 3.2.

Convertible Notes has the meaning given in Section 3.1.

Convertible Note Terms and Conditions means the terms and conditions detailed in Schedule 1 of the Trust Deed, a summary of which is included in in Section 3.2.

Convertible Note Placement has the meaning given in Section 3.1.

Corporations Act means the *Corporations Act 2001* (Cth).

Director means a director of the Company.

Early Redemption Right has the meaning given in Section 3.2.

Explanatory Memorandum means the explanatory memorandum which forms part of the Notice.

Holder means a person who is entered on the Register as the holder of a Convertible Note.

Independent Expert has the meaning given in Section 4.5.

Independent Expert's Report has the meaning given in Section 4.5.

Interest Shares means Shares issued to the Holders who have elected to have interest of their Convertible Notes pad in Shares.

Issue Date has the meaning given in Section 3.2.

Issue Price Formula mean's an amount equal to 90% of the Company's volume weighted average price of Shares on the ASX over the 30 Trading Days immediately preceding the interest payment date.

Listing Rules means the listing rules of ASX.

Meeting has the meaning in the introductory paragraph of the Notice.

Maturity Date has the meaning given in Section 3.2.

Notice means the notice of meeting which comprises of the notice, agenda, Explanatory Memorandum and Proxy Form.

Previous General Meeting has the meaning given in Section 3.1.

Proxy Form means the proxy form attached to the Notice.

Professional Investor has the meaning given in section 708(11) of the Corporations Act.

Register means the register of Holders established and maintained in accordance with the Trust Deed, where appropriate, includes:

(a) a sub-register maintained by or for the Company under the Corporations Act or Listing Rules; and

(b) any branch register.

Relevant Interest has the meaning given to that term in the Corporations Act, as summarised in Section 4.3(b) - (c).

Resolution means a resolution contained in the Notice.

Schedule means a schedule to this Explanatory Memorandum.

Section means a section of this Explanatory Memorandum.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a shareholder of the Company.

Somers has the meaning given in Section 3.3**.**

Sophisticated Investors means a person who:

(a) satisfies the requirement in section 708(8)(c) or (d) of the Corporations *Act*; or

(b) makes an investment that satisfies the requirement in section 708(8)(a) or (b) of the Corporations Act.

Trading Day means a day determined by ASX to be a trading day in accordance with the Listing Rules.

Trust Deed has the meaning given in Section 3.2.

Trustee has the meaning given in Section 3.2.

UIL has the meaning given in Section 3.3.

UIL Entities means UIL, Somers and BCB.

WST means Western Standard Time, being the time in Perth, Western Australia.

SCHEDULE 2: INDEPENDENT EXPERT'S REPORT

ORBITAL CORPORATION LIMITED
Independent Expert's Report

16 December 2015

BDO

Financial Services Guide

16 December 2015

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 (‘**we**’ or ‘**us**’ or ‘**ours**’ as appropriate) has been engaged by Orbital Corporation Limited (‘**Orbital**‘) to provide an independent expert’s report on the proposal to issue shares to Bermuda Commercial Bank Limited (‘**BCB’**) on conversion of its convertible notes, thereby increasing the voting power of UIL Limited (‘**UIL**’) in Orbital (**‘the Transaction’**) as UIL is deemed to have a relevant interest in any shares held by BCB. You will be provided with a copy of our report as a retail client because you are a shareholder of Orbital.

Financial Services Guide
In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (‘**FSG**’). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our internal and external complaints handling procedures and how you may access them.

Information about us
BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

Financial services we are licensed to provide
We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice
We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

Fees, commissions and other benefits that we may receive
We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately $35,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

BDO Corporate Finance (WA) completed a financial modelling engagement for Orbital in 2015. The fee for the financial modelling engagement was $30,000.

Remuneration or other benefits received by our employees
All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Orbital for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals
We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution
Internal complaints resolution process
As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme
A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ('**FOS**'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Toll free: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au

Contact details
You may contact us using the details set out on page 1 of the accompanying report.

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Appendix 1 – Glossary and copyright notice

Appendix 2 – Valuation Methodologies

Appendix 3 – Discount rate assessment

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16 December 2015

The Directors
Orbital Corporation Limited
4 Whipple Street
BALCATTA WA 6021

Dear Directors

INDEPENDENT EXPERT'S REPORT

1. Introduction

UIL Limited (previously Utilico Investments Limited) (**'UIL'**) (and its associates) holds 5,401,544 shares in Orbital Corporation Limited (**'Orbital'** or **'the Company'**), representing a 10.58% interest in the Company. Bermuda Commercial Bank (**'BCB'**), a wholly owned subsidiary of Somers Limited (**'Somers'**) (which is in turn 49.8% owned by UIL), holds 120 convertible notes (**'Notes'**) of $50,000 each, amounting to $6 million in total, convertible at a price of $0.40 per share in Orbital. The potential issue of shares to BCB on the conversion of its Notes will increase the voting power of UIL in Orbital to between 27.64% and 30.89% as UIL is deemed to have a relevant interest in any shares held by BCB.

The potential conversion of 63 Notes on a diluted basis (and assuming the conversion of all other convertible notes not held by BCB) will increase the voting power of UIL in Orbital to 19.91% or just below 20% which is the threshold before shareholders' approval needs to be sought (**'Tranche 1'**). The conversion of the remaining 57 Notes on a diluted basis (**'Tranche 2'**) will bring UIL's voting power in Orbital to above 20% but less than 90% (**'the Transaction'**). The potential issue of Orbital shares to BCB under Tranche 2 of the Notes is therefore subject to shareholders' approval which is sought under item 7 section 611 of the Corporations Act 2001 Cth (**'Corporations Act'** or **'the Act'**).

All currency amounts are in Australian dollars (**'AUD'** or **'A$'**) unless otherwise stated.

2. Summary and Opinion

2.1 Purpose of the report

The directors of Orbital have requested that BDO Corporate Finance (WA) Pty Ltd (**'BDO'**) prepare an independent expert's report (**'our Report'**) to express an opinion as to whether or not the Transaction is fair and reasonable to the non-associated shareholders of Orbital (**'Shareholders'**).

Our Report is prepared pursuant to section 611 of the Corporations Act and is to be included in the Notice of Meeting and Explanatory Memorandum of Orbital in order to assist the Shareholders in their decision whether to approve the Transaction.

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('**ASIC**') Regulatory Guide 74 'Acquisitions Approved by Members' (**'RG 74'**), Regulatory Guide 111 'Content of Expert's Reports' ('**RG 111**') and Regulatory Guide 112 'Independence of Experts' ('**RG 112**').

In arriving at our opinion, we have assessed the terms of the Transaction as outlined in the body of this report. We have considered:

- how the value of an Orbital share prior to the Transaction on a controlling basis compares to the value of an Orbital share following the Transaction on a minority basis;
- the likelihood of a superior alternative offer being available to Orbital;
- other factors which we consider to be relevant to the Shareholders in their assessment of the Transaction; and
- the position of Shareholders should the Transaction not proceed.

2.3 Opinion

We have considered the terms of the Transaction as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Transaction is not fair but reasonable to Shareholders.

In our opinion, the Transaction is not fair because the value of an Orbital share following the Transaction on a minority basis is less than the value of an Orbital share prior to the Transaction on a controlling basis. However, we consider the Transaction to be reasonable because the advantages of the Transaction to Shareholders are greater than the disadvantages.

In particular, we consider there to be numerous advantages available to Shareholders as a result of approving BCB's conversion of its Tranche 2 Notes. These advantages relate to the extinguishment of the Company's obligation to repay the invested funds. Shareholders will benefit from the Company being able to utilise those funds to pursue future development opportunities, as well as improving the Company's flexibility in its capital structure.

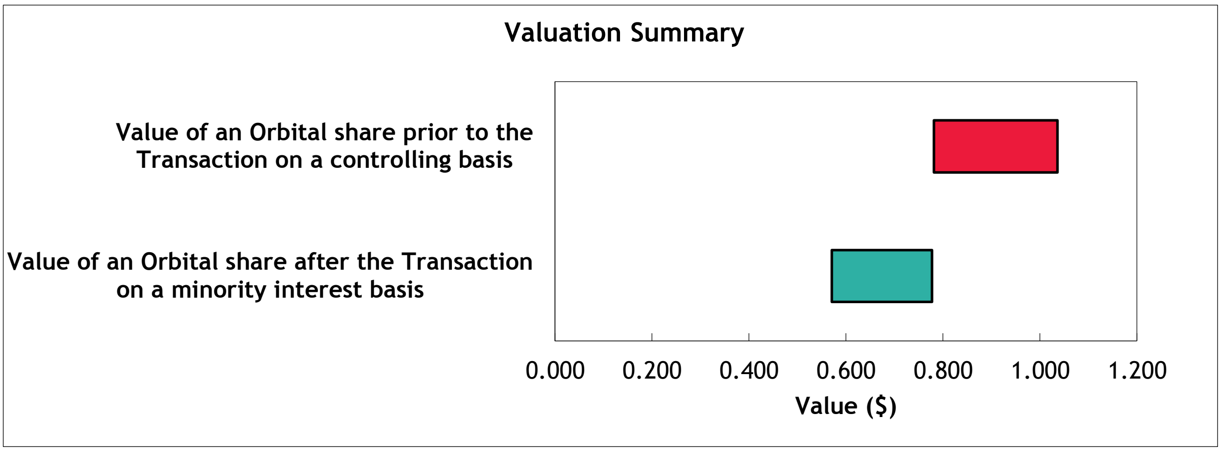
2.4 Fairness

In section 12, we compared the value of an Orbital share prior to the Transaction on a controlling basis and the value of an Orbital share following the Transaction on a minority interest basis as detailed below.

	Ref	Low $	Midpoint $	High $
Value of an Orbital share prior to the Transaction on a controlling basis	10.12	0.78	0.91	1.03
Value of an Orbital share following the Transaction on a minority basis	11.1	0.57	0.67	0.78

Source: BDO analysis

The above valuation ranges are graphically presented below:



Source: BDO analysis

The above pricing indicates that, in the absence of any other relevant information, the Transaction is not fair for Shareholders.

2.5 Reasonableness

We have considered the analysis in section 13 of this report, in terms of both:

- advantages and disadvantages of the Transaction; and
- other considerations, including the position of Shareholders if the Transaction does not proceed and the consequences of not approving the Transaction.

In our opinion, the position of Shareholders if the Transaction is approved is more advantageous than the position if the Transaction is not approved. Accordingly, in the absence of any other relevant information and/or a superior proposal we believe that the Transaction is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
13.4	Allows the Company's cash to be invested in its future development	13.5	Whilst the Transaction is not fair, the convertible notes were initially issued with a conversion price that was out-of-the-money, and BCB was a major participant in the offer that helped fund the purchase of the REMSAFE business and provide the funds needed to grow Orbital's business.
13.4	Reduction of the interest and principal repayment burden on the Company results in increased cash flows	13.5	Dilution of existing Shareholders' interests
13.4	Introduces a cornerstone investor in the Company		
13.4	Increased attractiveness to bank lenders		

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
13.4	Improved net asset position through reduction of the liability		
13.4	No changes to current operating and financial arrangements		
13.4	Improved capital structure flexibility		

Other key matters we have considered include:

Section	Description
13.1	Alternative Proposals
13.2	Practical level of control
13.3	Consequences of not approving the Transaction
13.6	Other considerations

3. Scope of the Report

3.1 Purpose of the Report

Section 606 of the Corporations Act expressly prohibits a person acquiring a relevant interest in the issued voting shares of a company if that acquisition will result in that person's or another person's voting power in the company increasing from 20% or below to more than 20%, or a starting point that is above 20% and below 90%, unless a full takeover offer is made to all shareholders. If the Transaction is approved, UIL's voting power in Orbital will increase to between 27.64% and 30.89%.

Section 611 permits such an acquisition if the shareholders of that entity have agreed to the issue of such shares. This agreement must be approved by resolution passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. Section 611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.

RG 74 states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of Orbital, by either:

- undertaking a detailed examination of the Transaction themselves, if they consider that they have sufficient expertise; or
- by commissioning an Independent Expert's Report.

The directors of Orbital have commissioned this Independent Expert's Report to satisfy this obligation.

3.2 Regulatory guidance

The Corporations Act does not define the meaning of 'fair and reasonable'. In determining whether the Transaction is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to effect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Transaction is a control transaction as defined by RG 111 and we have therefore assessed the Transaction as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.

3.3 Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium.

Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- a comparison between the value of an Orbital share prior to the Transaction on a controlling basis and the value of an Orbital share following the Transaction on a minority basis (fairness – see Section 12 'Are the Transactions Fair?'); and
- an investigation into other significant factors to which Shareholders might give consideration, prior to approving the Transaction, after reference to the value derived above (reasonableness – see Section 13 'Is the Transaction Reasonable?').

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('**APES 225**').

A Valuation Engagement is defined by APES 225 as follows:

'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

4. Outline of the Transaction

On 17 December 2014, the Company announced that it was raising $10 million through an offer of 200 convertible notes. The funds were to be used to fund the acquisition of Remsafe Pty Ltd and working capital. On completion of the convertible note offer, no party participating in the offer had the potential to convert their convertible note that would result in their voting power to increase above 20%. However, UIL (and its associates) subsequently purchased Orbital shares on the market, resulting in its existing holding of 10.58%. If BCB converts all the Notes it holds, the issue of shares under the conversion of Tranche 2 of the Notes, together with its existing shareholding, would bring UIL's voting power to above 20% but less than 90%.

The convertible notes are subject to the following terms:

- each note has a face value of $50,000;
- have an interest rate of 10% per annum accruing daily and paid quarterly in arrears;
- are convertible at a rate of $0.40 per share;
- the maturity date is 24 months from issuance of the first convertible note;
- are subject to an early redemption agreement where Orbital may elect to redeem the convertible notes after 6 months, which will trigger an early redemption interest rate payment; and
- rank equally amongst all investors who participated in the convertible note issue.

The table below summarises the impact to the Company's capital structure following the issue of shares on conversion of BCB's Notes held based on a diluted basis (assuming that all other convertible notes are converted) and on an undiluted basis (assuming that all other convertible notes are not converted):

Orbital's Share Structure	UIL	Other	Total
Diluted basis			
Issued Shares as at the date of our Report	5,401,544	45,653,129	51,054,673
% holdings as at the date of our Report	*10.6%*	*89.4%*	*100.00%*
Conversion of BCB's Tranche 1 Notes	7,875,000	-	7,875,000
Conversion of other convertible notes	-	7,750,000	7,750,000
Subtotal	**13,276,544**	**3,403,129**	**6,679,673**
% holdings before conversion of Tranche 2	*19.91%*	*80.09%*	*100.00%*
Conversion of BCB's Tranche 2 Notes	7,125,000	-	7,125,000
Issued shares following the Transaction	**20,401,544**	**53,403,129**	**73,804,673**
% holdings after conversion of both Tranche 1 and Tranche 2	*27.64%*	*72.36%*	*100.00%*
Undiluted basis			
Issued Shares as at the date of this Report	5,401,544	45,653,129	51,054,673
% holdings as at the date of this Report	10.58%	89.42%	100.00%
Conversion of BCB's Notes without breaching the 20% threshold	6,000,000	-	6,000,000
Subtotal	**11,401,544**	**45,653,129**	**57,054,673**
% holdings before conversion of remaining Notes	*19.98%*	*80.02%*	*100.00%*
Conversion of BCB's remaining Notes	9,000,000	-	9,000,000
Issued shares following the Transaction	**20,401,544**	**45,653,129**	**66,054,673**
% holdings after conversion of all BCB's Notes	30.89%	69.11%	100.00%

Source: BDO analysis

Based on the table above, the issue of shares to BCB will result in UIL increasing its voting power in Orbital from 10.58% to a maximum of 30.89% following BCB's conversion of both tranches of the Notes (assuming that the remaining convertible notes held by other parties are not converted). However, if we assume the conversion of all the remaining convertible notes, UIL's voting power is expected to be lower at 27.64%.

The Company currently has 1,800,000 performance rights outstanding which have not vested, if these rights were to vest, the voting power of UIL would reduce to 26.98%.

We have assumed all convertible notes not requiring shareholders' approval to be converted prior to the Transaction as they are in-the-money.

5. Profile of Orbital

5.1 History

Orbital is an innovative industrial technology company that invents and builds smart technology, delivering improved performance outcomes for their clients in the aerospace, mining and industrial, and consumer sectors. Orbital operates on a global scale and is headquartered in Perth, Western Australia. The Company listed on the Australian Securities Exchange ('**ASX**') on 24 January 1989.

Orbital's innovation and technology leadership is reflected through its unmanned aerial vehicle engines ('**UAVE**') business that produces and supplies engine and propulsion systems to the aerospace industry for unmanned aerial vehicles ('**UAV**') and its patented REMSAFE remote isolation system ('**REMSAFE**') for global mining and industrial applications.

In the consumer sector, until recently, Orbital had a 30% interest in Synerject LLC ('**Synerject**'), a 30:70 partnership with Continental AG, and is the world's largest independent supplier of engine management systems and fuel system to the non-automotive market, with a focus on the recreational and scooter market. On 2 November 2015, Orbital announced the sale of its interest in Synerject to the majority owner, Continental Automotive Corporation, for $25 million. The sale was completed on 2 November 2015.

A key foundation technology and revenue generator is Orbital's proprietary FlexDI™ engine management system technology which has been commercialised, since 1996, in the marine market and subsequently in the motorcycle, recreational and most recently in the UAV markets. Orbital's 35-year history of innovation in engine development technology is now focussed within Orbital's UAVE business to design, develop and construct the world's best leading edge engines and propulsion systems for UAV.

The Company's UAVE business offers both complete engine packages as well as engine management systems ('**EMS**') based on Orbital's FlexDI™ system. Orbital's FlexDI™ system is one that prepares very fine fuel droplets, allowing spark ignition of heavy fuels used by the military. Orbital currently holds a contract to supply Textron Inc. ('**Textron**') with EMS for the small unmanned aircraft market utilising Orbital's FlexDI™ technology. On 26 August 2015, the Company announced that it had won a $12 million contract with Insitu Inc. ('**Insitu**'), a subsidiary of The Boeing Company ('**Boeing**'), to manufacture an initial batch of UAV engines and propulsion systems which is expected to be followed by a long-term production contract for the supply of engines, rebuilds, spares and service.

Orbital holds a 61.5% interest in Remsafe Pty Ltd, a company that has developed a unique and patented technology product in the form of a high voltage electrical remote isolation system for use in bulk handling mining operations, predominantly in the mining sector as well as for broader industry applications. Orbital completed the acquisition of a 50% interest in Remsafe on 5 February 2015, and has increased this interest through funding working capital and research and development activities. The REMSAFE technology allows users to reduce downtime and improve safety by isolating fixed equipment, such as conveyor belts, from their energy source, verifying the isolation and completing the required maintenance without performing onerous safety protocols.

Orbital recently established the Orbital Accelerator business as its centre for innovation to leverage off the Company's core engineering expertise, world class facilities and experience in commercialising high value products. The intention is to convert Orbital's historical consulting services division into a well-funded incubator that will attract investment opportunities and assist in the identification, innovation and development of new high value-add products.

As part of its new strategy, and due to the declining liquefied petroleum gas market which has resulted in the lack of sustainable profitability in recent years, the Company announced its intention on 30 June 2015 to exit its commercial activity in alternative fuel systems through both its Orbital Autogas Systems and its 55% holding in Sprint Gas Pty Ltd ('**Sprint Gas**'). Discussions on the sale of this business are ongoing.

5.2 Historical Statement of Financial Position

Balance Sheet	Audited as at 30-Jun-15 $'000	Audited as at 30-Jun-14 $'000
CURRENT ASSETS		
Cash and cash equivalents	6,649	5,416
Other financial assets	1,369	1,341
Trade and other receivables	6,991	5,755
Inventories	390	3,328
Disposal group held for sale	909	-
TOTAL CURRENT ASSETS	16,308	15,840
NON-CURRENT ASSETS		
Investment in associate	17,826	13,980
Deferred taxation asset	5,621	5,001
Plant and equipment	2,259	2,845
Intangibles and goodwill	5,530	-
TOTAL NON-CURRENT ASSETS	31,236	21,826
TOTAL ASSETS	**47,544**	**37,666**
CURRENT LIABILITIES		
Trade payables and other liabilities	4,510	3,696
Borrowings	597	521
Contingent consideration	-	638
Employee benefits	2,026	1,938
Deferred revenue	-	316
Government grants	225	225
Other provisions	241	192
Liabilities associated with disposal group held for sale	382	-
TOTAL CURRENT LIABILITIES	7,981	7,526

Balance Sheet	Audited as at 30-Jun-15 $'000	Audited as at 30-Jun-14 $'000
NON-CURRENT LIABILITIES		
Long term borrowings	16,604	7,811
Employee benefits	35	32
Government grants	749	974
Other provisions	233	278
TOTAL NON-CURRENT LIABILITIES	17,621	9,095
TOTAL LIABILITIES	**25,602**	**16,621**
NET ASSETS	**21,942**	**21,045**
EQUITY		
Share capital	20,021	19,590
Reserves	3,285	(587)
(Accumulated losses)/Retained profits	(2,500)	2,042
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**20,806**	**21,045**
Non-controlling interests	1,136	-
TOTAL EQUITY	**21,942**	**21,045**

Source: Orbital's audited financial statements for the years ended 30 June 2015 and 30 June 2014

We note the following with regard to the Statement of Financial Position for Orbital:

- Cash and cash equivalents as at 30 June 2015 increased to $6.65 million from $5.42 million as at 30 June 2014. This is primarily due to the issue of convertible notes, with the cash received being partially offset by the acquisition of Remsafe and an on-market share buy-back.
- Other financial assets are short term deposits held by Westpac Banking Corporation as collateral for guarantees over the Company's Balcatta and Sydney properties.
- Accounts receivable at 30 June 2015 increased in line with sales growth achieved by the Company over the year.
- Disposal of group held for sale refers to the Sprint Gas and Orbital Autogas Systems businesses which are to be sold to the non-controlling shareholder of Sprint Gas.
- Investment in associate as at 30 June 2015 represents Orbitals 30% interest in Synerject, and increased to $17.83 million due to an increase in unrealised foreign exchange movements.
- The Company recognised intangibles and goodwill of $5.53 million due to the acquisition of Remsafe, with a fair value assessment of the acquired assets yet to be taken.
- Long term borrowings as at 30 June 2015 increased to $16.60 million from $7.81 million at 30 June 2014 largely due to the issue of $10 million of convertible notes.

5.3 Historical Statement of Profit and Loss and Other Comprehensive Income

Statement of Comprehensive Income	Year ended 30-Jun-15 $'000	Year ended 30-Jun-14 $'000
Continuing operations		
Sale of goods	3,560	2,750
Engineering services income	5,217	2,898
Royalty and licence income	777	1,124
Other revenue	106	157
Total Revenue	**9,660**	**6,929**
Other income	5,291	4,221
Materials and consumables expenses	(518)	(875)
Employee benefits expenses	(8,925)	(7,020)
Depreciation and amortisation expenses	(504)	(530)
Engineering consumables and contractors expenses	(3,413)	(883)
Occupancy expenses	(1,296)	(1,316)
Travel and accommodation expenses	(333)	(250)
Communications computing expenses	(371)	(281)
Patent expenses	(212)	(260)
Insurance expenses	(401)	(501)
Audit, compliance and listing expenses	(621)	(928)
Finance costs	(964)	(533)
Other expenses	(466)	(304)
Share of profit from associate	2,860	3,256
(Loss)/profit before income tax from continuing operations	**(213)**	**725**
Income tax (expense)/benefit	(448)	479
(Loss)/profit for the year from continuing operations	**(661)**	**1,204**
Discontinued operations		
(Loss)/profit after tax for the year from discontinued operations	(4,068)	472
(Loss)/profit for the year	**(4,729)**	**1,676**

Source: Orbital's audited financial statements for the years ended 30 June 2015 and 30 June 2014

We note the following in regard to the Statement of Profit and Loss and Other Comprehensive Income for Orbital:

- Total revenue over the year to 30 June 2015 increased to $9.66 million due to the recognition of revenue generated by the REMSAFE business.
- Other income pertains to grants, foreign exchange gains, fair value movement in contingent consideration, fair value movement in financial instruments and rental income. Increase in other income between 30 June 2014 and 30 June 2015 was primarily due to an increase in grant income and the fair value movement in contingent consideration.

- Employee benefits expense increased to $8.93 million for the year ended 30 June 2015 from $7.02 million for the year ended 30 June 2014 due to an increase in staff numbers from 89 to 96.
- Finance costs increased to $964,000 for the twelve months ended 30 June 2015, from $533,000 incurred during the previous twelve months. This was due to increased interest payments due to the Company's convertible note raising in the period.
- Share of profit from associate refers to the Company's share of Synerject's profit for the year.

5.4 Capital Structure

The share structure of Orbital as at 2 December 2015 is outlined below:

	Number
Total Ordinary Shares on Issue	51,054,673
Top 20 Shareholders	26,173,883
Top 20 Shareholders - % of shares on issue	**51.27%**

Source: Orbital share register

The range of shares held in Orbital as at 2 December 2015 is as follows:

Range of Shares Held	No. of Ordinary Shareholders	No. of Ordinary Shares	% Issued Capital
1-1,000	2,738	1,014,156	1.99%
1,001-5,000	1,040	2,567,736	5.03%
5,001-10,000	276	2,131,280	4.17%
10,001-100,000	403	12,841,089	25.15%
100,001 - and over	57	32,500,412	63.66%
TOTAL	**4,514**	**51,054,673**	**100.00%**

Source: Orbital share register

The ordinary shares held by the most significant shareholders as at 2 December 2015 are detailed below:

Name	No of Ordinary Shares Held	Percentage of Issued Shares (%)
UIL (and its associates)	5,401,544	10.58%
Mulloway Pty Ltd	2,665,688	5.22%
Annapurna Pty Ltd	2,026,368	3.97%
HSBC Custody Nominees (Australia) Limited	1,703,304	3.34%
Total Top 4	**11,796,904**	**23.11%**
Others	39,257,769	76.89%
Total ordinary shares on issue	**51,054,673**	**100.00%**

Source: Orbital share register

6. Profile of UIL, Somers and BCB

UIL

UIL is an investment company incorporated in Bermuda. Share trading in UIL commenced on 20 June 2007. UIL is a value focused fund with a preference for utilities companies in areas such as water, sewerage, waste, electricity, gas, telecommunications, ports, airports, service companies, rail and roads. UIL is mandated to invest in shares, bonds, convertible notes, junk bonds and unlisted securities. It is also mandated to use derivative instruments and leverage in combination with its investments.

UIL has an Investment Management Agreement in place with ICM Investment Management Limited and ICM Limited under which ICM Investment Management Limited has been appointed the Company's Alternative Investment Fund Manager and joint portfolio manager alongside ICM Limited. ICM Investment Management Limited is also secretary of UIL.

As part of its capital structure, UIL has shares which are traded on the London Stock Exchange.

Further information on UIL can be found on its company website: http://www.uil.limited.

Somers

Somers is a Bermuda exempt company whose shares are traded on the Bermuda Stock Exchange. Somers is a financial services investment holding company that provides a platform for corporate investments and acquisitions in the financial services sector. It currently has investments in the banking, asset financing and stockbroking sectors. Somers' major assets include its 100% owned subsidiary, BCB, one of Bermuda's four licensed banks and a 62.5% holding in Waverton Investment Management Limited, a UK wealth manager with over US$7.2 billion assets under management.

The Group's other investments include an 84.6% stake in Westhouse Holdings PLC, a corporate and institutional stockbroking group, a 44% economic interest in Ascot Lloyd Holdings Limited, a UK independent financial adviser, a 21% economic interest in Merrion Capital Holdings Limited, an Irish financial services group and a 57% stake in West Hamilton Holdings Limited, a Bermuda property company.

Further information on Somers can be found on its company website: http://www.somers.bm.

BCB

BCB is a Bermuda-based bank that offers a full array of banking solutions, including private banking and wealth management, business banking, corporate administration, global custody and brokerage, estate planning and trust administration to corporate, commercial and high net-worth clients.

In October 2012, as part of a strategic restructuring, BCB merged with BNL I Limited, a wholly owned subsidiary of Somers, resulting in BCB becoming a wholly owned subsidiary of Somers.

Further information on BCB can be found on its website: http://www.bcb.bm.

7. Economic analysis

The global economy is expanding at a moderate pace with further softening in conditions in China and East Asia of late, but stronger US growth.

Australia

Commodity prices

Commodity prices are much lower than a year ago, in part reflecting increased global supply, including increased supply from Australia. The price of oil in particular is much lower than it was a year ago. These trends appear to reflect a combination of lower growth in demand and, more importantly, significant increases in supply. The much lower levels of energy prices will act to strengthen global output and temporarily to lower CPI inflation rates. Prices for key Australian exports have also been falling and therefore Australia's terms of trade are continuing to decline.

Domestic growth

In Australia, most of the available information suggests that growth in the economy continues to be moderate. While growth has been below longer-term averages for some time, it has been accompanied with somewhat stronger growth of employment and a steady rate of unemployment over the past year. Overall, the economy is likely to be operating with a degree of spare capacity for some time yet, with domestic inflationary pressures contained. Inflation is thus forecast to remain consistent with the target over the next one to two years, even with a lower exchange rate.

Credit growth

Credit is recording moderate growth overall. Low interest rates are acting to support borrowing and spending. Growth in lending to the housing market has broadly been steady over recent months. Dwelling prices are rising moderately in Sydney, though trends have been more varied in a number of other cities. The Reserve Bank of Australia ('**RBA**') is working with other regulators to assess and contain risks that may arise from the housing market. In other asset markets, prices for commercial property have been supported by lower long-term interest rates, while equity prices have moved lower and been more volatile recently, in parallel with developments in global markets.

Impact of currency movements

The Australian dollar has declined noticeably against a rising US dollar over the past year, adjusting to the significant declines in key commodity prices.

Source: www.rba.gov.au *Statement by Glenn Stevens, Governor: Monetary Policy Decision 1 December 2015*

United States

Domestic Growth

It is expected that real GDP will grow slowly through 2015, with this weakness in growth giving way to stronger growth in 2016 followed by a return to the longer term normal rate of growth. The expectation of a return to growth in 2016 is based on a number of factors including improving labour market conditions, strengthened household and business balance sheets, waning effects of the earlier increases in the value of the US dollar, a boost to consumer spending from low energy prices and access to cheap credit.

Source: www.federalreserve.gov *Minutes of the Federal Open Market Committee,Summary of Economic Projections 16-17 June 2015*

Implications for Orbital

Orbital benefits from a weak Australian dollar given the majority of its UAV contracts are in United States dollars (**'US dollars'** or **'US$'**). The current downturn in iron ore prices may negatively affect sales from Orbital's REMSAFE business, though given it is a low cost, efficiency and safety improvement technology, this may mitigate the negative effects of the downturn. Low cost of credit may benefit Orbital in the medium to long term as they stabilise earnings, allowing them to access capital which is cheaper than convertible notes or equity raisings.

8. Industry analysis

UAV and UAS

A UAV is an aircraft without a human pilot aboard. UAV's are commonly referred to as drones or remotely piloted aircraft. The UAV can be controlled autonomously by on-board computers or by a remotely located human operator. The original and primary use of UAVs is in military operations although, as the regulatory environment improves, the use of UAVs in commercial applications is likely to grow.

The term unmanned aerial system (**'UAS'**) includes all components required for a UAV to function correctly, including the UAV itself, the ground control system, camera, GPS, software, tools required for maintenance and the skills needed to operate the system. The terms UAV and UAS are used interchangeably in the industry.

The UAV applications that Orbital is targeting are the Small Unmanned Aircraft Systems (**'SUAS'**), Medium Altitude Long Endurance (**'MALE'**) and Vertical Take Off/Landing (**'VTOL'**) markets. Their key features are outlined below:

SUAS

- wingspan less than 4.5 metres
- engine power less than 10 horsepower
- catapault launched
- net/wire retrieval

MALE

- wingspan less than 6 metres
- engine power less than 100 horsepower
- catapault / runway launched
- runway retrieval

VTOL UAV

- rotor span less than 4 metres
- engine power less than 100 horsepower
- rapid deployment
- support facility required

UAV can be deployed to fulfil a variety of functions, with each type being particularly effective for different purposes. MALE UAV are often utilised by military forces for both reconnaissance and enemy engagement, a well-known model being the Predator drone. The military often employs the use of drones for operations which are either highly repetitive, dangerous or in difficult to manoeuvre areas.

SUAS UAVs are used in both military and commercial operations, generally for surveying and mapping large areas making them useful for urban infrastructure management, wildlife management, bushfire detection and search & rescue missions.

VTOL UAVs are used by companies with industrial processes who require detailed inspection work of their facilities.

Industry Outlook

It is estimated that UAV production will increase from the current global market of US$4 billion annually to US$14 billion over the next ten years. It is also forecast that military UAV research will add another US$30 billion over the coming decade.

The market is forecast to be split at a cumulative share of 72% military, 23% consumer and 5% civil for the ten years to 2025. The increasing market size will be a function of the next generation of combat systems, as well as the growth in the infant markets for consumer and civil drones.

This growth will be further driven by increasing regulatory clarification in the field. It is estimated that precision agriculture and public safety will be the most promising commercial and civil markets for UAVs in the United States if they are integrated appropriately into the National Airspace System.

It is forecast that the economic impact of UAVs can potentially total more than US$82.1 billion between 2015 and 2025 in the US. More than 100,000 jobs will be created as part of this impact, predominantly in the manufacturing sector.

Source: www.auvsi.org *The Economic Impact of Unmanned Aircraft Systems Integration in the United States* Association for Unmanned Vehicle Systems International, www.tealgroup.com *Teal Group Predicts Worldwide UAV Market Will Total $91 Billion in Its 2015 UAV Market Profile and Forecast* Teal Group Corporation

Machine Safety Systems

Large scale operations requiring machinery generally involve a large number of factors which can fatally wound users due to the machinery's heat, moving parts, sharp edges or electrical current. Machine safety systems aim to minimise harm to machine users through monitoring processes and reducing human exposure to potentially dangerous machinery. These systems are primarily important in industries such as pharmaceutical, mining, manufacturing and automotive as they all involve high-risk machinery.

Bulk Handling, Mining and Safety

Bulk handling operations generally require the use of conveyors, reclaimers and feeders as they allow for automation in moving a large amount of materials. Industries which require bulk handling include agriculture, mining and general warehousing operations. In 2014/15 the conveyor belt distribution industry generated approximately $3.8bn in revenue.

The demand for bulk handling machinery has largely been driven by the Australian mining sector, particularly by coal and iron ore miners. The low value to weight ratio of minerals such as iron ore and coal leads to mining operations which have to extract and relocate a large amount of the mineral. Conveyors and reclaimers are used extensively in moving the minerals from stockpile, to train, to ship.

Due to the weakness in commodity prices since 2013, there has been a reduction in the number of mining operations being established. This has led to a decrease in the demand for bulk handling machinery.

Mine safety is of the upmost importance to the Western Australian and Australia governments with a number of comprehensive codes of practice and standards established for mine operators. To be sold to and installed on the sites of the major miners, such as Rio Tinto, BHP Billiton and Fortescue Metals Group, equipment has to meet the highest standards set by the governing authorities. *AS 1755 Conveyors – Safety requirements* is the Australian Standard for conveyor belt safety.

Additional safety standards for processes indirectly involved with conveyor belts and bulk handling have their own Australian Standards.

REMSAFE Remote Isolation System

The REMSAFE remote isolation system improves the safety and efficiency of bulk handling operations through allowing personnel to quickly isolate and de-isolate fixed plant such as conveyors from their source of electricity.

The REMSAFE system dramatically reduces the time it takes to achieve a full current isolation, as well as removing the need for electricians to travel around the site when performing the isolation. As the isolation is conducted remotely from the switch room, it removes the requirement for an operator to be in close proximity to areas where an arc flash may occur, which improves safety. It also removes the incentive for electricians to cut corners and not perform a full current isolation which endangers field operators.

The REMSAFE system is fully compliant with a number of Australian and International Electrotechnical Commission Standards and is currently used as the benchmark for remote isolation systems in Western Australia.

Industry Outlook

The market is driven by government regulations, pressure from workers union movements and the involvement of insurance companies.

Growth in the sector is inhibited by the cost to implement safety systems, a lack of skilled resources and a lack of awareness. Recent economic weakness has hampered growth in the industry as businesses cut costs in non-essential areas which include safety.

Continuous regulatory changes by governments globally are expected to encourage businesses to create safe workplaces for employees, which are maintained in downturns. As emerging economies place more emphasis on safety, the market for machine safety systems will improve. The market is expected to reach $4.2 billion by 2018 at an estimated growth rate of 9.0%.

Source: www.ibisworld.com.au *Material handling equipment distributors* IBIS World, www.marketsandmarkets.com *Machine Safety worth $4,197.04 million by 2018* Markets and Markets

9. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings (‘**FME**’)
- Discounted cash flow (‘**DCF**’)
- Quoted market price basis (‘**QMP**’)
- Net asset value (‘**NAV**’)
- Market based assessment

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. It is possible for a combination of different methodologies to be used together to determine an overall value where separate assets and liabilities are valued using different methodologies. When such a combination of methodologies is used, it is referred to as a ‘sum-of-parts’ (‘**Sum-of-Parts’**) valuation.

The approach using the Sum-of-Parts involves separately valuing each asset and liability of the company. The value of each asset may be determined using different methods as described above. The component parts are then valued using the NAV methodology, which involves aggregating the estimated fair market value of each individual company’s assets and liabilities.

9.1. Valuation of an Orbital Share Pre-Transaction

In our assessment of the value of Orbital’s shares prior to the Transaction (‘**Pre-Transaction**’), we adopted the following methodologies:

- Sum-of-parts; and
- QMP.

We employed the Sum-of-Parts method in estimating the fair market value of Orbital by aggregating the estimated fair market values of its underlying assets and liabilities, having consideration to the:

- value of Orbital’s REMSAFE and UAVE businesses (‘**the Businesses**’) (applying the DCF method);
- value of Orbital’s other assets and liabilities (applying the cost approach under the NAV method); and
- amount of Orbital’s corporate costs.

The Pre-Transaction value is determined on the basis of Tranche 2, not being converted to equity. We have considered all other outstanding convertible notes to be converted, including Tranche 1, as their conversion does not require shareholder approval and they are in-the-money.

We have used a valuation date of 30 September 2015 by applying the DCF method to cash flows of the Businesses and Orbital’s corporate costs from 1 October 2015 to the end of the of the forecast period (including a terminal value) and applying the cost approach for Orbital’s other assets and liabilities as at 30 September 2015.

Sum-of-Parts

We have chosen the Sum-of-Parts method (including a DCF method) as our primary valuation methodology for the following reasons:

- the Company's value is primarily derived from the future cash flows from the REMSAFE business and the UAVE business;
- cash flows from the UAVE business and REMSAFE business are expected to vary substantially in their initial growth years, although may be reasonably estimated, rendering them suitable for a DCF valuation;
- other segments of the Orbital business account for a less significant portion of the Company's business, other than the value Synerject which we have valued using the NAV method, and adjusted to reflect its sale price; and
- other component parts such as other assets and liabilities are valued using the NAV method.

Other methodologies adopted

We have chosen the QMP methodology as our secondary approach.

The QMP basis is a relevant methodology to consider because Orbital's shares are listed on the ASX. This means there is a regulated and observable market where Orbital's shares can be traded. However, in order for the QMP methodology to be considered appropriate, the Company's shares should be liquid and the market should be fully informed as to Orbital's activities.

9.2. Valuation of an Orbital Share Post-Transaction

In our assessment of the value of Orbital's shares following the Transaction ('**Post-Transaction**'), we adopted the Sum-of-Parts methodology, which is similar to the approach we used in our valuation of Orbital's shares Pre-Transaction.

As the Transaction involves only the issue of shares under the conversion of Tranche 2 of the Notes, we have adopted the Pre-Transaction valuation and adjusted it for the conversion of Tranche 2 into equity.

10. Valuation of an Orbital share Pre-Transaction

10.1 Sum-of-Parts valuation of Orbital

We employed the Sum-of-Parts method in estimating the Pre-Transaction value of an Orbital share by aggregating the estimated fair market values of its underlying assets and liabilities, having consideration to the following:

- the value of the Businesses;
- the value of other assets and liabilities of Orbital;
- assuming that Tranche 2 is not converted into equity; and
- the amount of corporate costs.

The value of Orbital on a going concern basis, prior to the conversion of Tranche 2 is reflected in our valuation below:

Pre-Transaction valuation	Reference	Low $'000	Midpoint $'000	High $'000
DCF value of the Businesses	10.3 & 10.4	**83,275**	**91,754**	**100,225**
Add: Other assets and liabilities	10.8	16,326	16,326	16,326
Add: Debt liability extinguished following conversion	10.9	5,827	5,827	5,827
Less: Present value of corporate costs	10.10	(53,392)	(53,392)	(53,392)
Net Assets of Orbital on a controlling basis		**52,036**	**60,515**	**68,986**
Shares on issue ('000)		66,680	66,680	66,680
Value per share ($)		**0.78**	**0.91**	**1.03**

Source: BDO analysis

The table above indicates that the Pre-Transaction value of an Orbital share using the Sum-of-Parts approach is between $0.78 and $1.03, with a midpoint value of $0.91. The value of an Orbital share derived under the Sum-of-Parts method is reflective of a controlling interest.

10.2 Discounted Cash Flow Valuation of the Businesses

General Approach to Discounted Cashflows

We elected to use the DCF approach in valuing the Businesses. The DCF approach estimates the fair market value by discounting the future cash flows arising from the project to their net present value. Performing a DCF valuation requires the determination of the following:

- the expected future cash flows that the projects are expected to generate;
- an appropriate discount rate to apply to the cash flows of the projects to convert them to present value equivalent; and
- an appropriate growth rate in order to arrive at a terminal value for both of the Businesses.

The management of Orbital has prepared a detailed cash flow model for each of the Businesses ('**Cashflow Model**'). We reviewed the Cashflow Model and the material underlying assumptions.

The Cashflow Model has been adjusted by us to reflect any changes to the economic and other input assumptions from our research, where considered appropriate.

BDO's analysis of the Cashflow Model included:

- analysing the Cashflow Model to confirm its integrity and mathematical accuracy;
- reviewing the reasonableness of the assumptions adopted by Orbital;
- calculating appropriate discount rates; and
- assessing the net present value of the cashflows in the Cashflow Model.

We have not undertaken a review of the cash flow forecasts in accordance with Australian Auditing Standards and do not express an opinion on the reasonableness of the assumptions or their achievability. However, nothing has come to our attention as a result of our procedures to suggest that the assumptions on which the Cashflow Model has been based have not been prepared on a reasonable basis.

The Cashflow Model estimate the future cash flows expected from each of the Businesses. The Cashflow Model depict forecasts of nominal, post-tax cash flows over the life of the REMSAFE business and UAVE business separately on a monthly basis over a period of approximately five years from October 2015 to June 2020.

A terminal value for each of the Businesses was calculated on the basis that cash flows stabilise beyond the fifth year, growing at a nominal rate of inflation and reflects Orbital's business to perpetuity assuming that it continues to trade as a going concern.

10.3 REMSAFE Cashflow Model

The main assumptions underlying the cash flows for the REMSAFE business include:

- number of contracts won;
- value of each contract won;
- probability factor of winning contracts from proposals submitted;
- volume of units delivered under each potential contract;
- variable costs including material, freight, sales and validation costs;
- fixed overheads including personnel costs;
- capital expenditure;
- corporate tax;
- inflation rate; and
- discount rate.

We undertook the following analysis on the cash flows for the REMSAFE business contained in the Cashflow Model:

- conducted independent research on certain economic and other inputs such as inflation and discount rate applicable to the future cash flows of the REMSAFE business;
- held discussions with Orbital's management regarding the preparation of the forecasts in the Cashflow Model and their views;
- adjusted the Cashflow Model to reflect only cash flow forecasts that had a reasonable basis. In this regard, we included contractual cash flows and cash flows forecast to be derived from proposals submitted after a probability factor had been applied;
- adjusted the Cashflow Model to reflect any changes to the economic and other input assumptions from our research; and
- performed a sensitivity analysis on the value of the REMSAFE business as a result of flexing selected assumptions and inputs.

Revenue Assumptions

The REMSAFE business supplies remote isolation systems for fixed plant such as conveyor belts. The REMSAFE business generates revenue by supplying mine sites with these remote isolation systems. The revenue is generally recognised based on billing over a number of months. The REMSAFE business currently has a number of contracts with companies such as Rio Tinto, BHP Iron Ore, Fortescue Metals Group and Anglo American.

The Company wins work by submitting proposals to companies to supply their mine sites with their remote isolation systems. The Cashflow Model includes a number of proposals submitted for additional work on existing customers' mine sites. As many of these contracts have not been won as at the date of the report, a probability was applied to the potential contracts. We adjusted the Cashflow Model to reflect the assumption that a similar amount of work that has been won will continue into the future.

On this basis, we consider that the revenue forecasts in the Cashflow Model are not unreasonable.

Remsafe Operating Costs

The REMSAFE business' costs included in the Cashflow Model comprise the following:

- materials costs;
- freight costs;
- validation costs;
- sales costs;
- personnel costs; and
- overhead costs.

Materials costs relate to the inputs required to produce the remote isolation systems.

Freight costs relate to the cost of transporting the required units to the customers' work site.

Validation costs are associated with quality assurance and control when producing the remote isolation systems as well as installing them.

Sales costs relate to costs associated with marketing the isolation systems and bonuses for selling units.

Personnel costs are those associated with hiring the required staff to deliver on the Company's sales projections and include wages for roles such as project managers, safety engineers, service technicians and sales engineers.

Overheads relate to the costs of consumables, non-project travel, office and administrative, information technology hardware and software, and specialised software.

We have determined the reasonableness of the operating cost making enquiries of management and on the basis of current operations.

Capital Expenditure

Management has stated that minimal capital expenditure is required for the REMSAFE business. As such the only capital expenditure included in the model is the purchase of new computers for staff as the labour force grows.

Terminal Value

We determined the terminal value of the REMSAFE business by assuming that the cash flows stabilise beyond the fifth year, growing at a nominal rate of inflation. The terminal value reflects the REMSAFE business to perpetuity, assuming that the business continues to trade as a going concern entity.

10.4 UAVE Cashflow Model

The main assumptions underlying the cash flows for the UAVE business include:

- number of units sold;
- number of units rebuilt;
- variable costs including material, freight, rebuild, warranty, labour, material and insurance costs;
- fixed overheads including personnel costs;
- capital expenditure;
- corporate tax;
- exchange rate;
- inflation rate; and
- discount rate.

We undertook the following analysis on the cash flows for the UAVE business contained in the Cashflow Model:

- conducted independent research on certain economic and other inputs such as inflation, exchange rate and discount rate applicable to the future cash flows of the UAVE business;
- held discussions with Orbital's management regarding the preparation of the forecasts in the Cashflow Model and their views;
- adjusted the Cashflow Model to reflect only cashflow forecasts that had a reasonable basis. In this regard, we included contractual cash flows and forecast cash flows to be derived from the continuation of its current contract with Insitu with nominal growth in the volume of units and price over the forecast period;
- we have assumed no growth in the volume of units over the forecast period in relation to cash flows from Textron;
- adjusted the Cashflow Model to reflect any changes to the economic and other input assumptions from our research; and
- performed a sensitivity analysis on the value of the UAVE business as a result of flexing selected assumptions and inputs.

Revenue Assumptions

The UAVE business is assumed to generate revenue from its contract with Insitu to manufacture an initial batch of UAV engines and propulsion systems and from its contract with Textron to supply EMS components. Revenue from its contract with Insitu also includes rebuilding the UAV engines. The timing of engine rebuilds is dependent on the frequency of usage by the customer. The engines have been assumed to be rebuilt every six months on average. Revenue estimates are based on the Company's current contracts. On this basis, we consider that the revenue forecasts in the Cashflow Model are not unreasonable.

As both of the UAVE business' current customers are based in the United States, and pay in US dollars, AUD/USD exchange rate forecasts have been included in the Cashflow Model.

UAVE Costs

UAVE costs included in the Cashflow Model comprise the following:

- materials cost;
- freight (transportation of the units to the required sites) costs;
- warranty costs;
- rebuild costs;
- labour costs; and
- overhead costs.

Materials cost relate to the inputs required to produce the engines and EMS components.

Freight costs reflect the fact that the UAVE business must transport the engines and EMS components to the United States, where both of its current customers are based.

Warranty costs represent the cost of potential claims of damages which the Company will incur at a cost to itself. This has been assumed to be 10% of the material cost per unit produced.

Rebuild costs relate to the materials costs of replacing components on engines that are to be rebuilt.

Labour costs reflect the wages of production technicians required to perform the production and rebuild of the UAVE engines and propulsion systems.

Overhead costs relate to additional labour costs, insurance, sales commissions, occupancy, consumables, travel, office and administrative and information technology.

We have determined the reasonableness of the operating cost assumptions by considering making enquiries of management and on the basis of current operations.

Capital Expenditure

Management has stated that the current manufacturing facility has enough capacity to handle current contracts, which we have assumed not to grow significantly. Based on the volume of production under current contracts, the manufacturing facility will be operating under capacity. As such the only capital expenditure included in the Cashflow Model is an additional capital expenditure of $46,000 in December 2015, which will be for machinery specific to fulfilling work for Insitu.

Terminal Value

We determined the terminal value of the UAVE business by assuming that the cash flows stabilise beyond the fifth year, growing at a nominal rate of inflation. The terminal value reflects the UAVE business to perpetuity assuming that the business continues to trade as a going concern entity.

Limitations

Since forecasts relate to the future, they may be affected by unforeseen events and they depend, in part, on the effectiveness of management's actions in implementing the plans on which the forecasts are based. Accordingly, actual results may vary materially from the forecasts included in the Cashflow Model, as it is often the case that some events and circumstances frequently do not occur as expected, or are not anticipated, and those differences may be material.

10.5 Other Assumptions

Taxation

Corporate Tax

Orbital has applied a corporate tax rate of 30% per annum was applied in accordance with relevant legislation. Deferred tax losses have not been included in the Cashflow Model.

Economic Assumptions

Inflation

An inflation rate of 2.5% per annum was applied in the Cashflow Model, reflecting cash flows in nominal terms.

In our assessment of the inflation rate, we have considered forecasts prepared by economic analysts and other publically available information including broker consensus to assess the reasonableness of Orbital's inflation rate assumptions. RBA's long-term target rate of inflation is between 2.0% and 3.0%. On this basis, we consider an inflation rate of 2.5% being adopted in the Cashflow Model to be reasonable.

Exchange Rates

We applied the following forecast exchange rates to convert revenues and costs for the UAVE business from US dollars to Australian dollars:

AUD/USD Exchange Rate	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
Forecast exchange rate	0.69	0.72	0.75	0.78	0.79

Source: Bloomberg

10.6 Discount Rate

We have selected a nominal after tax discount rate of 9% to discount the forecast cash flows to their present value in our base case.

In our sensitivity analysis, we have adopted a discount rate range of 7% to 11%. In selecting this range of discount rates, we considered the following:

- the rates of return for comparable companies;
- the expected debt to equity ratio of Orbital; and
- the risk profile of Orbital as compared to other listed companies with similar operations.

Details of our discount rate determination are provided in Appendix 3.

10.7 Valuation

On the basis of the assumptions set out above, we conclude that the value of the Businesses is between \$83.275 million and \$100.225 million.

10.7.1. Sensitivity Analysis

We have analysed the key assumptions to the Cashflow Model and have prepared sensitivities on the net present values of the Businesses on a consolidated basis. These sensitivities have been prepared to assist Shareholders in considering the potential affects to the value of the Businesses if our base case assumptions change. The sensitivities applied are:

- a change of +/- 10% to REMSAFE contract prices;
- a change of +/- 10% to UAVE prices;
- a change of +/- 10% to REMSAFE direct costs;
- a change of +/- 10% to UAVE variable costs; and
- a discount rate in the range of 7.0% to 11.0%.

Sensitivity	NPV ($'000)	NPV ($'000)	NPV ($'000)	NPV ($'000)
	REMSAFE Prices	**UAVE Prices**	**REMSAFE Direct Costs**	**UAVE Variable Costs**
-10.00%	79,929	69,638	108,918	104,115
-7.50%	82,885	75,175	104,628	101,025
-5.00%	85,842	80,709	100,337	97,935
-2.50%	88,798	86,240	96,045	94,845
0.00%	91,754	91,754	91,754	91,754
2.50%	94,711	97,269	87,463	88,664
5.00%	97,667	102,783	83,172	85,574
7.50%	100,624	108,298	78,881	82,474
10.00%	103,580	113,812	74,590	79,372

Source: BDO analysis

			Discount rate sensitivity		
Discount rate (%)	7.0%	8.0%	9.0%	10.0%	11.0%
NPV ($'000)	135,731	109,730	91,754	78,593	68,546

Source: BDO analysis

Additionally, we note that the terminal value of the Businesses makes up 42% of the DCF value after accounting for the terminal value of corporate costs.

10.8 Other Assets and Liabilities

Other assets and liabilities are those not associated with generating the future cash flows of the Businesses. These include segments of Orbital's business that are valued on an NAV approach as discussed in Section 9.1 of our Report. From our review of Orbital's other assets and liabilities, outlined in the table below, we do not believe that there is a material difference between their book value and their fair value unless an adjustment has been noted below.

The table below represents a summary of the assets and liabilities identified:

NAV prior to the Transaction	Note	Audited as at 30-Jun-15 ($'000)	Adjusted Value ($'000)
CURRENT ASSETS			
Cash and cash equivalents	a	6,649	4,197
Other financial assets	b	1,369	1,369
Trade and other receivables	c	6,991	8,360
Inventories		390	390
Disposal group held for sale	d	909	909
TOTAL CURRENT ASSETS		**16,308**	**15,225**
NON-CURRENT ASSETS			
Investment in associate	e	17,826	25,000
Deferred taxation asset	f	5,621	10
Plant and equipment	g	2,259	0
Intangibles and goodwill	h	5,530	0
TOTAL NON-CURRENT ASSETS		**31,236**	**25,010**
TOTAL ASSETS		**47,544**	**40,235**
CURRENT LIABILITIES			
Trade and other payables	i	4,510	3,301
Borrowings		597	597
Employee benefits		2,026	2,026
Government grants		225	225
Other Provisions	j	241	141
Liabilities associated with disposal group held for sale	d	382	382
TOTAL CURRENT LIABILITIES		**7,981**	**6,672**
NON-CURRENT LIABILITIES			
Long term borrowings	k	16,604	16,220
Employee benefits		35	35
Government grants		749	749
Other provisions		233	233
TOTAL NON-CURRENT LIABILITIES		**17,621**	**17,237**
TOTAL LIABILITIES		**25,602**	**23,909**
NET ASSETS		**21,942**	**16,326**

Source: Orbital audited financial statements as at 30 June 2015, unaudited management accounts as at 30 September 2015 and BDO analysis

The above figures have not been audited and reflect a position as at 30 September 2015 only to the extent of material adjustments made to the 30 June 2015 balances. We have not undertaken a review of Orbital's financial position as at 30 September 2015 in accordance with Australian Auditing and Assurance Standard

2405 “Review of Historical Financial Information” and do not express an opinion on this financial information. However nothing has come to our attention as a result of our procedures that would suggest that the financial information derived from the material adjustments made, has not been prepared on a reasonable basis.

Note a: Cash and cash equivalents

The cash held by Orbital is used for working capital purposes and capital expenditure requirements when they arise. The adjusted cash balance is based on Orbital’s management accounts as at 30 September 2015. The reduction in cash balance largely reflects an increased amount of working capital tied up in the Company with an approximately $1.37 million increase in trade and other receivables and $1.21 million decrease in trade and other payables.

Note b: Other financial assets

Other financial assets are short term deposits held by Westpac Banking Corporation as collateral for guarantees over the Company’s Balcatta and Sydney properties. We have taken this value as stated as it reflects a cash asset.

Note c: Trade and other receivables

Trade and other receivables increased during the period to 30 September 2015 due to timing to reaching invoicing milestones.

Note d: Disposal group held for sale & liabilities associated with disposal group held for sale

Disposal group held for sale are the Company’s LPG businesses, Sprint Gas and Orbital Autogas Systems. After incurring impairment totalling $2.47m the LPG businesses had assets worth $909,000 and liabilities worth $382,000. We have included the LPG businesses at their fair value as per Orbital’s 30 June 2015 accounts.

Note e: Investment in associate

The full amount of investment in associate relates to the Synerject business which Orbital has a 30% interest. On 9 November 2015, the Company announced it had sold the Synerject business to the majority shareholder, Continental Automotive Systems Inc., for $25 million. In view of this, we have reflected the sale price in the value of Orbital’s investment in Synerject.

Note f: Deferred tax asset

We adjusted the Company’s deferred tax asset to remove the recognised value of tax loss carry-forward attributable to Synerject which was sold on 9 November 2015. We retained the value of $10,000 which is the recognised value of the tax loss relating to the REMSAFE business.

Note g: Plant and equipment

We excluded the value of the plant and equipment as the value of these assets has been incorporated in our DCF valuation of the Businesses.

Note h: Intangibles and goodwill

We excluded the value of goodwill as the value of this goodwill has been incorporated in our DCF valuation of the REMSAFE business.

Note i: Trade and other payables

Trade and other payables decreased during the period to 30 September 2015 due to the Company paying off more of its creditors.

Note j: Other provisions

We excluded the portion of other provisions which related to warranties as these liabilities have been included in our DCF valuation of the Businesses.

Note k: Long term borrowings

Between February 2015 and 30 June 2015, 8 convertible notes were converted. Between 30 June 2015 and the valuation date, 30 September 2015, 10 more convertible notes were converted. We have adjusted the outstanding convertible note liability to reflect the conversion of 10 notes at a face value of $50,000 each, net of transaction fees. We have also accounted for interest accrued and paid on the convertible notes during the quarter.

Our calculations are outlined in the table below:

Orbital Convertible Note Balance	
Convertible note balance at 30 June 2015	8,868
Add: Interest accrued in the period	326
Less: 10 converted convertible notes liability component	(474)
Less: Coupon payment made in the period	(236)
Convertible note balance as at 30 September 2015	**8,484**

Source: Orbital audited financial statements as at 30 June 2015, unaudited management accounts as at 30 September 2015 and BDO analysis

The adjusted long term borrowings balance reflects the adjusted convertible note liability balance as at 30 September 2015 of $8.484 million and the unadjusted remainder of borrowings of $7.736 million.

10.9 Debt liability extinguished

As the convertible notes are in-the-money, we assumed that all convertible notes not requiring shareholders' approval to convert are converted and their corresponding debt liability extinguished. Of the 182 convertible notes outstanding as at 30 September 2015, 125 convertible notes (of which 63 are Tranche 1 Notes held by BCB) are assumed to be converted. We estimated that this would proportionately extinguish $5.827 million of the debt liability.

10.10 Corporate Costs

Corporate costs have been calculated over the forecast period. Corporate costs for FY2016 have been proportionately reduced to reflect only a nine-month period from our valuation date to 30 June 2016. Forecast corporate costs for FY2016 to FY2020 are as follows:

Orbital Corporate costs	Forecast FY2016	Forecast FY2017 onwards
Corporate costs	3,358	4,489
Inflation factor	2.50%	2.50%

Source: Orbital's management, BDO analysis

We calculated the corporate costs over 4.75 years, inflating these costs at 2.5% per annum over the period. The net present value of Orbital's corporate costs, discounted at 9%, is approximately $18.06 million. The terminal value of Orbital's corporate costs, using a growth rate of 2.5% and discounted at 9% is equal to approximately $35.33 million.

10.11 Quoted Market Prices for Orbital Securities

To provide a comparison to the valuation of Orbital in Section 10.1, we have also assessed the quoted market price for an Orbital share.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.11 suggests that, when considering the value of a company's shares for the purposes of approval under Item 7 of s611, the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

- control over decision making and strategic direction;
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

Whilst UIL will not be obtaining 100% of Orbital, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.13 states that the expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in Section 13.

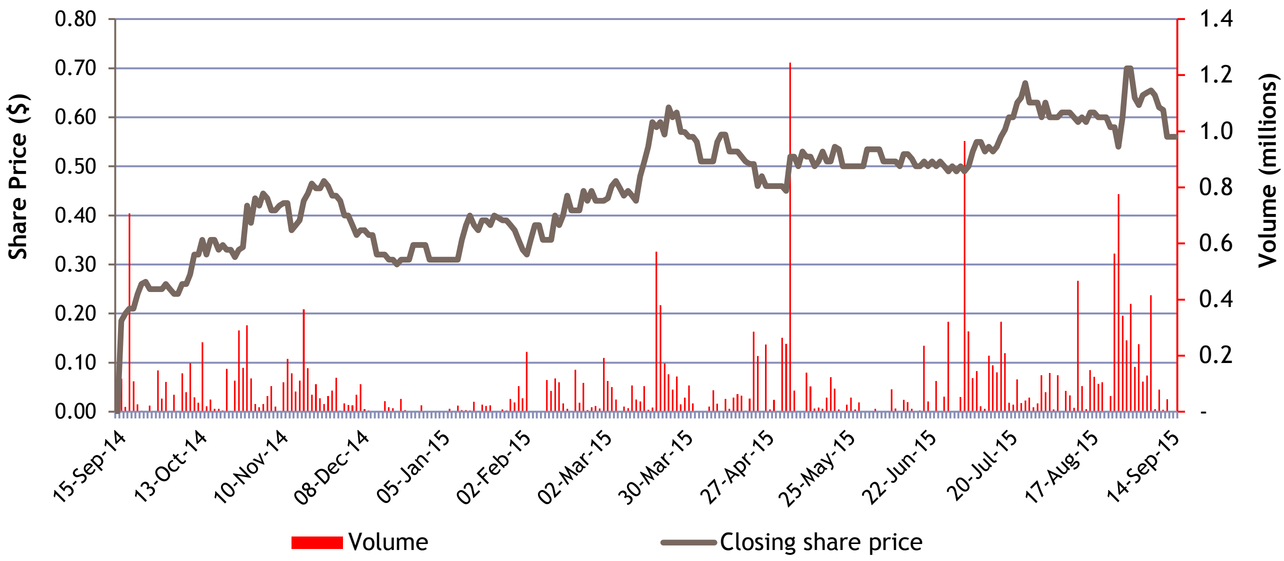
Therefore, our calculation of the quoted market price of an Orbital share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

Minority interest value

Our analysis of the quoted market price of an Orbital share is based on the pricing prior to the announcement of the Transaction. This is because the value of an Orbital share after the announcement may include the effects of any change in value as a result of the Transaction. However, we have considered the value of an Orbital share following the announcement when we have considered reasonableness in Section 13.

Our analysis of the quoted market price of an Orbital share is based on the trading prices over the last 12 months prior to making the decision to convert their Notes to shares in Orbital on 14 September 2015.

Orbital share price and trading volume history



Source: Bloomberg

The daily price of Orbital shares from 14 September 2014 to 14 September 2015 ranged from a low of $0.185 per share on 15 September 2015 to a high of $0.77 per share on 28 August 2015.

The price of Orbital shares has shown significant growth over the past 12 months with a number of periods of high trading activity in March 2015, May 2015, July 2015 and September 2015. The highest single day of trading was 6 May 2015 where 1,245,000 Orbital shares were traded, representing 5.57% of total trading activity for the year.

During this period a number of announcements were made to the market. The key announcements are set out below.

Date	Announcement	Closing Share Price Following Announcement $ (movement)			Closing Share Price Three Days After Announcement $ (movement)		
28/08/2015	Preliminary Final Report	0.700	▶	0.0%	0.645	▼	7.9%
26/08/2015	New $12 million UAV Order	0.600	▲	11.1%	0.640	▲	6.7%
03/07/2015	REMSAFE EXPANSION SUCCESS	0.500	▲	2.0%	0.550	▲	10.0%
30/06/2015	Orbital Growth Strategy Update	0.490	▼	2.0%	0.500	▲	2.0%
25/06/2015	REMSAFE wins $1.7 million of new business	0.500	▼	2.0%	0.490	▼	2.0%
14/05/2015	Successful First Flight for Orbital Next Generation Engine	0.530	▲	3.9%	0.540	▲	1.9%
12/05/2015	ScanEagle UAV to include Orbital fuel supply module	0.500	▼	3.8%	0.510	▲	2.0%
04/05/2015	Orbital to commence commercial production of new UAV engine	0.520	▲	15.6%	0.530	▲	1.9%
17/12/2014	Orbital to raise up to $10 million via Convertible Note Offer	0.310	▶	0.0%	0.310	▶	0.0%

Date	Announcement	Closing Share Price Following Announcement $ (movement)			Closing Share Price Three Days After Announcement $ (movement)		
01/12/2014	Orbital commences patent infringement litigation	0.400	▼	7.0%	0.360	▼	10.0%
10/11/2014	Orbital to acquire 50% of REMSAFE	0.425	▲	1.2%	0.380	▼	10.6%
29/10/2014	Response to ASX Price Query	0.385	▼	8%	0.445	▲	16%
07/10/2014	Orbital secures grant to target new market	0.260	▶	0%	0.320	▲	23%
16/09/2014	Orbital delivers First Engine to Insitu subsidiary of Boeing	0.200	▲	8%	0.240	▲	20%

Source: Bloomberg and BDO analysis

On 16 September 2014, Orbital announced it had delivered its first engine to Insitu, a subsidiary company of Boeing. The announcement outlined the positive reception of Insitu towards the Orbital UAV propulsion technology, stating that the new business could result in a $100 million per annum of revenue for Orbital. The market received this announcement positively, with share prices increasing by 8% to $0.20 on the day, and by a further 20% over the next three days to $0.24.

On 7 October 2014, Orbital announced to the market that it was successful in securing an extension for the Automotive New Markets Program Grant from the Australia government. The grant allowed Orbital to pursue development of rotary engines for unmanned helicopters. The market had no initial reaction to the announcement, although the share price climbed by 23% over the following three days.

Orbital announced the commencement of patent infringement litigation against Daimler AG, Mercedes-Benz USA LLC, Mercedes-Benz U.S. International, Inc. (‘**Mercedes**’), Robert Bosch GMGH and Robert Bosch LLC (‘**Bosch**’) on 1 December 2014. The litigation surrounded Mercedes and Bosch’s alleged infringement on Orbital patents, seeking the award of compensation for damages and an injunction against Mercedes and Bosch from using the patented inventions. There was a negative reaction by Orbital shareholders, with an initial 7% decrease in the share price to $0.40, followed by a further decrease of 10% to $0.36.

On 4 May 2015, Orbital announced it was preparing to commence commercial production of a new UAV engine for Insitu as it negotiated a production contract. The market had a substantially positive reaction to this announcement, with an increase in the same day share price of 15.6% following by a further increase of 1.9% over the subsequent three days.

The Company announced a new $12 million UAVE order on 26 August 2015 from Insitu. The Company stated this represented validation of their capabilities and they would continue to concentrate on meeting their $100 million per year sales target. The announcement saw an 11.1% increase in Orbital’s share price, this increase persisted over the following three days to the order of a further 6.7% rise.

To provide further analysis of the market prices for an Orbital share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 14 September 2015.

Share Price per unit	14-Sep-15	10 Days	30 Days	60 Days	90 Days
Closing price	$0.560				
Volume weighted average price (VWAP)		$0.627	$0.624	$0.594	$0.585

Source: Bloomberg, BDO analysis

The above weighted average prices are calculated prior to the date of the announcement of the Transaction to avoid the influence of any increase in price of Orbital shares that has occurred since the Transaction was announced.

An analysis of the volume of trading in Orbital shares for the twelve months to 14 September 2015 is set out below:

Trading days	Share price low	Share price high	Cumulative volume traded	As a % of Issued capital
1 Day	$0.560	$0.570	45,132	0.09%
10 Days	$0.540	$0.670	1,575,321	3.11%
30 Days	$0.540	$0.770	5,035,996	9.95%
60 Days	$0.470	$0.770	8,738,061	17.26%
90 Days	$0.470	$0.770	9,817,266	19.40%
180 Days	$0.310	$0.770	16,635,540	32.87%
1 Year	$0.205	$0.770	22,338,537	44.13%

Source: Bloomberg, BDO analysis

This table indicates that Orbital's shares display a high level of liquidity over the past six months, with 32.87% of the Company's current issued capital being traded in a six-month period. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- regular trading in a company's securities;
- approximately 1% of a company's securities are traded on a weekly basis;
- the spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- there are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'deep', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In determining the range of values for Orbital shares, we considered the liquidity over the 30 trading days to 14 September 2015 and believe that the share trading volumes represent a reasonably deep market with trading volumes as a percentage of issued capital being 9.95% over the previous 30 trading days.

Our assessment is that a range of values for Orbital shares based on market pricing, after disregarding post announcement pricing, is between $0.54 and $0.67 with a midpoint value of $0.605 per share.

Control Premium

We reviewed the control premiums paid by acquirers of companies listed on the ASX. We summarise our findings below:

Year	Number of Transactions	Average Deal Value (A$m)	Average Control Premium (%)
2015	12	1408.37	28.28
2014	41	467.79	31.68
2013	40	190.88	46.72
2012	54	327.08	38.48
2011	67	766.18	48.45
2010	69	741.25	37.60
2009	63	324.62	46.53
2008	42	744.89	39.04
	Mean	**621.38**	**39.60**
	Median	**604.52**	**38.76**

Source: Bloomberg, BDO analysis

The mean and median figures above are calculated based on the average deal value and control premium for each respective year. To ensure our data is not skewed, we have also calculated the mean and median of the entire data set comprising control transactions from 2008 onwards, as set out below.

Entire Data Set Metrics	Average Deal Value (ASm)	Average Control Premium (%)
Mean	**557.20**	**41.23**
Median	**73.07**	**34.16**

Source: Bloomberg, BDO analysis

In arriving at an appropriate control premium to apply, we note that observed control premiums can vary due to the:

- nature and magnitude of non-operating assets;
- nature and magnitude of discretionary expenses;
- perceived quality of existing management;
- nature and magnitude of business opportunities not currently being exploited;
- ability to integrate the acquiree into the acquirer's business;
- level of pre-announcement speculation of the transaction; and
- level of liquidity in the trade of the acquiree's securities.

The table above indicates the long term average control premiums paid by acquirers of all companies on the ASX is approximately 41.23%.

In assessing the sample of transactions that were included in the table, we have noted transactions within the list which appear to be extreme outliers. These outliers include 29 transactions where the announced control premium was in excess of 100% and 45 transactions where the acquirer obtained a controlling interest at a discount (i.e. less than 0%). In a sample where there are extreme outliers, the median often represents a superior measure of central tendency compared to the mean. We note that the median announced control premium over the review period was 34.16%.

In the case of Orbital, we note that the current market capitalisation of Orbital is considerably smaller than a number of the sample companies determined above. We have taken into account this factor in determining that an appropriate control premium to apply to our valuation is between 25% and 30%.

Quoted market price including control premium

Applying a control premium to Orbital's quoted market share price results in the following quoted market price value including a premium for control:

	Low $	Midpoint $	High $
Quoted market price value	0.54	0.605	0.67
Control premium	25%	27.5%	30%
Quoted market price valuation including a premium for control	**0.68**	**0.77**	**0.87**

Source: BDO analysis

Therefore, our valuation of an Orbital share based on the quoted market price method and including a premium for control is between $0.68 and $0.87, with a midpoint value of $0.77.

10.12 Valuation prior to the Transaction

The results of the valuations performed are summarised in the table below:

	Low $	Midpoint $	High $
Sum-of-parts (Section 10.1)	0.78	0.91	1.03
ASX market prices (Section 10.11)	0.68	0.77	0.87

Source: BDO analysis

We note that the values obtained under the QMP method are broadly consistent with the values obtained from the Sum-of-Parts method but at the lower end of the Sum-of-Parts range of values. The difference between the values obtained under the QMP method and the Sum-of-Parts and NAV methods may be explained by the following:

- the QMP value reflects investors perception of the future prospects of Orbital and may not have yet reacted to the significant changes the Company is undergoing in its acquisition of the REMSAFE business, divestment of its autogas systems businesses and its new focus on the UAVE business;
- the QMP value may reflect that the market may not have all the information available to value Orbital due to the sensitive nature of its contracts with Textron and Insitu, both servicing the military;
- the QMP value may reflect different assumptions by investors on the Businesses, based on a difficulty in communicating key revenue and cost drivers; and
- the QMP value may reflect different assumptions by investors surrounding discount rates, inflation rates and exchange rates that may affect their valuation of the Businesses.

Our analysis in section 10.11 shows that the liquidity for Orbital shares was high and therefore there is a sufficiently active trading market for the QMP value to reflect a fair market value of the Company's shares. The QMP value supports our Sum-of-Parts method which is our primary methodology used to value an Orbital share prior to the Transaction.

Based on the results above we consider the value of an Orbital share to be between $0.78 and $1.03, with a midpoint value of $0.91.

11. Valuation of an Orbital share Post-Transaction

11.1 Sum-of-Parts valuation of Orbital

In our assessment of the value of Orbital's shares Post-Transaction, we adopted the Sum-of-Parts methodology, which is similar to the approach we used in our valuation of Orbital's shares Pre-Transaction.

As the Transaction involves only the issue of shares under the conversion of Tranche 2 of the Notes, we have adopted the Pre-Transaction valuation and adjusted it for the conversion of Tranche 2 into equity, which will result in UIL reaching a shareholding of 27.64% as reflected in our valuation below.

Post-Transaction valuation	Notes	Low $'000	Midpoint $'000	High $'000
Pre-Transaction value of Orbital	10.1	**52,036**	**60,515**	**68,986**
Add: Debt liability extinguished by the conversion of the Notes	11.2	2,657	2,657	2,657
Net assets of Orbital after the Transaction		**54,693**	**63,172**	**71,643**
Discount for minority interest	11.3	23.08%	21.57%	20.00%
Adjusted net assets of Orbital on a minority interest basis		**42,070**	**49,546**	**57,314**
Shares on issue ('000)	11.4	73,805	73,805	73,805
Value per share ($)		**0.57**	**0.67**	**0.78**

Source: BDO analysis

The table above indicates that the Post-Transaction value of an Orbital share on a minority basis, using the Sum-of-Parts approach is between $0.57 and $0.78, with a midpoint value of $0.67.

11.2 Long term borrowings

We have assumed that all outstanding convertible notes with the Company will be converted as, at the current share price, the convertible notes are in-the-money when considering the Notes have a conversion price of $0.40 per share. As the cash from issuing the convertible notes has already been received, the liability is reduced by the outstanding convertible note balance as at 30 September 2015.

11.3 Discount for Minority Interest

The net asset value of an Orbital share following the Transaction is reflective of a controlling interest. This suggests that the acquirer obtains an interest in the company which allows them to have an individual influence in the operations and value of that company. Therefore, if the Transaction is approved, Shareholders may become minority interest shareholders in Orbital as UIL may hold a controlling interest, meaning that their individual holdings will not be considered significant enough to have an individual influence in the operations and value of the Company.

Therefore, we have adjusted our valuation of an Orbital share following the Transaction to reflect a minority interest holding. A minority interest discount is the inverse of a premium for control and is calculated using the formula 1 – (1/1+control premium). As discussed in section 10.11, we consider an appropriate control premium for Orbital to be in the range of 25% to 30%, giving rise to a minority interest discount in the range of 20.00% to 23.08%.

11.4 Number of Shares on Issue

As analysed in section 4 of our Report, the number of shares that may be outstanding under the Transaction is 73,804,673 assuming conversion of all issued convertible notes.

12. Is the Transaction fair?

The value of an Orbital share prior to the conversion of the Notes and the value of an Orbital share following the conversion of the Notes is compared below:

	Ref	Low $	Midpoint $	High $
Value of an Orbital share Pre-Transaction on a controlling basis	10.12	0.78	0.91	1.03
Value of an Orbital share Post-Transaction on a minority basis	11.1	0.57	0.67	0.78

Source: BDO analysis

The value of an Orbital share following the Transaction on a minority basis is lower than the value of an Orbital share prior to the Transaction on a controlling basis. Therefore, we consider that the Transaction is not fair.

13. Is the Transaction reasonable?

13.1 Alternative Proposal

We are unaware of any alternative proposal that might offer the Shareholders of Orbital a premium over the value ascribed to, resulting from the Transaction.

13.2 Practical Level of Control

If the Transaction is approved, then UIL will hold an interest of approximately 27.64% in Orbital if all outstanding convertible notes are converted.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution required 75% of shares on issue to be voted in favour to approve a matter. If the Transaction is approved then UIL will be able to block special resolutions.

Orbital’s Board currently comprises three directors. UIL does not intend to nominate a board member following the Transaction.

UIL’s control of Orbital following the Transaction will be significant when compared to all other shareholders. Therefore, in our opinion, while UIL will be able to significantly influence the activities of Orbital, it will not be able to exercise a similar level of control as if it held 100% of Orbital.

13.3 Consequences of not Approving the Transaction

If the Transaction is not approved, as a minimum the Company will have to repay $2.85 million for Tranche 2 of the Notes and potentially the balance of BCB's total convertible note holding. This may negatively affect the Company in its ability to pursue acquisitions or projects as their cash balance will be significantly reduced.

13.4 Advantages of Approving the Transaction

We have considered the following advantages when assessing whether the Transaction is reasonable.

Advantage	Description
Allows the Company's cash to be invested in its future development	If the Notes are converted the Company will no longer have a $2.85 million obligation to repay and will be able to utilise the cash to pursue projects that will further develop the Company and potentially deliver returns to shareholders.
Reduction of the interest and principal repayment burden on the Company results in increased cash flows	If Tranche 2 of the Notes is not converted, the estimated annual interest, based on the interest rate of 10% per annum on $2.85 million, would be $0.285 million. Conversion of Tranche 2 of the Notes will reduce the interest repayment burden placed on the Company, allowing for increased free cash flows to the Company which can be invested into the Company's projects or distributed to shareholders by way of dividends.
Introduces a cornerstone investor in the Company	UIL is an asset management company with significant capital and reach. With an increased holding it will be in UIL's interests to further develop the Company and may potentially provide support if Orbital needs additional capital in the future. UIL's position as an international asset manager may help Orbital when performing equity raisings. UIL may be able to provide back stop arrangements for further equity raisings or purchase large private placements of shares from Orbital.
Increased attractiveness to bank lenders	If all the convertible notes except Tranche 2 are converted, the Company's debt liability will reduce from $16.220 million to $10.393 million. The debt liability will reduce further by $2.657 million to $7.736 million if Tranche 2 of the Notes is converted. The reduced level of gearing and strengthening of the Company's net asset balance may increase the Company's ability to raise additional funds that may be required to fund the Company's long term development strategy.
Improved net asset position through reduction of the liability	If the Transaction is approved, Orbital's net asset position will improve by $2.657 million as the liability associated with Tranche 2 will be extinguished and become equity.

Advantage	Description
No changes to current operating and financial arrangements	If the Transaction is approved, UIL could increase their shareholding from 19.91% to 27.64%. However, we note in Section 13.2 of our Report that UIL will not seek to appoint a director to the Board of Orbital, nor will they intend to change the business of the Company, inject further capital into the Company, alter the future employment of the present employees of the Company, or significantly change the financial or dividend policies of Orbital. This implies that there will be no changes to current operating and financing arrangements and Orbital will be able to continue growing on its own accord.
Improved capital structure flexibility	If the Transaction is approved, BCB will have the ability to convert Tranche 2 of the Notes. The Company's capital structure will be simplified and allow the directors to have more flexibility in ensuring that the company's share structure is optimised.

13.5 Disadvantages of Approving the Transaction

If the Transaction is approved, in our opinion, the potential disadvantage to Shareholders includes that listed in the table below:

Disadvantage	Description
The Transaction is not fair	The Transaction is not fair because the value of an Orbital share following the Transaction on a non-controlling basis is less than the value of an Orbital share prior to the Transaction on a controlling basis. We note that the day before the convertible note capital raising was announced to the market on 17 December 2014, the 10-day VWAP was $0.37 per share and the closing price on 16 December 2014 (a day prior to the announcement) was $0.32 per share. The convertible notes were issued with a conversion price of $0.40 per share and as such were out-of-the-money on the offer date. The capital raised has allowed Orbital to achieve its targets, including completing the acquisition of the REMSAFE business and has contributed significantly to the increase in the market capitalisation of the Company. BCB was a major participant in the convertible note offer and as such are a major contributor in enabling Orbital to purchase the REMSAFE business and pursue other objectives.
Dilution of existing Shareholders' interests	If the Transaction is approved then UIL may hold an interest in the Company of up to 27.64%. Existing shareholders will have their collective shareholding diluted from 89.42% to 72.36%.

13.6 Other Considerations

Orbital's share price reflects full dilution

Orbital publicly announced the convertible note offer with its terms on 17 December 2014. As such the market is fully informed about the potentially dilutive effect of the convertible notes, and as they are in-the-money, the market is fully pricing the effect of their conversion on the share price.

Orbital's share price is unlikely to react to the rejection of the Transaction

If the Transaction is rejected, it is unlikely that the Orbital share price will decline as the market will still be aware of the share overhang from the convertible notes existing in the market. The Transaction focuses on the approval of the issue of shares to BCB on conversion of the Notes. BCB may or may not convert their Notes immediately if the Transaction was approved.

14. Conclusion

We have considered the terms of the Transaction as outlined in the body of this report and have concluded that the Transaction is not fair but reasonable to the Shareholders of Orbital.

15. Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Audited financial statements of Orbital for the years ended 30 June 2014 and 30 June 2015;
- Unaudited management accounts of Orbital for the period ended 30 September 2015;
- Orbital's financial model;
- Share registry information;
- Information in the public domain; and
- Discussions with Directors and management of Orbital.

16. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of $35,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Orbital in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the Orbital, including the non-provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Orbital and UIL and any of their respective associates with reference to ASIC Regulatory

Guide 112 ‘Independence of Experts’. In BDO Corporate Finance (WA) Pty Ltd’s opinion it is independent of Orbital and UIL and their respective associates.

The provision of our services is not considered a threat to our independence as auditors under Professional Statement APES 110 – Professional Independence. The services provided have no material impact on the financial report of Orbital.

A draft of this report was provided to Orbital and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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BDO (Australia) Ltd, an Australian company limited by guarantee, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of Independent Member Firms. BDO in Australia, is a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International).

17. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has a B.Eng in Aeronautical Engineering. He has over twenty five years’ experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 250 public company independent expert’s reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts’ reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam’s career spans 18 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

18. Disclaimers and consents

This report has been prepared at the request of Orbital for inclusion in the Explanatory Memorandum which will be sent to all Orbital Shareholders. Orbital engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the potential conversion of BCB's convertible notes into Orbital shares.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Explanatory Memorandum. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd. BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Explanatory Memorandum other than this report.

We have no reason to believe that any of the information or explanations supplied to us is false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Orbital. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

The forecasts provided to BDO Corporate Finance (WA) Pty Ltd by Orbital and its advisers are based upon assumptions about events and circumstances that have not yet occurred. Accordingly, BDO Corporate Finance (WA) Pty Ltd cannot provide any assurance that the forecasts will be representative of results that will actual be achieved. BDO Corporate Finance (WA) Pty Ltd disclaims any possible liability in respect of these forecasts. We note that the forecasts provided do not include estimates as to the effect of any future emissions trading scheme should it be introduced as it is unable to estimate the effects of such a scheme at this time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Transaction, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Orbital, or any other party.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD

Sherif Andrawes
Director

Adam Myers
Director

Appendix 1 – Glossary of Terms

Reference	Definition
The Act	The Corporations Act 2001 Cth
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUD or A$	Australian dollars
BCB	Bermuda Commercial Bank Limited
BDO	BDO Corporate Finance (WA) Pty Ltd
Boeing	The Boeing Company
Bosch	Robert Bosch GMGH and Robert Bosch LLC
The Businesses	The REMSAFE and UAVE businesses
CAPM	Capital Asset Pricing Model
Cashflow Model	Cashflow model for both the REMSAFE business and UAVE business
The Company	Orbital Corporation Limited
Corporations Act	The Corporations Act 2001 Cth
DCF	Discounted future cash flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EMS	Engine management systems
FME	Future maintainable earnings
Insitu	Insitu Inc., a subsidiary of The Boeing Company
JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves

Reference	Definition
MALE	Medium Altitude Long Endurance
Mercedes	Daimler AG, Mercedes-Benz USA LLC, Mercedes-Benz U.S. International, Inc.
NAV	Net asset value
Notes	120 convertible notes of $50,000 each (totalling $6 million) held by BCB
QMP	Quoted market price
RBA	Reserve Bank of Australia
Regulations	Corporations Act Regulations 2001 (Cth)
REMSAFE	Orbital's remote isolation system business
Orbital	Orbital Corporation Limited
Our Report	This Independent Expert's Report prepared by BDO
Pre-Transaction	The value of an Orbital share prior to the Transaction
Post-Transaction	The value of an Orbital share following the Transaction
QMP	Quoted market price basis
RBA	The Reserve Bank of Australia
REMSAFE	Remsafe Pty Ltd's patented remote isolation system
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
Section 611	Section 611 of the Corporations Act
Shareholders	Shareholders of Orbital not associated with UIL
Somers	Somers Limited
Sprint Gas	Sprint Gas Pty Ltd
SUAS	Small Unmanned Aircraft Systems
Sum-of-Parts	Sum-of-parts valuation methodology involving separately valuing each asset and liability of the company using a combination of different methodologies

Reference	Definition
Synerject	Synerject LLC
Textron	Textron Inc.
Tranche 1	BCB's convertible notes which do not require shareholders' approval for conversion
Tranche 2	BCB's convertible notes which require shareholders' approval for conversion
The Transaction	The proposed issue of Orbital shares to BCB under Tranche 2 which will bring UIL's voting power in Orbital to above 20% but less than 90%
UAS	Unmanned Aerial System
UAV	Unmanned Aerial Vehicle
UAVE	Unmanned Aerial Vehicle Engines
US dollars or US$	United States dollars
UIL	UIL Limited (previously Utilico Investment Limited)
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.
VTOL	Vertical Take Off/Landing
VWAP	Volume Weighted Average Price

The Directors
BDO Corporate Finance (WA) Pty Ltd
38 Station Street
SUBIACO, WA 6008
Australia

Appendix 2 – Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

1 *Net asset value ('NAV')*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

2 *Quoted Market Price Basis ('QMP')*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a 'deep' market in that security.

3 *Capitalisation of future maintainable earnings ('FME')*

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('**EBIT**') or earnings before interest, tax, depreciation and amortisation ('**EBITDA**'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

4 *Discounted future cash flows ('DCF')*

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

5 *Market Based Assessment*

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

Appendix 3 – Discount Rate Assessment

Determining the correct discount rate, or cost of capital, for a business requires the identification and consideration of a number of factors that affect the returns and risks of a business, as well as the application of widely accepted methodologies for determining the returns of a business.

The discount rate applied to the forecast cash flows from a business represents the financial return that will be required before an investor would be prepared to acquire (or invest in) the business. Since the cash flows in the Model represent cash flows to the shareholders, we have discounted these cash flows using a weighted average cost of capital.

The capital asset pricing model ('**CAPM**') is commonly used in determining the market rates of return for equity type investments and project evaluations. The CAPM provides the required return on an equity investment.

Cost of *Equity* and Capital Asset Pricing Model

CAPM is based on the theory that a rational investor would price an investment so that the expected return is equal to the risk free rate of return plus an appropriate premium for risk. CAPM assumes that there is a positive relationship between risk and return, that is, investors are risk averse and demand a higher return for accepting a higher level of risk.

CAPM calculates the cost of equity and is calculated as follows:

CAPM	
K_e	$= R_f + ß \times (R_m - R_f)$
Where:	
K_e	= expected equity investment return or cost of equity in nominal terms
R_f	= risk free rate of return
R_m	= expected market return
$R_m - R_f$	= market risk premium
ß	= equity beta

The individual components of CAPM are discussed below.

Risk Free Rate (R_f)

The risk free rate is normally approximated by reference to a long term government bond with a maturity equivalent to the timeframe over which the returns from the assets are expected to be received. We have used the current yield to maturity on the 10-year Commonwealth Government Bond which was 2.61% per annum as at 30 September 2015.

Market Risk Premium (R_m - R_f)

The market risk premium represents the additional return that investors expect from an investment in a well-diversified portfolio of assets. It is common to use a historical risk premium, as expectations are not observable in practice.

The market risk premium is derived on the basis of capital weighted average return of all members of the S&P 200 Index minus the risk free rate which is dependent on the ten year government bond rates. For the purpose of our report we have adopted a market risk premium of 6% to 8%.

Equity Beta

Beta is a measure of the expected correlation of an investment's return over and above the risk free rate, relative to the return over and above the risk free rate of the market as a whole; a beta greater than one implies that an investment's return will outperform the market's average return in a bullish market and underperform the market's average return in a bearish market. On the other hand, a beta less than one implies that the business' will underperform the market's average return in a bullish market and outperform the market's average return in a bearish market.

Equity betas are normally either an historical beta or an adjusted beta. The historical beta is obtained from the linear regression of a stock's historical data and is based on the observed relationship between the security's return and the returns on an index. An adjusted beta is calculated based on the assumption that the relative risk of the past will continue into the future, and is hence derived from historical data. It is then modified by the assumption that a stock will move towards the market over time, taking into consideration the industry risk factors which make the operating risk of the company greater or less risky than comparable listed companies.

It is important to note that it is not possible to compare the equity betas of different companies without having regard to their gearing levels. Thus, a more valid analysis of betas can be achieved by 'ungearing' the equity beta ($ß_a$) by applying the following formula:

$ß_a = ß / (1+(D/E \times (1-t))$

In order to assess the appropriate equity beta for the Businesses we have had to re-gear the equity beta of Orbital and of ASX and NASDAQ listed companies involved in similar activities in similar industry sectors. The geared betas below have been calculated against the All Ordinaries Index. The geared betas below have been calculated using daily data over a two-year period.

Company	Market Capitalisation 30 September 2015 ($m)	Geared Beta (ß)	Gross Debt/Equity (%)	Ungeared Beta (ßa)
Orbital Corporation Limited	29.86	0.30	25.4%	0.25

Company	Market Capitalisation 30 September 2015 ($m)	Geared Beta (ß)	Gross Debt/Equity (%)	Ungeared Beta (ßa)
Fuel Systems Solutions, Inc.	124.31	0.94	0.1%	0.94
Aerojet Rocketdyne Holdings	1,459.55	0.99	0.0%	0.99
AeroVironment, Inc.	669.89	0.91	0.0%	0.91
Quickstep Holdings Limited	71.58	0.93	0.0%	0.93
Mean	581.33		0.0%	0.94
Median	397.10		0.0%	0.93

Descriptions of comparable listed companies are summarised as follows:

Company Name	Exchange	Ticker	Company description
Fuel Systems Solutions, Inc.	NASDAQ	FSYS	Fuel Systems Solutions, Inc. designs, manufactures, and supplies alternative fuel components and systems for transportation, industrial, and refueling applications worldwide. It operates through two segments, FSS Industrial and FSS Automotive.
Aerojet Rocketdyne Holdings	NASDAQ	AJRD	Aerojet Rocketdyne Holdings, Inc. designs, develops, manufactures, and sells aerospace and defense products and systems in the United States. The company operates in two segments, Aerospace and Defense, and Real Estate.
AeroVironment, Inc.	NASDAQ	AVAV	AeroVironment Inc. designs, develops, produces, supports, and operates unmanned aircraft systems (UAS) and efficient energy systems (EES) in the United States and internationally.
Quickstep Holdings Limited	ASX	QHL	Quickstep Holdings Limited manufactures carbon-fiber composites for the aerospace, defense, and automotive industries. It operates in two segments, Aerospace Manufacturing and Quickstep Systems.

Source: Capital IQ

Selected Beta (β)

In selecting an appropriate beta for the Businesses, we have considered the similarities between the comparable companies selected above. The comparable similarities and differences noted are:

- the comparable companies' have diverse operations and as such the risk profiles vary depending on the type of products they sell and the type of contracts they hold ; and
- the majority of comparable companies are involved with the defense sector and have divisions which produce engine components for aerospace vehicles.

Having regard to the above we consider that an appropriate ungeared beta to apply to the Projects is between 0.91 and 0.99. We consider it reasonable that a forward looking ungeared beta for Orbital will reflect that of its peers.

The proposed capital structure for the Projects is assumed to be 20.28% debt and 79.72% equity. We consider it reasonable to assume that the shareholders of Orbital determine their required rate of return, for a particular business, by viewing the risks associated with the future cash flows of the business. We have re-geared the equity beta to 1.07 to 1.17.

Cost of Equity

We have assessed the cost of equity to be:

Input	Value Adopted	
	Low	High
Risk free rate of return	2.61%	2.61%
Equity market risk premium	6.00%	6.00%
Beta (geared)	1.07	1.17
Cost of Equity	**9.04%**	**9.61%**

Source: BDO analysis

Weighted Average Cost of Capital

The WACC represents the market return required on the total assets of the undertaking by debt and equity providers. WACC is used to assess the appropriate commercial rate of return on the capital invested in the business, acknowledging that normally funds invested consist of a mixture of debt and equity funds. Accordingly, the discount rate should reflect the proportionate levels of debt and equity relative to the level of security and risk attributable to the investment.

In calculating WACC there are a number of different formulae which are based on the definition of cash flows (i.e., pre-tax or post-tax), the treatment of the tax benefit arising through the deductibility of interest expenses (included in either the cash flow or discount rate), and the manner and extent to which they adjust for the effects of dividend imputation. The commonly used WACC formula is the post-tax WACC, without adjustment for dividend imputation, which is detailed in the below table.

CAPM	
WACC	$= \frac{E}{E+D} K_e + \frac{D}{D+E} K_d (1-t)$
Where:	
K_e	= expected return or discount rate on equity
K_d	= interest rate on debt (pre-tax)
T	= corporate tax rate
E	= market value of equity
D	= market value of debt
(1- t)	= tax adjustment

Gearing

Before WACC can be determined, the proportion of funding provided by debt and equity (i.e., gearing ratio) must be determined. The gearing ratio adopted should represent the level of debt that the asset can reasonably sustain (i.e., the higher the expected volatility of cash flows, the lower the debt levels which can be supported). The optimum level of gearing will differentiate between assets and will include:

- the variability in earnings streams;
- working capital requirements;
- the level of investment in tangible assets; and
- the nature and risk profile of the tangible assets.

We understand the capital of structure of Orbital is expected to be 20.28% debt and 79.72% equity. The weighted average cost of debt for Orbital is 8.38% as per the Company's financial statements as at 30 June 2015.

Calculation of WACC

Based on the above inputs, we calculated the WACC to be between in the range of 8.40% and 8.85% or in the range of 8% and 9%. We selected a discount rate of 9% which is the higher end of the range.

WACC	Value Adopted	
	Low	High
Cost of equity, K_e	9.04%	9.61%
Cost of debt, Kd	8.38%	8.38%
Proportion of equity ((E/(E+D))	79.72%	79.72%
Proportion of debt ((D/(E+D))	20.28%	20.28%
Weighted average cost of capital	**8.40%**	**8.85%**

Source: BDO analysis

Orbital Corporation Limited
ABN 32 009 344 058

LODGE YOUR VOTE

ONLINE
www.linkmarketservices.com.au

BY MAIL
Orbital Corporation Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138

ALL ENQUIRIES TO
Telephone: +61 1300 554 474

PROXY FORM

I/We being a member(s) of Orbital Corporation Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

☐ **the Chairman of the Meeting *(mark box)***

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the General Meeting of the Company to be held at **12:30pm (WST) on Friday, 26 February 2016 in the Conference Room, BGC Centre, 28 The Esplanade, Perth, Western Australia** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

STEP 2

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

Resolution	**For**	**Against**	**Abstain***
1 Approval of BCB Share Issue	☐	☐	☐

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)	Joint Shareholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

(a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and

(b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **12:30pm (WST) on Wednesday, 24 February 2016,** being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:

ONLINE
www.linkmarketservices.com.au
Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).

BY MAIL
Orbital Corporation Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

BY FAX
+61 2 9287 0309

BY HAND
delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

* During business hours (Monday to Friday, 9:00am–5:00pm)

IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU. THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.

Orbital Corporation Limited
ABN 32 009 344 058

All Registry communications to:
Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia
Telephone: +61 1300 554 474
Facsimile: +61 2 9287 0303
ASX Code: OEC
Email: registrars@linkmarketservices.com.au
Website: www.linkmarketservices.com.au

EMAIL COLLECTION FORM

We are currently updating our Investor Information details and note we do not have your email address recorded.

By providing us with your email address we will be able to notify you of important communications including Annual Reports, Notices of Shareholder Meetings, as well as potential new investment opportunities and capital raisings.

To record your email address either:

- visit the Share Registry's website at **www.investorcentre.linkmarketservices.com.au** and follow the steps below;
  - click on the **"REGISTER NOW"** icon to create your portfolio or enter as a "single holding" by entering the required information.
  - enter your Securityholder Reference Number (SRN) or Holder Identification Number (HIN), this can be found under the barcode at the top of this form.
  - once you are logged in, click on 'Communications' from the top menu and select 'Preferences'. From here you can enter your email address and select your preferred method of electronic communications.

OR

- complete the form below and return it to us in the reply paid envelope provided.

Example: sam.sample@sampleville.com.au

My email address is:

Thank you for your support in helping us better communicate with you.