ORBITAL CORPORATION LIMITED
APPENDIX 4D

Company Details

Name of Entity:	Orbital Corporation Limited
ABN:	32 009 344 058
Reporting period:	Half-Year ended 31 December 2018
Previous corresponding period:	Half-Year ended 31 December 2017

Results for announcement to the market

				A$'000
Total revenue from continuing operations	Down	-62%	to	2,229
Net (loss)/profit from continuing operations after tax	Down	-75%	to	(3,997)
Net loss for the period attributable to members	Down	-154%	to	(4,024)

Net tangible assets per share

	31 Dec 2018	**30 June 2018**
Net tangible assets per share (cents)	**14.35**	**20.88**

Dividends

There is no proposal to pay dividends for the half-year ended 31 December 2018.

CORPORATE INFORMATION

ABN 32 009 344 058

REGISTERED AND PRINCIPAL OFFICE

4 Whipple Street
Balcatta, Western Australia 6021
Australia

CONTACT DETAILS

Australia
Telephone: +61 (08) 9441 2311
Facsimile: +61 (08) 9441 2111
USA
Address: 210 Wasco Loop, Hood River, OR 97031, USA
Telephone: +1 541.716.5930

INTERNET ADDRESS

http://www.orbitaluav.com
Email: contact@orbitalcorp.com.au
Twitter: @OrbitalCorpASX
Linkedin: OrbitalUAV

DIRECTORS

J.P. Welborn, Chairman
T.M. Alder, Managing Director and Chief Executive Officer
S.B. Gallagher
T.D. Stinson
F.K. Abbott

COMPANY SECRETARY

R. Jones

SHARE REGISTRY

Link Market Services Limited
Level 4 Central Park
152 St Georges Terrace
Perth, Western Australia 6000
Telephone: +61 (08) 9211 6670

SHARE TRADING FACILITIES

Australian Stock Exchange Limited (Code "**OEC**")

AUDITORS

PricewaterhouseCoopers
125 St Georges Terrace
Perth, Western Australia 6000

31 December 2018
Half-Year Financial Report

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Your Directors submit their report for the half-year ended 31 December 2018.

DIRECTORS

The names of the Group's directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Name	Information on Directors
John P Welborn	Chairman (Non-executive) (appointed Chairman 18 March 2015).
Todd Alder	Managing Director and Chief Executive Officer (Executive – Appointed 11 August 2017).
Terry D Stinson	Non-Executive Director
Steve Gallagher	Non-Executive Director
Kyle Abbott	Non-Executive Director

REVIEW AND RESULTS OF OPERATIONS

Orbital UAV operates within the tactical unmanned aerial vehicle ('UAV') market. The Group provides world leading propulsion system solutions that deliver customers flight endurance, reliability and power-to-weight advantages.

Key milestones achieved during the period include:

- Expanded Long Term Agreement ('LTA') with key customer Insitu Inc. ('Insitu'), with a value up to A$350M over five years
    - LTA covers the delivery of five propulsion systems, to be applied across Insitu's entire unmanned aircraft system (UAS) fleet
- Launch of Orbital UAV's revolutionary Modular Propulsion Solution
- Official opening of U.S. operational facility in Hood River, Oregon

Financial Review

The Group's consolidated revenue for the period was $2,229,000 (2017: $5,941,000) with a comprehensive loss after taxes of $4,024,000 (2017: $1,587,000).

At 31 December 2018, cash, term deposits and receivables were $18,909,000 (2018: $24,178,000). Net cash generated in operating activities during the period was $2,675,000 and used in the prior period (2017: $3,667,000).

Change in Operations

The official opening of Orbital UAV's operational facility in Hood River, Oregon, USA in September 2018, provides the Company with a second world class production environment, in addition to its Perth, Australia headquarters.

Strategically positioned in the heart of the growing U.S. tactical UAV market, the purpose built facility continues to ramp up to full capacity. Testing and overhaul work for North American customers continues to be conducted at the facility.

In October 2018, Orbital UAV signed an expanded LTA with Insitu, increasing the scope, scale and term of work outlined in the original LTA, signed in December 2016.

The expanded LTA has potential value up to A$350 million over a period of five years, with the full value of the Agreement dependent on confidential Insitu customer contracts and the volumes identified therein.

The LTA covers the delivery of multiple propulsion systems and services that will be applied across Insitu's entire range of UAS platforms, including:

- The assembly, supply and overhaul of <u>three</u> highly configurable propulsion systems, forming Orbital UAV's Modular Propulsion Solution; and
- The assembly, supply and overhaul of <u>two</u> Insitu designed engines – built and serviced from Orbital UAV's operational facility in Hood River.

All five engines are planned to be in production in FY20.

The launch of Orbital UAV's revolutionary Modular Propulsion Solution (MPS) in October 2018 addresses a growing need within the tactical UAV market for aircraft to have the flexibility and versatility to adapt to varying end customer mission parameters and for the rapid deployment of those aircraft.

The MPS will provide tactical UAV manufacturers with a modular range of propulsion systems, capable of being integrated across multiple UAV platforms with varying payloads and capability.

Outlook

Orbital UAV's expanded LTA with key customer Insitu demonstrates the significant progress the Company has made within the growing tactical UAV market as it targets superiority in UAV propulsion systems and flight critical components.

This organic growth aligns to Orbital UAV's stated objectives and represents a key milestone in the Company's strategy to deliver long term sustainable growth.

In February 2019, the Company revised revenue guidance for FY19 to A$20 million.

This adjustment resulted from a delay in the planned start of production (SOP) of the first of the two Insitu designed engines, identified under the LTA.

SOP of this engine has been pushed back to Q3 2019 – previously Q2 2019 – as Orbital UAV and Insitu continue to work together to finalise the technical review and engine performance validation processes.

Delivery of the targets set out in the LTA remain Orbital UAV's core focus.

All five engines forming part of the LTA are scheduled to be in production in FY20. This amended timeframe does not impact customer delivery requirements nor Orbital UAV's advised LTA potential value of up to A$350M over the next five years.

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 3 and forms part of the Directors' Report for the half-year ended 31 December 2018.

ROUNDING

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the half-year financial report and Directors' Report have been rounded off to the nearest thousand dollars unless otherwise indicated.

Signed in accordance with a resolution of the directors.

Todd Alder
Managing Director & Chief Executive Officer
Perth, 21 February 2019

Auditor's Independence Declaration

As lead auditor for the review of Orbital Corporation Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Orbital Corporation Limited and the entities it controlled during the period.

Ben Gargett
Partner
PricewaterhouseCoopers

Perth
21 February 2019

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Notes	2018	2017
		$'000	$'000
Continuing operations			
Sale of goods		**1,485**	4,437
Engineering services income		**563**	1,042
Royalty and licence income		**92**	358
Interest revenue		**89**	104
Total revenue		**2,229**	5,941
Other income		**1,375**	494
Materials and consumables expenses		**(639)**	(1,471)
Employee benefits expenses		**(3,405)**	(4,110)
Depreciation and amortisation expenses		**(284)**	(264)
Engineering consumables and contractors expenses		**(442)**	(416)
Occupancy expenses		**(817)**	(644)
Travel and accommodation expenses		**(303)**	(141)
Communications and computing expenses		**(399)**	(263)
Insurance expenses		**(338)**	(270)
Finance costs		**(253)**	(264)
Other expenses		**(721)**	(873)
Profit/(loss) before income tax from continuing operations		**(3,997)**	(2,281)
Income tax (expense)/benefit		**-**	-
Profit/(loss) for the year from continuing operations		**(3,997)**	(2,281)
Discontinued operations			
Profit/(loss) after tax for the year from discontinued operations	6	**-**	694
Profit/(loss) for the year		**(3,997)**	(1,587)
Attributable to:			
Equity holders of the parent		**(3,997)**	(1,587)
Non-controlling interests		**-**	-
Profit/(loss) for the year		**(3,997)**	(1,587)
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(27)**	-
Total comprehensive profit/(loss) for the year		**(4,024)**	(1,587)
Attributable to:			
Equity holders of the parent		**(4,024)**	(1,587)
Non-controlling interests		**-**	-
Total comprehensive profit/(loss) for the year		**(4,024)**	(1,587)
Earnings per share			
Basic profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)		**(5.17)**	(2.05)
Earnings per share from continuing operations			
Basic profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)		**(5.17)**	(2.95)

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

		31 Dec 2018	30 June 2018
ASSETS	Notes	**$'000**	$'000
Current assets			
Cash and cash equivalents		**9,343**	9,926
Other financial assets		**585**	585
Trade and other receivables		**8,981**	13,667
Prepayments		**1,293**	548
Inventories		**4,733**	2,154
Total current assets		**24,935**	26,880
Non-current assets			
Intangibles	4	**1,180**	-
Deferred taxation asset		**5,505**	5,505
Plant and equipment		**4,129**	2,216
Total non-current assets		**10,814**	7,721
Total assets		**35,749**	34,601
LIABILITIES			
Current liabilities			
Trade payables and other liabilities		**1,640**	1,535
Deferred revenue	5	**5,850**	943
Borrowings		**1,032**	1,032
Government grants		**188**	225
Provisions		**2,002**	2,090
Total current liabilities		**10,712**	5,826
Non-current liabilities			
Trade payables and other liabilities		**128**	173
Borrowings		**6,992**	6,738
Government grants		**-**	74
Provisions		**130**	128
Total non-current liabilities		**7,250**	7,113
Total liabilities		**17,962**	12,939
Net assets		**17,787**	21,663
Equity			
Share capital		**31,144**	31,144
Reserves		**1,337**	1,216
Accumulated losses		**(14,694)**	(10,697)
Total equity		**17,787**	21,663

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER

	Share capital	(Accumulated losses)	Employee equity benefits reserve	Foreign currency translation reserve	Contingent consideration	Consolidation reserve	Convertible note reserve	Total equity
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At 1 July 2018	**31,144**	**(10,697)**	**1,974**	**9**	**3,440**	**(4,455)**	**248**	**21,663**
Loss for the period	**-**	**(3,997)**	**-**	**-**	**-**	**-**	**-**	**(3,997)**
Foreign currency translation	**-**	**-**	**-**	**(27)**	**-**	**-**	**-**	**(27)**
Total comprehensive income for the period	**-**	**(3,997)**	**-**	**(27)**	**-**	**-**	**-**	**(4,024)**
Share based payments	**-**	**-**	**148**	**-**	**-**	**-**	**-**	**148**
At 31 December 2018	**31,144**	**(14,694)**	**2,122**	**(18)**	**3,440**	**(4,455)**	**248**	**17,787**
At 1 July 2017	31,106	(12,915)	1,759	-	3,440	(4,455)	248	19,183
Loss for the period	-	(1,587)	-	-	-	-	-	(1,587)
Total comprehensive loss for the period	31,106	(1,587)	1,759	-	3,440	(4,455)	248	17,596
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-
Share based payments	38	-	123	-	-	-	-	161
At 31 December 2017	31,144	(14,502)	1,882	-	3,440	(4,455)	248	17,757

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Notes	**2018 $'000**	2017 $'000
Cash flows from operating activities			
Cash receipts from customers		**11,661**	6,788
Cash paid to suppliers and employees		**(9,051)**	(10,543)
Interest received		**89**	104
Interest paid		**(24)**	(16)
Net cash from/(used in) operating activities		**2,675**	(3,667)
Cash flows from investing activities			
Proceeds from/(purchase of) financial instruments		**-**	2,029
Proceeds from sale of plant and equipment		**7**	29
Payments for intangible asset		**(1,180)**	-
Purchase of plant and equipment		**(2,203)**	(223)
Redemption of short term deposit		**-**	152
Net cash provided by/(used in) investing activities		**(3,376)**	1,987
Net decrease in cash and cash equivalents		**(701)**	(1,680)
Cash and cash equivalents at 1 July		**9,926**	17,131
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		**118**	(219)
Cash and cash equivalents at 31 December		**9,343**	15,232

The accompanying notes form part of the financial statements.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

1. REPORTING ENTITY

The consolidated financial statements for the half-year ended 31 December 2018 of Orbital Corporation Limited ("the Company" or "the Parent") and its subsidiaries (collectively, "the Group") were authorised for issue by the Company's Directors on 21 February 2019.

The Company is a for-profit company limited by shares domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange ("ASX"). The registered office of the Group is 4 Whipple Street, Balcatta, Western Australia.

The Group is principally engaged in the provision of smart technology that delivers improved performance outcomes in the unmanned aerial vehicle, safety and productivity and consumer sectors. Further information on the nature of operations of the group is provided in the Directors' Report.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This general purpose consolidated financial report for the half-year ended 31 December 2018 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the annual financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2018 and considered together with any public announcements made by the Company during the half-year ended 31 December 2018 in accordance with the continuous disclosure obligations of the ASX listing rules.

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* , Australian Accounting Standards and other authoritative pronouncements of the AASB.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars unless otherwise indicated.

Certain comparatives have been reclassified to conform with current year presentation.

New Accounting Standards and Interpretations

The accounting policies adopted and methods of computations used are consistent with the most recent annual financial report. From 1 July 2018; the Group has adopted all the standards and interpretations effective as at 1 July 2018 which include AASB 15 Revenue from contracts with customers and AASB 9 Financial Instruments. Application of AASB 16 Leases will commence on or after January 2019 with the planned adoption date of 1 July 2019.

AASB 15 Revenue from contracts with customers:

AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 118 Revenue and AASB 111 Construction Contracts) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

An entity recognises revenue in accordance with the core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group has implemented the modified approach as its transition method for the adoption of AASB 15.

New Accounting Standards and Interpretations (Continued)

The Group has reviewed the terms and conditions of its contracts with customers and determined that the adoption of AASB 15 will not have a material impact on the business. Under sale of goods contracts, the Group has assessed that accounting for variable consideration under AASB 15 will not have a material impact on the revenue recognition in future periods, as revenue at the full transaction price will continue to be recognised when control passes to the customer, which is at a point in time. As at 31 December 2018 the reported sales of goods represent component sales to customers where revenue is only recognised once control passes to the customer.

In relation to engineering services contracts, the services rendered under each stage are highly interrelated and therefore treated as a single performance obligation. Orbital is entitled to payment for work completed in the event an engineering services contract is discontinued, and therefore, performance obligations are satisfied over time with reference to the stage of completion under the output method for revenue recognition. As at 31 December 2018, the group has 9 engineering services contracts.

The group has confirmed:

- Contracts commenced and completed in the same financial year will not be adjusted for the impact of AASB 15.
- Licence and royalty revenue will continue to be recognised as and when customer sales of patented technologies are made.

The Group has assessed there is no financing impact under AASB 15 from customer payments received in advance of goods delivered or services rendered.

AASB 9 Financial Instruments:

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), based on their contractual cash flows and the business model under which the debt instruments are held.

There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. There has been no material impact for this change on the financial statements.

The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.

The Group does not have any hedging relationships and therefore will not be impacted by AASB 9 hedge accounting. The Group assesed no significant impact on its statement of financial position or equity on applying the classification and measurement requirements of AASB 9.

New Accounting Standards and Interpretations (Continued)

AASB 16 Leases *(Planned adoption date 1 July 2019)*

AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset..

Lessees will be required to re-measure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the rightof-use asset.

Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

The Group's current operating leases comprise only of real estate. Upon adoption of AASB 16, the Group's balance sheet is expected to include a right of use asset and liability related to these operating lease arrangements.

3. OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the product is sold, whether retail or wholesale, and the nature of the services provided, the identity of service line manager and country of origin.

The reportable segments are based on the similarity of the products produced and sold and/or the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return. There are no inter-segment revenues or transactions.

	Australia		United States		Total	
	2018	2017	**2018**	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Revenue – external customers	**708**	453	**1,432**	5,384	**2,140**	5,837
EBITDA	**(2,532)**	(1,163)	**(1,017)**	-	**(3,549)**	(1,163)
Finance Income	**88**	104	**-**	-	**88**	104
Finance Expenses	**(253)**	(264)	**-**	-	**(253)**	(264)
Depreciation and amortisation	**(277)**	(264)	**(6)**	-	**(283)**	(264)
Profit and Loss	**(2,974)**	(1,587)	**(1,023)**	-	**(3,997)**	(1,587)

Revenue information above is based on the location of the customers.

4. INTANGIBLES

	31-Dec-18	30-Jun-18
	$'000	$'000
Cost	1,180	-
Accumulated amortisation and impairment	-	-
Closing net book value	1,180	-

The Intangible asset comprises of capitalised development costs for the advancement of the modular propulsion systems. The intangible asset, which is still in development phase, will be amortised using the straight-line method over a finite period of 5 years.

5. DEFERRED REVENUE

	31-Dec-18	30-Jun-18
	$'000	$'000
Deferred revenue	5,850	943
	5,850	943

Deferred revenue for the half year ended December 2018 includes invoices to key customer Insitu $4,749,555 (2017: $0). These invoices represent an irrevocable agreement between Insitu and Orbital for the production setup costs of the modular propulsions system. The invoice's have no effect on profit or loss for the year ended December 2018.

6. CONTINGENT CONSIDERATION

REMSAFE contingent consideration

On 13 October 2016, the Group increased its interest in REMSAFE to 100% in consideration for 1,000,000 Orbital shares issued at a price of $0.86 per share. At this date, it was agreed a further 2,000,000 Orbital shares will be transferred as consideration should REMSAFE achieve $25,000,000 accumulated annual sales for any 12 month period; and a further 2,000,000 Orbital shares should REMSAFE achieve $40,000,000 accumulated annual sales for any 12 month period (refer to “REMSAFE Update” ASX release dated 13 October 2016). The contingent consideration arrangement was classified as equity

On 18 December 2017, the Group sold its 100% interest in REMSAFE to the Avidsys Group. Should the REMSAFE business satisfy a milestone pertaining to the contingent consideration arrangement discussed above, Avidsys is obliged to reimburse Orbital for the value of consideration transferred under the arrangement up to a maximum amount of $2,200,000. No value has been assigned to the reimbursement and therefore the impact on the financial statements is $nil

Sales consideration of $2,200,000 will be received from the Avidsys Group in three tranches over 18 months as follows:

- First tranche payment of $750,000 was received prior to 31 December 2017;
- Second tranche payment of $750,000 to be received in December 2018;
- Third tranche payment of $700,000 to be received in June 2019.

The net assets transferred to Avidsys of $783,000 and transaction costs of $100,000 associated with the sale resulted in a gain on sale of $1,317,000 recognised in the Statement of Profit or Loss at 31 December 2017.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Orbital Corporation Limited, I state that:

In the opinion of the Directors:

(a) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001,*

(i) Giving a true and fair view of the financial position as at 31 December 2018 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *the Corporations Regulations 2001;* and

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board,

T.M. Alder
Managing Director and Chief Executive Officer

Perth, Western Australia
21 February 2019

Independent auditor's review report to the members of Orbital Corporation Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Orbital Corporation Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration for the Orbital Corporation Limited Group (the Group). The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Orbital Corporation Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Orbital Corporation Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Ben Gargett
Partner

Perth
21 February 2019