ORBITAL UAV

ASX ANNOUNCEMENT

31 August 2022

# APPENDIX 4E

## Preliminary Final Report for the year ended 30 June 2022

### Reporting Period

The reporting period is for the year ended 30 June 2022 with the corresponding reporting period being for the year ended 30 June 2021.

### Results for announcement to the market

| | | | | 30 June 2022 A$'000 |
|---|---|---|---|---|
| **Revenue from continuing operations** | Down | **50%** | To | **15,722** |
| **Loss for the year** | Down | **3%** | To | **(11,131)** |
| **Loss after tax attributable to members** | Down | **3%** | To | **(11,131)** |

| | 30 June 2022 | 30 June 2021 |
|---|---|---|
| **Net tangible assets per share (cents)** | **(1.70)** | **0.56** |

**Dividends**
There is no proposal to pay dividends for the year ended 30 June 2022.

### Audit

This report is based on accounts which have been audited.

### Commentary on results for the period

The commentary on the results for the period is contained within the Annual Report and ASX announcement accompanying the report.

### Annual Meeting

The annual meeting is expected to be held as follows:

Place: City of Perth Library
573 Hay Street
Perth, Western Australia

Date: 16 November 2022

-ENDS-

## CONTACTS


Announcement authorised by:

Todd Alder

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### About Orbital UAV

Orbital UAV provides integrated propulsion systems and flight critical components for tactical uncrewed aerial vehicles (UAVs). Our design thinking and patented technology enable us to meet the long endurance and high reliability requirements of the UAV market. We have offices in Australia and the United States to serve our prestigious client base.

### Forward-looking statements

*This release includes forward-looking statements that involve risks and uncertainties. These forward-looking statements are based upon management's expectations and beliefs concerning future events. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the Company that could cause actual results to differ materially from such statements. Actual results and events may differ significantly from those projected in the forward-looking statements as a result of a number of factors including, but not limited to, those detailed from time to time in the Company's Annual Reports. The Company makes no undertaking to subsequently update or revise the forward-looking statements made in this release to reflect events or circumstances after the date of this release.*

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# ORBITAL® UAV

2022 ANNUAL REPORT

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# CORPORATE PROFILE

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Our design thinking and patented technology enable us to meet the long endurance and high reliability requirements of the UAV market. We have offices in Australia and the United States to serve our prestigious client base.

# DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2022

The Directors present their report together with the financial report of Orbital Corporation Limited (the Company or Orbital) and of the Group, being the Company and its subsidiaries for the year ended 30 June 2022 and the auditor's report thereon.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2022

## 1. OPERATING AND FINANCIAL REVIEW

**John Welborn**
Chairman
Non-Executive Director

**Todd Alder**
Managing Director and Chief Executive Officer

Dear Shareholders,

On behalf of the Board of Directors ('the Board'), we are pleased to present the annual report of Orbital Corporation ('Orbital' or 'the Company') and its subsidiaries ('the Group') for the year ended 30 June 2022 ('FY22').

### Overview

**FY22 highlights**

- Delivery of $18.3 million revenue and other income
- Secured second engine development program with Textron Systems
- Successful Renounceable Entitlement Offer to raise $6.5 million
- Completion of initial engineering contract for Singapore customer
- New customers Skyways and Anduril Industries announced
- Confirmation of involvement in Australian Army's Land129 Phase 3 program
- Facility visits from Prime Minister the Hon Scott Morrison and Minister for Defence the Hon Peter Dutton
- Restructured for profitability in FY23

Orbital achieved revenue of $15.7 million in FY22, underpinned by two engine model production lines for customer Insitu Inc., a wholly owned subsidiary of the Boeing Company ('Boeing Insitu'). Revenue was down against prior year due to Boeing Insitu first engine model volume downgrade, delay of the second engine model as production transferred from the USA to Australia and termination of the third engine model development program.

Other income of $2.5 million was achieved via Commonwealth Government grants and the delivery of operational milestones in the first half and associated loan repayment offsets set out in the Company's WA Government Loan Deed of Variation.

### Customer diversification & engineering programs

During the year, the Company continued to progress its customer diversification strategy. A second engine development program was secured with Textron Systems in October 2021 and memorandums of understanding ('MoUs') were signed with new customers Skyways and Anduril Industries in October 2021 and May 2022 respectively. The additional program of work with Textron Systems demonstrates a growing relationship with the largest supplier of uncrewed aircraft systems ('UAS') to the US Army.

New relationships with Skyways and Anduril represent opportunities for Orbital to demonstrate its superior heavy fuel engine capability for new uncrewed aerial vehicles ('UAVs'). Texas-based Skyways is an emerging leader in uncrewed cargo transport, currently working with the US Navy. Anduril is a major disruptor within the global defence industry, pioneering products to support the next generation of military technology.

In addition to engineering work conducted for these customers, the Company also progressed programs with its major Singapore client and in house product development.

### Renounceable Entitlement Offer

In November 2021 the Company successfully completed a $6.5 million renounceable entitlement offer. The Entitlement Offer was well supported by eligible shareholders who subscribed for a total of 8,417,063 new shares pursuant to their entitlements and a further 2,989,798 shares out of the shortfall pursuant to the Top Up Facility detailed in the Offer Booklet. Major shareholders, UIL Limited and First Sentier Investors, along with all of Orbital's Directors, took up 100% of their available entitlements. In total, eligible shareholders subscribed for $5.7 million, with a shortfall of approximately $0.8 million allocated in accordance with the shortfall allocation policy.

Funds raised from the offer were directed towards: contracted engine development programs; enhancing the Company's Australian production facility capabilities; driving product research and development; and general working capital.

### LAND129-3 Program & government relations

In March 2022 the Australian Department of Defence confirmed Orbital customer Insitu Pacific Pty Ltd as the preferred supplier of the LAND129 Phase 3 Program – supplying Army's next generation of tactical UAS.

As Boeing Insitu's primary engine supplier, Orbital will manufacture the propulsion system that will power Boeing Insitu's 'Integrator' platform for this program.

Over the year, Orbital continued to engage with State and Federal Government, demonstrating the Company's unique defence industry capability. In recognition of Orbital's growing reputation and presence within the Australian defence industry, the Company hosted Minister for Defence the Hon Peter Dutton MP and Prime Minister the Hon Scott Morrison at its Balcatta facility in March 2022 and May 2022 respectively.

### Financial results

The Company reported financial results for the year ended 30 June 2022, with revenue from continuing operations of $15.7M (2021: $31.2M and a net loss after tax of $11.1M (2021: loss of $11.5M).

Operational net loss of $4.1M has been adjusted for the following one-off items:

- One off inventory provision of $3M due to Boeing Insitu first engine volume downgrade and third engine model settlement;
- One off third engine labour and facility expense of $0.6M;
- Restructure cost of $0.2M;
- FX Gain (net) of $0.7M; and
- Australian Deferred Tax Asset of $4.1M relating to tax losses available for use against future Australian taxable income was written off in the first half of FY22. The tax losses remain available for utilisation but are not recognised as an asset on the balance sheet.

The Company reports a balance sheet with cash and receivables of $4.0M (2021: $7.7M) and net current liabilities of $5.0M (2021: $0.5M).

Net cash outflow from operating activities during the period was $4.1M (2021: net cash outflow $1.6M). The net cash outflow increase was due to the third engine model unrecovered cost of $0.9M, second engine model production delay from the transfer of the production from the US to Australia of $0.6M and material purchases supporting production and engineering programs.

The annual report for the year ended 30 June 2022 contains an independent auditor's report which highlights the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. For further information, refer to Note 1.J to the financial statements, together with the auditor's report.

### WA Government loan

In August 2021, the business agreed a deed of variation replacing the previous repayment schedule with one that allows for repayments to be offset in accordance with specified clauses being met by certain dates/milestones. As such, the repayment amounts cease to be a portion of the debt if Orbital demonstrates, to the satisfaction of the Minister, that the relevant milestones set out in the deed of variation have been met by Orbital on or before the repayment dates.

For FY22 H1, the operational milestones of $1.5M were achieved and the loan repayments were offset, reducing the outstanding loan value to $8.5M. With the cancellation of the third engine model for Boeing Insitu, the FY22 H2 operational milestones targets were not achieved. The WA Government agreed to defer the loan repayments for the first half of the new financial year to agree a revised loan repayment schedule and loan offset operational milestones.

### Shareholder returns

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Closing share price ($)[1] | 0.23 | 0.83 | 0.75 | 0.30 | 0.36 |
| Market capitalisation ($m) | 20.93 | 64.46 | 58.2 | 23.2 | 27.9 |
| Basic EPS (cents) from operations | (12.92) | (14.74) | 2.40 | (7.63) | 2.87 |

[1] as at 30 June

### Management transition

On 5 May 2022, Mr Mikael Bergman was appointed Chief Technical Officer. Mr Bergman has spent more than 20 years in leadership roles at Husqvarna in Sweden. As a Senior Technical Advisor at Husqvarna, Mr Bergman focused on the company's overall technical roadmap and architecture, and leading large, complex development programs from conception to production. With his extensive 2-stroke engineering knowledge and broader product design and development experience, Mr Bergman's appointment supports Orbital's aspirations to grow the business within the uncrewed aerospace market.

### Change in operations

As part of Orbital's cost reduction measures, the Company transitioned its engine build work from Hood River, USA and consolidated all new production work in Balcatta, Australia. The Hood River operation continued to conduct sustainment work on the Company's production engines.

### COVID-19

Like many businesses in Australia, the USA and around the world, Orbital has closely monitored – and continues to monitor – the business risks presented by the Coronavirus (COVID-19) pandemic. The physical wellbeing and mental health of all our people is a priority and the Company implemented a COVID-19 Response Plan to minimise the risk of contracting and spreading the virus at its operations in Australia and the USA.

Through robust planning and the commitment of our people, Orbital's ability to continue manufacturing at our operations and our product demand was not impacted directly by the COVID-19 pandemic. We continued to work closely with our global supply chain to deliver on our production commitments.

The Company will continue to support the public health effort to minimise the spread of COVID-19.

### Outlook

Continued investment in new product development has supported Orbital's successful customer diversification strategy over the past two years. Adding the likes of Textron Systems, one of Singapore's largest defence companies, Skyways and Anduril Industries to the Company's customer portfolio during this period demonstrates the progress made and the growing global reputation of Orbital UAV's technology and capabilities.

In Australia, the Company's capabilities are now being applied within the Australian Defence Force via the supply of engines to Insitu Pacific Pty Ltd for Army's LAND129 Phase 3 Program. Involvement in this program gives prominence to the Company's unique technology and capabilities and will support Orbital UAV's objective to identify further opportunities within the domestic defence market.

In FY23, production from the Company's two established Boeing Insitu engine model lines will be complimented by a strong pipeline of engineering programs from the Company's additional customers, Textron, Anduril, Skyways and one of Singapore's largest defence companies. Each of these engine development programs will transition into revenue generating production lines over the next 18-24 months.

Working with an expanded group of customers with confirmed production orders and engineering programs during FY23 represents a pathway back to improved revenue and a sustainable and profitable business.

Revenue for FY23 is forecast at $20M-$25M and the Company is targeting net profitability.

The Chairman and Managing Director would like to thank the ongoing commitment of the Company's shareholders and staff.

## 2. DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

**Mr John Paul Welborn,** BCom, FCA, FAIM, MAICD, MAusIMM, JP

*Chairman*

Joined the Board in June 2014 and appointed as Chairman in March 2015. Mr Welborn is the Managing Director and Chief Executive Officer of Equatorial Resources Limited, an ASX listed (ASX: EQX) iron ore exploration and development company.

Mr Welborn is a Chartered Accountant with a Bachelor of Commerce degree from the University of Western Australia and is a Fellow of the Institute of Chartered Accountants in Australia and New Zealand and holds memberships of the Australian Institute of Company Directors (AICD) and the Australasian Institute of Mining and Metallurgy (AusIMM).

Mr Welborn is a former international rugby union player with extensive experience in the resources sector as a senior executive and in corporate management, finance and investment banking. He has served on the Boards of charitable organisations and is a former Commissioner of Tourism Western Australia.

Mr Welborn also serves as a Director of Equatorial Resources Limited (appointed August 2010), and as a Non-Executive Director of Apollo Minerals Ltd (appointed February 2021) and Fenix Resources Limited (appointed November 2021).

**Mr Todd Alder,** BEc (Acc), CPA, ACIS

*Managing Director and Chief Executive Officer*

Joined Orbital as Chief Financial Officer and Company Secretary in December 2016 and appointed as Managing Director and Chief Executive Officer in August 2017. Mr Alder's experience includes successful start-ups, acquisitions and the implementation of lean concept business transformations. Mr Alder is an accomplished leader focused on financial discipline, strategy alignment and operational efficiency.

His previous role was Chief Financial Officer and Company Secretary at Toro Energy Limited, where he was responsible for financial and management accounting, company secretarial functions, investor relations and information technology. Mr Alder has also worked with Capgemini Consulting (previously Ernst & Young) and Origin Energy Limited.

**Mr Steve Gallagher,** B.E (Hons), B.Com, MAICD

*Non-Executive Director*

Joined the Board in April 2017. Mr Gallagher is Principal of Agere Pty Ltd, an advisory and investment company drawing on his capability and professional networks established over 30 years as a CEO, director, and Executive GM of global businesses with companies including Vix Technology Ltd, Siemens AG, Landis & Gyr AG and CCRTT Ltd..

Mr Gallagher has operated in various business sectors including industrial automation, building technology and power systems, having spent 15 years living and working in Asia (China, Hong Kong and Singapore) and Europe (Switzerland).

Mr Gallagher is currently a Non-Executive Director and Chair of ICM Mobility Ltd (an investment holding company for mobility services companies in transportation including Vix Technology Ltd, Littlepay Ltd, Kuba Payments Ltd, Snapper Services Ltd, Unwire Ltd), Transact1 Pty Ltd (a financial services provider for cash management optimisation), DTI Ltd (ASX listed passenger information and surveillance business).

Mr Gallagher is also the chairman of the Company's Audit and Risk Committee.

**Mr Kyle Abbott,** B.Com (Hons 1st), CA

*Non-Executive Director*

Joined the Board in May 2018. Mr Abbott is an experienced aerospace and defense industry executive. Mr Abbott was Managing Director of Western Australian Specialty Alloys (WASA) from 1996 to 2015. During this period WASA grew from a Western Australian specialised alloy manufacturer to become a major supplier to the global aerospace industry, with key customers in the United States, the United Kingdom and Japan. In 2000, Mr Abbott managed the successful sale of WASA to United States-based Precision Castparts Corporation (PCC), an S&P 500 company. PCC was subsequently acquired by Berkshire Hathaway in 2015.

Mr Abbott is also a member of the Company's Audit and Risk Committee.

## 3. COMPANY SECRETARY

**Mr David Bonomini,** B.Com, CPA

Mr David Bonomini was appointed as Chief Financial Officer and Company Secretary in February 2020. Mr Bonomini is a respected finance executive with global experience leading governance, regulatory and commercial initiatives in high growth companies. He is a qualified CPA and holds a Bachelor of Commerce degree. In his previous CFO roles with Compass Group Australia and KB Food Company, Mr Bonomini was responsible for commercial, financial, tax and mergers and acquisitions during periods of significant expansion.

## 4. DIRECTORS' MEETINGS

The number of Directors' meetings and the number of meetings attended by each of the Directors of the Company during the financial year are shown below.

| | Directors Meetings | | Audit and Risk Committee Meetings | |
|---|---|---|---|---|
| **Director** | **No. of meetings attended** | **No. of meetings held[1]** | **No. of meetings attended** | **No. of meetings held[2]** |
| J P Welborn | 5 | 5 | - | - |
| T M Alder | 5 | 5 | - | - |
| S Gallagher | 4 | 5 | 4 | 4 |
| K Abbott | 5 | 5 | 4 | 4 |

[1] Number of meetings held during the time the Director held office during the year.
[2] The Audit and Risk Committee was established in March 2019.

## 5. PRINCIPAL ACTIVITIES

Orbital's focus is on the revolutionary design, proven manufacturing processes and rigorous testing to deliver superiority in UAV propulsion systems and flight critical components.

The Company drives its UAV-focused strategy from its operations in WA, Australia and Oregon, USA. Our intellectual property, know-how and industry experience, enable us to meet the long endurance and high reliability requirements of the rapidly evolving UAV market.

Working with our international customers and supply chain, we continue to design, develop and manufacture world-leading propulsion system solutions and associated technologies to meet the changing demands and increasing mission parameters of tactical UAVs.

## 6. DIVIDENDS

No dividend has been paid or proposed in respect of the current financial year.

## 7. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Orbital and Boeing Insitu announced a settlement agreement on the 30 August 2022 for third engine model cost reimbursement dispute.

The settlement includes:
- an immediate advance payment to Orbital of $1.8M with the amount to be offset against future Orbital engine production;
- agreement both parties will not seek to recover outstanding cost; and
- an agreement to negotiate in good faith an extension to the current supply agreement through a further five-year maintenance, repair and overhaul support contract.

The impact of the settlement was incorporated as an adjusting event to the estimate of the provision for inventory, as disclosed in Note C.1. In FY23, all materials outlined in the agreement are required to be delivered to Boeing Insitu. As a result, the deferred revenue $2.4M will be released and recognised as revenue with a nil net profit impact.

## 8. PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

## 9. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Information as to the likely developments in the operations of the Group is set out in the operating and financial review above.

## 10. ENVIRONMENTAL REGULATION AND PERFORMANCE

The Directors do not believe that the Group has significant environmental obligations. The Group's policy is to comply with any applicable environmental regulations that are in force during the reporting period.

## 11. DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the Company shown in the Register of Directors' Shareholdings as at 30 June 2022 is as follows:

| Director | Ordinary Shares | Performance Rights |
|---|---|---|
| J P Welborn | 991,667 | - |
| T M Alder | 434,389 | 1,361,650 |
| S Gallagher | 116,668 | - |
| K Abbott | 35,000 | - |
| Total | 1,577,724 | 1,361,650 |

## 12. SHARE OPTIONS

The Company has no unissued shares under option at the date of this report.

## 13. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important. For the year ended June 2022, the Group engaged with PricewaterhouseCoopers in non-audit services that included Tax & other Corporate advisory services. Refer to Note F.6 in the Financial Statements for summary of fees paid. The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

## 14. INDEMNIFICATION

### Indemnification and insurance of officers

To the extent permitted by law, the Company indemnifies every officer of the Company against any liability incurred by that person:

(a) in his or her capacity as an officer of the Company; and
(b) to a person other than the Company or a related body corporate of the Company

unless the liability arises out of conduct on the part of the officer which involves a lack of good faith.

During the year, the Company paid a premium in respect of a contract insuring all Directors, Officers and employees of the Company (and/or any subsidiary companies of which it holds greater than 50% of the voting shares) against liabilities that may arise from their positions within the Company and its controlled entities, except where the liabilities arise out of conduct involving a lack of good faith. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance contract as disclosure is prohibited under the terms of the contract.

### Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, PricewaterhouseCoopers, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify PricewaterhouseCoopers during or since the financial year.

## 15. CORPORATE GOVERNANCE STATEMENT

The Board of Orbital Corporation Limited is responsible for corporate governance. The Board has prepared the Corporate Governance Statement in accordance with the fourth edition of the ASX Corporate Governance Council's Principles and Recommendations, which is available on the Company's website at www.orbitaluav.com under the About Us/Corporate Governance section.

## 16. ROUNDING OFF

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.

## REMUNERATION REPORT - AUDITED

### KEY MANAGEMENT PERSONNEL AND SUMMARY OF ORBITAL'S FIVE-YEAR PERFORMANCE

#### Key management personnel ("KMP")

This Remuneration Report outlines the remuneration in place and outcomes achieved for KMPs during the year ended 30 June 2022.

KMPs are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director, whether executive or otherwise, of the parent company.

The names and positions of the individuals who were KMP during 2022 are set out in Table 1.

#### Table 1 – KMP

| Executive | Non-Executive Directors |
|---|---|
| *Executive Director*<br>Todd M Alder (Chief Executive Officer and Managing Director) | John P Welborn (Chairman)<br>Steve Gallagher (Chairman of the Audit & Risk Committee)<br>Kyle Abbott (Member of the Audit & Risk Committee) |
| *Senior Executives*<br>Geoff P Cathcart[1] (Chief Technical Officer)<br>David Bonomini (Chief Financial Officer & Company Secretary)<br>Martin Johnston[2] (Chief Operating Officer)<br>Mikael Bergman[3] (Chief Technical Officer) | |

[1] Mr. Cathcart resigned as Chief Technical Officer on 8 October 2021
[2] Mr. Johnston became a KMP on 1 July 2020 and resigned as Chief Operating Officer on 18 February 2022
[3] Mr. Bergman became a KMP on 05 May 2022

#### Table 2 – Five-year performance

The table below outlines Orbital's performance over the last five years against key metrics.

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Closing share price ($) | **0.23** | **0.83** | **0.75** | 0.30 | 0.36 |
| Market capitalisation ($m) | **20.93** | **64.46** | **58.2** | 23.2 | 27.9 |
| Basic EPS (cents) from operations | **(12.92)** | **(14.74)** | **2.40** | (7.63) | 2.87 |

Short term incentives were paid in 2020 and 2018. No short term incentives were paid in 2022, 2021 and 2019.

### REMUNERATION OVERVIEW

The Group's remuneration strategy is designed to attract, motivate and retain employees in a globally competitive market. The Board structures remuneration so that it rewards those who perform, is valued by executives, and is strongly aligned to the Company's strategic direction and the creation of returns to shareholders.

Total Fixed Remuneration ("TFR") is determined by the scope of the executive's role and their level of knowledge, skills and experience.

Executive members of the KMP may receive a short-term incentive ("STI") approved by the Board as reward for exceptional performance in a specific matter of importance. No STI were awarded during the year ended 30 June 2022 (2021: nil).

Long-term incentives ("LTI") consisting of performance rights that vest based on attainment of pre-determined performance goals are awarded to selected executives. During the 2018 financial year, the Group introduced new performance milestones under the Performance Rights Plan as part of its long-term incentive arrangements for the Managing Director and CEO, which were approved by shareholders on 27 October 2017 and 23 May 2018 (2018 LTI Plan).

During the 2021 financial year, the first tranche of 475,675 performance rights vested in full under the 2018 LTI Plan and the remaining 342,213 performance rights expired on 10 August 2020. No rights have vested under the 2020 LTI Plan during the year ended 30 June 2022.

The remuneration of Non-Executive Directors of the Company consists only of Directors' fees. Director fees were not reviewed or adjusted during the 2022 financial year.

#### Remuneration Report at 2021 AGM

The 2021 Remuneration Report received positive shareholder support at the 2021 AGM with more than 75% of votes cast in favour.

### Remuneration strategy

The Group's remuneration strategy is designed to attract, motivate and retain employees and Non-Executive Directors by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group.

To this end, key objectives of the Company's reward framework are to ensure that remuneration practices:

- Are aligned to the Group's business strategy;
- Offer competitive remuneration, benchmarked against the external market;
- Provide strong linkage between individual and Group performance and rewards; and
- Align the interests of executives with shareholders through measuring the Company's market capitalisation or share price.

### Key changes to remuneration structure in 2022

There were no changes to the remuneration structure of executives or Directors during the 2022 financial year.

## REMUNERATION GOVERNANCE

### Board of Directors

The Board reviews and approves remuneration packages and policies applicable to Directors, the Company Secretary and the senior executives of the Group.

Data is obtained from independent surveys to ensure that compensation throughout the Group is set at market rates having regard to experience and performance. In this regard, formal performance appraisals are conducted at least annually for all employees. Compensation packages may include a mix of fixed compensation, performance-based compensation and equity-based compensation.

### Remuneration approval process

The Board approves the remuneration arrangements of the CEO and executives and all awards made under the LTI plan. The Board also sets the aggregate remuneration of Non-Executive Directors which is then subject to shareholder approval.

The Board approves, having regard to the recommendations made by the CEO, the STI bonus plan and any discretionary bonus payments.

### Remuneration structure

In accordance with best practice corporate governance, the structure of Non-Executive Directors and executive remuneration is separate and distinct.

### Services from remuneration consultants

From 1 July 2011, all proposed remuneration consultancy contracts (within the meaning of section 206K of the *Corporations Act 2001*) are subject to prior approval by the Board or Human Resources.

No consultants were engaged during the year ended 30 June 2022 (2021: nil).

## CHIEF EXECUTIVE OFFICER AND EXECUTIVE KMP REMUNERATION

### Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and aligned with market practice. The Group undertakes an annual remuneration review to determine the total remuneration positioning against the market.

### Structure

Orbital Corporation's remuneration structure for the CEO and executive KMP is comprised of one component that is fixed, being Total Fixed Remuneration (TFR), and two components that are variable, being short-term incentives (STI) and long-term incentives (LTI).

The STI is an annual "at risk" component of remuneration for executives. It is payable based on performance against key performance indicators (KPIs) set at the beginning of the financial year. STIs are structured to remunerate executives for achieving annual Company targets and their own individual performance targets. The net amount of any STI after allowing for applicable taxation, is payable in cash.

LTI targets are set as a percentage of fixed remuneration, converted to performance rights with vesting conditions subject to the Company's share price performance. Vesting of performance rights is subject to share price targets with the overall value exposed to the upside or downside of the share price movement, therefore closely aligning with shareholder interests.

The proportion of fixed remuneration and variable remuneration (potential short-term and long-term incentives) established for each executive is approved by the Board and for the year ended 30 June 2022 was as follows:

| | Fixed Remuneration | Variable Remuneration | |
|---|---|---|---|
| CEO | Fixed Remuneration (50%) | Target STI (20%) | Target LTI (30%) |
| Other executives | Fixed Remuneration (69%) | Target STI (14%) | Target LTI (17%) |

The remuneration structure for the 2022 financial year is explained below:

## Summary of executive KMP remuneration for the 2022 financial year

### Total Fixed Remuneration ("TFR")

TFR consists of base compensation, which is calculated on a total cost basis and includes any fringe benefits tax charges related to employee benefits including motor vehicles, as well as employer contributions to superannuation funds.

Executive contracts of employment do not include any guaranteed base pay increases. TFR is reviewed annually by the Board. The process consists of a review of Company, business division and individual performance, relevant comparative remuneration internally and externally and, where appropriate, external advice independent of management.

The fixed component of executives' remuneration is detailed in the Statutory Table on page 15.

### Variable Annual Reward - Short-term incentive ("STI")

Under the STI, all executives have the opportunity to earn an annual incentive award which is delivered in cash. The STI recognises and rewards annual performance.

#### How is performance measured?

The STI performance measures were chosen as they reflect the core drivers of short-term performance and provide a framework for delivering sustainable value to the Group, its shareholders and customers. Minimum Group performance targets need to be achieved before STI is eligible.

Key performance indicators ("KPIs") are measured covering financial and non-financial measures of performance. For each KPI, a target and stretch objective is set. A summary of the measures and weightings are set out below:

| | Financial | Non-financial |
|---|---|---|
| | Revenue | Group KPIs |
| CEO | 70% | 30% |
| Other Executives | 0% | 100% |

Revenue is the measure against which management and the Board assess the short-term performance of the Group. If the revenue measure is met, performance against non-financial KPIs are used to determine the STI that the executive is entitled to, as follows:

- Individual performance rating in respect of the quality of work performed in all essential areas of responsibility;
- Individual cultural rating in respect of the extent to which demonstrated behavior aligns with the Values of the Group.

#### How much can executives earn?

The maximum STI for the Chief Executive Officer is 40 per cent of fixed remuneration. The maximum STI for other executives is 20 per cent of fixed remuneration.

The minimum STI that may be awarded to the Chief Executive Officer and other executives is nil where the Company performance factor is zero.

#### When is it paid?

The STI award is determined after the end of the financial year following a review of performance over the year against the STI performance measures by the Executive Team. The Board approves the final STI award based on this assessment of performance.

### Actual STI performance for the year ending 30 June 2022

The following table outlines the proportion of the maximum STI earned in relation to the 2022 financial year. Please refer to Table 1 on page 15 for further details on the actual STI paid to KMPs for the year ended 30 June 2022.

| | Maximum STI opportunity (Percentage of fixed remuneration) | Percentage of maximum STI earned |
|---|---|---|
| Todd M Alder | 40% | 0% |
| Geoff P Cathcart | 20% | 0% |
| David Bonomini | 20% | 0% |
| Martin Johnston | 20% | 0% |
| Mikael Bergman | 20% | 0% |

## Long-term incentive ("LTI")

Under the LTI, the grant of performance rights and share acquisition performance rights were made to executives to align remuneration with the creation of shareholder value over the long-term.

### How is it paid?

Executives are eligible to receive performance rights and share acquisition performance rights; that is, being the right to receive a given number of ordinary shares in the Group if a nominated performance milestone is achieved.

### 2018 Performance Rights Plan – Long-term incentives

The Company introduced a Performance Rights Plan ("2018 LTI Plan") which was approved by shareholders on 27 October 2017.

Performance rights were issued to the Managing Director and CEO ("CEO LTIs") and other executives ("Executive LTIs") under the 2018 LTI Plan in two tranches, with each tranche subject to a separate performance milestone linked to the volume weighted average share price ("VWAP") of the Company and tested over a three-year period as follows:

| Tranche | Performance condition | Expiry date | Grant date (CEO LTIs) | Grant date (Exec LTIs) | Fair value/right (CEO LTIs) | Fair value/right (Exec LTIs) | Vesting of rights |
|---|---|---|---|---|---|---|---|
| 1 | The Company having a 60-day VWAP of at least $0.90 per share between 27 October 2017 and 10 August 2020. | 10 August 2020 | 27 October 2017 | 23 May 2018 | 36.5 cents | 20.9 cents | 50 per cent |
| 2 | The Company having a 60-day VWAP of at least $1.20 per share between 27 October 2017 and 10 August 2020. | 10 August 2020 | 27 October 2017 | 23 May 2018 | 27.8 cents | 13.8 cents | 50 per cent |

The allocation of performance rights to executives was as follows:

| Executive | Title | Performance rights issued Tranche 1 | Performance rights issued Tranche 2 | Total |
|---|---|---|---|---|
| Mr T.Alder | Managing Director and CEO | 340,000 | 255,000 | 595,000 |
| Mr G.Cathcart | Chief Technical Officer | 116,284 | 87,213 | 203,497 |
| Mr M Johnston | Chief Operating Officer | 60,091 | 0 | 60,091 |
| Mr D Bonomini | Chief Financial Officer | 19,391 | 0 | 19,391 |
| **Total** | | **535,766** | **342,213** | **877,979** |

During year ended 30 June 2021, the first tranche of 535,766 performance rights vested in full. The remaining 342,213 performance rights expired on 10 August 2020.

### Performance Rights Plan – 2018 Share Acquisition Performance Rights ("2018 SAPR Plan")

On 11 August 2017, the Group announced the appointment of Mr Todd Alder as Managing Director and Chief Executive Officer. The announcement also set out the material terms of his employment which included the grant of two Share Acquisition Performance Rights ("SAPRs") for each share acquired by Mr Alder during the period 11 August 2017 to 31 December 2017.

During the relevant period Mr Alder acquired 372,333 shares in the Group resulting in a maximum entitlement of 647,250 SAPRs. The grant of the performance rights was approved by shareholders at an extraordinary general meeting held on 23 May 2018. The performance rights were issued under the terms of the Performance Rights Plan.

The SAPRs are subject to a share price performance milestone of a 30-day VWAP of $0.62 tested over a three-year period and 100 per cent of the SAPRs will vest if this performance milestone is achieved.

| Performance condition | Expiry date | Grant date | Fair value/right | Total number of rights granted |
|---|---|---|---|---|
| The Company having a 30-day VWAP equal to or greater than $0.62 per share between 11 August 2017 and 10 August 2020. | 10 August 2020 | 23 May 2018 | 31.6 cents | 647,250 |
| **Total** | | | | **647,250** |

The performance rights vested in full during the year ended 30 June 2021.

### 2020 Performance Rights Plan – Long-term incentives

The Company introduced a new Performance Rights Plan ("2020 LTI Plan") which was approved by shareholders on 24 November 2020.

Performance rights were issued to the Managing Director and CEO ("CEO LTIs") and other executives ("Executive LTIs") and employees under the 2020 LTI Plan in two tranches, with each tranche subject to a separate performance milestone linked to the volume weighted average share price ("VWAP") of the Company and tested over a three-year period as follows:

| Tranche | Performance condition | Expiry date | Grant date (CEO LTIs) | Grant date (Exec LTIs) | Fair value/right (CEO LTIs) | Fair value/right (Exec LTIs) | Vesting of rights |
|---|---|---|---|---|---|---|---|
| 1 | The Company having a 90-day VWAP of at least $1.50 per share between 01 October 2020 and 30 September 2023. | 30 September 2023 | 04 December 2020 | 28 October 2020 | 98 cents | 97 cents | 50 per cent |
| 2 | The Company having a 60-day VWAP of at least $2.50 per share between 01 October 2020 and 30 September 2023. | 30 September 2023 | 04 December 2020 | 28 October 2020 | 73 cents | 76 cents | 50 per cent |

The allocation of performance rights to KMPs was as follows:

| Executive | Title | Performance rights issued Tranche 1 | Performance rights issued Tranche 2 | Total |
|---|---|---|---|---|
| Mr T.Alder | Managing Director and CEO | 234,000 | 140,400 | 374,400 |
| Mr G.Cathcart | Chief Technical Officer | 77,500 | 46,500 | 124,000 |
| Mr D.Bonomini | Chief Financial Officer | 70,000 | 42,000 | 112,000 |
| Mr M.Johnston | Chief Operating Officer | 66,749 | 40,049 | 106,798 |
| **Total** | | **448,249** | **268,949** | **717,198** |

During year ended 30 June 2022, the performance rights issued to Mr G Cathcart and Mr M Johnston lapsed as they resigned in current year.

### When is performance measured?

Performance rights may vest at any time during the three-year period to 30 September 2023, subject to the abovementioned performance milestones. Performance rights lapse if the employment of the executive is terminated with cause, or by resignation, prior to vesting.

Performance rights may vest prior to the satisfaction of the vesting conditions upon a change of control event, or if the Board allows early exercise on cessation of employment or in light of specific circumstances.

No performance rights vested under the 2020 LTI Plan for the year ended 30 June 2022.

### How is performance measured?

Awards are subject to the market capitalisation of the Group. The performance rights link the rewards payable to KMPs to the creation of shareholder value by increasing the share price of the Company. The Company's share price at the date of calling the AGM to approve the CEO LTIs was $1.14 per share. The vesting of performance rights will only occur where the Company's share price increases to $1.50 and $2.50 per share as set out in the abovementioned tables.

### Actual LTI performance for the year ending 30 June 2022

During the financial year, no rights vested under the 2020 LTI Plan or for any other earlier plans issued in previous financial years.

## OTHER EQUITY PLANS

Orbital has a history of providing employees with the opportunity to participate in ownership of shares in the Company using equity to support a competitive base remuneration position.

### Employee Share Plan

Eligible employees are offered shares in the Company, at no cost to the employees, to the value of $1,000 per annum under the terms of the Company's Employee Share Plan. There are no performance conditions, because the plan is designed to align the interests of participating employees with those of shareholders. No Directors or KMPs participated in the share plan in 2022 (2021: Nil).

## CONTRACTS FOR KMP

All KMP have a contract for employment. The table below contains a summary of the key contractual provisions of the contracts of employment for the executive KMP.

| | Fixed Remuneration | Contract Duration | Termination notice period (Company)[1, 2] | Termination notice period (Executive) |
|---|---|---|---|---|
| T Alder | $390,000 | Unlimited | 3 months | 3 months |
| G Cathcart [3] | $291,856 | Unlimited | 3 months | 3 months |
| D Bonomini | $297,372 | Unlimited | 3 months | 3 months |
| M Johnston | $290,000 | Unlimited | 3 months | 3 months |
| M Bergman | $280,000 | Unlimited | 3 months | 3 months |

[1] Termination provisions – Orbital may choose to terminate the contract immediately by making a payment in lieu of notice equal to the fixed remuneration the executive would have received during the 'Company Notice Period'. In the event of termination for serious misconduct or other nominated circumstances, executives are not entitled to this termination payment. Any payments made in the event of a termination of an executive contract will be consistent with the Corporations Act 2001 (Cth).

[2] On termination of employment, executives will be entitled to the payment of any fixed remuneration calculated up to the termination date and any leave entitlement accrued up to the termination date. Unvested LTI awards are forfeited upon termination for serious misconduct or employee initiated termination and at Board discretion if termination is initiated by the Company.

[3] In the event of the Group terminating the employment of Mr G Cathcart (Chief Technical Officer), other than by reason of serious misconduct or material breach of service agreement, an equivalent of three months salaries is payable, in addition to:
- two weeks' salaries for each completed year of service to ten years of service
- one half of a week of salaries for each year of service beyond ten years of service

## NON-EXECUTIVE DIRECTORS REMUNERATION

### Objective

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

### Structure

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed against fees paid to Non-Executive Directors of comparable companies. The Board considers advice from external consultants when undertaking the review process.

The Company's constitution and the ASX listing rules specify that the Non-Executive Directors' fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2001 Annual General Meeting (AGM) held on 25 October 2001 when shareholders approved an aggregate fee pool of $400,000 per year. The Board will not seek any increase for the Non-Executive Director pool at the 2022 AGM.

### Fees

Non-Executive Directors do not receive retirement benefits other than statutory superannuation contributions, where required, nor do they participate in any incentive programs.

The Chairman of the Board receives a fee of $120,548 (2021: $120,000) and the Non-Executive Directors receive a base fee of $60,000 (2021: $60,000).

The remuneration of Non-Executive Directors for the year ended 30 June 2022 and 30 June 2021 is detailed in Table 1 of this report on page 15.

The maximum annual aggregate fee pool limit is $400,000 and was approved by shareholders.

## OTHER TRANSACTIONS WITH KMP AND THEIR RELATED PARTIES

There were no other transactions with KMPs and their related parties, such as purchases, sales and investments, for the year ended 30 June 2022.

## REPORTING NOTES

### Reporting in Australian dollars

In this report, the remuneration and benefits reported are in Australian dollars. This is consistent with the functional and presentational currency of the Company.

### Statutory tables

Table 1 - Compensation of Non-Executive Directors and executive KMP's for the year ended 30 June 2022 and 2021

| | | Short Term Benefits | | | | Post-Employment | Long-term Benefits | Share Based Payments | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & Director's Fees | Cash Bonuses | Non-monetary | Total | Employer Superannuation Contributions | Leave Entitlements | Performance Rights Plan | Total Remuneration | Proportion of remuneration performance related |
| | | $ | $ | $ | $ | $ | $ | $ | $ | % |
| **Non-executive Directors** | | | | | | | | | | |
| **J Welborn** | **2022** | **109,589** | **-** | **-** | **109,589** | **10,959** | **-** | **-** | **120,548** | **-** |
| Chairman and Director (Non-executive) | 2021 | 109,589 | - | - | 109,589 | 10,411 | - | - | 120,000 | - |
| **S Gallagher** | **2022** | **60,000** | **-** | **-** | **60,000** | **-** | **-** | **-** | **60,000** | **-** |
| Director (Non-executive) | 2021 | 60,000 | - | - | 60,000 | - | - | - | 60,000 | - |
| **K Abbott** | **2022** | **60,000** | **-** | **-** | **60,000** | **-** | **-** | **-** | **60,000** | **-** |
| Director (Non-executive) | 2021 | 60,000 | - | - | 60,000 | - | - | - | 60,000 | - |
| | **2022** | **229,589** | **-** | **-** | **229,589** | **10,959** | **-** | **-** | **240,548** | **-** |
| **Total Consolidated, all non-executive directors** | 2021 | 229,589 | - | - | 229,589 | 10,411 | - | - | 240,000 | - |
| **Executive Director** | | | | | | | | | | |
| **T Alder** | **2022** | **366,432** | **-** | **-** | **366,432** | **23,568** | **27,727** | **95,170** | **512,897** | **19%** |
| Managing Director and Chief Executive Officer | 2021 | 366,958 | - | - | 366,958 | 21,694 | 12,382 | 84,356 | 485,390 | 17% |
| **Executive Key Management Personnel** | | | | | | | | | | |
| **D Bonomini** | **2022** | **273,270** | **-** | **-** | **273,270** | **23,568** | **5,615** | **27,964** | **330,417** | **8%** |
| Chief Financial Officer | 2021 | 258,306 | - | - | 258,306 | 21,694 | 7,875 | 23,064 | 310,939 | 7% |
| **G Cathcart (1)** | **2022** | **327,442** | **-** | **-** | **327,442** | **9,304** | **(298,414)** | **(20,951)** | **17,381** | **(121%)** |
| Chief Technical Officer | 2021 | 277,675 | - | 58,692 | 336,367 | 29,455 | 22,026 | 26,765 | 424,613 | 6% |
| **M Johnston (2)** | **2022** | **179,329** | **-** | **-** | **179,329** | **16,395** | **(30,760)** | **(18,045)** | **146,919** | **(12%)** |
| Chief Operating Officer | 2021 | 250,813 | - | - | 250,813 | 21,694 | 13,111 | 21,993 | 303,663 | 6% |
| **M Bergman (3)** | **2022** | **31,329** | **-** | **-** | **31,329** | **3,133** | **3,133** | **-** | **37,585** | **0%** |
| Chief Technical Officer | 2021 | - | - | - | - | - | - | - | - | - |
| **Total Consolidated,** | **2022** | **1,201,608** | **-** | **-** | **1,201,608** | **70,290** | **(310,837)** | **84,138** | **1,045,199** | **8%** |
| **Total Consolidated, Executive Key Management Personnel** | 2021 | 1,153,752 | - | 58,692 | 1,212,444 | 94,537 | 55,394 | 156,178 | 1,514,605 | 10% |

1. *Mr. Cathcart was seconded to the USA facility during the financial year ended June 2021. Mr. Cathcart resigned as Chief Technical Officer on 8 October 2021.*
2. *Mr. Johnston resigned as Chief Operating Officer on 18 February 2022*
3. *Mr. Bergman became a KMP on 05 May 2022*

### Table 2 – Summary of CEO and Executive

| | Type of equity | Grant date | Expiry date | Awarded but not vested | Vested | % of total vested | Lapsed | Fair value of equity ($) 1 |
|---|---|---|---|---|---|---|---|---|
| **T Alder** | Equity rights | 23 May 2018 | 10 August 2020 | 647,250 | 647,250 | 100% | - | 0.316 |
| Director and Chief Executive Officer | Equity rights | 27 October 2017 | 10 August 2020 | 340,000 | 340,000 | 100% | - | 0.365 |
| | Equity rights | 27 October 2017 | 10 August 2020 | 255,000 | - | | 255,000 | 0.278 |
| **G Cathcart** | Equity rights | 23 May 2018 | 10 August 2020 | 116,284 | 116,284 | 100% | - | 0.209 |
| Chief Technical Officer | Equity rights | 23 May 2018 | 10 August 2020 | 87,213 | - | - | 87,213 | 0.138 |
| **D Bonomini** | Equity rights | 23 May 2018 | 10 August 2020 | 19,391 | 19,391 | 100% | - | 0.209 |
| Chief Financial Officer | Equity rights | 23 May 2018 | 10 August 2020 | - | - | - | - | 0.138 |
| **M Johnston** | Equity rights | 23 May 2018 | 10 August 2020 | 60,091 | 60,091 | 100% | - | 0.209 |
| Chief Operating Officer | Equity rights | 23 May 2018 | 10 August 2020 | - | - | - | - | 0.138 |
| **T Alder** | Equity rights | 04 December 2020 | 30 September 2023 | 234,000 | - | - | - | 0.808 |
| Director and Chief Executive Officer | Equity rights | 04 December 2020 | 30 September 2023 | 140,400 | - | - | - | 0.538 |
| **G Cathcart (2)** | Equity rights | 28 October 2020 | 30 September 2023 | 77,500 | - | - | 77,500 | 0.841 |
| Chief Technical Officer | Equity rights | 28 October 2020 | 30 September 2023 | 46,500 | - | - | 46,500 | 0.614 |
| **D Bonomini** | Equity rights | 28 October 2020 | 30 September 2023 | 70,000 | - | - | - | 0.841 |
| Chief Financial Officer | Equity rights | 28 October 2020 | 30 September 2023 | 42,000 | - | - | - | 0.614 |
| **M Johnston (3)** | Equity rights | 28 October 2020 | 30 September 2023 | 66,749 | - | - | 66,749 | 0.841 |
| Chief Operating Officer | Equity rights | 28 October 2020 | 30 September 2023 | 40,049 | - | - | 40,049 | 0.614 |

1. *In accordance with AASB2 Share-based Payments, the fair value of variable pay rights as at the grant date has been determined by applying the Monte Carlo | trinomial valuation model. For the assumptions used in the valuation of the rights, please refer to note F.2. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should these equity instruments vest*
2. *Mr. Cathcart resigned as Chief Technical Officer on 8 October 2021*
3. *Mr. Johnston resigned as Chief Operating Officer on 18 February 2022*

### Table 3 – KMP share and equity holdings

Details of shares and rights help by KMP including their personally related entities for the 2022 financial year are as follows:

| | Type of equity (1) | Opening holding at 1 July 2021 | Rights allocated in 2022 | Rights lapsed in 2022 | Net Changes other | Closing holding at 30 June 2022 (2) |
|---|---|---|---|---|---|---|
| <u>**Non-executive Directors**</u> | | | | | | |
| **J Welborn** | Shares | 850,000 | - | - | 141,667 | 991,667 |
| **S Gallagher** | Shares | 100,000 | - | - | 16,668 | 116,668 |
| **K Abbott** | Shares | 30,000 | - | - | 5,000 | 35,000 |
| <u>**Executive Directors**</u> | | | | | | |
| **T Alder** | Equity Rights | 1,361,650 | - | - | - | 1,361,650 |
| | Shares | 372,333 | - | - | 62,056 | 434,389 |
| <u>**Executives**</u> | | | | | | |
| **G Cathcart (3)** | Equity Rights | 240,284 | - | - | (240,284) | - |
| | Shares | 272,720 | - | - | (272,720) | - |
| **D Bonomini** | Equity Rights | 131,391 | - | - | - | 131,391 |
| | Shares | - | - | - | - | - |
| **M Johnston (4)** | Equity Rights | 166,889 | - | (106,798) | (60,091) | - |
| | Shares | - | - | - | - | - |

1. *Opening holding represents amounts carried forward in respect of KMP*
2. *Closing equity rights holdings represent unvested rights held at the end of the reporting period.*
3. *Mr. Cathcart resigned as Chief Technical Officer on 8 October 2021*
4. *Mr. Johnston resigned as Chief Operating Officer on 18 February 2022*

End of Remuneration Report

Signed in accordance with a resolution of the Directors:

| | |
|---|---|
| J P Welborn | T M Alder |
| Chairman | Managing Director and Chief Executive Officer |

Dated at Perth, Western Australia this 31 August 2022

# AUDITOR'S INDEPENDENCE DECLARATION

## Auditor's Independence Declaration

As lead auditor for the audit of Orbital Corporation Limited for the year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Ian Campbell
Partner
PricewaterhouseCoopers

Perth
31 August 2022

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# FINANCIAL STATEMENTS CONTENTS

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2022

| | Notes | 2022<br>$'000 | 2021<br>$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Sale of goods | | **12,641** | 25,994 |
| Engineering services revenue | | **3,075** | 5,054 |
| Royalty and licence revenue | | **5** | 150 |
| Interest revenue | | **1** | 4 |
| **Total revenue** | A.2 | **15,722** | 31,202 |
| Other income | A.3 | **2,543** | 537 |
| Materials and consumables expenses | A.4(d) | **(6,511)** | (14,837) |
| Write down of excess inventory | | **(2,980)** | (401) |
| Employee benefits expenses | A.4(a) | **(9,641)** | (11,797) |
| Depreciation expenses | | **(980)** | (1,576) |
| Amortisation of intangibles | B.2 | **(276)** | (303) |
| Engineering consumables and contractor expenses | | **(526)** | (725) |
| Occupancy expenses | | **(542)** | (723) |
| Travel and accommodation expenses | | **(306)** | (227) |
| Communications and computing expenses | | **(981)** | (1,074) |
| Patent expenses | | **(386)** | (414) |
| Insurance expenses | | **(1,047)** | (1,251) |
| Audit, compliance and listing expenses | | **(465)** | (473) |
| Finance costs | A.4(b) | **(670)** | (1,508) |
| Allowance for impairment of other receivables | | **(75)** | 335 |
| Asset impairment expenses | B.1, C.7 | **-** | (2,514) |
| Warranty expenses | E.1 | **(91)** | (2,083) |
| Other expenses | A.4(c) | **(580)** | (1,571) |
| Foreign exchange gains/(losses) | | **731** | (1,034) |
| **Loss before income tax from continuing operations** | | **(7,061)** | (10,437) |
| Income tax expense | A.5 | **(4,070)** | (1,008) |
| **Loss for the year from continuing operations** | | **(11,131)** | (11,445) |
| | | | |
| **Other comprehensive income** | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Exchange differences on translation of foreign operations | | **(495)** | 464 |
| **Total comprehensive loss for the year** | | **(11,626)** | (10,981) |
| Attributable to: | | | |
| Equity holders of the parent | | **(11,626)** | (10,981) |
| **Total comprehensive loss for the year** | | **(11,626)** | (10,981) |
| | | | |
| **Earnings per share** | | | |
| Basic loss for the year attributable to ordinary equity holders of the parent (cents) | A.6 | **(12.92)** | (14.74) |
| Diluted loss for the year attributable to ordinary equity holders of the parent (cents) | A.6 | **(12.92)** | (14.74) |

The accompanying notes form part of the financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

| ASSETS | Notes | **2022 $'000** | 2021 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | C.3 | **2,363** | 3,116 |
| Other financial assets | C.4 | **586** | 585 |
| Trade and other receivables | C.2 | **1,007** | 4,004 |
| Inventories | C.1 | **11,074** | 12,767 |
| Prepayments | | **172** | 245 |
| Finance lease receivable | | **184** | 334 |
| **Total current assets** | | **15,386** | 21,051 |
| | | | |
| **Non-current assets** | | | |
| Intangibles | B.2 | **3,402** | 1,981 |
| Deferred taxation asset | A.5 | **-** | 4,070 |
| Plant and equipment | B.1 | **1,705** | 1,647 |
| Inventories | C.1 | **1,776** | - |
| Right-of-use asset | C.7 | **341** | 857 |
| Finance lease receivable | | **-** | 180 |
| **Total non-current assets** | | **7,224** | 8,735 |
| **Total assets** | | **22,610** | 29,786 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables and other liabilities | C.5 | **3,060** | 1,742 |
| Deferred revenue | C.6 | **4,046** | 4,285 |
| Borrowings | D.1 | **8,486** | 9,986 |
| Government grants | | **113** | - |
| Lease liabilities | C.7 | **766** | 982 |
| Provisions | E.1 | **3,892** | 4,530 |
| **Total current liabilities** | | **20,363** | 21,525 |
| | | | |
| **Non-current liabilities** | | | |
| Lease liabilities | C.7 | **-** | 847 |
| Provisions | E.1 | **48** | 72 |
| **Total non-current liabilities** | | **48** | 919 |
| **Total liabilities** | | **20,411** | 22,444 |
| **Net assets** | | **2,199** | 7,342 |
| | | | |
| **Equity** | | | |
| Share capital | D.2 | **37,683** | 31,265 |
| Reserves | D.3 | **2,605** | 3,035 |
| Accumulated losses | | **(38,089)** | (26,958) |
| **Total equity** | | **2,199** | 7,342 |

The accompanying notes form part of the financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2022

| | Share capital | (Accumulated losses) | Employee equity benefits reserve | Foreign currency translation reserve | Total equity |
|---|---|---|---|---|---|
| **Notes** | **D.2** | | **D.3** | **D.3** | |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **At 1 July 2021** | **31,265** | **(26,958)** | **2,600** | **435** | **7,342** |
| Loss for the year | **-** | **(11,131)** | **-** | **-** | **(11,131)** |
| Foreign currency translation | **-** | **-** | **-** | **(495)** | **(495)** |
| Total comprehensive loss for the year | **-** | **(11,131)** | **-** | **(495)** | **(11,626)** |
| Issue of ordinary shares | **6,374** | **-** | **-** | **-** | **6,374** |
| Share based payments | **44** | **-** | **65** | **-** | **109** |
| **At 30 June 2022** | **37,683** | **(38,089)** | **2,665** | **(60)** | **2,199** |
| **At 1 July 2020** | 31,220 | (15,513) | 2,424 | (29) | 18,102 |
| Loss for the year | - | (11,445) | - | - | (11,445) |
| Foreign currency translation | - | - | - | 464 | 464 |
| Total comprehensive loss for the year | - | (11,445) | - | 464 | (10,981) |
| Share based payments | 45 | - | 176 | - | 221 |
| At 30 June 2021 | 31,265 | (26,958) | 2,600 | 435 | 7,342 |

The accompanying notes form part of the financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2022

| | Notes | 2022 $'000 | 2021 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | **18,918** | 32,991 |
| Cash paid to suppliers and employees | | **(22,886)** | (34,498) |
| Interest received | | **1** | 4 |
| Interest paid | | **(127)** | (187) |
| **Net cash used in operating activities** | C.3 | **(4,094)** | (1,690) |
| **Cash flows from investing activities** | | | |
| Purchase of plant and equipment | | **(505)** | (735) |
| Payments for intangible asset | | **(1,697)** | (1,386) |
| **Net cash used in investing activities** | | **(2,202)** | (2,121) |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of shares | D.2 | **6,479** | - |
| Share issue transaction costs | | **(105)** | - |
| Principal elements of lease payments | | **(986)** | (1,070) |
| **Net cash (used in)/from financing activities** | | **5,388** | (1,070) |
| **Net decrease in cash and cash equivalents** | | **(908)** | (4,881) |
| Cash and cash equivalents at 1 July | | **3,116** | 8,749 |
| Effects of exchange rate fluctuations on the balances of cash held in foreign currencies | | **155** | (752) |
| **Cash and cash equivalents at 30 June** | C.3 | **2,363** | 3,116 |

The accompanying notes form part of the financial statements.

**1.A About these statements**

Orbital Corporation Ltd ("Orbital" or the "Group") is a for-profit company limited by shares, incorporated and domiciled in Australia. Its shares are publicly traded on the Australian Stock Exchange ("ASX"). The registered office is 4 Whipple Street, Balcatta, Western Australia.

The nature of the operations and principal activities of the Group are described in the Directors Report and in the segment information in Note A.1.

The financial statements were authorised for issue in accordance with a resolution of the Directors on 31 August 2022.The Directors have the power to amend and reissue the financial report.

**1.B Statement of compliance**

The financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001 (Cth), Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The Group has not early adopted any standards, interpretations or amendments that have been issued but not yet effective. The adoption of these standards, interpretations or amendments will not significantly impact the Group's accounting policies, financial position or performance.

**1.C Currency**

The financial statements are presented in Australian dollars, which is the functional currency of the Company. Transactions are recorded in the functional currency of the transacting entity using the spot rate. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions.

The exchange differences arising on translation for consolidation are recognised in the Foreign Currency Translation Reserve (FCTR), via Other Comprehensive Income (OCI). On disposal of a foreign operation, the component of FCTR relating to that particular foreign operation is reclassified to profit or loss.

**1.D Rounding of amounts**

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.

**1.E Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis.

The financial statements comprise the financial results of the Group and its subsidiaries as at 30 June each year. Subsidiaries are fully consolidated from the date of which control is obtained by the Group and cease to be consolidated from the date at which the Group ceases to have control.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated in full.

Profit or loss and other comprehensive income are attributed to the equity holders of the parent of the Group, and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Comparative information has been reclassified where required for consistency with the current year's presentation.

**1.F Other accounting policies**

Significant and other accounting policies that summarise the measurement basis used and are relevant to understanding the financial statements are provided throughout the notes to the financial statements.

**1.G Financial and capital risk management**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management strategy, policy and key risk parameters. The Board of Directors has oversight of the Group's internal control system and risk management process. The Group's management of financial and capital risks is aimed at ensuring that available capital, funding and cash flows are sufficient to meet the Group's financial commitments as and when they fall due and maintain the capacity to fund its committed project developments. During 2022 the Group's strategy remained unchanged from 2021, the gearing ratio at 30 June 2022 was 386% (2021: 136%). Gearing ratios are calculated by dividing net debt (as per note D.1) by total equity.

The below risks arise in the normal course of the Group's business. Risk information can be found in the following sections:

| | | | |
|---|---|---|---|
| Section A | Foreign currency risk | Page | 27 |
| Section C | Liquidity risk | Page | 38 |
| Section C | Interest Rate risk | Page | 39 |
| Section C | Credit risk | Page | 39 |
| Section D | Capital risk management | Page | 43 |

**1.H Key estimates and judgements**

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experiences and other factors, including expectations of future events that may have an impact on the Group. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are found in the following notes:

| Note | Key estimate/ judgement | Page |
|---|---|---|
| A.5 | Recoverability of deferred tax assets | 33 |
| B.1 | Impairment of non-current assets | 36 |
| C.1 | Recoverable value of inventory | 39 |

**1.I Impact of COVID-19**

As a defence industry supplier, Orbital UAV's business has been largely shielded from the significant economic downturn driven by the COVID-19 pandemic. The defence sector has remained resilient through the pandemic.

Through proactive and ongoing risk mitigation, the Company has ensured its people remain safe and well during this period, and operations in Australia and the USA have continued with minimal disruption.

The Company has continued to deliver on its production commitments and has been focused on managing and supporting its global supply chain where necessary. Distribution of our products continued through our established logistics providers.

**1.J Going Concern**

The consolidated financial statements have been prepared on a going concern basis, which assumes the Group will continue its operations and be able to meet its obligations as and when they become due and payable.

For the year ended 30 June 2022, the Group recorded an after tax loss of $11,131,000 and operating cash outflows of $4,094,000. As at 30 June 2022, the Group had net assets of $2,199,000 and net current liabilities of $4,977,000. The Group also had cash outflows from investing activities of $2,202,000 and cash inflows from financing activities of $5,388,000.

The going concern assumption is based on the Group's cash flow projections and existing cash reserves as at 30 June 2022 and covers a period of at least twelve months from the date of this report.

The projections show that the continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as they fall due is dependent upon a number of factors including:

- Renegotiating the terms of the WA government loan, as described in note D.1, such that repayments are not required within the forecast period. Management intends to recommence discussions with the WA government in the coming weeks.
- Achieving forecasted operational performance and positive operational cash flows from the existing engine production and engineering programs.
- Reducing overheads through cost saving initiatives.
- Securing funding above and beyond the Group's existing committed facilities if required.

As a result of these matters, there is a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors consider that the Group will be successful in the above matters and have therefore prepared the financial report on a going concern basis.

## A. CURRENT YEAR PERFORMANCE

### In this section

This section addresses financial performance of the Group for the reporting period including, where applicable, the accounting policies applied and the key estimates and judgements made. The section also includes the tax position of the Group for and at the end of the reporting period.



**Financial risks in this section**

**Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate as a result of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities, in which sales and purchases are denominated in foreign currencies.

The Group manages its exposure to foreign currency risk by regularly monitoring and performing sensitivity analysis on the Group's financial position and performance as a result of movements in foreign exchange rates. The Group holds bank accounts in foreign denominated currencies which are converted to Australian dollars through rate orders for targeted exchange rates. The Group has foreign currency hedging facilities available as part of its bank facilities. Currently the Group does not directly hedge against its foreign currency exchange risk to a material extent.

**Exposure**

The Group's exposure to USD at the reporting date for the years ended 30 June 2022 and 2021 are as follows:

| | **2022 A$'000** | 2021 A$'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | **832** | 2,531 |
| Trade and other receivables | **954** | 2,858 |
| **Financial liabilities** | | |
| Trade and other payables | **511** | 192 |

For the year ended 30 June 2022, revenue from external customers denominated in USD was A$12,180,000 (2021: A$27,160,000).

**Sensitivity**

The following table demonstrates the sensitivity to a reasonably possible change in USD exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. There is no impact on changes in foreign currencies on other comprehensive income. The Group's exposure to foreign currency changes for all other currencies is not material.

The Group has used the observed range of actual historical rates for the preceding five year period, with a heavier weighting placed on recently observed market data, in determining reasonably possible exchange movements as part of their sensitivity analysis. Past movements in exchange rates are not necessarily indicative of future movements.

| | Change in AUD/USD rate | Increase / (Reduction) on profit before taxes |
|---|---|---|
| **2022** | **+10%** | **(116)** |
| | **-10%** | **142** |
| 2021 | +10% | (472) |
| | -10% | 577 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

## A. CURRENT YEAR PERFORMANCE

### A.1 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.

Segment performance is evaluated based on Revenue and Earnings Before Interest and Tax ("EBIT") which is allocated to the reportable segments according to the geographic location in which the item arose or relates to.

The geographical location of the segment assets is based on the physical location of the assets.

**Segment information**
**Year ended 30 June 2022**

| | Australia | | US | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Segment revenue | **15,722** | 26,905 | **-** | 4,297 | **15,722** | 31,202 |
| **EBIT** | **(5,921)** | (437) | **(470)** | (8,493) | **(6,391)** | (8,930) |
| Finance expenses | **(645)** | (1,469) | **(25)** | (39) | **(670)** | (1,508) |
| **Loss before income tax** | **(6,566)** | (1,905) | **(495)** | (8,532) | **(7,061)** | (10,437) |

| | Australia | | US | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Assets | **22,457** | 25,129 | **153** | 4,657 | **22,610** | 29,786 |
| Liabilities | **20,199** | 19,362 | **212** | 3,082 | **20,411** | 22,444 |
| **Net assets** | **2,258** | 5,767 | **(59)** | 1,575 | **2,199** | 7,342 |

### A.2 Revenue

| | Australia | | US | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Revenue | **15,722** | 26,905 | **-** | 4,297 | **15,722** | 31,202 |
| **Total external revenue** | **15,722** | 26,905 | **-** | 4,297 | **15,722** | 31,202 |
| **Timing of revenue recognition** | | | | | | |
| *At a point in time* | **12,647** | 21,851 | **-** | 4,297 | **12,647** | 26,148 |
| *Over time* | **3,075** | 5,054 | **-** | - | **3,075** | 5,054 |
| | **15,722** | 26,905 | **-** | 4,297 | **15,722** | 31,202 |

Revenues of approximately $11,570,000 (2021: $26,462,000 ) were derived from a single external customer.

**Recognition and measurement**
Revenue is recognised 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 specific recognition criteria described below must also be met before revenue is recognised:

## A. CURRENT YEAR PERFORMANCE

### A.2 Revenue (continued)

**· Revenue from rendering of services**
The Group's general terms and conditions with customers specify a right to payment for work completed, therefore performance obligations are satisfied over time. Using the output method for revenue recognition, the Group recognises revenue based on an appraisal of results achieved or percentage complete.

**· Sale of goods**
Revenue from the sale of goods is recognised on a per-unit basis as the goods are delivered to the customer premise which is deemed to be the time when the performance obligation is performed. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

**· License and royalties**
Revenue earned under licencing and royalty arrangements is recognised on a cash basis upon the delivery of an engine meeting specified performance targets and using the patented technologies of the Group.

Under the terms of the licence and royalty agreements, licensees are not specifically obliged to commence production and sale of engines using technology patented by the Group. Licensees may terminate the agreements upon notice to the Group. If a licensee were to terminate its agreement with the Group, the licensee would forfeit the licence and any technical disclosure fees paid through to the date of termination.

**· Interest revenue**
Interest revenue is recorded using the effective interest rate method ("EIR"). The EIR is the rate that exactly discounts the estimated cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

**Assets and liabilities related to contracts with customers**
The Group has recognised the following assets and liabilities related to contracts with customers:

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| **Contract Assets** | | |
| Accrued revenue | **-** | 844 |
| | | |
| **Contract Liabilities** | | |
| Deferred revenue | **4,046** | 4,285 |

Refer to Note C.6 deferred revenue for a breakdown of deferred revenue recognised in the current year.

## A. CURRENT YEAR PERFORMANCE

### A.3 Other income

| | **2022 $'000** | 2021 $'000 |
|---|---|---|
| Grant income | **2,093** | 100 |
| Rental income | **122** | 111 |
| Research and development grant | **134** | 89 |
| Other | **194** | 237 |
| | **2,543** | 537 |

**Recognition and measurement**

**· Grant income**

In FY22, Orbital achieved the relevant operational milestones and reduced the WA government loan value by $1.5M. Accounting standards require interest to be imputed while the loan is interest free. The benefit of the loan reduction of $1.5M and it being interest free $0.6M are recognised as grant income, in accordance with AASB 120 Accounting for Government Grants. Refer to Note D.1 for further details.

In FY21, temporary cash flow boosts were provided by the government to support small and medium businesses and not-for-profit organisations during the economic downturn associated with COVID-19. Eligible businesses who employ staff received between $20,000 to $100,000 in cash flow boost amounts by lodging their activity statements up to the month or quarter of September 2020. During third quarter of FY21, the Company received $100,000 in cash flow boost amounts from the government.

**· Research and development grant**

The Group received grants from the Commonwealth of Australia through the CDIC Defence Global Competitiveness Grants Program administered by the Department of Industry, Science, Energy and Resources. There are no unfulfilled conditions or contingincies attached to the grants.

**· Other income**

The other income represents non-recurring IP sales.

## A. CURRENT YEAR PERFORMANCE

### A.4 Expenses

#### (a) Employee benefits expense

| | **2022 $'000** | 2021 $'000 |
|---|---|---|
| Salaries and wages | **6,831** | 8,368 |
| Defined contribution plans | **876** | 1,049 |
| Share based payments (Note F.3) | **109** | 241 |
| Annual and long service leave | **1,008** | 992 |
| Other personnel costs | **817** | 1,147 |
| | **9,641** | 11,797 |

#### (b) Finance costs

| | **2022 $'000** | 2021 $'000 |
|---|---|---|
| Interest expense | **670** | 890 |
| Loan modification loss | **-** | 618 |
| | **670** | 1,508 |

#### (c) Other expenses

| | **2022 $'000** | 2021 $'000 |
|---|---|---|
| Administration | **118** | 314 |
| Marketing and investor relations | **100** | 99 |
| Corporate consulting services | **147** | 1,060 |
| Freight | **166** | 43 |
| Other | **49** | 55 |
| | **580** | 1,571 |

#### (d) Materials and consumable expenses

| | **2022 $'000** | 2021 $'000 |
|---|---|---|
| Raw materials and consumables | **4,818** | 18,224 |
| Change in inventories | **1,693** | (3,387) |
| | **6,511** | 14,837 |

**Recognition and measurement**

· **Defined contribution plans**

Obligations for contributions to defined contribution superannuation funds are recognised as an expense as incurred.

The Group contributes to defined contribution plans for the provision of benefits to Australian employees on retirement, death or disability. Employee and employer contributions are calculated on percentages of gross salaries and wages. Apart from contributions required under law, there is no legally enforceable right for the Group to contribute to a superannuation plan.

## A. CURRENT YEAR PERFORMANCE

### A.5 Taxes

The major components of the income tax expense for the years ended 30 June 2022 and 2021 are:

| | 2022<br>$'000 | 2021<br>$'000 |
|---|---|---|
| Deferred income tax expense | **(4,393)** | (2,106) |
| Adjustments in respect of prior years | **323** | 1,098 |
| **Total income tax expense** | **(4,070)** | (1,008) |

The reconciliation of the income tax benefits/(expenses) and accounting profit multiplied by the Australian domestic tax rate for the years ended 30 June 2022 and 2021 are:

| | 2022<br>$'000 | 2021<br>$'000 |
|---|---|---|
| Accounting loss before tax from continuing operations | **(7,061)** | (10,437) |
| **Accounting loss before income tax** | **(7,061)** | (10,437) |
| At Australia's statutory income tax rate of 25.0% (2021: 26.0%) | **1,765** | 2,714 |
| Adjustments in respect of the change in statutory income tax rate | **(107)** | (77) |
| Difference in overseas tax rates | **(20)** | (427) |
| Non assessable income | **33** | 49 |
| Adjustments in respect of prior years | **323** | 1,098 |
| Deferred tax asset not recognised | **(2,326)** | (3,943) |
| Deferred tax asset derecognised | **(4,070)** | - |
| Other | **-** | (1) |
| Non-deductible expenses | **332** | (421) |
| **Income tax expense** | **(4,070)** | (1,008) |
| Income tax expense reported in the statement of profit or loss | **(4,070)** | (1,008) |

Deferred tax balances comprise of the following deferred tax assets/(deferred tax liabilities):

| | 2022<br>$'000 | 2021<br>$'000 |
|---|---|---|
| Inventory | **747** | 31 |
| Revenue received in advance | **998** | 925 |
| Plant and equipment | **(47)** | (35) |
| Provisions and accruals | **1,179** | 1,336 |
| Intangible asset | **(761)** | (427) |
| ROU leasing assets | **(126)** | (347) |
| ROU leasing liabilities | **127** | 361 |
| Foreign exchange gains/losses | **(14)** | 580 |
| Other | **(254)** | 235 |
| Unrecognised temporary differences | **(1,849)** | - |
| Tax losses | **-** | 1,409 |
| **Net deferred tax asset** | **-** | 4,070 |

The Group has unused tax losses that arose in Australia, for which no deferred tax assets have been recognised of $46,875,353 (2021: $33,040,509) and are available indefinitely for offsetting against future taxable profits of the Group and its controlled entities in which those losses arose.

Under the tax laws of the United States of America, unused tax losses that cannot be fully utilised for tax purposes during the current period may be carried forward into future periods, subject to statutory limitations. At 30 June 2022, the Group had unused tax losses for which no deferred tax assets have been recognised of US$13,764,000 (2021: US$18,361,000) of which US$9,518,000 will expire by 2023.

**Recognition and measurement**

· **Current income tax**
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the reporting date in the countries where the Group operates and generates taxable income.

· **Deferred tax**
Deferred tax is provided for using the full liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

## A. CURRENT YEAR PERFORMANCE

### A.5 Taxes (continued)

**· Deferred tax**
Deferred tax liabilities are recognised for all taxable temporary differences, except:

• When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

• In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits and unused tax losses may be utilised, except:

• When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit or loss

• In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences may be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available or allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

**Key estimate: Recoverability of deferred tax assets**
At 30 June 2022, the Group recognised nil (2021: $4,070,000) of deferred tax assets after assessing the likelihood of offsetting unused tax losses against future taxable profits.

**Offsetting deferred tax balances**
Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset current tax assets and liabilities and when they relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that the Group intends to settle its current tax assets and liabilities on a net basis.

**Tax consolidation**
Orbital Corporation Limited and its 100 per cent owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2002. Orbital Corporation Limited is the head entity of the tax consolidated group. Members of the tax consolidated group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts were recognised in the financial statements in respect of this agreement on the basis that the probability of default was assessed as remote.

Orbital Corporation Limited and its controlled entities continue to account for their own current and deferred tax amounts. The Group has applied the 'separate taxpayer within Group' approach by reference to the carrying amount in the separate financial statements of each entity and the tax values applying under tax consolidation. In addition to its own current and deferred tax amounts, Orbital Corporation Limited also recognised current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed from its controlled entities in the tax consolidated group.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

## A. CURRENT YEAR PERFORMANCE

### A.6 Earnings per share (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of Orbital Corporation Limited ("the Parent") by the weighted average number of ordinary shares outstanding during the year.
Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares.

The following table reflects the income and share data used in the basic and diluted EPS computations:

| | **2022 $'000** | 2021 $'000 |
|---|---|---|
| Loss attributable to ordinary equity holders of the Parent: | | |
| Continuing operations | **(11,131)** | (11,445) |
| Discontinued operations | **-** | - |
| **Loss attributable to equity holders of the Parent for basic earnings** | **(11,131)** | (11,445) |

| | **2022 Number** | 2021 Number |
|---|---|---|
| Weighted average number of ordinary shares for basic EPS | **86,161,094** | 77,626,071 |
| **Weighted average number of ordinary shares adjusted for the effect of dilution** | **86,161,094** | 77,626,071 |

**Earnings per share**

| | **Cents** | Cents |
|---|---|---|
| Basic loss per share | **(12.92)** | (14.74) |
| Diluted loss per share | **(12.92)** | (14.74) |

**Earnings per share from continuing operations**

| | Cents | Cents |
|---|---|---|
| Basic loss per share | **(12.92)** | (14.74) |
| Diluted loss per share | **(12.92)** | (14.74) |

Performance rights granted to key management personnel were deemed potential ordinary shares. Refer to Note F.3 for further details.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of the financial statements.

The number of potential ordinary shares not considered dilutive and contingently issuable are as follows:

| | **2022 Number** |
|---|---|
| Performance rights | 1,549,105 |
| **Total** | **1,549,105** |

## B. GROWTH ASSETS

### In this section

This section addresses the strategic growth and assets position of the Group at the end of the reporting period including, where applicable, the accounting policies applied and the key estimates and judgements made.



### B.1 Plant and equipment

| | Plant and equipment $'000 | Leasehold improvements $'000 | Total $'000 |
|---|---|---|---|
| **Gross carrying amount at cost** | | | |
| At 1 July 2020 | 18,461 | 2,595 | 21,056 |
| Additions | 504 | 174 | 678 |
| Disposals | (5,664) | (187) | (5,851) |
| **At 30 June 2021** | 13,301 | 2,582 | 15,883 |
| Additions | **499** | **6** | **505** |
| **At 30 June 2022** | **13,800** | **2,588** | **16,388** |
| **Depreciation and impairment** | | | |
| At 1 July 2020 | (16,318) | (588) | (16,906) |
| Depreciation charge | (607) | (260) | (867) |
| Impairment | (651) | (1,475) | (2,126) |
| Disposals | 5,664 | (1) | 5,663 |
| **At 30 June 2021** | (11,912) | (2,324) | (14,236) |
| Depreciation | **(393)** | **(54)** | **(447)** |
| **At 30 June 2022** | **(12,305)** | **(2,378)** | **(14,683)** |
| **Net book value** | | | |
| **At 30 June 2022** | **1,495** | **210** | **1,705** |
| At 30 June 2021 | 1,389 | 258 | 1,647 |

Plant and equipment was pledged as security under the Acknowledgement of Debt entered into with the Department of Jobs, Tourism, Science and Innovation and is subject to floating charges. Refer to Note C.7 for lease disclosure and Note D.1 for further details.

**Recognition and measurement**

Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs include the cost of replacing part of the plant and equipment. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates those parts separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are expensed as incurred to occupancy expenses in the statement of profit or loss and other comprehensive income. An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on the de-recognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the assets, is included in other income or other expenses in the statement of profit or loss and other comprehensive income when the asset is derecognised.

## B.1 Plant and equipment (continued)

**Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the recoverable amount of the asset or cash generating unit ("CGU"). The recoverable amount of the asset or the CGU is the higher of its fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposals, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

**Key estimate - Impairment of non-current assets**

When indicators of impairment are identified, the Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. The budgets and forecast calculations cover a period of three years, or the contract period.

During the year ended 30 June 2021, a strategic decision was made to cease production in the US and transition it to Australia. As a result, the CGUs located in the US became idle and not expected to generate any future cash flow in the short term, the US assets were written down to nil value. There were no indicators of impairment or reversal of impairment in the year ended 30 June 2022, with remaining assets expected to be recovered in full from future business activities.

**Depreciation**

Depreciation is calculated on a straight-line basis over the estimated useful life as follows:

Plant and equipment: 3 to 15 years
Leasehold improvements: 3 to 15 years

The residual values, useful lives and methods of depreciation of plant and equipment are reviewed at each financial year-end and adjusted prospectively, as appropriate.

## B. GROWTH ASSETS

### B.2 Intangible assets

| Consolidated | Model 2019 Development $'000 | Model 2021 Development $'000 | Total $'000 |
|---|---|---|---|
| **Year ended 30 June 2022** | | | |
| Cost | 2,611 | 3,083 | 5,694 |
| Accumulated amortisation and | (871) | - | (871) |
| R&D tax offset recognised | (1,421) | - | (1,421) |
| **Net carrying amount** | **319** | **3,083** | **3,402** |
| **Movement** | | | |
| Net carrying amount at the beginning of the year | 595 | 1,386 | 1,981 |
| Additions | - | 1,697 | 1,697 |
| Amortisation for the year | (276) | - | (276) |
| **Net carrying amount at the end of the year** | **319** | **3,083** | **3,402** |
| | | | |
| **Year ended 30 June 2021** | | | |
| Cost | 2,611 | 1,386 | 3,997 |
| Accumulated amortisation and | (595) | - | (595) |
| R&D tax offset recognised | (1,421) | - | (1,421) |
| **Net carrying amount** | **595** | **1,386** | **1,981** |
| **Movement** | | | |
| Net carrying amount at the beginning of the year | 898 | - | 898 |
| Additions | - | 1,386 | 1,386 |
| Amortisation for the year | (303) | - | (303) |
| **Net carrying amount at the end of the year** | **595** | **1,386** | **1,981** |

The intangible assets comprise of capitalised development costs for the advancement of the modular propulsion systems. The intangible assets will be amortised using the straight-line method over a finite period of five years from completion of development.

**Recognition and measurement**

Intangible assets are measured on initial recognition at cost. Following initial recognition; intangible assets are carried at cost less amortisation, any impairment losses and research and development tax grants received. Intangible assets with finite useful lives are amortised on a straight-line basis over their useful lives and tested for impairment whenever there is an indication that they may be impaired. The amortisation period and method is reviewed at each financial year end. Model 2021 is in the late stages of development and so amortisation has not yet commenced.

| Intangible asset | Useful life |
|---|---|
| Internally | Finite (up to five years) |

**Research and development**

Research costs are expensed as incurred. Development expenditures on individual projects are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- its intention to complete and its ability and intention to use or sell the asset
- how the asset will generate future economic developments
- the availability of resources to complete the asset
- the ability to measure reliably the expenditure incurred during the development of the asset

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when the development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

## C. WORKING CAPITAL MANAGEMENT

### In this section

This section addresses inventories, trade and other receivables, cash, other financial assets and trade and other payables of the Group at the end of the reporting period including, where applicable, the accounting policies applied and the key estimates and judgements made.



**Financial and capital risks in this section**

**Liquidity risk management**

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligations to repay financial liabilities as and when they fall due. The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet its financial commitments in a timely and cost effective manner.

The Group's liquidity position is managed by the Board of Directors who regularly review cash-flow forecasts prepared by management, which includes the Group's short and long-term obligations, cash position and forecast liability position to maintain appropriate liquidity levels. At 30 June 2022, the Group has a total of $2,363,000 of cash at its disposal (2021: $3,116,000) and a net current liability position $4,508,000 (2021: $474,000). The remaining contractual maturities of the Group's financial liabilities are:

| | Less than 3 months $'000 | 3-12 months $'000 | 1-5 years $'000 | Over 5 years $'000 | Total contractual cashflows $'000 | Carrying amount (assets)/liabilities $'000 |
|---|---|---|---|---|---|---|
| **At 30 June 2022** | | | | | | |
| Borrowings [1] | **8,486** | **-** | **-** | **-** | **8,486** | **8,486** |
| Trade payables and other | **3,060** | **-** | **-** | **-** | **3,060** | **3,060** |
| Lease liabilities | **295** | **472** | **-** | **-** | **767** | **766** |
| | **11,841** | **472** | **-** | **-** | **12,313** | **12,312** |
| **At 30 June 2021** | | | | | | |
| Borrowings | 9,986 | - | - | - | 9,986 | 9,986 |
| Trade payables and other | 1,742 | - | - | - | 1,742 | 1,742 |
| Lease liabilities | 297 | 893 | 775 | - | 1,965 | 1,829 |
| | 12,025 | 893 | 775 | - | 13,693 | 13,557 |

[1] Refer to Note D.1 for details.

## C. WORKING CAPITAL MANAGEMENT

**Interest rate risk management**
Interest rate risk is the risk that the Group's financial position will fluctuate due to changes in the market interest rates.
The Group's exposure to market interest rates relates primarily to the Group's cash and term deposits with financial institutions. The primary goal of the Group is to maximise returns on surplus cash, using deposits with maturities of 90 days or less. Management continually monitors the returns on funds invested. The exposure to interest rate risk as at 30 June 2022 is as follows:

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| Cash and cash equivalents (Note C.3) | **2,363** | 3,116 |
| Short-term deposits (Note C.4) | **586** | 585 |
| | **2,949** | 3,701 |

A reasonable possible change in the interest rate (+0.5%/-0.5%) (2021: +0.5%/-0.5%)), with all variables held constant, would have resulted in a change in post tax profit/(loss) of $12,000/($12,000) (2021: $16,000)/($16,000) and no impact to other comprehensive income.

**Credit risk management**
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating and investing activities, including trade receivables and short-term deposits with financial institutions. Maximum exposure to credit risk equals to the carrying amount of these financial assets (as outlined in each applicable note). The significant concentration of credit risk within the Group relate to receivable balances from the Group's major customer.

The maximum exposure to credit risk for the components of the statement of financial position at 30 June 2022 and 2021 is the carrying amounts as illustrated in Note C.2.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Key individual customer receivable balances are monitored on an ongoing basis. The significant concentrations of credit risk within the Group relate to receivable balances from the Group's major customer and cash held with investment grade financial institutions.

The investment of surplus cash in short-term deposits is only invested with a major financial institution to minimise the risk of default of counterparties.

### C.1 Inventories

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| Raw materials | **11,946** | 11,741 |
| Provision for impairment | **(2,991)** | (123) |
| Work in progress | **3,671** | 990 |
| Finished goods | **224** | 159 |
| | **12,850** | 12,767 |
| Current | **11,074** | 12,767 |
| Non current | **1,776** | - |

**Recognition and measurement**
Inventories are carried at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:
• **Raw materials**: weighted average cost
• **Finished goods and work in progress**: weighted average cost of direct materials and direct manufacturing labour and a proportion of manufacturing overhead costs

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**Key estimate - Recoverability of inventory**
The Group's inventory is predominantly composed of purchased parts used in the construction of engines for sale. The recoverability of inventory is therefore highly dependent on the level of expected future orders of those engines by the Group's customers. The estimate of engine sales used in the calculation of the provision recognised at 30 June 2022 was informed by recent discussions with the Group's major customer as to their expected volume requirements for the first engine program as well as the impact of the termination of the third engine program discussed further in note F.7.

## C. WORKING CAPITAL MANAGEMENT

### C.2 Trade and other receivables

| | 2022 | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| Trade receivables | **1,065** | 3,100 |
| Other receivables | **866** | 909 |
| Accrued revenue | **-** | 844 |
| Allowance for Impairment of other receivables (a) | **(924)** | (849) |
| | **1,007** | 4,004 |

(a) At 30 June 2022, the Group has $924,000 (2021:$849,000) as a provision for impaired receivables. This amount includes $849,000 provided in a previous period in respect of an amount receivable from Avidsys Pty Ltd as consideration for the disposal of REMSAFE Pty Ltd on 18 December 2017.

See the "Credit risk management" section on credit risk of trade receivables, which explains how the Group manages and measures the quality of trade receivables that are neither past due nor impaired.

The Group's payment terms on trade receivables range from 30 - 35 days. The credit risk of trade receivables neither past due nor impaired was assessed as remote as historical default rates with associated customers are negligible.

**Recognition and measurement**
Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Trade and other receivables are recognised on initial recognition at fair value. Subsequent to initial recognition, trade receivables are measured at amortised cost using the effective interest rate method, less an allowance for uncollectible amounts.

**Impairment**
Trade receivables and contract assets are subject to the expected credit loss model. The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses the lifetime expected loss allowance for all trade receivable and contract assets. The identified impairment loss was immaterial. While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial.

**Fair value**
The carrying amount of trade and other receivables approximates their fair value.

### C.3 Cash and cash equivalents

| | 2022 | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| Cash at bank | **2,363** | 3,116 |
| | **2,363** | 3,116 |

The reconciliation of net loss after tax to net cash flows from operations for the years ended 30 June 2022 and 2021 is as follows:

| | 2022 | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| Loss after income tax from continuing operations | **(11,131)** | (11,445) |
| Loss after income tax | **(11,131)** | (11,445) |
| Depreciation & amortisation (Note B.1) | **723** | 867 |
| Impairment of asset | **-** | 2,499 |
| Government loan forgiven | **(1,387)** | - |
| Interest expense | **-** | 1,376 |
| Provision for excess stock | **2,868** | - |
| Warranties (Note E.1) | **14** | 2,074 |
| Employee benefits (Note E.1) | **(675)** | 229 |
| Provision for doubtful debt | **75** | (63) |
| Share based payment expense (Note F.3) | **109** | 220 |
| Net foreign exchange gain | **(416)** | (496) |
| Net cash used in operating activities before changes in assets and liabilities | **(9,820)** | (4,739) |
| *Changes in assets and liabilities during the year:* | | |
| Decrease/(increase) in receivables and prepayments | **3,234** | 2,346 |
| (Increase)/decrease in inventories | **(2,951)** | (3,387) |
| (Increase)/decrease in deferred tax assets | **4,070** | 1,354 |
| Increase/(decrease) in payables | **1,373** | 2,736 |
| | **5,726** | 3,049 |
| Net cash used in operating activities | **(4,094)** | (1,690) |

**Recognition and measurement**
Cash and cash equivalents in the statement of financial position comprise cash at bank and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk as to change in value.

**Fair value**
The carrying amount of short-term deposits approximates their fair value.

## C. WORKING CAPITAL MANAGEMENT

### C.4 Other financial assets

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| Short term deposits | **586** | 585 |
| | **586** | 585 |

The Group has pledged short term deposits of $586,000 (2021: $585,000) as collateral for financing facilities.

**Short-term deposits**
**Recognition and measurement**
Short-term deposits represent term deposits with financial institutions for periods greater than 90 days and less than 365 days earning interest at the respective interest rate at time of lodgement. Short-term deposits are stated at amortised cost.

**Fair value**
The carrying amount of short-term deposits approximates their fair value.

### C.5 Trade and other payables

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| Trade payables | **2,846** | 1,668 |
| Other payables | **214** | 74 |
| | **3,060** | 1,742 |

**Recognition and measurement**
Trade and other payables are financial liabilities recognised when goods and services are received prior to the end of the reporting period, irrespective of whether or not billed to the Group. Trade and other payables are recognised on initial recognition at fair value. Subsequent to initial recognition, trade and other payables are measured at amortised cost.

**Fair value**
The carrying amount of trade and other payables approximates their fair value.

### C.6 Deferred revenue

Deferred revenue includes revenue allocated to unsatisfied performance obligations in engineering services contracts with customers, unsatisfied performance obligations on sale of goods to customers and long-term advances received from customers. Included within deferred revenue is $2.4M in relation to the terminated third engine model. See Note F.7 for further information.

A reconciliation of deferred revenue for the years ended 30 June 2022 and 2021 is as follows:

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| At 1 July | **4,285** | 1,321 |
| Deferred during the year | **6,156** | 6,803 |
| Released to the statement of profit or loss | **(6,395)** | (3,839) |
| At 30 June | **4,046** | 4,285 |

**Recognition and measurement**
Deferred revenue is recognised as a liability when consideration is received prior to performance obligations being satisfied with a customer. The deferred revenue is recognised as income over the periods that the performance obligations are met.

## C. WORKING CAPITAL MANAGEMENT

### C.7 Leases

The Group leases various premises. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of variable lease payments that are based on index or a rate.

The recognised right-of-use assets relate to the amount of the initial measurement of lease liability.

A sub lease has been recognised as a Finance Lease Receivable under AASB 16 Leases. This reduced the right-of-use asset on adoption.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

**Amounts recognised in the balance sheet**

Set out below is a summary of the amounts disclosed in the Consolidated Statement of Financial Position:

| | **2022** | 2021 |
|---|---|---|
| **Right-of-use assets** | | |
| | **$'000** | $'000 |
| Properties | **341** | 857 |
| Total | **341** | 857 |

| | **2022** | 2021 |
|---|---|---|
| **Lease Liabilities** | | |
| | **$'000** | $'000 |
| Current | **766** | 982 |
| Non Current | **-** | 847 |
| | **766** | 1,829 |

**Amounts recognised in the statement of profit or loss**

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

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| Depreciation charge of right-of-use assets | **533** | 710 |
| Impairment | **-** | 373 |
| Interest expense (included in finance cost) | **77** | 131 |

The total cash outflow for leases in 2022 was $871,000 (2021: $846,000).

## D. DEBT AND CAPITAL

### In this section

This section addresses the debt and capital position of the Group at the end of the reporting period including, where applicable, the accounting policies applies and the key estimates and judgements made.



**Financial and capital risks in this section**

**Capital risk management**

For the purposes of the Group's capital management, capital includes contributed shareholder equity. When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital, provides a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. In order to maintain or adjust the capital structure, the Group may issue new shares or debt.

### D.1 Borrowings

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| Current | **8,486** | 9,986 |
| Non-current | **-** | - |
| | **8,486** | 9,986 |

Changes in borrowings arising from financing activities are as follows:

| | **$'000** |
|---|---|
| At 1 July 2021 | 9,986 |
| Loan forgiveness grant income | (1,500) |
| Grant income (loan deferral) | (593) |
| Interest expenses | 593 |
| **At 30 June 2022** | **8,486** |
| | |
| At 1 July 2020 | 8,610 |
| Finance costs | 1,376 |
| **At 30 June 2021** | **9,986** |

On 25 January 2010, the Department of Jobs, Tourism, Science and Innovation provided the Group with an interest-free loan of $14,346,000 under the terms of a Deed (Acknowledgment of Debt) (“the Deed”). The terms and conditions attached to the Deed are as follows:

• The term of the loan was 25 January 2010 to 30 May 2025
• The loan balance $9.9M was reclassified as current borrowings under the loan terms in place at 30 June 2021 while it was under renegotiation.
• Orbital successfully renegotiated the loan and received formal confirmation of a Deed of Variation on 12 August 2021.
• The Deed of Variation includes an extended repayment schedule over the next four years and repayment offset options up to the entire value of the loan. The loan also remained interest free.
• The repayment offset options provide the potential to forgive the entire value of the loan. The offset provisions are contingent on the Company achieving operational milestones aligned with its increasing engine business in Australia over the four-year period.
• For the year ended 30 June 2022, Orbital achieved certain operational milestones and reduced the loan value by $1.5M.
• As at 30 June 2022, extension was granted to allow the Company to refine the milestones until 31 December 2022. The loan balance $8.5M was reclassified as current borrowings under the loan terms in place while this renegotiation progresses.

Accounting standards require interest to be imputed while the loan is interest free. The benefit of extension of interest free terms agreed under the Deed of Variation ($0.6M) is recognised on contract effective date as grant income, in accordance with AASB 120 Accounting for Government Grants.

The interest-free loan is secured by way of a first ranking floating debenture over the whole of the assets and undertakings of the Group.

## D. DEBT AND CAPITAL

### D.2 Share capital

| | 2022 $'000 | 2021 $'000 |
|---|---|---|
| Ordinary shares issued and fully paid | **37,683** | 31,220 |

| **Movement in ordinary shares** | **Number** | **$000's** |
|---|---|---|
| At 1 July 2020 | 77,586,923 | 31,220 |
| Employee Share | 71,853 | 45 |
| **At 30 June 2021** | 77,658,776 | 31,265 |
| | | |
| At 1 July 2021 | **77,658,776** | **31,265** |
| Issue of ordinary shares | **12,985,114** | **6,479** |
| Share issue transaction costs | **-** | **(105)** |
| Employee Share | **352,804** | **44** |
| **At 30 June 2022** | **90,996,694** | **37,683** |

**Recognition and measurement**

Share capital is recognised at the fair value of the consideration received. The cost of issuing shares is shown in the share capital as a deduction, net of tax, from the proceeds. Own equity instruments that are re-acquired are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. The Company does not have authorised capital or par value in respect of its issued shares.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

### D.3 Reserves

| | **Employee benefits reserve $000's** | **Foreign currency translation reserve $000's** | **Total $000's** |
|---|---|---|---|
| At 1 July 2020 | 2,424 | (29) | 2,395 |
| Foreign currency translation | - | 464 | 464 |
| Rights issued pursuant to performance rights plan | 176 | - | 176 |
| At 30 June 2021 | 2,600 | 435 | 3,035 |
| | | | |
| At 1 July 2021 | **2,600** | **435** | **3,035** |
| Foreign currency translation | **-** | **(495)** | **(495)** |
| Rights issued pursuant to performance rights plan | **65** | **-** | **65** |
| **At 30 June 2022** | **2,665** | **(60)** | **2,605** |

**Nature and purpose of reserves**

**Foreign currency translation reserve**
Used to record foreign exchange differences arising from the translation of the financial statements of foreign entities from their functional currency to the Group's presentation currency.

**Employee benefits reserve**
The employee benefits reserve records the share-based payments provided to key management personnel as part of their long-term incentive remuneration. Refer to Note F.3 for further details.

## E. OTHER ASSETS AND LIABILITIES

### In this section

This section addresses the other assets and liabilities position of the Group at the end of the reporting period including, where applicable, the accounting policies applies and the key estimates and judgements made.



### E.1 Provisions

| | Warranties $000's | Employee benefits $000's | Total $000's |
|---|---|---|---|
| **At 1 July 2021** | **2,595** | **2,007** | **4,602** |
| Arising during the year | 157 | 518 | 675 |
| Utilised | (119) | (1,218) | **(1,337)** |
| **At 30 June 2022** | **2,633** | **1,307** | **3,940** |
| Current | 2,633 | 1,259 | 3,892 |
| Non-current | - | 48 | 48 |
| | **2,633** | **1,307** | **3,940** |
| | | | |
| At 1 July 2020 | 521 | 1,778 | 2,299 |
| Arising during the year | 2,083 | 942 | 3,025 |
| Utilised | (9) | (713) | (722) |
| **At 30 June 2021** | 2,595 | 2,007 | 4,602 |
| Current | 2,595 | 1,935 | 4,530 |
| Non-current | - | 72 | 72 |
| | 2,595 | 2,007 | 4,602 |

**Recognition and measurement**

Provisions are recognised when the Group has a present obligation, legal or construction, as a result of a past event, it is probable that an outflow of resources embodying benefits will be required to settle an obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**Provision for warranties**

The Group provides for a provision for warranties for general repairs for two years after its propulsion system assemblies ("PSA") are sold. The provision for warranties represents the liability for potential warranty claims against the Group and is recognised at the point in time when a PSA is sold. The valuation of the provision for warranties is based on the product of the estimated defect rate, the cost of the PSA and the volume of PSAs sold.

**Employee benefits**

The Group does not expect its long-service or annual leave benefits to be settled wholly within twelve months of each reporting date. These liabilities are measured at the present value of the estimated future cash outflow to be made to the employees using the projected unit credit method. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, estimated future cash flows.

Other employee benefits expected to be wholly settled within one year after the end of the period in which the employees render the related services are classified as short-term benefits and are measured at the amount due to be paid.

## F. OTHER ITEMS

### In this section

This section addresses information on other items which require disclosure to comply with Australian Accounting Standards and the Corporations Act 2001 (Cth). This section includes Group structure information and other disclosures.



### F.1 Key management personnel compensation

**Compensation of key management personnel of the Group**

| | **2022** **$** | 2021 $ |
|---|---|---|
| Short term employee benefits | **1,407,391** | 1,442,033 |
| Post-employment benefits | **86,927** | 104,948 |
| Long-term employee benefits | **(292,709)** | 55,394 |
| Share based payments | **84,138** | 156,178 |
| | **1,285,747** | 1,758,553 |

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel. The compensation of key management personnel is included in the employee benefits expense in the statement of profit or loss and other comprehensive income.

Refer to table 2 and table 3 of the Remuneration report for KMP share and equity holdings, including performance rights.

### F.2 Related parties

**Group structure**
Note F.4 provides information about the Group’s structure, including details of subsidiaries.

**Transactions with directors**
There were no transactions with directors during the year. Key management personnel compensation is disclosed in Note F.1.
No other director or key management personnel entered into a material contract with the Group from the end of the previous financial year.

**Loans from related parties**
The Group has an unsecured A$1 million standby working capital facility with ICM Limited. ICM Limited is the Group's largest shareholder, currently holding 30% of the Group's shares. The establishment of the standby facility secures an additional source of working capital should the Group decide to accelerate further investments in product development. Interest on any funds drawn down will be incurred at an interest rate of Libor plus 10% .The facility is available from 1 July 2022 to 30 June 2023.

## F. OTHER ITEMS

### F.3 Share based payments

| | 2022 $'000 | 2021 $'000 |
|---|---|---|
| Equity-settled share based payment transactions | **109** | 241 |
| | **109** | 241 |

There were no cancellations or modifications to awards in the 2022 or 2021 financial years. Share-based payment plans are explained below:

**Employee Share Plan No. 1**
The Group provides benefits to its employees in the form of share based payments in which employees render services for ordinary shares in the Group. Under the plan, each eligible employee is offered fully paid ordinary shares to a maximum value of $1,000 per annum.

For the year ended 30 June 2022, 104,520 ordinary shares (2021: 39,634 ordinary shares) were issued on 24 December 2021 at a market value on the date of issue of $44,000 (2021: $45,000 ).

**2018 Executive LTI Plan and 2018 CEO LTI Plan**
On 27 October 2017 and 23 May 2018, the Group issued 951,622 performance rights to key management personnel as part of their long-term incentive plan. The terms of the performance rights are set out on pages 11-12 of the Directors' Report. The share based payment expense recognised for the year ended 30 June 2022 was $nil (2021: $18,000).

**2020 Executive LTI Plan and 2020 CEO LTI Plan**
On 28 October 2020 and 04 December 2020, the Group issued 717,198 performance rights to key management personnel as part of their long-term incentive plan. The terms of the performance rights are set out on pages 12 of the Directors' Report. During the year ended 30 June 2022, no performance rights issued under the plan vested. The share based payment expense recognised for the year ended 30 June 2022 was $64,000 (2021: $155,000).

**Movements during the year**
The following table illustrates the number of performance rights during the year:

| | 2022 Number | 2021 Number |
|---|---|---|
| Outstanding at 1 July | **2,230,420** | 1,557,529 |
| Granted during the year | **-** | 1,157,181 |
| Exercised during the year | **(240,250)** | - |
| Lapsed during the year | **(441,065)** | (484,290) |
| Outstanding at 30 June | **1,549,105** | 2,230,420 |

The weighted average remaining contractual life of performance rights outstanding at 30 June 2022 was 1.25 years (2021: 2.25 years).

The following tables list the inputs into the models used for the plans for the years ended 30 June 2021 respectively:

| | 2020 Executive LTI Plan | 2020 CEO LTI Plan |
|---|---|---|
| Grant date | 28/10/2020 | 4/12/2020 |
| Expiry date | 30/09/2023 | 30/09/2023 |
| Share price at grant date | $ 1.19 | $ 1.18 |
| Fair value ($/right) - Tranche 1 | 0.970 | 0.980 |
| Fair value ($/right) - Tranche 2 | 0.760 | 0.730 |
| Expected volatility | 70% | 70% |
| Risk-free interest rate | 0.12% | 0.13% |
| Remaining contractual life | 1.25 years | 1.25 years |
| Model used | Monte Carlo | Monte Carlo |

The expected life of the performance rights is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility of performance rights reflects the assumption that the historical volatility over a period similar to the life of the performance rights is indicative of future trends, which may not necessarily be the actual outcome.

**Recognition and measurement**

Employees, including key management personnel, of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments; that is, equity-settled transactions.

The cost of equity-settled transactions is determined using the fair value of the equity instrument at the date when the grant is made using an appropriate valuation model.

The cost arising from share-based payments is recognised as an employee benefits expense, together with a corresponding increase in equity over the period in which the service and, where applicable, the performance conditions, are fulfilled; that is, the vesting period. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss and other comprehensive income represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of the awards, but the likelihood of the condition being met is assessed as part of the Group’s best estimate of the number of shares that will vest. Market performance conditions are reflected within the grant date fair value.

## F. OTHER ITEMS

### F.4 Subsidiaries

The ultimate parent company of the Group is Orbital Corporation Limited. The consolidated financial statements of the Group include:

| Entity | Note | Class of shares | Country of incorporation | Principal activities | % equity interest 2022 | % equity interest 2021 |
|---|---|---|---|---|---|---|
| Orbital Australia Pty Ltd | (b) (c) | Ordinary | Australia | Production & Development | 100 | 100 |
| Orbital Australia Manufacturing Pty Ltd | | Ordinary | Australia | Dormant | 100 | 100 |
| OEC Pty Ltd | | Ordinary | Australia | Dormant | 100 | 100 |
| S T Management Pty Ltd | | Ordinary | Australia | Dormant | 100 | 100 |
| OFT Australia Pty Ltd | | Ordinary | Australia | Dormant | 100 | 100 |
| Investment Development Funding Pty Ltd | | Ordinary | Australia | Dormant | 100 | 100 |
| Power Investment Funding Pty Ltd | | Ordinary | Australia | Dormant | 100 | 100 |
| Kala Technologies Pty Ltd | | Ordinary | Australia | Dormant | 100 | 100 |
| Orbital Share Plan Pty Ltd | (a) | Ordinary | Australia | Dormant | 100 | 100 |
| Orbital Holdings (USA) Inc. | | Ordinary | United States | Dormant | 100 | 100 |
| Orbital Fluid Technologies Inc. | | Ordinary | United States | Dormant | 100 | 100 |
| Orbital UAV USA, LLC | | Ordinary | United States | Production & Development | 100 | 100 |

(a) Orbital Share Plan Pty Ltd was established on 22 September 2008 and acts as the trustee for Executive Long Incentive Performance Rights Plans.

(b) The Production activities are focussed on the manufacture, assembly and delivery of engines and propulsion systems for unmanned aerial vehicles, and the continuous improvement of propulsion system and component part costs; product quality; and timing of product delivery.

(c) The Development activities specialise in the development of new UAV propulsion systems and flight critical components, including unmanned aerial vehicle engineering studies, engine mapping, maintenance certification and engineering technical support across the Group.

### F.5 Parent entity information

| | 2022 $'000 | 2021 $'000 |
|---|---|---|
| Current assets | - | - |
| Non-current assets | 9,349 | 13,417 |
| Current liabilities | 8,486 | 9,987 |
| Non-current liabilities | - | - |
| **Net assets** | **863** | 3,430 |
| | | |
| Issued capital | 37,682 | 31,220 |
| Accumulated losses | (39,484) | (30,451) |
| Employee benefits reserve | 2,665 | 2,661 |
| **Total equity** | **863** | 3,430 |
| Loss of the parent | (9,033) | (12,966) |
| Total comprehensive loss of the parent entity | (9,033) | (12,966) |

## F. OTHER ITEMS

### F.6 Auditor remuneration

During the year the following fees were paid or payable for services provided by PricewaterhouseCoopers Australia (PwC) as the auditor of the parent entity, Orbital Corporation Limited, by PwC's related network firms and by non-related audit firms:

| | 2022 | 2021 |
|---|---|---|
| | **$** | $ |
| **(a) Auditors of the Group - PwC and related network firms** | | |
| Audit and review of financial reports | **149,360** | 160,000 |
| Tax compliance services | **179,762** | 113,462 |
| Other services | **93,562** | 270,137 |
| | **422,684** | 543,599 |
| **(b) Other auditors and their related network firms** | | |
| Tax compliance services | **26,669** | 113,462 |
| | **26,669** | 113,462 |

### F.7 Events after the end of the reporting period

Orbital and Boeing Insitu reached a settlement agreement on the 30 August 2022 for third engine model cost reimbursement dispute.

The settlement includes:
• an immediate advance payment to Orbital of $1.8M with the amount to be offset against future Orbital engine production;
• agreement both parties will not seek to recover outstanding cost; and
• an agreement to negotiate in good faith an extension to the current supply agreement through a further five-year maintenance, repair and overhaul support contract.

The impact of the settlement was incorporated as an adjusting event to the estimate of the provision for inventory, as disclosed in Note C.1. In FY23, all materials outlined in the agreement are required to be delivered to Boeing Insitu. As a result, the deferred revenue $2.4M will be released and recognised as revenue with a nil net profit impact.

### F.8 Other accounting policies

**Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amounts of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office ("ATO") is included as a current asset or liability in the consolidated statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**Intangible assets**
**Patents**

Patents, licences and technology development and maintenance costs, not qualifying for capitalisation, are expensed as incurred.

**Fair value measurement**

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

► Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
► Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
► Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### F.9 New accounting standards

**New standards and interpretations**

The Group has reviewed new standards and interpretations and none of the new and amended accounting standards and interpretations will significantly affect the Group's accounting policies, financial position or performance.

# DIRECTORS' DECLARATION

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

1. In the opinion of the Directors:

(a) The financial statements and notes and the additional disclosures included in the Directors' Report designated as audited, of the Group are in accordance with the *Corporations Act 2001,* including:

(i) Giving a true and fair view of the financial position of the Group as at 30 June 2022 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) Complying with Accounting Standards in Australia and the *Corporations Act 2001.*

(b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a).

(c) Other than the matters raised in Note 1.J there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001,* from the Chief Executive Officer and Chief Financial Officer for the financial year 30 June 2022.

On behalf of the Board,

JP Welborn
Chairman

TM Alder
Managing Director & Chief Executive Officer

Dated at Perth, Western Australia 31 August 2022

# Independent auditor's report

To the members of Orbital Corporation Limited

## Report on the audit of the financial report

### Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

*What we have audited*

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2022
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

### Basis for opinion

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

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

*Independence*

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

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

# INDEPENDENT AUDITOR'S REPORT

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## Material uncertainty related to going concern

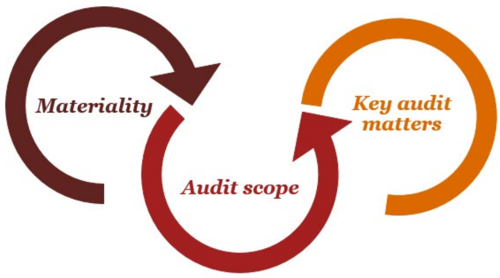
We draw attention to Note 1.J in the financial report, which indicates that the Group incurred a net loss of $11,131,000 during the year ended 30 June 2022 and, as of that date, the Group's current liabilities exceeded its current assets by $4,977,000. As a result the Group is dependent on achieving future forecast cash flows, including renegotiating the terms of its loan with the Western Australian State Government. These conditions, along with other matters set forth in Note 1.J, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Our audit approach

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

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

The Group specialises in designing and manufacturing unmanned aerial vehicle propulsion systems for its customers. The accounting processes are structured around a Group finance function at its corporate head office in Perth, where we performed our audit procedures.




**Materiality**

- For the purpose of our audit we used overall Group materiality of $157,200, which represents approximately 1% of the Group's total revenues.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group revenue because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

pwc

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

## Key audit matters

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

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter(s) described below to be the key audit matters to be communicated in our report.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Valuation of Inventory*** <br> ***(Refer to note C.1) $12.8 million*** <br><br> At 30 June 2022 the Group held inventory with a cost of $15.8 million. This inventory comprises parts, consumables and sub-assemblies of parts which will be used in the construction of engines by the Group. <br><br> At 30 June 2022, the Group recorded a provision of $3.0 million to reduce the carrying value of certain items of inventory to its net realisable value, as required by Australian Accounting Standards. <br><br> We focused on this area due to the significance of the inventory balance to the Consolidated Statement of Financial Position and the estimation required in determining the quantum of the provision. | In assessing the Group's valuation of inventory at the lower or cost or net realisable value we performed the following procedures, amongst others: <br> • assessed the application of inventory costing methodologies and whether this was consistent with the requirements of Australian Accounting Standards. <br> • agreed the cost of a sample of inventory items to that shown in third party invoices. <br> • on a sample basis, evaluated the direct labour costs allocated to work in progress by inspecting timesheets and agreeing the labour cost to the payroll system. <br> • evaluated whether inventory was carried at the lower of cost and net realisable value by comparing the cost of inventory in each engine's respective final bill of material against sale prices in customer contracts. |

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| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| | • evaluated whether individual components of inventory items were expected to be utilised within future engine sales by inspecting the future quantities of engine sales secured under existing contracts and open purchase orders with customers and determining the number of units of the relevant component required to complete those engines.<br>• assessed the adequacy of the provision for obsolete or excess inventory given expected future demand, as well as the settlement with the Group's major customer disclosed in Note F.7.<br>• evaluated the adequacy of the disclosures made in Note C.1 in light of the requirements of Australian Accounting Standards. |
| ***Recognition and measurement of deferred tax assets***<br>***(Refer to note A.5)***<br><br>At 30 June 2022, the Group recognised deferred tax assets only to the extent that they offset deferred tax liabilities in the relevant jurisdiction. $4.1 million of previously recognised deferred tax assets were derecognised during the year.<br>In determining the amount of deferred tax assets to recognise at 30 June 2022, the Group made a number of judgements, including assessing whether it had convincing evidence as required by the Australian Accounting standards that it would be able to utilise deferred tax assets against future taxable profit.<br><br>Assessing the appropriateness of recognising these deferred tax assets was a key audit matter due to the magnitude of deferred tax assets derecognised in the period. | In assessing the appropriateness of the Group's recognition and measurement of deferred tax assets in the financial report, we performed the following procedures, amongst others:<br>• assessed management's conclusion that the evidence currently available to support the probability of the Group generating future taxable income was not sufficient to meet the requirements of accounting standards.<br>• evaluated the adequacy of the disclosures made in Note A.5 in light of the requirements of Australian Accounting Standards. |



ORBITAL UAV

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Accounting for the WA Government loan** *(Refer to note D.1)*<br><br>During the year, the Group renegotiated the terms of the loan with the Western Australian State Government ('WA Government loan'), resulting in new repayment terms and the ability to offset repayments if operational milestones were met.<br><br>Through the application of the Australian Accounting Standards, the Group recognised \$2.1m in Grant Income and \$0.6m in interest expense relating to the loan for the year ended 30 June 2022.<br><br>As a result of changes in the likelihood of meeting the relevant milestones at 30 June 2022 the loan repayment terms were under renegotiation at balance date.<br><br>The accounting for the WA Government loan was determined to be a key audit matter due to the significance of the loan balance and grant income recognised to the Group. | In assessing the accounting for WA Government loan, we performed the following procedures, among others:<br>• obtained an understanding of the key terms of the amended loan agreement.<br>• obtained an understanding of the accounting treatment adopted by the Group in accounting for the revised loan terms.<br>• assessed the assumptions used by the Group in determining which portions of the loan had been or were sufficiently likely to be forgiven by obtaining supporting evidence of the likelihood of completing the milestone.<br>• reperformed management's calculations of grant income and interest expense arising from the loan.<br>• assessed the reasonableness of interest rate assumptions utilised by management in determining the initial fair value of the loan.<br>• evaluated management calculations in determining the carrying value and classification of the loan as at 30 June 2022 by inspecting correspondence and the deed of variation with the WA Government.<br>• evaluated the adequacy of the disclosures made in Note D.1 in light of the requirements of Australian Accounting Standards. |

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

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

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

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

## Responsibilities of the directors for the financial report

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

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

## Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

# INDEPENDENT AUDITOR'S REPORT

## Report on the remuneration report

### Our opinion on the remuneration report

We have audited the remuneration report included in pages 8 to 16 of the directors' report for the year ended 30 June 2022.

In our opinion, the remuneration report of Orbital Corporation Limited for the year ended 30 June 2022 complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

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

PricewaterhouseCoopers

Ian Campbell
Partner

Perth
31 August 2022

# SHAREHOLDING DETAILS

## Class of Shares and Voting Rights

As at 21 July 2022 there were 5,001 shareholders of the ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in Article 8 of the Company's Constitution, subject to any rights or restrictions for the time being attached to any class or classes of shares, are:

a) at meetings of members or class of members, each member entitled to vote may vote in person or by proxy or representative; and
b) on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or representative has one vote for each ordinary share held.

## Substantial Shareholders and Holdings as at 21 July 2022

| | | |
|---|---|---|
| UIL Limited | **27,565,888** | **30.32%** |
| *(as notified 13 April 2017)* | | |
| Mitsubishi UFJ Financial Group, Inc. | **12,560,399** | **13.82%** |
| *Comprising voting power of 100% in First Sentier Investors Holdings Pty Ltd; and* | *10,242,456* | |
| *voting power of over 20% in Morgan Stanley Australia Securities* | *2,317,943* | |
| *(as notified 6 May 2021)* | | |

## Distribution of Shareholdings as at 21 July 2022

| | |
|---|---|
| 1-1,000 | 2,659 |
| 1,001-5,000 | 1,385 |
| 5,001-10,000 | 450 |
| 10,001-100,000 | 537 |
| 100,001 and over | 70 |
| **Number of shareholders** | **5,101** |
| **Total Shares on Issue** | **90,902,089** |
| **Number of unmarketable parcels** | **-** |

## Top 20 Shareholders as at 21 July 2022

| | | NUMBER OF SHARES HELD | % OF SHARES |
|---|---|---|---|
| 1 | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 27,791,629 | 30.57 |
| 2 | CITICORP NOMINEES PTY LIMITED | 12,360,077 | 13.60 |
| 3 | ANNAPURNA PTY LTD | 3,074,167 | 3.38 |
| 4 | MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED | 2,317,943 | 2.55 |
| 5 | DEBUSCEY PTY LTD | 1,850,000 | 2.04 |
| 6 | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 1,829,225 | 2.01 |
| 7 | BIRKETU PTY LTD | 1,455,688 | 1.60 |
| 8 | BNP PARIBAS NOMINEES PTY LTD | 1,272,218 | 1.40 |
| 9 | BNP PARIBAS NOMS PTY LTD | 1,053,521 | 1.16 |
| 10 | MORANBAH NOMINEES PTY LTD | 1,044,067 | 1.15 |
| 11 | MR MICHAEL WILLIAM FORD & MRS NINA BETTE FORD | 1,039,105 | 1.14 |
| 12 | MR JOHN PAUL WELBORN & MS CAROLINE ANNE WELBORN | 792,287 | 0.87 |
| 13 | BOND STREET CUSTODIANS LIMITED | 583,334 | 0.64 |
| 14 | RACT SUPER PTY LTD | 500,000 | 0.55 |
| 15 | MR KENT MILLER LOGIE | 488,978 | 0.54 |
| 16 | MR TODD MATHEW ALDER | 434,389 | 0.48 |
| 17 | MR JOHN AYRES | 416,112 | 0.46 |
| 18 | K & P SUPER VIC PTY LTD | 362,667 | 0.40 |
| 19 | MR DARRYL JAMES SMALLEY | 350,000 | 0.39 |
| 20 | TEXAS HOLDINGS PTY LTD | | |
| **Top 20 Shareholders Total** | | **59,015,407** | **64.92** |

The 20 largest shareholders hold 64.92% of the ordinary shares of the Company (2021: 68.85%).

## On-market share buy-back

There is no current on-market buy-back.

# CORPORATE INFORMATION

ABN 32 009 344 058

| @OrbitalCorpASX

| OrbitalUAV

## REGISTERED AND PRINCIPAL OFFICE

4 Whipple Street
Balcatta, Western Australia 6021
Australia

## CONTACT DETAILS

**Australia**
Telephone: 61 (08) 9441 2311

**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

## DIRECTORS

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

## COMPANY SECRETARY

D. Bonomini

## SHARE REGISTRY

**Link Market Services Limited**
Level 12, QV1 Building
250 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

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