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ORBITAL[®]
UAV

2023 ANNUAL REPORT

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CORPORATE PROFILE

Orbital UAV provides integrated propulsion systems and flight critical components for tactical unmanned 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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2023

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 2023 and the auditor's report thereon.

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DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2023

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 2023 ('FY23').

Overview

FY23 highlights

- Delivery of \$22.5 million revenue and other income
- Net Profit after tax of \$0.02 million
- Successful Equity and Options issue to raise \$5 million in new equity
- Renegotiated milestones for WA government legacy loan
- Improved Net Asset position to \$7 million
- Extension of development contracts for multiple engine platforms

Orbital achieved operational revenue of \$16.8 million in FY23, with \$12.4 million through the multiple engine model solution for customer Insitu Inc., a wholly owned subsidiary of the Boeing Company ('Boeing Insitu'). Engineering development revenues of \$4.4 million supported further development of additional engine models for other key clients and readies the Company for new production lines commencing in the coming financial year.

Included in other income is \$4.8 million which was achieved through the successful delivery of key milestones associated with the Company's WA Government Loan agreement and \$0.7 million Research and Development grants received against the new engine model development program.

Customer diversification

During the year, the Company continued to progress its customer diversification strategy and announced:

- engine shipment programs with Insitu Pacific for the supply of the 'Integrator UAS' to the Australian Army for expansion of its LAND 129 Phase 3 program,
- the extension of the development program with its major Singapore client to progress toward production readiness,
- production unit testing with Skyways UAS for its bid to supply the US Navy with ship-to-ship and ship-to-shore uncrewed capabilities,
- supply of upgraded prototype engines with Textron Systems for the Aerosonde® unmanned aircraft system.
- new production agreement with Finance International Pty Ltd to supply units into a south-east Asian defence organisation.

These new or expanded relationships demonstrate Orbital's superior heavy fuel engine capability for uncrewed aerial vehicles ('UAVs') and notably broadens customer relationships across the world.

Equity and Options Offer

In November 2022 the Company announced a \$5 million equity and options offer to existing and new shareholders. The offer was well supported and a total of 25,000,000 new shares and 17,500,000 new options were issued pursuant to the prospectus. Major shareholders, UIL Limited and First Sentier Investors, along with all Company Directors participated in the equity raise which occurred in two tranches in November 2022 and January 2023. Funds raised from the offer continue to support new engine development programs and to provide general working capital.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2023

Financial results

The Company reported financial results for the year ended 30 June 2023, with revenue from continuing operations of \$16.8M (2022: \$15.7M), other income of \$5.7M (2022: 2.5M) and a net profit after tax of \$0.02M (2022: loss of \$11.1M).

The Company reported a balance sheet with cash, deposits and receivables of \$5.2M (2022: \$4.0M), net current assets of \$2.2M (2022: net current liabilities \$5.0M) and net assets of \$6.9 MM (2022: \$2.2M).

Net cash outflow from operating activities during the period was \$3.5M (2022: \$4.1M) as production delays has deferred delivery of orders to Boeing Insitu into the coming financial year.

The annual report for the year ended 30 June 2023 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 January 2023, the Company agreed to a deed of variation with the WA Government, replacing previous repayment schedules and refining milestone deliverables better aligned to industry success. Repayment amounts continue to reduce the loan principal where 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. In FY23, operational milestones were achieved such that \$4.5m of loan repayments were offset, reducing the outstanding loan balance to \$3.8M. The Company anticipates achieving further milestones such that the loan will be fully offset by the end of December 2024.

Shareholder returns

	2023	2022	2021	2020	2019
Closing share price (\$) ¹	0.175	0.23	0.83	0.75	0.30
Market capitalisation (\$m)	20.52	20.93	64.46	58.2	23.2
Basic EPS (cents) from continuing operations	0.02	(12.92)	(14.74)	2.40	(7.63)

¹ as at 30 June

Outlook

Entering financial year 2024 ('FY24'), production from the two established Boeing Insitu engine model lines will resume until those orders have been completed. Upon maturity of the engineering programs for customers Textron, Finance International Pty Ltd and one of Singapore's largest defence companies, production of two new lines of engines is expected to commence in the second half of FY24.

Continued investment in new products and delivering against customers evolving needs allows Orbital to drive future revenue performance and client expansion targets. The lasting support of the WA Government, through grant allocations against the legacy loan and a clear pathway to successful achievement of milestones, continues to strengthen the Company balance sheet position and competitive advantage in heavy fuel propulsion for the defence industry.

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2023

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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2023

3. COMPANY SECRETARY

Mr Thomas Spencer, B.Bus, CPA

Mr Thomas Spencer was appointed as Chief Financial Officer and Company Secretary in October 2022. Mr Spencer is a seasoned finance executive with multinational experience leading strategy development, governance and commercial initiatives across a spectrum of industries. He is a qualified CPA and holds a Bachelor of Business degree and is a member of the Australian Institute of Company Directors. In his previous CFO roles with NeuroScientific Biopharmaceuticals, McRae Investments and GMP Securities, Mr Spencer was responsible for commercial operations, financial integrity, investment acquisitions and dispositions for institutional and private equity owned portfolios.

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.

Director	Directors Meetings		Audit and Risk Committee Meetings	
	No. of meetings attended	No. of meetings held ¹	No. of meetings attended	No. of meetings held ²
J P Welborn	7	8	-	-
T M Alder	8	8	-	-
S Gallagher	7	8	4	4
K Abbott	7	8	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

There were no reportable events subsequent to the balance sheet date of 30 June 2023.

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 2023 is as follows:

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2023

Director	Ordinary Shares	Performance Rights
J P Welborn	1,991,667	-
T M Alder	1,471,639	374,400
S Gallagher	216,668	-
K Abbott	85,000	-
Total	3,764,974	374,400

12. SHARE OPTIONS

The Company issued 17,500,000 options as part of the capital raising activities completed in February 2023. Options were issued for nil cash consideration and were valued at \$1,033,205 using the Black Scholes method of calculation at grant date of 7 February 2023. A volatility rate of 99.8% and a risk-free rate of 3.16% was used in the calculation. The options are exercisable at \$0.35 on or before the date that is 3 years after the date of issue.

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 2023, the Group engaged with PricewaterhouseCoopers in non-audit services that included Tax & Government Grant advice. 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 and Risk 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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2023

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 2023.

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 2023 are set out in Table 1.

Table 1 – KMP

Executive	Non-Executive Directors
<i>Executive Director</i> Todd M Alder (Chief Executive Officer and Managing Director)	John P Welborn (Chairman) Steve Gallagher (Chairman of the Audit & Risk Committee) Kyle Abbott (Member of the Audit & Risk Committee)
<i>Senior Executives</i> David Bonomini ¹ (Chief Financial Officer & Company Secretary) Thomas Spencer ² (Chief Financial Officer & Company Secretary) Mikael Bergman ³ (Chief Technical Officer)	

¹ Mr. Bonomini resigned as CFO & Company Secretary on 31 October 2022

² Mr. Spencer was appointed as CFO & Company Secretary on 31 October 2022

³ Mr. Bergman became a KMP on 05 May 2022 and resigned on 01 December 2022

Table 2 – Five-year performance

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

	2023	2022	2021	2020	2019
Closing share price (\$)	0.175	0.23	0.83	0.75	0.30
Market capitalisation (\$m)	20.52	20.93	64.46	58.2	23.2
Basic EPS (cents) from operations	0.02	(12.92)	(14.74)	2.40	(7.63)

Short term incentives were paid in 2020 and 2018. No short term incentives were paid in 2023, 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 was awarded during the year ended 30 June 2023 (2022: nil).

Long-term incentives ("LTI") consisting of performance rights that vest based on attainment of pre-determined performance goals are awarded to selected executives.

The remuneration of Non-Executive Directors of the Company consists only of Directors' fees. Director fees were not reviewed or adjusted during the 2023 financial year.

Remuneration Report at 2022 AGM

The 2022 Remuneration Report received positive shareholder support at the 2022 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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2023

Key changes to remuneration structure in 2023

There were no changes to the remuneration structure of executives or Directors during the 2023 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 2023 (2022: 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 2023 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 2023 financial year is explained below:

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2023

Summary of executive KMP remuneration for the 2023 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 13.

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 behaviour 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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2023

Actual STI performance for the year ending 30 June 2023

The following table outlines the proportion of the maximum STI earned in relation to the 2023 financial year. There were no STI amounts paid to KMPs for the year ended 30 June 2023.

	Maximum STI opportunity (Percentage of fixed remuneration)	Percentage of maximum STI earned
Todd M Alder	40%	0%
David Bonomini	20%	0%
Thomas Spencer	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.

2020 Performance Rights Plan – Long-term incentives

The Company introduced a 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	4 December 2020	28-Oct 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	4 December 2020	28-Oct 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 ¹	Chief Technical Officer	77,500	46,500	124,000
Mr D.Bonomini ¹	Chief Financial Officer	70,000	42,000	112,000
Mr M.Johnston ¹	Chief Operating Officer	66,749	40,049	106,798
Total		448,249	268,949	717,198

¹ During year ended 30 June 2023, the performance rights issued to Mr Bonomini lapsed as he resigned during the year. (2022: Mr G Cathcart and Mr M Johnston holdings lapsed due to resignation).

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2023

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 2023.

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 2023

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 2023 (2022: 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 KMP.

	Fixed Remuneration	Contract Duration	Termination notice period (Company) ^{1, 2}	Termination notice period (Executive)
Current KMP				
T Alder	\$390,000	Unlimited	3 months	3 months
T Spencer	\$280,000	Unlimited	3 months	3 months
Former KMP				
D Bonomini	\$297,372	Unlimited	3 months	3 months
G Cathcart ³	\$291,856	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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2023

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 2023 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 \$121,095 (2022: \$120,548) and the Non-Executive Directors receive a base fee of \$60,000 (2022: \$60,000).

The remuneration of Non-Executive Directors for the year ended 30 June 2023 and 30 June 2022 is detailed in Table 1 of this report on page 13.

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 2023.

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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2023

Statutory tables

Table 1 - Compensation of Non-Executive Directors and executive KMP's for the year ended 30 June 2023 and 2022

		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	2023	109,589	-	-	109,589	11,506	-	-	121,095	-
Chairman and Director (Non-executive)	2022	109,589	-	-	109,589	10,959	-	-	120,548	-
S Gallagher	2023	60,000	-	-	60,000	-	-	-	60,000	-
Director (Non-executive)	2022	60,000	-	-	60,000	-	-	-	60,000	-
K Abbott	2023	60,000	-	-	60,000	-	-	-	60,000	-
Director (Non-executive)	2022	60,000	-	-	60,000	-	-	-	60,000	-
Total Consolidated, all Non-executive directors	2023	229,589	-	-	229,589	11,506	-	-	241,095	-
	2022	229,589	-	-	229,589	10,959	-	-	240,548	-
Executive Director										
T Alder	2023	364,708	-	-	364,708	25,292	33,954	58,004	481,958	12%
Managing Director and Chief Executive Officer	2022	366,432	-	-	366,432	23,568	27,727	95,170	512,897	19%
Executive Key Management Personnel										
D Bonomini (1)	2023	122,386	-	-	122,386	10,700	(22,410)	(57,715)	52,961	-109%
Chief Financial Officer	2022	273,270	-	-	273,270	23,568	5,615	27,964	330,417	8%
G Cathcart (2)	2023	-	-	-	-	-	-	-	-	0%
Chief Technical Officer	2022	327,442	-	-	327,442	9,304	(298,414)	(20,951)	17,381	-121%
M Johnson (3)	2023	-	-	-	-	-	-	-	-	0%
Chief Operating Officer	2022	179,329	-	-	179,329	16,395	(30,760)	(18,045)	146,919	-12%
M Bergman (4)	2023	198,009	-	-	198,009	18,774	(3,123)	-	213,660	0%
Chief Technical Officer	2022	31,329	-	-	31,329	3,133	3,123	-	37,585	0%
T Spencer (5)	2023	146,947	-	-	146,947	14,592	12,608	-	174,147	0%
Chief Financial Officer	2022	-	-	-	-	-	-	-	-	0%
Total Consolidated, Executive Key Management Personnel	2023	832,050	-	-	832,050	69,358	21,029	289	922,726	0%
	2022	1,177,802	-	-	1,177,802	75,968	(292,709)	84,138	1,045,199	8%
Total Consolidated, Non-executive directors, Executive directors, and Executive Key Management Personnel	2023	1,061,639	-	-	1,061,639	80,864	21,029	289	1,163,821	0%
	2022	1,407,391	-	-	1,407,391	86,927	(292,709)	84,138	1,285,747	7%

1. Mr. Bonomini ceased as a KMP on 31 October 2022
2. Mr. Cathcart ceased as a KMP on 8 October 2021
3. Mr. Johnston ceased as a KMP on 18 February 2022
4. Mr. Bergman became a KMP on 05 May 2022
5. Mr. Spencer became a KMP on 31 October 2022

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2023

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 Director and Chief Executive Officer	Equity rights	27 October 2017	10 August 2020	255,000	-	-	255,000	0.278
	Equity rights	27 October 2017	10 August 2020	-	340,000	100%	-	0.365
	Equity rights	23 May 2018	10 August 2020	-	647,250	100%	-	0.316
	Equity rights	4 December 2020	30 September 2023	234,000	-	-	-	0.808
	Equity rights	4 December 2020	30 September 2023	140,400	-	-	-	0.538
D Bonomini Chief Financial Officer	Equity rights	23 May 2018	10 August 2020	-	19,391	100%	-	0.209
	Equity rights	28 October 2020	30 September 2023	70,000	-	-	70,000	0.841
	Equity rights	28 October 2020	30 September 2023	42,000	-	-	42,000	0.614

- 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.
- Mr. Bonomini resigned as Chief Financial Officer on 31 October 2022.

Table 3 – KMP share and equity holdings

Details of shares and rights held by KMP including their personally related entities for the 2023 financial year are as follows:

	Type of equity (1)	Opening holding at 1 July 2022	Rights allocated in 2023	Rights lapsed in 2023	Net Changes other (2)	Closing holding at 30 June 2023 (3)
Non-executive Directors						
J Welborn	Shares	991,667	-	-	1,000,000	1,991,667
	Options	-	-	-	500,000	500,000
S Gallagher	Shares	116,668	-	-	100,000	216,668
	Options	-	-	-	50,000	50,000
K Abbott	Shares	35,000	-	-	50,000	85,000
	Options	-	-	-	25,000	25,000
Executive Directors						
T Alder	Equity Rights	1,361,650	-	-	(987,250)	374,400
	Shares	434,389	-	-	1,037,250	1,471,639
	Options	-	-	-	25,000	25,000
Executives						
D Bonomini (4)	Equity Rights	131,391	-	(112,000)	(19,391)	-
	Shares	-	19,391	-	-	19,391

- Opening holding represents amounts carried forward in respect of KMP.
- Net Other Changes includes KMP participation in the equity and options placement during the year and partial conversion of T Alder and D Bonomini performance rights into ordinary shares upon meeting performance conditions.
- Closing equity rights holdings represent unvested rights held at the end of the reporting period.
- Mr. Bonomini resigned as Chief Financial Officer on 31 October 2022.

End of Remuneration Report

Signed in accordance with a resolution of the Directors:

J P Welborn
Chairman

T M Alder
Managing Director and Chief Executive Officer

Dated at Perth, Western Australia this 21 September 2023

AUDITOR'S INDEPENDENCE DECLARATION



Auditor's Independence Declaration

As lead auditor for the audit of Orbital Corporation Limited for the year ended 30 June 2023, 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.

A handwritten signature in black ink, appearing to read 'Ian Campbell', written over a horizontal line.

Ian Campbell
Partner
PricewaterhouseCoopers

Perth
21 September 2023

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 \$'000	2022 \$'000
Continuing operations			
Sale of goods		12,350	12,641
Engineering services revenue		4,426	3,075
Royalty and licence revenue		-	5
Interest revenue		26	1
Total revenue	A.2	16,802	15,722
Other income	A.3	5,711	2,543
Materials and consumables expenses	A.4(d)	(8,216)	(6,511)
Reversal/(write down) of excess inventory		404	(2,980)
Employee benefits expenses	A.4(a)	(8,648)	(9,641)
Depreciation expenses		(1,046)	(980)
Amortisation of intangibles	B.2	(276)	(276)
Engineering consumables and contractor expenses		(792)	(526)
Occupancy expenses		(718)	(542)
Travel and accommodation expenses		(255)	(306)
Communications and computing expenses		(744)	(981)
Patent expenses		(191)	(386)
Insurance expenses		(832)	(1,047)
Audit, compliance and listing expenses		(540)	(465)
Finance costs	A.4(b)	(214)	(670)
Allowance for impairment of other receivables		-	(75)
Warranty expenses	E.1	(236)	(91)
Other expenses	A.4(c)	(249)	(580)
Foreign exchange gains/(losses)		60	731
Loss before income tax from continuing operations		20	(7,061)
Income tax expense	A.5	-	(4,070)
Loss for the year from continuing operations		20	(11,131)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		2	(495)
Total comprehensive profit/(loss) for the year		22	(11,626)
Attributable to:			
Equity holders of the parent		22	(11,626)
Total comprehensive profit/(loss) for the year		22	(11,626)
Earnings per share			
Basic profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.6	0.02	(12.92)
Diluted profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.6	0.02	(12.92)
Earnings per share from continuing operations			
Basic profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.6	0.02	(12.92)
Diluted profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.6	0.02	(12.92)

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

		2023	2022
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	C.3	2,292	2,363
Other financial assets	C.4	751	586
Trade and other receivables	C.2	2,125	1,007
Inventories	C.1	5,980	11,074
Prepayments		191	172
Finance lease receivable	C.7	430	184
Total current assets		11,769	15,386
Non-current assets			
Intangibles	B.2	3,238	3,402
Plant and equipment	B.1	1,299	1,705
Inventories	C.1	2,238	1,776
Right-of-use asset	C.7	1,141	341
Finance lease receivable	C.7	253	-
Total non-current assets		8,169	7,224
Total assets		19,938	22,610
LIABILITIES			
Current liabilities			
Trade payables and other liabilities	C.5	1,979	3,060
Deferred revenue	C.6	1,243	4,046
Borrowings	D.1	1,452	8,486
Government grants		-	113
Lease liabilities	C.7	752	766
Provisions	E.1	4,096	3,892
Total current liabilities		9,522	20,363
Non-current liabilities			
Lease liabilities	C.7	1,083	-
Borrowings	D.1	2,344	-
Provisions	E.1	51	48
Total non-current liabilities		3,478	48
Total liabilities		13,000	20,411
Net assets		6,938	2,199
Equity			
Share capital	D.2	41,380	37,683
Options reserve	D.3	1,033	-
Reserves	D.4	2,594	2,605
Accumulated losses		(38,069)	(38,089)
Total equity		6,938	2,199

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2023

	Share capital	(Accumulated losses)	Employee equity benefits reserve	Foreign currency translation reserve	Option reserve	Total equity
Notes	D.2		D.4	D.4	D.3	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2022	37,683	(38,089)	2,665	(60)	-	2,199
Loss for the year	-	20	-	-	-	20
Foreign currency translation	-	-	-	2	-	2
Total comprehensive loss for the year	-	20	-	2	-	22
Issue of ordinary shares, net of costs	3,662	-	-	-	-	3,662
Issue of share options	-	-	-	-	1,033	1,033
Share based payments	36	-	(13)	-	-	23
At 30 June 2023	41,380	(38,069)	2,652	(58)	1,033	6,938
At 1 July 2021	31,265	(26,958)	2,600	435	-	7,342
Loss for the year	-	(11,131)	-	-	-	(11,131)
Transfer to accumulated losses	-	-	-	-	-	-
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

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Cash receipts from customers		12,937	18,918
Cash paid to suppliers and employees		(16,938)	(22,886)
Cash receipts from R&D rebates		732	-
Interest received		26	1
Interest paid		(251)	(127)
Net cash used in operating activities	C.3	(3,494)	(4,094)
Cash flows from investing activities			
Payments for financial instruments		(166)	-
Purchase of plant and equipment		(290)	(505)
Grant rebates received		920	-
Payments for intangible asset		(836)	(1,697)
Net cash used in investing activities		(372)	(2,202)
Cash flows from financing activities			
Proceeds from issues of shares and options	D.2	5,000	6,479
Share issue transaction costs		(305)	(105)
Principal elements of lease payments		(807)	(986)
Net cash from financing activities		3,888	5,388
Net decrease in cash and cash equivalents		22	(908)
Cash and cash equivalents at 1 July		2,363	3,116
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(93)	155
Cash and cash equivalents at 30 June	C.3	2,292	2,363

The accompanying notes form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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 21 September 2023. 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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 2023 the Group's strategy remained unchanged from 2022, the gearing ratio at 30 June 2023 was 55% (2022: 386%). 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 24
Section C	Liquidity risk	Page 35
Section C	Interest Rate risk	Page 36
Section C	Credit risk	Page 36
Section D	Capital risk	Page 41

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	30
B.1	Impairment of non-current assets	33
C.1	Recoverable value of inventory	37
D.1	Valuation of borrowings	41

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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 2023, the Group recorded an after tax profit of \$20,000 and operating cash outflows of \$3,494,000. As at 30 June 2023, the Group had net assets of \$6,938,000 and net current assets of \$2,247,000. The Group also had cash outflows from investing activities of \$372,000 and cash inflows from financing activities of \$3,888,000.

The going concern assumption is based on the Group's cash flow projections and existing cash reserves as at 30 June 2023 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:

- Successful continued development of new engine models, leading to further committed engineering and production revenues.
- Achieving the milestones required under the terms of the WA government loan, as described in note D.1, such that grants are received and repayments are not required within the forecast period.
- 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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.

A.1	Operating segments	Page 25
A.2	Revenue	Page 25
A.3	Other income	Page 27
A.4	Expenses	Page 28
A.5	Taxes	Page 29
A.6	Earnings per share	Page 31

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 2023 and 2022 are as follows:

	2023 A\$'000	2022 A\$'000
Financial assets		
Cash and cash equivalents	1,159	832
Trade and other receivables	623	954
Financial liabilities		
Trade and other payables	95	511

For the year ended 30 June 2023, revenue from external customers denominated in USD was A\$7,034,000 (2022: A\$12,180,000).

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
2023	+10%	(153)
	-10%	187
	+10%	(116)
2022	-10%	142

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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 2023

	Australia		US		Consolidated	
	2023	2022	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue	16,802	15,722	-	-	16,802	15,722
EBIT	449	(5,921)	(215)	(470)	234	(6,391)
Finance expenses	(192)	(645)	(22)	(25)	(214)	(670)
Profit/(loss) before income tax	257	(6,566)	(237)	(495)	20	(7,061)

	Australia		US		Consolidated	
	2023	2022	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets	18,498	22,457	1,440	153	19,938	22,610
Liabilities	11,399	20,199	1,601	212	13,000	20,411
Net assets	7,886	2,258	(161)	(59)	6,938	2,199

A.2 Revenue

	Australia		US		Consolidated	
	2023	2022	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	16,802	15,722	-	-	16,802	15,722
Total external revenue	16,802	15,722	-	-	16,802	15,722
Timing of revenue recognition						
At a point in time	12,376	12,647	-	-	12,376	12,647
Over time	4,426	3,075	-	-	4,426	3,075
	16,802	15,722	-	-	16,802	15,722

Revenues of approximately \$7,440,000 (2022: \$11,570,000) 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:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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.

Revenue for goods sold but not delivered is recognised if:

- (a) the reason for the bill-and-hold arrangement must be substantive;
- (b) the product must be identified separately as belonging to the customer;
- (c) the product currently must be ready for physical transfer to the customer;
- (d) the entity cannot have the ability to use the product or to direct it to another customer.

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.

• 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:

	2023	2022
	\$'000	\$'000
Contract Liabilities		
Deferred revenue	1,243	4,046

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

A.3 Other income

	2023 \$'000	2022 \$'000
Grant income	4,825	2,093
Rental income	150	122
Research and development grant	732	134
Other	4	194
	5,711	2,543

Recognition and measurement

Grant income

In FY23, Orbital achieved the relevant operational milestones and reduced the WA government loan value by \$4.5M. Accounting standards require interest to be imputed while the loan is interest free. The benefit of the loan reduction of \$4.5M and it being interest free \$0.3M are recognised as grant income, in accordance with AASB 120 Accounting for Government Grants. Refer to Note D.1 for further details.

Research and development grant

In accordance with research and development tax legislation the Group is entitled to a refundable R&D tax offset accounted for as research and development grant. Government grants are recognised when it is probable that the grant will be received and all attached conditions will be complied with. When the grant relates to an asset, it is recognised as a reduction in the related asset. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

Other income

The other income represents non-recurring IP sales.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

A.4 Expenses

(a) Employee benefits expense

	2023	2022
	\$'000	\$'000
Salaries and wages	6,351	6,831
Defined contribution plans	798	876
Share based payments (Note F.3)	23	109
Annual and long service leave	807	1,008
Other personnel costs	669	817
	8,648	9,641

(b) Finance costs

	2023	2022
	\$'000	\$'000
Interest expense	214	670
	214	670

(c) Other expenses

	2023	2022
	\$'000	\$'000
Administration	119	118
Marketing and investor relations	27	100
Corporate consulting services	-	147
Freight	66	166
Other	37	49
	249	580

(d) Materials and consumable expenses

	2023	2022
	\$'000	\$'000
Raw materials and consumables	3,122	4,818
Change in inventories	5,094	1,693
	8,216	6,511

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

A.5 Taxes

The major components of the income tax expense for the years ended 30 June 2023 and 2022 are:

	2023	2022
	\$'000	\$'000
Deferred income tax expense	-	(4,393)
Adjustments in respect of prior years	-	323
Total income tax expense	-	(4,070)

The reconciliation of the income tax benefits/(expenses) and accounting profit multiplied by the Australian domestic tax rate for the years ended 30 June 2023 and 2022 are:

	2023	2022
	\$'000	\$'000
Accounting profit/(loss) before tax from continuing operations	20	(7,061)
Accounting profit/(loss) before income tax	20	(7,061)
At Australia's statutory income tax rate of 25.0% (2022: 25.0%)	(5)	1,765
Adjustments in respect of the change in statutory income tax rate	-	(107)
Difference in overseas tax rates	-	(20)
Non assessable income	-	33
Adjustments in respect of prior years	-	323
Deferred tax asset not recognised	(183)	(2,326)
Deferred tax asset derecognised	-	(4,070)
Non-deductible expenses	188	332
Income tax expense	-	(4,070)
Income tax expense reported in the statement of profit or loss	-	(4,070)

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

	2023	2022
	\$'000	\$'000
Inventory	639	747
Revenue received in advance	311	998
Plant and equipment	25	(47)
Provisions and accruals	1,256	1,179
Intangible asset	(809)	(761)
ROU leasing assets	(97)	(126)
ROU leasing liabilities	138	127
Foreign exchange gains/losses	29	(14)
Other	61	(254)
Unrecognised temporary differences	(1,553)	(1,849)
Net deferred tax asset	-	-

The Group has unused tax losses that arose in Australia, for which no deferred tax assets have been recognised of \$52,846,066 (2022: \$46,875,353) 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 2023, the Group had unused tax losses for which no deferred tax assets have been recognised of US\$13,764,000 (2022: US\$13,764,000) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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 to 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 2023, the Group recognised nil (2022: nil) 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 2023

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:

	2023 \$'000	2022 \$'000
Profit/(loss) attributable to ordinary equity holders of the Parent:		
Continuing operations	20	(11,131)
Discontinued operations	-	-
Profit/(loss) attributable to equity holders of the Parent for basic earnings	20	(11,131)
	2023 Number	2022 Number
Weighted average number of ordinary shares for basic EPS	104,435,036	86,161,094
Weighted average number of ordinary shares adjusted for the effect of dilution	104,435,036	86,161,094

Earnings per share

	Cents	Cents
Basic profit/(loss) per share	0.02	(12.92)
Diluted profit/(loss) per share	0.02	(12.92)

Earnings per share from continuing operations

	Cents	Cents
Basic profit/(loss) per share	0.02	(12.92)
Diluted profit/(loss) per share	0.02	(12.92)

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:

	2023 Number	2022 Number
Options	17,500,000	-
Performance rights	430,464	1,549,105
Total	17,930,464	1,549,105

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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 Page 32

B.2 Intangible assets Page 34

B.1 Plant and equipment

	Plant and equipment	Leasehold improvements	Total
	\$'000	\$'000	\$'000
Gross carrying amount at cost			
At 1 July 2021	13,301	2,582	15,883
Additions	499	6	505
At 30 June 2022	13,800	2,588	16,388
Additions	246	44	290
Grant rebate	(196)	-	(196)
At 30 June 2023	13,850	2,632	16,482
Depreciation and impairment			
At 1 July 2021	(11,912)	(2,324)	(14,236)
Depreciation	(393)	(54)	(447)
At 30 June 2022	(12,305)	(2,378)	(14,683)
Depreciation	(452)	(48)	(500)
At 30 June 2023	(12,757)	(2,426)	(15,183)
Net book value			
At 30 June 2023	1,093	206	1,299
At 30 June 2022	1,495	210	1,705

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 derecognition 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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.

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 2023, 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

B.2 Intangible assets

	Model 2019 Development \$'000	Model 2021 Development \$'000	Total \$'000
Consolidated			
Year ended 30 June 2023			
Cost	2,611	3,919	6,530
Accumulated amortisation and impairment	(1,147)	-	(1,147)
R&D tax offset recognised	(1,421)	(724)	(2,145)
Net carrying amount	43	3,195	3,238
Movement			
Net carrying amount at the beginning of the year	319	3,083	3,402
Additions	-	836	836
Amortisation for the year	(276)	-	(276)
R&D tax offset recognised		(724)	(724)
Net carrying amount at the end of the year	43	3,195	3,238
Year ended 30 June 2022			
Cost	2,611	3,083	5,694
Accumulated amortisation and impairment	(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

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 generated intangible	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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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.

C.1	Inventories	Page 37
C.2	Trade and other receivables	Page 38
C.3	Cash and cash equivalents	Page 38
C.4	Other financial assets	Page 39
C.5	Trade and other payables	Page 39
C.6	Deferred revenue	Page 39
C.7	Leases	Page 40

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 2023, the Group has a total of \$2,292,000 of cash at its disposal (2022: \$2,363,000) and a net current asset position \$2,247,000 (2022 net current liability: \$4,977,000). 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 2023						
Borrowings ¹	-	1,500	2,486	-	3,986	3,796
Trade payables and other liabilities	1,979	-	-	-	1,979	1,979
Lease liabilities	314	538	1,221	-	2,074	1,835
	2,293	2,038	3,707	-	8,039	7,610
At 30 June 2022						
Borrowings	8,486	-	-	-	8,486	8,486
Trade payables and other liabilities	3,060	-	-	-	3,060	3,060
Lease liabilities	295	472	-	-	767	766
	11,841	472	-	-	12,313	12,312

¹ Refer to Note D.1 for details.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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 2023 is as follows:

	2023 \$'000	2022 \$'000
Cash and cash equivalents (Note C.3)	2,292	2,363
Short-term deposits (Note C.4)	751	586
	3,043	2,949

A reasonably possible change in the interest rate (+0.5%/-0.5%) (2022: +0.5%/-0.5%), with all variables held constant, would have resulted in a change in post tax profit/(loss) of \$11,000/(\$11,000) (2022: \$12,000)/(\$12,000) 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 2023 and 2022 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

C.1 Inventories

	2023 \$'000	2022 \$'000
Raw materials	8,944	11,946
Provision for impairment	(2,558)	(2,991)
Work in progress	1,832	3,671
Finished goods	-	224
	8,218	12,850
Current	5,980	11,074
Non current	2,238	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 reporting date is informed by discussions with the Group's customers as to expected volume requirements for the engine programs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

C.2 Trade and other receivables

	2023	2022
	\$'000	\$'000
Trade receivables	2,101	1,065
Other receivables	873	866
Impairment of other receivables (a)	(849)	(924)
	2,125	1,007

(a) At 30 June 2023, the Group has \$849,000 (2022: \$924,000) as a provision for impaired receivables 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

	2023	2022
	\$'000	\$'000
Cash at bank	2,292	2,363
	2,292	2,363

The reconciliation of net loss after tax to net cash flows from operations for the years ended 30 June 2023 and 2022 is as follows:

	2023	2022
	\$'000	\$'000
Profit/(loss) after income tax from continuing operations	20	(11,131)
Depreciation & amortisation (Note B.1)	777	723
Government loan forgiven	(4,690)	(1,387)
Interest expense	-	-
Provision for excess stock	(434)	2,868
Warranties (Note E.1)	236	14
Employee benefits (Note E.1)	(29)	(675)
Provision for doubtful debt	(75)	75
Share based payment expense (Note F.3)	23	109
Net foreign exchange gain	2	(416)

Net cash used in operating activities before changes in assets and liabilities	(4,170)	(9,820)
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Changes in assets and liabilities during the year:

Decrease/(increase) in receivables and prepayments	(984)	3,234
(Increase)/decrease in inventories	5,065	(2,951)
(Increase)/decrease in deferred tax assets	-	4,070
Increase/(decrease) in payables	(3,405)	1,373
	676	5,726

Net cash used in operating activities	(3,494)	(4,094)
---------------------------------------	---------	---------

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

C.4 Other financial assets

	2023	2022
	\$'000	\$'000
Short term deposits	751	586
	751	586

The Group has pledged short term deposits of \$751,000 (2022: \$586,000) 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

	2023	2022
	\$'000	\$'000
Trade payables	1,979	2,846
Other payables	-	214
	1,979	3,060

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.

A reconciliation of deferred revenue for the years ended 30 June 2023 and 2022 is as follows:

	2023	2022
	\$'000	\$'000
At 1 July	4,046	4,285
Deferred during the year	7,825	6,156
Released to the statement of profit or loss	(10,629)	(6,395)
At 30 June	1,243	4,046

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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:

	2023	2022
	\$'000	\$'000
Right-of-use assets		
Properties	1,141	341
Total right-of-use assets	1,141	341

	2023	2022
	\$'000	\$'000
Finance Lease Receivable		
Current	430	184
Non Current	253	-
	683	184

	2023	2022
	\$'000	\$'000
Lease Liabilities		
Current	752	766
Non Current	1,083	-
	1,835	766

Amounts recognised in the statement of profit or loss

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

	2023	2022
	\$'000	\$'000
Depreciation charge of right-of-use assets	546	533
Impairment	-	-
Interest expense (included in finance cost)	57	77
Interest income	-	-

The total cash outflow for leases in 2023 was \$807,000 (2022: \$871,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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.

D.1	Borrowings	Page 41
D.2	Share capital	Page 42
D.3	Option reserves	Page 42
D.4	Reserves	Page 43

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

	2023	2022
	\$'000	\$'000
Current	1,452	8,486
Non-current	2,344	-
	3,796	8,486

Changes in borrowings arising from financing activities are as follows:

	\$'000
At 1 July 2022	8,486
Loan forgiveness grant income	(4,500)
Grant income (loan deferral)	(325)
Interest expenses	135
At 30 June 2023	3,796

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

On 25 January 2010, the Department of Jobs, Tourism, Science and Innovation ("JTSI") 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 31 January 2023.
- The Deed of Variation changed the repayment due dates so that the term of the loan was reduced to 31 December 2024.
- 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 over the remaining period.
- For the year ended June 2023, Orbital achieved various operational milestones and reduced the loan by \$4.5M.

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 (\$0.3M) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

D.2 Share capital

	2023 \$'000	2022 \$'000
Ordinary shares issued and fully paid	41,380	37,683
Movement in ordinary shares	Number	\$000's
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 plan	352,804	44
At 30 June 2022	90,996,694	37,683
At 1 July 2022	90,996,694	37,683
Issue of ordinary shares	25,000,000	3,968
Share issue transaction costs	-	(306)
Employee Share plan	1,238,610	36
At 30 June 2023	117,235,304	41,380

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 Option Reserve

	2023 \$'000	2022 \$'000
Issued Options	1,033	-
Movement in options	Number	\$000's
At 1 July 2022	-	-
Issue of options	17,500,000	1,033
Revaluation	-	-
At 30 June 2023	17,500,000	1,033

As part of the new share issue during the year, 17,500,000 new options were issued for nil cash consideration and were valued at \$1,033,205 using the Black Scholes method of calculation at grant date of 7 February 2023. A volatility rate of 99.8% and a risk-free rate of 3.16% was used in the calculation. The options are exercisable at \$0.35 on or before the date that is 3 years after the date of issue.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

D.4 Reserves

	Employee benefits reserve \$000's	Foreign currency translation reserve \$000's	Total \$000's
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
At 1 July 2022	2,665	(60)	2,605
Foreign currency translation	-	2	2
Rights issued pursuant to performance rights plan	(13)	-	(13)
At 30 June 2023	2,652	(58)	2,594

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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 Page 44

E.1 Provisions

	Warranties \$000's	Employee benefits \$000's	\$000's
At 1 July 2022	2,633	1,307	3,940
Arising during the year	338	681	1,018
Utilised	(11)	(710)	(721)
Expired	(91)	-	(91)
At 30 June 2023	2,869	1,278	4,147
Current	2,869	1,227	4,096
Non-current	-	51	51
	2,869	1,278	4,147
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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

F. OTHER NOTES

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	45
F.2	Related parties	45
F.3	Share based payments	46
F.4	Subsidiaries	47
F.5	Parent entity information	47
F.6	Auditor remuneration	48
F.7	Events after the end of the reporting period	48
F.8	Other accounting policies	48
F.9	New accounting standards	48

F.1 Key management personnel compensation

Compensation of key management personnel of the Group

	2023 \$	2022 \$
Short term employee benefits	1,061,639	1,407,391
Post-employment benefits	80,864	86,927
Long-term employee benefits	21,029	(292,709)
Share based payments	289	84,138
	1,163,821	1,285,747

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

F.3 Share based payments

	2023 \$'000	2022 \$'000
Equity-settled share based payment transactions	23	109
	23	109

There were no cancellations or modifications to awards in the 2023 or 2022 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 2023, 231,969 ordinary shares (2022: 104,520 ordinary shares) were issued on 9 May 2023 at a market value on the date of issue of \$35,955 (2022: \$44,000).

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 page 10 of the Directors' Report. During the year ended 30 June 2023, no performance rights issued under the plan vested. The share based payment expense recognised for the year ended 30 June 2023 was \$nil (2022: \$64,000).

Movements during the year

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

	2023 Number	2022 Number
Outstanding at 1 July	1,549,105	2,230,420
Granted during the year	-	-
Exercised during the year	(1,006,641)	(240,250)
Lapsed during the year	(112,000)	(441,065)
Outstanding at 30 June	430,464	1,549,105

The weighted average remaining contractual life of performance rights outstanding at 30 June 2023 was 0.25 years (2022: 1.25 years).

The following tables list the inputs into the models used for the plans for the years ended 30 June 2023 and 2022 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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 2023	2022
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

	2023 \$'000	2022 \$'000
Current assets	-	-
Non-current assets	7,625	9,349
Current liabilities	1,452	8,486
Non-current liabilities	2,344	-
Net assets	3,830	863
Issued capital	41,380	37,683
Options Reserve	1,033	-
Accumulated losses	(41,235)	(39,484)
Employee benefits reserve	2,652	2,665
Total equity	3,830	863
Profit/(loss) of the parent	4,689	(9,033)
Total comprehensive profit/(loss) of the parent entity	4,689	(9,033)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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:

	2023	2022
	\$	\$
(a) Auditors of the Group - PwC and related network firms		
Audit and review of financial reports	273,138	149,360
Tax compliance services	50,601	179,762
Other services	20,400	93,562
	344,139	422,684
(b) Other auditors and their related network firms		
Tax compliance services	-	26,669
	-	26,669

F.7 Events after the end of the reporting period

There were no reportable events after the reporting period end.

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

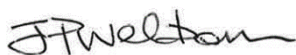
In accordance with a resolution of the Directors of Orbital Corporation Limited, I state that:

1. In the opinion of the Directors:

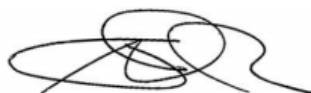
- (a) The financial statements and notes and the additional disclosures included in the Directors' Report designated as audited, of the Group are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the financial position of the Group as at 30 June 2023 and of its performance, as represented by the results of its operations and its 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 2023.

On behalf of the Board,



JP Welborn
Chairman



TM Alder
Managing Director & Chief Executive Officer

Dated at Perth, Western Australia 21 September 2023

INDEPENDENT AUDITOR'S REPORT



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 2023 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 2023
- 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 financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

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

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

Independence

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

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INDEPENDENT AUDITOR'S REPORT



Material uncertainty related to going concern

We draw attention to Note 1.J in the financial report, which indicates that the Group had operating cash outflows of \$3,494,000 for the year ended 30 June 2023. The ability of the Group to continue as a going concern is dependent on a number of factors identified by the Group, including successful continued development of new engine models, leading to further committed engineering and production revenues, and meeting cash flow forecasts. 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 \$172,000, 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.

Audit Scope

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

INDEPENDENT AUDITOR'S REPORT



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. 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 matters 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 Inventories (Refer to note C.1) \$8.2 million At 30 June 2023 the Group held inventories with a cost of \$10.8 million. These inventories comprise of raw materials and work in progress which will be used in the construction of engines by the Group. At 30 June 2023, the Group recognised a provision of \$2.6 million to reduce the carrying value of certain items of inventory to its net realisable value, as required by Australian Accounting Standards. We focused on this matter due to the significance of the inventories 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 inventories at the lower of cost or net realisable value we performed the following procedures, amongst others: • assessed the application of inventory costing methodologies and whether this was consistent with the requirements of Australian Accounting Standards. • agreed the cost of a haphazard sample of inventory items to that shown in third party invoices. • on a sample basis, evaluated the direct labour costs allocated to engines in inventories by inspecting timesheets and agreeing the labour cost to payroll data. • on a sample basis, recalculated the mathematical accuracy of the determination of the cost of work in progress items in inventories. • evaluated whether inventories were carried at the lower of cost and net realisable value, by comparing the cost of inventories in each engine's respective final bill of material against sale prices in customer contracts. • on a sample basis, performed substantive procedures to determine if raw materials and work in progress included in the inventories sub ledger were attributed to the correct engine, by assessing the individual components making up the final approved bill of materials of each engine. • assessed management's assumptions on expected demand for engines by comparing to quantities under existing signed contracts and open purchase orders.

INDEPENDENT AUDITOR'S REPORT



Key audit matter

Accounting for the Department of Jobs, Tourism, Science and Innovation ("JTSI") loan (Refer to note D.1)

During the year, the Group renegotiated the terms of the loan with JTSI, resulting in new repayment terms and the ability to offset repayments if operational milestones were met (the 'Deed of Variation').

Through the application of Australian Accounting Standards, the Group recognised \$4.8 million in grant income and \$0.1 million in interest expense relating to the loan for the year ended 30 June 2023.

Accounting for the JTSI loan was determined to be a key audit matter due to the significance of the loan balance and grant income recognised to the Group.

How our audit addressed the key audit matter

- evaluated a sample of individual components of inventory items that were expected to be utilised within expected demand by testing management's calculation of the number of units of the relevant component required to complete those engines.
- evaluated the adequacy of the disclosures made in Note C.1 in light of the requirements of Australian Accounting Standards.

In assessing the accounting for the JTSI loan, we performed the following procedures, among others:

- obtained an understanding of the key terms of the Deed of Variation.
- obtained an understanding of the accounting treatment adopted by the Group in accounting for the revised loan terms.
- 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.
- evaluated management's calculations of grant income and interest expense arising from the loan.
- assessed the reasonableness of interest rate assumptions utilised by management in determining the initial fair value of the loan.
- evaluated management calculations in determining the carrying value and classification of the loan as at 30 June 2023 by inspecting correspondence and comparison to the terms in the Deed of Variation.
- evaluated the adequacy of the disclosures made in Note D.1 in light of the requirements of Australian Accounting Standards.

INDEPENDENT AUDITOR'S REPORT



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 2023, 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 through our opinion on the financial report. We have issued a separate opinion on the remuneration report.

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 7 to 14 of the directors' report for the year ended 30 June 2023.

In our opinion, the remuneration report of Orbital Corporation Limited for the year ended 30 June 2023 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

A stylized signature of PricewaterhouseCoopers.

PricewaterhouseCoopers

A stylized signature of Ian Campbell.

Ian Campbell
Partner

Perth
21 September 2023

SHAREHOLDING DETAILS

Class of Shares and Voting Rights

As at 30 June 2023 there were 4,977 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 27 July 2023

UIL Limited	38,094,822	32.61%
First Sentier Wholesale Developing Companies Fund	13,025,631	11.15%

Distribution of Shareholdings as at 30 June 2023

1-1,000	2,603
1,001-5,000	1,309
5,001-10,000	442
10,001-100,000	528
100,001 and over	95
Number of shareholders	4,977
Total Shares on Issue	116,829,173
Number of unmarketable parcels	2,401,841

Top 20 Shareholders as at 30 June 2023

		NUMBER OF SHARES HELD	% OF SHARES
1	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	37,997,762	32.52
2	CITICORP NOMINEES PTY LIMITED	16,767,730	14.35
3	ANNAPURNA PTY LTD	3,074,167	2.63
4	HUNTER CAPITAL ADVISORS P/L	3,000,000	2.57
5	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	2,335,943	2.00
6	DEBUSCEY PTY LTD	1,850,000	1.58
7	BNP PARIBAS NOMINEES PTY LTD	1,635,828	1.40
8	MR TODD MATHEW ALDER	1,471,639	1.26
9	BIRKETU PTY LTD	1,455,688	1.25
10	MR JOHN PAUL WELBORN	1,199,380	1.03
11	MR MICHAEL WILLIAM FORD & MRS NINA BETTE FORD	1,039,105	0.89
12	BNP PARIBAS NOMS PTY LTD	996,255	0.85
13	MR KENT MILLER LOGIE	899,603	0.77
14	MR JOHN PAUL WELBORN & MS CAROLINE ANNE WELBORN	792,287	0.68
15	VULCAN INVESTMENTS PTY LTD	600,000	0.51
16	MR GEOFFREY VICTOR DAY	600,000	0.51
17	BOND STREET CUSTODIANS LIMITED	583,334	0.50
18	MR ADAM GARE	575,000	0.49
19	MR ADRIANO DINO CUGOLA	550,000	0.47
20	MR DAVID LUIGI TAGLIAFERRI & MRS NICOLA MARIE TAGLIAFERRI	545,000	0.47
Top 20 Shareholders Total		77,968,721	66.74

The 20 largest shareholders hold 66.74% of the ordinary shares of the Company (2022: 68.85%).

On-market share buy-back

There is no current on-market buy-back.

CORPORATE INFORMATION

ABN 32 009 344 058

REGISTERED AND PRINCIPAL OFFICE

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CONTACT DETAILS

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www.orbitaluav.com

DIRECTORS

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

COMPANY SECRETARY

T. Spencer

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