



ORBITAL CORPORATION LIMITED APPENDIX 4D

Company Details

Name of Entity:	Orbital Corporation Limited
ABN:	32 009 344 058
Reporting period:	Half Year ended 31 December 2021
Previous corresponding period:	Half Year ended 31 December 2020

Results for announcement to the market

				A\$'000
Total revenue from continuing operations	Down	-53%	to	8,889
Net loss from continuing operations after tax	Up	31%	to	(5,080)
Net loss for the period attributable to members	Up	31%	to	(5,080)

Net tangible assets per share

	31 Dec 2021	30 June 2021
Net tangible assets per share (cents)	6.07	6.90

Dividends

There is no proposal to pay dividends for the half year ended 31 December 2021

CORPORATE INFORMATION

ABN 32 009 344 058

REGISTERED AND PRINCIPAL OFFICE

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Balcatta, Western Australia 6021
Australia

 | @OrbitalCorpASX

 | OrbitalUAV

CONTACT DETAILS

Australia

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INTERNET ADDRESS

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Email: contact@orbitalcorp.com.au

DIRECTORS

J.P. Welborn, Chairman

T.M. Alder, Managing Director and Chief Executive Officer

S.B. Gallagher

F.K. Abbott

COMPANY SECRETARY

D. Bonomini

SHARE REGISTRY

Link Market Services Limited

Level 12 QV1 Building

250 St Georges Terrace

Perth, Western Australia 6000

Telephone: 61 (08) 9211 6670

SHARE TRADING FACILITIES

Australian Stock Exchange Limited (Code "OEC")

AUDITORS

PricewaterhouseCoopers

125 St Georges Terrace

Perth, Western Australia 6000



31 December 2021
Half-Year Financial Report

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Your Directors submit their report for the half-year ended 31 December 2021

DIRECTORS

The following persons were Directors of the Company during the half-year ended 31 December 2021 and up to the date of this report.

Name	Information on Directors
John Welborn	Chairman (Non-executive)
Todd Alder	Managing Director and Chief Executive Officer
Steve Gallagher	Non-Executive Director
Kyle Abbott	Non-Executive Director

REVIEW AND RESULTS OF OPERATIONS

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

Financial Review

The Group's consolidated revenue for the period was \$8,889,000 (2020: \$19,046,000) with a loss before income tax from continuing operations of \$1,010,000 (2020: loss of \$2,603,000). This includes an unrealised foreign exchange gain of \$490,000 (2020: unrealised foreign exchange loss of \$2,366,000). The loss excluding income tax and unrealised foreign exchange from continuing operations for the period was \$1,500,000 (2020: loss of \$237,000).

At 31 December 2021, cash, term deposits and receivables were \$7,570,000 (2020: \$7,705,000). Deferred tax asset was nil (2020: \$4,070,000). Net cash used in operating activities during the period was \$3,228,000 (cash used in the prior period 2020: \$4,988,000).

Operational Review

Revenue of \$8,889,000 for the half-year ended 31 December 2021 was comprised of sales income of established engine models under the Company's long term agreement ('LTA') with Insitu, a wholly owned subsidiary of the Boeing Company, and engineering services income from development programs across Orbital UAV's growing customer portfolio.

During the period, the Company completed the transition of new engine build production activities from its Hood River, Oregon facility to Balcatta, Western Australia. This move consolidates all new engine build production in Australia, providing opportunities to drive operational efficiencies across its established and future engine production lines.

Orbital UAV's Hood River facility remains strategically critical to the business and is the key interface with the Company's growing US customer base and broader US Defense network. Operationally, Hood River continues to provide maintenance, repair and overhaul capability with the capacity for expansion as production requirements demand.

Despite delays due to customer-driven design changes, Orbital UAV continued to progress the third engine development program for Boeing-Insitu during the six months to 31 December 2021. In parallel, development programs for Lycoming/Textron Systems and a major Singapore customer were successfully progressed and remain on track.

WA Government Loan Milestones

As outlined in the 2021 Annual Report, Orbital UAV received formal confirmation of a Deed of Variation following the restructure of its \$9.9M WA Government Loan.

The restructured loan agreement includes an extended repayment schedule and repayment offset options that are contingent on the Company achieving operational milestones aligned with its increasing engine business in Western Australia.

During the first half of financial year 2022 ('FY22'), Orbital UAV met the first operational milestones set out in the Deed, contributing to 'Other Income' of \$2.1M.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

New customer programs

In addition to Orbital UAV's existing production and development programs, Orbital UAV continued to increase its customer portfolio and product development contracts during the first half of FY22, with two new programs of work announced in October.

The first, an additional program with Textron Systems, is for the development of Orbital UAV upgrades to Textron Systems' current UAV engines for the Aerosonde® program. The upgrades are targeting increased take-off power and improved real-time engine health monitoring and diagnostics capability.

Subsequently, the Company announced a Memorandum of Understanding ('MoU') with Texas-based Skyways, an emerging leader in unmanned cargo transport. Under the terms of the MoU, Orbital UAV will deliver a pre-production, heavy fuel engine to Skyways for integration into the company's next generation unmanned air system. Delivery of the development engine is scheduled in the first quarter of 2022.

Renounceable Entitlement Offer

Orbital UAV's increasing customer base and program deliverables saw the Company launch a Renounceable Entitlement Offer in October to raise up to A\$6.5M. Funds raised are to be directed towards:

- contracted engine development programs;
- enhancing the Company's Australian production facility capabilities;
- driving product research and development; and
- general working capital.

The Entitlement Offer was well supported by eligible shareholders, including major shareholders UIL Limited and First Sentier Investors and all of the Company's Directors.

COVID-19

Throughout the COVID-19 pandemic, Orbital UAV has continued to implement proactive and ongoing risk mitigation to ensure its people remain safe and well, and operations in Australia and the USA continue with minimal disruption.

Following the launch of the WA Government's Mandatory COVID-19 vaccination policy for WA workers in October 2021, Orbital UAV has implemented its own COVID-19 Vaccination Policy. The Policy ensures the Company will have the necessary information, processes and people in place to continue operations in the event of a lockdown.

Significant events occurring after the reporting period

In February 2022 Boeing-Insitu issued Orbital UAV with a Termination of Convenience for the third engine development program under the LTA. Under the contracted terms, a Termination of Convenience entitles Orbital UAV to a full reimbursement of all costs incurred on the program to date.

The review does not impact demand of the two existing engine models Orbital UAV has in production for Boeing-Insitu.

The attached report for the half-year ended 31 December 2021 contains an independent auditor's review report which includes a paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Outlook

The restructure of the Company's WA Government loan and the successful completion of the Renounceable Entitlement Offer has strengthened Orbital UAV's balance sheet and provided funds to progress the Company's growth aspirations – specifically the near-term expansion of its engine production lines in Balcatta, Australia.

Following the termination of activities on the third Boeing-Insitu engine model, the Company has redeployed facility and personnel resources onto other existing engine programs, with the intention of accelerating their development.

At the same time, Orbital UAV remains committed to supporting Boeing-Insitu in its current and future requirements with the delivery of confirmed orders for two existing engine production models.

The Company has a growing portfolio of contracted and globally recognised customers. With an increasing pipeline of opportunities within both defence and commercial markets, Orbital UAV continues to build its revenue growth potential and enhance its reputation as a world leader in the design and delivery of UAV engines.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Lead auditor's independence declaration under section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 6 and forms part of the Directors' Report for the half-year ended 31 December 2021.

Rounding

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

Signed in accordance with a resolution of the Directors.



Todd Alder
Managing Director & Chief Executive Officer
Perth, 25 February 2022



Auditor's Independence Declaration

As lead auditor for the review of Orbital Corporation Limited for the half-year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'Ian Campbell', is positioned above the printed name.

Ian Campbell
Partner
PricewaterhouseCoopers

Perth
25 February 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

	Notes	2021 \$'000	2020 \$'000
Continuing operations			
Sale of goods		6,906	16,273
Engineering services income		1,978	2,692
Royalty and licence income		5	77
Interest revenue		-	4
Total revenue		8,889	19,046
Other income		2,271	92
Materials and consumables expenses		(3,431)	(9,578)
Write down of obsolete inventory		(630)	(44)
Employee benefits expenses		(5,135)	(5,819)
Depreciation expenses		(481)	(780)
Amortisation of intangibles	4	(138)	(165)
Engineering consumables and contractors expenses		(387)	(311)
Occupancy expenses		(295)	(466)
Travel and accommodation expenses		(110)	(179)
Communications and computing expenses		(506)	(511)
Patent expenses		(192)	(223)
Insurance expenses		(532)	(737)
Audit, compliance and listing expenses		(296)	(348)
Finance costs		(164)	(365)
Reversal of allowance for impairment of other receivables		-	302
Warranty expenses		(80)	(227)
Other expenses		(381)	(332)
Foreign exchange gains/(losses)		588	(1,958)
Loss before income tax from continuing operations		(1,010)	(2,603)
Income tax expense		(4,070)	(1,285)
Loss for the period from continuing operations		(5,080)	(3,888)
Loss for the period		(5,080)	(3,888)
Attributable to:			
Equity holders of the parent		(5,080)	(3,888)
Loss for the period from continuing operations		(5,080)	(3,888)
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(504)	727
Total comprehensive loss for the period		(5,584)	(3,161)
Attributable to:			
Equity holders of the parent		(5,584)	(3,161)
Total comprehensive loss for the period		(5,584)	(3,161)
Basic loss for the period attributable to ordinary equity holders of the parent (cents)		(5.58)	(5.01)
Diluted loss for the period attributable to ordinary equity holders of the parent (cents)		(5.58)	(5.01)

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

ASSETS	Notes	31 Dec 2021	30 June 2021
		\$'000	\$'000
Current assets			
Cash and cash equivalents		4,551	3,116
Other financial assets		585	585
Trade and other receivables		2,434	4,004
Inventories	3	14,077	12,767
Prepayments		629	245
Finance lease receivable		352	334
Total current assets		22,628	21,051
Non-current assets			
Intangibles	4	2,654	1,981
Deferred taxation asset	5	-	4,070
Plant and equipment		1,957	1,647
Right-of-use asset		607	857
Finance lease receivable		-	180
Total non-current assets		5,218	8,735
Total assets		27,846	29,786
LIABILITIES			
Current liabilities			
Trade payables and other liabilities		2,281	1,742
Deferred revenue		3,759	4,285
Borrowings	7	2,943	9,986
Government grants		27	-
Lease liabilities		927	982
Provisions		4,135	4,530
Total current liabilities		14,072	21,525
Non-current liabilities			
Lease liabilities		393	847
Borrowings	7	5,069	-
Government grants		86	-
Provisions		48	72
Total non-current liabilities		5,596	919
Total liabilities		19,668	22,444
Net assets		8,178	7,342
Equity			
Share capital	6	37,683	31,265
Reserves		2,533	3,035
Accumulated losses		(32,038)	(26,958)
Total equity		8,178	7,342

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

	Share capital	(Accumulated losses)	Employee equity benefits reserve	Foreign currency translation reserve	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2021	31,265	(26,958)	2,600	435	7,342
Loss for the period	-	(5,080)	-	-	(5,080)
Foreign currency translation	-	-	-	(504)	(504)
Total comprehensive income for the period	-	(5,080)	-	(504)	(5,584)
Issue of ordinary shares	6,374	-	-	-	6,374
Share based payments	44	-	2	-	46
At 31 December 2021	37,683	(32,038)	2,602	(69)	8,178
At 1 July 2020	31,220	(15,513)	2,424	(29)	18,102
Loss for the period	-	(3,888)	-	-	(3,888)
Foreign currency translation	-	-	-	727	727
Total comprehensive income for the period	-	(3,888)	-	727	(3,161)
Share based payments	-	-	44	-	44
At 31 December 2020	31,220	(19,401)	2,468	698	14,985

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

	Notes	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Cash receipts from customers		10,651	13,402
Cash paid to suppliers and employees		(13,854)	(18,362)
Interest received		-	4
Interest paid		(25)	(32)
Net cash used in operating activities		(3,228)	(4,988)
Cash flows from investing activities			
Payments for intangible asset		(811)	(516)
Purchase of plant and equipment		(527)	(440)
Net cash used in investing activities		(1,338)	(956)
Cash flows from financing activities			
Proceeds from issues of shares		6,479	-
Share issue transaction costs		(105)	-
Principal elements of lease payments		(494)	(673)
Net cash from financing activities		5,880	(673)
Net increase/(decrease) in cash and cash equivalents		1,314	(6,617)
Cash and cash equivalents at 1 July		3,116	8,749
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		121	(599)
Cash and cash equivalents at 31 December		4,551	1,533

The accompanying notes form part of the financial statements.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The consolidated financial statements for the half-year ended 31 December 2021 of Orbital Corporation Limited ("the Company" or "the Parent") and its subsidiaries (collectively, "the Group") were authorised for issue by the Company's Directors on 25 February 2022.

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

The Group is principally engaged in revolutionary design, proven manufacturing processes and rigorous testing to deliver superiority in UAV propulsion systems and flight critical components. The Group drives its UAV-focused strategy from its dedicated production facilities in WA, Australia and Oregon, USA.

(b) Basis of preparation

This general purpose consolidated financial report for the half-year ended 31 December 2021 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

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

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2021 and considered together with any public announcements made by the Company during the half-year ended 31 December 2021 in accordance with the continuous disclosure obligations of the ASX listing rules.

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

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

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

(c) New Accounting Standards and Interpretations

There are no new relevant accounting standards for the current period.

(d) Going concern assumption

The half-year 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. This assumption is based on the Group's ability to meet its future cash flow requirements given the cash flow projection, and existing cash reserves held as at 31 December 2021.

For the six months ended 31 December 2021, the Group recorded an after tax loss of \$5,080,000 and operating cash outflows of \$3,228,000. As at 31 December 2021, the Group had net assets of \$8,178,000 and net current assets of \$8,556,000.

The Group also had cash outflows from investing activities of \$1,338,000 and cash inflows from financing activities of \$5,880,000.

Orbital UAV has two of five engine model production lines in operation under the Boeing-Insitu LTA. While a third engine model was in development, as announced on 14 February 2022 future production of this engine has been terminated at Boeing-Insitu's request.

In addition to the existing production and development programs, Orbital UAV continued to increase its customer portfolio and product development contracts during the first half of FY22, with two new programs of work announced in October.

The Group successfully renegotiated the repayment terms of the WA government loan to include repayment offset options if certain operational milestones are met, and an extended repayment schedule. It achieved the relevant operational milestones for the half year and successfully reduced the loan value by \$1.5M. Refer to Note 7 Borrowings for further details.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Furthermore, the Group was able to raise approximately \$6.4million from a placement to both existing and new institutional and sophisticated investors to strengthen the Group's balance sheet.

The Group assessed how the current events and conditions may impact its future operations and cash flow. While the long-term strategy of the Group remains unchanged, the Group has critically assessed cash flow forecasts for the 12 months from the date of this report based on expected sales and related costs and the impact of recent events (including those disclosed in note 8).

This assessment identified 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 are significantly dependent upon a number of factors including:

- Outcome of the third engine review - On 14 February 2022, Orbital UAV announced that the future production of the third engine was terminated at Boeing-Insitu's request. Under the contracted terms, a Termination of Convenience entitles Orbital UAV to a full reimbursement of all costs incurred on the program to date. Refer to subsequent event note 8 for further details.
- WA government loan offset - The Company is undergoing assessment of potential risks in relation to the WA government loan as certain operational milestones are linked to the above-mentioned terminated works. Management intends to commence discussions with the WA government in the coming weeks.
- Operational performance - The Group achieving forecasted operational performance and positive operational cash flows from the existing engine production programs over the next 12 month period.

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 the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors consider that the Company will be successful in the above matters and have therefore prepared the financial report on a going concern basis. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary if the above uncertainties are not satisfactorily resolved.

2. 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.

Segment information

Half year ended 31 December 2021

	Australia		US		Consolidated	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Sale of goods	6,906	11,831	-	4,442	6,906	16,273
Other revenue	1,983	2,773	-	-	1,983	2,773
Segment revenue	8,889	14,604	-	4,442	8,889	19,046
EBIT	(270)	(1,497)	(576)	(741)	(846)	(2,238)
Finance expenses	(150)	(339)	(14)	(26)	(164)	(365)
(Loss)/Profit before income tax	(420)	(1,836)	(590)	(767)	(1,010)	(2,603)

	Australia		US		Consolidated	
	31 Dec 2021 \$'000	30 June 2021 \$'000	31 Dec 2021 \$'000	30 June 2021 \$'000	31 Dec 2021 \$'000	30 June 2021 \$'000
Assets	27,176	25,129	670	4,657	27,846	29,786
Liabilities	19,053	19,362	616	3,082	19,669	22,444
Net assets	8,124	5,767	54	1,575	8,178	7,342

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

3. INVENTORIES

	31-Dec-21	30-Jun-21
	\$'000	\$'000
Raw materials	13,414	11,741
Provision for obsolescence	(659)	(123)
Work in progress	1,322	990
Finished goods	-	159
	<u>14,077</u>	<u>12,767</u>

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.

4. INTANGIBLES

Consolidated	Model 2019 Development \$'000	Model 2021 Development \$'000	Total \$'000
31-Dec-21			
Cost	2,611	2,197	4,808
Accumulated amortisation and impairment	(733)	-	(733)
R&D tax offset recognised	(1,421)	-	(1,421)
Net carrying amount	457	2,197	2,654
Movement			
Net carrying amount at the beginning of the half-year	595	1,386	1,981
Additions	-	811	811
Amortisation for the year	(138)	-	(138)
Net carrying amount at the end of the half-year	457	2,197	2,654
30-Jun-21			
Cost	2,611	1,386	3,997
Accumulated amortisation and impairment	(595)	-	(595)
R&D tax offset recognised	(1,421)	-	(1,421)
Net carrying amount	595	1,386	1,981
Movement			
Net carrying amount at the beginning of the half-year	733	517	1,250
Additions	-	869	869
Amortisation for the year	(138)	-	(138)
Net carrying amount at the end of the half-year	595	1,386	1,981

The Intangible assets comprise of capitalised development costs for the advancement of the modular propulsion systems. The intangible assets will be amortised using the straight-line method over a finite period of 5 years.

5. Taxes

Due to future uncertainties in the business as set out in note 1D, deferred taxes assets are only recognised to the extent of existing deferred tax liabilities.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

6. Share Capital

	31-Dec-21	30-Jun-21
	\$'000	\$'000
Ordinary shares issued and fully paid	37,683	31,265
Movement in ordinary shares	Number	\$000's
At 1 January 2021	77,658,776	31,265
At 30 June 2021	77,658,776	31,265
At 1 July 2021	77,658,776	31,265
Issue of ordinary shares	12,985,114	6,479
Share issue transaction costs	-	(105)
Employee Share	352,804	44
At 31 December 2021	90,996,694	37,683

In November 2021, the Group raised approximately \$6.4million from a placement to both existing and new institutional and sophisticated investors to strengthen the Group's balance sheet.

7. Borrowings

	31-Dec-21	30-Jun-21
	\$'000	\$'000
Current	2,943	9,986
Non-current	5,069	-
	8,012	9,986

Changes in borrowings arising from financing activities are as follows:

	\$'000
At 1 July 2021	9,986
Loan forgiveness grant income	(1,500)
Grant income (interest income)	(593)
Interest expenses	119
At 31 December 2021	8,012
At 1 January 2021	8,891
Finance costs	1,095
At 30 June 2021	9,986

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

- The term of the loan was 25 January 2010 to 30 May 2025
- The loan balance \$9.9M was reclassified as current borrowings under the loan terms in place at 30 June 2021 while it was under renegotiation.
- Orbital successfully renegotiated the loan and received formal confirmation of a Deed of Variation on 12 August 2021.
- The Deed of Variation includes an extended repayment schedule over the next four years and repayment offset options up to the entire value of the loan. The loan also remained interest free.
- The repayment offset options provide the potential to forgive the entire value of the loan. The offset provisions are contingent on the Company achieving operational milestones aligned with its increasing engine business in Australia over the four-year period.
- For the half-year ended 31 December 2021, Orbital achieved the relevant operational milestones and reduced the loan value by \$1.5M.
- Accounting standards require interest to be imputed while the loan is interest free. The benefit of the loan being interest free \$0.6M is recognised on contract effective date as grant income, in accordance with AASB 120 Accounting for Government Grants.

The remaining contractual maturities of the loan are:

	Less than 6 months	6-12 months	1-2 years	Over 2 years	Total contractual cashflows	Carrying amount of liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 31 December 2021						
Borrowings	1,500	500	3,000	3,486	8,486	8,012

8. SUBSEQUENT EVENTS

On 14 February 2022, Orbital UAV announced that the future production of the third engine was terminated at Boeing-Insitu's request. Under the contracted terms, a Termination of Convenience entitles Orbital UAV to a full reimbursement of all costs incurred on the program to date.

The review does not impact demand of the two existing engine models Orbital UAV has in production for Boeing-Insitu.

The Group currently has inventory balance of \$1.0M in relation to this model.

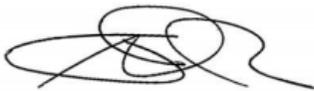
DIRECTORS' DECLARATION

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

In the opinion of the Directors:

- (a) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the financial position as at 31 December 2021 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board,



T.M. Alder
Managing Director and Chief Executive Officer

Perth, Western Australia
Dated: 25 February 2022



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

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Orbital Corporation Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

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

1. Giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date.
2. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

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 the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty relating to going concern

We draw attention to Note 1(d) in the half-year financial report, which indicates that for the six months ended 31 December 2021, the Group recorded an after tax loss of \$5,080,000 and operating cash outflows of \$3,228,000. In addition, as disclosed in Note 1(d) of the half-year financial report, the Group identified a number of factors that may impact on achieving future expected cash flows. These conditions, along with other matters set forth in Note 1(d), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.



Responsibilities of the directors for the half-year financial report

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

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Ian Campbell', written in a cursive style.

Ian Campbell
Partner

Perth
25 February 2022