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About Orbital UAV

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.

Forward-looking statements

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

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2020 ANNUAL REPORT

CORPORATE PROFILE

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

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DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

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 2020 and the auditor's report thereon.

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DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

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 2020.

Overview

FY20 highlights

- Delivery of \$33.8M revenue and \$1.9M net profit – top end of guidance range (\$25M to \$35M) and commitment to ongoing profitability;
- Second engine model under the Insitu Inc. long term agreement into production, with third engine in development;
- Designated Primary Engine Supplier to Insitu Inc.;
- New contracts signed with Northrop Grumman and one of Singapore's largest defence companies;
- Visit from Australia's Minister for Defence, Senator the Hon Linda Reynold CSC; and
- First test flights of Orbital UAV engines in Australia.

FY20 – transition to sustainable underlying earnings

In FY20, Orbital brought its second engine model into production as part of the Long Term Agreement ("LTA") with key customer Insitu Inc., a wholly owned subsidiary of the Boeing Company. The second model began shipping in January 2020 and contributed to operating revenue of \$33.8 million and earnings after interest and tax of \$1.9 million. This is after receiving a one off legal settlement as disclosed in the financial statements.

The LTA with Insitu was announced in October 2018 and forms the foundation for Orbital's near-term revenue growth. The Agreement covers the delivery of multiple propulsion systems and services, to be applied across the Boeing subsidiary's entire fleet of unmanned aerial vehicles (UAVs).

Financial results

The Company reported strong financial results for the year ended 30 June 2020, with revenue from continuing operations of \$33,823,000 (2019: \$15,253,000) and a net profit after tax of \$1,857,000 (2019: loss of \$5,906,000).

The Company reports a strong balance sheet with cash and receivables of \$14,681,000 (2019: \$15,127,000) and net current assets of \$11,851,000 (2019: \$13,453,000).

Net cash from operating activities during the period was \$3,726,000 (2019: \$1,783,000).

Shareholder returns

	2020	2019	2018	2017	2016
Closing share price (\$) ¹	0.75	0.30	0.36	0.50	0.69
Market capitalisation (\$m)	58.2	23.2	27.9	38.6	52.4
Basic EPS (cents) from operations	2.40	(7.63)	2.87	(15.55)	2.73

¹ as at 30 June

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

Management and Board transition

On 10 February 2020, Mr David Bonomini was appointed Chief Financial Officer and Company Secretary. Mr Bonomini is a respected finance executive with global experience leading governance, regulatory and commercial initiatives in high growth companies. He is a qualified CPA and holds a Bachelor of Commerce degree.

Mr Bonomini replaced Ms Roulé Jones, who resigned from the Company to pursue other interests.

With effect from 18 November 2019, Mr Terry Stinson stepped down from his position as Non-Executive Director on the Orbital Board.

Change in operations

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

Throughout the pandemic our sites in Australia and the USA have remained fully operational and continue to manufacture as normal. In the USA, Orbital operates within the Defense Industrial Base and is therefore considered part of the Critical Infrastructure Sector as defined by the US Department of Homeland Security.

As an advanced aerospace manufacturer supplying global defence prime contractors, our product demand remained unaffected by the COVID-19 outbreak. We continued to deliver on our production commitments and strengthened our global supply chain where necessary.

Delivery of our products continued through our established logistics providers, and contingency plans were put in place should existing channels of delivery be impacted.

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

Outlook

Orbital's LTA with Boeing subsidiary Insitu remains the Company's primary focus and forms the foundation for improved revenue growth in the near term. Under the LTA, the Company begins FY21 with two engine models in production, with the third in development.

In March 2020, Orbital was designated primary engine supplier status by Insitu. Primary supplier status will increase Orbital's share of Insitu designed engine orders and provides the Company with opportunities to increase production volumes under the LTA. The award supports the Company's decision to locate Orbital's new production facility in Hood River, Oregon and provides incentive for further investment in production capacity.

Building on the successful Insitu LTA and partnership, Orbital developed further growth opportunities in the global tactical UAV market during FY20.

In March 2020, the Company signed a new MoU with one of Singapore's largest defence companies for the design, development and initial low rate production of a multi-fuel UAV engine.

In April 2020, Orbital announced a new contract with leading aerospace and defence technology company Northrop Grumman to develop a hybrid propulsion system for a Vertical Take-Off and Landing UAV.

These two new engine development contracts demonstrate Orbital's growing reputation as a world leading supplier of propulsion solutions and flight critical components in the global tactical UAV market. The Company will progress these exciting engineering development projects during FY21 while continuing to focus on its production priorities under the Insitu LTA.

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

2. DIRECTORS

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

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

Chairman

Joined the Board in June 2014 and appointed as Chairman in March 2015. Mr Welborn is the Managing Director and Chief Executive Officer of Resolute Mining Limited, an ASX (ASX: RSG) and LSE (LSE: RSG.L) listed gold producer with two operating gold mines in Africa and Australia.

Mr Welborn is a Chartered Accountant with a Bachelor of Commerce degree from the University of Western Australia and holds memberships of the Institute of Chartered Accountants in Australia (ICAA), the Financial Services Institute of Australasia (FINSIA) and the Australian Institute of Company Directors (AICD).

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 a number of charitable organisations and is a former

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

Commissioner of Tourism Western Australia.

Mr Welborn also serves as a director of Resolute Mining Limited (appointed February 2015) and Equatorial Resources Limited (appointed August 2010).

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 and director of global businesses.

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 with Optal Ltd (an innovative global payment solutions company), Vix Technology Ltd (an industry leader in transport ticketing, fare collection/payments), Transact1 Pty Ltd (a financial services provider for cash management optimisation and Littlepay Pty Ltd (transit payment processing service provider).

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.

Mr Terry Dewayne Stinson, B.Bus Admin (magna cum laude)

Non-Executive Director

Mr Terry Stinson stepped down from his position as Non-Executive Director on the Orbital Board with effect from 18 November 2019.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

3. COMPANY SECRETARY

Mr David Bonomini, B.Com, CPA

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

4. DIRECTORS' MEETINGS

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

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	6	6	-	-
T M Alder	6	6	-	-
T D Stinson	-	-	-	-
S Gallagher	6	6	6	6
K Abbott	6	6	6	6

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 dedicated production facilities 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 has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future years.

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 01.

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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

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 2020 is as follows: -

Director	Ordinary Shares	Performance Rights
J P Welborn	850,000	-
T M Alder	372,333	1,242,250
S Gallagher	100,000	-
K Abbott	30,000	-
Total	1,352,333	1,242,250

12. SHARE OPTIONS

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

13. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important. For the year ended June 2020, the Group engaged with PricewaterhouseCoopers in non-audit services that included Tax & Research and Development Government grants. Refer to Note F.5 in the Financial Statements for summary of fees paid. The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

14. INDEMNIFICATION

Indemnification and insurance of officers

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

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

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

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

Indemnification of auditors

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

15. CORPORATE GOVERNANCE STATEMENT

The Board of Orbital Corporation Limited is responsible for corporate governance. The Board has prepared the Corporate Governance Statement in accordance with the third 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 2020

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 2020.

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 2020 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) Terry D Stinson ² Steve Gallagher (Chairman of the Audit & Risk Committee) Kyle Abbott (Member of the Audit & Risk Committee)
<i>Senior Executives</i> Geoff P Cathcart (Chief Technical Officer) Roulé Jones ¹ (Chief Financial Officer & Company Secretary) David Bonomini ³ (Chief Financial Officer & Company Secretary)	

1. Ms Jones resigned as a KMP effective 28 February 2020
2. Mr Stinson retired as a Non-Executive Director 18 November 2019
3. Mr Bonomini became a KMP effective 10 February 2020

Table 2 – Five-year performance

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

	2020	2019	2018	2017	2016
Closing share price (\$)	0.75	0.30	0.36	0.50	0.69
Market capitalisation (\$m)	58.2	23.2	27.9	38.6	52.4
Basic EPS (cents) from operations	2.40	(7.63)	2.87	(15.55)	2.73

Short term incentives were paid in 2020, 2018 and 2016. No short term incentives were paid in 2019 and 2017.

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. STI amounts of \$194,508 were accounted for during the year ended 30 June 2020 (2019: \$Nil).

Long-term incentives ("LTI") consisting of performance rights that vest based on attainment of pre-determined performance goals are awarded to selected executives. During the 2018 financial year, the Group introduced new performance milestones under the Performance Rights Plan as part of its long-term incentive arrangements for the Managing Director and CEO, which were approved by shareholders on 27 October 2017 and 23 May 2018. During the 2020 financial year, no rights have vested under the Performance Rights Plan (2019: Nil).

The remuneration of Non-Executive Directors of the Company consists only of Directors' fees. Director fees were not reviewed or adjusted during the 2020 financial year.

Remuneration Report at 2019 AGM

The 2019 Remuneration Report received positive shareholder support at the 2019 AGM with a vote of 99 per cent 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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

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

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

Key changes to remuneration structure in 2020

There were no changes to the remuneration structure of executives or Directors during the 2020 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 2020 (2019: 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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

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 2020 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 2020 financial year is explained below:

Summary of executive KMP remuneration for the 2020 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 14.

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

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

How is performance measured?

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

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

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

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

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

How much can executives earn?

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

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

When is it paid?

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

Actual STI performance for the year ending 30 June 2020

The following table outlines the proportion of the maximum STI earned in relation to the 2020 financial year. Please refer to Table 1 on Page 14 for further details on the actual STI paid to KMPs for the year ended 30 June 2020.

	Maximum STI opportunity (Percentage of fixed remuneration)	Percentage of maximum STI earned
Todd M Alder	40%	100%
Geoff P Cathcart	20%	70%
Roulé Jones ¹	20%	0%
David Bonomini	20%	62%

- Ms Jones resigned as a KMP effective 28 February 2020

Long-term incentive ("LTI")

Under the LTI, the grant of performance rights and share acquisition performance rights in 2018 were made to executives to align remuneration with the creation of shareholder value over the long-term.

How is it paid?

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

2018 Performance Rights Plan – Long-term incentives

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

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

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

The allocation of performance rights to executives was as follows:

Executive	Title	Performance rights issued Tranche 1	Performance rights issued Tranche 2	Total
Mr T.Alder	Managing Director and CEO	340,000	255,000	595,000
Mr G.Cathcart	Chief Technical Officer	116,284	87,213	203,497
Ms R.Jones	Chief Financial Officer	87,500	65,625	153,125
Total		543,784	407,838	951,622

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

Performance Rights Plan – 2018 Share Acquisition Performance Rights (“2018 SAPR Plan”)

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

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

The SAPRs are subject to a share price performance milestone of a 30-day VWAP of \$0.62 tested over a three-year period and 100 per cent of the SAPRs will vest if this performance milestone is achieved. Any SAPRs that do not vest will lapse and are not restated.

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

When is performance measured?

Performance rights may vest at any time during the three-year period to 10 August 2020, 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 for the year ended 30 June 2020 (2019: nil).

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 \$0.52 per share. The Company's share price at the date of calling the EGM to approve the 2018 SAPR was \$0.39 per share. The vesting of performance rights will only occur where the Company's share price increases to \$0.62, \$0.90 and \$1.20 per share as set out in the abovementioned tables.

Actual LTI performance for the year ending 30 June 2020

During the financial year, no rights vested under the 2018 LTI Plan, the SAPR Plan or for any earlier plans issued in previous financial years (2019:nil).

Performance Rights Plans approved in prior years

Mr T.Stinson, the previous Managing Director and CEO of the Group, was issued 500,000 performance rights based on market capitalisation and share price milestones to be met over a three-year period which was approved by shareholders on 8 November 2016.

Under this long-term incentive plan, performance rights only vest if the terms and conditions detailed below are satisfied.

Tranche	Performance condition	Expiry	Fair value per right	Performance rights issued
1*	The Company having a market capitalisation of \$125 million and share price of \$1.50 per share for a period of 30 consecutive days.	7 November 2018	50.0 cents	200,000
2	The Company having a market capitalisation of \$200 million and a share price of \$2.00 per share for a period of 30 consecutive days.	7 November 2019	42.0 cents	300,000
Total				500,000

*During the year ended 30 June 2019, the performance conditions related to Tranche 1 were not met, resulting in 200,000 performance rights expiring on 7 November 2018. During the year ended 30 June 2020, the performance conditions related to Tranche 2 were not met, resulting in 300,000 performance rights expiring on 7 November 2019.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

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 2020 (2019: Nil).

CONTRACTS FOR KMP

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

	Fixed Remuneration	Contract Duration	Termination notice period (Company) ^{1,2}	Termination notice period (Executive)
T Alder	\$340,000	Unlimited	3 months	3 months
G Cathcart ⁴	\$322,283	Unlimited	3 months	3 months
R Jones ³	\$250,531	Unlimited	3 months	3 months
D Bonomini	\$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. Ms Jones resigned effective 28 February 2020.
4. In the event of the Group terminating the employment of Mr G Cathcart (Chief Technical Officer), other than by reason of serious misconduct or material breach of service agreement, an equivalent of three months salaries is payable, in addition to:
 - two weeks' salaries for each completed year of service to ten years of service
 - one half of a week of salaries for each year of service beyond ten years of service

NON-EXECUTIVE DIRECTORS REMUNERATION

Objective

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

Structure

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

The Company's constitution and the ASX listing rules specify that the Non-Executive Directors' fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2001 Annual General Meeting (AGM) held on 25 October 2001 when shareholders approved an aggregate fee pool of \$400,000 per year. The Board will not seek any increase for the Non-Executive Director pool at the 2020 AGM.

Fees

Non-Executive Directors do not receive retirement benefits, nor do they participate in any incentive programs.

The Chairman of the Board receives a fee of \$120,000 (2019: \$120,000) and the Non-Executive Directors receive a base fee of \$60,000 (2019: \$60,000).

The remuneration of Non-Executive Directors for the year ended 30 June 2020 and 30 June 2019 is detailed in Table 1 of this report on page 14.

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

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 2020.

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 2020

Statutory tables

Table 1 - Compensation of Non-Executive Directors and executive KMP's for the year ended 30 June 2020 and 2019

		Short Term Benefits			Post-Employment	Long-term Benefits	Share Based Payments		Total			
		Salary & Director's Fees	Cash Bonuses	Non-monetary	Total	Employer Superannuation Contributions	Termination Benefits	Leave Entitlements	Employee Share Plans	Performance Rights Plan	Total Remuneration	Proportion of remuneration performance related
		\$	\$	\$	\$	\$	\$	\$	\$	\$	%	
Non-executive Directors												
J Welborn	2020	109,589	-	-	109,589	10,411	-	-	-	-	120,000	-
Chairman and Director (Non-executive)	2019	109,589	-	-	109,589	10,411	-	-	-	-	120,000	-
T Stinson (1)	2020	21,781	-	-	21,781	2,681	-	-	-	-	24,462	-
Director (Non-executive)	2019	54,795	-	-	54,795	5,205	-	-	-	-	60,000	-
S Gallagher	2020	60,000	-	-	60,000	-	-	-	-	-	60,000	-
Director (Non-executive)	2019	60,000	-	-	60,000	-	-	-	-	-	60,000	-
K Abbott	2020	60,000	-	-	60,000	-	-	-	-	-	60,000	-
Director (Non-executive)	2019	60,000	-	-	60,000	-	-	-	-	-	60,000	-
Total Consolidated, all non-executive directors	2020	251,370	-	-	251,370	13,092	-	-	-	-	264,462	-
	2019	284,383	-	-	284,383	15,616	-	-	-	-	300,000	-
Executive Director												
T Alder	2020	319,034	136,000	-	455,034	21,003	-	12,642	-	133,539	622,218	43%
Managing Director and Chief Executive Officer	2019	318,679	-	-	318,679	21,321	-	9,626	-	133,174	482,800	28%
T Stinson (2)	2020	-	-	-	-	-	-	-	-	-	-	-
Managing Director and Chief Executive Officer	2019	-	-	-	-	-	-	-	-	59,838	59,838	100%
Executive Key Management Personnel												
G Cathcart (3)	2020	292,992	44,988	-	337,980	33,316	-	30,038	-	16,420	417,754	15%
Chief Technical Officer	2019	299,662	-	15,101	314,763	22,621	-	35,876	-	16,375	389,634	4%
R Jones (4)	2020	239,765	-	-	239,765	21,403	-	-	-	12,355	273,523	5%
Chief Financial Officer	2019	229,128	-	-	229,128	21,403	-	22,771	-	12,322	285,624	4%
D Bonomini (5)	2020	99,614	13,520	-	113,134	8,078	-	10,117	-	-	131,329	10%
Chief Financial Officer	2019	-	-	-	-	-	-	-	-	-	-	-
Total Consolidated, Executive Key Management Personnel	2020	951,405	194,508	-	1,145,913	83,800	-	52,797	-	162,314	1,444,824	25%
	2019	847,469	-	15,101	862,570	65,345	-	68,273	-	221,708	1,217,897	18%

1. Mr. Stinson retired as Non-Executive Director effective 18 November 2019.

2. Refer to note F.2 for Mr. Stinson performance rights plan

3. Mr. Cathcart was seconded to the USA facility during the financial year ended June 2020. Non-monetary benefits arose from the secondment

4. Ms. Jones ceased as a KMP on 28 February 2020

5. Mr. Bonomini became a KMP on 10 February 2020

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

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 Stinson ⁽²⁾ Director (Non-executive)	Equity rights	8 November 2016	7 November 2019	-	-	-	300,000	0.420
T Alder Director and Chief Executive Officer	Equity rights	23 May 2018	10 August 2020	647,250	-	-	-	0.316
	Equity rights	27 October 2017	10 August 2020	340,000	-	-	-	0.365
	Equity rights	27 October 2017	10 August 2020	255,000	-	-	-	0.278
G Cathcart Chief Technical Officer	Equity rights	23 May 2018	10 August 2020	116,284	-	-	-	0.209
	Equity rights	23 May 2018	10 August 2020	87,213	-	-	-	0.138
R Jones ⁽³⁾ Chief Financial Officer	Equity rights	23 May 2018	10 August 2020	-	-	-	87,500	0.209
	Equity rights	23 May 2018	10 August 2020	-	-	-	65,625	0.138

1. In accordance with AASB2 Share-based Payments, the fair value of variable pay rights as at the grant date has been determined by applying the Monte Carlo simulation model. For the assumptions used in the valuation of the rights, please refer to note F.2. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should these equity instruments vest

2. Mr. Stinson retired as Non-Executive Director effective 18 November 2019.

3. Ms. Jones resigned as Chief Financial Officer on 28 February 2020

Table 3 – KMP share and equity holdings

Details of shares and rights held by KMP including their personally related entities for the 2020 financial year are as follows:

	Type of equity ⁽¹⁾	Opening holding at 1 July 2019	Rights allocated in 2020	Rights vested in 2020	Net Changes other	Closing holding at 30 June 2020 ⁽²⁾
Non-executive Directors						
J Welborn	Shares	850,000	-	-	-	850,000
T Stinson ⁽³⁾	Equity Rights	300,000	-	-	(300,000)	-
	Shares	1,672,621	-	-	(1,672,621)	-
S Gallagher	Shares	100,000	-	-	-	100,000
K Abbott	Shares	30,000	-	-	-	30,000
Executive Directors						
T Alder	Equity Rights	1,242,250	-	-	-	1,242,250
	Shares	372,333	-	-	-	372,333
Executives						
G Cathcart	Equity Rights	203,497	-	-	-	203,497
	Shares	272,720	-	-	-	272,720
R Jones ⁽⁴⁾	Equity Rights	153,125	-	-	(153,125)	-
	Shares	5,313	-	-	(5,313)	-
D Bonomini ⁽⁵⁾	Equity Rights	-	-	-	-	-
	Shares	-	-	-	-	-

1. Opening holding represents amounts carried forward in respect of KMP

2. Closing equity rights holdings represent unvested rights held at the end of the reporting period. There were no rights vested but unexercised as at 30 June 2020

3. Mr. Stinson retired as Non-Executive Director effective 18 November 2019.

4. Ms. Jones ceased as a KMP on 28 February 2020

5. Mr. Bonomini became a KMP on 10 February 2020

End of Remuneration Report

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

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 28th August 2020

AUDITOR'S INDEPENDENCE DECLARATION



Auditor's Independence Declaration

As lead auditor for the audit of Orbital Corporation Limited for the year ended 30 June 2020, 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 that reads 'Ben Gargett'.

Ben Gargett
Partner
PricewaterhouseCoopers

Perth
28 August 2020

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Corporate information

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 \$'000	2019 \$'000
Continuing operations			
Sale of goods		31,989	10,978
Engineering services revenue		1,617	3,992
Royalty and licence revenue		176	129
Interest revenue		41	154
Total revenue	A.2	33,823	15,253
Other income	A.3	5,079	1,929
Materials and consumables expenses	A.4(d)	(13,914)	(4,383)
Employee benefits expenses	A.4(a)	(14,370)	(9,220)
Depreciation expenses		(1,633)	(690)
Amortisation of intangibles	B.2	(247)	(45)
Engineering consumables and contractor expenses		(781)	(1,659)
Occupancy expenses		(532)	(1,486)
Travel and accommodation expenses		(449)	(532)
Communications and computing expenses		(1,018)	(809)
Patent expenses		(414)	(269)
Insurance expenses		(1,003)	(785)
Audit, compliance and listing expenses		(249)	(392)
Finance costs	A.4(b)	(622)	(615)
Allowance for impairment of other receivables		206	(1,379)
Other expenses	A.4(c)	(1,901)	(861)
Profit/(loss) before income tax from continuing operations		1,975	(5,943)
Income tax (expense)/benefit	A.5	(118)	37
Profit/(loss) for the year from continuing operations		1,857	(5,906)
Profit/(loss) is attributable to:			
Equity holders of the parent		1,857	(5,906)
Profit/(loss) for the year		1,857	(5,906)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		3	(42)
Total comprehensive profit/(loss) for the year		1,860	(5,948)
Attributable to:			
Equity holders of the parent		1,860	(5,948)
Total comprehensive profit/(loss) for the year		1,860	(5,948)
Earnings per share			
Basic profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.6	2.40	(7.63)
Diluted profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.6	2.35	(7.63)
Earnings per share from continuing operations			
Basic profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.6	2.40	(7.63)
Diluted profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.6	2.35	(7.63)

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

		2020	2019
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	C.3	8,749	7,487
Other financial assets	C.4	585	585
Trade and other receivables	C.2	5,347	7,055
Inventories	C.1	9,380	6,698
Prepayments		375	1,023
Finance lease receivable		332	-
Total current assets		24,768	22,848
Non-current assets			
Intangibles	B.2	898	924
Deferred taxation asset	A.5	5,423	5,542
Plant and equipment	B.1	4,150	4,516
Right of use asset	C.7	2,062	-
Finance lease receivable		542	-
Total non-current assets		13,075	10,982
Total assets		37,843	33,830
LIABILITIES			
Current liabilities			
Trade payables and other liabilities	C.5	4,482	4,077
Deferred revenue	C.6	1,321	2,911
Borrowings	D.1	3,756	-
Government grants	E.2	-	74
Lease liabilities	C.7	1,131	-
Provisions	E.1	2,227	2,333
Total current liabilities		12,917	9,395
Non-current liabilities			
Trade payables and other liabilities		-	71
Lease liabilities	C.7	1,898	-
Borrowings	D.1	4,854	8,277
Provisions	E.1	72	108
Total non-current liabilities		6,824	8,456
Total liabilities		19,741	17,851
Net assets		18,102	15,979
Equity			
Share capital	D.2	31,220	31,178
Reserves	D.3	2,395	2,171
Accumulated losses		(15,513)	(17,370)
Total equity		18,102	15,979

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

	Share capital	(Accumulated losses)	Employee equity benefits reserve	Foreign currency translation reserve	Contingent consideration	Consolidation reserve	Convertible note reserve	Total equity
Notes	D.2		D.3	D.3	D.3	D.3	D.3	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2019	31,178	(17,370)	2,203	(32)	-	-	-	15,979
Profit for the year	-	1,857	-	-	-	-	-	1,857
Transfer to accumulated losses	-	-	-	-	-	-	-	-
Foreign currency translation	-	-	-	3	-	-	-	3
Total comprehensive profit for the year	-	1,857	-	3	-	-	-	1,860
Share based payments	42	-	221	-	-	-	-	263
At 30 June 2020	31,220	(15,513)	2,424	(29)	-	-	-	18,102
At 1 July 2018	31,144	(10,697)	1,974	9	3,440	(4,455)	248	21,663
Loss for the year	-	(5,906)	-	-	-	-	-	(5,906)
Transfer to accumulated losses	-	(767)	-	-	(3,440)	4,455	(248)	-
Foreign currency translation	-	-	-	(42)	-	-	-	(42)
Total comprehensive loss for the year	-	(5,906)	-	(42)	-	-	-	(5,948)
Share based payments	34	-	229	-	-	-	-	263
At 30 June 2019	31,178	(17,370)	2,203	(32)	-	-	-	15,979

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Cash receipts from customers		34,257	22,776
Cash paid to suppliers and employees		(33,763)	(21,147)
Proceeds from legal settlement		3,255	-
Interest received		41	154
Interest paid		(64)	-
Net cash from operating activities	C.3	3,726	1,783
Cash flows from investing activities			
Proceeds from sale of subsidiary		200	100
Purchase of plant and equipment		(540)	(2,990)
Payments for intangible asset		(221)	(2,390)
Net cash used in investing activities		(561)	(5,280)
Cash flows from financing activities			
Fee for standby facility	A.4(b)	-	(108)
Principal elements of lease payments		(1,201)	-
Proceeds from borrowings		2,276	-
Repayment of borrowings		(2,395)	-
Net cash used in financing activities		(1,320)	(108)
Net increase/(decrease) in cash and cash equivalents		1,845	(3,605)
Cash and cash equivalents at 1 July		7,487	9,926
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(583)	1,166
Cash and cash equivalents at 30 June	C.3	8,749	7,487

The accompanying notes form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

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 30 August 2020. The Directors have the power to amend and reissue the financial report.

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 applied for the first time new and amended Accounting Standards and Interpretations which are effective for annual periods beginning on or after 1 July 2019. 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 has not significantly affected the Group's accounting policies, financial position or performance.

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 OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

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.

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.

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 2020

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 have 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 2020 the Group's strategy remained unchanged from 2019, the gearing ratio at 30 June 2020 was 48% (2019: 52%). Gearing ratio's are calculated by dividing net debt (as per note D.1) divided 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 25
Section C	Liquidity risk	Page 36
Section C	Interest Rate risk	Page 37
Section C	Credit risk	Page 37
Section D	Capital risk management	Page 41

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	31
B.1	Impairment of non-current assets	34

Impact of COVID-19

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

Throughout the pandemic our sites in Australia and the USA have remained fully operational and continue to manufacture as normal. In the USA, Orbital operates within the Defense Industrial Base and is therefore considered part of the Critical Infrastructure Sector as defined by the US Department of Homeland Security.

As an advanced aerospace manufacturer supplying global defence prime contractors, our product demand remained unaffected by the COVID-19 outbreak. We continued to deliver on our production commitments and strengthened our global supply chain where necessary.

Delivery of our products continued through our established logistics providers, and contingency plans were put in place should existing channels of delivery be impacted.

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

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. This assumption is based on the Group's ability to meet its future cash flow requirements given the cash flow projection for the 30 June 2021 financial year, and existing cash reserves held as at 30 June 2020.

The Group assessed how the current events and conditions impact its operations and while the long-term strategy of the Group remains unchanged, regular forecasting is performed on future expected cashflows. 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.

Furthermore, the Group have also taken the following matters into consideration in forming the view that the Group is a going concern:

- The Group has cash and trade receivables of \$14,7 million as at 30 June 2020;
- The Group achieved its revenue guidance in FY20 and has issued an increased revenue guidance for FY21
- Forecast sales to customers based on purchase orders at agreed unit sale prices
- Operating costs and margins expected to be achieved as the Group continues to increase production over FY21

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

A. CURRENT YEAR PERFORMANCE

In this section

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

A. Current Year Performance

A.1	Operating segments	Page 26
A.2	Revenue	Page 27
A.3	Other income	Page 28
A.4	Expenses	Page 30
A.5	Taxes	Page 31
A.6	Earnings per share	Page 33

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 2020 and 2019 are as follows:

	2020	2019
	A\$'000	A\$'000
Financial assets		
Cash and cash equivalents	7,101	2,121
Trade and other receivables	4,063	3,937
Financial liabilities		
Trade and other payables	992	943

For the year ended 30 June 2020, revenue from external customers denominated in USD was A\$29,102,000 (2019: A\$9,324,000).

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
2020	+10%	(925)
	-10%	1,130
2019	+10%	(465)
	-10%	568

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

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 2020

	Australia		US		Consolidated	
	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue	28,228	14,742	5,595	511	33,823	15,253
EBIT	2,854	(2,942)	(257)	(2,386)	2,597	(5,328)
Finance expenses	(555)	(615)	(67)	-	(622)	(615)
Profit/(loss) before income tax	2,299	(3,557)	(324)	(2,386)	1,975	(5,943)

	Australia		US		Consolidated	
	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets	30,140	27,250	7,703	6,581	37,843	33,831
Liabilities	17,999	9,472	1,742	8,379	19,741	17,851
Net assets/(liabilities)	12,142	17,778	5,960	(1,798)	18,102	15,980

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

A. CURRENT YEAR PERFORMANCE

A.2 Revenue

	Australia		US		Consolidated	
	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	28,228	14,742	5,595	511	33,823	15,253
Total external revenue	28,228	14,742	5,595	511	33,823	15,253
Timing of revenue recognition						
<i>At a point in time</i>	27,017	11,250	5,189	11	32,206	11,261
<i>Over time</i>	1,211	3,492	406	500	1,617	3,992
	28,228	14,742	5,595	511	33,823	15,253

Revenues of approximately \$29,160,000 (2019: \$11,761,000) are 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:

• Revenue from rendering of services

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

• Sale of goods

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

A. CURRENT YEAR PERFORMANCE

A.2 Revenue (continued)

· License and royalties

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

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

· Interest revenue

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

Assets and liabilities related to contracts with customers

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

	2020 \$'000	2019 \$'000
Contract Assets		
Accrued revenue	70	500
Contract Liabilities		
Deferred revenue	1,321	2,911

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

A.3 Other income

	2020 \$'000	2019 \$'000
Grant income	75	225
Rental income	71	458
Research and development grant	437	130
Net foreign exchange (loss) / gain	(28)	1,099
Legal settlement proceeds	4,470	-
Other	54	17
	5,079	1,929

Recognition and measurement

· Grant income, including research and development tax incentives

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

A. CURRENT YEAR PERFORMANCE

A.3 Other income (continued)

· Legal settlement proceeds

On 26 February 2020 Orbital entered into a Settlement and Patent License Agreement (“Agreement”) with Daimler AG, Mercedes-Benz USA LLC, Mercedes-Benz U.S. International, Inc. (collectively “Mercedes”), Robert Bosch GmbH and Robert Bosch LLC (collectively “Bosch”) in settlement of the patent litigation brought by Orbital against Mercedes and Bosch in the United States District Court Eastern District of Michigan Southern Division Case Number 15-12398 (see ASX announcement 1 December 2014).

Under the Agreement:

- (a) the Parties filed a stipulation of dismissal regarding all claims and counterclaims in the litigation, without making any admissions or concessions concerning the factual or legal positions taken in the litigation; and
- (b) Orbital granted Mercedes/Bosch a non-exclusive patent license and release in exchange for the payment to Orbital Fluid Technologies Inc.

Amounts paid to Orbital Fluid Technologies Inc. were allocated in accordance with the protocols specified in the revenue sharing agreements that Orbital had with its various partners in this litigation, including US law firm Pepper Hamilton.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

A. CURRENT YEAR PERFORMANCE

A.4 Expenses

(a) Employee benefits expense

	2020	2019
	\$'000	\$'000
Salaries and wages	12,083	7,089
Defined contribution plans	889	759
Share based payments (Note F.2)	245	263
Annual and long service leave (Note E.1)	164	307
Other personnel costs	989	802
	14,370	9,220

(b) Finance costs

	2020	2019
	\$'000	\$'000
Interest expense	622	507
Standby facility fee (Note F.1)	-	108
	622	615

The Group has an unsecured Standby working capital facility with UIL Limited. Refer note F.1 for further detail.

(c) Other expenses

	2020	2019
	\$'000	\$'000
Administration	649	402
Legal fees - settlement proceeds	1,214	-
Marketing and investor relations	148	41
Warranties (Note E.1)	(216)	253
Other	106	165
	1,901	861

The Group incurred legal fees in the Settlement and Patent License Agreement ("Agreement") with Daimler AG, Mercedes-Benz USA LLC, Mercedes-Benz U.S. International, Inc. (collectively "Mercedes"), Robert Bosch GmbH and Robert Bosch LLC (collectively "Bosch") in settlement of the patent litigation brought by Orbital against Mercedes and Bosch in the United States District Court Eastern District of Michigan Southern Division Case Number 15-12398 (see ASX announcement 1 December 2014). Refer note A.3 for further detail.

(d) Materials and consumable expenses

	2020	2019
	\$'000	\$'000
Raw materials and consumables	16,596	8,927
Change in inventories	(2,682)	(4,544)
	13,914	4,383

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 2020

A. CURRENT YEAR PERFORMANCE

A.5 Taxes

The major components of the income tax benefit/(expense) for the years ended 30 June 2020 and 2019 are:

	2020	2019
	\$'000	\$'000
Deferred income tax (expense)/benefit	(118)	37
Total income tax (expense)/benefit	(118)	37

The reconciliation of the income tax benefits/(expenses) and accounting profit multiplied by the Australian domestic tax rate for the years ended 30 June 2020 and 2019 are:

	2020	2019
	\$'000	\$'000
Accounting profit/(loss) before tax from continuing operations	1,975	(5,943)
Accounting profit/(loss) before income tax	1,975	(5,943)
At Australia's statutory income tax rate of 27.5% (2019: 27.5%)	(545)	1,634
Adjustments in respect of the change in statutory income tax rate	-	-
Difference in overseas tax rates	(185)	(247)
Non assessable income	120	36
Recognition of previously unrecognised tax losses	1,398	-
Deferred tax asset not recognised	(601)	(791)
Other	-	3
Non-deductible expenses	(305)	(598)
Income tax (expense)/benefit	(118)	37
Income tax (expense)/benefit reported in the statement of profit or loss	(118)	37

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

	2020	2019
	\$'000	\$'000
Inventory	44	82
Plant and equipment	(170)	(170)
Provisions and accruals	652	701
Intangible asset	(247)	(218)
Tax losses	5,144	5,147
Net deferred tax asset	5,423	5,542

The Group has unused tax losses that arose in Australia, for which no deferred tax assets have been recognised of \$39,532,875 (2019: \$56,200,261) and are available indefinitely for offsetting against future taxable profits of the Group and its controlled entities in which those losses arose. Since 2019, tax loss testing has been undertaken in relation to Australian carried forward tax losses, and that testing determined that approximately \$11,583,749 of previously carried forward losses have a high probability of failing the relevant tests. We have therefore conservatively reflected a reduction in the carried forward amount of losses. As those losses were not previously recognised in the deferred tax asset balance, no tax expense adjustments arise.

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 2020, the Group had unused tax losses for which no deferred tax assets have been recognised of US\$12,331,000 (2019: US\$10,368,000) 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 2020

A. CURRENT YEAR PERFORMANCE

A.5 Taxes (continued)

• Deferred tax

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

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences may be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available or allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Key estimate: Recoverability of deferred tax assets

At 30 June 2020, the Group recognised \$5,423,000 (2019: \$5,542,000) of deferred tax assets after assessing the likelihood of offsetting unused tax losses against future taxable profits. The unused tax losses for which a deferred tax asset is recognised relate to operations in Australia and the United States of America.

The Board assessed that the deferred tax asset was recoverable based on forecast taxable income included in the Business Plan. Forecasted income included in Orbital's Business Plan is founded on existing supply contracts plus maturing contract negotiations on expanded revenue opportunities.

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 2020

A. CURRENT YEAR PERFORMANCE

A.6 Earnings per share (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of Orbital Corporation Limited ("the Parent") by the weighted average number of ordinary shares outstanding during the year.

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

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

	2020	2019
	\$'000	\$'000
Profit/(loss) attributable to ordinary equity holders of the Parent:		
Continuing operations	1,857	(5,906)
Discontinued operations	-	-
Profit/(loss) attributable to equity holders of the Parent for basic earnings	1,857	(5,906)

Performance rights granted to key management personnel and contingent consideration arising from the acquisition of the remaining 38.50 per cent interest in REMSAFE Pty Ltd were deemed potential ordinary shares. Refer to Notes F.2 and D.3 for further details.

	2020	2019
	Number	Number
Weighted average number of ordinary shares for basic EPS	77,524,513	77,403,115
Weighted average number of ordinary shares adjusted for the effect of dilution	78,882,042	77,403,115

Earnings per share

	Cents	Cents
Basic profit/(loss) earnings per share	2.40	(7.63)
Diluted profit/(loss) earnings per share	2.35	(7.63)

Earnings per share from continuing operations

	Cents	Cents
Basic profit/(loss) earnings per share	2.40	(7.63)
Diluted profit/(loss) earnings per share	2.35	(7.63)

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:

	2020
	Number
Contingent consideration (Note D.3)	3,440,000
Total	3,440,000

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

B. GROWTH ASSETS

In this section

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

B.1 Plant and equipment

	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
Gross carrying amount at cost			
At 1 July 2018	18,086	1,433	19,519
Additions	1,873	1,117	2,990
Disposals	(1,565)	-	(1,565)
At 30 June 2019	18,394	2,550	20,944
Additions	475	65	540
Disposals	(408)	(20)	(428)
At 30 June 2020	18,461	2,595	21,056
Depreciation and impairment			
At 1 July 2018	(17,075)	(227)	(17,302)
Depreciation charge for the year	(592)	(98)	(690)
Disposals	1,564	-	1,564
At 30 June 2019	(16,103)	(325)	(16,428)
Depreciation charge for the year	(623)	(282)	(905)
Disposals	408	19	427
At 30 June 2020	(16,318)	(588)	(16,906)
Net book value			
At 30 June 2020	2,143	2,007	4,150
At 30 June 2019	2,291	2,225	4,516

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 D.1 for further details.

Refer to note C.7 for lease disclosure.

Recognition and measurement

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

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

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

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 2020

B. GROWTH ASSETS

B.2 Intangible assets

Consolidated	Internally generated intangible	Total
Year ended 30 June 2020		
Cost	2,611	2,611
Accumulated amortisation and impairment	(292)	(292)
R&D tax offset recognised	(1,421)	(1,421)
Net carrying amount	898	898
Movement		
Net carrying amount at the beginning of the year	924	924
Additions	221	221
Amortisation for the year	(247)	(247)
Net carrying amount at the end of the year	898	898
Year ended 30 June 2019		
Cost	2,390	2,390
Accumulated amortisation and impairment	(45)	(45)
R&D tax offset recognised	(1,421)	(1,421)
Net carrying amount	924	924
Movement		
Net carrying amount at the beginning of the year	-	-
Additions	2,390	2,390
Amortisation for the year	(45)	(45)
R&D tax offset recognised	(1,421)	(1,421)
Net carrying amount at the end of the year	924	924

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

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.

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 2020

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. Working Capital Management

C.1	Inventories	Page 37
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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 2020, the Group has a total of \$8,749,000 of cash at its disposal (2019: \$7,487,000) and a net current asset position \$11,851,000 (2019: \$13,453,000). 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 2020						
Borrowings	-	3,756	6,230	-	9,986	8,610
Trade payables and other liabilities	4,482	-	-	-	4,482	4,482
Lease liabilities	262	1,091	2,048	-	3,401	3,029
	4,744	4,847	8,278	-	17,869	16,121
At 30 June 2019						
Borrowings	-	-	8,933	1,053	9,986	8,277
Trade payables and other liabilities	3,919	86	72	-	4,077	4,077
	3,919	86	9,005	1,053	14,063	12,354

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

C. WORKING CAPITAL MANAGEMENT

Interest rate risk management

Interest rate risk is the risk that the Group's financial position will fluctuate due to changes in the market interest rates.

The Group's exposure to market interest rates relates primarily to the Group's cash and term deposits with financial institutions. The primary goal of the Group is to maximise returns on surplus cash, using deposits with maturities of 90 days or less. Management continually monitors the returns on funds invested. The exposure to interest rate risk as at 30 June 2020 is as follows:

	2020	2019
	\$'000	\$'000
Cash and cash equivalents (Note C.3)	8,749	7,487
Short-term deposits (Note C.4)	585	585
	9,334	8,072

A reasonable possible change in the interest rate (+0.5%/-0.5%) (2019: +0.5%/-0.5%), with all variables held constant, would have resulted in a change in post tax profit/(loss) of \$44,000/(\$44,000) (2019: \$37,000)/(\$37,000) 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 2020 and 2019 is the carrying amounts as illustrated in Note C.2.

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

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

C.1 Inventories

	2020	2019
	\$'000	\$'000
Raw materials	7,965	4,741
Provision for obsolescence	(159)	(298)
Work in progress	1,574	2,255
Finished goods	-	-
	9,380	6,698

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

C. WORKING CAPITAL MANAGEMENT

C.2 Trade and other receivables

	2020	2019
	\$'000	\$'000
Trade receivables	5,307	4,093
Other receivables (b)	1,253	4,341
Allowance for Impairment of other receivables (a)	(1,213)	(1,379)
	5,347	7,055

(a) At 30 June 2020, the Group has \$1,213,000 (2019:\$1,350,000) as a provision for impaired receivables. This amount covers \$1,150,000 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

	2020	2019
	\$'000	\$'000
Cash at bank	8,749	7,487
	8,749	7,487

The reconciliation of net profit/(loss) after tax to net cash flows from operations for the years ended 30 June 2020 and 2019 is as follows:

	2020	2019
	\$'000	\$'000
Profit/(loss) after income tax from continuing operations	1,857	(5,906)
Profit/(loss) after income tax	1,857	(5,906)
Depreciation & amortisation	1,153	735
R&D tax offset (Note B.2)	-	1,421
Government grants (Note E.2)	(76)	(225)
Interest expense	333	507
Surplus lease space (Note E.1)	(88)	(53)
Warranties (Note E.1)	(218)	(31)
Employee benefits (Note E.1)	163	307
Provision for doubtful debt (Note C.2)	(167)	1,379
Share based payment expense (Note F.2)	264	263
Net foreign exchange gain	33	(1,200)
Net cash from/(used in) operating activities before changes in assets and liabilities	3,254	(2,804)
<i>Changes in assets and liabilities during the year:</i>		
Decrease/(increase) in receivables and prepayments	2,324	6,950
(Increase)/decrease in inventories	(2,683)	(4,546)
(Increase)/decrease in deferred tax assets	118	(37)
Increase/(decrease) in payables	713	2,218
	472	4,587
Net cash generated from operating activities	3,726	1,783

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 2020

C. WORKING CAPITAL MANAGEMENT

C.4 Other financial assets

	2020	2019
	\$'000	\$'000
Short term deposits	585	585
	585	585

The Group has pledged short term deposits of \$585,000 (2019: \$585,000) as collateral for financing facilities. Refer to Note D.1 for details on long-term borrowings.

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

	2020	2019
	\$'000	\$'000
Trade payables	4,280	3,800
Lease liabilities	-	173
Taxes payable	11	10
Other payables	191	94
	4,482	4,077

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 2020 and 2019 is as follows:

	2020	2019
	\$'000	\$'000
At 1 July	2,911	943
Deferred during the year	9,622	4,426
Released to the statement of profit or loss	(11,212)	(2,458)
At 30 June	1,321	2,911

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 2020

D. DEBT AND CAPITAL

C.7 Leases

The Group has adopted AASB 16 Leases with effect from 1 July 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

AASB 16 Leases introduces a new framework for accounting for leases and replaces AASB 117 Leases, AASB Interpretation 4 Determining whether an Arrangement contains a Lease, AASB Interpretation 115 Operating Leases-Incentives and AASB Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. AASB 16 Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117 Leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

Lease Liabilities

	2020	2019
	\$'000	\$'000
Current	1,131	-
Non Current	1,898	-
	3,029	-

a) Adjustments recognised on adoption of AASB 16

On adoption of AASB 16 Leases, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 8.9%.

Lease Liability

	\$'000
Operating lease commitments disclosed as at 30 June 2019	2,372
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(157)
Lease liability recognised as at 1 July	2,215

Spilt between

- Current lease liabilities	1,034
- Non-current lease liabilities	1,181
	2,215

The recognised right-of-use assets relate to the following types of assets:

	2020	01-Jul-19
	\$'000	\$'000
Properties	2,062	1,710
Total right-of-use assets	2,062	1,710

Amounts recognised in the statement of profit or loss

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

	2020	2019
	\$'000	\$'000
Depreciation charge of right-of-use assets	728	-
Interest expense (included in finance cost)	146	-
Interest income	-	-

Practical expedients applied

In applying AASB 16 Leases for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review, leading to the existing onerous lease being written off up front;

The Group's leasing activities and how these are accounted

The Group leases various premises. Until the 2019 financial year, leases of property were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The right-of-use asset is depreciated over the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- variable lease payment that are based on an index or a rate

The recognised right-of-use assets relate to the following types of assets:

- the amount of the initial measurement of lease liability

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

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. Debt and capital

D.1	Borrowings	Page 41
D.2	Share capital	Page 41
D.3	Reserves	Page 42

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

	2020	2019
	\$'000	\$'000
Current	3,756	-
Non-current	4,854	8,277
	8,610	8,277

Changes in borrowings arising from financing activities are as follows:

	At 1 July	Cash flows	Finance	At 30 June
	\$'000	\$'000	costs	\$'000
2020	8,277	-	333	8,610
2019	7,770	-	507	8,277

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
- Repayments commenced on 25 May 2010 at \$200,000 per annum
- A deed of variation was confirmed during the year ending 30 June 2019 to defer 2019 and 2020 repayments to 30 May 2021
- Accelerated repayments then occur across the life of the loan, concluding on 30 May 2025

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

Fair value

The fair value of the Group's secured loan at 30 June 2020 was \$7,693,000 (2019: \$6,868,000). The fair value measurement is classified as Level 3 on the fair value hierarchy. The fair value of the secured loan was calculated by discounting future cash flows at the prevailing market interest rate at 30 June 2020 of 12.00% (2019: 12.00%).

Recognition and measurement

The interest-free loan was initially recognised at fair value and subsequently stated at amortised cost using the effective interest rate ("EIR") method. The EIR is the rate that exactly discounts the estimated future cash payments over the expected life of the loan or a shorter period, where appropriate, to the net carrying amount of the financial liability. The effective interest rate was 6.52 per cent.

D.2 Share capital

	2020	2019
	\$'000	\$'000
Ordinary shares issued and fully paid	31,220	31,178

Movement in ordinary shares

	Number	\$000's
At 1 July 2018	77,369,210	31,144
Employee Share plan number 1	83,716	34
At 30 June 2019	77,452,926	31,178
At 1 July 2019	77,452,926	31,178
Employee Share plan number 1	133,997	42
At 30 June 2020	77,586,923	31,220

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

E. OTHER ASSETS AND LIABILITIES

D.3 Reserves

	Employee benefits reserve	Foreign currency translation reserve	Contingent consideration	Consolidation reserve	Convertible notes reserve	Total
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
At 1 July 2018	1,975	9	3,440	(4,455)	248	1,217
Foreign currency translation	-	(42)	-	-	-	(42)
Rights issued pursuant to performance rights plan	229	-	-	-	-	229
Transferred to accumulated losses	-	-	(3,440)	4,455	(248)	767
At 30 June 2019	2,204	(33)	-	-	-	2,171
At 1 July 2019	2,204	(33)	-	-	-	2,171
Foreign currency translation	-	3	-	-	-	3
Rights issued pursuant to performance rights plan	221	-	-	-	-	221
At 30 June 2020	2,425	(30)	-	-	-	2,395

Nature and purpose of reserves

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.

Contingent consideration

On 13 October 2016, the Group acquired the remaining 38.5 per cent minority interest in REMSAFE Pty Ltd from the Lane Trust in consideration for the issue of ordinary shares in the Group. The terms of the sale provided for an incentive to achieve performance targets linked to future accumulated annual sales with consideration payable as follows:

- 2,000,000 ordinary shares in the Group if REMSAFE achieves \$25,000,000 accumulated annual sales for any 12 month period; and,
- 2,000,000 ordinary shares in the Group if REMSAFE achieves \$40,000,000 accumulated annual sales for any 12 month period.

Contingent consideration was measured with reference to the Group's share price on 13 October 2016 and considered the probability that the accumulated annual sales targets would be met, which was assessed as 100 per cent.

The fair value measurement of the contingent consideration was classified as Level 2 on the fair value hierarchy.

On 18 December 2017, the Group publicly announced the divestment of its 100 per cent interest in REMSAFE Pty Ltd to Avidsys Pty Ltd ("Avidsys") in support of the Group's strategy to strengthen its position in the UAV market. Should the REMSAFE business satisfy one or more of the abovementioned accumulated annual sales targets pertaining to the contingent consideration arrangement, Avidsys is obliged to reimburse the Group for the value of the consideration transferred under the arrangement up to a maximum amount of \$2,200,000. At 30 June 2020, the Group re-assessed the probability that the abovementioned accumulated annual sales targets would be met as nil. As a result, no financial asset for contingent consideration receivable from Avidsys was recognised in these financial statements.

Consolidation reserve

The consolidation reserve records the difference between the amount paid to acquire a non-controlling interest and the change in the proportionate interest in net assets held by the non-controlling interest.

Convertible note reserve

The convertible note reserve records the equity component of the convertible notes issued in the 2016 financial year. The convertible notes were extinguished in prior periods.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

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. Other assets and liabilities

E.1	Provisions	Page 43
E.2	Government grants	Page 44

E.1 Provisions

	Surplus lease space \$000's	Warranties \$000's	Employee benefits \$000's	Total \$000's
At 1 July 2019	88	738	1,614	2,440
Arising during the year	-	380	666	1,046
Utilised	(88)	-	(502)	(590)
Expired	-	(597)	-	(597)
At 30 June 2020	-	521	1,778	2,299
Current	-	521	1,706	2,227
Non-current	-	-	72	72
	-	521	1,778	2,299
At 1 July 2018	141	770	1,307	2,218
Arising during the year	33	253	491	777
Utilised	(86)	(285)	(183)	(554)
At 30 June 2019	88	738	1,615	2,441
Current	57	738	1,537	2,333
Non-current	31	-	77	108
	88	738	1,614	2,441

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 surplus lease space

The Group recognised a provision for surplus lease space for unused office space under an operating lease, expiring 16 February 2021. The provision for surplus lease space has been offset against the Right of Use Asset upon adoption of IFRS 16 "Leases". Refer to note C7 for further detail

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. Estimates of the provision for warranties are revised annually.

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 2020

F. OTHER ITEMS

E.2 Government grants

	2020	2019
	\$'000	\$'000
At 1 July	74	299
Released to the statement of profit and loss	(74)	(225)
At 30 June	-	74
Current	-	74
Non-current	-	-

In June 2008, the Group received a \$2,760,000 grant from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility. There are no unfulfilled conditions or contingencies attached to the grants.

Recognition and measurement

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants are recognised in other income in the statement of profit or loss and other comprehensive income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. When a government grant relates to compensation for expenses or losses already incurred, or for the purposes of giving immediate financial support to the entity with no future related costs, government grants are recognised as income in the period in which it becomes receivable. When the grant relates to an asset, it is recognised as deferred revenue in the statement of financial position and income is recognised in equal amounts over the expected useful life of the related asset.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

F. OTHER ITEMS

In this section

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

F. Other items

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F.1 Related parties

Group structure

Note F.3 provides information about the Group's structure, including details of subsidiaries.

Transactions with key management personnel

Agere Pty Ltd, a company of which Mr. Steve Gallagher is a director, received \$60,000 (2019: \$60,000) in director's fees for his service to the Group. At 30 June 2020, a total of \$5,000 remains due and payable (2019: \$5,000). Payment terms are 7 days.

No other director or key management personnel entered into a material contract with the Group from the end of the previous financial year.

Compensation of key management personnel of the Group

	2020	2019
	\$	\$
Short term employee benefits	1,397,283	1,146,953
Post-employment benefits	96,892	80,962
Long-term employee benefits	52,797	68,273
Share based payments	162,314	221,708
	1,709,286	1,517,897

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.

Loans from related parties

The Group has an unsecured US\$3 million (A\$4 million) standby working capital facility with UIL Limited. UIL Limited is the Group's largest shareholder, currently holding 30% of the Group's shares. The establishment of the standby facility secures an additional source of working capital should the Group decide to accelerate further investments in product development. Interest on any funds drawn down will be incurred at an interest rate of Libor plus 6%. The facility is available from 11 March 2019 to 10 September 2020. The Group drew down US\$1.5 million (A\$2.3 million) during September 2019. The standby working capital facility was repaid in full during June 2020 (US\$1.6 million / \$A2.3 million)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

F. OTHER ITEMS

F.2 Share based payments

	2020	2019
	\$'000	\$'000
Equity-settled share based payment transactions	245	263
	245	263

There were no cancellations or modifications to awards in the 2020 or 2019 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 2020, 133,997 ordinary shares (2019: 83,716 ordinary shares) were issued on 18 December 2020 at a market value on the date of issue of \$42,000 (2019: \$34,000).

CEO Share Acquisition Performance Rights

On 11 August 2017, the Group announced the appointment of Mr. Alder as the Managing Director and Chief Executive Officer of the Group. The announcement set out the material terms of his employment, which include the grant of two performance rights for each share acquired by Mr. Alder during the period from 11 August 2017 to 31 December 2017.

During the year ended 30 June 2018, Mr. Alder acquired 372,333 ordinary shares in the Group, resulting in a maximum entitlement of 647,250 share acquisition performance rights ("SAPR's"). The grant of the performance rights was approved by the shareholders at an extraordinary general meeting on 23 May 2018. The terms of the performance rights issued to Mr. Alder are subject to a vesting condition of a 30-day volume weighted average share price of \$0.62 per ordinary share.

During the year ended 30 June 2020, no performance rights issued under the plan vested. The share based payment expense recognised for the year ended 30 June 2020 was \$68,000 (2019: \$68,000).

2018 Executive LTI Plan and 2018 CEO LTI Plan

On 27 October 2017 and 23 May 2018, the Group issued 951,622 performance rights to key management personnel as part of their long-term incentive plan. The terms of the performance rights are set out on pages 10-11 of the Directors' Report. During the year ended 30 June 2019, no performance rights issued under the plan vested. The share based payment expense recognised for the year ended 30 June 2020 was \$103,000 (2019: \$101,000).

2017 CEO LTI Plan

The 2017 performance rights plan related to Mr. Terry Stinson (the previous Managing Director and CEO) and was approved by shareholders on 7 November 2016. Pages 10-11 of the Directors' Report details the terms of the performance rights. During the year no rights under the plan vested. The total expense recognised during the period is \$15,000 (2019: \$59,000).

Movements during the year

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

	2020	2019
	Number	Number
Outstanding at 1 July	2,010,654	2,354,373
Granted during the year	-	-
Lapsed during the year	(653,125)	(343,719)
Outstanding at 30 June	1,357,529	2,010,654

The weighted average remaining contractual life of performance rights outstanding at 30 June 2020 was 0 years (2019: 1 years).

The following tables list the inputs into the models used for the four plans for the years ended June 30, 2017 and 2018, respectively:

	2017	2018	2018 CEO	CEO
	CEO LTI	Executive	2018 CEO	CEO
	Plan	LTI Plan	LTI Plan	SAPR's
Grant date	7/11/2016	23/05/2018	27/10/2017	23/05/2018
Expiry date	7/09/2019	10/08/2020	10/08/2020	10/08/2020
Share price at grant	\$ 0.93	\$ 0.44	\$ 0.54	\$ 0.44
Fair value (\$/right) - Tranche 1	0.500	0.209	0.365	0.316
Fair value (\$/right) - Tranche 2	0.420	0.138	0.278	-
Expected volatility	70%	59%	60%	59%
Risk-free interest rate	1.68%	1.98%	1.95%	1.98%
Remaining contractual life	1.19 years	2.12 years	2.12 years	2.12 years
Model used	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

F. OTHER ITEMS

F.2 Share based payments (continued)

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 2020

F. OTHER ITEMS

F.3 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	
					2020	2019
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 segment is 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 segment specialises 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.4 Parent entity information

	2020	2019
	\$'000	\$'000
Current assets	2	2
Non-current assets	24,768	22,848
Current liabilities	-	-
Non-current liabilities	8,610	8,277
Net assets	16,160	14,573
Issued capital	31,220	31,178
Accumulated losses	(17,485)	(18,842)
Employee benefits reserve	2,425	2,237
Total equity	16,160	14,573
Profit/(loss) of the parent	1,357	(4,835)
Total comprehensive profit/(loss) of the parent entity	1,357	(4,835)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

F. OTHER ITEMS

F.5 Auditor remuneration

The auditor for the Group is PricewaterhouseCoopers ("PwC")

	2020	2019
	\$	\$
Amounts received or due and receivable for:		
Audit and review of the consolidated financial statements	135,278	127,500
Tax compliance services	72,670	73,011
	207,948	200,511

F.6 Events after the end of the reporting period

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future years.

F.7 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

F. OTHER ITEMS

F.8 Adopted accounting standards

Adopted standards and interpretations

A number of adopted standards and interpretations have been issued as at the financial reporting date.

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

Title	Application of new standard	Summary
AASB 16 Leases ("AASB 16")	Adopted 1 July 2019	<p>AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.</p> <p>Lessees will be required to re-measure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right of-use asset.</p> <p>Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.</p> <p>The Group's current operating leases comprise only of real estate. Upon adoption of AASB 16, the Group's balance sheet is expected to include a right of use asset and liability related to these operating lease arrangements.</p> <p>Transition to AASB 16:</p> <p>The Group has evaluated the impact of current lease arrangements for the lease of real estate. The impact on the balance sheet at 1 July 2019 was an increase in leased related assets of \$1,710,000 and an increase in lease liabilities of \$2,215,000. Furthermore the sublease will give rise to a finance lease receivable of \$505,000.</p>

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

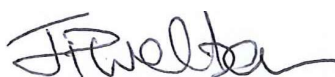
In accordance with a resolution of the Directors of Orbital Corporation Limited, I state that:

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 2020 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) Complying with Accounting Standards in Australia and the *Corporations Act 2001*.
- (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a).
- (c) 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 2020.

On behalf of the Board,



JP Welborn
Chairman



TM Alder
Managing Director & Chief Executive Officer

Dated at Perth, Western Australia 28 August 2020

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 2020 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 2020
- 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 a summary of significant accounting policies
- 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 and 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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Liability limited by a scheme approved under Professional Standards Legislation.

INDEPENDENT AUDITOR'S REPORT



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 Group has manufacturing operations in Australia and in the United States of America. The accounting processes are structured around a Group finance function at its corporate head office in Perth, where we predominantly performed our audit procedures.



Materiality

- For the purpose of our audit we used overall Group materiality of \$340,000, which represents approximately 1% of the Group's total Revenue.
- 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 for entities of this nature.

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.

Key audit matter	How our audit addressed the key audit matter
<p>Basis of preparation of financial report <i>(Notes to the Financial Statements – pg 24)</i></p> <p>As described in the financial report, the financial statements have been prepared by the Group on a going concern basis, which contemplates that the Group will continue to meet its commitments, realise its assets and settle its liabilities in the normal course of business.</p> <p>The Group has invested in the construction of a manufacturing facility in Hood River, USA and is still increasing production under the expanded agreement with its largest customer.</p> <p>Assessing the appropriateness of the Group's basis of preparation for the financial report was a key audit matter due to its importance to the financial report as a whole and the level of judgement involved in assessing the operational status, future funding and cash flows from sales in particular with respect to the Group forecasting future cash flows for a period of at least 12 months from the date of the financial report (cash flow forecasts).</p>	<p>In assessing the appropriateness of the Group's going concern basis of preparation for the financial report, we performed the following procedures, amongst others:</p> <ul style="list-style-type: none">• evaluated the appropriateness of the Group's assessment of its ability to continue as a going concern, including whether the level of detail in the assessment is appropriate given the nature of the Group, the period covered is at least 12 months from the date of our auditor's report and relevant information of which we are aware as a result of the audit has been included• enquired of management and the directors as to their knowledge of events or conditions that may cast significant doubt on the Group's ability to continue as a going concern, including the potential impact of COVID-19 on the Group• evaluated selected data and assumptions in the Group's cash flow forecasts for at least 12 months from the date of signing the auditor's report, including comparing selected elements, such as purchase orders from customers, in the cash flow forecasts to existing contracts and agreements• requested written representations from management and the board of directors regarding their plans for future action and the feasibility of these plans• evaluated whether, in view of the requirements of Australian Accounting Standards, the financial report provide adequate disclosures.

INDEPENDENT AUDITOR'S REPORT



<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Carrying value of Inventory</i> <i>(Refer to note C1) \$9.3 million</i></p> <p>At 30 June 2020 the Group held inventory with a carrying value of \$9.3 million. This inventory comprises parts, consumables and sub-assemblies of engines which will be used in the construction of engines by the Group. Inventory for the Group is held in Perth, Australia and Hood River, USA.</p> <p>We focused on this area due the significance of the inventory balance to the consolidated statement of financial position and the complexities associated with the allocation of direct labour and direct material costs due to the multiple stages of assembly in the construction of the engines.</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none">• attended the inventory counts at Perth and Hood River and traced a sample of our inventory counts to the Group's year end inventory listings• assessed the application of inventory costing methodologies and whether this was consistent with Australian Accounting Standards• compared a sample of inventory cost items to third party invoices• on a sample basis, evaluated the direct labour costs allocated to engines in inventory by inspecting timesheets and agreeing the labour cost to the payroll system• on a sample basis, recalculated the mathematical accuracy of sub-assembly bill of materials that comprise engines in inventory• assessed the adequacy of the provision for obsolete stock• evaluated whether inventory was carried at the lower of cost and net realisable value by comparing costs per unit in inventory against sale prices in approved purchase orders received from customers.

INDEPENDENT AUDITOR'S REPORT



<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Recognition and measurement of deferred tax assets</i> <i>(Refer to note A5) \$5.4 million</i></p> <p>At 30 June 2020, the Group recognised \$5.4 million of net deferred tax assets, which includes \$5.1 million in respect of tax losses carried forward to reduce future tax payable in both Australia and the USA.</p> <p>In determining the quantum of probable tax loss utilisation, the Group made a number of judgements, including assessing whether it has access to the carry forward tax losses and its forecast taxable income in both Australia and the USA for the period during which the carry forward tax losses are available.</p> <p>Assessing the appropriateness of recognising these deferred tax assets was a key audit matter due to the level of judgement applied by the Group in forecasting future taxable income and the probability of the carry forward tax losses being utilised.</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none">• evaluated the accuracy of the Group's reconciliation of the available carry forward tax losses at 30 June 2020 by agreeing the opening balance of carry forward losses to losses recorded in previous years' tax returns and agreeing the losses for the current year to the current year calculations.• together with PwC tax experts, we evaluated the Group's ability to access the carry forward losses under Australian and USA income tax legislation• evaluated the Group's calculation for the recognition and measurement of the temporary differences to be recognised as deferred tax assets and liabilities in light of the requirements of Australian Accounting Standards• obtained the calculation of forecast taxable income for the operations of the Group to evaluate the Group's conclusion that there is convincing evidence that sufficient taxable income would likely be earned in the future to utilise the tax losses for which deferred tax assets have been recognised. We evaluated selected data and assumptions in the Group's cash flow forecasts, including comparing selected elements, such as customer purchase orders, in the cash flow forecasts to existing contracts and agreements• evaluated the adequacy of the disclosures made in Note A5 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 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

INDEPENDENT AUDITOR'S REPORT



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 7 to 15 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Orbital Corporation Limited for the year ended 30 June 2020 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 handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'Ben Gargett'.

Ben Gargett
Partner

Perth
28 August 2020

SHAREHOLDING DETAILS

Class of Shares and Voting Rights

As at 17 August 2020 there were 4,854 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:

- at meetings of members or class of members, each member entitled to vote may vote in person or by proxy or representative; and
- 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 17 August 2020

UIL Limited <i>(as notified 13 April 2017)</i>	23,627,904	30.45%
Mitsubishi UFJ Financial Group, Inc. <i>Comprising voting power of over 20% in Morgan Stanley; and voting power of 100% in Carol Australia Holdings Pty Limited (as notified 2 August 2019)</i>	10,597,522 2,628,064 7,969,458	13.66%

Distribution of Shareholdings as at 17 August 2020

1-1,000	2,718
1,001-5,000	1,273
5,001-10,000	395
10,001-100,000	415
100,001 and over	53
Number of shareholders	4,854
Total Shares on Issue	77,586,923
Number of unmarketable parcels	-

Top 20 Shareholders as at 17 August 2020

	NUMBER OF SHARES HELD	% OF SHARES
1 J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	24,383,396	31.43
2 CITICORP NOMINEES PTY LIMITED	9,707,512	12.51
3 ANNAPURNA PTY LTD	2,635,000	3.40
4 MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	2,626,694	3.39
5 DEBUSCEY PTY LTD	1,850,000	2.38
6 MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,575,471	2.03
7 BIRKETU PTY LTD	1,552,641	2.00
8 SWEET AS DEVELOPMENTS PTY LTD	1,121,414	1.45
9 MR MICHAEL WILLIAM FORD & MRS NINA BETTE FORD	1,086,672	1.40
10 MR JOSHUA LEIGH SWEETMAN & MRS CAROLINE SWEETMAN	990,662	1.28
11 FUNDING SECURITIES PTY LTD	900,000	1.16
12 MR JOHN PAUL WELBORN & MS CAROLINE ANNE WELBORN	850,000	1.10
13 BNP PARIBAS NOMINEES PTY LTD	771,831	0.99
14 MR CHRISTOPHER IAN WALLIN & MS FIONA KAY MCLOUGHLIN & MRS SYLVIA FAY BHATIA	689,200	0.89
15 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	554,548	0.71
16 BOND STREET CUSTODIANS LIMITED	500,000	0.64
17 MR TODD MATHEW ALDER	372,333	0.48
18 MR TERRY STINSON	360,000	0.46
19 MR JOHN AYRES	356,667	0.46
20 TEXAS HOLDINGS PTY LTD	325,000	0.42
Top 20 Shareholders Total	53,209,041	68.58

The 20 largest shareholders hold 68.58% of the ordinary shares of the Company (2019: 71.89%).

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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Australia



| @OrbitalCorpASX



| OrbitalUAV

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DIRECTORS

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

COMPANY SECRETARY

D. Bonomini

SHARE REGISTRY

Link Market Services Limited
Level 12, QV1 Building
250 St Georges Terrace
Perth, Western Australia 6000
Telephone: 61 (08) 9211 6670

SHARE TRADING FACILITIES

Australian Stock Exchange Limited (Code "OEC")

AUDITORS

PricewaterhouseCoopers
125 St Georges Terrace
Perth, Western Australia 6000



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