

1 July 2022

OPERATIONAL UPDATE

Clarification of Boeing Insitu cost reimbursement dispute

PERTH, AUSTRALIA: Orbital Corporation Ltd ('Orbital UAV', 'the Company') provides an operational update following the securities trading halt requested on 22 June 2022 and subsequent voluntary suspension, requested on 24 June 2022.

Boeing Insitu reimbursement claim

As advised on 14 February 2022 (ASX Announcement: '*Engine Development Update*'), customer Insitu Inc. – a wholly owned subsidiary of The Boeing Company ('Boeing Insitu') – confirmed a 'Termination of Convenience' of the third engine development program under its long term supply agreement with Orbital UAV.

Orbital UAV submitted a reimbursement claim of A\$1.8 million to Boeing Insitu on 10 March 2022. This reimbursement claim was calculated as per the contracted terms under which the Termination of Convenience entitles Orbital UAV to claim full reimbursement of all costs incurred on the program up to the date of termination.

On Friday 24 June, the Company received formal advice that Boeing Insitu would contest Orbital UAV's claim. Boeing Insitu is disputing the total value of the reimbursement claim and the level of information required to support the claim.

Orbital UAV maintains the validity of the A\$1.8 million reimbursement claim and is now working with Boeing Insitu to specifically address the disputed issues, with the intention of pursuing the full recovery of the amount claimed.

Termination of the third engine development program follows other disruptions to Boeing Insitu engine production lines. These included:

- Boeing Insitu reducing volumes of the first engine production model due to prevailing market conditions (see ASX Announcement 1 February 2021); and
- the transition of build activities of the second engine production line from the USA to Australia to support cost reduction initiatives in the lower volume environment (see ASX Announcement 31 January 2022).

Orbital UAV continues to operate the first and second engine model production lines for Boeing Insitu from its Balcatta facility in Australia. The Boeing Insitu engine production disruptions over the past 18 months have resulted in a significant build-up of inventory currently held by Orbital UAV to support all three Boeing Insitu engine programs. In addition to pursuing recovery of the disputed reimbursement claim, Orbital UAV intends to seek support, and investigate recovery, from Boeing Insitu for the investment in the program related inventory.



FY22 revenue

Orbital UAV's full year revenue and other income for financial year 2022 ('FY22') has been impacted by factors related to Boeing Insitu production and development programs. This includes:

1. The transition of production activities for the second Boeing Insitu engine model from the USA to Australia;
2. Termination of the third engine development program and subsequent production; and
3. Reduced income via the Company's WA Government Loan offsets that were linked to the achievement of milestones related to the Boeing Insitu engine programs.

The WA Government loan offset milestones are currently being renegotiated with the WA government. The Company has received confirmation from the WA Government that loan repayments will not fall due while the milestones are under negotiation.

Unaudited revenue and other income for FY22 is now expected to be approximately A\$19 million with a resulting net loss of approximately A\$7 million.

Standby Funding Facility confirmed

To support the Company's working capital position pending resolution of the dispute with Boeing Insitu, Orbital UAV is pleased to confirm it has established an unsecured Standby Working Capital Facility of up to A\$1 million ('Standby Facility') with the ICM Group, manager of UIL Limited that currently holds 30% of Orbital Corporation Ltd shares.

The provision of the Standby Facility is a strong show of support from the Company's largest shareholder as Orbital UAV pursues the full amount of the reimbursement claim from Boeing Insitu.

The material terms of the Standby Facility can be found in Appendix A to this announcement.

Outlook

Over the past two years, execution of Orbital UAV's customer diversification strategy within the uncrewed aerial vehicle engine market has seen the Company sign multiple engine development agreements with leading global customers: Textron Systems, one of Singapore's largest defence companies, Anduril Industries and Skyways.

Each engine development relationship represents mid-term growth opportunities and demonstrates the growing reputation Orbital UAV has built within the global uncrewed defence aerospace market that continues to present a positive outlook.

The Company will continue to support existing production commitments with Boeing Insitu while progressing engine development programs with Textron, one of Singapore's largest defence companies, Anduril Industries and Skyways. Orbital UAV is confident that current engine development relationships have the potential to graduate to multi-year engine production contracts with significant opportunity for future revenue and profit growth for Orbital UAV.

-ENDS-

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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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Appendix A

Material terms of the Standby Facility

Borrower	Orbital Corporation Limited
Financier	ICM Limited
Facility amount	AUD\$1,000,000
Facility agreement date	30 June 2022
Termination date	30 June 2023 (12 months from agreement date)
Availability period	Facility available from 1 July 2022
Currency	AUD\$
Minimum amount of each advance	AUD\$100,000
Maximum amount of each advance	AUD\$1,000,000
Repayment	Repayment in full on or before 30 June 2023
Facility fee	2.5% of facility amount paid at facility agreement date
Establishment fees	Fixed amount of AUD\$, to be mutually agreed in advance, for the purposes of reimbursing the establishment costs incurred by proposed financier
Margin	10.00%
Loan interest periods	90 days or any other period agreed between the Borrower and the Financier
Interest on loans	The aggregate of the applicable: Margin; plus Libor (US\$), as set by reference to Reuters or, if not available, on the basis of rates provided by agreed reference banks.
Unsecured	