

Despatch of 2021 Annual Report

Quickstep Holdings Limited (ASX:QHL) (the Company) attaches its 2021 Annual Report for despatch to its shareholders.

The 2021 Annual Report has been authorised for release by the Board.

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Forward looking statements

This release contains forward-looking statements and information that are necessarily subject to risks, uncertainties and assumptions. Many factors could cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in this release including, amongst others, changes in general economic and business conditions, regulatory environment, exchange rates, results of advertising and sales activities, competition, and the availability of resources. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this release. Except as required by law, the Company assumes no obligation to update or correct the information in this release. To the maximum extent permitted by law, the Company and its subsidiaries and officers do not make any representation or warranty as to the likelihood of fulfilment of any forward-looking statements and disclaim responsibility and liability for any forward-looking statements or other information in this release.

NEW AVENUES TO GROWTH

Annual Report 2021

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NEW
AVENUES
TO GROWTH

OUR ACHIEVEMENTS

\$85.1mSales revenue **up 3%****\$2.1m**Underlying **PBT** comparable
with FY20**\$7.8m**Operating **cash flow**

NEW COLLABORATIONS

**TRIUMPH AVIATION SERVICES ASIA (TASA):
NON-BINDING MOU PROPOSED
AFTERMARKET SERVICES****VAULTA MOU: TO DEVELOP SMARTER
TECHNOLOGIES FOR RENEWABLES,
MANNED AND UNMANNED AIRCRAFT
AND ELECTRIC FLIGHT****VOLANSI MOU: TO DEVELOP THE AUSTRALIAN
MARKET AND EXPLORE MANUFACTURING
OPTIONS FOR VOLANSI'S DRONE SUITE****CARBONIX MANUFACTURING PARTNERSHIP:
NEXT GENERATION UNMANNED SOLUTIONS
FOR COMMERCIAL AND MILITARY APPLICATIONS**

M&A ACTIVITIES

**QAS: ACQUISITION OF BACR MRO
AT MELBOURNE AIRPORT****MINORITY INVESTMENT
IN CARBONIX****20** YEARS
2001 - 2021

In this, our 20th year, we have expanded our capability and investment into MRO (maintenance, repair & overhaul) of defence and commercial aircraft through acquisition of the Boeing MRO capability in Melbourne; an exciting new vertical for Quickstep. As part of our unmanned systems strategy we have also created a new vertical: Quickstep Advanced Air Mobility (QAAM). New relationships and business opportunities continue to be developed in the space and guided weapons segments.

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CHAIR'S REPORT

I am proud of how the entire Quickstep team performed throughout this challenging, but exciting year. We introduced new health and safety measures to reduce the risk of COVID-19 spread, particularly in our Sydney and Melbourne operating sites. We adapted to these procedures and ensured that there were strong, additional support mechanisms in place. Despite the undeniable challenges brought on by a global pandemic, Quickstep's baseline is firm and has steadily improved – our amount of total sales and our net cash from operating activities both increased in FY2021. As I look ahead, I know that these are exciting, dynamic times for the aerospace and defence industries, and I am excited that Quickstep is well-positioned to play a key role in these sectors.

FINANCIAL PERFORMANCE

Our financial results for FY2021 reflect Quickstep's steady improvement and business development, with total sales of \$85.1 million in FY2021, up 3.4% on FY2020. Despite funding the Boeing acquisition in a difficult trading environment, Quickstep's stable profit before tax (PBT) and the more than 30% decrease of net debt underlie this financial year's strong performance. The Company also achieved an excellent cash conversion of \$7.8 million, which was a marked improvement on the \$0.2 million achieved in FY2020. The Company delivered a statutory PBT loss of \$1.2 million, which is a \$2.9 million reduction on FY2020. However, this reduction includes the one-off \$2.8 million flares facility impairment charge, the \$0.5 million Quickstep Aerospace Services (QAS) acquisition costs and absorbing \$0.8 million in losses from the QAS business acquisition in February 2021.

20 YEARS
2001 - 2021



OPERATING ENVIRONMENT

COVID-19 risk management and control measures continue to ensure that we provide a safe and secure work environment for all our employees. We currently have many employees working from home, but the majority still attend work as authorised workers. We are conscious of the stress and strain to both these groups and have ensured that there are strong support mechanisms in place, including the introduction of a new and improved employee assistance program (EAP) with a different supplier. The Company has demonstrated a high level of resilience throughout FY2021, and both the board and executive team remain steadfast in their commitment to employee health and wellbeing.

The cyber security environment continues to be an area of concern and focus for the board and executive team. We work closely with our customers, suppliers, and government agencies to ensure we achieve high standards of cyber security and resilience.

Despite the challenges of COVID-19, Quickstep is in a strong position, and we expect to emerge from the current phase of the pandemic with a firm baseline. From here, our goal is to deliver continued operational excellence, high levels of customer satisfaction and consistent growth. We expect the aerospace and defence market environments to remain dynamic, which will undoubtedly present some exciting opportunities for the Company. The current decade will be transformational for the aerospace sector, and we are delighted to be at the heart of it.

BUSINESS GROWTH

Throughout FY2021, we have demonstrated ongoing revenue growth in core manufacturing operations. A further interesting potential opportunity for growth is the Commonwealth's initiative around the creation of a Guided Weapons Enterprise.

In February 2021, we welcomed the Tullamarine QAS team to Quickstep and would like to congratulate them on a positive start since they joined the company. We believe that QAS is a unique MRO (maintenance, repair & overhaul) capability in Australia. We expect the outlook for the commercial airlines market will improve, supporting the continued development and growth of the QAS business.

FY2021 marked the launch of our new business vertical in the Advanced Air Mobility (AAM) sector. AAM represents a significant advancement for Quickstep as it ensures that we have a presence in the rapidly growing and exciting unmanned systems sector. Expect more developments on our role in this sector which will be a key focus for the Quickstep team throughout FY2022 and beyond.

We are very fortunate to be well positioned in a very dynamic marketplace with significant new technologies coming onstream.

CLOSING REMARKS

This is my first annual letter to shareholders since taking over as Chair in September last year. As mentioned at the 2020 AGM, Quickstep owes a debt of gratitude to Tony Quick who guided the business over many years as Chair and played a significant role in the transformation of Quickstep from a start-up to a business delivering consistent underlying profitability and positive operational cash flow.

Over the past year we completed the board renewal process that Tony started and I believe that we have a cohesive, well balanced and competent board in place to help guide Quickstep through the exciting growth potential that we see ahead. I would like to thank my fellow directors for their support and guidance over the last year.

Finally, I would like to thank our managing director, Mark Burgess, the executive team and all employees for their contribution to both delivering a strong business performance in FY2021 as well as pushing forward on the first steps of a number of growth initiatives. A business is only as good as its team and Quickstep is fortunate to have a great team!

Patrick Largier
Chairman



MD & CEO'S REVIEW

Despite a tumultuous year, I am proud to say that the Quickstep team have come out of 2021 stronger than ever. Yet again, the Quickstep team have exceeded expectations in a particularly challenging year. I am delighted to report that in FY2021, Quickstep experienced revenue growth, outstanding operating cash flow performance, and stable underlying profits despite absorbing an acquisition. Against the odds, Quickstep continues to be a formidable force in our industry, even as the world constantly throws us challenges.

A CULTURE OF GROWTH

Quickstep is committed to continual growth and advancement. In FY2021, one way we demonstrated strong continual growth is through our core manufacturing business. The talented and passionate team at Quickstep have created 10 new F-35 centre fuselage parts that are progressively entering series production. We secured a \$4.7 million additional order for F-35 Vertical Tail components, as well as almost \$1 million of incremental commercial orders from Waurin Ponds.

FY2021 also saw significant business development come in the form of Quickstep's first acquisition and the creation of Quickstep Aerospace Services. This has proven to be highly effective in further establishing the company as a strong competitor in our industry. It also demonstrates the company's ability to deploy capital focused on future growth. We are proud to have bought a great asset with highly talented employees. Additionally, this move will bring work into Australia – work that has never been undertaken by an independent MRO business before.

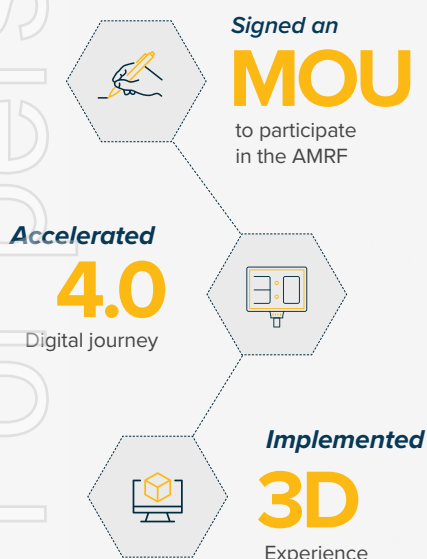
Another notable business venture conducted by Quickstep in FY2021 was our first major move into the unmanned systems sector, with the announcement of a \$1 million investment in the Australian company, CarbonicBoats Pty Ltd (trading as Carbonix). Carbonix are experts in the design, manufacture, and operation of next-generation unmanned solutions for commercial and military applications, and we expect our investment to help establish Quickstep as an active player in the unmanned systems field. The \$1 million investment will be funded by operating cash flow and is currently planned to be paid in two equal tranches over the first half of FY2022. This progression comes alongside the creation of a new business vertical in the Advanced Air Mobility sector. It is strongly anticipated that this AAM sector will see explosive growth over the coming years.

Despite our pleasing number of accomplishments over FY2021, our research and development (R&D) team continue to look for more ways we can succeed. Over the past year, our R&D team have developed exciting new process applications for AeroQure™, as well as new ways to deploy the technology. Our commitment to research and development in the industry has resulted in Quickstep becoming recognised as a significant player in the engineering space. There are many more sectors where we have early stage development programs underway.

UNWAVERING OPERATIONAL PERFORMANCE

A strong team equals strong operational performance. Our employees have been a valuable asset to Quickstep over FY2021. All departments have collectively worked to ensure satisfied customers, timely deliveries, industry-leading supplier management, and high-quality standards across all business operations.

Quickstep's impressive operational performance is materialised in the company's financial successes. In FY2021, our total sales amounted to \$85.1 million, which is a 3.4% increase from our FY2020 sales. This increase can be largely attributed to the ongoing growth in our Joint Strike Fighter (JSF) program volumes, which are now at full rate production, and growing market share on the vertical tails contract. The total revenue from our JSF endeavours was \$63.9 million, a 4% increase from FY2020. We have partnered with the JSF program for years now, with increasing success each year as we continue to grow our manufacturing business – delivering our 10,000th F-35 component during the year.



\$85.1m

Sales revenue up 3%

Quickstep's operational performance has also resulted in strong operating cash flow. In FY2021, we generated \$7.8 million (net) cash from operating activities alone, which is a \$7.6 million increase from the previous year. This can be credited to Quickstep's material reduction in inventory over FY2021, despite very significant supply chain challenges, as well as excellent cash management. Regardless of our past performance, we will strive to find new avenues for growth and advancement. Therefore, we have invested a capital expenditure of \$2.3 million to provide new capability, increased capacity, and improved operational efficiency.

LOOKING AHEAD

While we have met the challenges of FY2021 with adaptability and determination, this isn't to say that operating during the COVID-19 global pandemic has been easy. Over the year, the challenges from the pandemic have persisted. For example, the pandemic has affected the efficiency of Quickstep's supply chain, especially our air and sea freight routes, an issue that is predicted to persist for most of the upcoming year as the world gets back on its feet. We have combated this issue through tight management of the supply chain, which has helped us avoid any material disruptions to date. However, the risk of disruption is anticipated to remain high as the global pandemic continues to impact offshore supply chains and freight routes across the globe.

\$2.1m

Underlying PBT comparable with FY20

Additionally, the serious outbreaks of COVID-19 infections across Sydney and Melbourne have drastically changed the public health risk at our largest operating sites. As a result, we have been forced to adapt our procedures through methods such as remote working, shift and team segregation, in addition to the standard public health requirements. The safety of our team and our wider community is our highest priority, and we strive to protect public safety by maintaining a strict risk management framework and operating in compliance with all public health orders. Through these measures, we can maximise people's safety and wellbeing during the pandemic, while minimising disruption of business operations. While the pandemic has been challenging for many, there is one good piece of news for investors – in my view there is never a more opportune time to invest than in the middle of a crisis. I said this in last year's annual report, but in my view it remains just as true today.

\$7.8m

Operating cash flow

We believe this trend will continue over the next two years as Quickstep continues to leverage existing growth paths and expand the avenues for growth available to us.

The new business models and strategies that arose from the pandemic and any business shortcomings over FY2021 will continue to act as a learning curve for the Quickstep team.

I would like to thank the Quickstep Board, my leadership team and every employee within the business for their pride and dedication to building a unique Australian aerospace success story.

Mark Burgess*CEO and Managing Director*


“Quickstep experienced revenue growth, outstanding operating cash flow performance, and stable underlying profits despite absorbing an acquisition.”



NEW AVENUES TO GROWTH

QUICKSTEP AEROSPACE SERVICES (QAS)

In FY2021, Quickstep took a significant step forward by completing our first acquisition.

We acquired a highly capable facility: Boeing Australia's aerospace maintenance, repair, and overhaul (MRO) capability, based in Tullamarine, Victoria.

This acquisition led to the creation of an exciting new business called Quickstep Aerospace Services (QAS).

QAS manages a wide range of composite, bonded and conventional metal aircraft structures for both commercial and military operators. All our aircraft structures are made with cutting-edge equipment and state-of-the-art MRO capabilities.

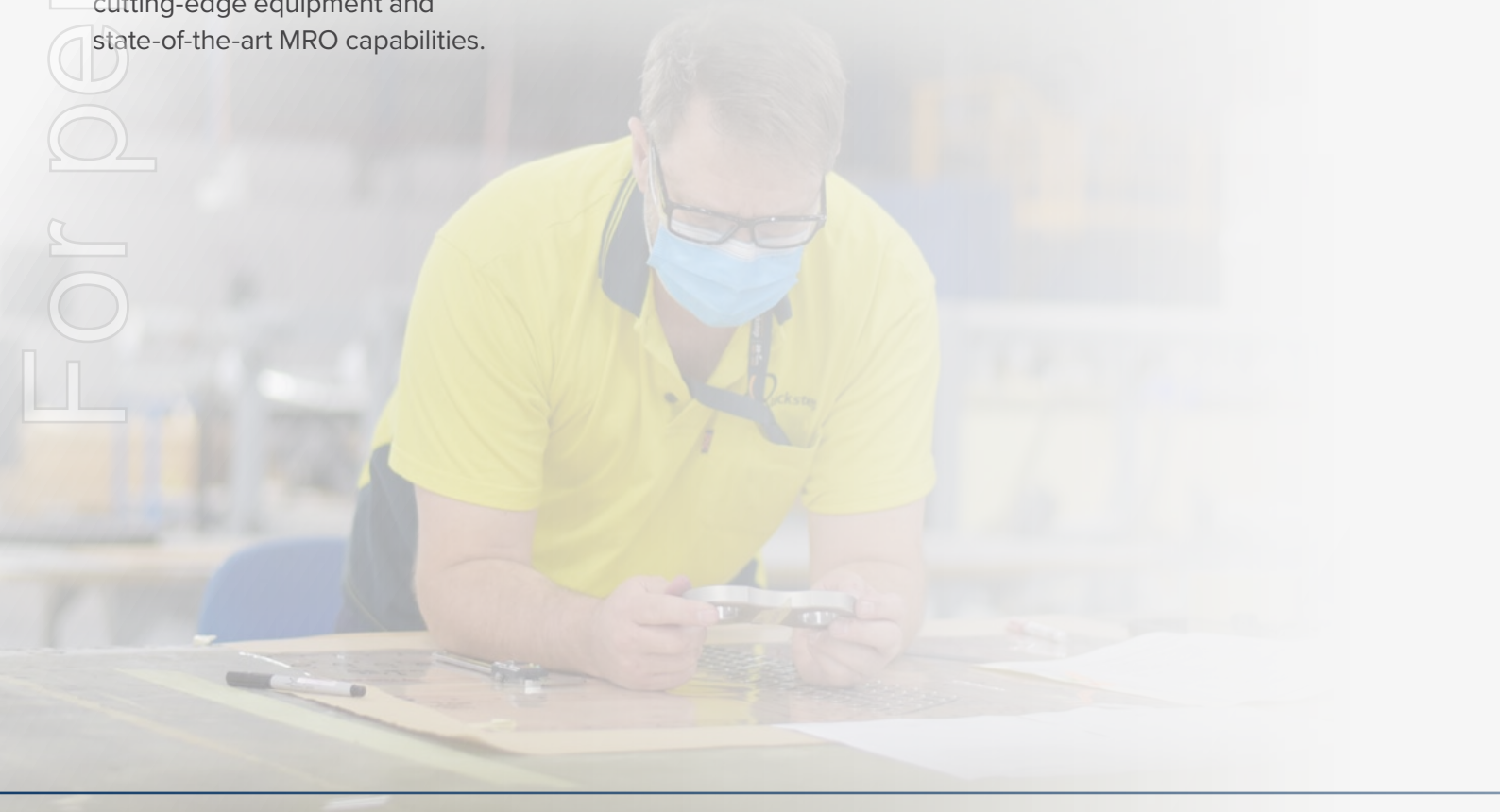
HELPING AUSTRALIAN BUSINESSES

QAS is a newcomer in a competitive industry. Commercial air travel has been hit hard by COVID-19 as many fewer people have travelled. However, the domestic recovery of our airline industry will facilitate the growth of QAS.

The anticipated recovery of commercial aviation in Australia, New Zealand, and the region will also bring new opportunities for Australian MRO businesses. The changing nature of this pandemic is driving previously offshore aviation component maintenance back to Australia. As a specialty maintenance service provider, QAS is expected to profit from this anticipated shift. We are already increasing our onshore capabilities so that we can leverage this anticipated growth from domestic operators.

NEW OPPORTUNITIES

To address increasing domestic and regional demands, QAS is expected to expand its capabilities and improve overall efficiency. Over the last nine months, Quickstep has already committed \$5 million of total investment to our Tullamarine business. Currently, we are planning to upgrade its facilities, equipment, and business processes. We are also supporting new and existing employees through our focus on education. Our in-house training provides QAS employees with the opportunity to learn new technologies and expand their qualifications. Taken together, these improvements will drive QAS's services and allow us to pursue new contracts and customers.



FUTURE PLANS

After establishing QAS as a significant player in the aerospace sector, we plan to deliver a Regional Centre for Aviation Excellence in the Asia Pacific region. This centre is intended to support local supply chains, provide secure technical jobs, and house sovereign, commercial, and defence capabilities at Melbourne Airport.

We intend to also provide continuous training, upskilling of current technicians, and the potential addition of new apprentices and engineering graduates. When these plans are complete, QAS's strategic plan is to bring new opportunities to the Australian economy, including:

- Boosting the local supply chain.
- Providing Australians with skilled MRO jobs. The QAS team aims employ new workers to meet short-term demand and regional growth.
- Skills, training, and apprenticeships. Quickstep is committed to investing in employee qualifications and professional development of the Victorian workforce.
- Establishing Victoria as a regional leader. QAS aims to help ensure Victoria's regional MRO leadership.
- Protecting Australia's defence sector. We aim to improve Australia's sovereign defence capability with our Advanced Industry 4.0 factory.

Quickstep is committed to its aim of transforming QAS into a world-class provider of composite MRO services. We intend that our efforts will bring significant economic and reputational benefits to Australia.

ENGINEERING AND TECHNOLOGY

FY21 has been filled with exciting developments in the engineering and technology sector. We, at Quickstep, are ready to meet new challenges and capitalise on growth opportunities in our core defence manufacturing business. Our high-quality manufacturing processes are expected to assist us to obtain further aerospace opportunities from global operational equipment manufacturers (OEMs), such as Boeing Defence, Space & Security, and the Lockheed Martin Corporation.

CORE MANUFACTURING BUSINESS

Quickstep's core contracts, including the F-35 Joint Strike Fighter and the Lockheed Martin C-130J Super Hercules, provide a valuable, stable, and long-term base business. Even though we will continue to develop these programs, there are other areas of strategic focus in the dynamic defence aerospace sector. The rapid evolution of several new sovereign defence industry programs (space, unmanned, autonomous, guided weapons) will support long term growth plans.

GOVERNMENT DEFENCE PRIORITIES

We are developing our technical capabilities and partnerships to further align with the Commonwealth's key defence priorities. These priorities include the Sovereign Guided Weapons Enterprise, and a renewed focus on space and autonomous systems, which are two areas with considerable long-term prospects and substantial government support.

Under the Sovereign Guided Weapons Enterprise, the Australian Defence Force (ADF) anticipates spending \$100 billion on guided weapons over the next 20 years. The Government has also committed to funding technology development as part of a \$270 billion, 10-year investment in Australia's defence industry.

With our advanced manufacturing capabilities in Bankstown, coupled with our research and development (R&D) capabilities at Deakin University in Geelong, Quickstep is well-positioned to deliver composite aerostructures for this initiative. We have already engaged with the Commonwealth, both independently and as part of a consortium of leading defence industry companies.

The Minister for Defence Industry has recently revealed four additional defence industry priorities. Two of these priorities – space and autonomous systems – directly support our strategic aims and may further bolster our growth plans. For the space sector, launch vehicles and satellites are predominantly composite in construction, which furthers the need for our advanced composite manufacturing capabilities. Our relationships with several US based OEMs, who are leaders in the space manufacturing sector, may also help fuel Quickstep's growth in this area.

NEW AVENUES TO GROWTH

ADVANCED AIR MOBILITY (AAM)

In August, we announced the formation of our newest business vertical Quickstep Advanced Air Mobility (QAAM). QAAM covers a range of autonomous aircraft types and end-uses from cargo drones to air taxis, a market estimated to be US\$90 billion by 2030.¹ This sector has rapidly progressed from concept to reality and has garnered significant industrial and political support.

QAAM will predominantly operate from our Geelong facility where we have established a 'Drone Centre of Excellence'. After in-depth US and Australian market analysis, we identified that AAM start-ups require partners with aerospace or automotive manufacturing know-how. These partners can help shift low volume prototype development into full-rate, commercial production. At Quickstep, our experience in development and production, coupled with our ability to leverage our proprietary Qure™ and AeroQure™ technology, positions us as a highly desirable engineering and manufacturing partner.

We are in discussions with several US and Australian drone manufacturers, who have identified us as their preferred manufacturing partner. Some of the companies also seek our operational support to help guide their entry into new markets and increase manufacturing demand.

CLOSING REMARKS

This decade will be transformational for the aerospace sector, potentially the most exciting period since the dawn of the jet age, and we are delighted to have a strong presence in this dynamic and innovative field.

Over the next year, we plan to invest in technologies that further promote electric aviation solutions. As the AAM sector continues to grow and the regulatory framework around this sector adapts, drones will continue to increase in size and payload capacity. Quickstep is ready to supply electric propulsion assemblies, incorporating technologies such as hydrogen, fuel cells, and batteries into these drones. The future looks bright for Quickstep, and we are well-positioned to capitalise on defence industry and commercial aviation priorities, including the rapidly developing electric aircraft and electric retrofit markets.



1. The Future of the Drone Economy'. A Report from Levitate Capital – December 2020.

OPERATIONS

At Quickstep, our Operations team is focused on investing in our people and facilities, as well as our relationships with suppliers and customers. We focus on maintaining the excellent quality that our customers deserve, while looking to lower costs for them. We are also committed to employee safety and wellbeing, because we know that Quickstep would not be a successful, strong and resilient business without our dedicated and talented team.

QUICKSTEP LEARNING ACADEMY

The establishment of a Quickstep Learning Academy (QLA), a purpose-built training facility, staffed with some of our most experienced people, marks a paradigm shift in our approach to training. We know that internally developed training programs will further improve Quickstep's quality and efficiency. These programs combine broad technology training with detailed skills-based and supervised on-the-job training. New operators, who have participated in these training programs, are already demonstrating improved retention. They are also quickly meeting their quality and efficiency targets.

The QLA's scope has expanded to encompass the retraining of all existing production operators. This helps ensure consistency of process and performance across our entire workforce. The QLA's activities are also managed through a new online human resources system (HR Hub), which streamlines our operations and provides a range of delivery options.

WORKPLACE SAFETY

Quickstep's commitment to workplace safety is supported by an ongoing investment in safety systems for the operations environment and the expansion of our dedicated safety team. Hazard identification and elimination is an ongoing focus, which is supported at all levels through broad participation in our safety audit program.

ALWAYS IMPROVING

Our capital investment continues to be focused on improving quality, efficiency, and reliability. This year saw the completion of our ply-cutting machine replacement program. Ply-cutting is critical to our overall process reliability. The introduction of advanced new equipment has improved our efficiency, reduced material consumption and ensured high levels of process reliability.

We are now approaching the final stages of a program that upgrades the control systems across our major capital equipment. Along with improved process capability, these new control systems will enable our Industry 4.0 Roadmap. With this Roadmap, real-time collection of equipment performance data is combined with existing labour performance and quality data, providing a complete digital picture of factory performance.

Our Continuous Improvement (CI) program now delivers steady reductions in labour, material, and consumable costs. The CI programs reduce these costs by implementing point-of-use tooling, standardised work, Kanban systems, and process flow.

Finally, we have worked steadily to improve the overall integration of our supply chain. This has been particularly important during COVID-19 and has helped us avoid any significant material disruptions. A supplier risk assessment process drives our material planning parameters and supplier engagement strategies. We also use supply chain mapping to develop revised shipping strategies that improve reliability and stabilise freight costs during this period of unprecedented turbulence. Without these actions, we could not be the reliable suppliers our customers depend on.

CLOSING REMARKS

A dedicated team works across all areas of Quickstep to support our ongoing improvement. Their initiatives ensure that we can meet the precise requirements of our customers while steadily improving Quickstep's internal operations. At Operations, we know that our dedication to efficiency, education and continual improvement plays a key role in supporting the new Quickstep verticals.

LEADERSHIP TEAM



MARK BURGESS
CEO and Managing Director

"Although this has been a really challenging year from a leadership perspective I am so proud of the Quickstep team and our partners. They kept safe, kept working and kept smiling. It reinforces my confidence that we can take on any challenge and prevail."



DAVID DORAL
*Chief Technical Officer
and Head of Engineering*

"Throughout the most unique period we have ever lived through on a global scale, Quickstep has managed to navigate well these challenging times, while setting ourselves up for further growth with exciting opportunities ahead of us."



SARAH HART
Human Resources Manager

"This last year we successfully navigated COVID-19 challenges that have impacted the people agenda. We are excited for the year ahead as it provides the whole HR team an opportunity for professional and personal growth with challenging and rewarding initiatives."



TIM GENT
*Executive General Manager,
Quickstep Aerospace Services*

"The launch of Quickstep Aerospace Services has been well received by the aviation industry and customers in the region. Our highly skilled team is ready to support the recovery phases of the commercial aviation industry. We also look forward to providing sovereign capability to our defence partners into the future. We are grateful to have been recognised as a true world class supplier and will continue to grow our capabilities in line with customer need."

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**GARY ROBINSON***Executive General Manager Operation*

"I am grateful to all the staff at Bankstown and Geelong for keeping safe while maintaining clear focus on delivering quality products to our customers and continuing to improve operational efficiency. There is real excitement across the business as we prepare to use our advanced composite manufacturing skills across some of the new strategic initiatives in Advanced Air Mobility, Satellites and Electrification."

**STEVE OSBORNE***General Manager, Global Business Development and Business Leader – Quickstep Advanced Air Mobility (QAAM)*

"In a challenging year we posted solid sales from our core advanced manufacturing and MRO businesses. Looking ahead, Advanced Air Mobility and Electric Aviation are exciting high growth markets that we're very capable of competing in. We're already making fantastic strides in building our presence and forming partnerships with globally recognised sector leaders. The future is electric and we plan to be a big part of it!"

**ALAN TILLEY***Chief Financial Officer*

Alan resigned in early FY22 and his replacement Stephen Gaffney was announced 5 October 2021

BOARD OF DIRECTORS



KYM OSLEY

RISK MANAGEMENT | DEFENCE
& AEROSPACE MARKETS |
STRATEGIC PLANNING | AEROSPACE
MAINTENANCE, REPAIR & OVERHAUL

ELISABETH MANNES

CHAIR OF THE REMUNERATION
NOMINATION DIVERSITY COMMITTEE |
BUSINESS MANAGEMENT |
OPERATIONAL EXCELLENCE | RISK AND
COMPLIANCE | PEOPLE & CULTURE

JILLIAN MCGREGOR

COMPANY SECRETARY

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PATRICK LARGIER

CHAIR OF THE BOARD | MERGERS
& ACQUISITIONS | HEALTH SAFETY
& ENVIRONMENT | STRATEGY
| MANUFACTURING | GENERAL
MANAGEMENT

LEANNE HEYWOOD

CHAIR OF THE AUDIT, RISK
COMMITTEE | BUSINESS FINANCE |
COMPLIANCE | STRATEGIC MARKETING
| M&A

MARK BURGESS

CEO & MANAGING DIRECTOR |
AEROSPACE & DEFENCE | BUSINESS
LEADERSHIP | OPERATIONAL
EXCELLENCE | PEOPLE & CULTURE

FINANCIALS



“ QUICKSTEP IS INVESTING IN NEW
TECHNOLOGY, ROBOTICS , AUTOMATION
AND ADVANCED SYSTEMS.

THE FUTURE OF AEROSPACE
MANUFACTURING LOOKS VERY
DIFFERENT TO THE PAST.”

Directors' Report

The Directors present their report on the consolidated entity consisting of Quickstep Holdings Limited and the entities it controlled at the end of, or during, the year ended 30 June 2021. Throughout the report, the consolidated entity is referred to as the "Group" or "Quickstep".

Directors

The following persons were Directors of Quickstep Holdings Limited during the whole of the financial year and up to the date of this report:

Mr. P Largier
Mr. M H Burgess
Mrs. L Heywood
Mrs. E Mannes
Air Vice-Marshal K Osley (Ret'd)

The following person was appointed Chairman of Quickstep Holdings Limited during the financial year and continues up to the date of this report:

Mr. P Largier was appointed Chairman on 31 August 2020 and continues in office at the date of this report.

Mr. T H J Quick was a Director and Chairman from the beginning of the financial year until his resignation on 31 August 2020.

Principal Activities

During the year the continuing principal activities of the Group consisted of:

- production of parts for Northrop Grumman for the Joint Strike Fighter Project
- production of C-130J wing flaps for Lockheed Martin
- production of parts for the Joint Strike Fighter vertical tails for BAE Systems and Marand Precision Engineering
- manufacturing and development of parts using Qure technology
- maintenance, repair and overhaul of aircraft
- continued development of technologies for scaled volume production.

Review of Operations

Total sales for the year ended 30 June 2021 were \$85.1 million (FY20: \$82.3 million) representing a 3.4% increase on the prior year. The increase is attributable to ongoing growth in Joint Strike Fighter (JSF) program volumes to full rate production and growing market share on the vertical tails contract. Total revenue from JSF was \$63.9 million (FY20: \$61.3 million) representing a 4% increase.

The \$0.1 million operating profit for FY21 is a decrease of \$4.5 million on the prior year including a \$2.8 million non-recurring impairment charge on the flare housing facility, reduction in gross profit of \$2.7 million in part due to the appreciation of the AUD vs the USD noting that revenue on the JSF contract is denominated in US dollars. Acquisition costs \$0.5 million and initial losses \$0.8 million from the QAS business acquired in early 2021 have further impacted profitability in FY21. The impairment charge reflects the low likelihood of the flare housing facility producing units under a supply contract in the foreseeable future.

The FY21 net loss of \$0.3 million represents a decrease of \$4.2 million on FY20 comprising the \$4.5 million decrease in operating profit, a decrease in net financing costs of \$1.6 million and a \$1.3 million reduction in the tax benefit recognised.

Directors' Report

Review of Operations

Net \$7.8 million cash from operating activities for FY21 was \$7.6 million favourable to that reported for FY20 noting a \$3.2 million reversal of deferred income on the C-130J contract during FY20. A material reduction in inventory over FY21 and strong underlying cash profits are the drivers of the pleasing operating cash flow result. Capital expenditure of \$2.3 million (net of grants \$2.0 million) has been invested to provide new capability, increased capacity and improved operational efficiency.

Excluding the impact of lease liabilities coming on to the balance sheet with the implementation of AASB 16, net debt has decreased by \$1.8 million to \$4.6 million since 30 June 2020 despite investing \$3.1m to purchase the QAS business, as a consequence of better working capital management and ongoing profitability. Total bank debt outstanding as at 30 June 2020 is \$7.7 million. Total debt also includes lease liabilities of \$19.5 million under AASB 16.

Material Risks

The material business risks faced by the Group that are likely to have an effect on the financial prospects of the Group and how the Group manages these risks include:

- Foreign exchange – the reliance on sales from a key customer which are billed in US dollars has resulted in sales and operating profit below expectations this year because of an appreciation of the Australian dollar against the US dollar. This operating profit impact has been partially offset as a very high proportion of raw materials are paid for in US dollars. The Profit Before Tax impact has been further mitigated by partial hedging. The risk associated with exchange rate fluctuation is expected to continue.
- Supply chain – the absence of alternate suppliers in some cases and disruption of supply chains by COVID-19 has the potential to disrupt production. Tight management of the supply chain has avoided any material disruptions to date however the risk remains high, particularly whilst COVID-19 impacts offshore supply chains and freight routes in and out of Australia.
- Equipment failure – an extended failure on critical equipment has the potential to disrupt production. Preventative maintenance programmes, monitoring tools, critical spares stock and equipment supplier support arrangements are in place to mitigate this risk which has not impacted the financial outcome this year.
- Revenue growth – the Group's recently acquired MRO business in Tullamarine is expected to be a key driver of revenue and profit growth in future years. The likelihood of this growth materialising depends to a certain degree on the volume of, and ongoing recovery in, commercial airline traffic, particularly domestic. This recovery is directly linked to the impact of potential domestic border closures associated with COVID-19.

Dividends

No dividends have been paid during the financial year. The Directors do not recommend that a dividend be paid in respect of the financial year (2020: \$ Nil).

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Group during the financial year.

Events Since the end of the Financial Year

On 29 July 2021 the Group announced that it had signed an agreement to invest \$1million for a minority stake in CarbonicBoats Pty Ltd (trading as Carbonix), an Australian company with strong capability in the design, development, manufacture and operation of next generation unmanned solutions for commercial and military applications. The \$1

Directors' Report

million commitment is expected to be paid in 2 equal tranches over the first half of FY22 and will be funded by operating cash flow.

Other than the matter disclosed above, no matter or circumstance has arisen since 30 June 2021 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

Shares under Options

There are Nil (2020 Nil) unissued ordinary shares of Quickstep Holdings Limited under option at the date of this report. No options were granted during the year and since the end of the financial year.

Directors' Report

Information on Directors

The following information is current as at the date of this report

Mr. Patrick Largier Independent Non-Executive Director - appointed 19 December 2019		
Experience and expertise	<p>Mr Largier is an experienced non-executive director and has over 30 years' executive experience in the oil, chemicals and industrial sectors in Australia, the UK and South Africa.</p> <p>Prior to taking up non-executive director roles, he was Managing Director of Ludowici, an ASX-listed global specialist mining services company with operations across five continents. Over five years he led the company through a turnaround, followed by rapid international growth and the ultimate sale of the company to the Danish group FLSmidth in 2012. He then became Managing Director of FLSmidth Pty Limited for two years. Before this, Patrick spent 15 years in numerous business general manager roles at ICI and Orica's Plastics and Chemicals Groups. His final role in the company was on Orica's Group Executive team as General Manager - Strategy & Acquisitions. Before emigrating to Australia in 1992, Patrick spent ten years with Shell in Cape Town and Shell International in London.</p> <p>Since 2014 he has focussed his energies on non-executive director roles. He is currently a non-executive director and chairman of several private, private equity and public unlisted companies.</p>	
Qualifications	Patrick has a Chemical Engineering degree (with honours) from the University of Cape Town and completed the Advanced Management Program (AMP) at Harvard in 2004. He is also a Graduate of the AICD.	
Special responsibilities	Chair of the Board from 31 August 2020	
Other current Directorships	Director of Murray Irrigation Ltd	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	2,500,000

Mr. Mark H Burgess CEO and Managing Director - appointed 18 May 2017		
Experience and expertise	<p>Mr. Burgess joined Quickstep in May 2017 bringing with him over 20 years' experience in the global aerospace and defence industry, where his successful delivery of profitable growth and complex projects in advanced technology businesses has led to significant employer, customer and industry recognition.</p> <p>Mr Burgess has held leadership roles of increasing responsibility across Europe, USA, the Middle East and Asia Pacific.</p> <p>After a long career with BAE Systems covering sales, contracts, project and general management he joined Honeywell in 2013 as Vice President Honeywell Aerospace, Asia Pacific. During his four years at Honeywell, he was responsible for driving sustained profitable growth across a defence, space and commercial helicopter portfolio.</p> <p>Mr. Burgess has extensive experience of governance and stakeholder management, working with public, private and not-for-profit sectors. He has managed several successful post acquisition integration projects and has held numerous board positions on subsidiaries and international joint ventures.</p>	
Qualifications	Mark holds a degree in Politics and Economics from the University of Hull and has completed several post graduate studies in business and operations management.	
Special responsibilities	Chief Executive Officer	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	4,209,707

Directors' Report

Information on Directors

Mrs. Leanne Heywood Independent Non-Executive Director - appointed 21 February 2019		
Experience and expertise	<p>Mrs Heywood joined the Quickstep board in February 2019 and brings experience as an ASX listed non-executive director, Audit and Risk committee and Nominations and Remuneration committee chair plus broad general management experience gained through an international career in the sales and distribution, mining, rural, government and not-for-profit sectors.</p> <p>Leanne has extensive international and domestic marketing experience and brings international customer relationship management, stakeholder management (including governments and investment partners) and team leadership experience in China, Japan, Mongolia, Singapore, South America, Europe and India.</p> <p>Leanne is an experienced leader of transformational change having lead organisational restructuring, disposals and acquisitions, including integration. She has strong skills across Marketing, Business Analysis, Contracts, Procurement, Logistics, Accounting and Business Improvement along with an advanced ability to facilitate complex negotiations.</p>	
Qualifications	Leanne holds an executive MBA from Melbourne Business School and a Bachelor of Business (majoring in Accounting) from Charles Sturt University. She is a graduate of the AICD International Company Directors Course and a Fellow of CPA Australia.	
Special responsibilities	Chair of the Audit, Risk and Compliance Committee and member of the Remuneration, Nomination and Diversity Committee.	
Other current Directorships	<p>Leanne is a Non-Executive Director, Chair of the Audit and Risk Committee and member of the Nominations and Remuneration Committee for Orocobre, an ASX200 lithium Miner with operations in Argentina and a Director, Chair of the Audit and Risk Management Committee and Member of the Work Health and Safety Committee of Midway Limited, an ASX wood fibre processor and exporter with operations in Australia, New Zealand and Asia.</p> <p>She is also a Director, Chair of the Nominations and Remuneration Committee and member of the Audit and Risk Committee for the Australian Meat Processor Corporation (AMPC), a graduate member of the Council of Charles Sturt University (CSU) and a Member of the Audit Committee of the Australian Radiation Protection and Nuclear Safety Authority (ARPANSA).</p>	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	195,220
Mrs. Elisabeth Mannes Independent Non-Executive Director - appointed 22 August 2019		
Experience and expertise	<p>Mrs Mannes joined the Quickstep board in July 2019, she is a highly experienced C-Suite executive with a career that has spanned both the fast-moving consumer and industrial goods industries.</p> <p>She has international and domestic general and operations management experience and is currently the Executive General Manager of CHEP Australia Limited - a wholly owned subsidiary of Brambles Limited (ASX:BXB).</p> <p>Lis brings global leadership skills and has a depth and breadth of experience in operational excellence and business transformations, including managing for growth. Prior to joining CHEP she was Executive General Manager of the Consumer and Industrial division of Pact Group Holdings (ASX:PGH), and previous to this she was Operations and Business Development Director of Tip Top, a division of George Weston Foods (GWF) - a wholly owned subsidiary of Associated British Foods (ABF.L). Her skill set includes Business Strategy, P&L Management, Human Resources, Procurement and Operational Excellence. She also has a strong compliance focus with deep knowledge of the practice of Quality Assurance and Health & Safety management.</p> <p>She was a founder board member of the National Association of Women in Operations (NAWO).</p>	
Qualifications	Lis is a Chartered Engineer (CEng) and a Fellow of the UK Institution of Mechanical Engineers (FIMechE). She holds an MBA, completed the AMP at INSEAD and is a Graduate of the AICD.	
Special responsibilities	Chair of the Remuneration, Nomination and Diversity Committee and member of the Audit, Risk and Compliance Committee.	
Other current Directorships	Lis is a director of AG Hicks Limited, a family business in the UK	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited – (held in spouse's name)	194,954

Directors' Report

Information on Directors

Air Vice-Marshal Kym Osley(Ret'd) Independent Non-Executive Director - appointed 11 June 2020		
Experience and expertise	<p>Air Vice-Marshal Osley joined the Quickstep board in June 2020 and has over 44 years of Defence and aerospace experience including prior experience as the Program Manager of the Australian F-35 Joint Strike Fighter Program. Kym recently retired from his full-time position as a Managing Director in the international consulting firm of PricewaterhouseCoopers, working with Government and Defence clients, and has taken a part-time position as the NSW Defence Advocate within Investment NSW. Kym has extensive international experience with Defence and aerospace industry gained through various Defence-related appointments in the UK and the US, and through his previous work as a Reservist officer promoting exports as a military specialist and leader in Team Defence Australia. He was awarded a Defence Industry Service Commendation by the Minister for Defence in 2019 for leading PwC teams that have been supporting future Defence capability planning since 2016. Earlier in his military career, Kym was an aviator who flew in F-111, Phantom and F-18 aircraft with the RAAF and USAF. He was awarded a Conspicuous Service Cross in 1997 and made a Member of the Order of Australia in 2008 for services to Defence.</p> <p>Kym is currently the Chair of the Australian Air Force Cadet Foundation and remains an independent member of the PwC Global Government Defence Network Board.</p>	
Qualifications	Kym is a graduate of the Harvard Business School (Advanced Management Program) and is a Fellow of the Centre for Defence and Strategic Studies. He has a Master of Arts (International Relations), Master of Defence Studies, a BSc (Physics) and a Graduate Diploma of Management Studies and is a Graduate of the AICD.	
Special responsibilities	Member of the Audit, Risk and Compliance Committee.	
Other current Directorships	Nil	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	300,000

Directors' Report

Information on Directors

Ms. Jillian McGregor Company Secretary - appointed 31 July 2020			
Experience and expertise	Ms. McGregor has approximately 20 years' experience as a corporate lawyer and 6 years' experience as a company secretary of ASX listed companies. She has regularly advised companies and directors on compliance with the Corporations Act 2001 (Cth), ASX listing rules and other corporate legal matters.		
Qualifications	Ms. McGregor holds a Bachelor of Laws and Bachelor of Commerce (Merit) from the University of NSW and holds a Graduate Diploma of Applied Corporate Governance from the Governance Institute of Australia		
Other current roles	She is currently the Company Secretary of a number of ASX listed and unlisted companies in the financial services and information technology industries.		
Interests in shares and options	<table border="1"> <tr> <td>Ordinary shares in Quickstep Holdings Limited</td><td>Nil</td></tr> </table>	Ordinary shares in Quickstep Holdings Limited	Nil
Ordinary shares in Quickstep Holdings Limited	Nil		

Board Structure & Director Independence

The Company continually monitors the structure and performance of the Board to ensure it is of an appropriate size, composition and skill to lead the Company and meet its current governance and strategic needs.

The Chair manages the Board to achieve responsive and effective business outcomes with highly committed Directors. Quickstep has a Remuneration, Nomination and Diversity Committee (RND Committee), whose responsibilities include the development and on-going review of Board competencies, structure, performance and renewal. Both the RND Committee Charter and "Policy and Procedure for Selection and Appointment of Directors" are accessible from the Company's website as follows.

<https://www.quickstep.com.au/wp-content/uploads/2021/04/QHL-RND-Committee-Charter-Reviewed-and-Approved-April-2021.pdf>

<https://www.quickstep.com.au/wp-content/uploads/2021/07/QHL-Selection-and-Appointment-of-Directors-Policy-v-2021-June-Board-Approved-formatted-for-web .pdf>

The Policy and Procedure for Selection and Appointment of Directors includes a matrix of skills that are considered necessary within the non-executive Director group to facilitate an effective and efficient Board. The RND Committee periodically reviews both this matrix and the Directors' actual skills mix to ensure they satisfy the current and immediately foreseeable needs of the Company.

The Board maintains a varied level of tenure amongst its Directors, which is seen as essential for its effective functioning given the significant growth and change experienced by Quickstep in recent years. This has resulted in both an influx of fresh ideas and the retention of sufficient Quickstep specific understanding to optimise strategic and operational changes. As the business evolves this is continually reviewed.

The Board is committed to a majority of its Directors being independent to ensure the Board acts in the best interests of the entity itself, its security holders and stakeholders generally. Director independence is assessed on a regular basis, and all Directors are required to advise the Board of any actual or potential conflicts of interest as they arise, with any such conflicts tabled at Board meetings.

In assessing independence the Board considers a number of factors which include, but are not limited to, the "Factors relevant to assessing the independence of a Director" listed in Recommendation 2.3 of the Corporate Governance Principles and Recommendations 3rd Edition established by the ASX Corporate Governance Council ("the ASX Principles and Recommendations").

Directors' Report

Directors' Meetings

The numbers of meetings of the Company's board of Directors and of each board committee held during the financial year ended 30 June 2021, and the numbers of meetings attended by each Director were:

Director	Board Meetings		Audit, Risk and Compliance Committee Meetings		Remuneration, Nomination and Diversity Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
Mr. P Largier	18	18	-	-	-	-
Mr. M H Burgess	18	17	-	2	-	4
Mrs. L Heywood	18	18	4	4	4	4
Mrs. E Mannes	18	18	4	4	4	4
AVM K Osley (Ret'd)	18	18	4	4	-	-
Mr. T H J Quick	6	6	-	-	1	1

Insurance of Officers and Indemnities

Except as indicated below, the Group has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer of the Group or of any related body corporate against a liability incurred as an officer.

Insurance

During the financial year, Quickstep Holdings Limited paid a premium in respect of a Directors' and officers' liability insurance policy, insuring the Directors of the Company, the Company Secretary and all executive officers of the Company and Group against a liability incurred as a Director, Secretary or executive officer to the extent permitted by the Corporations Act 2001.

The Directors have not included details of the nature of the liabilities covered or the premium paid in respect of the Directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

Indemnities

The Group has indemnified the Directors (as named in this report) and all executive officers of the Group and of any related body corporate against any liability incurred as a Director, Secretary or executive officer to the maximum extent permitted by the Corporations Act 2001.

Directors' Report

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 72.

Rounding of Amounts

The Company is a kind referred to in ASIC Legislative Instrument 2016/191, relating to the "rounding off" of amounts in the Directors' report and financial statements. Amounts in the Directors' report and financial statements have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Corporate Governance Statement

Quickstep's Corporate Governance Statement can be found on the Company's website at the following address: <http://www.quickstep.com.au/Investors-Media/Corporate-Governance>

This report is made in accordance with a resolution of Directors on 26 August 2021.



M H Burgess
Director
Sydney, New South Wales

Remuneration Report – Audited

The Directors present the Quickstep Holdings Limited 2021 remuneration report, outlining key aspects of the Group's remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

1. **Principles of Compensation**
2. **Details of Remuneration**
3. **Share Based Compensation**
4. **Analysis of Bonuses included in Remuneration**

1. Principles of Compensation

Key Management Personnel (KMP) comprise the Directors of the company and the senior leadership team. KMP have authority and responsibility for planning, directing and controlling the activities of the Group.

The report includes details relating to:

Executive Director

Mr. M H Burgess	Chief Executive Officer and Managing Director
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Non-Executive Directors

Mr. T H J Quick	Chair of Board and Chair of Remuneration, Nomination and Diversity Committee retired 31 August 2020
Mrs. L Heywood	Chair of Audit, Risk and Compliance Committee
Mrs. E Mannes	Chair of Remuneration, Nomination and Diversity Committee from 31 August 2020
Mr. P Largier	Chair of Board from 31 August 2020
AVM K Osley (Ret'd)	

Other Key Management Personnel

Mr. A J Tilley	Chief Financial Officer
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The Board has established a Remuneration, Nomination and Diversity (RN&D) Committee which assists the Board in formulating policies on and in determining:

- The remuneration packages of executive directors, non-executive directors and other key management personnel, and
- Cash bonuses and equity based incentive plans, including appropriate performance hurdles, total payments proposed and plan eligibility criteria.

If necessary, the RN&D Committee obtains independent advice on the appropriateness of remuneration packages given trends in comparable companies and in accordance with the objectives of the Group. Further information on the role of the committee is contained in the charter available at <http://www.quickstep.com.au/Investors-Media/Corporate-Governance>.

Quickstep has also developed an Executive Remuneration Policy and a Director Remuneration Policy that are available on the Company's website at <http://www.quickstep.com.au/Investors-Media/Corporate-Governance>.

Compensation levels for KMP of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration structures are designed to reward the achievement of strategic objectives and achieve the broader outcome of value creation for shareholders. Compensation packages include a mix of fixed compensation, short-term cash incentives and equity-based incentives.

Shares, options or rights may only be issued to Directors subject to approval by shareholders in a general meeting.

Remuneration Report – Audited

1. Principles of Compensation

The Group does not have any scheme relating to retirement benefits for its KMP other than superannuation contributions defined under its statutory obligations.

The Company's policy is to provide executives with a competitive fixed compensation comparable to the median paid by like sized companies undertaking similar work and offers additional short and long term incentives to allow the executive to achieve top quartile compensation, if all performance hurdles are met. All incentives are capped.

The Company's policy is to provide non-executive Directors with a fixed fee comparable to the median of that paid by similar sized ASX listed companies operating in similar fields. Non-executive Directors are not eligible for participation in any of the Company's incentive schemes.

Fixed compensation

Fixed compensation consists of base compensation, as well as statutory employer contributions to superannuation.

Compensation levels are reviewed annually through a process that considers current labour market rates, the individual's contribution and overall performance of the Group. Compensation is also reviewed in the event of promotion or significant change in responsibilities.

Performance linked compensation

Performance linked compensation includes both short and long term incentives and is designed to reward key management personnel, excluding non-executive Directors, for meeting or exceeding the Company's business and their personal objectives. Each individual's performance linked compensation is capped as a percentage uplift of fixed compensation. Other than as disclosed in this report, there have been no performance-linked payments made by the Group to key management personnel.

Short Term Incentive - Cash and equity settled short term incentive

KMP receive short-term incentives (STI) in cash and shares on achievement of key performance indicators (KPIs). Each year, the RN&D Committee considers the appropriate KPIs and associated targets to align individual rewards to the Group's performance. These targets include measures related to the annual performance of the Group and specific measures related to the activities of individual KMPs.

In FY21, a suite of Corporate KPIs were used, including two financial KPIs (weighting 45%), several KPIs relating to people and safety (weighting 20%), two growth and technology focused KPIs (weighting 25%) and one operational KPI (weighting 10%). The weighting of corporate KPIs used in the determination of an executive's STI is 70% for KMP excluding the Chief Executive Officer and 100% for the Chief Executive Officer.

The RN&D Committee is responsible for assessing whether the Corporate KPIs have been achieved and meet the criteria set out at the beginning of the year. Each year a limited number of corporate KPIs are designated as threshold metrics, with no STI payable to any executive if these are not achieved. In FY21 there was one financial threshold metric.

Actual performance is then assessed against both a target outcome and a stretch outcome. Where performance falls below the target outcome no payment is generally made against that KPI and where performance exceeds the stretch outcome the maximum stretch is payable. Where performance falls between target and stretch outcomes an appropriate proportion of the KPI is payable. When the target is achieved 50% of the weighting for the KPIs is payable. When both the target and stretch outcomes are achieved 100% of the weighting for the KPIs are payable.

After determining the overall achievement of KPIs based on the above review process and hurdle, the RN&D Committee has recommended that no STI is payable in respect of FY21 as the financial metric threshold was not achieved.

Remuneration Report – Audited

1. Principles of Compensation

Long Term Incentive - Quickstep Incentive Rights Plan (IRP)

In November 2013 the Company established the Quickstep Incentive Rights Plan (IRP). The IRP was designed to facilitate the Company moving towards best practice remuneration structures for executives, and offers under the IRP have been made to a number of executives since its introduction. The terms of the IRP were most recently approved by shareholders at the 2019 AGM.

The IRP authorises the granting of Rights to executives of the Company, in the form of Performance Rights (PRs) and/ or Deferred Rights (DRs) and/or Restricted Rights - (RRs) (together, Rights). These Rights represent an entitlement on vesting to fully paid ordinary shares in the issued capital of the Company (Shares) with the total value of Shares being equal to the value of vested Rights (number of vested Rights x market value of a Share). PRs may vest if Performance Conditions are satisfied. DRs may vest if service conditions are satisfied. There were no RRs granted in FY21 and none arose from PRs or DRs granted during the year.

The Board has the discretion to set the terms and conditions on which it will offer PRs under the IRP, including the performance conditions and modification of the terms and conditions as appropriate to ensuring the IRP operates as intended. All PRs offered will be subject to performance conditions which are intended to be challenging.

The PRs are subject to a performance condition based on achieving a relative Total Shareholder Return (TSR) equivalent to or in excess of the ASX All Ordinaries Accumulation Index (AOAI) over the performance period. The AOA is an index of total shareholder return achieved by ASX listed companies which combines both share price movement and dividends paid during the performance period (assuming that they are reinvested into shares). As a general rule, Quickstep uses a performance period of three (3) years with an anniversary date of 1 September each year.

For vesting to occur the Company's TSR (share price movement plus dividends) over the performance period must be positive (i.e. if shareholders have not gained then PRs will not vest) relative to the AOA. If the AOA movement is negative over the performance period then vesting, if any, will be at the discretion of the Board (i.e. only applies if the Company has outperformed a general fall in the market by protecting against a similar fall in the Company's share price). If the Company's TSR is positive and the movement in the AOA is also positive, then the following vesting scales will apply to all tranches:

Performance Level	Company's TSR Relative to AOA Movement of the Performance Period	Vesting %
Below Threshold Threshold	< Increase in the AOA	0%
	= Increase in the AOA	25%
	> 100% of AOA increase & < 110% of AOA increase	Pro-rata
Target	110% of AOA increase	50%
	> 110% of AOA increase & < 120% of AOA increase	Pro-rata
Stretch and Above	120% of AOA increase	100%

For PRs issued to executives, testing of the TSR hurdle will occur on the third anniversary of the commencement of the performance period and then annually until the rights lapse or the fifth anniversary of the commencement of the performance period. Once a right has vested it may not become unvested based on performance at a subsequent test date. If at a test date some rights have previously vested and the Company's performance at the test date is higher than at previous test dates then additional rights will vest. Such vesting will apply on the basis that the total number of rights that have vested from a tranche (previous and current vesting) is equal to the number that would have vested at the current test date had no vesting occurred earlier.

Remuneration Report – Audited

1. Principles of Compensation

Long Term Incentive - Quickstep Incentive Rights Plan (IRP)

Upon the satisfaction of the performance conditions, the value of PRs granted under the IRP will be evaluated. The Board has discretion to vary vesting if it considers it to be appropriate to do so given the circumstances that prevailed over the performance period. This provision aims to address situations where vesting may otherwise be inconsistent with shareholder expectations.

The IRP contains provisions concerning the treatment of vested and unvested rights in the event that a participant ceases employment. Unless the Board determines otherwise, if a participant ceases employment in other than special circumstances (death, total and permanent disablement, retrenchment, redundancy, permanent retirement from full-time work with the consent of the Board or other circumstances determined by the Board), all unvested rights held by the participant will lapse.

Unless the Board determines otherwise, if a participant ceases employment under special circumstances, rights that were granted to the participant during the financial year in which the termination occurred will be lapsed in the same proportion as the remainder of the financial year bears to the full year. All remaining rights for which performance conditions have not been satisfied as at the date of cessation of employment will then remain "on foot", subject to the original performance conditions.

Non-Executive Directors' Fees

Remuneration for all non-executive directors was approved at a board meeting on 19 October 2017. The table below indicates the maximum annual fees based on Directors' responsibilities at the date of this report. Non-executive directors do not receive performance related compensation.

Non-Executive Directors	Director Fees	Committee Fees
Mr. P Largier	\$126,000	n/a
Mrs. L Heywood	\$60,000	\$12,500
Mrs. E Mannes	\$60,000	\$12,500
AVM K Osley(Ret'd)	\$60,000	\$2,500

Consequences of Performance on Shareholder Wealth

In considering the Group's performance and benefits for shareholder wealth, the RN&D committee gives regard to the following indices in respect of the current financial year and the previous four financial years.

	2021	2020	2019	2018	2017
Profit / (loss) attributable to owners of the company (\$000)	(271)	3,891	2,693	(2,891)	(6,662)
Dividends paid	\$nil	\$nil	\$nil	\$nil	\$nil
Operating income (\$000)	85,097	82,252	73,275	59,036	51,915
Change in share price	(38%)	(3.4%)	13%	(22.7%)	(25.4%)
Return on capital employed	0.5%	24.7%	18.4%	(22.8%)	(69.8%)

Return on capital employed is calculated as profit/ (loss) before interest and tax (EBIT) divided by total assets, excluding deferred tax asset, less liabilities.

Remuneration Report – Audited

1. Principles of Compensation

Service Agreements

Name	Initial agreement date	Duration	Notice period (3)	Termination benefits	STI cap as a % of TFR (1)	LTI cap as a % of TFR (2)
Mr. M H Burgess	8 May 2017	Open	NES	12 months annual TFR; and pro-rated annual bonus (at Board's discretion). If due to change of control, 100% of annual TFR is paid immediately plus pro-rated annual bonus	50	50
Mr. A J Tilley	25 June 2018	Open	NES	3 months of TFR and pro-rated annual bonus (at Board's discretion)	40	40

- (1) Short Term Incentive (STI) is determined on performance against KPIs set and reviewed by the RN&D Committee or the Board as appropriate. The STI cap refers to the maximum amount payable in cash and shares, as a percentage of Total Fixed Remuneration (TFR). The KPIs include company financial objectives and growth, operational and people objectives including new contracts, technology development, project delivery and functional outcomes aligned to the annual business plan.
- (2) Long Term Incentive (LTI) is determined on the Group's performance against relative Total Shareholder Return and is tested at multiple dates. The LTI cap refers to the maximum amount payable in shares as a percentage of TFR. This is the measure currently used in the IRP applicable to FY21.
- (3) NES refers to the National Employment Standard in the Fair Work Act (2009). Under section (3) (ss117-118) and employee is entitled to a minimum notice period depending on length or service and age.

Remuneration Report – Audited

2. Details of Remuneration

The following tables detail the remuneration received by KMP of the Group for the current and previous financial year.

Name	Salary / Fees \$	STI (2) \$	SGC \$	Termination \$	LTI Rights (1) \$	Total \$
Executive Directors						
Mr. M H Burgess	478,306	-	21,694	-	153,061	653,061
Non-Executive Directors						
Mr. T H J Quick	21,000	-	-	-	-	21,000
Mrs. L Heywood	72,500	-	-	-	-	72,500
Mrs. E Mannes	64,735	-	6,150	-	-	70,885
Mr. P Largier	115,000	-	-	-	-	115,000
AVM K Osley(Ret'd)	57,266	-	5,440	-	-	62,706
Mr. J C Douglas	-	-	-	-	-	-
Mr. B A Griffiths	-	-	-	-	-	-
Other KMPs						
Mr. A J Tilley	298,306	-	21,694	-	68,146	388,146
2020						
Executive Directors						
Mr. M H Burgess	478,997	85,000	21,003	-	186,180	771,180
Non-Executive Directors						
Mr. T H J Quick	126,000	-	-	-	-	126,000
Mrs. L Heywood	71,875	-	-	-	-	71,875
Mrs. E Mannes	54,395	-	5,167	-	-	59,562
Mr. P Largier	35,000	-	-	-	-	35,000
AVM K Osley(Ret'd)	2,950	-	280	-	-	3,231
Mr. J C Douglas	25,259	-	2,400	-	-	27,658
Mr. B A Griffiths	11,667	-	-	-	-	11,667
Other KMPs						
Mr. A J Tilley	298,997	50,854	21,003	-	53,746	424,600

- (1) LTI rights include the accounting expense attributable to the current year under the IRP.
- (2) STI is comprised of an accrued current year bonus.
- (3) There are no related party transactions between the Group and the KMP apart from compensation in the form of annual remuneration.

Remuneration Report – Audited

3. Share Based Compensation

Long term Incentive - Quickstep Incentive Rights Plan (IRP)

At 30 June 2021 executives have accrued performance rights pursuant to the IRP. Movements in IRP rights during the year are set out below:

KMP	Tranche refer Note	Grant date	FV per right at grant date (a)	First testing date	Balance at 30 June 2020 Number	Granted during the year (b) Number	Issued during the year Number	Balance at 30 June 2021 Number	Fair Value at grant date \$	Cum vesting level
Mr. M H Burgess	CEO 1	01/12/17	\$0.089	31/08/18	412,376	-	-	412,376	\$36,701	0%
Mr. M H Burgess	CEO 2	01/12/17	\$0.089	31/08/19	825,248	-	-	825,248	\$73,447	0%
Mr. M H Burgess	FY18	01/12/17	\$0.069	31/08/20	2,475,247	-	-	2,475,247	\$170,792	0%
Mr. M H Burgess	FY19	01/09/18	\$0.068	31/08/21	2,846,505	-	-	2,846,505	\$193,562	0%
Mr. M H Burgess	FY20	01/09/19	\$0.068	31/08/22	2,140,411	-	-	2,140,411	\$145,547	0%
Mr. M H Burgess	FY21	15/01/21	\$0.0429	31/08/23	-	3,086,420	-	3,086,420	\$132,407	0%
Mr. A J Tilley	FY19	01/09/18	\$0.068	31/08/21	1,457,411	-	-	1,457,411	\$99,104	0%
Mr. A J Tilley	FY20	01/09/19	\$0.068	31/08/22	1,095,890	-	-	1,095,890	\$74,520	0%
Mr. A J Tilley	FY21	15/01/21	\$0.0426	31/08/23	-	1,580,247	-	1,580,247	\$67,319	0%

(a) The fair value of rights granted was calculated using a Monte Carlo simulation analysis. Refer to Note E.4, for the model's key assumptions.

(b) The fair value of rights granted in the year is \$199,726 (2020: \$423,833). The total value of the rights is allocated to remuneration over the vesting period.

Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Movements in ordinary shares

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

KMP	Held at 1 July 2020 Number	Received on exercise of options Number	Other changes (*) Number	Held at 30 June 2021 Number
Mr. P Largier	300,000	-	2,200,000	2,500,000
Mrs. L Heywood	83,498	-	111,722	195,220
Mrs. E Mannes	80,000	-	114,954	194,954
AVM K Osley(Ret'd)	-	-	300,000	300,000
Mr. M H Burgess	3,595,837	-	613,864	4,209,701
Mr. A J Tilley	1,045,498	-	115,172	1,160,670

(*) Other changes represent shares that were purchased or sold during the year.

Remuneration Report – Audited

4. Analysis of Bonuses included in Remuneration

Details of the vesting profile of the short-term incentives awarded as remuneration to each Director of the Company and each of the named other key management personnel of the Group are detailed below:

KMP	Included in remuneration (1)	% vested in year (1)	% lapsed in year (1)
Executive Director			
Mr. M H Burgess	-	-	100
Other KMP			
Mr. A J Tilley	-	-	100

(1) No STI is payable for FY21 as the financial metric threshold was not achieved

During FY21 the RN&D committee undertook a market benchmarking study of Senior Executive Remuneration. The work was undertaken by Egan Associates, one of Australia's leading advisers to Boards and Board Remuneration Committee Chairs for a total cost of \$40,000, and included a declaration by them, that the recommendations had been made free from undue influence by KMP, to whom the recommendations related. The resultant report which was discussed and considered by the RN&D committee and the Board, presented data, findings and recommendations in relation to the market competitiveness of Quickstep's remuneration practices for its Chief Executive Officer, Senior Executives and Non-Executive directors. The structure of the current executive STI and LTI plans was also reviewed and considerations and recommendations were provided for each.

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2021

	Notes	2021 \$'000	2020 \$'000
Revenue	B. 2	85,097	82,252
Cost of sales of goods		(70,478)	(64,961)
Gross profit		14,619	17,291
Other income		441	95
Research and development expenses		(1,800)	(2,303)
Business development expenses		(1,176)	(1,608)
Corporate and administrative expenses		(9,174)	(8,899)
Impairment expense	D. 4	(2,812)	-
Profit from operating activities		98	4,576
Finance income		11	18
Finance expenses		(1,280)	(2,915)
Net finance costs	C. 3	(1,269)	(2,897)
Profit / (loss) before income tax		(1,171)	1,679
Income tax benefit	B. 5	900	2,212
Profit / (loss) for the year		(271)	3,891
Other comprehensive income / (loss) net of income tax			
Item that may be reclassified to profit or loss			
Cash flow hedges		22	(184)
Exchange difference on translation of a foreign operation		69	(43)
Other comprehensive income / (loss) for the period, net of income tax		91	(227)
Total comprehensive income for the year		(180)	3,664
Profit per share:		Cents	Cents
Basic profit / (loss) per share	B. 3	(0.04)	0.55
Diluted profit/ (loss) per share	B. 3	(0.04)	0.54

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

as at 30 June 2021

	Notes	2021 \$'000	2020 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	B. 4	2,353	1,690
Term deposits	C. 5	733	718
Trade and other receivables	D. 1	8,845	7,716
Prepayments and other assets		1,240	787
Inventories	D. 2	9,660	10,136
Contract assets	D. 3	8,051	9,556
Total current assets		30,882	30,603
Non-current assets			
Property, plant and equipment and software	D. 4	15,378	17,335
Right-of-use asset	C. 2	16,526	15,661
Goodwill	F. 5	2,287	-
Deferred tax asset	B. 5	4,101	3,201
Total non-current assets		38,292	36,197
Total assets		69,174	66,800
LIABILITIES			
Current liabilities			
Trade and other payables		13,352	12,176
Provisions	C. 8	-	421
Financial instruments	C. 4	18	41
Loans and borrowings	C. 1	4,464	7,316
Lease liabilities	C. 2	1,275	1,059
Employee benefit obligations	E. 1	2,073	1,683
Total current liabilities		21,182	22,696
Non-current liabilities			
Loans and borrowings	C. 1	3,205	1,505
Lease liabilities	C. 2	18,179	16,973
Provisions	C. 8	3,448	3,156
Employee benefit obligations	E. 1	1,235	734
Total non-current liabilities		26,067	22,368
Total liabilities		47,249	45,064
Net assets		21,925	21,736
EQUITY			
Share capital	C. 6	120,785	120,785
Reserves		6,466	6,007
Accumulated losses		(105,326)	(105,056)
Total equity		21,925	21,736

The consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2021

	Share capital \$000	Foreign currency translation reserve \$000	Cash flow hedges reserve \$000	Share based payments \$000	Accumulated losses \$000	Total equity \$000
2021						
Balance at 1 July 2020	120,785	(316)	(41)	6,364	(105,056)	21,736
Profit / (loss) for the year	-	-	-	-	(271)	(271)
Other comprehensive (loss)						
Foreign currency translation difference for foreign operations	-	69	-	-	-	69
Effective portion of changes in fair value of cash flow hedges	-	-	22	-	-	22
Total comprehensive income/ (loss) for the year	-	69	22	-	(271)	(180)
Transactions with owners of the company:						
Share based payments expenses	-	-	-	369	-	369
Balance at 30 June 2021	120,785	(247)	(19)	6,733	(105,327)	21,925
2020						
Balance at 1 July 2019	120,785	(273)	143	5,448	(104,065)	22,038
Adjustment on initial application of AASB 16 Refer Note F.6	-	-	-	-	(4,882)	(4,882)
Adjusted balance at 1 July 2019	120,785	(273)	143	5,448	(108,947)	17,156
Profit for the year	-	-	-	-	3,891	3,891
Other comprehensive (loss)						
Foreign currency translation difference for foreign operations	-	(43)	-	-	-	(43)
Effective portion of changes in fair value of cash flow hedges	-	-	(184)	-	-	(184)
Total comprehensive income/ (loss) for the year	-	(43)	(184)	-	3,891	3,664
Transactions with owners of the company:						
Share based payments expenses	-	-	-	916	-	916
Balance at 30 June 2020	120,785	(316)	(41)	6,364	(105,056)	21,736

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

for the year ended 30 June 2021

	Notes	2021 \$000	2020 \$000
Cash flows from operating activities			
Cash receipts in course of operations		87,435	79,259
Interest received		11	18
Interest paid		(1,549)	(2,011)
Other income		47	95
Cash payments in the course of operations		(78,112)	(77,184)
Net cash from operating activities	B. 4	7,832	177
Cash flows from investing activities			
Acquisition costs of plant and equipment and intangible assets		(2,289)	(6,002)
Proceeds from government grants for capital works		372	397
Payment to fund business acquisition		(3,137)	-
Receipts/(payment) for restricted cash and term deposit		(15)	91
Net cash (used in) investing activities		(5,069)	(5,514)
Cash flows from financing activities			
Proceeds from borrowings		9,310	9,400
Repayment of borrowings		(10,295)	(8,657)
Payment of lease liabilities		(1,147)	(934)
Payment of borrowing costs		(167)	(220)
Net cash (used in) / from financing activities		(2,299)	6,244
Net (decrease) /increase in cash and cash equivalents		464	(5,748)
Cash and cash equivalents at the beginning of the financial year		1,690	7,333
Effects of exchange rate changes on cash and cash equivalents		199	105
Cash and cash equivalents at end of period		2,353	1,690

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

A. About this Report

Introduction

This is the financial report of Quickstep Holdings Limited (the "Company") and its controlled entities (the "Group").

The Company is domiciled in Australia and the Group is a for-profit entity. The Group is at the forefront of advanced composites manufacturing and technology development and is the largest independent aerospace-grade advanced composite manufacturer in Australia, currently partnering with some of the world's largest aerospace/defence organisations.

Materiality

Information is only included in the financial report to the extent that it has been considered material and relevant to the understanding of the financial statements. Factors that influence if a disclosure is material and relevant, include whether:

- the dollar amount is significant in size (quantitative factor)
- the dollar amount is significant by nature (qualitative factor)
- the Group's results cannot be understood without the specific disclosure (qualitative factor)
- it is critical to allow a user to understand the impact of significant changes in the Group's business during the period; and
- it relates to an aspect of the Group's operations that is important to its future performance.

Statement of Compliance

These general purpose financial statements have been prepared in accordance with the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. The consolidated financial statements of the Group also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The consolidated financial statements were authorised for issue by the Board of Directors on 26 August 2021.

Basis of Preparation

The financial statements have been prepared on the historical cost basis. These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

Rounding of Amounts

The Company is of a kind referred to in Class Order 2016/191 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements and Directors' report. Amounts in the financial statements and Directors' report have therefore been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

A. About this Report

Accounting Estimates and Judgements

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions about future events.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies are described below:

Going concern

The financial statements have been prepared on the going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

The Group has generated a loss after tax for the year ended 30 June 2021 of \$271,000 (30 June 2020 \$3,891,000 profit after tax). The Group has net assets of \$21,925,000 (30 June 2020 \$21,736,000) and net current assets of \$9,700,000 (30 June 2020 \$7,907,000). Current loans and borrowings are \$5,739,000 (including lease liabilities of \$1,275,000) compared to 30 June 2020 \$8,375,000. Operating cash inflow for the year was \$7,815,000 (30 June 2020 \$177,000) noting \$3,160,000 of deferred income reversal on the C-130J contract in the year ended 30 June 2020. Customer receipts on the C-130J contract are now closely aligned to deliveries.

Profitability and operating cash flow are both expected to improve over FY22 benefiting from an increase in profits on the back of contracted revenue growth, an ongoing focus on cost control and new business in QAS. During the year ended 30 June 2021 and until the date of this report the Group has not experienced any significant impacts due to the onset of the COVID-19 pandemic and has continued to operate without the need to curtail or lockdown operations. The forecast for FY22 does not include any expected changes in revenues, sales volumes or supply costs as a consequence of the pandemic as there is no indication that there will be a significant impact on the Group's continuing activities or operations at this time.

A \$6,000,000 short term working capital facility is in place with Export Finance Australia. The facility is available to draw upon until 22 September 2022 and is drawn to \$1,900,000 as at 28 August 2021.

The directors of Quickstep consider it appropriate that the Group will continue to fulfil all obligations as and when they fall due for the foreseeable future and accordingly consider that the Group's financial statements should be prepared on a going concern basis. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Recognition of tax benefits

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Future taxable profits are estimated based on future profits forecast taking into account income tax reconciliation required under the current tax legislation.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

A. About this Report

Significant Accounting Policies

The accounting policies have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all entities in the Group. Other significant accounting policies are contained in the notes to the consolidated financial statements to which they relate.

Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Quickstep Holdings Limited ("Company" or "parent entity") as at 30 June 2021 and the results of all subsidiaries for the year then ended. Quickstep Holdings Limited and its subsidiaries together are referred to in the financial statements as the consolidated entity or the Group.

A subsidiary is any entity controlled by the parent entity. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and, has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

Transactions, assets and liabilities denominated in foreign currencies are translated into Australian dollars at reporting date using the following exchange rates:

Foreign currency amount	Applicable exchange rate
Transactions	Date of transaction
Monetary assets and liabilities	Reporting date

Foreign exchange gains and losses resulting from translation are recognised in the Income Statement, except for qualifying cash flow hedges which are deferred to equity.

On consolidation, the assets, liabilities, income and expenses of foreign operations are translated into Australian dollars using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Income and expenses	Average monthly rate
Assets and liabilities	Reporting date
Equity and reserves	Historical date

Foreign currency differences resulting from translation are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the statement of comprehensive income.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

B. Business Performance

This section provides the information that is most relevant to understanding the financial performance of the Group during the financial year and, where relevant, the accounting policies applied, and the critical judgements and estimates made.

- B.1 Key Performance Measures**
- B.2 Segment Reporting**
- B.3 Profit per Share**
- B.4 Notes to Statement of Cash Flows**
- B.5 Income Tax Benefit**

B.1 Key Performance Measures

The key performance measures for the year were:

	2021 \$000	2020 \$000
Revenue	85,097	82,252
EBIT before impairment loss	2,910	4,576
EBIT	98	4,576
Net profit / (loss)	(271)	3,891

EBIT measure refers to profit from operating activities disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Recognition and Measurement

Revenue

Under AASB 15 the Group has determined that for made-to-order parts, the customer controls all the work in progress as the products are being manufactured. This is because under those contracts, parts are made to a customer's specification and if a contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin. Therefore, revenue from these contracts and the associated costs are recognised over time – i.e. before the goods are delivered to the customers' premises. Invoices are issued according to contractual terms. Uninvoiced amounts are presented as contract assets.

The Group uses the input method (costs-incurred) to measure progress as this measure faithfully depicts the transformation of the work in progress. Under this approach, the entity recognises revenue based on the costs incurred to date relative to the estimated total costs to complete the performance obligation.

To the extent to which amounts are received in advance of the provision of the related parts, the amounts are recorded as contract liability and credited to the statement of comprehensive income as goods delivered.

Research and development expenses

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of comprehensive income as an expense as incurred.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

B.1 Key Performance Measures

Government grants

Grants from the government that compensate the Group for expenses incurred are recognised in the profit and loss as Other Income on a systematic basis in the periods in which the expenses are recognised.

Grants that the Group receives in relation to assets have been presented as a deduction in arriving at the carrying amount of the asset.

The Group has complied with all grant conditions.

B.2 Segment Reporting

The Company is managed as a whole and is considered to have a single operating segment. There is no further division of the Company or internal segment reporting used by the Directors when making strategic decisions or resource allocation decisions.

Geographical Information

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	2021 \$000	2020 \$000
Revenue:		
United States of America	66,722	65,960
Australia	18,375	16,292
Total	85,097	82,252
Non-current assets:		
United States of America	-	-
Australia	38,292	36,197
Total	37,392	36,197

Program Information

	2021 \$000	2020 \$000
Revenue:		
Joint Strike Fighter	63,856	61,345
Other	21,241	20,907
Total	85,097	82,252

Major Customers

78.1% (2020: 80.0%) of revenue for the Group is attributable to the following customers:

- Northrop Grumman ISS Int. Inc.
- Lockheed Martin Aeronautics Co.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

B. Business Performance

B.3 Profit per Share

The calculation of basic profit per share is based on the profit attributable to ordinary shareholders and a weighted-average number (WAN) of ordinary shares outstanding.

	2021 \$	2020 \$
Profit / (loss) attributable to ordinary shareholders	(270,620)	3,891,000

	2021 Number	2020 Number
Weighted average number of ordinary shares:		
Shares at beginning of period	713,435,303	710,307,982
Shares issued during the year	1,739,339	1,846,042
Weighted average number of shares used as the denominator in calculating basic earnings per share	715,174,642	712,154,024
Adjustment for calculation of diluted earnings per share		
Under share based payment arrangements	10,436,809	7,602,768
Weighted average number of shares used as the denominator in calculating diluted earnings per share	725,611,451	719,756,792
Basic profit / (loss) cents per share	(0.04)	0.55
Diluted profit / (loss) cents per share	(0.04)	0.54

Rights granted under IRP which have passed their first testing date are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

B. Business Performance

B.4 Notes to Statement of Cash Flows

Cash and Cash Equivalents

	2021 \$000	2020 \$000
Cash at bank and in hand	2,353	1,690

Reconciliation of Net Profit to Net Cash Provided by Operating Activities

	2021 \$000	2020 \$000
Profit / (loss) for the period	(271)	3,891
Adjustments for:		
ROU asset amortisation	1,672	1,579
Depreciation and amortisation	2,409	2,047
(Gains)/loss on asset disposals	(10)	
Impairment loss	2,812	-
Share based payment expense	368	916
Net foreign currency losses	(282)	993
Change in operating assets and liabilities:		
Increase in trade and other receivables	(1,129)	(863)
Increase in prepayments and other assets	(452)	(233)
(Increase)/decrease in inventories	476	(1,675)
Decrease in contract assets	1,504	276
Increase in deferred tax asset	(900)	(2,212)
(Decrease)/increase in trade and other payables	453	(1,821)
(Decrease)/increase in provisions	291	(3,160)
(Increase) /decrease in prepaid interest	-	(157)
Increase in employee benefit obligations	891	596
Net cash from operating activities	7,832	177

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

B. Business Performance

B.5 Income Tax Benefit

Reconciliation of Income Tax Benefit Recognised in Statement of Profit or Loss

Numerical reconciliation of income tax benefit to prima facie tax payable is as follows:

	2021 \$000	2020 \$000
Profit / (loss) from continuing operations	(1,171)	1,679
Tax expense/ (benefit) at the Australian tax rate of 30% (2020 - 30.0%)	(351)	504
Expenditure not allowable for income tax purposes	125	324
Origination and reversal of temporary difference	(1,032)	150
Effect of different tax rate for overseas subsidiaries	4	4
Deferred tax asset related to foreign jurisdictions	(4)	(4)
Current year losses for which no deferred tax asset is recognised	1,259	-
Deferred tax asset recognised	(900)	(3,190)
Income tax benefit	(900)	(2,212)

Tax Losses not brought to Account

	2021 \$000	2020 \$000
The gross amount of unused tax losses for which no deferred tax asset has been recognised	58,580	56,726

Deferred tax assets/(liabilities)

	2021 \$000	2020 (*) \$000
Deferred tax assets/(liabilities):		
Other provisions	1,159	796
Lease liabilities	5,836	5,410
Borrowing costs	0	2
Blackhole expenditure	201	208
Property, plant and equipment and right-of-use assets	(3,797)	(1,985)
Tax losses brought to account	702	-
Deferred tax asset not brought to account	-	(1,230)
Deferred tax assets	4,101	3,201

(*) Note: The comparative information for temporary differences has been restated.

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because the Group considers it prudent to defer recognition until the Group generates consistently taxable income.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

B. Business Performance

B.5 Income Tax benefit

Tax Consolidation Legislation

Quickstep Holdings Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated Group effective from 1 July 2010.

Recognition and Measurement

Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit and loss except to the extent that it related to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group has recognised a deferred tax asset relating to previously unrecognised tax losses to the extent there are sufficient taxable temporary differences against which the unused tax losses can be utilised. Utilisation of tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped. The recognised tax losses are subject to the shareholder continuity test.

As a result of improved forecast profitability, the Group has reviewed previously unrecognised tax losses and determined that it was now probable that future taxable profits will be available against which the tax losses can be utilised. As a consequence, a deferred tax asset of \$900,000 was recognised for the year. An estimated tax loss of \$4,195,000 arising from the 2021 year is deferred until it is probable that the Group generates sufficient taxable profits to allow recognition of this tax loss.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

C. Capital and Financial Risk Management

This section provides information relating to the Group's capital structure and its exposure to financial risks, how they affect the Group's financial position and performance and how the risks are managed.

- C.1 Loans and Borrowings**
- C.2 Leases**
- C.3 Finance Income and Finance Expenses**
- C.4 Financial Instruments**
- C.5 Financial Risk Management**
- C.6 Share Capital**
- C.7 Capital and other Commitments**
- C.8 Provisions**

C.1 Loans and Borrowings

	2021			2020		
	Current \$000	Non- current \$000	Total \$000	Current \$000	Non- current \$000	Total \$000
Secured bank loan	2,564	3,205	5,769	2,957	-	2,957
Capitalised interest facility	-	-	-	492	1,505	1,997
Accrued borrowing cost	-	-	-	167	-	167
Secured bank loan carrying amount	2,564	3,205	5,769	3,616	1,505	5,121
Short term facility-EFA	1,900	-	1,900	3,700	-	3,700
	4,464	3,205	7,669	7,316	1,505	8,821

Term and Debt Repayment Schedule

	Effective interest rate	Year of maturity	2021	2020
			Maximum facility value \$000	Maximum facility value \$000
Secured bank loan	3.09%	2023	5,769	10,000
Capitalised Interest	N/A	N/A	-	3,333
Short term facility	5.63%	2022	6,000	6,000

Secured Bank Loan

On 1 November 2011 Quickstep Technologies Pty Ltd, a subsidiary Company of the Group, executed an Export Finance Facility Agreement with Australian and New Zealand Banking Group Limited (ANZ) (Financier) and Export Finance Australia (EFA) (formerly Export Finance and Insurance Corporation) (Guarantor) to fund certain capital expenditure. The Agreement provided for a loan facility of up to \$10,000,000 plus capitalised interest of up to \$3,333,000. Loan repayments commenced on 30 April 2016, with the final repayment scheduled for October 2021. This facility was repaid in February 2021 and replaced by a new facility with ANZ.

On 16 February 2021 Quickstep Holdings Limited executed a loan agreement with ANZ for \$6,410,000 to refinance the existing ANZ facility and fund the acquisition of QAS. Quarterly repayments commenced on 30 June 2021 with the final repayment due on 30 September 2023. The facility limit is reduced by the amount of each payment. The interest rate on the facility comprises a variable base rate and fixed margin.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

C. Capital and Financial Risk Management

C.1 Loans and Borrowings

Short term facility

Quickstep Holdings Limited executed an Export Contract Loan (ECL) agreement with EFA on 28 June 2017, and the most recent variation deed dated 22 June 2021. This revolving loan facility is limited to \$6,000,000 (2020 \$6,000,000) and each drawing under the facility will be due for repayment within 10 months of the drawdown date. The facility is in place to support additional working capital requirements related to growth of JSF deliveries and is available to be drawn up to 22 September 2022 with final repayment no later than 22 July 2023.

The interest rate on the facility is a variable rate calculated as the sum of the base rate plus a margin of 5.5%, payable to EFA quarterly on funds drawn. A commitment fee of 1.5%pa accrues from the date of the agreement and is payable to EFA quarterly.

Recognition and Measurement

Non-derivative financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

C.2 Leases

The Group leases assets including properties, production equipment and IT equipment. The Group initially adopted AASB 16 Leases effective from 1 July 2019. In applying AASB 16, the Group recognised right-of-use assets and lease liabilities for the leases. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate of 6.88%.

The Group has elected not to recognise right-of-use assets and lease liabilities of low value assets. The Group recognises the lease payments associated with these leases as an expense on a straight line basis over the term of the lease.

Right-of-use assets

Right-of-use assets related to leased properties and equipment are recognised under AASB 16 and presented in the following table.

	2021 \$000	2020 \$000
Right-of-use assets:		
Opening net book amount	15,661	-
Initial adoption of AASB 16	-	17,129
Adjustments to ROU assets due to reassessment or modification	(134)	-
Addition of new leases	2,671	108
Amortisation charge for the year	(1,672)	(1,576)
Closing net book amount	16,526	15,661

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

C. Capital and Financial Risk Management

C.2 Leases

Lease liabilities

Lease liabilities related to leased properties and equipment are recognised under AASB 16 and presented in the following table.

	2021 \$000	2020 \$000
Lease liabilities:		
Current	1,275	1,059
Non-current	18,179	16,973
Total lease liabilities	19,454	18,032

Amounts recognised in Consolidated Statement of Profit or Loss

The following table summarises expenses related to AASB 16 leases that are included in the Consolidated Statement of Profit or Loss.

	2021 \$000	2020 \$000
AASB 16 leases:		
Interest on lease liabilities	1,216	1,294
Amortisation charge	1,672	1,576
Total expenses	2,888	2,870

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

C. Capital and Financial Risk Management

C.3 Finance Income and Finance Expenses

	2021 \$000	2020 \$000
Finance income		
Interest income	11	18
Finance expenses		
Interest expense on liabilities measured at amortised cost	(364)	(560)
Interest expenses leased liabilities	(1,216)	(1,294)
Foreign currency gains or (losses)	282	(993)
Other expenses and adjustment to borrowing costs	18	(68)
Finance expenses	(1,280)	(2,915)
Net finance costs	(1,269)	(2,897)

Recognition and Measurement

Finance income and finance expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets). Interest income is recognised as it accrues in profit and loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings calculated using the effective interest method, transaction costs, unwinding discounting of provisions, and foreign exchange gains and losses. The interest expense component of finance lease payments is recognised in the profit and loss using the effective interest method.

C.4 Financial Instruments

	2021 \$000	2020 \$000
Current liability		
Forward foreign exchange contracts – cash flow hedges	(18)	(41)

Recognition and Measurement

Fair Value Measurement

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in Other Comprehensive Income and accumulated in the cash flow hedge reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit and loss. The Group uses forward foreign exchange contracts to hedge its currency exposure risk in relation to sales in US dollars – all hedges have a maturity date less than one (1) year from reporting date.

Valuation of Financial Measurement – cash flow hedges

Foreign currency forward contracts are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

C. Capital and Financial Risk Management

C.5 Financial Risk Management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk, and
- Market risk.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these financial statements.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and is responsible for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit, Risk and Compliance Committee oversees how management monitors compliance with the Group's risk management policies and formally documented procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash balances and deposits. The carrying amount of the Group's financial assets represents the maximum credit exposure.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers other characteristics including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Goods are generally sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

Cash balances and deposits

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least A+ from Standard & Poor's. Given these high credit ratings, management has assessed the risk that counterparties fail to meet their obligations as low.

As at the reporting date, financial assets are neither past due or impaired.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

C. Capital and Financial Risk Management

C.5 Financial Risk Management

Exposure to credit risk

The Group's maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

	2021 \$000	2020 \$000
Australia	2,644	2,300
United States of America	6,201	5,416
	8,845	7,716

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid assets to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash or funds otherwise reasonably available to it from fundraising activities to meet expected operational expenses, including the servicing of financial obligations. This excludes the potential impact of circumstances that cannot reasonably be predicted.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Contractual maturities of financial liabilities	Carrying amount \$000	Contractual Cash flows \$000	Less than 6 months \$000	6 – 12 months \$000	Between 1 and 2 years \$000	Between 2 and 5 years \$000	Greater than 5 years \$000
At 30 June 2021							
Trade and other payables	13,352	(13,352)	(13,352)	-	-	-	-
Secured bank loan	5,769	(5,769)	(1,282)	(1,282)	(2,564)	(641)	-
Short term facility – EFA	1,900	(1,900)	(1,900)	-	-	-	-
Lease liabilities	19,454	(27,027)	(1,246)	(1,248)	(2,495)	(7,485)	(14,553)
	45,475	(48,048)	(17,780)	(2,530)	(5,059)	(8,126)	(14,553)
At 30 June 2020							
Trade and other payables	12,597	(12,597)	(12,597)	-	-	-	-
Secured bank loan	5,121	(5,121)	(1,725)	(1,725)	(1,671)	-	-
Short term facility – EFA	3,700	(3,700)	(3,700)	-	-	-	-
Lease liabilities	18,032	(26,032)	(1,110)	(1,118)	(2,152)	(6,654)	(14,998)
	39,450	(47,450)	(19,132)	(2,843)	(3,823)	(6,654)	(14,998)

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

C. Capital and Financial Risk Management

C.5 Financial Risk Management

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group has entered into a variable rate loan agreement for a period of 2.5 years. The applicable interest rate is reset on a monthly basis in accordance with the 30 days bank bill rate.

The Group is exposed to interest rate risk pre-dominantly on cash balances and deposits and loans and borrowings. Given the relatively short investment horizon for these, management has not found it necessary to establish a policy on managing the exposure of interest rate risk.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial assets/ (liabilities) was:

	2021 \$000	2020 \$000
Fixed rate instruments		
Held-to-maturity term deposits	733	718
Variable rate instruments		
Cash and cash equivalents	2,353	1,690
Secured bank loan	(5,769)	(5,121)
Short term facility agreement – EFA	(1,900)	(3,700)
	(5,316)	(7,131)

As at the end of the reporting period, the Group had the following instruments outstanding:

Held-to maturity term deposits

Amount	Interest rate	Maturity date
\$733,000	0.20%	18 August 2021

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as FY20.

	2021 \$000	2020 \$000
Variable rate instruments - increase by 100 basis points	(53)	(70)
Variable rate instruments - decrease by 100 basis points	53	70

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

C. Capital and Financial Risk Management

C.5 Financial Risk Management

Currency risk

The Group is exposed to currency risk on sales, purchases and cash holdings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar (AUD), Euro (EUR), Great Britain Pounds (GBP) and US Dollar (USD). The currencies in which these transactions primarily are denominated are AUD, EUR and USD.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group's investment in its German subsidiary is not hedged as the currency positions are considered to be long-term in nature.

The Group's exposure to foreign currency risk at the end of the reporting period was as follows:

	2021 USD 000	2021 EUR 000	2021 GBP 000	2020 USD 000	2020 EUR 000	2020 GBP000
Receivables	3,531	-	-	3,726	-	-
Cash	1,454	-	-	58	-	-
Trade payables	(3,415)	(23)	(62)	(2,921)	(48)	(182)
	1,570	(23)	(62)	863	(48)	(182)

The following significant exchange rates applied have been applied:

	Average rate		Year-end spot rate	
	2021	2020	2021	2020
AUD v USD	0.7480	0.6720	0.7563	0.6879
AUD v EUR	0.6268	0.6204	0.6344	0.6114
AUD v GBP	0.5532	0.5537	0.5450	0.5559

Sensitivity analysis

A 10 percent movement of the Australian dollar against the following currencies at 30 June would have affected the movement of financial instruments denominated in a foreign currency and effected profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases. The analysis is performed on the same basis as FY20.

Index	Profit or loss		Equity, net of tax	
	2021 \$000	2020 \$000	2021 \$000	2020 \$000
US/AUD exchange rate - increase (10%)	(189)	(114)	(189)	(118)
US/AUD exchange rate - decrease 10%	231	139	231	144
EUR/AUD exchange rate - increase (10%)	3	-	3	879
EUR/AUD exchange rate - decrease 10%	(4)	-	(4)	(1,096)
GBP/AUD exchange rate - increase (10%)	10	30	10	-
GBP/AUD exchange rate - decrease 10%	(12)	(36)	(12)	-
	39	19	39	(173)

Fair Value Hierarchy

Financial assets and liabilities, including foreign currency hedges are considered level 2 in the fair value hierarchy. The carrying value of financial assets and liabilities carried at amortised costs, approximate their fair value. During the year, there have been no transfers between levels in the fair value hierarchy.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

C. Capital and Financial Risk Management

C.6 Capital and Reserves

Capital Management

The Group's objectives are to safeguard the Group's ability to continue as a going concern and maintain a strong capital base sufficient to maintain future development in accordance with the business strategy. In order to maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. The Group's focus has been to raise sufficient funds through equity and borrowings so as to fund its working capital, business growth and commercialisation of technology. There were no changes in the Group's approach to capital management during the year.

Movements in Share Capital

	2021 Shares	2020 Shares	2021 \$000	2020 \$000
Opening balance	713,435,303	710,307,982	120,785	120,785
Shares issued under share based payments arrangements	2,834,041	3,127,321	-	-
Closing balance	716,269,344	713,435,303	120,785	120,785

During the year, the Company issued 2,834,041 (2020: 3,127,321) shares pursuant to share-based payment arrangements with certain key management personnel.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

There are Nil (2020 Nil) unissued ordinary shares of Quickstep Holdings Limited under option at the date of this report. No options were granted during the year and since the end of the financial year.

Nature and purpose of reserves

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

Cash flow hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss or directly included in the initial cost or other carrying amount of a non-financial asset or non-financial liability.

Share based payments reserve

The reserve for share based payments comprises the fair value of equity instruments granted by the Group based on market prices taking into account the terms and conditions upon which the instruments were granted.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

C. Capital and Financial Risk Management

C.7 Capital and Other Commitments

Capital Commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2021 \$000	2020 \$000
Property, plant and equipment	289	574

Other Commitments – Pledged as Collateral against Secured Bank Loan

On 18 February 2021 Quickstep Holdings Limited (the Company) executed a loan agreement with Australian and New Zealand Banking Group Limited (ANZ) to refinance the existing ANZ facility and fund the acquisition of QAS. The Company has provided ANZ with a Corporate Guarantee and Indemnity as well as a security interest over the Group's assets by way of a General Security Agreement (GSA). In addition, the Company, ANZ and Export Finance Australia (EFA) are party to a Security Sharing Deed:

	2021 \$000	2020 \$000
Cash and cash equivalents	2,353	1,683
Trade and other receivables	8,844	7,489
Inventories	9,660	9,870
Property, plant and equipment	14,995	13,639

Under the agreement with ANZ, Quickstep Holdings Limited and the other Group companies party to the GSA have agreed to the following restricted dealings. Without the consent of ANZ they may not:

- Create or allow another interest in any Collateral other than and Permitted Encumbrance,
- Dispose, or part with possession, of any Collateral.

Quickstep Holdings Limited has entered into a subordination agreement which subordinates certain intercompany debts due to it from Quickstep Technologies Pty Ltd to the amounts due under the Export Finance Facility.

C.8 Provisions

	Restructuring costs \$000	Make good provision \$000	Total \$000
Balance at 1 July 2020	421	3,156	3,577
Provisions made during the year	-	292	292
Provisions used during the year	(421)	-	(421)
Balance at 30 June 2021	-	3,448	3,448

Restructuring costs of \$421,000 were provided as at 30 June 2020 and paid out during the year ended 30 June 2021.

Quickstep is required to restore all leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the term of the lease.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

D. Operating Assets and Liabilities

This section provides information relating to the operating assets and liabilities of the Group. Quickstep has a strong focus on maintaining a strong balance sheet through continued focus on cash conversion. The Group's strategy also considers expenditure, growth and acquisition requirements.

D.1 Trade and Other Receivables

D.2 Inventories

D.3 Contract Assets

D.4 Property, Plant and Equipment

D.5 Intangibles

D.1 Trade and Other Receivables

	2021 \$000	2020 \$000
Current assets		
Trade receivables	8,744	7,622
Other receivables	101	94
	8,845	7,716

All trade receivables are current.

Recognition and Measurement

Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

D. Operating Assets and Liabilities

D.2 Inventories

	2021 \$000	2020 \$000
Current assets		
Raw materials and consumables	9,239	9,868
Work in progress	421	268
	9,660	10,136

Recognition and Measurement

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first in first out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

D.3 Contract Assets

	2021 \$000	2020 \$000
Current	8,051	9,556

Contract assets primarily relate to the Group's rights to consideration for work performed but not billed at the reporting date. Under AASB 15 the Group has determined that for made-to-order parts, the customer controls all the work in progress as the products are being manufactured. This is because under those contracts, parts, are made to a customer's specification and if a contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin. Therefore, revenue from these contracts and the associated costs are recognised over time – i.e. before the goods are delivered to the customers' premises. Invoices are issued according to contractual terms. Uninvoiced amounts are presented as contract assets.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

D. Operating Assets and Liabilities

D.4 Property, Plant and Equipment and Software

	Plant and equipment \$000	Assets under construction \$000	Office furniture & equipment \$000	Software \$000	Total \$000
June 2021					
Opening net book amount	12,489	4,305	213	328	17,335
Additions	-	2,902	-	-	2,902
Acquired through business combination	748	-	-	-	748
Government funding received	(68)	(304)	-	-	(372)
Transfers from assets under construction	2,036	(2,489)	298	155	-
Disposals	(12)	-	-	-	(12)
Amortisation of grant	406	-	-	-	406
Depreciation charge	(2,602)	-	(115)	(100)	(2,817)
Impairment charge	-	(2,812)	-	-	(2,812)
Closing net book amount	12,997	1,602	396	383	15,378
<i>Cost</i>	<i>39,854</i>	<i>1,602</i>	<i>1,271</i>	<i>1,242</i>	<i>43,969</i>
<i>Accumulated depreciation</i>	<i>(26,857)</i>	<i>-</i>	<i>(875)</i>	<i>(859)</i>	<i>(28,591)</i>
June 2020					
Opening net book amount	12,273	2,238	297	40	14,848
Additions	25	4,906	-	-	4,931
Customer and government funding received	-	(397)	-	-	(397)
Transfers from assets under construction	2,136	(2,442)	3	303	-
Amortisation of grant	406	-	-	-	406
Depreciation charge	(2,351)	-	(87)	(15)	(2,453)
Closing net book amount	12,489	4,305	213	328	17,335
<i>Cost</i>	<i>35,935</i>	<i>4,305</i>	<i>952</i>	<i>1,093</i>	<i>42,285</i>
<i>Accumulated depreciation</i>	<i>(23,446)</i>	<i>-</i>	<i>(739)</i>	<i>(765)</i>	<i>(24,950)</i>

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

D. Operating Assets and Liabilities

D.4 Property, Plant and Equipment and Software

Recognition and Measurement

Property, Plant and Equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling the items and restoring the site on which they are located and capitalised borrowing costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within other income/other expense in profit or loss.

Government grants that compensate the Group for the cost of an asset are recognised as a deduction in arriving at the carrying value of the asset.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of the asset, that component is depreciated separately. Depreciation is recognised in profit and loss on a reducing balance basis over the estimated useful lives of each component of an item of property plant and equipment.

The depreciation rates used for each class of depreciable asset for the current and prior years are:

Class of Asset	Depreciation Rates
Plant and factory equipment	4% to 51%
Office equipment	3% to 52%

Impairment

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

Impairment losses are recognised in the statement of comprehensive income unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the statement of comprehensive income.

Impairment loss in relation to flare housing facility

During the year the Group was unsuccessful with a proposal to supply MJU-68B flare housings to Chemring Australia (CHA). Given the low probability of securing flare housings revenue in the foreseeable future, and the specialised nature of the facility, the Group has estimated the recoverable amount of the assets comprising the flare housing facility to be significantly lower than their carrying amount, giving rise to the impairment loss recognised in the current reporting period. In performing the impairment test, the recoverable amount of the assets is determined to be its fair value less costs of disposals. The fair value less costs of disposal is based on quoted prices in active markets for identical assets (Level 1), that is the purchase price of these assets which is determined to be the fair value at the measurement date.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

D. Operating Assets and Liabilities

D.4 Property, Plant and Equipment and Software

Recognition and Measurement

The recognised impairment loss is calculated as follows.

	2021 \$000
Recoverable amount of flares housing facility	939
Carrying amount of assets	3,751
Write-down amount (impairment loss)	2,812

Reconciliation of carrying amount

	2021 \$000	2020 \$000
Property, plant and equipment – flare housing facility		
Opening carrying amount	3,751	3,751
Impairment loss	(2,812)	-
Closing carrying amount	939	3,430

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

E. Employee Benefits

This section provides a breakdown of the various programs Quickstep uses to reward and recognise employees and Key Management Personnel (KMP). Quickstep believes that these programs reinforce the value of ownership and incentives and drive performance both individually and collectively to deliver better returns to shareholders.

- E.1 Employee Benefit Obligations**
- E.2 Employee Benefit Expense**
- E.3 Related Party Transactions**
- E.4 Quickstep Incentive Rights Plan (IRP)**
- E.5 Equity Settled Short Term Incentive**

E.1 Employee Benefit Obligations

	2021 \$000	2020 \$000
Employee benefit obligation		
- Annual leave (current)	2,073	1,683
- Long service leave (non-current)	1,235	734
	3,308	2,417

Recognition and Measurement

Long service leave

The liabilities for long service leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to future wages and salaries, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

E.2 Employee Benefit Expense

	2021 \$000	2020 \$000
Wages and salaries	24,951	24,675
Defined superannuation contribution expense	2,353	2,041
Increase in leave liabilities	891	596
Share based payments expense	368	916
	28,563	28,228

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

E. Employee Benefits

E.2 Employee Benefit Expense

Recognition and Measurement

Wages and salaries

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Share-based payment transactions

An expense is recognised for all equity-based remuneration including shares, rights and options issued to employees and Directors. The fair value of equity instruments granted is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The amount recognised is adjusted to reflect the actual number of shares and options that vest, except for those that fail to vest due to market conditions not being met. The fair value of equity instruments granted is measured using a generally accepted valuation model, taking into account the terms and conditions upon which the equity instruments were granted. The fair value of shares, options and rights granted is measured based on relevant market prices at the grant date.

E.3 Related Party Transactions

Key Management Personnel Compensation

The key management personnel compensation included in "Employee benefit expense" in Note E.2 is as follows:

	2021 \$000	2020 \$000
Short-term employee benefits	1,162	2,393
Share-based payments	221	384
	1,383	2,777

The total value of the rights is allocated to remuneration over the vesting period.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

E. Employee Benefits

E.4 Quickstep Incentive Rights Plan (IRP)

During the 2014 financial year the Company established the Quickstep Incentive Rights Plan (IRP). The IRP was designed to facilitate the Company moving towards best practice remuneration structures for executives. In 2015 the Board adopted Revised Rules for the IRP to ensure the IRP continued to reflect market practice and remained appropriate for the Company. These Revised Rules were approved by shareholders at the Company's 2015 Annual General Meeting.

The IRP authorises the granting of Rights to executives of the Company, in the form of Performance Rights (PRs) and/or Deferred Rights (DRs) (together, Rights). These rights represent an entitlement on vesting to fully paid ordinary shares in the issued capital of the Company (Shares) with the total value of Shares being equal to the value of vested Rights (number of vested Rights x market value of a Share). PRs may vest if Performance Conditions are satisfied. DRs may vest if service conditions are satisfied. Further details regarding the IRP are set out in the Remuneration Report.

During 2021 an expense of \$387,000 (2020: \$916,000), refer Note B.4 has been recognised in the financial statements in respect of the portion of the fair value of rights attributable to the current financial year as required by accounting standards.

A Monte-Carlo model was used to value the rights. The model's key assumptions were as follows:

In Relation to Performance Rights

Tranche	FY16	FY17	FY18	FY19	FY20	FY21
Grant date	01/06/16	01/03/17	01/12/17	01/09/18	01/09/19	15/01/21
First testing date	31/08/18	31/08/19	31/08/20	31/08/21	31/08/22	31/08/23
Expiry date	31/08/20	31/08/21	31/08/22	31/8/23	31/08/24	31/08/25
Share price at grant date	\$0.14	\$0.105	\$0.089	\$0.091	\$0.11685	\$0.090
Expected life (years)	2.7	2.9	3.1	3.3	3.3	3.0
Risk free factor	1.65%	1.97%	1.93%	2.03%	1.04%	0.11%
Volatility of QHL	45%	40%	40%	40%	50%	55%
Volatility of AOA1	15%	13%	12%	12%	12%	20%
Dividend yield	0%	0%	0%	0%	0%	0%

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

E. Employee Benefits

E.4 Quickstep Incentive Rights Plan (IRP)

Rights

Movements in unissued shares under rights:

	2021 No of rights	2020 No of rights
Opening balance	31,118,897	24,491,718
Granted during the year	9,242,025	7,452,427
Rights vested	(363,870)	(825,248)
Rights forfeited/lapsed	(5,419,909)	-
Closing balance	34,577,143	31,118,897

The rights are issued pursuant to:

- Executive services agreements, which rights vest at various times in the future according to years of service completed.
- Offers under the Incentive Rights Plan (IRP), which vests at various future dates upon satisfaction of performance conditions and service criteria.
- The exercise price of the rights is Nil and the rights are lapsed if employment is terminated prior to the vesting date.

E.5 Equity Settled Short Term Incentive

Certain executives are eligible to receive short term incentives (STI) in cash and shares based on achievement of key performance indicators (KPIs). Each year the RN&D Committee considers the appropriate targets and KPIs and the alignment of individual rewards to the Group's performance. These targets may include measures related to the annual performance of the Group and/or specified parts of the Group and are measured against actual outcomes. The number of shares issued to executives is based on the accrued equity settled STI value divided by the weighted average share price on the date the shares are granted.

In FY21 1,296,522 (2020: 2,302,073) shares were issued to employees.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

F. Other Disclosures

This section provides details on other required disclosures relating to the Group to comply with the accounting standards and other pronouncements.

- F.1 Group Entities**
- F.2 Parent Entity Financial Information**
- F.3 Deed of Cross Guarantee**
- F.4 Auditors' Remuneration**
- F.5 Business Combinations**
- F.6 Subsequent Events**
- F.7 New Accounting Standards Not Yet Adopted**

F.1 Group Entities

Name of entity	Country of Incorporation	Ownership Interest	
		2021 %	2020 %
Parent entity			
Quickstep Holdings Limited	Australia		
Controlled entities			
Quickstep Technologies Pty Limited *	Australia	100	100
Quickstep Systems Pty Limited *	Australia	100	100
Quickstep GmbH	Germany	100	100
Quickstep Automotive Pty Limited *	Australia	100	100
Quickstep Aerospace Pty Limited *	Australia	100	100
Quickstep USA Inc.	USA	100	100
Quickstep Aerospace Services Pty Limited^	Australia	100	-
Quickstep Unmanned Services Pty Limited^	Australia	100	-

* Companies entered into deed of cross guarantee with Quickstep Holdings Limited.

^ Incorporated during the year.

F.2 Parent Entity Financial Information

As at, and throughout, the financial year ending 30 June 2021 the parent entity of the Group was Quickstep Holdings Limited.

	2021 \$000	2020 \$000
Results of the parent entity		
(Loss) for the year	(7,138)	(2,608)
Total Comprehensive (loss)	(7,138)	(2,608)
Financial position of the parent entity at year end		
Total assets	8,780	7,585
Total liabilities	(9,119)	(4,975)
Net assets / (liabilities)	(339)	2,610
Total equity of the parent entity comprises		
Share capital	120,785	120,785
Share based payments reserve	6,732	6,363
Foreign currency translation reserve	671	671
Accumulated losses	(128,527)	(125,209)
Total equity	(339)	2,610

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

F. Other Disclosures

F.3 Deed of Cross Guarantee

Under the terms of ASIC Corporations (Wholly owned Companies) Instrument 2016/785, certain wholly owned controlled entities have been granted relief from the requirement to prepare audited financial reports. Quickstep Holdings Limited has entered into an approved deed of indemnity for the cross-guarantee of liabilities with those controlled entities in Note F.1.

The following consolidated Statement of Comprehensive Income and Balance Sheet comprise Quickstep Holdings Limited and its controlled entities which are party to the Deed of Cross Guarantee (refer Note F.1), after eliminating all transactions between parties to the Deed.

	2021 \$000	2020 \$000
Statement of Profit and other Comprehensive Income		
Revenue	84,286	82,252
Profit / (loss) before income tax	(325)	1,710
Income tax benefit	900	2,212
Profit for the year	575	3,922
Cash flow hedges	22	(184)
Total comprehensive income for the year	597	3,738
Balance Sheet		
Assets		
Current assets		
Cash and cash equivalents	2,304	1,690
Term deposits	733	718
Trade and other receivables	8,102	7,716
Contract asset	8,052	9,556
Prepayments and other assets	915	732
Inventories	9,008	10,136
Total current assets	29,114	30,548
Non-current assets		
Property, plant and equipment and software	14,622	17,334
Right-of-use asset	13,985	15,662
Goodwill	2,287	-
Deferred tax asset	4,101	3,201
Total non-current assets	34,995	36,197
Total assets	64,109	66,745
Liabilities		
Current liabilities		
Trade and other payables	11,531	10,771
Provisions	-	421
Financial instruments	18	41
Loans and borrowings	4,464	7,316
Lease liabilities	983	1,059
Employee benefit obligations	2,072	1,683
Total current liabilities	19,068	21,291
Non-current liabilities		
Loans and borrowings	3,205	1,505
Lease liabilities	15,874	16,973
Provisions	3,189	3,156
Employee benefit obligations	1,236	734
Total non-current liabilities	23,504	22,368
Total liabilities	42,572	43,659
Net assets	21,537	23,086
Equity		
Share capital	120,785	120,785
Reserves	7,385	6,994
Accumulated losses	(106,633)	(104,693)

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

F. Other Disclosures

F.4 Auditor's Remuneration

Amounts received or due and receivable by the auditor KPMG for:

	2021 \$	2020 \$
Audit services	223,400	221,400
Other services		
Accounting and tax services	11,385	-
Total non-audit fee	11,385	-
	234,785	221,400

F.5 Business Combinations

Summary of acquisition

On 18 February 2021, the Group purchased Boeing Defense Australia's aerospace maintenance, repair and overhaul (MRO) capability based in Tullamarine, Victoria, Australia. The facility has an integrated engineering and MRO capability to service the defence and commercial aerospace markets, both in Australia and internationally. The acquisition allows the Group to offer extensive MRO services across a wide range of composite, bonded and conventional metal aircraft structures to defence, government and commercial aircraft operators with high quality standards, fast turnaround times and attractive pricing.

Under the terms of the Asset Purchase Agreement (APA) Quickstep Aerospace Services Pty Ltd acquired operating assets plus inventories from Boeing Australia Component Repairs Pty Ltd (BACR) for a cash purchase price of \$2.64 million. Quickstep also assumed relevant employees benefit obligations and certain other liabilities under the terms of purchase agreement.

Details of the purchase consideration are as follows:

	2021 \$000
Purchase consideration	
Cash paid	2,640
Total purchase consideration	2,640

Acquisition related costs

The Group incurred acquisition related costs of \$496,944 being legal fees, advisory fees and other transition costs. These costs have been included in "Corporate and administrative expenses" in the Consolidated Statement of Profit or Loss.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

F. Other Disclosures

F.5 Business Combinations

	2021 \$000
Property, plant and equipment	498
Rotable assets	250
Right of use asset	2,671
Inventory and consumables	455
Employee liabilities	(591)
Lease liability	(2,671)
Make good provision	(259)
Identifiable net assets acquired (fair value)	353
Add: Goodwill	2,287
Total assets acquired	2,640

Identifiable assets are measured at fair value. The valuation techniques used for measuring fair value of material assets acquired were as follows.

Property, plant and equipment:

Market comparison technique and cost technique: The valuation model considers market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

Inventories:

Market comparison technique: The fair value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Goodwill

Goodwill arising from the acquisition has been recognised as follows.

	2021 \$000
Consideration transferred	2,640
Fair value of identifiable net assets	(353)
Goodwill	2,287

For the four months ended 30 June 2021, QAS contributed revenue of \$0.8 million and a loss of \$0.8 million to the Group's results. The entity's financial performance continues to be reviewed by the Group whilst it continues to establish this business during the measurement period, that is, one year from the date of acquisition. The recoverable amount of this goodwill, based on fair value less costs of disposal exceeds the carrying amount and, on this basis, no impairment to goodwill has been recorded as at 30 June 2021.

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the goodwill recognised, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

F.6 Subsequent Events

Management have considered the matters or circumstances that have arisen since 30 June 2021 up to the date of this report that would significantly affect:

- the operations of the Consolidated Entity;
- the results of those operations; and
- the state of affairs of the Consolidated Entity.

On that basis, the following subsequent event is disclosed.

Carbonix investment

On 29 July 2021 the Group announced that it had signed an agreement to invest \$1 million for a minority stake in CarbonicBoats Pty Ltd (trading as Carbonix), an Australian company with strong capability in the design, development, manufacture and operation of next generation unmanned solutions for commercial and military applications. The \$1 million commitment is expected to be paid in 2 equal tranches over the first half of FY22 and will be funded by operating cash flow.

F.7 New Accounting Standards Not Yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods.

International Financial Reporting Standards Interpretations Committee final agenda decisions

In April 2021, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision, Configuration or customisation costs in a cloud computing arrangement. The decision discusses whether configuration or customisation expenditure relating to cloud computing arrangements is able to be recognised as an intangible asset and if not, over what time period the expenditure is expensed. The Group does not have any cost related to cloud computing arrangements as intangible assets in the Balance Sheet. The adoption of this agenda decision does not result in a reclassification of these intangible assets to either a prepaid asset in the Balance Sheet and/or recognition as an expense in the Statement of Profit or Loss and Other Comprehensive Income.

Directors' Declaration

for the year ended 30 June 2021

In the Directors' opinion:

- (a) the consolidated financial statements and notes set out on pages 33 to 70 and the Remuneration report on pages 25 to 32 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - ii. giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2021.

The directors confirm that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

There are reasonable grounds to believe that the Company and the Group entities identified in Note F.1 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

This declaration is made in accordance with a resolution of Directors.



Mr. M H Burgess

Director

26 August 2021

Sydney, New South Wales



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Quickstep Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Quickstep Holdings Limited for the financial year ended 30 June 2021 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

A stylized signature of the KPMG logo, written in black ink.

KPMG

A handwritten signature in black ink, appearing to read 'Tracey Driver'.

Tracey Driver

Partner

Sydney

26 August 2021



Independent Auditor's Report

To the shareholders of Quickstep Holdings Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Quickstep Holdings Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated balance sheet as at 30 June 2021;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended 30 June 2021;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of Quickstep Holdings Limited (the Company) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 are independent of the Group in accordance with *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 fulfilled our other ethical responsibilities in accordance with the Code.



Key Audit Matters

The **Key Audit Matters** we identified are:

- Revenue recognition;
- Going concern basis of accounting; and
- Recognition of deferred tax assets relating to tax losses.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These 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.

Revenue recognition (\$85,097,000)

Refer to Note B.1 'Key Performance Measures' to the Financial Report

The key audit matter

The Group generates revenue through sale of goods to customers under long-term contract arrangements and the Group's policy is revenue is recognised over time based on performance completed to date of each individual customer's made to order parts.

We focused on revenue recognition as a key audit matter due to the significance of the quantum of revenue recognised combined with the large volume of transactions. This necessitated additional audit effort across the transactions.

How the matter was addressed in our audit

Our procedures included:

- obtaining an understanding of the Group's process for revenue recognition and assessed the Group's revenue recognition policy in accordance with the accounting standards;
- testing a sample of revenue transactions recognised for customer orders completed during the year to customer invoices, customer signed dispatch dockets or evidence of delivery;
- selecting a sample of pre and post year end revenue transactions and checked the recognition of revenue in the period to underlying customer invoices, customer signed dispatch dockets or evidence of delivery or performance obligations completed;
- selecting a sample of transactions of customer purchase orders in progress from the Group's Work in Progress Report, and checked the labour and materials performance completed to date to underlying documentation, such as, invoices and timesheets to assess the recognition of the associated contract asset in accordance with the Group's revenue recognition policy; and
- evaluating the Group's revenue disclosures in the financial report using our understanding obtained from our testing and against accounting standard requirements.



Going concern basis of accounting

Refer to Note A 'About this Report' to the Financial Report

The key audit matter

The Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required by us in evaluating the Group's assessment of going concern and the events or conditions which may cast significant doubt on their ability to continue as a going concern. These are outlined in Note A.

The Directors have prepared the financial report on a going concern basis of accounting. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated a number of assumptions and significant judgements. The range of possible outcomes considered in arriving at this judgement has been concluded by the Directors to not give rise to significant uncertainty casting significant doubt on the Group's ability to continue as a going concern.

We critically assessed the levels of uncertainty, as it is related to the Group's ability to continue as a going concern, within these assumptions and judgements, focusing on the following:

- the Group's planned levels of operational expenditure including efficiencies and, improvement in working capital. This included the feasibility, projected timing, and quantum of potential improvement in working capital and efficiencies and progress of these plans;
- the Group's planned levels of significant non-routine forecast outflows in relation to its investment activities, and the ability of the Group to achieve cash outflows within available funding; and
- the Group's ability to raise additional funds.

In assessing this key audit matter, we involved senior audit team members who understand the Group's business, industry and the economic environment it operates in.

How the matter was addressed in our audit

Our procedures included:

- analysing the cash flow projections by:
 - evaluating the underlying data used to generate the projections. We specifically looked for their consistency with those used by the Directors, and tested by us, their consistency with the Group's intentions, and their comparability to past practices;
 - analysing the impact of possible changes in projected cash flows and their timing, to the projected periodic cash positions. Assessing the resultant impact to the ability of the Group to pay debts as and when they fall due and continue as a going concern. The specific areas we focused on were informed from our test results of the accuracy of previous Group cash flow projections and sensitivity analysis on key cash flow projection assumptions;
 - assessing the planned levels of operating expenditures for consistency of relationships and trends to the Group's historical results, results since year end, and our understanding of the business, industry and economic conditions;
 - assessing significant non-routine forecast outflows in relation to its investment activities and the impact of working capital improvements and efficiencies in operating costs for feasibility, quantum and timing, and their impact to going concern. We used our knowledge of the client, its industry and status to assess the level of associated uncertainty;
- we read Directors minutes and relevant correspondence with the Group's advisors to assess the Group's ability to raise additional funds; and
- evaluating the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash



	flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements.
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Recognition of deferred tax assets relating to tax losses \$4,101,000

Refer to Note A 'About this report' and B.5 'Income Tax Benefit' to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The recoverability of deferred tax assets (DTA) relating to tax losses is dependent on the ability of the Group to generate sufficient taxable income in the future to which the historical tax losses can be applied.</p> <p>This is a key audit matter due to the high level of judgement required by us in evaluating the Group's assessment of the probability of sufficient taxable income being generated in the future, given the Group's history of tax losses.</p> <p>We involved our tax specialists and senior audit team members in assessing this key audit matter.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • involving our tax specialists in assessing the Group's continuity of ownership assessment and the tax loss availability for consistency with regulatory parameters and legislation; • comparing the forecasts included in the Group's estimate of future taxable income used in the DTA recoverability assessment to those used in the Group's assessment of the going concern assumption for consistency. Our approach in testing these forecasts was consistent with the approach detailed above in addressing the key audit matter relating to the going concern basis of accounting; • understanding the timing of future taxable income and considering the consistency of the timeframes of expected recovery to our knowledge of the business and its plans; and • evaluating the Group's tax disclosures in the financial report by comparing them to our understanding of the tax matters occurring during the year, and accounting standard requirements.



Other Information

Other Information is financial and non-financial information in Quickstep Holdings Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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.



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Quickstep Holdings Limited for the year ended 30 June 2021, complies with *Section 300A of the Corporations Act 2001*.

KPMG

Directors' 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 responsibilities

We have audited the Remuneration Report included in *pages 25 to 32* of the Directors' report for the year ended 30 June 2021.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

Tracey Driver

Partner

Sydney

26 August 2021

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Shareholder Information

for the year ended 30 June 2021

The shareholder information set out below was applicable as at 17 August 2021.

A. Voting rights

The voting rights attaching to each class of equity securities are set out below:

- (a) On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.
- (b) Options do not carry any voting rights.

B. Substantial holders

The sole substantial shareholder in the Company is Australian Super with 72,882,585 shares based on latest available information.

C. On Market buy back

There is no current on-market buy back.

D. Distribution schedules

Distribution of each class of security as at 17 August 2021:

Ordinary fully paid shares

Range	Holders	Units	%
1 - 1,000	260	14,479	0.00%
1,001 - 5,000	183	663,335	0.09%
5,001 - 10,000	859	7,321,048	1.02%
10,001 - 100,000	2,884	111,791,067	15.61%
100,001 - Over	946	596,479,415	83.28%
Total	5,132	716,269,344	100.00%

E. Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being \$500 parcel at \$0.0460 per share):

Holders	Units
1,364	8,649,520

Shareholder Information

for the year ended 30 June 2021

D. Top holders

The 20 largest registered holders of each class of quoted security as at 17 August 2021 were:

Rank	Holder Name	Securities	%
1	J P Morgan Nominees Australia Pty Limited	73,531,585	10.27
2	Deakin University	33,333,333	4.65
3	HSBC Custody Nominees (Australia) Limited	23,716,279	3.31
4	CS Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/c>	18,792,851	2.62
5	Sandhurst Trustees Ltd <Cyan C3G Fund A/c>	17,985,432	2.51
6	BNP Paribas Nominees Pty Ltd <IB Au Noms Retail Client DRP>	14,241,092	1.99
7	Farjoy Pty Ltd	13,680,981	1.91
8	Carrier International Pty Limited <Super Fund A/c>	11,500,355	1.61
9	State One Stockbroking Pty Ltd	10,046,288	1.40
10	Romsup PL <Romadak Super Fund A/c>	8,812,430	1.23
11	Citicorp Nominees Pty Limited	8,026,263	1.12
12	WSF Pty Ltd <Woodstock Super Fund A/c>	6,415,325	0.90
13	Exwere Investments Pty Ltd <Exwere Super Fund A/c>	5,400,000	0.75
14	Hobson Cove Pty Ltd <Elder Heights Eighth A/c>	5,000,000	0.70
15	Mr Andrew James Vercetti	3,919,000	0.55
16	Yarraandoo Pty Ltd <Yarraandoo Super Fund A/c>	3,509,933	0.49
17	Smartequity EIS Pty Ltd	3,070,146	0.43
18	Mr James Winston Hunter + Mrs Elizabeth Joan Henderson-Hunter <H&H Superannuation Fund A/c>	3,007,145	0.42
19	Mr Stephen Brown	2,960,000	0.41
20	Mr Ronald Smit + Mrs Julie Marie Smit <Lucky Jar Superfund A/c>	2,914,738	0.41
Total		269,863,176	37.68

Corporate Directory

for the year ended 30 June 2021

Directors

Mr. P Largier

Chair

Mr. M H Burgess

CEO and Managing Director

Mrs. L Heywood

Non-Executive Director

Mrs. E Mannes

Non-Executive Director

AVM K Osley (Ret'd)

Non-Executive Director

Secretary

Ms. J McGregor

Principal Office

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New South Wales 2200
Australia

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Email: info@quickstep.com.au

Registered Office

361 Milperra Road
Bankstown Airport
New South Wales 2200
Australia

Auditor

KPMG
Chartered Accountants
Tower 3
300 Barangaroo Avenue
Sydney
New South Wales 2000
Australia

Share registry

Computershare Investor Services Pty Ltd
452 Johnston Street
Abbotsford
Victoria 3067
Telephone +61 3 9415 5000

Stock Exchange

Australian Securities Exchange Limited
Exchange Centre
20 Bridge Street
Sydney
New South Wales 2000

ASX Code: QHL



20 YEARS
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