ASX/Media Release: 22 October 2019

2019 ANNUAL REPORT

Sydney, 22 October 2019 – Quickstep Holdings Limited (ASX:QHL), the manufacturer of advanced carbon fibre composites, confirms that its 2019 Annual Report was mailed to shareholders today. A copy of the 2019 Annual Report is attached to this announcement, and can also be found on the Quickstep website at the following location:
https://www.quickstep.com.au/wp-content/uploads/2019/10/QHL-Annual-Report-2019-Web.pdf

- ENDS -

For further information:

Mark Burgess – Managing Director
Quickstep Holdings Limited
p: +61 2 9774 0300
e: mburgess@quickstep.com.au

Tony Quick – Chair
Quickstep Holdings Limited
p: +61 2 9774 0300
e: tquick@quickstep.com.au

About Quickstep Holdings
Quickstep Holdings Limited (ASX: QHL) is the largest independent aerospace-grade advanced composite manufacturer in Australia, operating from state-of-the-art aerospace manufacturing facilities at Bankstown Airport in Sydney, NSW and a manufacturing and R&D/ process development centre in Geelong, Victoria. The group employs more than 245 people in Australia and internationally. More information about Quickstep is available at www.quickstep.com.au

TECHNOLOGY DRIVEN GROWTH

ANNUAL REPORT 2019

Quickstep

OUR ACHIEVEMENTS

$73.3M
SALES REVENUE
UP 24.1%

$5.8M
EBITDA IN FY19
UP $4.6M

22.3%
GROSS MARGIN
UP 6.5%

$2.7M
MAIDEN FULL YEAR NET PROFIT

37%
INCREASE IN JSF CONTRACT REVENUE

$0.3M
NET DEBT – DOWN $11.2M FROM DEC 18

$2.2M
COMMERCIALLY FOCUSED R&D SPEND

FIRST PART
DELIVERIES TO BOEING DEFENSE

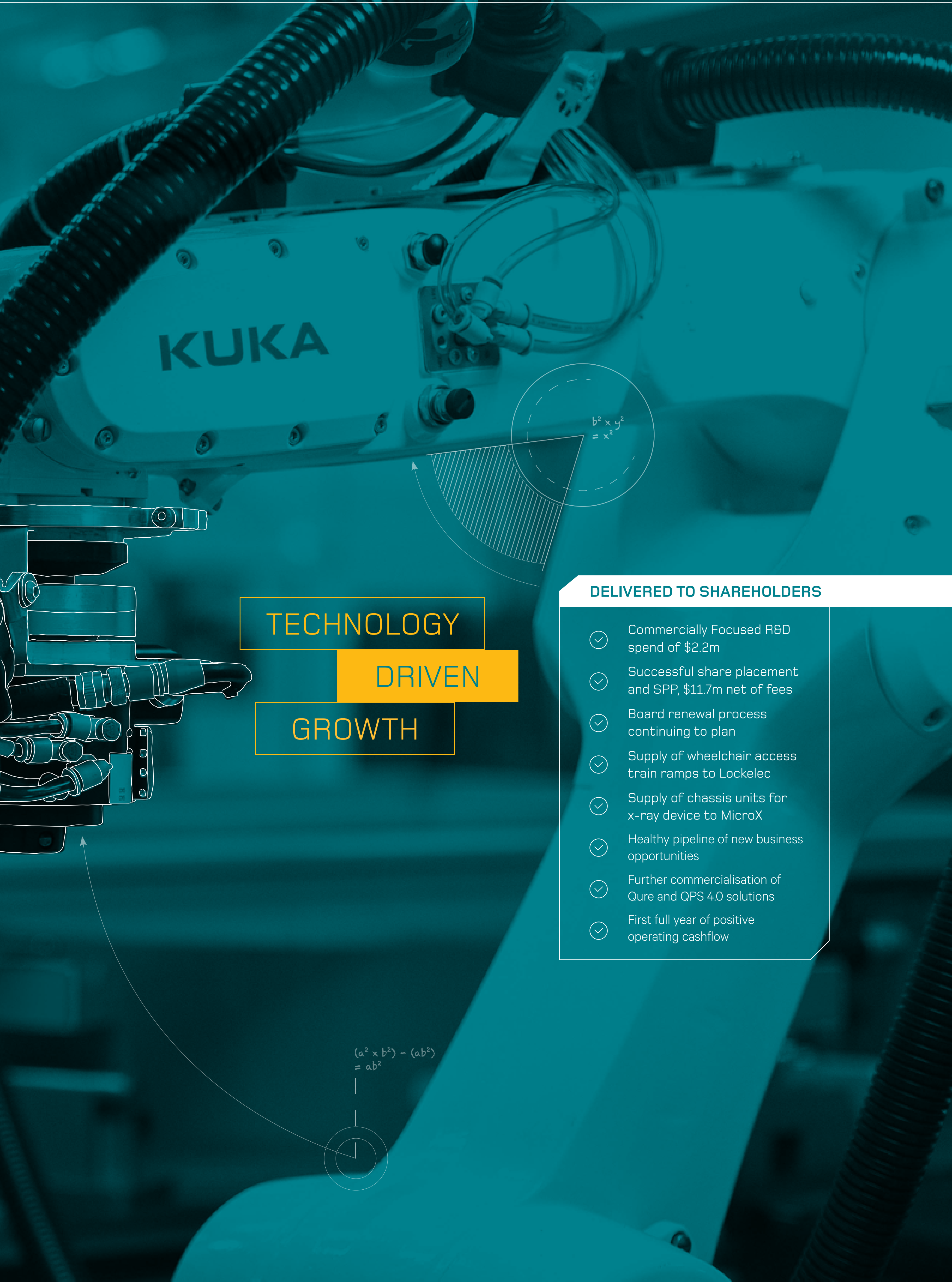
FIRST FULL YEAR
OF POSITIVE OPERATING CASHFLOW

$4.6M
LIFT IN EBITDA ON FY18

$5.6M
NPAT IMPROVEMENT ON FY18

5YR
CONTRACT EXTENSION C-130J

CONTENTS



TECHNOLOGY DRIVEN GROWTH

DELIVERED TO SHAREHOLDERS

- Commercially Focused R&D spend of $2.2m
- Successful share placement and SPP, $11.7m net of fees
- Board renewal process continuing to plan
- Supply of wheelchair access train ramps to Lockelec
- Supply of chassis units for x-ray device to MicroX
- Healthy pipeline of new business opportunities
- Further commercialisation of Qure and QPS 4.0 solutions
- First full year of positive operating cashflow

CHAIR'S REPORT

FY2019 was milestone year for **QUICKSTEP** as we achieved a net profit and positive operating cashflow for the full-year, the first in the history of the company, as we continued our journey towards accelerated growth and long-term profitability.

TONY QUICK

CONTINUING TO DELIVER — FULL YEAR PROFITABILITY.

In FY19, we delivered:

24% INCREASE IN ANNUAL SALES REVENUE

EBIT POSITIVE EBIT FOR THE FULL YEAR OF FY19

COSTS COST SAVINGS & EFFICIENCY IMPROVEMENTS

IMPLEMENTATION OF **CHEMRING PROJECT**

FINANCIAL PERFORMANCE

Our financial results for FY2019 reflect the success of our focus on continuous improvement and efficiency, targeted R&D expenditure, which combined with volume growth from the JSF program, resulted in total sales of $73.3 million in FY2019, up 24% from $59.0 million in FY2018. A maiden full year net profit after tax (NPAT) of $2.7 million, represented a $5.6 million improvement on FY2018 and included a $4.6 million lift in EBITDA and $1.0m tax benefit reflecting future taxable income. The company also delivered $0.4 million operating cash flow for FY19, its first full year positive result, and at 30 June 2019 reported net debt of $0.3m, a reduction of $11.2 million from 31 December 2018.

Operating cash flow improved year on year by $1.0 million despite a $3.1 million increase in working capital, principally inventory to support our growth. The much improved debt position was in large part attributable to the successful share placement and Share Purchase Plan (SPP) in early 2019 that raised $11.7 million net of fees. The placement resulted in an issue of 125 million new shares to institutional and sophisticated investors. These funds were used to strengthen our balance sheet to allow flexibility to accelerate future growth projects and reduce debt. Additional shares were also offered to existing eligible Quickstep shareholders in FY2019, under a Share Purchase Plan.

$73.3M

SALES REVENUE

UP 24.1%

BUSINESS GROWTH AND PROFITABILITY

The unprecedented scale of Australian defence procurement and Quickstep's unique position in the Australian defence industrial base has created a very favourable market environment for the company in the US. Based on this we have focused on developing a strong pipeline of new business opportunities in the US market and we have made substantial progress in a number of confidential negotiations with US customers. We anticipate significant new business awards during FY2020.

In FY2019, we announced that we secured a new project to produce carbon fibre composite housings for an F-35 counter-measure flare for Chemring Australia, further expanding our advanced manufacturing capability. At year end, we were in the final stages of commissioning and testing all of the advanced manufacturing equipment for the Chemring project. The result will be a highly automated manufacturing cell that demonstrates high volume carbon fibre production methods with integrated quality control and product traceability for high performance and precision products. Trial production commenced in Q1 FY20.

We also signed a Memorandum of Understanding (MoU) with Lockheed Martin for a Long Term Flexible Contract (LTFC) associated with the ongoing supply of C-130J/LM-100J wing flaps for an additional five-years, covering the period 2020 to 2024. We have an existing contract with Lockheed Martin to provide wing flaps for the C-130J/LM-100J aircraft through to end-2019, and this contract extension will see us continue our successful supply chain relationship with Locked Martin.

We are continuing to seek new opportunities in the Defence sector and to develop the appropriate process and people capabilities to support new business opportunities in commercial markets. This will be a major focus for the Quickstep team in FY2020.

CLOSING REMARKS

In closing, I would like to recognise the ongoing support of our shareholders, customers and suppliers and my fellow Board members. I would like to acknowledge the addition of Leanne Heywood who the joined the Board in February 2019. Subsequent to the end of the year we also welcomed Elisabeth Mannes (joined August 2019) to the Board and Bruce Griffiths left the Board at the end of August 2019 consistent with our on-going Board renewal process. I would like to thank Bruce for his six and a half years on the Board and his significant contribution to our strategic direction and growth plans.

Finally, I would also like to sincerely thank Mark Burgess, the executive management team and all of our staff at Quickstep, for the significant contributions they have made throughout FY2019.

We have had an extraordinary year in FY2019 and the outlook for the year ahead is extremely promising. Quickstep remains focused on continued successful execution of our existing defence contracts, on implementing further improvement and efficiency initiatives, on developing our process and people capabilities and on converting our pipeline of opportunities into production programs. Our strong long-term order book and advanced manufacturing technologies and capabilities will provide us with the opportunity to further accelerate our global growth and provide long-term sustainable profitability and improved shareholder value.

TONY QUICK
Chair

CEO'S REPORT

$(\pi^2 \times y^2) + (zyb^2) = \pi b^2$

I am extremely pleased to deliver this report to you, as the CEO and Managing Director of **QUICKSTEP**. In FY2019 we continued to deliver on our commitments to all stakeholders and have shifted the business from a loss position to position of profit. I am excited to report that this is a sustainable profit position and we can look forward to accelerated growth. Some of the significant initiatives undertaken by our talented and dedicated team at Quickstep in FY2019 include:

- CONTINUING TO DRIVE OUR COMPETITIVENESS AND EFFICIENCY
- IMPLEMENTING QPS4.0 AND BUILDING A WORLD-CLASS BUSINESS
- DELIVERING AND INCREMENTALLY EXPANDING ALL EXISTING PRODUCT LINES
- PROTECTING AND GROWING OUR CORE DEFENCE BUSINESS BY CONVERTING OUR DEFENCE PIPELINE
- IDENTIFYING AND WINNING NEW BUSINESS IN COMMERCIAL AEROSPACE MARKETS
- BEING AN 'EMPLOYER OF CHOICE', RECOGNISED BY PROSPECTIVE CANDIDATES GLOBALLY

MARK BURGESS

A HIGH PERFORMANCE CULTURE.

$(a^2 \times b^2) - (ab^2)$
$= ab^2$

$(a^2 \times \Sigma^2) \div {}^{\sim}(zyb^2)$
$= \pi^2$

I am immensely proud of what our team has achieved in FY2019 and I am truly excited about the ongoing expansion and growth of the Quickstep business over the next five years. Over the past twelve months we set, and achieved all key targets resulting in a full year profit for the first time since commencing the business. We have made a number of operational improvements that have improved our efficiency and cost competitiveness and we have developed a new pipeline of business that will accelerate our growth in the future. We have also spent time developing the capabilities of our people and this will ensure that we have the resources on hand to take greater steps forward in FY2020.

OPERATIONAL EFFICIENCY IMPROVEMENTS

Production volumes grew in FY2019 on the back of increased JSF volumes. We are a major supplier to the global Joint Strike Fighter (JSF) program, manufacturing and supplying a range of centre fuselage and vertical tail composite parts for the F-35 aircraft. We anticipate that the business will continue to grow strongly in FY2020, as JSF deliveries ramp up further towards peak production volumes during FY2020.

During FY2019 Quickstep undertook a number of operational efficiency improvements including:

- Improvements to production cycle times
- Production process flow improvements
- Additional cross-skilling and job rotation
- Increased visual management
- Process and value chain mapping
- Introduction of new workplace organisation methods
- Further implementation of our Lean/ Continuous Improvement (CI) program

An FY2019 gross margin of 22.3% (6.5% points improved on FY2018) was achieved through a combination of efficiency gains, process improvements, economies of scale and cost reductions, despite a challenging operating environment mid-way through the year as a consequence of a three month long repair to a key production item. As efficiency gains continue and production ramps up further we expect margins to maintain a strong trajectory of positive improvement.

TARGETED INNOVATION AND CAPABILITY DEVELOPMENT

During FY2019 we furthered the development and industrialisation of Qure 2.5 bar and our AeroQure to meet aerospace qualification standards. Quickstep has commenced the manufacture of test plaques that are being tested by an independent aerospace laboratory and a major global material systems company. The objective of this testing is to validate that AeroQure meets aerospace qualification requirements. The AeroQure process delivers dramatically reduced cycle times versus the traditional standard autoclave process, while delivering multiple processing benefits and overall cost reduction.

The Quickstep Production System 4.0 (QPS 4.0) is an advanced lean production system. QPS 4.0 is a complete material to finished part solution and is focused on production rate improvement, process efficiency, automation, one piece material flow and cost competitiveness. QPS 4.0 projects undertaken in FY2019 include the design and commissioning of unique manufacturing solutions to produce:

- Completely automated manufacturing cell to manufacture advanced composite flare housings for the global JSF program. These will be supplied to Chemring Australia
- Carbon fibre composite chassis bodies for a portable x-ray device manufactured for an Australian SME, MicroX, which are exported to the North American market
- Portable wheelchair access ramps for another Australian SME, Lockelec, for use on the Victoria metro rail system

Quickstep is continuing to invest in advanced manufacturing capabilities, installing and utilising a range of advanced processes within our facilities including 3D printing, automated Robotic drilling and riveting and automated preforming technologies to name a few.

DEVELOPMENT OF A PIPELINE OF NEW BUSINESS

Throughout FY2019, Quickstep has been in detailed discussions with a number of existing and new customers further developing our healthy pipeline of opportunities for future growth. These activities are part of a comprehensive business plan to grow Quickstep's sales revenue and diversify our customer base in the Defence and Aerospace sectors, while expanding our capabilities to further increase business globally in the Aerospace, Defence and other advanced industry sectors.

Quickstep has a clear focus on the North American market where we continue to make significant investment in business development (both in Defence and Commercial Markets) and supply chain resources. We remain extremely positive that these efforts will deliver significant new business wins in FY2020.

23.3%

GROSS MARGIN

UP 6.5%

REFINEMENT AND IMPLEMENTATION OF OUR STRATEGIC PLAN

During the course of FY2019, the Board and the leadership team spent considerable time reviewing and reframing our Strategic Plans for the next five years and beyond. Quickstep's mission is to become a 'Globally Relevant Provider of Advanced Composite Solutions'. Our aim over the coming five years is to become a $200 million mid-tier business and we are aiming to become a $500 million+ business by 2030. We will achieve this by strategically and aggressively:

» Continuing to drive our competitiveness and efficiency

» Implementing QPS4.0 and building a world-class business

» Delivering and incrementally expanding all existing product lines

» Protecting and growing our core defence business by converting our defence pipeline

» Identifying and winning new business in commercial aerospace markets

» Being an 'Employer of Choice', recognised by prospective candidates globally

The leadership team at Quickstep is fully focused and aligned on developing the technical, operational and people capabilities to support all current and future Defence programs and evolve and expand into the global commercial aerospace sector.

OUTLOOK FOR FY2020

Quickstep's revenue is expected to grow further in FY2020 but, subject to new work being secured, at a more modest pace than in FY2019. JSF deliveries on existing contracts will ramp up to peak production volumes during the financial year. Our gross margins are expected to continue to improve year on year through economies of scale, further cost reductions and increasing efficiencies. We expect to continue to deliver positive NPAT for FY20 as well as positive operating cash flow.

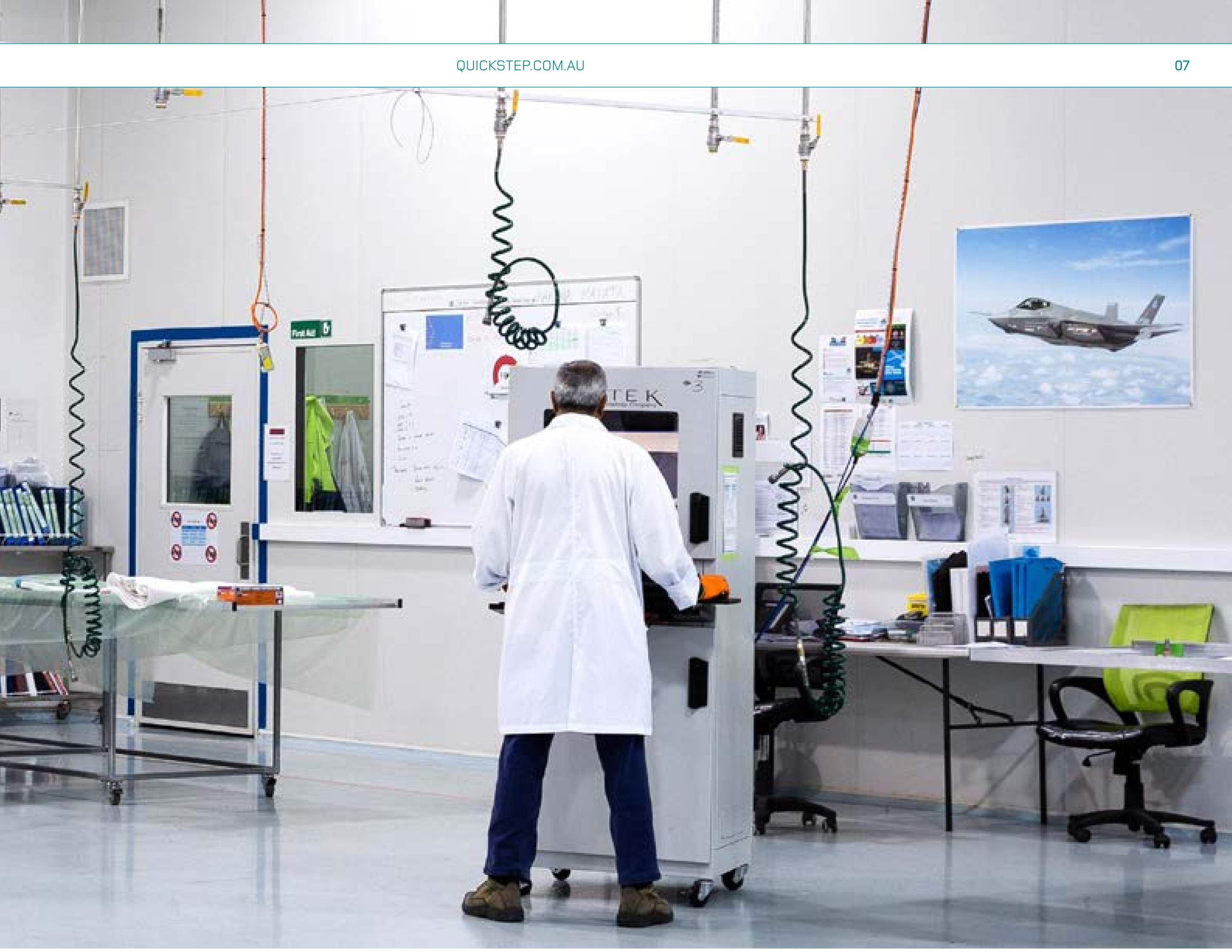
Quickstep has significant growth potential through securing and implementing additional advanced composite manufacturing contracts, primarily in the defence and aerospace sector, using traditional techniques and our proprietary advanced manufacturing process,

Our aim is to become a:

$200M
MID-TIER BUSINESS IN THE NEXT 5YRS

$500M+
BUSINESS BY 2030

GLOBALLY RELEVANT PARTNER OF ADVANCED COMPOSITE SOLUTIONS



Qure and its aerospace equivalent AeroQure and our QPS4.0 technologies provide faster, more controllable methods for curing of parts and enable a Class A finish.

In FY2020 we will continue to focus on winning additional business with our existing customers and adding new customers to our portfolio. We will support this growth through strategic partnerships and alliances, enabling us to build our global presence and scale. We will continue to accelerate our business development activities, with a strong focus on the key following key segments:

Core Defence Aerospace

We will do this by adding new business with our existing customers and diversifying our customer base within the sector. This will see us fully-utilise our current facilities and expand our core capabilities to convert the current pipeline of new business we are working on, into greater export sales.

Aerospace Qure and Advanced Manufacturing

We are also focusing on new growth within the Aerospace and Defence sector, using our Qure, AeroQure and innovative QPS4.0 technology solutions.

Commercial Markets

Our longer-term plan is to grow and expand into the global commercial aerospace market and we are focusing on a number of target segments including commercial airliners, electric aircraft and new mobility markets.

CLOSING REMARKS

In closing, I would like to sincerely thank all of our shareholders, customers and collaboration partners for their ongoing support and confidence in Quickstep. We are a unique business and provide a strong value proposition. We have a fantastic and dedicated team of highly capable people at Quickstep and I am extremely proud of their efforts throughout FY2019.

Finally, I would like to acknowledge the capability, support and dedication of our Board of Directors and my leadership team, who have turned this business around and set the company up for an extremely bright and profitable future.

MARK BURGESS

CEO and Managing Director

TECHNOLOGY LED GROWTH

Quickstep is at the forefront of advanced composites manufacturing and technology development. Innovation and technology is leading our growth and we are continuing to develop our state-of-the-art process technologies to support both current and future customer programs in the defence sector and to enter both traditional and new commercial markets.

The key to our future and competitive differentiation lies in:

ADVANCED MANUFACTURING	QURE AND AEROQURE	QPS 4.0

Quickstep has and will continue to invest in R&D, new capital for secured programs and operational improvements to deliver greater efficiencies and profitable growth. Priorities for Quickstep include:

Research & Development

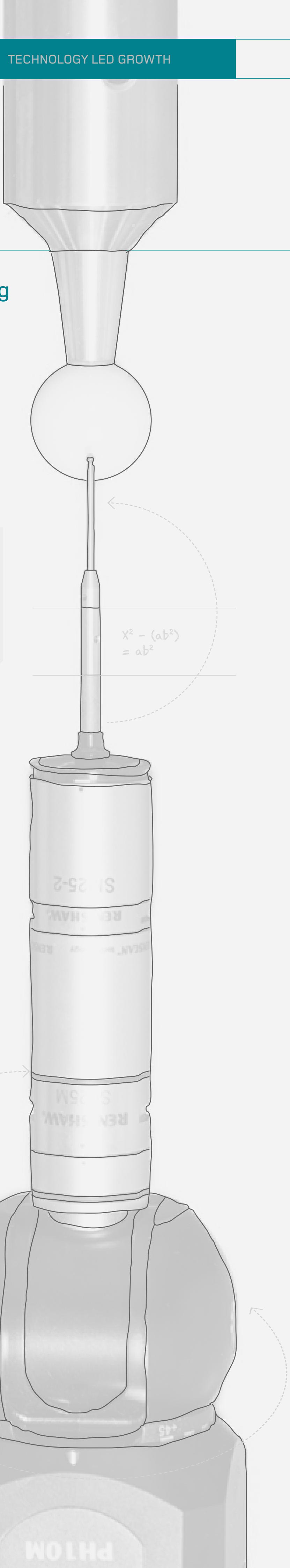
Further commercialisation of our patented Qure and AeroQure processes, as well as QPS 4.0 (Quickstep Production System 4.0), our implementation of an advanced manufacturing system based on Industry 4.0; volume/rate improvement for composite solutions; introduction of automated lay-up technologies to further industrialize our Out Of Autoclave (OOA) curing solutions; development of manufacturing solutions for new emerging aviation markets (electric aircraft and Urban Air Mobility).

Manufacturing Capability

Digital manufacturing practices; automated fibre lay-up; new preforming processes; additional curing techniques (i.e. Resin Transfer Moulding and others); specific engineering, tooling and production fixtures for newly secured projects; automated measuring and testing cells for specific projects.

Operational Improvement

Lean manufacturing and continuous improvement activities; OHS&E improvements; digital manufacturing and industry 4.0 processes and practices; facility improvements including the soon to be completed, Quickstep Learning Academy.



NSW PREMIER'S 2018 EXPORT AWARDS

WINNER DEFENCE INDUSTRIES CATEGORY

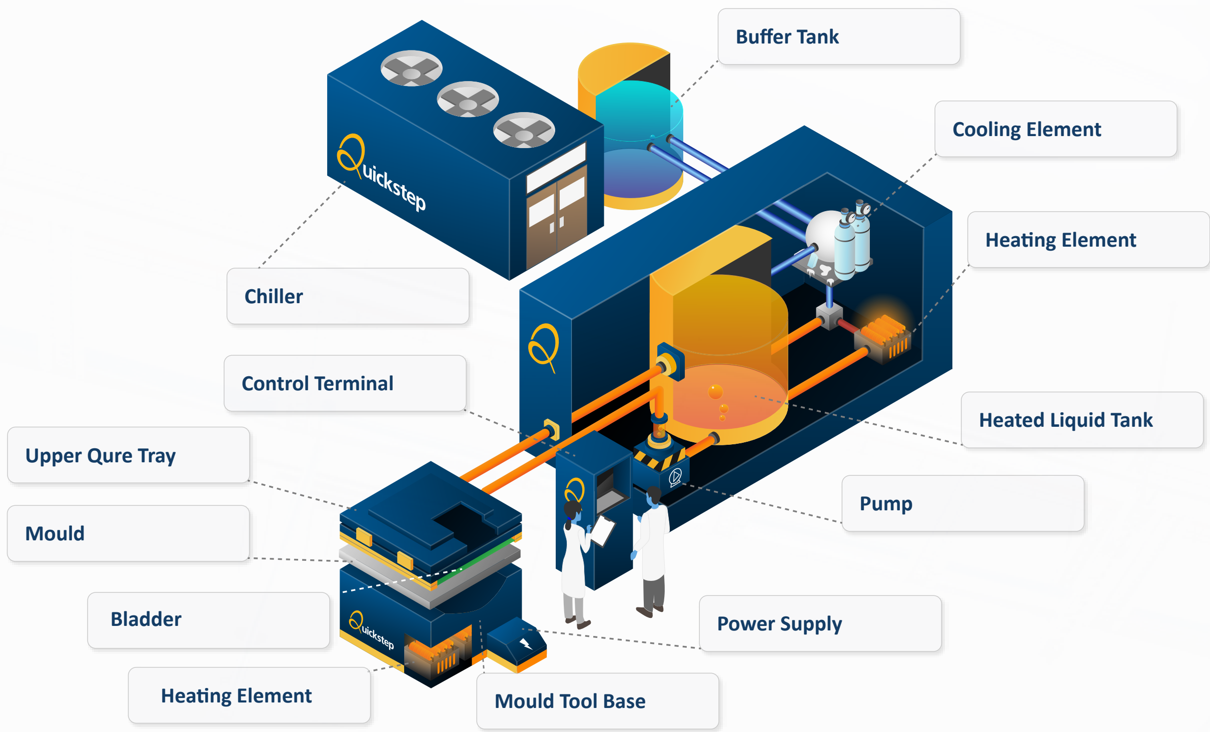
"This award is a testament to the hard work and dedication of the entire Quickstep team and we are pleased that we have been recognised for our defence export achievements and our contribution to NSW's economy and job creation in the state. We are extremely proud that we have been presented this prestigious award."
Mark Burgess | CEO & MD

ADVANCED MANUFACTURING

Advanced manufacturing capability is a critically important element of Quickstep's overall strategy. In respect of conventional aerospace production we have placed ourselves at the forefront of the available technology by pursuing and winning highly complex, close-tolerance work and commissioning state-of-the-art advanced manufacturing equipment in Bankstown, NSW and advanced technical capabilities in Geelong, Victoria. Our advanced manufacturing capabilities include:

- CNC ply-cutting and laser-guided lay-up
- Autoclave and Out-of-Autoclave curing
- Range of NDT testing equipment
- PMM cells and robotic trimming
- Robotic/Automated drilling and riveting
- Complex assembly and painting
- Laboratory testing of materials/components

QURE SYSTEM SCHEMATIC



Pictured: Quickstep proprietary Out Of Autoclave (OOA) composite curing technologies.

QURE AND AEROQURE

Quickstep's patented system, Qure, and its high-performance version for aerospace applications, AeroQure, is an advanced composites manufacturing process that offers significant advantages over traditional manufacturing techniques such as autoclave curing, including:

- low capital cost for set-up
- significantly shorter cure cycle times
- reduced energy consumption
- design flexibility to meet or improve material properties of the end product
- ability to produce complex integrated parts

Qure is currently being used by Quickstep to manufacturer a lightweight carbon fibre chassis for a portable medical device (x-ray machine) and to manufacture portable wheelchair ramps for the public transport sector. It is suitable for use in a range of defence and commercial aerospace applications, requiring lightweight, advanced composite components at a higher rate of production and lower overall cost than traditional autoclave curing.

AeroQure, is the most advanced version of our Out Of Autoclave proprietary curing technology. In our journey to fully industrialise the technology we are planning to integrate it with an efficient automated lay-up process, as well as other components like trimming and inspection. Apart from intensive internal testing of parts cured with AeroQure, our plan also includes validation from results by third party independent aerospace labs, as well as major global material systems providers. These results will allow us to demonstrate how we can achieve dramatically reduced cycle times compared to the traditional autoclave process, while delivering multiple processing benefits.

MY OPTUS BUSINESS AWARDS NOVEMBER 2018

WINNER
DEFENCE
BUSINESS OF THE
YEAR 2018

"Australia has a highly capable aerospace and defence sector, needless to say we are deeply humbled to have won this prestigious national award. It's a reflection of the depth of skill and talent we have within the business."
Mark Burgess | CEO & MD

QPS 4.0

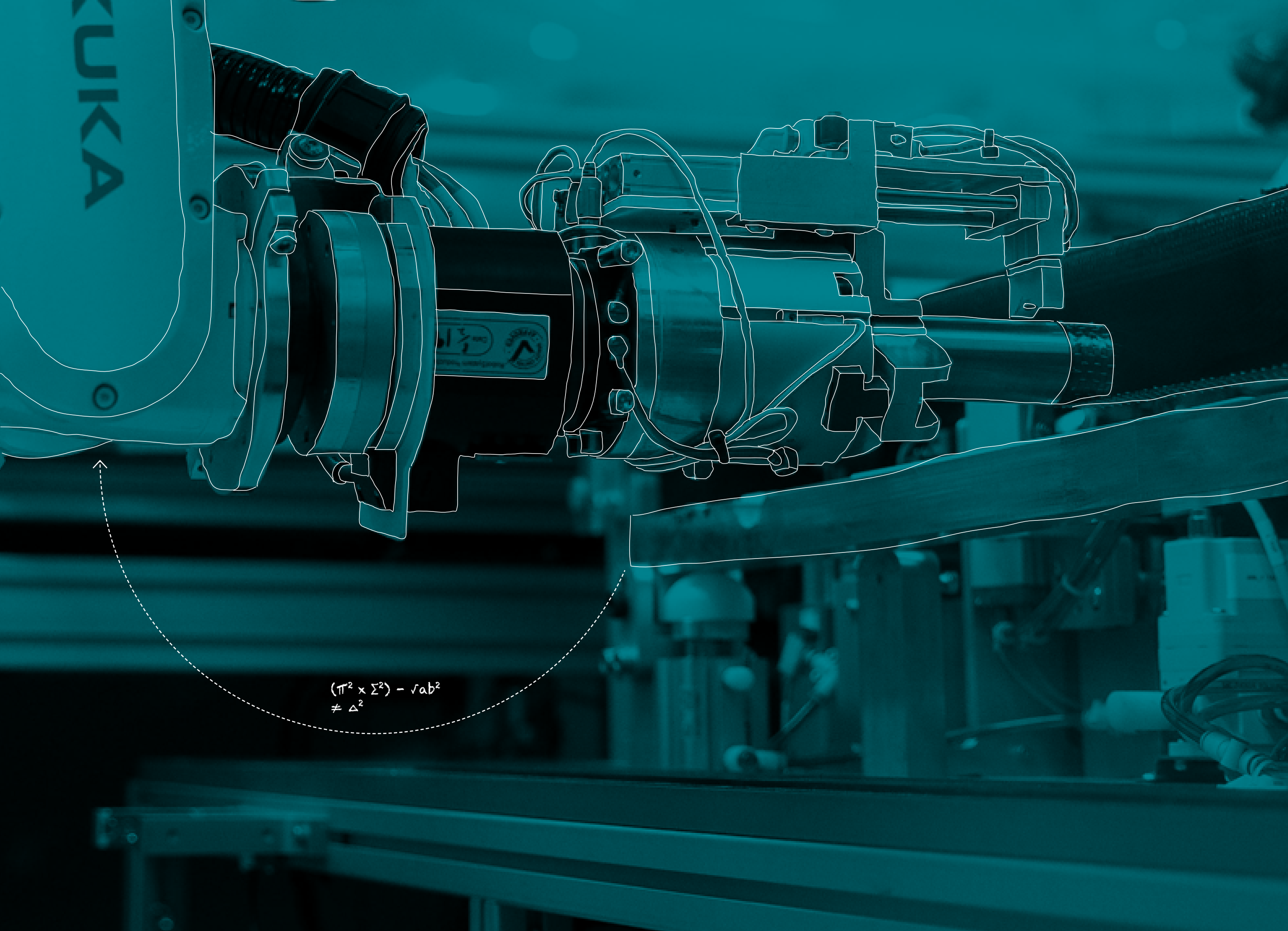
Quickstep Production System 4.0 (QPS 4.0), is an advanced LEAN production system, developed by Quickstep, which provides a complete material to finished part solution. QPS 4.0 articulates the most relevant aspects of an Industry 4.0 manufacturing solution and can be adapted to multiple markets and part applications.

QPS 4.0 integrates different technological components and methodologies, in particular LEAN manufacturing, automation, advanced manufacturing processes and digitalisation, and is used by Quickstep to develop and transform production systems. The key building blocks of QPS 4.0 are:

- Agile Engineering – element + production
- Core Composite Manufacturing Technologies IP and know-how
- Processes like Project Life Cycle Management and systems like our Product Life Cycle Management & Enterprise Resource Planning systems.
- LEAN production techniques
- Digital Integration and Digital Thread
- People and Culture

QPS 4.0 creates value for the company, our employees, our customers, our suppliers and our shareholders and has been utilised in FY2019 on the Chemring counter-measure flare housing project.

Quickstep is in the final stages of commissioning all of the manufacturing equipment for the flare housing project. The result will be a leading advanced manufacturing production line that demonstrates “cutting edge” high volume carbon fibre production methods, with integrated quality control and product traceability for high performance and precision products. Trial production commenced in Q1 FY2020.



OUR LEADERS

The leadership team is aligned and focused on developing and fostering a high performance culture at Quickstep, through technology, innovation, business excellence and long-term sustainable growth. With extensive local and international aerospace, defence, automotive and advanced manufacturing experience, the leadership team is determined to deliver continuing value to all our stakeholders.

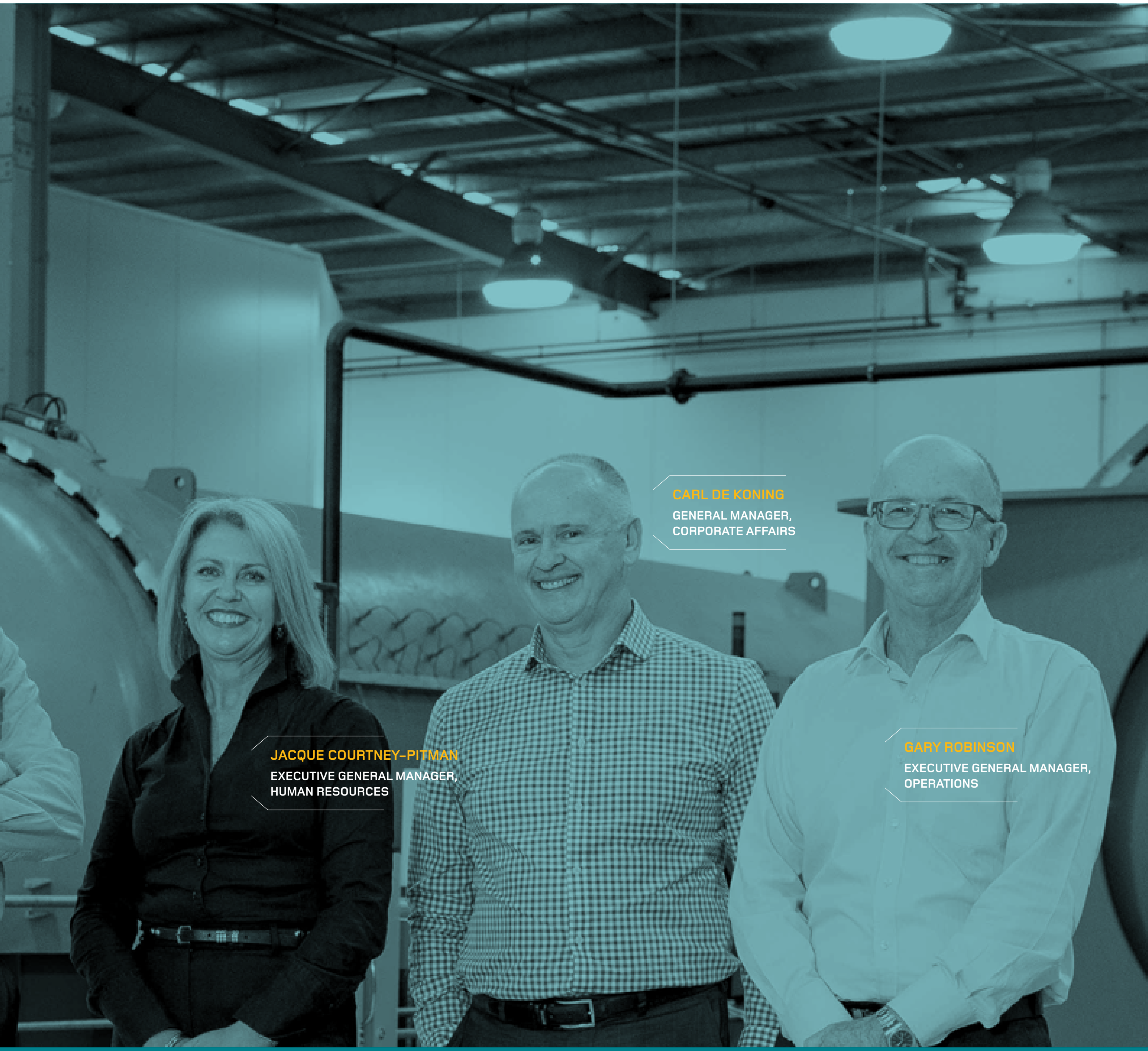
ALIGNED AND FOCUSED ON DELIVERING RESULTS.

Mark Burgess, CEO and Managing Director, leads the senior management team and believes that "Quickstep has an exceptionally talented team of people, dedicated to delivering value to our customers and stakeholders. Our role as the leadership team is to ensure that we provide our people with the direction, support and resources that they need to perform at the highest level".

This is echoed by Alan Tilley, Quickstep's Chief Financial Officer, who not only oversees the financial activities of the company, but sees a major part of his role as being "to encourage teams to engage more deeply with the business drivers and processes and to lift the capability and skills of the people in the teams that I lead".

Each member of the leadership team has their own functional accountabilities, however it is people, teamwork and collaboration that is turning the business around and driving a high performance culture. As Jacque Courtney Pitman, Executive General Manager, Human Resources, puts it "we are about being an 'employer of choice' and developing our people. My role is to ensure that we retain, recruit and develop talented people and that we invest in increasing our diversity, giving us a variety of thoughts, industries and experience to achieve great outcomes".

Innovation is a key element of our business strategy and to be successful engineering and operations need to work closely together to deliver the most effective and efficient manufacturing solutions for our customers. David Doral, Chief Technical Officer & Head of Engineering draws on his extensive experience in the global aerospace industry to "identify and implement advanced manufacturing processes and technologies to create advanced composite solutions for our customers to ensure that Quickstep has a competitive advantage in the global aerospace market".



From an operations perspective, Gary Robinson, Executive General Manager, Operations, is upbeat about Quickstep and manufacturing in Australia, "Quickstep's success proves that you can base your operations in Australia, provide jobs and give rise to a whole new industry in our country. Not only is it possible, but as we have shown, it can be profitable."

Carl de Koning, General Manager Corporate Affairs, has worked and lived overseas for a number of years and is "immensely proud to be working with an Australian business that is pushing itself into the global aerospace market. Australians have a unique way of thinking, and our team at Quickstep is no exception. We are developing and delivering innovative solutions and true value to our customers".

Winning and implementing new work is the life blood of any business and Steve Osborne, General Manager Business Development and Michael Schramko, General Manager, Programs, know a lot about this. Steve Osborne who resides in Texas in the US, joined the company because he "saw high potential in Quickstep. I recognised a growing and very capable company. And I saw that by helping Quickstep access global markets, I could help accelerate growth". Michael Schramko loves the challenges that new work brings to the company "Quickstep's size makes us extremely agile as a company – we can move on projects very quickly. We are growing and expanding in different directions and we have a great team for implementing complex new projects".

As a final thought, Mark Burgess said "I am immensely proud of what we have achieved in FY2019 and I am truly excited about the ongoing growth that our highly capable and talented team will provide over the next five years".

THE BOARD

BOARD RENEWAL PROCESS COMMENCED.

The Quickstep Board commenced a process of renewal in FY2019, with the appointment of Leanne Heywood as a new Non-Executive Director and Chair of the Audit and Risk Committee. Further changes have commenced in FY2020, with Lis Mannes replacing Bruce Griffiths. The Board led by Tony Quick as Chair, currently consists of four Non-Executive Directors (including the Chair) and our CEO and Managing Director, Mark Burgess.

CURRENT QUICKSTEP BOARD:

- **Tony Quick:** Chair and Non-Executive Director
- **Mark Burgess:** CEO and Managing Director
- **James Douglas:** Non-Executive Director
- **Leanne Heywood:** Non-Executive Director
- **Elisabeth Mannes:** Non-Executive Director

The renewal process provides the Quickstep Board with opportunities for greater diversity including gender diversity plus new skills and capabilities to support the future growth of the business. The Board will continue to focus on providing strategic direction, overseeing corporate governance and reviewing the performance of the business, all with the view of creating and sustaining shareholder value.


skills x passion x
knowledge
= success² (∞)
(π² x Σ²) - (∞)
= πΣ²

MARK BURGESS

WE ARE A UNIQUE BUSINESS AND PROVIDE A STRONG VALUE PROPOSITION. WE HAVE A FANTASTIC AND DEDICATED TEAM OF HIGHLY CAPABLE PEOPLE AT QUICKSTEP AND I AM EXTREMELY PROUD OF THEIR EFFORTS THROUGHOUT FY2019.

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 2019. 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. T H J Quick
Mr. M H Burgess
Mr. J C Douglas
Mr. B A Griffiths

Mrs. L Heywood was appointed a Director on 21 February 2019 and continues in office at the date of this report.

Mrs. E Mannes was appointed a Director on 22 August 2019 and continues in office at the date of this report.

Principal Activities

During the year the principal continuing 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 Joint Strike Fighter vertical tails for BAE Systems and Marand Precision Engineering
- manufacturing and development of parts using Qure technology
- continued development of technologies for scaled volume production

Review of Operations

Total sales for the year ended 30 June 2019 were $73.3 million (FY18 $59.0 million) representing a 24.2% increase year on year. The increase is attributable to ongoing growth in Joint Strike Fighter (JSF) program volumes towards full rate production. We anticipate full rate production to be achieved during FY20. Total revenue from JSF was $53.0 million (FY18 $38.5 million).

The operating profit for FY19 of $3.9 million is a $5.2 million improvement on FY18 including an improvement in gross profit of $7.0 million, $1.9 million increase in Corporate costs, and $0.4 million decrease in Research and Business Development (BD) expenses. The investment in BD has resulted in a healthy pipeline of near term opportunities with significant new business awards anticipated in FY20.

The maiden full year profit of $2.7 million achieved in FY19 represents an improvement of $5.6 million on prior year comprising the $5.2 million increase in operating profit, a $1 million tax benefit recognized for the first time, partially offset by a $0.6 million increase in foreign exchange losses, resulting from the comprehensive hedge policy.

Cash from operating activities for FY19 of $0.4 million is a $1.1 million improvement on FY18 and includes a $4.6 million year on year increase in EBITDA partially offset by increased investment in working capital to support growth in the JSF program. FY19 capital expenditure of $2.2 million (net of grants $2.9 million) has been invested to increase capacity, improve operational efficiency and provide new capability, such as the flare housing manufacturing equipment.

Net debt has decreased by $9.6 million to $0.3 million over the 12 months to 30 June 2019 with total debt outstanding $8.4 million as at 30 June 2019. The reduction in debt has been funded by improved profitability and operating cash flow as well as capital raised in FY19 through a Share Placement Plan ($10.1 million) and a Share Purchase Plan ($1.6 million) net of fees.

Directors' Report

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 (2018 $Nil).

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the Group during the financial year were as follows-

Contributed equity increased by $11,667,000 (from $109,118,000 to $ 120,785,000) as a result of the issue of shares under a Share Placement Plan and a Share Purchase Plan. Details of the changes to contributed equity are disclosed in Note C.5 to the financial statements.

The net cash received from the increase in contributed equity has strengthened the group's balance sheet to allow flexibility to accelerate future growth projects and reduce the company's level of debt.

Events Since the end of the Financial Year

No matter or circumstance has arisen since 30 June 2019 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 (2018 25,000,000) unissued ordinary shares of Quickstep Holdings Limited under option at the date of this report, the options which existed at 30 June 2018 lapsed on 31 December 2018.

No options were granted during the year, and no options granted in prior years were exercised during the year ending 30 June 2019. No other options have been granted 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. Tony H J Quick, MA (Cantab) Chair Independent Non-Executive Director - appointed 14 February 2013	
Experience and expertise	Mr. Quick joined Quickstep following a highly successful career in the aerospace and defence industries. After graduating from Cambridge University, Mr. Quick spent most of his career in International Business Development, Program and Business Management. He joined an Aerospace composites business in 1988 and in 1993 he joined Westland Helicopters in England where he held senior international business development and program management roles. In October 2000 he left Westland to emigrate to Australia and, in 2001, set up GKN Aerospace Engineering Services Pty Ltd to service global demand for engineering services. GKN Aerospace Engineering Services Pty Ltd provided design services to the F-35 Joint Strike Fighter program for Lockheed Martin and Northrop Grumman and grew to employ more than 240 aerospace engineering staff in Australia. He was a Director and General Manager of that company until 2009. Mr. Quick was the Director of the Defence Industry Innovation Centre, Enterprise Connect from 2009 to 2011.	
Special responsibilities	Chair of the board	
Other current Directorships	Chair of DMTC Ltd.	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	922,533

	Mr. Mark H Burgess CEO and Managing Director - appointed 18 May 2017	
Experience and expertise	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. Mr Burgess has held leadership roles of increasing responsibility across Europe, USA, the Middle East and Asia Pacific. 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. 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. He 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	1,763,496

Directors' Report

Information on Directors

	Mr. James C Douglas, LLB, BSc Independent Non-Executive Director - appointed 19 December 2016	
Experience and expertise	Mr. Douglas is Chair of Australian automotive wheels manufacturer Carbon Revolution and a founder of investment firm Newmarket Capital, a strategic investor in the carbon fibre manufacturing sector. He is also an Investment Director at Acorn Capital. James has over 20 years of global investment banking and financial industry experience and has held former roles as Global Head of Consumer Products at Merrill Lynch, Head of Consumer Products – Americas at UBS and Head of Global Banking Australia & New Zealand at Citi. He holds a LLB and BSc from the University of Melbourne.	
Special responsibilities	Chair of the Audit, Risk and Compliance Committee until 28 February 2019.	
Other current Directorships	Chair of Carbon Revolution Limited. Director of Newmarket Capital.	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	980,401

	Mr. Bruce A Griffiths, OAM Independent Non-Executive Director - appointed 14 February 2013	
Experience and expertise	Mr. Griffiths has had a successful and extensive career, spanning more than 40 years, in the manufacturing industry. He has held a number of senior Executive roles within the industry and has a long history in working with Government. Bruce was awarded the Order of Australia Medal for services to the automotive manufacturing industry and to the community. Previous appointments include: Rail Supplier Advocate from 2009 to 2014, Chair - Futuris Automotive Group (2007-2012), Managing Director - Futuris Automotive Group (1992 -2007), Chair - Air International Thermal Systems (2008-2011), Board Member - AutoCRC (Advanced Automotive Technology Ltd) (Inception -2012), Vice President of the Federation of Automotive Products Manufacturers (FAPM) (1990-2012), Member - Automotive Industry Innovation Council, Advisory Board Member - Enterprise Connect, Chair - Sail Melbourne ISAF Sailing World Cup. Mr. Griffiths' honors include: Order of Australia Medal - 2013, Centenary Medal for Services to the Development of the Auto Industry Policy, Victorian Manufacturing Hall of Fame for services to the Manufacturing Industry.	
Special responsibilities	Chair of the Remuneration, Nomination and Diversity Committee.	
Other current Directorships	Current appointments include: Board Member - Industry Capability Network Limited (ICNL), Director - Carbon Revolution Limited	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	2,009,638

Directors' Report

Information on Directors

	Mrs. Leanne Heywood Independent non executive Director - appointed 21 February 2019	
Experience and expertise	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. 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. Leanne is an experienced leader of transformational change having lead organizational 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. Having worked extensively in high-corruption jurisdictions such as Mongolia and China, Leanne has developed a strong risk and compliance focus. Leanne was named NSW Business Woman of the Year in 2019.	
Special responsibilities	Chair of the Audit, Risk and Compliance Committee from 1 March 2019	
Other current Directorships	Leanne is a Non-Executive Director, Chair of the Audit Committee and member of the Nominations and Remuneration and Related Party committees for Orocobre, an ASX200 lithium Miner with operations in Argentina and a director of Midway Limited, an ASX woodfibre processor and exporter with operations in Australia, New Zealand and Asia. She is also a Director and Chair of the Nominations and Remuneration Committee for the Australian Meat Processor Corporation (AMPC) and a member of the New South Wales Council for Women's Economic Opportunity	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	Nil

	Mrs. Elisabeth Mannes Independent non executive Director - appointed 22 August 2019	
Experience and expertise	Mrs Mannes joined the Quickstep board in July 2019, she is a highly experienced C-Suite executive with an international career that has spanned both the fast-moving consumer and industrial goods industries. She has extensive international and domestic, general and operations management, experience and is currently the Executive General Manager of CHEP Australia Limited which is a wholly owned subsidiary of Brambles Limited (ASX:BXB). Lis brings global leadership skills and has an impressive depth and breadth of experience in operational excellence and business transformations and turnarounds. This has included managing for growth as well as business integrations. Prior to joining CHEP she was Executive General Manger 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 management, Procurement, Operational Excellence and Engineering. She also has a strong compliance focus with deep knowledge of the practice of Quality Assurance and Health & Safety management. She is a Chartered Engineer (CEng) and a Fellow of the UK Institution of Mechanical Engineers (FIMechE). She was a founder board member of the National Association of Women in Operations (NAWO)	
Special responsibilities	Nil	
Other current Directorships	Lis is a director of AG Hicks Limited, a family leisure business in the UK	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	Nil

Directors' Report

Information on Directors

	Mr. Jaime Pinto, B.Com, CA, AIGA **Company Secretary - appointed 20 November 2012**	
Experience and expertise	Mr. Pinto is a Chartered Accountant with over 20 years' experience in both professional practice and commerce. He has held senior finance roles in organisations of varying size and complexity, including small private businesses, large national groups and ASX listed entities. Mr. Pinto holds a Bachelor Degree in Commerce from the University of NSW, is a member of Chartered Accountants ANZ, and an Associate Member of Governance Institute.	
Other current roles	He is currently the Company Secretary of a number of ASX-listed and unlisted companies in the manufacturing, investing, real estate and advisory industries	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	90,000

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.

http://www.quickstep.com.au/files/files/359_QHL_RND_Committee_Charter_-_September_2014.pdf

http://www.quickstep.com.au/files/files/366_QHL_Selection_and_Appointment_of_Directors_Policy_V1_-_02102014.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 2019, and the numbers of meetings attended by each Director were:

	Board Meetings		Audit, Risk and Compliance Committee Meetings		Remuneration, Nomination and Diversity Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
Mr. T H J Quick	19	19	4	4	5	5
Mr. M H Burgess	19	19	-	-	-	-
Mr. J C Douglas	19	19	4	4	5	5
Mr. B A Griffiths	19	18	4	4	5	5
Mrs. L Heywood	7	7	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.

Non-Audit Services

During the financial year, KPMG, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Risk and Compliance Committee, are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons- all non-audit services have been reviewed by the audit and risk committee to ensure they do not impact the impartiality and objectivity of the auditor, and none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

Details of the amounts paid to the auditor of the Group, KPMG, for non-audit services provided during the year are set out below:

	2019 $	2018 $
Grant – Assurances	**9,000**	5,000
Accounting and tax services	**11,745**	24,040
Total Non-Audit Fee	**20,745**	29,040

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 74.

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 2019.

M H Burgess
Director
Sydney, New South Wales

Remuneration Report – Audited

The Directors present the Quickstep Holdings Limited 2019 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**
5. **Key Management Personnel Related Transactions**

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
Non-Executive Directors	
Mr. T H J Quick	Chair
Mr. J C Douglas	Chair of Audit, Risk and Compliance Committee to 28 February 2019
Mr. B A Griffiths	Chair of Remuneration, Nomination and Diversity Committee
Mrs. L Heywood	Chair of Audit, Risk and Compliance Committee from 1 March 2019
Other Key Management Personnel	
Mr. J Pinto	Company Secretary
Ms. J E Courtney-Pitman	Executive General Manager Human Resources
Mr. A J Tilley	Chief Financial Officer
Mr. G Robinson	Executive General Manager Operations from 3 September 2018
Mr. David Doral de la Pena	Executive General Manager Engineering and Technology from 20 May 2019
Mr. R L Mahon	Executive General Manager Engineering and Technology until 19 May 2019

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 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

Certain KMP receive short-term incentives (STI) in cash and/or 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 FY19, nine Corporate KPIs were used, including three financial KPIs (weighting 40%), three KPIs relating to people and safety (weighting 20%), two growth and technology focused KPIs (weighting 25%) and one operational KPI (weighting 15%). The weighting of corporate KPIs used in the determination of an executive's STI ranged from 70% for KMP excluding the Chief Executive Officer to 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 FY19 there was one financial and one safety 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 a STI is payable in respect of FY19.

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 2018 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) and cash with the total value of cash and 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 FY19 and none arose from PRs or DRs.

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 AOAI 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 AOAI. If the AOAI 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 AOAI is also positive, then the following vesting scales will apply to all tranches:

Performance Level	Company's TSR Relative to AOAI Movement of the Performance Period	Vesting %
Below Threshold	< Increase in the AOAI	0%
Threshold	= Increase in the AOAI	25% Pro-rata
	> 100% of AOAI increase & < 110% of AOAI increase	
Target	110% of AOAI increase	50% Pro-rata
	> 110% of AOAI increase & < 120% of AOAI increase	
Stretch and Above	120% of AOAI 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 semi-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. T H J Quick	$126,000	n/a
Mr. J C Douglas	$60,000	$ 5,000
Mr. B A Griffiths	$60,000	$10,000
Mrs. L Heywood	$60,000	$10,000
Mrs. E Mannes	$60,000	n/a

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.

	2019	2018	2017	2016	2015
Profit / (loss) attributable to owners of the company ($000)	**2,693**	(2,891)	(6,662)	(5,785)	(3,937)
Dividends paid	**$nil**	$nil	$nil	$nil	$nil
Operating income ($000)	**73,275**	59,036	51,915	50,128	39,511
Change in share price	**13%**	(22.7%)	(25.4%)	(18.2%)	(12.4%)
Return on capital employed	**14.1%**	(9.4%)	(33.3%)	(8.6%)	(6.1%)

Return on capital employed is calculated as profit/ (loss) before interest and tax (EBIT) divided by total assets less current 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 17	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
Ms. J E Courtney-Pitman	30 March 16	Open	NES	3 months of TFR and pro-rated annual bonus (at Board's discretion)	40	40
Mr. A J Tilley	25 June 18	Open	NES	3 months of TFR and pro-rated annual bonus (at Board's discretion)	40	40
Mr. G Robinson	3 September 18	Open	NES	3 months of TFR and pro-rated annual bonus (at Board's discretion)	40	40
Mr. D Doral de la Pena	20 May 19	Open	NES	3 months of TFR and pro-rated annual bonus (at Board's discretion)	30	40
Mr. R L Mahon	11 January 17	19 May 19	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 / or shares, as a percentage of Total Fixed Remuneration (TFR). The KPIs include company financial objectives, such as sales, profit and cashflow, and other 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 FY19.

(3) NES refers to the National Employment Standard in the Fair Work Act (2009). Under section (3) (ss117-118) an employee is entitled to a minimum notice period depending on length of service and age.

(4) In FY19, for all KMP, the LTI has increased to a maximum 40% of the TFR and the STI cap has increased to a maximum 40% of the TFR. The STI will be payable in a combination of cash and shares weighted 50/50 on the outcome.

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.

	Salary / Fees $	STI (2) $	SGC $	Termination $	LTI Rights (1) $	Total $
Executive Directors						
Mr. M H Burgess	479,469	176,900	20,531	-	212,256	889,156
Non-Executive Directors						
Mr. T H J Quick	126,000	-	-	-	-	126,000
Mr. J C Douglas	63,927	-	6,073	-	-	70,000
Mr. B A Griffiths	70,000	-	-	-	-	70,000
Ms. L Heywood	22,573	-	2,144	-	-	24,717
Other KMPs						
Mr. J Pinto	60,000	-	-	-	-	60,000
Ms. J E Courtney-Pitman	250,000	76,496	25,000	-	49,128	400,624
Mr. A J Tilley	300,768	85,804	25,000	-	27,333	438,905
Mr. G Robinson (4)	208,182	57,482	15,925	-	19,133	300,722
Mr. D Doral de la Pena (4)	31,602	-	2,501	-	-	34,103
Mr. R L Mahon (5)	265,657	77,728	22,916	82,500	144,924	593,725

			2018			
Executive Directors						
Mr. M H Burgess	479,951	148,500	20,049	-	99,503	748,003
Non-Executive Directors						
Mr. T H J Quick	126,000	-	-	-	-	126,000
Mr. J C Douglas	61,163	-	5,811	-	-	66,974
Mr. B A Griffiths	66,250	-	-	-	-	66,250
Mr. N I Ampherlaw	29,167	-	-	-	-	29,167
Mr. P C Cook	26,637	-	2,530	-	-	29,167
Air Marshal E J McCormack (Ret'd)	32,915	-	3,127	-	-	36,042
Other KMPs						
Mr. J Pinto	60,000	-	-	-	-	60,000
Ms. J E Courtney-Pitman	228,182	6,779	20,049	-	24,281	279,291
Mr. R L Mahon	299,951	27,440	20,049	-	17,142	364,582
Mr. A J Tilley (3)	-	-	-	-	-	-
Mr. A R Crane (5)	329,951	20,718	20,049	-	148,117	518,835
Mr. K J Boyle (5)	216,682	(1,926)	20,049	75,831	(9,723)	300,913

(1) LTI rights include the accounting expense attributable to the current year under the IRP.

(2) STI is comprised of an accrued current year cash bonus.

(3) Mr. A J Tilley commenced employment on 25 June 2018 and remuneration for the period of employment in FY18 was considered Immaterial.

(4) Mr. G Robinson commenced employment on 3 September 2018 and Mr. D Doral de la Pena commenced employment on 20 May 2019.

(5) Mr. R J Mahon ceased as a KMP on 19 May 2019 and left the company on 30 June 2019, Mr. K J Boyle ceased as a KMP on 20 April 2018 and Mr. A R Crane ceased as a KMP on 24 June 2018.

Remuneration Report – Audited

3. Share Based Compensation

Long term Incentive - Quickstep Incentive Rights Plan (IRP)

At 30 June 2019 executives have accrued performance rights pursuant to the IRP. Movements in IRP rights during the year are set out below:

	Tranche refer Note	Grant date	FV per right at grant date (a)	First testing date	Balance at 30 June 2018 Number	Granted during the year (b) Number	Issued/ Lapsed during the year Number	Balance at 30 June 2019 Number	Fair Value at grant date $	Cum vesting level
Mr. M H Burgess	CEO 1	01/12/17	$0.047	31/08/18	412,376	-	(412,376)	-	$19,382	100%
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	$0.051	31/08/19	825,248	-	-	825,248	$42,087	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%
Ms. J E Courtney-Pitman	FY16	01/06/16	$0.085	31/08/18	123,737	-	-	123,737	$10,518	0%
Ms. J E Courtney-Pitman	FY17	01/03/17	$0.072	31/08/19	431,719	-	-	431,719	$31,084	0%
Ms. J E Courtney-Pitman	FY18	01/12/17	$0.069	31/08/20	495,050	-	-	495,050	$34,158	0%
Ms. J E Courtney-Pitman	FY19	01/09/18	$0.068	31/08/21	-	1,252,462	-	1,252,462	$85,167	0%
Mr A J Tilley	FY19	01/09/18	$0.068	31/08/21	-	1,457,411	-	1,457,411	$99,104	0%
Mr. G Robinson	FY19	01/09/18	$0.068	31/08/21	-	1,020,187	-	1,020,187	$69,373	0%
Mr. R L Mahon	FY17	01/03/17	$0.072	31/08/19	276,300	-	-	276,300	$19,894	0%
Mr. R L Mahon	FY18	01/12/17	$0.069	31/08/20	633,663	-	-	633,663	$43,723	0%
Mr. R L Mahon	FY19	01/09/18	$0.068	31/08/21	-	1,486,559	-	1,486,559	$101,086	0%
Mr. A R Crane	FY16	01/06/16	$0.085	31/08/18	446,970	-	-	446,970	$37,992	0%
Mr. A R Crane	FY17	01/03/17	$0.072	31/08/19	906,610	-	-	906,610	$65,276	0%
Mr. A R Crane	FY18	01/12/17	$0.069	31/08/20	1,039,604	-	-	1,039,604	$71,732	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 $548,292 (2018 $512,792). 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.

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:

	Included in remuneration(1)	% vested in year (2)	% lapsed in year (2)
Executive Director			
Mr. M H Burgess	176,900	71	29
Other KMP			
Ms. J E Courtney-Pitman	76,496	69	31
Mr. A J Tilley	85,804	67	33
Mr. G Robinson	57,482	64	36
Mr. R L Mahon	77,728	60	40

(1) STI is comprised of an accrued current year cash bonus.

(2) The amounts lapsed are due to the Group performance, personal performance or service criteria not being met in relation to the current financial year.

Financial Statements

Contents

Consolidated Statement of Profit or Loss and other Comprehensive Income

for the year ended 30 June 2019

	Notes	2019 $000	2018 $000
Revenue		**73,275**	59,036
Cost of sales of goods		**(56,907)**	(49,707)
Gross profit		**16,368**	9,329
Other income		**127**	498
Research and development expenses		**(2,158)**	(3,525)
Business development expenses		**(1,876)**	(932)
Corporate and administrative expenses		**(8,598)**	(6,689)
Profit/ (loss) from operating activities		**3,863**	(1,319)
Finance income	C.2	**24**	150
Finance expenses	C.2	**(2,183)**	(1,722)
Net finance costs		**(2,159)**	(1,572)
Profit/ (loss) before income tax		**1,704**	(2,891)
Income tax benefit	B.5	**989**	-
Profit/ (loss) for the year		**2,693**	(2,891)
Other comprehensive income/ (loss) net of income tax			
Item that may be reclassified to profit or loss			
Cash flow hedges		**(96)**	239
Exchange difference on translation of a foreign operation		**(2)**	(36)
Other comprehensive income for the period, net of income tax		**(98)**	203
Total comprehensive income/ (loss) for the year		**2,595**	(2,688)
Profit/ (loss) per share:		**Cents**	Cents
Basic profit/ (loss) per share	B.3	**0.44**	(0.51)
Diluted profit/ (loss) per share	B.3	**0.44**	(0.51)

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 2019

	Notes	2019 $000	2018 $000
ASSETS			
Current assets			
Cash and cash equivalents	B.4	7,333	2,862
Derivative financial instruments	C.3	143	239
Term deposits	C.4	810	810
Trade and other receivables	D.1	6,853	4,451
Prepayment and other assets		554	556
Inventories	D.2	8,461	10,015
Contract revenue assets	D.4	9,832	-
Total current assets		33,986	18,933
Non-current assets			
Property, plant and equipment	D.5	14,808	13,237
Intangibles		40	20
Deferred tax asset	B.5	989	-
Total non-current assets		15,837	13,257
Total assets		49,823	32,190
LIABILITIES			
Current liabilities			
Trade and other payables		14,349	8,963
Loans and borrowings	C.1	3,668	5,658
Contract liability	D.3	3,160	2,394
Employee benefit obligations	E.1	1,360	1,179
Total current liabilities		22,537	18,194
Non-current liabilities			
Loans and borrowings	C.1	4,787	7,900
Employee benefit obligations	E.1	461	310
Total non-current liabilities		5,248	8,210
Total liabilities		27,785	26,404
Net assets		22,038	5,786
EQUITY			
Share capital	C 5	120,785	109,118
Reserves		5,318	4,573
Accumulated losses		(104,065)	(107,905)
Total equity		22,038	5,786

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 2019

	Share capital $000	Foreign currency translation reserve $000	Cash flow hedges reserve $000	Share based payments $000	Accumulated losses $000	Total equity $000
2019						
Balance at 1 July 2018	**109,118**	**(271)**	**239**	**4,605**	**(107,905)**	**5,786**
Adjustment on initial application of AASB 15 Refer Note F.6	-	-	-		**1,147**	**1,147**
Adjusted balance at 1 July 2018	**109,118**	**(271)**	**239**	**4,605**	**(106,758)**	**6,933**
Profit for the year	-	-	-	-	**2,693**	**2,693**
Other comprehensive (loss)						
Foreign currency translation difference for foreign operations	-	**(2)**	-	-	-	**(2)**
Effective portion of changes in fair value of cash flow hedges	-	-	**(96)**	-	-	**(96)**
Total comprehensive income/ (loss) for the year	-	**(2)**	**(96)**	-	**2,693**	**2,595**
Transactions with owners of the company: Share based payments expenses	-	-	-	**843**	-	**843**
Contributions of equity net of transaction costs	**11,667**	-	-	-	-	**11,667**
Balance at 30 June 2019	**120,785**	**(273)**	**143**	**5,448**	**(104,065)**	**22,038**

	Share capital $000	Foreign currency translation reserve $000	Cash flow hedges reserve $000	Share based payments $000	Accumulated losses $000	Total equity $000
2018						
Balance at 1 July 2017	109,118	(235)	-	4,312	(105,014)	8,181
Loss for the year	-	-	-	-	(2,891)	(2,891)
Other comprehensive (loss)/ income						
Foreign currency translation difference for foreign operations	-	(36)	-	-	-	(36)
Effective portion of changes in fair value of cash flow hedges	-	-	239	-	-	239
Total comprehensive (loss)/ income for the year	-	(36)	239	-	(2,891)	(2,688)
Transactions with owners of the company: Share based payments expenses	-	-	-	293	-	293
Balance at 30 June 2018	109,118	(271)	239	4,605	(107,905)	5,786

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 2019

	Notes	2019 $000	2018 $000
Cash flows from operating activities			
Cash receipts in course of operations		**68,098**	58,448
Interest received		**24**	24
Interest paid		**(759)**	(358)
Other income		**127**	498
Cash payments in the course of operations		**(67,127)**	(59,295)
Net cash from /(used in) operating activities	B. 4	**363**	(683)
Cash flows from investing activities			
Acquisition costs of plant and equipment and intangible assets		**(5,101)**	(1,165)
Proceeds from customer funding and government grants for capital works		**2,895**	141
Receipts from /(investment in) restricted cash and term deposit		**-**	(92)
Net cash (used in) investing activities		**(2,206)**	(1,116)
Cash flows from financing activities			
Proceeds from borrowings		**5,250**	6,000
Repayment of borrowings		**(10,372)**	(4,715)
Payment of borrowing costs		**(301)**	(310)
Proceeds from issues of shares net of costs		**11,667**	-
Net cash from financing activities		**6,244**	975
Net increase /(decrease) in cash and cash equivalents		**4,401**	(824)
Cash and cash equivalents at the beginning of the financial year		**2,862**	3,722
Effects of exchange rate changes on cash and cash equivalents		**70**	(36)
Cash and cash equivalents at end of period	B. 4	**7,333**	2,862

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 2019

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.

This is the first set of the Group's Financial Statements in which *AASB 15 Revenue from Contracts with Customers* and *AASB 9 Financial Instruments* have been applied. Changes to significant policies are described in Note F. 6.

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 2019.

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 2019

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:

Assessment of Useful Life of Fixed Assets- Plant and Machinery

During the financial year ended 30 June 2019 the Group carried out an assessment on the remaining useful life of the Group's plant and equipment. The Board took into account engineering input and have determined that the useful life remaining of plant and equipment be extended, resulting in reduced annual depreciation charges. The impact of the revision of useful life is an increase in profit for the financial year ended 30 June 2019 of $860,000

Going concern

The Group has generated a profit after tax for the year ended 30 June 2019 of $2,693,000 (2018 loss of $2,891,000). The Group has net assets of $22,038,000 (2018 $5,786,000) and net current assets of $11,449,000 (2018 $739,000). Current loans and borrowings are $3,668,000 (2018 $5,658,000). Operating cash inflow for the year was $363,000 (2018 operating cash outflow $683,000) including R&D investment of $2,158,000.

Profitability has improved compared to FY18 which can be attributed to the impact of the lean manufacturing program, an ongoing focus on cost control, an increase in volumes on the JSF program and a $860,000 non-cash benefit from the revision of asset useful lives.

The reduction in debt has been funded by improved profitability and operating cash flow as well as capital raised in 2019 through a Share Placement Plan ($10.1 million) and a Share Purchase Plan ($1.6 million), net of fees.

A $4,000,000 short term working capital facility with Efic has been renewed to support further JSF volume growth in FY20 and is available to draw upon until 30 September 2020. This facility is undrawn as at 26 August 2019.

The Directors consider that there is a basis to expect the Group will be able to meet its commitments due to the improved financial performance during FY19 that is expected to continue in FY20 with further increased volumes on the JSF program and continued ongoing focus on cost control and working capital, as well as available unused financing facilities. Accordingly, the financial report has been prepared on the basis of a going concern.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

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 2019 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 recognized 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 recognized 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 2019

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

The key performance measures for the year were:

	2019 $000	2018 $000
Revenue	**73,275**	59,036
EBITDA	**5,815**	1,183
EBIT before research and business development expenses	**7,897**	3,138
EBIT	**3,863**	(1,319)
Net profit/ (loss)	**2,693**	(2,891)

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 effect of initially applying AASB15 on the Group's revenue from contracts with customers is described in Note F.6. Due to the transition method chosen in applying AASB15, comparative information has not been restated to reflect the new requirements.

To the extent to which amounts are received in advance of the provision of the related services, 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.

Government grants

Grants from the government that compensate the Group for expenses incurred are recognised in the profit and loss when funds are received, and the Group has complied with all grant conditions.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

B. Business Performance

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.

	2019 $000	2018 $000
Revenue:		
United States of America	**57,422**	50,850
Australia	**15,853**	8,186
Other	**-**	-
Total	**73,275**	59,036
Non-current assets:		
United States of America	**-**	-
Australia	**15,837**	13,257
Other	**-**	-
Total	**15,837**	13,257

Program Information

	2019 $000	2018 $000
Revenue:		
Joint Strike Fighter	**52,989**	38,537
Other	**20,286**	20,499
Total	**73,275**	59,036

Major Customers

78.4% (2018 86.1%) 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 2019

B. Business Performance

B.3 Profit/ (Loss) per Share

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

	2019 $	2018 $
Profit/ (loss) attributable to ordinary shareholders	**2,693,000**	(2,891,000)

	2019 Number	2018 Number
Weighted average number of ordinary shares:		
Shares at 1 July 2018	**562,880,792**	562,880,792
Shares issued during the year	**42,825,750**	-
Weighted average number of shares used as the denominator in calculating basic earnings per share	**605,706,542**	562,880,792
Adjustment for calculation of diluted earnings per share		
Under share based payment arrangements	**4,306,407**	-
Weighted average number of shares used as the denominator in calculating diluted earnings per share	**610,012,949**	562,880,792
Basic profit /(loss) cents per share	**0.44**	(0.51)
Diluted profit /(loss) cents per share	**0.44**	(0.51)

Rights granted under IRP which have passed their first testing date and 50% of FY19 STI 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 2019

B. Business Performance

B.4 Notes to Statement of Cash Flows

Cash and Cash Equivalents

	2019 $000	2018 $000
Cash at bank and in hand	**7,333**	2,862

Reconciliation of Net Profit to Net Cash Provided by Operating Activities

	2019 $000	2018 $000
Profit /(loss) for the period	**2,693**	(2,891)
Adjustments for:		
Amortisation of intangibles	**17**	24
Depreciation and grant amortisation	**1,935**	2,478
Share based payment expense	**843**	293
Loss on disposal of non-current assets	**-**	79
Net foreign currency losses	**1,104**	505
Change in fair value of share option liability	**-**	(125)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	**(2,402)**	1,841
Decrease in prepayments and other assets	**2**	79
Decrease in inventories	**1,554**	584
(Increase) in contract revenue asset	**(8,685)**	-
(Increase) in deferred tax asset	**(989)**	-
Increase/(decrease) in trade and other payables	**2,873**	(1,888)
Increase/(decrease) in contract liability	**766**	(2,508)
Decrease in prepaid interest	**320**	705
Increase in employee benefits	**332**	141
Net cash from/ (used in) operating activities	**363**	(683)

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

B. Business Performance

B.5 Income Tax Expenses

Reconciliation of Income Tax Expense

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

	2019 $000	2018 $000
Profit /(loss) from continuing operations	**1,704**	(2,891)
Tax expense / (benefit) at the Australian tax rate of 30.0% (2018 - 30.0%)	**511**	(867)
Expenditure not allowable for income tax purposes	**157**	90
Effect of different tax rate for overseas subsidiaries	**10**	156
Income not assessable	**-**	(38)
Other	**23**	-
Deferred tax asset not brought to account	**(10)**	921
Temporary difference not previously recognised	**1,157**	-
Tax losses recognised	**(2,837)**	-
Prior year adjustment	**-**	(262)
Income tax benefit	**(989)**	-
Current tax	**-**	-
Deferred tax	**(989)**	-

Tax Losses not brought to Account

	2019 $000	2018 $000
The gross amount of unused tax losses for which no deferred tax asset has been recognised	**64,100**	71,947

Temporary Differences not brought to Account

	2019 $000	2018 $000
Deferred tax assets/(liabilities):		
Other provisions	**1,135**	722
Borrowing costs	**4**	38
Deductible capital raising costs	**964**	144
Property, plant and equipment and intangibles	**2,648**	2,275
Deferred tax assets relating to temporary differences not recognised	**4,751**	3,179

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 2019

B. Business Performance

B.5 Income Tax Expenses

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 or loss 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 current year 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 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 $2,837,000 was recognised for the year, of which $1,848,000 has been offset against current year estimate of tax payable.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

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

	2019			2018		
	Current $000	Non-current $000	Total $000	Current $000	Non-current $000	Total $000
Secured bank loan	**2,957**	**2,957**	**5,914**	2,121	5,914	8,035
Capitalised interest facility	**492**	**1,830**	**2,322**	353	1,986	2,339
Accrued borrowing cost	**219**	**-**	**219**	184	-	184
Secured bank loan carrying amount	**3,668**	**4,787**	**8,455**	2,658	7,900	10,558
Short term facility-Efic	**-**	**-**	**-**	3,000	-	3,000
	3,668	**4,787**	**8,455**	5,658	7,900	13,558

Term and Debt Repayment Schedule

			2019	2018
	Effective interest rate	Year of maturity	Maximum facility value $000	Maximum facility value $000
Secured bank loan	6.67%	2021	**10,000**	10,000
Capitalised Interest	6.67%	2021	**3,333**	3,333
Short term facility - Efic	8.50%	2020	**4,000**	7,000

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 and Insurance Corporation (Efic) (Guarantor) to fund certain capital expenditure. The Agreement provides 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 due in October 2021. No further draw down of this facility can be made as the availability period has passed.

Interest will be capitalised until the maximum facility value of $3,333,000 is reached. At 30 June 2019 the interest facility has been drawn to $2,322,000 (2018 $2,339,000). The Company has paid in this financial year an amount of $353,000 (2018 $35,000).

The interest rate on the facility comprises a variable base rate, a fixed margin payable to the Financier and a fixed guarantee fee payable to the Guarantor. Unused limit fees are payable to both the Financier and the Guarantor on the undrawn principal balance.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

C. Capital and Financial Risk Management

C.1 Loans and Borrowings

Short term facility – Efic

Quickstep Holdings Limited executed an Export Contract Loan (ECL) agreement with Efic on 28 June, 2017 and a variation deed dated 28 June 2019. This revolving loan facility is limited to $4,000,000 (2018 $7,000,000) 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 28 September 2020.

The interest rate on the facility is a variable rate calculated as the sum of the base rate plus a margin of 5.50%, payable to Efic quarterly on funds drawn. A commitment fee of 1.5%pa accrues from the date of the agreement and is payable to Efic 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.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

C. Capital and Financial Risk Management

C.2 Finance Income and Finance Expenses

	2019 $000	2018 $000
Finance income		
Interest income	**24**	25
Change in fair value of share option liability	**-**	125
Finance income	**24**	150
Finance expenses		
Interest expense on liabilities measured at amortised cost	**(1,034)**	(1,063)
Foreign currency losses	**(1,104)**	(505)
Other expenses	**(45)**	(154)
Finance expenses	**(2,183)**	(1,722)
Net finance costs	**(2,159)**	(1,572)

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.3 Financial Instruments

	2019 $000	2018 $000
Current assets		
Forward foreign exchange contracts – cash flow hedges	**143**	239

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 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 2019

C. Capital and Financial Risk Management

C.4 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 2019

C. Capital and Financial Risk Management

C.4 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:

	2019 $000	2018 $000
Australia	**2,238**	1,608
United States of America	**4,615**	2,843
	6,853	4,451

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:

	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
At 30 June 2019						
Trade and other payables	**14,349**	**(14,349)**	**(14,349)**	**-**	**-**	**-**
Secured bank loan	**8,455**	**(8,608)**	**(1,725)**	**(1,725)**	**(3,450)**	**(1,708)**
	22,804	**(22,957)**	**(16,074)**	**(1,725)**	**(3,450)**	**(1,708)**
At 30 June 2018						
Trade and other payables	8,963	(8,963)	(8,963)	-	-	-
Secured bank loan	10,558	(11,113)	(750)	(1,725)	(3,450)	(5,188)
Short term facility	3,000	(3,136)	(598)	(2,538)	-	-
	22,521	(23,212)	(10,311)	(4,263)	(3,450)	(5,188)

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

C. Capital and Financial Risk Management

C.4 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 secured loan agreement for a period of 10 years. The facility includes an allowance to defer interest payments up to $3,333,000 with interest to be accrued on any deferred amount. The applicable interest rate is re-set 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:

	2019 $000	2018 $000
Fixed rate instruments		
Held-to-maturity term deposits	**810**	810
Variable rate instruments		
Cash and cash equivalents	**7,333**	2,862
Secured bank loan	**(8,455)**	(10,374)
Short term facility agreement – Efic	**-**	(3,000)
	(1,122)	(10,512)

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
$598,000	2.35%	4 October 2019
$120,000	2.35%	4 October 2019
$91,500	1.60%	31 July 2019

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 FY18.

	2019 $000	2018 $000
Variable rate instruments - increase by 100 basis points	**(9)**	(105)
Variable rate instruments - decrease by 100 basis points	**9**	105

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

C. Capital and Financial Risk Management

C.4 Financial Risk

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:

	2019 USD 000	2019 EUR 000	2019 GBP000	2018 USD 000	2018 EUR 000	2018 GBP 000
Receivables	**3,226**	**-**	**-**	2,101	-	-
Cash	**1,455**	**1**	**-**	403	-	-
Trade payables	**(3,361)**	**-**	**(154)**	(2,870)	(85)	(30)
	1,320	**1**	**(154)**	(366)	(85)	(30)

The following significant exchange rates applied have been applied:

	Average rate		Year-end spot rate	
	2019	2018	2019	2018
AUD v USD	**0.7291**	0.7732	**0.6992**	0.7391
AUD v EUR	**0.6251**	0.6506	**0.6157**	0.6344
AUD v GBP	**0.5575**	0.5765	**0.5515**	0.5634

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 FY18.

	Profit or loss		Equity, net of tax	
Index	2019 $000	2018 $000	2019 $000	2018 $000
US/AUD exchange rate - increase (10%)	**(172)**	45	**(159)**	(67)
US/AUD exchange rate - decrease 10%	**210**	(55)	**194**	82
GBP/AUD exchange rate - increase (10%)	**25**	5	**-**	(5)
GBP/AUD exchange rate - decrease 10%	**(31)**	(6)	**-**	6
EUR/AUD exchange rate - increase (10%)	**-**	12	**879**	791
EUR/AUD exchange rate - decrease 10%	**-**	(15)	**(1,074)**	(967)
	32	(14)	**(160)**	(165)

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 2019

C. Capital and Financial Risk Management

C.5 Share Capital

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, aerospace growth and commercialisation of technology requirements. There were no changes in the Group's approach to capital management during the year.

Movements in Share Capital

	2019 Shares	2018 Shares	2019 $000	2018 $000
Opening balance	**562,880,792**	562,880,792	**109,118**	109,118
Shares issued under share based payments arrangements	**1,147,525**	-	**-**	-
Shares issued under a Share Placement and Share Purchase Plan	**144,470,745**	-	**11,667**	-
Shares issued to Quickstep Employee Exempt Share Plan	**1,808,920**	-	**-**	-
Closing balance	**710,307,982**	562,880,792	**120,785**	109,118

During the year, the Company issued 1,147,525 (2018 Nil) 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.

Options

Movements in unissued shares under option:

	2019 No of options	2018 No of options
Opening balance	**25,000,000**	25,000,000
Options lapsed	**(25,000,000)**	-
Closing balance	**-**	25,000,000

These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

Newmarket Share Options at Fair Value

Newmarket Financing Management Pty Ltd and Associates (Newmarket) holds Nil (2018 25,000,000) options to acquire ordinary shares in Quickstep. These options expired on 31 December 2018.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

C. Capital and Financial Risk Management

C.6 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:

	2019 $000	2018 $000
Property, plant and equipment	**2,355**	796

Other Commitments – Pledged as Collateral against 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 and Insurance Corporation (Efic) (Guarantor) to fund certain capital expenditure. The subsidiary has provided Efic with a fixed and floating charge over the following:

	2019 $000	2018 $000
Cash and cash equivalents	**6,500**	1,954
Trade and other receivables	**16,793**	4,335
Inventories	**8,359**	9,935
Property, Plant and equipment	**13,216**	12,448

Under this agreement, Quickstep Technologies Pty Ltd (Chargor) has agreed to the following restrictions on title on any of the assets over which Efic (Chargee) has a fixed charge. Without the consent of the Chargee, the Chargor may not:

- dispose of the Secured Property,
- lease or license the Secured Property or any interest in it, or deal with any existing lease or licence,
- part with possession of the Secured Property,
- waive any of the Chargor's rights or release any person from its obligations in connection with the Secured Property, or
- deal in any other way with the Secured Property or any interest in it, or allow any interest in it to arise or be varied.

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.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

C. Capital and Financial Risk Management

C.6 Capital and other commitments

Non-Cancellable Operating Leases

The Group leases various premises and IT equipment under non-cancellable operating leases. The leases have varying terms, escalation and renewal rights. On renewal, the terms of the leases are negotiated.

	2019 $000	2018 $000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Less than one year	**2,211**	2,424
Between one and five years	**5,690**	6,192
	7,901	8,616

The operating lease expense for the year ended 30 June 2019 was $2,387,000 (2018 $2,424,000).

Recognition and Measurement

Leases

Payments made under operating leases are recognised in the statement of profit and loss and other comprehensive income on a straight-line basis over the term of the lease.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

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 Liabilities

D.4 Contract Assets

D.5 Property, Plant and Equipment

D.1 Trade and Other Receivables

	2019 $000	2018 $000
Current assets		
Trade receivables	**6,305**	3,971
Other receivables	**548**	480
	6,853	4,451

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 2019

D. Operating Assets and Liabilities

D.2 Inventories

	2019 $000	2018 $000
Current assets		
Raw materials and consumables	**8,445**	4,919
Work in progress	**3**	4,261
Finished goods	**13**	835
	8,461	10,015

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 Liability

	2019 $000	2018 $000
Current	**3,160**	2,394

The amount reported as 2019 contract liability represents a 50% advance payment from Lockheed Martin Aeronautics Co for long lead time materials for C-130J wing flaps, income will be recognised by September 2019.

D.4 Contract Assets

	2019 $000	2018 $000
Current	**9,832**	-

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 2019

D. Operating Assets and Liabilities

D.5 Property, Plant and Equipment

	Plant and equipment $000	Assets under construction $000	Office furniture & equipment $000	Total $000
2019				
Opening net book amount	**12,520**	**574**	**143**	**13,237**
Additions	**-**	**6,401**	**-**	**6,401**
Customer and government funding received		**(2,895)**	**-**	**(2,895)**
Transfers from assets under construction	**1,618**	**(1,842)**	**224**	**-**
Amortisation of grant	**406**	**-**	**-**	**406**
Depreciation charge	**(2,271)**	**-**	**(70)**	**(2,341)**
Closing net book amount	**12,273**	**2,238**	**297**	**14,808**
Cost	**33,774**	**2,238**	**949**	**36,961**
Accumulated depreciation	**(21,501)**	**-**	**(652)**	**(22,153)**
2018				
Opening net book amount	13,847	782	124	14,753
Additions	-	1,165	-	1,165
Government grant received	(141)	-	-	(141)
Transfers from assets under construction	1,285	(1,373)	88	-
Effect of movements in exchange rates	(37)	-	(25)	(62)
Amortisation of grant	488	-	-	488
Depreciation charge	(2,922)	-	(44)	(2,966)
Closing net book amount	12,520	574	143	13,237
Cost	32,156	574	725	33,455
Accumulated depreciation	(19,636)	-	(582)	(20,218)

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

D. Operating Assets and Liabilities

D.5 Property, Plant and Equipment

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.

During the financial year ended 30 June 2019 the Group carried out an assessment on the remaining useful life of the Group's plant and equipment. The Board took into account engineering input and have determined that the useful life remaining of plant and equipment be extended, resulting in reduced annual depreciation charges. The impact of the revision of useful life is an increase in profit for the financial year ended 30 June 2019 of $860,000.

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

Class of Asset	Depreciation Rates from 1 July 2018	Depreciation Rates – prior years
Plant and factory equipment	4% to 51%	6.67% to 37.50%
Office equipment	3% to 52%	6.67% to 50.00%

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.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

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

	2019 $000	2018 $000
Employee benefit obligation		
- Annual leave (current)	**1,360**	1,179
- Long service leave (non-current)	**461**	310
	1,821	1,489

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 expected future wage and salary levels, 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

	2019 $000	2018 $000
Wages and salaries	**21,263**	20,001
Defined contribution plan expense	**1,963**	1,588
Increase in leave liabilities	**332**	141
Share based payments expense	**843**	293
	24,401	22,023

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

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 and other transactions, 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:

	2019 $000	2018 $000
Short-term employee benefits	**2,549**	2,273
Share-based payments	**453**	279
Termination benefits	**83**	76
	3,085	2,628

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

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for the year ended 30 June 2019

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) and cash with the total value of cash and 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 2019 an expense of $843,000 (2018 $293,000), 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 CEO Performance Rights

Tranche	CEO Transition 1	CEO Transition 2
Grant date	01/12/17	01/12/17
First testing date	31/08/18	31/08/19
Expiry date	31/08/20	31/08/19
Share price at grant date	$0.089	$0.089
Expected life (years)	0.7	1.7
Risk free factor	1.66%	1.76%
Volatility of QHL	40%	40%
Volatility of AOAI	12%	12%
Dividend yield	0%	0%

In Relation to Performance Rights

Tranche	3	FY15	FY15(a)	FY16	FY17	FY18	FY19
Grant date	16/02/15	31/08/14	19/02/15	01/06/16	01/03/17	01/12/17	01/09/18
First testing date	31/08/17	31/08/17	31/08/17	31/08/18	31/08/19	31/08/20	31/08/21
Expiry date	31/08/19	31/08/19	31/08/19	31/08/20	31/08/21	31/08/22	21/08/23
Share price at grant date	$0.20	$0.185	$0.20	$0.14	$0.105	$0.089	$0.091
Expected life (years)	2.9	3.3	2.9	2.7	2.9	3.1	3.3
Risk free factor	1.86%	2.69%	1.83%	1.65%	1.97%	1.93%	2.03%
Volatility of QHL	55%	55%	55%	45%	40%	40%	40%
Volatility of AOAI	12%	12%	12%	15%	13%	12%	12%
Dividend yield	0%	0%	0%	0%	0%	0%	0%

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

E. Employee Benefits

E.4 Quickstep Incentive Rights Plan (IRP)

Rights

Movements in unissued shares under rights:

	2019 No of rights	2018 No of rights
Opening balance	**16,786,876**	11,059,693
Granted during the year	**10,890,691**	7,419,773
Rights vested	**(412,376)**	-
Rights forfeited/lapsed	**(2,773,473)**	(1,692,590)
Closing balance	**24,491,718**	16,786,876

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/or 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 FY19 735,149 (2018 Nil) shares were issued to employees.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

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 Subsequent Events
F.6 Changes to significant accounting policies
F.7 New Accounting Standards not yet adopted

F.1 Group Entities

Name of entity	Country of Incorporation	Ownership Interest 2019 %	Ownership Interest 2018 %
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

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

F.2 Parent Entity Financial Information

As at, and throughout, the financial year ending 30 June 2019 the parent entity of the Group was Quickstep Holdings Limited.

	2019 $000	2018 $000
Results of the parent entity		
(Loss) /profit for the year	**(5,032)**	21
Total Comprehensive income	**(5,032)**	530
Financial position of the parent entity at year end		
Total assets	**2,977**	5,031
Total liabilities	**(2,843)**	(4,259)
Net assets / (liabilities)	**134**	772
Total equity of the parent entity comprises		
Share capital	**120,785**	109,118
Reserves	**6,119**	5,276
Accumulated losses	**(126,770)**	(113,622)
Total equity	**134**	772

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

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.

	2019 $000	2018 $000
Statement of Profit and Loss and other Comprehensive Income		
Revenue	73,275	59,036
Profit /(loss) before income tax	1,778	(8,318)
Income tax benefit	989	-
Profit /(loss) for the year	2,767	(8,318)
Other comprehensive income		
Items that might be reclassified to profit or loss		
Cash flow hedges	(96)	239
Total comprehensive profit /(loss) for the year	2,671	(8,079)
Balance Sheet		
ASSETS		
Current assets		
Cash and cash equivalents	7,276	2,862
Derivative financial instruments	143	239
Term deposits	810	810
Trade and other receivables	6,851	4,423
Revenue contract asset	9,832	-
Prepayment and other assets	518	533
Inventories	8,461	10,015
Total current assets	33,891	18,882
Non-current assets		
Property, plant and equipment	14,808	13,237
Intangibles	40	20
Deferred tax asset	989	-
Total non-current assets	15,837	13,257
Total assets	49,728	32,139
LIABILITIES		
Current liabilities		
Trade and other payables	12,998	7,619
Loans and borrowings	3,668	5,658
Deferred revenue	3,160	2,394
Employee benefit obligations	1,360	1,179
Total current liabilities	21,186	16,850
Non-current liabilities		
Loans and borrowings	4,787	7,900
Employee benefit obligations	461	310
Total non-current liabilities	5,248	8,210
Total liabilities	26,434	25,060
Net assets	23,294	7,079
EQUITY		
Share capital	120,785	109,118
Reserves	6,260	5,515
Accumulated losses	(103,751)	(107,554)
Total equity	23,294	7,079

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

F. Other Disclosures

F.4 Auditor's Remuneration

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

	2019 $	2018 $
Audit services	**216,000**	209,500
Other services		
Grant assurance	**9,000**	5,000
Accounting and tax services	**11,745**	24,040
Total non-audit fee	**20,745**	29,040
	236,745	238,540

F.5 Subsequent Events

There have been no matters or circumstances that have arisen since 30 June 2019 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.

F. 6 Changes in Significant Accounting Policies

Except as described below, the accounting policies applied in these consolidated financial statements are the same as those applied in the Group's consolidated financial statements as for the year ended 30 June 2018.

The Group has initially adopted AASB 15 *Revenue from Contracts with Customers.* A number of other new standards are effective from 1 July 2018, such as AASB9 *Financial Instruments*, but they do not have a material effect on the Group's financial statements.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It has replaced AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations.

Under AASB 118, revenue for made-to-order parts was recognised when the goods were delivered to the customers' premises, which was taken to be at the point in time at which the customer accepted the goods and the related risks and rewards of ownership transferred.

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 tc contractual terms. Uninvoiced amounts are presented as contract assets.

The Group has adopted AASB 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application, 1 July, 2018. Accordingly, the information presented for the year ended 30 June 2018 has not been restated – i.e. it is presented, as previously reported, under AASB 118, AASB 111 and related interpretations.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

F. Other Disclosures

F. 6 Changes in Significant Accounting Policies

AASB 15 Revenue from Contracts with Customers

The following table summarises the impact, net of tax, of transition to AASB 15 on the consolidated balance sheet as at 1 July 2018

Impact on Opening Consolidated Balance Sheet at 1 July 2018

	June 2018 As reported $000	Impact of adopting AASB 15 $000	1 July 2018 opening $000
ASSETS			
Current assets			
Cash and cash equivalents	**2,862**	-	2,862
Derivative financial instruments	**239**	-	239
Term deposits	**810**	-	810
Trade and other receivables	**4,451**	-	4,451
Prepayment and other assets	**556**	-	556
Contract revenue assets	**-**	6,289	6,289
Inventories	**10,015**	(5,142)	4,873
Total current assets	**18,933**	1,147	20,080
Non-current assets	**13,257**	-	13,257
Total assets	**32,190**	1,147	33,337
LIABILITIES			
Total liabilities	**26,404**	-	26,404
Net assets	**5,786**	1,147	6,933
EQUITY			
Share capital	**109,118**	-	109,118
Reserves	**4,573**	-	4,573
Accumulated losses	**(107,905)**	1,147	(106,758)
Total equity	**5,786**	1,147	6,933

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

F. Other Disclosures

F. 6 Changes in Significant Accounting Policies

AASB 15 Revenue from Contracts with Customers

The following tables summarises the impact of adopting AASB 15 on the Group's consolidated balance sheet as at 30 June 2019 and its consolidated statement of profit or loss and other comprehensive income for the year then ended for each of the lines affected. There was no material impact on the Group's consolidated statement of cash flows for the year ended 30 June 2019.

Impact on Consolidated Balance Sheet as at 30 June 2019

	June 2019 reported $000	Impact of adopting AASB 15 $000	June 2019 without adoption of AASB 15 $000
ASSETS			
Current assets			
Cash and cash equivalents	**7,333**	-	7,333
Derivative financial instruments	**143**	-	143
Term deposits	**810**	-	810
Trade and other receivables	**6,853**	-	6,853
Contract revenue assets	**9,832**	9,832	-
Prepayment and other assets	**554**	-	554
Inventories	**8,461**	(7,664)	16,125
Total current assets	**33,986**	2,168	31,818
Non-current assets	**15,837**	-	15,837
Total assets	**49,823**	2,168	47,655
LIABILITIES			
Total liabilities	**27,785**	-	27,785
Net assets	**22,038**	2,168	19,870
EQUITY			
Share capital	**120,785**	-	120,785
Reserves	**5,318**	-	5,318
Accumulated losses	**(104,065)**	2,168	(106,233)
Total equity	**22,038**	2,168	19,870

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

F. Other Disclosures

F. 6 Changes in Significant Accounting Policies

AASB 15 Revenue from Contracts with Customers

Impact on Consolidated Statement of Profit and Loss and other Comprehensive Income for the year ended 30 June 2019

	June 2019 reported $000	Impact of adopting AASB 15 $000	June 2019 without adoption of AASB 15 $000
Revenue	**73,275**	3,543	69,732
Cost of sales of goods	**(57,227)**	(2,522)	(54,705)
Gross profit	**16,048**	1,021	15,027
Other income	**127**	-	127
Research and development expenses	**(2,150)**	-	(2,150)
Business development expenses	**(1,744)**	-	(1,744)
Corporate and administrative expenses	**(8,418)**	-	(8,418)
Profit from operating activities	**3,863**	1,021	2,842
Finance income	**24**	-	24
Finance expenses	**(2,183)**	-	(2,183)
Net finance costs	**(2,159)**	-	(2,159)
Profit before income tax	**1,704**	1,021	683
Income tax benefit	**989**		989
Profit for the financial year	**2,693**	1,021	1,672
Other comprehensive income net of income tax			
Item that may be reclassified to profit or loss			
Cash flow hedges	**(96)**	-	(96)
Exchange difference on translation of a foreign operation	**(2)**	-	(2)
Other comprehensive income for the period, net of income tax	**(98)**	-	(98)
Total comprehensive income for the financial year	**2,595**	1,021	1,574

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

F. Other Disclosures

F. 7 New accounting standards not yet adopted

A number of new standards and amendments to standards are effective for annual accounting periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

Of the standards that are not yet effective, AASB 16 is expected to have a material impact on the Group's consolidated financial statements.

AASB 16 Leases

AASB 16 replaces existing leases guidance, including AASB 117 Leases, Interpretation 4 Determining whether an Arrangement contains a Lease, Interpretation 115 Operating Leases – Incentives and Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 July 2019.

AASB 16 introduces a single, on-balance sheet lease accounting model for leases. A leasee recognises a right-of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

The Group plans to adopt AASB 16 using the modified retrospective method, with the cumulative effect of initially applying this standard to be recognised as an adjustment to opening retained earnings at 1 July 2019, with no restatement of comparatives. As a result, the Group will apply the requirements of AASB 16 for the first time in the 2020 half-year Financial Report.

Based on the current assessment, upon adoption of AASB 16, total assets will increase by $13.7 to $16.2 million and total liabilities will increase by $18.6 to $21.8 million, due to the recognition of a Right of Use Asset and a Lease Liability; grossing up the assets and liabilities in the Consolidated Balance Sheet as at 1 July 2019.

The adjustment for AASB 16 will have a positive impact on EBITDA as the costs of operating leases (previously recognised as part of EBIT expensed over the term of the lease) will now be excluded from EBITDA as lease costs will be recognised separately in depreciation (for the right of use assets) while interest on lease liabilities will be disclosed as part of financing costs.

Directors' Declaration

for the year ended 30 June 2019

In the Directors' opinion:

(a) the consolidated financial statements and notes set out on pages 35 to 72 and the Remuneration report on pages 18 to 25 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 2019 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 2019.

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 2019
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 year ended 30 June 2019 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.

KPMG

KPMG

Charmaine Hopkins
Partner

Sydney, 26 August 2019

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 2019 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 2019
- 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
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of 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* (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.

KPMG

<table>
<tr><th colspan="2">Key Audit Matters</th></tr>
<tr><th colspan="2">Revenue recognition</th></tr>
<tr><td colspan="2">Refer to Note B.1 to the Financial Report ($73,275,000)</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The Group generates revenue through sale of goods to customers under long term contract arrangements and is recognised over time based on performance completed to date of individual purchase orders.

We focused on this 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.

In addition to the above, the transition to the new accounting standard AASB 15 Revenue from contracts with customers (AASB 15) (with effect from 1 July 2018 for the Group) has resulted in additional disclosure of the transition adjustments. We focussed on the transitional disclosures as a key audit matter due to the audit effort required from the:

• complex nature of the changes to the accounting standard and the impact on long term contract accounting requiring senior team involvement; and

• consideration of consistency in application of AASB 15 across the contracts of the Group.</td><td>Our procedures included:

• We obtained an understanding of the Group's process for revenue recognition and deferral of advanced payments and assessed the Group's revenue recognition policy in accordance with the accounting standards;

• We tested a statistical sample of revenue transactions recognised during the year and checked the recognition of revenue against underlying invoices to customers, customer signed dispatch dockets or evidence of delivery.

• We selected a sample of pre and post year end revenue transactions and checked the recognition of revenue in the correct period against underlying invoices to customers, customer signed dispatch dockets or evidence of delivery.

• We selected a sample of advanced payment receipts from customers and checked to the Group's bank statements. For a sample of revenue transactions we checked the release of deferred revenue against underlying invoices to customers, signed dispatch dockets or evidence of delivery.

• We selected a sample of transactions forming part of purchase orders in progress and checked to actual labour and materials performance completed to date.

• For a sample of contracts, we compared the relevant features of the underlying contracts to the criteria in the AASB 15 accounting standard, those in the Group's policy, and against what the Group identified as performance obligations.

• We assessed the new disclosures relating to the adoption of AASB 15 against the requirements of the accounting standard and evidence obtained from our procedures above.</td></tr>
</table>

KPMG

Going concern basis of accounting	
Refer to Note A to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**

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 determined it appropriate to prepare 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 material uncertainty casting significant doubt on the Group's ability to continue as a going concern.
 	
We critically assessed the levels of uncertainty, as it 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;
 	
• the Group's ability to raise additional funds from shareholders or other parties; and
 	
• the Group's planned levels of capital expenditure and research and development spending, and the ability of the Group to achieve cash outflows within available funding
 	
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.
	Our procedures included:
	
	• We analysed 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 and capital 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;
	
	• We assessed significant non-routine forecast cash inflows and outflows including 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 have checked the funds received from the capital raise to the Group's bank statements; and
	
	• We evaluated 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.

KPMG

Recognition of deferred tax assets relating to tax losses	
Refer to Note B.5 to the Financial Report ($989,000)	
The key audit matter	**How the matter was addressed in our audit**
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. This is a key audit matter due to: • The high level of judgement required by us in evaluating the Group's assessment on the probability sufficient taxable income will be generated in the future, given the Group's history of tax losses; and • The judgement required by us in evaluating the Group's interpretation of tax legislation requirements particularly on the treatment of grant income amounts received during the period. These factors increase the risk associated with accurately forecasting future taxable income and create complexity in our work on the recoverability of the DTA. We involved our tax specialists and senior audit team members in assessing this key audit matter.	Our procedures included: • Involved our tax specialists in assessing the groups continuity of ownership assessment and the tax loss availability for consistency with regulatory parameters and legislation; • Involved our tax specialists in assessing the Groups tax treatment of grant income amounts received in accordance with the relevant tax legislation; • Compared 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; and • 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.

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.

KPMG

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
- 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 ar Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.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 2019 complies with *Section 300A* of the *Corporations Act 2001*.

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 26 to 33 of the Directors' report for the year ended 30 June 2019.

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

KPMG

KPMG

Charmaine Hopkins
Partner
Sydney
26 August 2019

Shareholder Information

for the year ended 30 June 2019

The shareholder information set out below was applicable as at 31 July 2019.

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

Substantial holders in the Company are set out below:

C. On Market buy back

There is no current on-market buy back.

D. Distribution schedules

Distribution of each class of security as at 31 July 2019:

Ordinary fully paid shares

Range	Holders	Units	%
1 - 1,000	234	10,872	0.02
1,001 - 5,000	148	494,470	0.07
5,001 - 10,000	582	5,119,866	0.72
10,001 - 100,000	2,461	96,204,833	13.54
100,001 - Over	773	608,477,941	85.66
Total	4,196	710,307,982	

Options exercisable at the lesser of $0.25 or 25% above the issue price of any equity capital raising up to $10M undertaken prior to 31 December 2019 (unlisted).

Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 – Over	-	-	-
Total	-	-	-

E. Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being $500 parcel at $0.0890 per share):

Holders	Units
429	787,737

Shareholder Information

for the year ended 30 June 2019

D. Top holders

The 20 largest registered holders of each class of quoted security as at 31 July 2019 were:

Rank	Holder Name	Securities	%
1	Washington H Soul Pattinson And Company Limited	89,419,161	12.59
2	HSBC Custody Nominees (Australia) Limited	40,636,365	5.72
3	Deakin University	33,333,333	4.59
4	Merrill Lynch(Australia) Nominees PL	32,194,437	4.53
5	JPMorgan Nominees Australia PL	32,119,255	4.52
6	National Nominees limited	19,529,508	2.75
7	Sargon CT PL (Cyan C3G Fund)	17,235,294	2.43
8	Farjoy PL	13,680,981	1.93
9	State One Stockbroking Pty Ltd	12,365,061	1.74
10	Romsup PL <Romadak S/F A/C>	8,812,430	1.24
11	Code Nominees PL	7,207,580	1.01
12	WSF Pty Ltd <Woodstock S/F A/C >	6,415,325	0.90
13	Hobson Cove PL (Elder Heights Eighth A/c)	4,600,000	0.65
14	Carrier International PL (Super Fund A/c)	3,514,312	0.49
15	Best Holding Pty Ltd	3,500,000	0.49
16	HSBC Custody Nominees (Australia) Limited A/c2	3,313,948	0.47
17	UBS Nominees PL	3,311,520	0.47
18	Exwere Investments PL (Exwere Super Fund A'c)	3,200,000	0.45
19	Mr Cavid Creighton Gellatly	3,200,000	0.45
20	Petia Super Pty Ltd <Full Circle S/F A/C	3,088,564	0.43
	Total	**340,677,074**	**47.96**

Corporate Directory

for the year ended 30 June 2019

Directors

Mr. T H J Quick
Chair

Mr. M H Burgess
CEO and Managing Director

Mr. J C Douglas
Non-Executive Director

Mrs. L Heywood
Non-Executive Director

Ms E Mannes
Non-Executive Director

Secretary
Mr. J Pinto

Principal Office

361 Milperra Road
Bankstown Airport
New South Wales 2200
Australia

Telephone: +61 2 9774 0300

Internet: www.quickstep.com.au

Email: info@quickstep.com.au

Registered Office

Level 14
151 Clarence Street
Sydney New South Wales 2000

Auditor

KPMG
Chartered Accountants
Tower3,
300 Barangaroo Avenue
Sydney New South Wales 2000
Australia

Share registry

Computershare Investor Services Pty Ltd
452 Johnston Street
Abbotsford Victoria 3067

Stock Exchange

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

ASX Code: QHL


STAFF

Quickstep

$(a^2 \times b^2) - (ab^2)$
$= ab^2$

$(\pi^2 \times y^2) + (zyb^2)$
$= \pi b^2$

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