

## APPENDIX 4E AND FY21 ANNUAL REPORT

**Thursday 26 August 2021: Quickstep Holdings Limited** (ASX: QHL) (Company) releases its Appendix 4E and Annual Report for the financial year ended 30 June 2021.

Authorised by the Board of Quickstep Holdings Limited.

**For further information:**

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**About Quickstep Holdings**

Quickstep Holdings Limited (ASX: QHL) is the largest independent aerospace composite business in Australia, with facilities in Sydney, Geelong, Melbourne and Dallas. The group employs more than 280 people in Australia and internationally. More information about Quickstep is available at [www.quickstep.com.au](http://www.quickstep.com.au)

Forward looking statements

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

# Appendix 4E

## Preliminary Final Report to the Australian Securities Exchange

### Part 1

|  |                                   |
|--|-----------------------------------|
| <b>Name of Entity</b>                          | <b>Quickstep Holdings Limited</b> |
| <b>ABN</b>                                     | <b>55 096 268 156</b>             |
| <b>Financial Period</b>                        | <b>Year ended 30 June 2021</b>    |
| <b>Previous Corresponding Reporting Period</b> | <b>Year ended 30 June 2020</b>    |

### Part 2 – Results for Announcement to the Market

|   | <b>2021</b><br><b>\$'000</b> | <b>2020</b><br><b>\$'000</b> | <b>Percentage increase<br/>/(decrease) over<br/>previous<br/>corresponding<br/>period</b> |
|---|------------------------------|------------------------------|---|
| <b>Revenue from continuing operations</b>                           | <b>85,097</b>                | <b>82,252</b>                | <b>+3.4%</b>  |
| <b>EBIT</b>   | <b>98</b>                    | <b>4,576</b>                 | <b>n/a</b>  |
| <b>Net Finance Costs</b>  | <b>1,269</b>                 | <b>2,897</b>                 | <b>(56.2%)</b>  |
| <b>Profit / (loss) before income tax</b>                            | <b>(1,171)</b>               | <b>1,679</b>                 | <b>n/a</b>  |
| <b>Profit / (loss) after related income tax benefit</b>             | <b>(271)</b>                 | <b>3,891</b>                 | <b>n/a</b>  |
| <b>Profit / (loss) attributable to members of the parent entity</b> | <b>(271)</b>                 | <b>3,891</b>                 | <b>n/a</b>  |

| <b>Dividends (distributions)</b>  | <b>Amount per security</b> | <b>Franked amount per security</b> |
|---|----------------------------|------------------------------------|
| <b>Final Dividend</b>   | Nil                        | Nil                                |
| <b>Interim Dividend</b>   | Nil                        | Nil                                |
| <b>Record date for determining entitlements to the dividends (if any)</b> | Not Applicable             |                                    |

**Brief explanation of any of the figures reported above necessary to enable the figures to be understood:**

Please refer to the commentary included in the Annual Report attached.

### **Part 3 – Contents of ASX Appendix 4E**

| <b>Section</b> | <b>Contents</b>  |
|----------------|--|
| Part 1         | Details of entity, reporting period                            |
| Part 2         | Results for announcement to the market                         |
| Part 3         | Contents of ASX Appendix 4E                                    |
| Part 4         | Details relating to dividends                                  |
| Part 5         | Net tangible assets per security                               |
| Part 6         | Details of entities over which control has been gained or lost |
| Part 7         | Financial position   |
| Part 8         | Subsequent events  |
| Part 9         | Audit status   |

#### Part 4 – Details Relating to Dividends

|  |     |
|--|-----|
| Date the dividend is payable   | N/A |
| Record date to determine entitlement to the dividend   | N/A |
| Amount per security  | N/A |
| Total dividend   | N/A |
| Amount per security of foreign sourced dividend or distribution                                      | N/A |
| Details of any dividend reinvestment plans in operation  | N/A |
| The last date for receipt of an election notice for participation in any dividend reinvestment plans | N/A |

#### Part 5 – Net Tangible Assets per Security

|  | 2021       | 2020       |
|--|------------|------------|
| Net tangible asset backing per ordinary security | 2.74 cents | 3.04 cents |

#### Part 6 – Details of Entities over Which Control has been Gained or Lost

N/A

#### Part 7– Financial Position

As at 30 June 2021 the Group had cash and deposits of \$ 3,086,000 of which \$733,000 was held in restricted term deposits, included in the financial statements as Term Deposits.

#### Part 8– Subsequent Events

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

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

## Part 9 – Audit Status

|  |                                     |  |                          |
|--|-------------------------------------|--|--------------------------|
| <b>This report is based on accounts to which one of the following applies:</b><br>(Tick one) |                                     |  |                          |
| The accounts have been audited   | <input checked="" type="checkbox"/> | The accounts have been subject to review           | <input type="checkbox"/> |
| The accounts are in the process of being audited or subject to review                        | <input type="checkbox"/>            | The accounts have not yet been audited or reviewed | <input type="checkbox"/> |

|  |
|--|
| <p><b>If the accounts have not yet been audited and are likely to contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.</b></p> <p>N/A</p> |
| <p><b>If the accounts have been audited and contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.</b></p> <p>N/A</p>                       |

26 August 2021 – Authorised by the Board

# **Quickstep Holdings Limited**

**Annual Report**

**for the year ending 30 June 2021**

# Directors' Report

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

## Directors

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

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

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

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

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

## Principal Activities

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

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

## Review of Operations

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

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

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

# Directors' Report

## Review of Operations

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

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

## Material Risks

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

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

## Dividends

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

## Significant Changes in the State of Affairs

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

## Events Since the end of the Financial Year

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



## Directors' Report

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

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

### Shares under Options

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

# Directors' Report

## Information on Directors

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

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

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

# Directors' Report

## Information on Directors

| Mrs. Leanne Heywood<br>Independent Non-Executive Director - appointed 21 February 2019 |  |         |
|--|--|---------|
| <b>Experience and expertise</b>  | <p>Mrs Heywood joined the Quickstep board in February 2019 and brings experience as an ASX listed non-executive director, Audit and Risk committee and Nominations and Remuneration committee chair plus broad general management experience gained through an international career in the sales and distribution, mining, rural, government and not-for-profit sectors.</p> <p>Leanne has extensive international and domestic marketing experience and brings international customer relationship management, stakeholder management (including governments and investment partners) and team leadership experience in China, Japan, Mongolia, Singapore, South America, Europe and India.</p> <p>Leanne is an experienced leader of transformational change having lead organisational restructuring, disposals and acquisitions, including integration. She has strong skills across Marketing, Business Analysis, Contracts, Procurement, Logistics, Accounting and Business Improvement along with an advanced ability to facilitate complex negotiations.</p> |         |
| <b>Qualifications</b>  | Leanne holds an executive MBA from Melbourne Business School and a Bachelor of Business (majoring in Accounting) from Charles Sturt University. She is a graduate of the AICD International Company Directors Course and a Fellow of CPA Australia.  |         |
| <b>Special responsibilities</b>  | Chair of the Audit, Risk and Compliance Committee and member of the Remuneration, Nomination and Diversity Committee.  |         |
| <b>Other current Directorships</b>   | <p>Leanne is a Non-Executive Director, Chair of the Audit and Risk Committee and member of the Nominations and Remuneration Committee for Orocobre, an ASX200 lithium Miner with operations in Argentina and a Director, Chair of the Audit and Risk Management Committee and Member of the Work Health and Safety Committee of Midway Limited, an ASX wood fibre processor and exporter with operations in Australia, New Zealand and Asia.</p> <p>She is also a Director, Chair of the Nominations and Remuneration Committee and member of the Audit and Risk Committee for the Australian Meat Processor Corporation (AMPC), a graduate member of the Council of Charles Sturt University (CSU) and a Member of the Audit Committee of the Australian Radiation Protection and Nuclear Safety Authority (ARPANSA).</p>   |         |
| <b>Interests in shares and options</b>   | Ordinary shares in Quickstep Holdings Limited  | 195,220 |

| Mrs. Elisabeth Mannes<br>Independent Non-Executive Director - appointed 22 August 2019 |  |         |
|--|--|---------|
| <b>Experience and expertise</b>  | <p>Mrs Mannes joined the Quickstep board in July 2019, she is a highly experienced C-Suite executive with a career that has spanned both the fast-moving consumer and industrial goods industries.</p> <p>She has international and domestic general and operations management experience and is currently the Executive General Manager of CHEP Australia Limited - a wholly owned subsidiary of Brambles Limited (ASX:BXB).</p> <p>Lis brings global leadership skills and has a depth and breadth of experience in operational excellence and business transformations, including managing for growth. Prior to joining CHEP she was Executive General Manager of the Consumer and Industrial division of Pact Group Holdings (ASX:PGH), and previous to this she was Operations and Business Development Director of Tip Top, a division of George Weston Foods (GWF) - a wholly owned subsidiary of Associated British Foods (ABF.L). Her skill set includes Business Strategy, P&amp;L Management, Human Resources, Procurement and Operational Excellence. She also has a strong compliance focus with deep knowledge of the practice of Quality Assurance and Health &amp; Safety management.</p> <p>She was a founder board member of the National Association of Women in Operations (NAWO).</p> |         |
| <b>Qualifications</b>  | Lis is a Chartered Engineer (CEng) and a Fellow of the UK Institution of Mechanical Engineers (FIMechE). She holds an MBA, completed the AMP at INSEAD and is a Graduate of the AICD.  |         |
| <b>Special responsibilities</b>  | Chair of the Remuneration, Nomination and Diversity Committee and member of the Audit, Risk and Compliance Committee.  |         |
| <b>Other current Directorships</b>   | Lis is a director of AG Hicks Limited, a family business in the UK   |         |
| <b>Interests in shares and options</b>   | Ordinary shares in Quickstep Holdings Limited – (held in spouse's name)  | 194,954 |

# Directors' Report

## Information on Directors

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

# Directors' Report

## Information on Directors

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

## Board Structure & Director Independence

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

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

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

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

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

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

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

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

# Directors' Report

## Directors' Meetings

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

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

## Insurance of Officers and Indemnities

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

### Insurance

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

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

### Indemnities

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

# Directors' Report

## Auditor's Independence Declaration

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A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 58.

## Rounding of Amounts

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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

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

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



**M H Burgess**

Director

Sydney, New South Wales

## Remuneration Report – Audited

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

The report is structured as follows:

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

## 1. Principles of Compensation

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

The report includes details relating to:

**Executive Director**

[illegible]

### Non-Executive Directors

Mr. T H J Quick      Chair of Board and Chair of Remuneration, Nomination and Diversity Committee  
retired 31 August 2020

Mrs. L Heywood  
Chair of Audit, Risk and Compliance Committee

Mrs. E Mannes  
Chair of Remuneration, Nomination and Diversity Committee from 31 August 2020

Mr. P Largier Chair of Board from 31 August 2020

AVM K Osley (Ret'd)

## Other Key Management Personnel

Mr. A J Tilley Chief Financial Officer

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.



# 1. Principles of Compensation

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

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

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

### *Fixed compensation*

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

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

### *Performance linked compensation*

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

## Short Term Incentive - Cash and equity settled short term incentive

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

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

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

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

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

## Remuneration Report – Audited

# 1. Principles of Compensation

### Long Term Incentive - Quickstep Incentive Rights Plan (IRP)

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

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

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

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

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

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

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

## Remuneration Report – Audited

# 1. Principles of Compensation

### Long Term Incentive - Quickstep Incentive Rights Plan (IRP)

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

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

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

### Non-Executive Directors' Fees

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

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

### Consequences of Performance on Shareholder Wealth

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

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

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

# 1. Principles of Compensation

### Service Agreements

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

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

## Remuneration Report – Audited

### 2. Details of Remuneration

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

|                                | Salary / Fees<br>\$ | STI (2)<br>\$ | SGC<br>\$ | Termination<br>\$ | LTI Rights (1)<br>\$ | Total<br>\$ |
|--------------------------------|---------------------|---------------|-----------|-------------------|----------------------|-------------|
| <b>Executive Directors</b>     |                     |               |           |                   |                      |             |
| Mr. M H Burgess                | 478,306             | -             | 21,694    | -                 | 153,061              | 653,061     |
| <b>Non-Executive Directors</b> |                     |               |           |                   |                      |             |
| Mr. T H J Quick                | 21,000              | -             | -         | -                 | -                    | 21,000      |
| Mrs. L Heywood                 | 72,500              | -             | -         | -                 | -                    | 72,500      |
| Mrs. E Mannes                  | 64,735              | -             | 6,150     | -                 | -                    | 70,885      |
| Mr. P Largier                  | 115,000             | -             | -         | -                 | -                    | 115,000     |
| AVM K Osley(Ret'd)             | 57,266              | -             | 5,440     | -                 | -                    | 62,706      |
| Mr. J C Douglas                | -                   | -             | -         | -                 | -                    | -           |
| Mr. B A Griffiths              | -                   | -             | -         | -                 | -                    | -           |
| <b>Other KMPs</b>              |                     |               |           |                   |                      |             |
| Mr. A J Tilley                 | 298,306             | -             | 21,694    | -                 | 68,146               | 388,146     |

  

| 2020                           |         |        |        |   |         |         |
|--------------------------------|---------|--------|--------|---|---------|---------|
| <b>Executive Directors</b>     |         |        |        |   |         |         |
| Mr. M H Burgess                | 478,997 | 85,000 | 21,003 | - | 186,180 | 771,180 |
| <b>Non-Executive Directors</b> |         |        |        |   |         |         |
| Mr. T H J Quick                | 126,000 | -      | -      | - | -       | 126,000 |
| Mrs. L Heywood                 | 71,875  | -      | -      | - | -       | 71,875  |
| Mrs. E Mannes                  | 54,395  | -      | 5,167  | - | -       | 59,562  |
| Mr. P Largier                  | 35,000  | -      | -      | - | -       | 35,000  |
| AVM K Osley(Ret'd)             | 2,950   | -      | 280    | - | -       | 3,231   |
| Mr. J C Douglas                | 25,259  | -      | 2,400  | - | -       | 27,658  |
| Mr. B A Griffiths              | 11,667  | -      | -      | - | -       | 11,667  |
| <b>Other KMPs</b>              |         |        |        |   |         |         |
| Mr. A J Tilley                 | 298,997 | 50,854 | 21,003 | - | 53,746  | 424,600 |

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

## Remuneration Report – Audited

### 3. Share Based Compensation

#### Long term Incentive - Quickstep Incentive Rights Plan (IRP)

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

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

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

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

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

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

#### Movements in ordinary shares

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

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

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

## Remuneration Report – Audited

### 4. Analysis of Bonuses included in Remuneration

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

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

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

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

# Financial Statements

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# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2021

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

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

# Consolidated Balance Sheet

as at 30 June 2021

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

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

# Consolidated Statement of Changes in Equity

for the year ended 30 June 2021

|  | Share capital<br>\$000 | Foreign currency translation reserve<br>\$000 | Cash flow hedges reserve<br>\$000 | Share based payments<br>\$000 | Accumulated losses<br>\$000 | Total equity<br>\$000 |
|--|------------------------|---|-----------------------------------|-------------------------------|-----------------------------|-----------------------|
| <b>2021</b>  |                        |   |                                   |                               |                             |                       |
| <b>Balance at 1 July 2020</b>                                  | <b>120,785</b>         | <b>(316)</b>                                  | <b>(41)</b>                       | <b>6,364</b>                  | <b>(105,056)</b>            | <b>21,736</b>         |
| Profit / (loss) for the year                                   | -                      | -   | -                                 | -                             | (271)                       | (271)                 |
| <b>Other comprehensive (loss)</b>                              |                        |   |                                   |                               |                             |                       |
| Foreign currency translation difference for foreign operations | -                      | 69  | -                                 | -                             | -                           | 69                    |
| Effective portion of changes in fair value of cash flow hedges | -                      | -   | 22                                | -                             | -                           | 22                    |
| <b>Total comprehensive income/ (loss) for the year</b>         | <b>-</b>               | <b>69</b>                                     | <b>22</b>                         | <b>-</b>                      | <b>(271)</b>                | <b>(180)</b>          |
| Transactions with owners of the company:                       |                        |   |                                   |                               |                             |                       |
| Share based payments expenses                                  | -                      | -   | -                                 | 369                           | -                           | 369                   |
| <b>Balance at 30 June 2021</b>                                 | <b>120,785</b>         | <b>(247)</b>                                  | <b>(19)</b>                       | <b>6,733</b>                  | <b>(105,327)</b>            | <b>21,925</b>         |

|  |                |              |              |              |                  |               |
|--|----------------|--------------|--------------|--------------|------------------|---------------|
| <b>2020</b>  |                |              |              |              |                  |               |
| <b>Balance at 1 July 2019</b>                                  | 120,785        | (273)        | 143          | 5,448        | (104,065)        | 22,038        |
| Adjustment on initial application of AASB 16 Refer Note F.6    | -              | -            | -            | -            | (4,882)          | (4,882)       |
| <b>Adjusted balance at 1 July 2019</b>                         | <b>120,785</b> | <b>(273)</b> | <b>143</b>   | <b>5,448</b> | <b>(108,947)</b> | <b>17,156</b> |
| Profit for the year  | -              | -            | -            | -            | 3,891            | 3,891         |
| <b>Other comprehensive (loss)</b>                              |                |              |              |              |                  |               |
| Foreign currency translation difference for foreign operations | -              | (43)         | -            | -            | -                | (43)          |
| Effective portion of changes in fair value of cash flow hedges | -              | -            | (184)        | -            | -                | (184)         |
| <b>Total comprehensive income/ (loss) for the year</b>         | <b>-</b>       | <b>(43)</b>  | <b>(184)</b> | <b>-</b>     | <b>3,891</b>     | <b>3,664</b>  |
| Transactions with owners of the company:                       |                |              |              |              |                  |               |
| Share based payments expenses                                  | -              | -            | -            | 916          | -                | 916           |
| <b>Balance at 30 June 2020</b>                                 | <b>120,785</b> | <b>(316)</b> | <b>(41)</b>  | <b>6,364</b> | <b>(105,056)</b> | <b>21,736</b> |

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

# Consolidated Statement of Cash Flows

for the year ended 30 June 2021

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

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## A. About this Report

### Introduction

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

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

### Materiality

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

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

### Statement of Compliance

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

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

### Basis of Preparation

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

### Rounding of Amounts

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## A. About this Report

### Accounting Estimates and Judgements

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

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

### *Going concern*

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

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

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

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

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

### *Recognition of tax benefits*

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## A. About this Report

### Significant Accounting Policies

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

#### *Basis of consolidation*

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

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

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

#### *Foreign currency translation*

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## B. Business Performance

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

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

### B.1 Key Performance Measures

The key performance measures for the year were:

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

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

### Recognition and Measurement

#### Revenue

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

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

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

#### Research and development expenses

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



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## B.1 Key Performance Measures

### Government grants

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

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

The Group has complied with all grant conditions.

## B.2 Segment Reporting

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

### Geographical Information

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

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

### Program Information

|                      | 2021<br>\$000 | 2020<br>\$000 |
|----------------------|---------------|---------------|
| <b>Revenue:</b>      |               |               |
| Joint Strike Fighter | 63,856        | 61,345        |
| Other                | 21,241        | 20,907        |
| <b>Total</b>         | <b>85,097</b> | <b>82,252</b> |

### Major Customers

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

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## B. Business Performance

### B.3 Profit per Share

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

|   | 2021<br>\$ | 2020<br>\$ |
|---|------------|------------|
| Profit / (loss) attributable to ordinary shareholders | (270,620)  | 3,891,000  |

  

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

  

|  |               |      |
|--|---------------|------|
| <b>Basic profit / (loss) cents per share</b>   | <b>(0.04)</b> | 0.55 |
| <b>Diluted profit / (loss) cents per share</b> | <b>(0.04)</b> | 0.54 |

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## B. Business Performance

### B.4 Notes to Statement of Cash Flows

#### Cash and Cash Equivalents

|                          | 2021<br>\$000 | 2020<br>\$000 |
|--------------------------|---------------|---------------|
| Cash at bank and in hand | 2,353         | 1,690         |

#### Reconciliation of Net Profit to Net Cash Provided by Operating Activities

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## B. Business Performance

### B.5 Income Tax Benefit

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

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

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

#### Tax Losses not brought to Account

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

#### Deferred tax assets/(liabilities)

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

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

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## B. Business Performance

### B.5 Income Tax benefit

#### Tax Consolidation Legislation

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

#### Recognition and Measurement

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##### *Income tax*

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## C. Capital and Financial Risk Management

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

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

### C.1 Loans and Borrowings

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

### Term and Debt Repayment Schedule

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

### Secured Bank Loan

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

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## C. Capital and Financial Risk Management

### C.1 Loans and Borrowings

#### Short term facility

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

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

#### Recognition and Measurement

##### *Non-derivative financial liabilities*

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

### C.2 Leases

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

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

#### Right-of-use assets

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

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## C. Capital and Financial Risk Management

### C.2 Leases

#### Lease liabilities

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

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

#### Amounts recognised in Consolidated Statement of Profit or Loss

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

|                               | 2021<br>\$000 | 2020<br>\$000 |
|-------------------------------|---------------|---------------|
| <b>AASB 16 leases:</b>        |               |               |
| Interest on lease liabilities | 1,216         | 1,294         |
| Amortisation charge           | 1,672         | 1,576         |
| <b>Total expenses</b>         | <b>2,888</b>  | <b>2,870</b>  |



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## C. Capital and Financial Risk Management

### C.3 Finance Income and Finance Expenses

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

#### Recognition and Measurement

##### *Finance income and finance expenses*

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

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

### C.4 Financial Instruments

|   | 2021<br>\$000 | 2020<br>\$000 |
|---|---------------|---------------|
| <b>Current liability</b>                              |               |               |
| Forward foreign exchange contracts – cash flow hedges | (18)          | (41)          |

#### Recognition and Measurement

##### *Fair Value Measurement*

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

##### *Valuation of Financial Measurement – cash flow hedges*

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## C. Capital and Financial Risk Management

### C.5 Financial Risk Management

#### Overview

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

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

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

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

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

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

#### Credit Risk

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

#### *Trade receivables*

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

#### *Cash balances and deposits*

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

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## C. Capital and Financial Risk Management

### C.5 Financial Risk Management

#### *Exposure to credit risk*

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

|                          | 2021<br>\$000 | 2020<br>\$000 |
|--------------------------|---------------|---------------|
| Australia                | 2,644         | 2,300         |
| United States of America | 6,201         | 5,416         |
|                          | <b>8,845</b>  | <b>7,716</b>  |

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## C. Capital and Financial Risk Management

### C.5 Financial Risk Management

#### Market Risk

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

#### Interest rate risk

The Group has entered into a variable rate loan agreement for a period of 2.5 years. The applicable interest rate is 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:

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

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

#### Held-to maturity term deposits

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

#### Cash flow sensitivity analysis for variable rate instruments

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

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## C. Capital and Financial Risk Management

### C.5 Financial Risk Management

#### Currency risk

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

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

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

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

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

The following significant exchange rates applied have been applied:

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

#### Sensitivity analysis

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

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

#### Fair Value Hierarchy

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## C. Capital and Financial Risk Management

### C.6 Capital and Reserves

#### Capital Management

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

#### Movements in Share Capital

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

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

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

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

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

#### Nature and purpose of reserves

##### *Translation reserve*

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

##### *Cash flow hedge reserve*

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

##### *Share based payments reserve*

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## C. Capital and Financial Risk Management

### C.7 Capital and Other Commitments

#### Capital Commitments

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

|                               | 2021<br>\$000 | 2020<br>\$000 |
|-------------------------------|---------------|---------------|
| Property, plant and equipment | 289           | 574           |

#### Other Commitments – Pledged as Collateral against Secured Bank Loan

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

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

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

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

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

### C.8 Provisions

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

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

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## D. Operating Assets and Liabilities

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

### D.1 Trade and Other Receivables

### D.2 Inventories

### D.3 Contract Assets

### D.4 Property, Plant and Equipment

### D.5 Intangibles

### D.1 Trade and Other Receivables

|                       | 2021<br>\$000 | 2020<br>\$000 |
|-----------------------|---------------|---------------|
| <b>Current assets</b> |               |               |
| Trade receivables     | 8,744         | 7,622         |
| Other receivables     | 101           | 94            |
|                       | <b>8,845</b>  | <b>7,716</b>  |

All trade receivables are current.

### Recognition and Measurement

#### *Non-derivative financial assets*

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

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



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## D. Operating Assets and Liabilities

### D.2 Inventories

|                               | 2021<br>\$000 | 2020<br>\$000 |
|-------------------------------|---------------|---------------|
| <b>Current assets</b>         |               |               |
| Raw materials and consumables | 9,239         | 9,868         |
| Work in progress              | 421           | 268           |
|                               | <b>9,660</b>  | <b>10,136</b> |

#### Recognition and Measurement

##### *Inventories*

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

### D.3 Contract Assets

|                | 2021<br>\$000 | 2020<br>\$000 |
|----------------|---------------|---------------|
| <b>Current</b> | <b>8,051</b>  | <b>9,556</b>  |

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## D. Operating Assets and Liabilities

### D.4 Property, Plant and Equipment and Software

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## D. Operating Assets and Liabilities

### D.4 Property, Plant and Equipment and Software

#### Recognition and Measurement

##### *Property, Plant and Equipment*

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

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

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

##### *Depreciation*

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

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

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

##### *Impairment*

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

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

#### **Impairment loss in relation to flare housing facility**

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## D. Operating Assets and Liabilities

### D.4 Property, Plant and Equipment and Software

#### Recognition and Measurement

The recognised impairment loss is calculated as follows.

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

#### Reconciliation of carrying amount

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## E. Employee Benefits

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

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

### E.1 Employee Benefit Obligations

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

#### Recognition and Measurement

##### *Long service leave*

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

### E.2 Employee Benefit Expense

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## E. Employee Benefits

### E.2 Employee Benefit Expense

#### Recognition and Measurement

##### *Wages and salaries*

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

##### *Share-based payment transactions*

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

### E.3 Related Party Transactions

#### Key Management Personnel Compensation

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

|                              | 2021<br>\$000 | 2020<br>\$000 |
|------------------------------|---------------|---------------|
| Short-term employee benefits | 1,162         | 2,393         |
| Share-based payments         | 221           | 384           |
|                              | <b>1,383</b>  | <b>2,777</b>  |

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## E. Employee Benefits

### E.4 Quickstep Incentive Rights Plan (IRP)

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

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

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

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

#### In Relation to Performance Rights

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## E. Employee Benefits

### E.4 Quickstep Incentive Rights Plan (IRP)

#### Rights

Movements in unissued shares under rights:

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

The rights are issued pursuant to:

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

### E.5 Equity Settled Short Term Incentive

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

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



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## F. Other Disclosures

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

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

### F.1 Group Entities

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

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

^ Incorporated during the year.

### F.2 Parent Entity Financial Information

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

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## F. Other Disclosures

### F.3 Deed of Cross Guarantee

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

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

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## F. Other Disclosures

### F.4 Auditor's Remuneration

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

|                             | 2021<br>\$     | 2020<br>\$ |
|-----------------------------|----------------|------------|
| <b>Audit services</b>       | <b>223,400</b> | 221,400    |
| <b>Other services</b>       |                |            |
| Accounting and tax services | 11,385         | -          |
| <b>Total non-audit fee</b>  | <b>11,385</b>  | -          |
|                             | <b>234,785</b> | 221,400    |

### F.5 Business Combinations

#### Summary of acquisition

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

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

Details of the purchase consideration are as follows:

|                                     | 2021<br>\$000 |
|-------------------------------------|---------------|
| <b>Purchase consideration</b>       |               |
| Cash paid                           | 2,640         |
| <b>Total purchase consideration</b> | <b>2,640</b>  |

#### Acquisition related costs

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

#### Identifiable assets acquired and liabilities assumed

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## F. Other Disclosures

### F.5 Business Combinations

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

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

Property, plant and equipment:

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

Inventories:

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

#### Goodwill

Goodwill arising from the acquisition has been recognised as follows.

|                                       | 2021<br>\$000 |
|---------------------------------------|---------------|
| Consideration transferred             | 2,640         |
| Fair value of identifiable net assets | (353)         |
| <b>Goodwill</b>                       | <b>2,287</b>  |

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

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

## F.6 Subsequent Events

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

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

On that basis, the following subsequent event is disclosed.

### *Carbonix investment*

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

## F.7 New Accounting Standards Not Yet Adopted

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

### *International Financial Reporting Standards Interpretations Committee final agenda decisions*

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

## Directors' Declaration

for the year ended 30 June 2021

In the Directors' opinion:

- (a) the consolidated financial statements and notes set out on pages 19 to 56 and the Remuneration report on pages 11 to 18 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
  - i. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
  - ii. giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

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

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



**Mr. M H Burgess**

Director

26 August 2021

Sydney, New South Wales



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

To the Directors of Quickstep Holdings Limited

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

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

A stylized, handwritten signature of the KPMG firm, appearing as 'KPMG' in a cursive script.

KPMG

A handwritten signature of Tracey Driver, appearing as 'Tracey Driver' in a cursive script.

Tracey Driver

*Partner*

Sydney

26 August 2021



# Independent Auditor's Report

To the shareholders of Quickstep Holdings Limited

## Report on the audit of the Financial Report

### Opinion

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

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

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

The **Financial Report** comprises:

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

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

### Basis for opinion

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

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.



## Key Audit Matters

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

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

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

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Revenue recognition (\$85,097,000)

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

#### The key audit matter

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

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

#### How the matter was addressed in our audit

Our procedures included:

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

| Going concern basis of accounting   |   |
|---|---|
| Refer to Note A 'About this Report' to the Financial Report   |   |
| The key audit matter  | How the matter was addressed in our audit   |
| <p>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.</p> <p>The Directors have prepared the financial report on a going concern basis of accounting. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated a number of assumptions and significant judgements. The range of possible outcomes considered in arriving at this judgement has been concluded by the Directors to not give rise to significant uncertainty casting significant doubt on the Group's ability to continue as a going concern.</p> <p>We critically assessed the levels of uncertainty, as it is related to the Group's ability to continue as a going concern, within these assumptions and judgements, focusing on the following:</p> <ul style="list-style-type: none"> <li>the Group's planned levels of operational expenditure including efficiencies and, improvement in working capital. This included the feasibility, projected timing, and quantum of potential improvement in working capital and efficiencies and progress of these plans;</li> <li>the Group's planned levels of significant non-routine forecast outflows in relation to its investment activities, and the ability of the Group to achieve cash outflows within available funding; and</li> <li>the Group's ability to raise additional funds.</li> </ul> <p>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.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>analysing the cash flow projections by: <ul style="list-style-type: none"> <li>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;</li> <li>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;</li> <li>assessing the planned levels of operating expenditures for consistency of relationships and trends to the Group's historical results, results since year end, and our understanding of the business, industry and economic conditions;</li> <li>assessing significant non-routine forecast outflows in relation to its investment activities and the impact of working capital improvements and efficiencies in operating costs for feasibility, quantum and timing, and their impact to going concern. We used our knowledge of the client, its industry and status to assess the level of associated uncertainty;</li> </ul> </li> <li>we read Directors minutes and relevant correspondence with the Group's advisors to assess the Group's ability to raise additional funds; and</li> <li>evaluating the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash</li> </ul> |

|  |  |
|--|--|
|  | flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements. |
|--|--|

### Recognition of deferred tax assets relating to tax losses \$4,101,000

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

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



## Other Information

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

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

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at:

[https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf). This description forms part of our Auditor's Report.



## Report on the Remuneration Report

### Opinion

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

### 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 11 to 18* of the Directors' report for the year ended 30 June 2021.

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

KPMG

Tracey Driver

*Partner*

Sydney

26 August 2021

## Shareholder Information

for the year ended 30 June 2021

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

### A. Voting rights

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

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

### B. Substantial holders

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

### C. On Market buy back

There is no current on-market buy back.

### D. Distribution schedules

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

#### Ordinary fully paid shares

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

### E. Unmarketable parcels

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

| Holders | Units     |
|---------|-----------|
| 1,364   | 8,649,520 |

## Shareholder Information

for the year ended 30 June 2021

### D. Top holders

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

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

# Corporate Directory

## for the year ended 30 June 2021

### Directors

**Mr. P Largier**  
Chair

**Mr. M H Burgess**  
CEO and Managing Director

**Mrs. L Heywood**  
Non-Executive Director

**Mrs. E Mannes**  
Non-Executive Director

**AVM K Osley (Ret'd)**  
Non-Executive Director

**Secretary**  
Ms. J McGregor

### Principal Office

361 Milperra Road  
Bankstown Airport  
New South Wales 2200  
Australia

Telephone: +61 2 9774 0300

Website: [www.quickstep.com.au](http://www.quickstep.com.au)

Email: [info@quickstep.com.au](mailto:info@quickstep.com.au)

### Registered Office

361 Milperra Road  
Bankstown Airport  
New South Wales 2200  
Australia

### Auditor

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

### Share registry

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

### Stock Exchange

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

**ASX Code: QHL**