

APPENDIX 4D AND HALF YEAR FY22 REPORT

Tuesday 22 February 2022: Quickstep Holdings Limited (Company) (ASX: QHL) releases its Appendix 4D and Interim Report for the half year ended 31 December 2021.

Authorised by the Board of Quickstep Holdings Limited.

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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

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 including those related to pandemic disruption, 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.

QUICKSTEP HOLDINGS LTD

Appendix 4D

Half Year Report Period Ended 31 December 2021 (Corresponding Period 31 December 2020)

Results for announcement to the Market

	<u>Percentage Change</u>		<u>Dec 2021 \$000</u>	<u>Dec 2020 \$000</u>
Revenue from ordinary activities	14.1% up	to	47,348	41,494
EBIT	147.1% up	to	3,902	1,579
Profit/(Loss) from ordinary activities after tax attributable to members	302.1% up	to	3,277	815
Net Profit/(Loss) for the period attributable to members	302.1% up	to	3,277	815

The increase in Revenue is attributable to additional Joint Strike Fighter (JSF) program volumes and a full six-month period of Aftermarket revenue. The Net Profit for the half year of \$3,277 thousand is a \$2,462 thousand (302.1%) increase on the Net Profit after tax of \$815 thousand for the six-month period ended 31 December 2020. The increase in Net Profit includes the favourable impact of a \$1,158 thousand foreign controlled entity legal accrual write back.

For more details around these activities please refer to the Directors Report which forms part of the Half Year Interim Financial Report also released today.

Dividends	Amount per security	Percentage Franked
Current period:		
Interim Dividend	Nil	N/A
Date the Dividend is Payable:	N/A	N/A
Record Date for determining entitlements to the Dividend:	N/A	N/A
Prior corresponding period:		
Interim Dividend	Nil	N/A
Net Tangible Assets per Security		
As at 31 December 2021	31.5 cents	
As at 31 December 2020	32.2 cents	

Quickstep Holdings Limited

ABN: 55 096 268 156

Interim Financial Report for the half year ended 31 December 2021

Interim Financial Report

For the half-year ended 31 December 2021

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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 half year ended 31 December 2021. Throughout the report, the consolidated entity is referred to as the "Group" or "Quickstep".

Directors

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

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

Review of Operations

Total sales for the half year ended 31 December 2021 were \$47.3 million (H1 FY21 \$41.5 million) representing a 14.1% increase on the prior comparative period (pcp). The increase is attributable to additional Joint Strike Fighter program value of \$35.9 million (H1 FY21 \$30.9 million) and a full six-month period of Aftermarket revenue.

Gross profit for the half year ended 31 December 2021 of \$9.1m or 19.2% (H1 FY21 \$7.4 million or 17.8%) reflects a 1.4% margin lift, attributable to the release of new technology efficiencies, lean manufacturing initiatives and procurement synergies.

Operating profit for the half year ended 31 December 2021 of \$3.9 million (H1 FY21 \$1.6 million) included \$0.8 million reduction in R&D expenditure and the favourable impact of a \$1.2 million foreign controlled entity legal accrual writeback.

Net profit for the half year ended 31 December 2021 of \$3.3 million (H1 FY21 \$0.8 million) included \$0.1 million tax benefit versus a H1 FY21 \$nil tax liability.

Net \$4.1 million cash from operating activities for H1 FY21 was \$0.2 million unfavourable to that reported for the pcp (H1 FY21 \$4.3 million). A pre-planned extended Christmas shutdown period required a \$2.8 million build in inventories to meet contracted delivery obligations in January / early February 2022, which is reflected in the increased Contract Assets during the period.

Total bank debt outstanding as at 31 December 2021 is \$6.9 million (30 June 2021 \$7.7 million) plus lease liabilities of \$20.9 million (30 June 2021 \$19.5 million). New investments of \$1.5 million during the period were funded from operating activity cashflows.

Directors' Report

Subsequent events

Quickstep have executed a new working capital facility with ANZ Bank for the amount of \$6.0m on 31 January 2022. The term of the new facility is 2 years ending 31 December 2023. The funds from this new facility will be applied to refinance the working capital facility currently with Export Finance Australia (EFA) and the remaining balance will be used to fund future working capital as required.

In January 2022, Quickstep undertook an organisational change into three operating Lines of Business – being Aerostructures, Aftermarket and Applied Composites. No restructuring costs were incurred as a result of this change.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Rounding of Amounts

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

This report is made in accordance with a resolution of Directors on 21 February 2022.



M H Burgess
Director
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 review of Quickstep Holdings Limited for the half-year ended 31 December 2021 there have been:

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

KPMG

Daniel Camilleri

Partner

Sydney

21 February 2022



Independent Auditor's Review Report

To the shareholders of Quickstep Holdings Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Quickstep Holdings Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Quickstep Holdings Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2021 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2021;
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Interim Period ended on 31 December 2021;
- Notes A to E comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The **Group** comprises Quickstep Holdings Limited (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The **Interim Period** is the 6 months ended on 31 December 2021.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

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



Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the Half-Year Period ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

Daniel Camilleri

Partner

Sydney

21 February 2022

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

for the half-year ended 31 December 2021

	Notes	31 Dec 2021 \$000	31 Dec 2020 \$000
Revenue	B.1	47,348	41,494
Cost of sales of goods		(38,275)	(34,126)
Gross profit		9,073	7,368
Other income		118	308
Research and development expenses		(915)	(1,666)
Business development expenses		(684)	(526)
Corporate and administrative expenses	B.2	(3,690)	(3,905)
Profit from operating activities		3,902	1,579
Finance income	C.4	1	10
Finance expenses	C.4	(700)	(774)
Net finance costs		(699)	(764)
Profit before income tax		3,203	815
Income tax benefit	B3	74	-
Profit for the half year		3,277	815
Other comprehensive income/(loss) net of income tax			
Item that may be reclassified to profit or loss			
Cash flow hedges		(203)	474
Exchange difference on translation of a foreign operation		6	45
Other comprehensive income/(loss) for the half-year, net of income tax		197	519
Total comprehensive income for the half year		3,080	1,334
Profit per share:		Cents	Cents *
Basic profit per share		4.30	1.14
Diluted profit per share		4.30	1.14

* The December 2020 basic and diluted earnings per share has been restated to reflect the 10 to 1 share consolidation approved by the shareholders on 18 November 2021.

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

Condensed Consolidated Balance Sheet

as at 31 December 2021

	Notes	Dec 2021 \$000	Jun 2021 \$000
ASSETS			
Current assets			
Cash and cash equivalents		2,446	2,353
Term deposits		733	733
Trade and other receivables	D.1	6,466	8,445
Prepayment and other assets		1,117	1,240
Inventories	D.2	9,961	9,960
Contract assets	D.3	10,807	8,051
Total current assets		31,530	30,882
Non-current assets			
Property, plant and equipment and intangibles	D.4	14,944	15,378
Right-of-use asset		17,723	16,526
Investments	D.5	3,000	-
Goodwill	D.6	2,287	2,287
Deferred tax asset	B.3	4,175	4,101
Total non-current assets		42,129	38,292
Total assets		73,659	69,174
LIABILITIES			
Current liabilities			
Trade and other payables		11,763	13,352
Financial instruments	C.2	222	18
Loans and borrowings	C.1	4,964	4,464
Other Liabilities	D.5	1,500	-
Lease Liabilities		1,680	1,275
Employee benefit obligations		2,306	2,073
Total current liabilities		22,435	21,182
Non-current liabilities			
Loans and borrowings	C.1	1,923	3,205
Lease Liabilities		19,259	18,179
Provisions		3,448	3,448
Employee benefit obligations		1,353	1,235
Total non-current liabilities		25,983	26,067
Total liabilities		48,418	47,249
Net assets		25,241	21,925
EQUITY			
Share capital	C.5	120,785	120,785
Reserves		6,506	6,466
Accumulated losses		(102,050)	(105,327)
Total equity		25,241	21,925

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

Condensed Consolidated Statement of Changes in Equity

for the half-year ended 31 December 2021

	Share capital \$000	Foreign currency translation reserve \$000	Cash flow hedges reserve \$000	Share based payments \$000	Accumulated losses \$000	Total equity \$000
Dec 2021						
Balance at 1 July 2021	120,785	(247)	(19)	6,733	(105,327)	21,925
Profit for the half year	-	-	-	-	3,277	3,277
Other comprehensive income						
Foreign currency translation difference for foreign operations	-	6	-	-	-	6
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	(203)	-	-	(203)
Total comprehensive income for the half year	-	6	(203)	-	3,277	3,081
Transactions with owners of the company:						
Share based payments expenses	-	-	-	236	-	236
Balance at 31 December 2021	120,785	(241)	(222)	6,969	(102,050)	25,241

Dec 2020						
Balance at 1 July 2020	120,785	(316)	(41)	6,364	(105,056)	21,736
Profit for the half year	-	-	-	-	815	815
Other comprehensive income / (loss)						
Foreign currency translation difference for foreign operations	-	45	-	-	-	45
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	474	-	-	474
Total comprehensive income / (loss) for the half year	-	45	474	-	815	1,334
Transactions with owners of the company:						
Share based payments expenses	-	-	-	235	-	235
Balance at 31 December 2020	120,785	(271)	433	6,599	(104,241)	23,305

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

Condensed Consolidated Statement of Cash Flows

for the half-year ended 31 December 2021

	Dec 2021 \$000	Dec 2020 \$000
Cash flows from operating activities		
Cash receipts in course of operations	48,522	46,661
Interest received	1	10
Interest paid	(672)	(746)
Other income	50	-
Cash payments in the course of operations	(43,868)	(41,596)
Net cash from operating activities	4,034	4,329
Cash flows from investing activities		
Acquisition costs of plant and equipment and intangible assets	(985)	(1,489)
Proceeds from customer and government funding of capital works	34	268
Investments in Carbonix & Swoop Aero	(1,500)	-
Net cash (used in) investing activities	(2,451)	(1,221)
Cash flows from financing activities		
Proceeds from borrowings	1,000	500
Repayment of borrowings	(1,782)	(2,852)
Repayment of lease liabilities	(766)	(516)
Net cash (used in) financing activities	(1,548)	(2,868)
Net increase in cash and cash equivalents	35	240
Cash and cash equivalents at the beginning of the financial year	2,353	1,690
Effects of exchange rate changes on cash and cash equivalents	58	(45)
Cash and cash equivalents at end of half year	2,446	1,885

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

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2021

A. About this Report

This section provides information relating to the Group's accounting policies.

A.1 General Accounting Principles

A.2 Accounting Estimates and Judgements

A.1 General Accounting Principles

This interim half-year financial report (Financial Report) represents the consolidated results of Quickstep Holdings Limited (the "Company") and its controlled entities (the "Group"). The Financial Report comprises general purpose financial statements which have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001, and with IAS 34 *Interim Financial Reporting*.

The Financial Report does not include all the information required for a complete set of annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 30 June 2021.

These interim financial statements were authorised for issue by the Board of Directors on 21 February 2022.

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.

The interim financial statements are presented in Australian dollars.

Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations (*Rounding in Financial/Directors' Reports*) Instrument 2016/191 and in accordance with the legislative instrument, amounts in the consolidated interim financial statements have therefore been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2021

A. About this Report

A.2 Accounting Estimates and Judgements

The preparation of these interim consolidated financial statements are in conformity with AASBs which requires management to make judgements, estimates and assumptions about future events. Actual results may differ from these estimates.

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 profit after tax for the period ended 31 December 2021 of \$3.3m (year to 30 June 2021 loss of \$0.3m). The Group has net assets of \$25.2m (30 June 2021 \$21.9m) and net current assets of \$10.6m (30 June 2021: \$9.7m). Current loans and borrowings are \$6.6m (including lease liabilities of \$1.7m) compared to 30 June 2021 \$5.7m. Operating cash inflow for the period was \$4.0m (year to 30 June 2021 \$7.8m).

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 both the Aftermarket and Composite Technology business lines. During the half-year ended 31 December 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 \$6.0m 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 \$2.4m as at 31 December 2021 leaving head room of \$3.6m. Repayments of amounts drawn are to be made no later than 10 months from drawdown.

Quickstep have executed a new working capital facility with ANZ Bank for the amount of \$6.0m on 31 January 2022. The term of the new facility is 2 years ending 31 December 2023. The funds from this new facility will be applied to refinance the working capital facility currently with Export Finance Australia (EFA) and the remaining balance will be used to fund future working capital as required.

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.

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2021

B. Business Performance

This section provides information relating to the Group's accounting policies.

B.1 Segment Reporting

B.2 Income Tax (Expense)/Benefit

B.1 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 of sufficient materiality used by the Directors when making strategic decisions or resource allocation decisions, requiring disclosure.

Revenue by program:

	Dec 2021 \$000	Dec 2020 \$000
Joint Strike Fighter Program	35,893	30,919
C-130 and Other	11,455	10,575
	47,348	41,494

B.2 Corporate and Administrative Expenses

Corporate and administrative expenses include a \$1.2m write back of legal accruals previously held by foreign controlled entity. Any outflow related to those accruals is no longer considered probable.

B.3 Income Tax Losses not brought to Account and Deferred Tax Assets

Tax Losses not brought to Account

	31 Dec 2021 \$000	30 Jun 2021 \$000
The gross amount of unused tax losses for which no deferred tax asset has been recognised	55,387	58,580

Deferred tax assets/(liabilities)

	31 Dec 2021 \$000	30 Jun 2021 \$000
Deferred tax assets/(liabilities):		
Other provisions	1,888	1,159
Lease liabilities	6,282	5,836
Other expenditure	161	201
Property, plant and equipment and right-of-use assets	(4,156)	(3,797)
Tax losses brought to account	958	702
Tax losses utilised	(958)	-
Deferred tax assets	4,175	4,101

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2021

B. Business Performance

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

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 or taxable income in the current period. 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.

The Group continues to review previously unrecognised tax losses. Additional losses recognised at 31 December 2021 was \$958,000 (compared to \$702,000 for the year end 30 June 2021). Tax losses recognised has been brought to account to offset the provision for income tax payable at 31 December 2021.

Effective Income Tax Rate

The effective income tax rate for the half year ended 31 December 2021 was (2.3%). The lower tax rate resulted from recognition of previously unrecognised tax losses and tax differential relating to foreign tax jurisdictions.

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 Financial Instruments**
- C.3 Financial Risk Management**
- C.4 Finance Income and Finance Costs**
- C.5 Share Capital**
- C.6 Capital and other Commitments**

C.1 Loans and Borrowings

	Dec 2021			June 2021		
	Current \$000	Non-current \$000	Total \$000	Current \$000	Non-current \$000	Total \$000
Secured bank loan	2,564	1,923	4,487	2,564	3,205	5,769
Short term facility	2,400	-	2,400	1,900	-	1,900
	4,964	1,923	6,887	4,464	3,205	7,669

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2021

C. Capital and Financial Risk Management

Term and Debt Repayment Schedule

			Dec 2021	June 2021
	Effective interest rate	Year of maturity	Maximum facility value \$000	Maximum facility value \$000
Secured bank loan	3.16%	2023	4,487	5,769
Short term facility	5.56%	2022	6,000	6,000

Secured Bank Loan

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.

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 (30 June 2021 \$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 (BBSY) plus a margin of 5.5%, payable to EFA quarterly on funds drawn. A commitment fee of 1.5% p.a. accrues from the date of the agreement and is payable to EFA quarterly.

C.2 Financial Instruments

	Dec 2021	June 2021
	\$000	\$000
(Current liability) / Current asset		
Forward foreign exchange contracts – cash flow hedges	(222)	(18)

Recognition and Measurement

Fair Value Measurement

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

Valuation of Financial Measurement – cash flow hedges

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

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2021

C. Capital and Financial Risk Management

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 half year, there have been no transfers between levels in the fair value hierarchy.

C.3 Financial Risk Management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2021.

C.4 Finance Income and Finance Costs

	Dec 2021 \$000	Dec 2020 \$000
Finance income		
Interest income	1	10
Finance income	1	10
Finance costs		
Interest expense on liabilities measured at amortised cost	(200)	(188)
Interest expense on lease liabilities and make good provision	(444)	(610)
Foreign currency gains/(losses)	(29)	42
Other expenses	(27)	(18)
Finance costs	(700)	(774)
Net finance costs	(699)	(764)

C.5 Share Capital

Movements in Share Capital

	Dec 2021 Shares	June 2021 Shares	Dec 2021 \$	June 2021 \$
Opening balance	716,269,344	713,435,303	120,784,623	120,784,623
Shares issued under share-based payments arrangements	-	2,834,041	-	-
Consolidation of Issued Shares	(644,641,340)	-	-	-
Closing balance	71,628,004	716,269,344	120,784,623	120,784,623

During the half year, the Company consolidated its issued share capital (in the ratio of one share for every 10 shares held) at its Annual General Meeting of Shareholders. The shares prior to consolidation and immediately after consolidation is shows as follows.

	Post-Consolidation	Pre-Consolidation
Ordinary Shares	71,628,004	716,269,344
Performance Rights (not vested)	1,849,312	18,493,087

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2021

C. Capital and Financial Risk Management

During the half year, the Company did not issue any shares (2020: 2,834,041).

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.

C.6 Capital and other Commitments

Capital Commitments

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

	Dec 2021 \$000	June 2021 \$000
Property, plant and equipment	673	289
Remaining commitment to Swoop (Refer D.5)	1,500	-
Total Commitments	2,173	289

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 Asset**
- D.4 Property, Plant and Equipment**
- D.5 Investments**
- D.6 Goodwill**

D.1 Trade and Other Receivables

	Dec 2021 \$000	June 2021 \$000
Current assets		
Trade receivables	6,478	8,744
Other receivables	(12)	101
	6,466	8,845

All trade receivables are current.

D.2 Inventories

	Dec 2021 \$000	June 2021 \$000
Current assets		
Raw materials and consumables	9,574	9,239
Work in progress	387	421
	9,961	9,660

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2021

D. Operating Assets and Liabilities

D.3 Contract Assets

	Dec 2021 \$000	June 2021 \$000
Current	10,807	8,051

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.

D.4 Property, Plant and Equipment

	Plant and equipment \$000	Assets under construction \$000	Office furniture & equipment \$000	Intangibles and software \$000	Total \$000
Dec 2021					
Opening net book amount	12,997	1,602	396	383	15,378
Additions	568	-	190	66	824
Customer and government funding received	(34)	-	-	-	(34)
Transfers from assets under construction	310	(310)	-	-	-
Disposals	(5)				(5)
Amortisation of grant	230	-	-	-	230
Depreciation charge	(1,285)	-	(88)	(76)	(1,449)
Closing net book amount	12,781	1,292	498	373	14,944
<i>Cost</i>	<i>42,265</i>	<i>1,292</i>	<i>1,472</i>	<i>1,308</i>	<i>46,337</i>
<i>Accumulated depreciation</i>	<i>(29,484)</i>	<i>-</i>	<i>(974)</i>	<i>(935)</i>	<i>(31,393)</i>
June 2021					
Opening net book amount	12,489	4,305	213	328	17,335
Additions	-	2,902	-	-	2,902
Acquired through business combination	748	-	-	-	748
Government funding received	(68)	(304)	-	-	(372)
Transfers from assets under construction	2,036	(2,489)	298	155	-
Disposals	(12)				(12)
Amortisation of grant	406	-	-	-	406
Depreciation charge	(2,602)	-	(115)	(100)	(2,817)
Impairment charge	-	(2,812)	-	-	(2,812)
Closing net book amount	12,997	1,602	396	383	15,378
<i>Cost</i>	<i>39,854</i>	<i>1,602</i>	<i>1,271</i>	<i>1,242</i>	<i>43,969</i>
<i>Accumulated depreciation</i>	<i>(26,857)</i>	<i>-</i>	<i>(875)</i>	<i>(859)</i>	<i>(28,591)</i>

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2021

D. Operating Assets and Liabilities

D.5 Investments

	Dec 2021 \$000	June 2021 \$000
Non-current Investments	3,000	-

Quickstep made a \$1.0m investment in a minority stake in Carbonix, an Australian private company with strong capability in the design, development, manufacture and operation of next generation unmanned solutions for commercial and military applications, under Quickstep Technologies Pty Ltd (a wholly owned subsidiary of Quickstep). Quickstep will recognise subsequent changes in the fair value of the Carbonix investment in Other Comprehensive Income.

An additional \$2.0m investment was made in convertible notes issued by Swoop Aero Pty Ltd (Swoop) an Australian company with strong capability in the design, development, manufacture and operation of next generation unmanned solutions for commercial cargo applications. Quickstep has paid \$0.5m in cash in respect of this investment in Swoop and the remaining \$1.5m obligation is covered under a Strategic Supply Agreement (SSA), which requires Quickstep to supply engineering, manufacturing services, tooling and an initial production run of aircraft for Swoop's recently launched KITE™ unmanned cargo aircraft. The delivery under the Strategic Supply Agreement is expected to commence in February 2022. The \$1.5m obligation under the SSA is recorded in Other Liabilities.

The fair value of these Level 3 investments is based on the recent transaction price, which is consistent between transaction date and 31 December 2021.

D.6 Goodwill

Testing for indicators of impairment to Goodwill

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 indicators have been assessed as at 31 December 2021 and no goodwill impairment has been identified.

E. Other Disclosures

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

- E.1 Subsequent Events
- E.2 Changes in Significant Accounting Policies
- E.3 Standards issued but not yet effective

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2021

E. Other Disclosures

E.1 Subsequent Events

Quickstep have executed a new working capital facility with ANZ Bank for the amount of \$6.0m on 31 January 2022. The term of the new facility is 2 years ending 31 December 2023. The funds from this new facility will be applied to refinance the working capital facility currently with Export Finance Australia (EFA) and the remaining balance will be used to fund future working capital as required.

In January 2022, Quickstep undertook an organisational change into three operating Lines of Business – being Aerostructures, Aftermarket and Applied Composites. No restructuring costs were incurred as a result of this change.

E.2 Significant Accounting Policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as and for the year ended 30 June 2021. A number of new standards are effective from 1 July 2021 but they do not have a material effect on the Group's financial statements.

E.3 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2021 and earlier application is permitted, however the Group has not early adopted any of the forthcoming new or amended standards in preparing these condensed consolidated interim financial statements.

Directors' Declaration

for the half-year ended 31 December 2021

In the Directors' opinion:

- (a) the condensed consolidated half-year financial statements and notes set out on pages 8 to 21 are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - ii. giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-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.

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



Mr. M H Burgess

Director

21 February 2022

Sydney, New South Wales