ASX Release: 25 October 2022

Despatch of 2022 Annual Report

Quickstep Holdings Limited (ASX:QHL) (**Company**) attaches its 2022 Annual Report for despatch to its shareholders.

The 2022 Annual Report has been authorised for release by the Board.

For further information please contact:

Mark Burgess - Managing Director
Quickstep Holdings Limited
Telephone: +61 2 9774 0300

E: mburgess@quickstep.com.au

Stephen Gaffney - Chief Financial Officer
Quickstep Holdings Limited
Telephone: +61 2 9774 0300

E: sgaffney@quickstep.com.au

-ENDS-

Important Information – 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.

CLEVER COMPOSITE SOLUTIONS

Annual Report 2022

CLEVER COMPOSITE SOLUTIONS

OUR ACHIEVEMENTS

$86.7m
Sales revenue up 1.9%

$0.8m
Statutory NPAT

$3.3m
Operating cash flow

NEW COLLABORATIONS

SWOOP AERO
Equity investment and series production

BOEING SPACE
Teaming Agreement JP9102

DRONAMICS
Manufacturing MOU

JETSTAR
V2500 Nacelle Agreement

Jamie Warwick, Manufacturing Operator

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CHAIR'S REPORT

The 2022 financial year was a period of both success and challenge for Quickstep. Navigating through the second year of the COVID pandemic threw up a number of operational challenges, especially in the second half of the financial year, which I am pleased to report were handled well by the organisation. This is especially true given that global supply chains were adversely affected by the pandemic and that many of Quickstep's customers and suppliers are located around the world. The Managing Director's report gives more detail on the operational challenges and successes of the past financial year.

I would like to specifically 'call out' Quickstep's safety performance for FY22. Our preferred measure of safety performance is the Total Recordable Injury Frequency Rate (TRIFR) which is the number of recordable injuries per million hours worked.

Quickstep's TRIFR rate improved by approximately 40% in FY22 to 13.2, which significantly exceeded the stretch target that the company set itself at the beginning of the year. I am particularly pleased about this safety improvement, especially in the light of the stress caused by the evolving pandemic during the year.

Quickstep is fortunate to be operating in a number of business lines that are expanding globally and offer our company the prospect of significant future growth. During the past year, the company has been re-organised into three lines of business, each of which offers a number of growth opportunities for Quickstep. The business units are:

– Aerostructures which is focused on our traditional defence business,

– Aftermarket (QAS) which is currently centred on our recently purchased MRO facility in Tullamarine in Victoria, and

– Applied Composites which is predominantly developing our presence in the rapidly growing drone industry.

Board of Directors – Lis Mannes, Patrick Largier, Mark Burgess, Leanne Heywood, Kym Osley, Jillian McGregor – Company Secretary

PATRICK LARGIER
Chair

Winner
Best Emerging MRO
Aviation Week Network MRO Asia Pacific Awards 2022

Winner
Manufacturing | Maintenance Business of the Year
Australian Aviation Awards 2022

Adam Cowie, Quality Inspection Lead

Quickstep is fortunate to be operating in a number of business lines that are expanding globally and offer our company the prospect of significant future growth. During the past year, the company has been re-organised into three lines of business, each of which offers a number of growth opportunities for Quickstep.

CHAIR'S REPORT (CONTINUED)

As many of our shareholders would have seen in the media, there is a revived focus on defence investment in the country with particular emphasis on investing in Australia's sovereign defence capability and intellectual property. As we have previously noted there are emerging opportunities in Australia's space and guided weapons initiatives. While some of these opportunities can take a while to mature, they do provide particular growth opportunities for our Aerostructures business.

The new Labor government has indicated strong support for local advanced manufacturing with the benefits that this can bring to Australia. Quickstep is well placed to be an active participant in the opportunities that arise from this focus.

Quickstep's purchase of Boeing's MRO (maintenance, repair & operations) facility in Tullamarine in early 2021 has positioned the company well to service the resurgent airline industry. Our QAS business is rapidly gaining recognition in the aircraft industry, and we were obviously delighted to win our first contract with Jetstar in FY22. An interesting and sometimes overlooked competitive advantage of our Melbourne based MRO facility is that it offers Australian based airlines significant carbon reduction opportunities for aircraft maintenance as larger components no longer have to be flown across the world for repair. In an era of increasing awareness of the drivers of climate change, we believe that this will become an increasingly important consideration for all airlines.

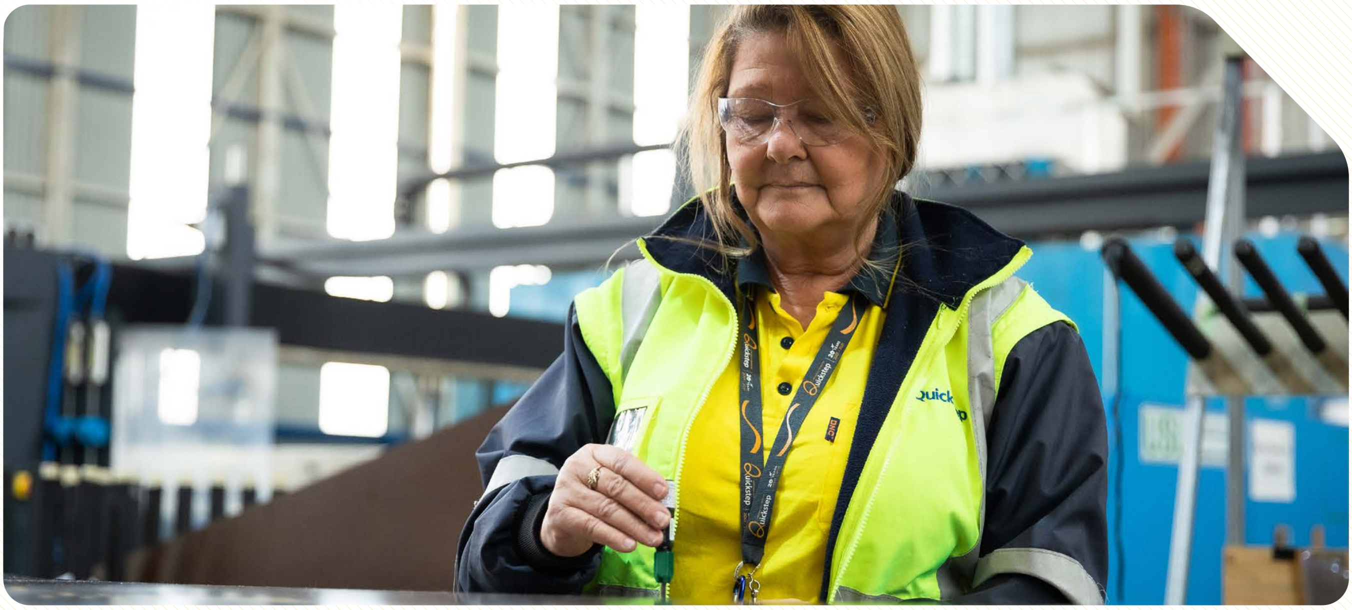
The rapid evolution of the commercial drone industry is now well and truly underway and Quickstep has positioned itself as a key player with a number of emerging drone companies. As we have previously reported, Quickstep has made seed investments in a couple of these drone companies. More importantly, your company has already secured orders to build drones for the industry. This work will be undertaken initially from our Geelong facility, but it is our expectation that we will quickly need to transition to a larger composites manufacturing facility in Australia to accommodate expected future orders. Given our evolving reputation in this industry, Quickstep is getting regular approaches from the global drone market ranging from relatively small data-focussed drones to very large drones in the cargo segment. With much interest coming from the large USA market, Quickstep is in the process of evaluating opportunities and ways to develop our drone capability in this key region.

I, together with my fellow non-executive directors, would like to thank Mark Burgess and his leadership team for the work they have put into managing the operational side of the business over the last year, whilst simultaneously focusing on delivering significant progress in the development of new business growth opportunities in the company's three lines of business.

On behalf of the Board of Directors, I would like to close my annual report to shareholders by thanking all Quickstep employees for their contributions over the past year and by acknowledging their role in enabling the business to navigate its path through the pandemic. I would also like to thank our shareholders for their continued support of, and investment in Quickstep.

PATRICK LARGIER
Chair

Susan Fay, Quality Inspector



Rhea Garcia, Manufacturing Operator

"As many of our shareholders would have seen in the media, there is a revived focus on defence investment in the country with particular emphasis on investing in Australia's sovereign defence capability and intellectual property."

CEO'S REPORT

Quickstep's financial year 2022 was truly a tale of two halves. On almost all metrics, H1 FY22 was the best half year performance ever posted by the company and we undertook our first ever investor day in March 2022 with great confidence in the outlook. However, H2 was impacted by a series of unprecedented operating challenges. No manufacturing business can effectively function when COVID absenteeism runs at up to 20%, pandemic related supply chain issues abound, equipment reliability is affected by the consequential labour and parts shortages and, just for some extra challenge, five working days are lost to flooding.

It is a sign of the resilience and strength of our business that we have been able to not just recover our core manufacturing operations, but in parallel work through the implementation of a new management team, business reorganisation and targeted rationalisation program. We have also driven growth opportunities across all lines of business during the same period.

Josh Scanlon – Business Leader Aerostructures and Mark Burgess CEO & Managing Director

MARK BURGESS
CEO & Managing Director

Under New Managment

Throughout the course of FY22 we welcomed a new Chief Financial Officer (Stephen Gaffney), new Business Leader Aerostructures (Josh Scanlon), new Chief Operating Officer (Demi Stefanova) and promoted Steve Osborne to a new Business Leader Applied Composites role. In total, five of seven senior leadership roles changed during the year bringing new focus, energy and experience to the delivery of our strategy

As part of the change program we also introduced a new organisational structure with three distinct and focused lines of business (LoB): Aerostructures, Aftermarket and Applied Composites. This change ensures strategic clarity and more efficient resource allocation across the Group. These LoB are supported by shared services: Finance & IT, People & Culture, Technology & Partnerships, and Operational Excellence.

Our team and organisational structure creates the organisational baseline to optimise current operations and convert the formidable growth pipeline we have ahead of us.

Growth in multiple dimensions and geographies

The year saw continued progress across the Group with consistent performance on core Aerostructures programs, including the negotiation of multi-year agreements across all F-35 contracts, teaming on space programs and large cargo drones, as well as extensive business development activity and customer proposals relating to the Guided Weapons Enterprise. The Aerostructures business has experienced a significant surge in the opportunity pipeline (primarily in the USA and Europe) and more resources have been allocated to converting those opportunities into contracts.

We continue to see good progress in the Quickstep Aerospace Services business, most pleasing of all being the announcement of a major V2500 nacelle contract from Jetstar Airways on their Airbus A320 fleet during H2. Our team, based at our facility in Melbourne Airport, were recognised with an international industry award in 2022 for their ongoing efforts to build a new and strategically important onshore capability in the commercial aerospace aftermarket. Negotiations with large international OEM partners commenced during the year, which will allow us to continually build the QAS revenue pipeline.

We also executed a wide range of urgent repairs for airline and charter customers during the year, some of which had never been undertaken in Australia before.

The company also launched a new LoB: Applied Composites. This business continues to commercialise our proprietary manufacturing processes (QureTM and AeroQureTM) and deliver on existing customer commitments in medical devices and transportation sectors. Substantial future growth however, will come from our strategic move into the complex unmanned vehicle engineering, manufacturing and support segment. In addition to the existing investment made in Carbonix, we announced a further equity position in Swoop Aero – with both these companies now entrusting us with manufacturing contracts. Our business development activity in the USA and Europe increased markedly. This business will increasingly become a growth engine for the Group.

"Our team and organisational structure creates the organisational baseline to optimise current operations and convert the formidable growth pipeline we have ahead of us."

CEO'S REPORT (CONTINUED)

Mark Burgess CEO & Managing Director & Demi Stefanova, COO

People and purpose

We enable people to do great things in aerospace globally, by providing the services and composite solutions needed today and beyond. We can only do this through a world-class team. We have undertaken extensive investment in our people this year through a key cultural change program - Optimum. We are trusted by the worlds most trusted because:

- Creativity is the key to overcome any obstacle
- Agile is a way of thinking beyond just a way of working
- Smarter solutions are more sustainable solutions
- When we say "we're in" we are ALL IN.

Doing great things ourselves and enabling others to do great things is not enough. The way in which we do this is equally important. We invest in our people, with a remarkable percentage of vacancies filled by internal promotions. We empower our team in ways large companies cannot, we care about equity and our communities, and increasingly, we are focused on reducing our impact on the environment.

Our formal Environmental, Social and Governance (ESG) planning work commenced during the year. Whilst we are ISO14001 accredited, we will be seeking to move well beyond compliance. Increasingly, our commercial customers consider this to be a baseline requirement and we believe our progress in ESG over the coming years will become a key differentiator for us in the Australian market.

Outlook

There is no doubt that a post pandemic operating environment will remain very turbulent for some time. Supply chain uncertainty will continue, attrition will remain elevated and the Australian labour market will be problematic. Your company has demonstrated a remarkable ability to not just weather storms, but to lean in and drive outstanding performance across all aspects of the business. The growth outlook is strong, but requires reliable access to capital to deliver.

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

MARK BURGESS

CEO & Managing Director

"We continue to see good progress in the Quickstep Aerospace Services business, most pleasing of all being the announcement of a V2500 nacelle contract from Jetstar Airways on their Airbus A320 fleet during H2"

$86.7m

Sales revenue up 1.9%

$0.8m

Statutory NPAT

$3.3m

Operating cash flow

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 2022. Throughout the report, the consolidated entity is referred to as the "Group" or "Quickstep".

Directors

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

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

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

Principal Activities

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

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

Review of Operations

Total Revenue for the year ended 30 June 2022 was $86.7 million (FY21: $85.1 million) representing a 1.9% increase on the prior year. The revenue increase is attributable to early revenue generation in the newly established Applied Composites line-of-business and full year ownership of the acquired Aftermarket line-of-business.

Revenue and profitability from the Aerostructures line-of-business was heavily impacted in H2 FY22 from operational factors including COVID-19 related absenteeism / supply chain disruption and a number of equipment reliability issues, recovery from which was exacerbated by global labour and spare part shortages.

The FY22 $13.3 million Gross Profit (FY21: $14.6 million) represents a ($1.3 million or 1.8%) decrease. The fall in gross profit is attributable to under recovered costs arising from lower facility production volumes.

The FY22 $1.8 million Operating Profit and FY22 ($0.1 million) Loss before Income Tax includes the favourable impact of a $1.2 million foreign controlled entity legal accrual writeback.

Total bank debt as at 30 June 2022 was $9.8 million (FY21: $7.7 million) representing an increase of $2.1 million. The bank debt increase is attributable to elevated inventory levels arising from the H2 FY22 operational challenges (as noted).

Cash from operating activities of $3.3 million for FY22 was achieved despite significant inventory build and impacts of H2 FY22 production delays. Investing Activity expenditure of $3.3 million supported investments made in both Carbonix and Swoop Aero and in providing new capability, increased capacity and improve operational efficiency across site operational facilities.

Directors' Report

Material Risks

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

- Foreign exchange – the reliance on sales from a key customer which are billed in US dollars and sourcing of raw material product in US dollars, directly impacts both sales and operating profit. The Group has adopted a Foreign Exchange Hedging Policy which is considered to be suitable to the business. 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 mitigated 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.

- Flooding – the area of Bankstown, where the Group's Aerostructures line-of-business manufacturing site is located, is susceptible to localised flooding from nearby tributaries. Whilst historical water egress on the site itself has been minimal, employee access to site has been impacted for periods of time which has the potential to disrupt production.

- Revenue growth – the Group's Aftermarket and Applied Composite lines-of-business are expected to be key drivers of revenue and profit growth in future years. The likelihood of this growth materialising particularly for the Aftermarket line-of-business depends on the volume of, and ongoing recovery in, commercial airline traffic, particularly domestic post COVID-19 pandemic impacts..

Dividends

No dividends have been paid during the financial year. The Directors do not recommend that a dividend be paid in respect of the financial year (2021: $ Nil).

Significant Changes in the State of Affairs

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

Events Since the end of the Financial Year

In July 2022, the Group executed a new loan facility with Export Finance Australia for the amount of $5.0 million. The term of the new facility is 18 months ending 31 December 2023. This new facility will be applied to fund additional interim working capital requirements arising from H2 FY22 operational challenges. Furthermore, a customer cash advance and accelerated customer payment terms have been negotiated in August 2022.

Other than the matters disclosed above, no matter or circumstance has arisen since 30 June 2022 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

Shares under Options

There are Nil (2021 Nil) unissued ordinary shares of Quickstep Holdings Limited under option at the date of this report. No options were granted during the year and since the end of the financial year.

Directors' Report

Information on Directors

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

Mr. Patrick Largier Independent Non-Executive Director - appointed 19 December 2019		
Experience and expertise	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. Prior to taking up non-executive director roles, he was Managing Director of Ludowici, an ASX-listed global specialist mining services company with operations across five continents. Over five years he led the company through a turnaround, followed by rapid international growth and the ultimate sale of the company to the Danish group FLSmidth in 2012. He then became Managing Director of FLSmidth Pty Limited for two years. Before this, Patrick spent 15 years in numerous business general manager roles at ICI and Orica's Plastics and Chemicals Groups. His final role in the company was on Orica's Group Executive team as General Manager - Strategy & Acquisitions. Before emigrating to Australia in 1992, Patrick spent ten years with Shell in Cape Town and Shell International in London. Since 2014 he has focussed his energies on non-executive director roles. He is currently a non-executive director and chairman of several private and private equity companies across a range of industries.	
Qualifications	Patrick has a Chemical Engineering degree (with honours) from the University of Cape Town and completed the Advanced Management Program (AMP) at Harvard in 2004. He is also a Graduate of the AICD.	
Special responsibilities	Chair of the Board from 31 August 2020	
Other current Directorships	Murray Irrigation Limited (resigned October 2021)	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	323,000

Mr. Mark H Burgess CEO and Managing Director - appointed 18 May 2017		
Experience and expertise	Mr. Burgess joined Quickstep in May 2017 bringing with him over 20 years' experience in the global aerospace and defence industry, where his successful delivery of profitable growth and complex projects in advanced technology businesses has led to significant employer, customer and industry recognition. Mr Burgess has held leadership roles of increasing responsibility across Europe, USA, the Middle East and Asia Pacific. After a long career with BAE Systems covering sales, contracts, project and general management he joined Honeywell in 2013 as Vice President Honeywell Aerospace, Asia Pacific. During his four years at Honeywell, he was responsible for driving sustained profitable growth across a defence, space and commercial helicopter portfolio. Mr. Burgess has extensive experience of governance and stakeholder management, working with public, private and not-for-profit sectors. He has managed several successful acquisition and post acquisition projects and has held numerous board positions on subsidiaries, private companies and international joint ventures.	
Qualifications	Mark holds a degree in Politics and Economics from the University of Hull and has completed several post graduate studies in business and operations management.	
Special responsibilities	Chief Executive Officer	
Other current Directorships	NIL	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	420,972

Directors' Report

Information on Directors

	Mrs. Leanne Heywood Independent Non-Executive Director - appointed 21 February 2019	
Experience and expertise	Mrs Heywood joined the Quickstep board in February 2019 and brings experience as an ASX listed non-executive director, Audit and Risk committee and Nominations and Remuneration committee chair plus broad general management experience gained through an international career in the sales and distribution, mining, rural, government and not-for-profit sectors. Leanne has extensive international and domestic marketing experience and brings international customer relationship management, stakeholder management (including governments and investment partners) and team leadership experience in China, Japan, Mongolia, Singapore, South America, Europe and India. Leanne is an experienced leader of transformational change having lead 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.	
Qualifications	Leanne holds an executive MBA from Melbourne Business School and a Bachelor of Business (majoring in Accounting) from Charles Sturt University. She is a graduate of the AICD International Company Directors Course and a Fellow of CPA Australia.	
Special responsibilities	Chair of the Audit, Risk and Compliance Committee and member of the Remuneration, Nomination and Diversity Committee.	
Other current Directorships	Allkem Limited; Snowy Hydro Limited; Symbio Limited and Midway Limited	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	19,523

	Mrs. Elisabeth Mannes Independent Non-Executive Director - appointed 22 August 2019	
Experience and expertise	Mrs Mannes joined the Quickstep board in July 2019, she is a highly experienced C-Suite executive with a career that has spanned both the fast-moving consumer and industrial goods industries. 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). 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 Manger of the Consumer and Industrial division of Pact Group Holdings (ASX:PGH), and previous to this she was Operations and Business Development Director of Tip Top, a division of George Weston Foods (GWF) - a wholly owned subsidiary of Associated British Foods (ABF.L). Her skill set includes Business Strategy, P&L Management, Human Resources, Procurement and Operational Excellence. She also has a strong compliance focus with deep knowledge of the practice of Quality Assurance and Health & Safety management. She was a founder board member of the National Association of Women in Operations (NAWO).	
Qualifications	Lis is a Chartered Engineer (CEng) and a Fellow of the UK Institution of Mechanical Engineers (FIMechE). She holds an MBA, completed the AMP at INSEAD and is a Graduate of the AICD.	
Special responsibilities	Chair of the Remuneration, Nomination and Diversity Committee and member of the Audit, Risk and Compliance Committee.	
Other current Directorships	NIL	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited – (held in spouse's name)	42,176

Directors' Report

Information on Directors

	Air Vice Marshal Kym Osley (Ret'd) **Independent Non-Executive Director - appointed 11 June 2020**	
Experience and expertise	Air Vice-Marshal Osley joined the Quickstep board in June 2020 and has over 45 years of Defence and aerospace experience including prior experience as the Program Manager of the Australian F-35 Joint Strike Fighter Program. Kym retired in 2021 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 supporting Defence industry 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. Kym is currently the Chair of the Australian Air Force Cadet Foundation and on the Strategic Advisory Board of a space-related company.	
Qualifications	Kym is a graduate of the Harvard Business School (Advanced Management Program) and is a Fellow of the Centre for Defence and Strategic Studies. He has a Master of Arts (International Relations), Master of Defence Studies, a BSc (Physics) and a Graduate Diploma of Management Studies and is a Graduate of the AICD.	
Special responsibilities	Member of the Audit, Risk and Compliance Committee.	
Other current Directorships	NIL	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	55,000

	Ms. Jillian McGregor **Company Secretary - appointed 31 July 2020**	
Experience and expertise	Ms. McGregor has approximately 20 years' experience as a corporate lawyer and 9 years' experience as a company secretary of ASX listed companies. She has regularly advised companies and directors on compliance with the Corporations Act 2001 (Cth), ASX listing rules and other corporate legal matters.	
Qualifications	Ms. McGregor holds a Bachelor of Laws and Bachelor of Commerce (Merit) from the University of NSW and holds a Graduate Diploma of Applied Corporate Governance from the Governance Institute of Australia	
Other current roles	She is currently the Company Secretary of ASX listed and unlisted companies.	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	4,400

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.

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.

Directors' Report

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' 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 2022, 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	10	10	-	2	-	-
Mr. M H Burgess	10	10	-	3	-	4
Mrs. L Heywood	10	10	4	4	4	4
Mrs. E Mannes	10	10	4	4	4	4
AVM K Osley (Ret'd)	10	10	4	4	-	-

Insurance of Officers and Indemnities

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

Insurance

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

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

Indemnities

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

Directors' Report

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 65.

Rounding of Amounts

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

Corporate Governance Statement

Quickstep's Corporate Governance Statement can be found on the Company's website.

This report is made in accordance with a resolution of Directors on 29 August 2022.

M H Burgess
Director
Sydney, New South Wales

Remuneration Report – Audited

The Directors present the Quickstep Holdings Limited 2022 remuneration report, outlining key aspects of the Group's remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

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

1. Principles of Compensation

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

The report includes details relating to:

Executive Director	
Mr. M H Burgess	Chief Executive Officer and Managing Director
Non-Executive Directors	
Mr. P Largier	Chair of Board
Mrs. L Heywood	Chair of Audit, Risk and Compliance Committee and Member of Remuneration, Nomination and Diversity Committee
Mrs. E Mannes	Chair of Remuneration, Nomination and Diversity Committee and Member of Audit, Risk and Compliance Committee
AVM K Osley (Ret'd)	Member of Audit, Risk and Compliance Committee
Other Key Management Personnel	
Mr. A J Tilley	Chief Financial Officer to 26 October 2021.
Mr. S J Gaffney	Chief Financial Officer from 27 October 2021.

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 on the Company's website.

Quickstep has also developed an Executive Remuneration Policy and a Director Remuneration Policy that are available on the Company's website.

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

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

Remuneration Report – Audited

1. Principles of Compensation

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

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

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

Fixed compensation

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

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

Performance linked compensation

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

Short Term Incentive

KMP receive short-term incentives (STI) in cash on achievement of key performance indicators (KPI). 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 FY22, a suite of Corporate KPIs were used, including two financial KPIs (weighting 40%), a KPIs relating to safety (weighting 15%) and two growth focused KPIs (weighting 45%). 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 remaining 30% of KMP STI is determined by performance against personal KPIs which are aligned to the delivery of Quickstep's strategic plan.

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 threshold metrics are determined, with no STI payable to any executive if these are not achieved. In FY22 each KPI had its own threshold/hurdle, target and stretch KPI.

Actual performance is then assessed against the threshold outcome, the target outcome and the stretch outcome. Where performance falls below the threshold 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 threshold and target or target and stretch outcomes, an appropriate proportion of the KPI is payable. When the threshold target is achieved, 33% of the weighting for the KPI is payable; when target is met, 66% of the weighting for the KPI is payable. When threshold, target and stretch outcomes are achieved 100% of the weighting for the KPI is payable.

In FY22, Quickstep achieved an overall result of 49.6% out of a potential of 100%, against the corporate KPIs. The threshold outcome was not reached for the two financial KPI's (with no STI payable). Stretch outcomes were achieved for Safety and one of the two growth KPI's, and an outcome between threshold and target was achieved for the second growth KPI.

After reviewing the overall achievement of KPIs based on the above process, the RN&D Committee has recommended that an STI is payable in respect of FY22.

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 FY22 IRP for CEO and Managing Director was approved by shareholders at the 2021 AGM on 18 November 2021 and the IRP terms for the management was approved on 16 December 2021.

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). The value of the vested Rights may be settled in cash, Shares or a combination of cash and Shares as determined the Board. PRs may vest if Performance Conditions are satisfied. DRs may vest if service conditions are satisfied. There were no RRs granted in FY22 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 awarded during FY22 are subject to a performance condition based on achieving a relative Total Shareholder Return (TSR) equivalent to or in excess of the ASX Small Ordinaries Index (XSO) over the measurement period. The XSO is an index of total shareholder return achieved by ASX listed small cap companies which combines both share price movement and dividends paid during the measurement period (assuming that they are reinvested into shares). As a general rule, Quickstep uses a measurement 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 measurement period must be positive (i.e., if shareholders have not gained then PRs will not vest) relative to the XSO. If the XSO movement is negative over the measurement 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 small cap 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 XSO is also positive, then the following vesting scales will apply:

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

For PRs issued to executives during FY22, testing of the TSR hurdle will occur on the third anniversary of the commencement of the measurement period (“Test Date”). Any PRs granted will lapse if they do not vest at or earlier the Test Date.

The Board has discretion to vary the level of vesting if circumstances during the measurement period warrant a different level of vesting to bring forward vesting if such action is appropriate in the circumstances.

Remuneration Report – Audited

1. Principles of Compensation

Long Term Incentive - Quickstep Incentive Rights Plan (IRP)

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. If the rights vest following cessation of employment and the value of the Shares is lower at the vesting date than at the date of cessation of employment, then the value of the vested rights will be paid in cash unless otherwise determined by the Board. This provision aims to align the value that is taxed with the value that may be realised from the sale of Shares.

Non-Executive Directors' Fees

Remuneration for all non-executive directors was approved at a board meeting on 14 October 2021. 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 p.a.	Committee Fees p.a.
Mr. P Largier	$145,000	n/a
Mrs. L Heywood	$70,000	$20,000
Mrs. E Mannes	$70,000	$19,000
AVM K Osley (Ret'd)	$70,000	$7,000

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.

	2022	2021	2020	2019	2018
Profit / (loss) attributable to owners of the company ($000)	**786**	(271)	3,891	2,693	(2,891)
Dividends paid	**$nil**	$nil	$nil	$nil	$nil
Operating income ($000)	**86,675**	85,097	82,252	73,275	59,036
Change in share price	**(28.8%)**	(38%)	(3.4%)	13.0%	(22.7%)
Return on capital employed	**10.5%**	0.5%	24.7%	18.4%	(22.8%)

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

Remuneration Report – Audited

1. Principles of Compensation

Service Agreements

Name	Initial Agreement date	Revised Agreement Date (4)	Duration	Notice period (3)	Termination benefits	STI cap as a % of Base Salary (1)	LTI cap as a % of Base Salary (2)
Mr. M H Burgess	8 May 2017	18 November 2021	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	30	70
Mr. A J Tilley	25 June 2018	n/a	26 October 2021	NES	3 months of TFR and pro-rated annual bonus (at Board's discretion)	n/a	n/a
Mr. S J Gaffney	21 September 2021	n/a	Open	NES	3 months of TFR and pro-rated annual bonus (at Board's discretion)	30	30

(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, as a percentage of Base Salary. The KPIs include metrics relating to financial objectives, safety and growth.

(2) Long Term Incentive (LTI) is determined on the Group's performance against relative Total Shareholder Return and is tested at the end of the measurement period (1 September 2024). The LTI cap refers to the maximum amount payable in shares as a percentage of Base Salary. This is the measure currently used in the IRP applicable to FY22.

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

(4) The terms of Agreement were updated for Mr. M H Burgess in line with approval at the AGM (18 November 2021) to reflect updated STI and LTI cap as shown above.

Remuneration Report – Audited

2. Details of Remuneration

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

	Salary / Fees $	STI (2) $	SGC $	Termination $	LTI Rights (1) $	Total $
Executive Directors						
Mr. M H Burgess	483,567	71,955	29,765	-	160,287	745,574
Non-Executive Directors						
Mr. P Largier	139,384	-	-	-	-	139,384
Mrs. L Heywood	86,411	-	-	-	-	86,411
Mrs. E Mannes	76,010	-	7,601	-	-	83,611
AVM K Osley (Ret'd)	71,311	-	951	-	-	72,262
Other KMPs						
Mr. A J Tilley (4)	96,776	-	7,856	-	(10,271)	94,361
Mr. S J Gaffney (5)	175,886	20,232	16,205	-	3,815	216,138
2021						
Executive Directors						
Mr. M H Burgess	478,306	-	21,694	-	153,061	653,061
Non-Executive Directors						
Mr. T H J Quick	21,000	-	-	-	-	21,000
Mrs. L Heywood	72,500	-	-	-	-	72,500
Mrs. E Mannes	64,735	-	6,150	-	-	70,885
Mr. P Largier	115,000	-	-	-	-	115,000
AVM K Osley (Ret'd)	57,266	-	5,440	-	-	62,706
Other KMPs						
Mr. A J Tilley	298,306	-	21,694	-	68,146	388,146

(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.
(4) Mr. A J Tilley ceased employment on 26 October 2021, no STI is payable for 2022.
(5) Mr. S J Gaffney commenced employment on 25 October 2021 and assumed the role of Chief Financial Officer on 27 October 2021, a pro-rata STI is payable for 2022 as shown above.

Remuneration Report – Audited

3. Share Based Compensation

Long term Incentive - Quickstep Incentive Rights Plan (IRP)

At 30 June 2022 executives have accrued performance rights pursuant to the IRP. Movements in IRP rights during the year are set out below:

KMP	Tranche Refer Note	Grant Date	FV per right at grant date (b)	First Testing Date	Balance at 30-Jun-2021 (a) Number	Granted during the year (c) Number	Issued or lapsed during the year Number (d)	Balance at 30-Jun-2022 Number	Fair value at grant date $	Cum vesting level
Mr. M H Burgess	FY18	1/12/2017	$0.690	31/08/2020	247,524	-	-	247,524	$170,792	0%
Mr. M H Burgess	FY19	1/09/2018	$0.680	31/08/2021	284,651	-	-	284,651	$193,562	0%
Mr. M H Burgess	FY20	1/09/2019	$0.680	31/08/2022	214,042	-	-	214,042	$145,548	0%
Mr. M H Burgess	FY21	15/01/2021	$0.429	31/08/2023	308,642	-	-	308,642	$132,407	0%
Mr. M H Burgess	FY22	18/11/2021	$0.320	1/09/2024	-	668,967	-	668,967	$214,128	0%
Mr. A J Tilley	FY19	1/09/2018	$0.680	31/08/2021	145,742	-	(145,742)	-	$99,104	0%
Mr. A J Tilley	FY20	1/09/2019	$0.680	31/08/2022	109,589	-	(109,589)	-	$74,521	0%
Mr. A J Tilley	FY21	15/01/2021	$0.680	31/08/2023	109,589	-	(109,589)	-	$67,319	0%
Mr. S J Gaffney	FY22	16/12/2021	$0.270	1/09/2024	-	103,717	-	103,717	$19,269	0%

(a) The no. of rights as at 30 June 2021 have been re-stated on a 10:1 post consolidation basis as approved at the 2021 AGM on 18 November 2021.

(b) The value per right has been restated on a post consolidation basis to ensure the. The fair value of rights per grant calculated using a Monte Carlo simulation analysis at the grant date. Refer to Note E.4, for the model's key assumptions.

(c) The fair value of rights granted in the year is $233,397 (2021: $199,726). The total value of the rights is allocated to remuneration over the vesting period.

(d) The rights granted to Mr. A J Tilley lapsed during the year in line with the Service Agreement.

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

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

Movements in ordinary shares

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

KMP	Shares Held at 1 July 2021 Number	Consolidation of Shares during the Year Number	Received on exercise of options Number	Other changes (*) Number	Held at 30 June 2022 Number
Mr. P Largier	2,500,000	(2,250,000)	-	73,000	323,000
Mrs. L Heywood	195,220	(175,697)	-	-	19,523
Mrs. E Mannes	194,954	(175,458)	-	22,680	42,176
AVM K Osley (Ret'd)	300,000	(270,000)	-	25,000	55,000
Mr. M H Burgess	4,209,701	(3,788,729)	-	-	420,972
Mr. A J Tilley ^	1,160,760	-	-	(1,160,760)	0
Mr. S J Gaffney	-	-	-	20,000	20,000

The company consolidated its issued share capital (in the ratio of one share for every 10 shares held) at its 2021 Annual General Meeting of Shareholders on 18 November 2021.

(*) Other changes represent shares that were purchased or sold during the year.
(^) Mr. A J Tilley ceased employment during the year, hence, the closing balance is not tracked.

Remuneration Report – Audited

4. Analysis of Bonuses included in Remuneration

Details of the short-term incentives awarded in cash as remuneration to each Key Management Personnel (KMP) of the Company and each of the named other key management personnel of the Group are detailed below:

	Included in remuneration (1)	% vested in year (2)	% lapsed in year (2)
Executive Director			
Mr. M H Burgess	**71,955**	**49.60%**	**50.40%**
Other KMP			
Mr. S J Gaffney	**20,232**	**51.61%**	**48.39%**

(1) STI comprised of an accrued current year bonus, which is expected to be paid during first half of FY23. The amount reported for Mr. S J Gaffney represents the pro-rata amount calculated based on the commencement date of 25 October 2021.

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

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 independent 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 for FY22 were based on the recommendations of this report.

Financial Statements

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2022

	Notes	2022 $000	2021 $000
Revenue	B.2	**86,675**	85,097
Cost of sales of goods		**(73,411)**	(70,478)
Gross profit		**13,264**	14,619
Other income		**419**	441
Research and development expenses		**(1,318)**	(1,800)
Business development expenses		**(1,515)**	(1,176)
Corporate and administrative expenses	B.4	**(9,033)**	(9,174)
Impairment expense	D.4	**-**	(2,812)
Profit from operating activities		**1,817**	98
Finance income		**45**	11
Finance expenses		**(2,027)**	(1,280)
Net finance costs	C.3	**(1,982)**	(1,269)
Profit / (loss) before income tax		**(165)**	(1,171)
Income tax benefit / (loss)	B.6	**951**	900
Profit / (loss) for the year		**786**	(271)
Other comprehensive income / (loss) net of income tax			
Item that may be reclassified to profit or loss			
Cash flow hedges		**(575)**	22
Exchange difference on translation of a foreign operation		**73**	69
Other comprehensive income / (loss) for the period, net of income tax		**(502)**	91
Total comprehensive income for the year		**284**	(180)
		Updated	
Profit per share:		**Cents**	Cents
Basic profit / (loss) per share	B.3	**1.10**	(0.38)
Diluted profit/ (loss) per share	B.3	**1.08**	(0.37)

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 2022

	Notes	2022 $000	2021 $000
ASSETS			
Current assets			
Cash and cash equivalents	**B.5**	**3,021**	2,353
Term deposits	**C.5**	**891**	733
Trade and other receivables	**D.1**	**9,043**	8,845
Prepayments and other assets		**1,639**	1,240
Inventories	**D.2**	**14,910**	9,660
Contract assets	**D.3**	**10,294**	8,051
Total current assets		**39,798**	30,882
Non-current assets			
Property, plant and equipment and software	**D.4**	**13,999**	15,378
Right-of-use asset	**C.2**	**15,551**	16,526
Goodwill	**D.6**	**2,287**	2,287
Investments	**D.5**	**3,044**	-
Deferred tax asset	**B.6**	**5,052**	4,101
Total non-current assets		**39,933**	38,292
Total assets		**79,731**	69,174
LIABILITIES			
Current liabilities			
Trade and other payables		**19,393**	13,352
Provisions	**C.8**	**-**	-
Financial instruments	**C.4**	**593**	18
Loans and borrowings	**C.1**	**2,564**	4,464
Other Liabilities	**D.5**	**1,500**	-
Lease liabilities	**C.2**	**1,628**	1,275
Employee benefit obligations	**E.1**	**1,990**	2,073
Total current liabilities		**27,668**	21,182
Non-current liabilities			
Loans and borrowings	**C.1**	**7,282**	3,205
Lease liabilities	**C.2**	**17,443**	18,179
Provisions	**C.8**	**3,448**	3,448
Employee benefit obligations	**E.1**	**1,515**	1,235
Total non-current liabilities		**29,688**	26,067
Total liabilities		**57,356**	47,249
Net assets		**22,375**	21,925
EQUITY			
Share capital	**C.6**	**120,785**	120,785
Reserves		**6,131**	6,466
Accumulated losses		**(104,541)**	(105,326)
Total equity		**22,375**	21,925

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 2022

	Share capital $000	translation reserve $000	Cash flow hedges reserve $000	Share based payments $000	Accumulated losses $000	Total equity $000
2022						
Balance at 1 July 2021	**120,785**	**(247)**	**(19)**	**6,733**	**(105,327)**	**21,925**
Profit / (loss) for the year	**-**	**-**	**-**	**-**	**786**	**786**
Other comprehensive (loss)						
Foreign currency translation difference for foreign operations	**-**	**73**	**-**	**-**	**-**	**73**
Effective portion of changes in fair value of cash flow hedges	**-**	**-**	**(575)**	**-**	**-**	**(575)**
Total comprehensive income/ (loss) for the year	**-**	**73**	**(575)**	**-**	**786**	**284**
Transactions with owners of the company:						
Share based payments expenses	**-**	**-**	**-**	**166**	**-**	**166**
Balance at 30 June 2022	**120,785**	**(174)**	**(594)**	**6,899**	**(104,541)**	**22,375**

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

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 2022

	Notes	2022 $000	2021 $000
Cash flows from operating activities			
Cash receipts in course of operations		**87,958**	87,435
Interest received		**45**	11
Interest paid		**(817)**	(1,549)
Other income		**318**	47
Cash payments in the course of operations		**(84,169)**	(78,112)
Net cash from operating activities	**B.5**	**3,335**	7,832
Cash flows from investing activities			
Acquisition costs of plant and equipment and intangible assets		**(1,861)**	(2,289)
Proceeds from government grants for capital works		**104**	372
Payment to fund business acquisition		**-**	(3,137)
Investments in Carbonix & Swoop Aero		**(1,500)**	-
Receipts/(payment) for restricted cash and term deposit		**-**	(15)
Net cash (used in) investing activities		**(3,257)**	(5,069)
Cash flows from financing activities			
Proceeds from borrowings		**6,715**	9,310
Repayment of borrowings		**(4,537)**	(10,295)
Payment of lease liabilities		**(1,308)**	(1,147)
Payment of borrowing costs		**-**	(167)
Net cash (used in) / from financing activities		**870**	(2,299)
Net (decrease) /increase in cash and cash equivalents		**948**	464
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		**(280)**	199
Cash and cash equivalents at end of period		**3,021**	2,353

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 2022

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.

Further the Company offers extensive maintenance, repair and overhaul services (MRO) across a wide range of composite, bonded and conventional metal aircraft structures to defence, government and commercial aircraft operators.

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 29 August 2022.

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 2022

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 profit after tax for the year ended 30 June 2022 of $786,000 (30 June 2021 $271,000). The Group has net assets of $22,375,000 (30 June 2021 $21,925,000) and net current assets of $12,130,000 (30 June 2021 $9,700,000). Current loans and borrowings are $4,192,000 (including lease liabilities of $1,628,000) compared to 30 June 2021 $5,739,000. Operating cash inflow for the year was $3,335,000 (30 June 2021 $7,815,000).

On 30 June 2022, debt covenant calculations deferral waivers were obtained, which defer the next testing date of the Debt to EBITDA covenant to June 2023 and next testing date of the Debt Service Cover ratio to March 2024. In addition to the fully drawn ANZ $6.0m working capital facility and fully drawn $3.8m of ANZ long term debt, on 13 July 2022 the Group established a $5.0m short term working capital facility with Export Finance Australia ('EFA'). The facility is available to draw upon until 31 December 2023 with principal amortisation from January 2023 and is drawn to $3,600,000 as at 23 August 2022. Furthermore, a customer cash advance and accelerated customer payment terms have been negotiated in August 2022 and are included in management operating cashflow forecasts.

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, the financial statements do not include any adjustments 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.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that settlement will be required and the obligation can be reliably estimated. Provisions which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the group.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

A. About this Report

Goodwill Assessment

Quickstep Holdings Ltd carries goodwill on the acquisition of QAS of $2,287,000 as at 30 June 2022 (initially recognised as at 30 June 2021). The carrying amounts of the Group's goodwill assets are reviewed and reassessed at the year-end reporting date to assess the asset's recoverable amount. The value in use method is used to assess the recoverable amount as there is no quoted price in an active market for an identical asset. 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.

Goodwill has been assessed as at 30 June 2022 and no goodwill impairment has been identified.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

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 2022 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 2022

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 Corporate and Administrative expenses
B.5 Notes to Statement of Cash Flows
B.6 Income Tax Benefit

B.1 Key Performance Measures

The key performance measures for the year were:

	2022 $000	2021 $000
Revenue	**86,675**	85,097
EBIT before impairment loss	**1,409**	2,910
EBIT	**1,409**	98
Net profit / (loss)	**786**	(271)

EBIT measure refers to profit from operating activities adjusted for foreign exchange and borrowing costs 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 2022

B. Business Performance

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 Group has identified its operating segments based on the internal reports reviewed by the CEO who is the Chief Operating Decision Maker responsible for decision making in respect of allocation of resources. The reportable segment of the group is Aerostructures, which is involved in manufacturing of aerospace composites products.

Other operations include Aftermarket, which is responsible for maintenance, repair and overhaul services and Applied Composites which provide advanced composite based engineering and manufacturing services. Aftermarket and Applied Composites do not meet the quantitative thresholds for reportable segments.

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.

	2022 $000	2021 $000
Revenue:		
United States of America	**63,219**	66,722
Australia	**23,456**	18,375
Total	**86,675**	85,097
Non-current assets:		
United States of America	-	-
Australia	**39,933**	38,292
Total	**39,933**	38,292

Operating Segment Information

	Aerostructures $'000	Other Businesses $'000	Corporate $'000	Combined QHL Group $'000
Revenue	**82,059**	**4,616**	**-**	**86,675**
Gross Margin	**15,090**	**(1,826)**	**-**	**13,264**
Other Expenses	**-**	**-**	**13,429**	**13,429**
Total Assets	**62,984**	**5,357**	**11,391**	**79,731**

The operating segment reporting model was restructured in January 2022. As a result, the Aftermarket and Applied Composites segment information for FY21 is not available, the costs to redevelop historical reporting models for comparative purposes would be prohibitive and not considered individually material for the prior year ended 30 June 2021.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

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.

	2022 $	2021 $
Profit / (loss) attributable to ordinary shareholders*	**785,615**	(270,620)

	2022 Number	2021 Number
Weighted average number of ordinary shares:		
Shares at beginning of period	**71,626,934**	71,343,530*
Shares issued during the year	**98,210**	173,934
Weighted average number of shares used as the denominator in calculating basic earnings per share	**71,725,144**	71,517,464
Adjustment for calculation of diluted earnings per share		
Under share based payment arrangements	**1,141,891**	1,043,681
Weighted average number of shares used as the denominator in calculating diluted earnings per share	**72,867,035**	72,561,145
Basic profit / (loss) cents per share	**1.10**	(0.38)
Diluted profit / (loss) cents per share	**1.08**	(0.37)

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.

* Weighted average number of shares in 2021 and opening balance for 2022 has been restated to reflect the 10 to 1 share consolidation approved by the shareholders on 18 November 2021.

B.4 Corporate and Administrative expenses

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

B. Business Performance

B.5 Notes to Statement of Cash Flows

Cash and Cash Equivalents

	2022 $000	2021 $000
Cash at bank and in hand	**3,021**	2,353

Reconciliation of Net Profit to Net Cash Provided by Operating Activities

	2022 $000	2021 $000
Profit / (loss) for the period	**786**	(271)
Adjustments for:		
ROU asset amortisation	**1,975**	1,672
Depreciation and amortisation	**2,859**	2,409
(Gains)/loss on asset disposals	**7**	(10)
Impairment loss	**-**	2,812
Share based payment expense	**166**	368
Net foreign currency losses	**346**	(282)
Legal accrual writeback	**(1,158)**	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	**(197)**	(1,129)
Increase in prepayments and other assets	**(401)**	(452)
(Increase)/decrease in inventories	**(5,250)**	476
Decrease in contract assets	**(2,242)**	1,504
Increase in deferred tax asset	**(951)**	(900)
(Decrease)/increase in trade and other payables	**7,199**	453
(Decrease)/increase in provisions	**-**	291
(Increase) /decrease in prepaid interest	**-**	-
Increase in employee benefit obligations	**196**	891
Net cash from operating activities	**3,335**	7,832

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

B. Business Performance

B.6 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:

	2022 $000	2021 $000
Current tax expense		
Current Year tax expense	**(232)**	834
Changes in estimates related to prior year	**-**	-
	(232)	834
Deferred tax expense		
Origination and reversal of temporary difference	**239**	(1,032)
Recognition of previously unrecognised tax losses	**(958)**	(702)
Income tax benefit	**(951)**	(900)

	2022 $000	2021 $000
Profit / (loss) from continuing operations	**(165)**	(1,171)
Tax expense/ (benefit) at the Australian tax rate of 30% (2020 – 30.0%)	**(50)**	(351)
Expenditure not allowable for income tax purposes	**57**	125
Origination and reversal of temporary difference	**239**	(1,032)
Effect of different tax rate for overseas subsidiaries	**(141)**	4
Deferred tax asset related to foreign jurisdictions	**141**	(4)
Current year losses for which no deferred tax asset is recognised	**-**	1,259
Tas losses brought to account	**(958)**	
Deferred tax asset recognised	**(239)**	(900)
Income tax benefit	**(951)**	(900)

Deferred tax assets/(liabilities)

Particulars	Balance as on 1 July 2021 $'000	Unrecognised tax losses $'000	Tax losses utilised $'000	Recognised in the P&L $'000	Net Balance as on 30 June 2022 $'000
Provision for Annual Leave	**564**			**(25)**	**539**
Other provisions	**155**			227	**382**
Super	**89**			(15)	**74**
Provision for LSL	**251**			81	**332**
Work in progress – deductible	**108**			38	**146**
Prov. For stock obsolescence	**(8)**			8	**-**
Lease liabilities	**5,836**			(115)	**5,721**
Other expenditure	**201**			(126)	**75**
PPE & Intangibles and ROU	**(3,797)**			166	**(3,631)**
Tax losses carried forward	**702**	958	(246)	-	**1,414**
Total deferred tax balances	**4,101**	**958**	**(246)**	**239**	**5,052**

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

B. Business Performance

B.6 Income Tax Benefit

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. The tax losses are subject to availability and continued assessment under the ATO testing rules. The amount of tax expense recognised through Other Comprehensive Income is nil (2021: nil).

Tax Losses not brought to Account

	2022 $000	2021 (*) $000
The gross amount of unused tax losses for which no deferred tax asset has been recognised	**53,046**	56,239

(*) Note: The comparative information has been restated

Tax Consolidation Legislation

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

Recognition and Measurement

Income tax

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

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

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

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

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

The Group has reviewed previously unrecognised tax losses and determined that it is probable that future taxable profits will be available against which the recognised tax losses can be utilised.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

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 Capital and Reserves
C.7 Capital and other Commitments
C.8 Provisions

C.1 Loans and Borrowings

	2022			2021		
	Current $000	Non-current $000	Total $000	Current $000	Non-current $000	Total $000
Secured bank loan	**2,564**	**1,282**	**3,846**	2,564	3,205	5,769
Secured bank loan	**2,564**	**1,282**	**3,846**	2,564	3,205	5,769
Working capital facility	**-**	**6,000**	**6,000**	1,900	-	1,900
	2,564	**7,282**	**9,846**	4,464	3,205	7,669

Term and Debt Repayment Schedule

	Effective interest rate	Year of maturity	2022 Maximum facility value $000	2021 Maximum facility value $000
Secured bank loan	3.58%	2023	**3,846**	5,769
Working capital facility	2.22%	2024	**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.

The June 2022 and September 2022 repayments have been agreed to be deferred and will be added to the June 2023 and September 2023 repayments.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

C. Capital and Financial Risk Management

C.1 Loans and Borrowings

Working capital facility

On 17 March 2022 Quickstep Holdings Limited executed a loan agreement with ANZ for $6,000,000 to refinance the existing EFA facility. The working capital facility has been extended and is required to be repaid by June 2024. The interest rate on the facility comprises a variable base rate and fixed margin.

Loan covenant

The group exceeded its EBITDA and Debt Service Cover covenant threshold in the fourth quarter of 2022. However, management obtained a waiver on 30 June 2022 from ANZ bank and deferred future covenant compliance dates for Debt to EBITDA commencing 30 June 2023 and Debt Service Cover commencing March 2023 respectively. Accordingly, the loans were not payable on demand at 30 June 2022.

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 recognizes a right-of-use asset and lease liability. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that is not available, then Group's incremental borrowing rate at the lease commencement date. Right-of-use asset is initially measured at cost and subsequently depreciated over a straight line to the end of the lease term.

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.

	2022 $000	2021 $000
Right-of-use assets:		
Opening net book amount	**16,526**	15,661
Adjustments to ROU assets due to reassessment or modification	**495**	(134)
Addition of new leases	**505**	2,671
Amortisation charge for the year	**(1,975)**	(1,672)
Closing net book amount	**15,551**	**16,526**

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

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.

	2022 $000	2021 $000
Lease liabilities:		
Current	**1,628**	1,275
Non-current	**17,443**	18,179
Total lease liabilities	**19,071**	**19,454**

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.

	2022 $000	2021 $000
AASB 16 leases:		
Interest on lease liabilities	**1,226**	1,216
Amortisation charge	**1,975**	1,672
Total expenses	**3,201**	**2,888**

Amounts recognised in Consolidated Statement of cash flows

The following table summarises cashflows related to AASB 16 leases that are included in the Consolidated Statement of Cashflows.

	2022 $000	2021 $000
AASB 16 leases:		
Total cash outflow for leases	**(1,308)**	(1,147)
Total cashflows	**(1,308)**	**(1,147)**

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

C. Capital and Financial Risk Management

C.3 Finance Income and Finance Expenses

	2022 $000	2021 $000
Finance income		
Interest income	**45**	11
Finance expenses		
Interest expense on liabilities measured at amortised cost	**(347)**	(364)
Interest expenses leased liabilities	**(1,226)**	(1,216)
Foreign currency gains or (losses)	**(346)**	282
Other expenses and adjustment to borrowing costs	**(108)**	18
Finance expenses	**(2,027)**	(1,280)
Net finance costs	**(1,982)**	(1,269)

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

	2022 $000	2021 $000
Current liability		
Forward foreign exchange contracts – cash flow hedges	**(593)**	(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 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 2022

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 not impaired.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

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:

	2022 $000	2021 $000
Australia	**2,567**	2,644
United States of America	**6,406**	6,201
	8,973	8,845

The following are the contractual maturities of Trade receivables:

At 30 June 2022	Carrying amount $000	Contractual Cash flows $000	Current $000	+30 days $000	+60 days $000	+90 days $000	+120 days $000
Trade receivables	**8,973**	**8,973**	**8,454**	**209**	**276**	**9**	**25**
At 30 June 2021							
Trade receivables	8,845	8,845	8,087	282	349	113	14

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:

At 30 June 2022	Carrying amount $000	Contractual Cash flows $000	Less than 6 months $000	6 – 12 months $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Greater than 5 years $000
Trade and other payables	**19,393**	**(19,393)**	**(19,393)**	**-**	**-**	**-**	**-**
Secured bank loan	**3,846**	**(3,846)**	**(641)**	**(1,923)**	**(1,282)**	**-**	**-**
Working capital facility – ANZ	**6,000**	**(6,000)**	**-**	**-**	**(6,000)**	**-**	**-**
Lease liabilities	**19,071**	**(19,071)**	**(852)**	**(915)**	**(1,767)**	**(3,534)**	**(12,003)**
	48,310	**(48,310)**	**(20,886)**	**(2,838)**	**(9,049)**	**(3,534)**	**(12,003)**
At 30 June 2021							
Trade and other payables	13,352	(13,352)	(13,352)	-	-	-	-
Secured bank loan	5,769	(5,769)	(1,282)	(1,282)	(2,564)	(641)	-
Working capital facility – EFA	1,900	(1,900)	(1,900)	-	-	-	-
Lease liabilities	19,454	(19,454)	(1,246)	(1,248)	(2,495)	(7,485)	(14,553)
	40,475	(40,475)	(17,780)	(2,530)	(5,059)	(8,126)	(14,553)

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

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:

	2022 $000	2021 $000
Fixed rate instruments		
Held-to-maturity term deposits	**891**	733
Variable rate instruments		
Cash and cash equivalents	**3,021**	2,353
Secured bank loan	**(3,846)**	(5,769)
Working capital facility agreement – ANZ	**(6,000)**	-
Short term facility agreement – EFA	**-**	(1,900)
Total variable rate instruments	**(6,825)**	(5,316)

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
$891,000	0.10%	18 August 2022

As at 30 June 2022 the group holds financial guarantees of $891,000 as security for its property leases. These guarantees are held in a fixed rate term deposit as detailed above.

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 FY21.

	2022 $000	2021 $000
Variable rate instruments – increase by 100 basis points	**(9)**	(53)
Variable rate instruments – decrease by 100 basis points	**9**	53

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

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:

	2022 USD 000	2022 EUR 000	2022 GBP 000	2021 USD 000	2021 EUR 000	2021 GBP000
Receivables	**6,406**	**-**	**-**	3,531	-	-
Cash	**997**	**-**	**-**	1,454	-	-
Trade payables	**(7,090)**	**(33)**	**(201)**	(3,415)	(23)	(62)
	313	**(33)**	**(201)**	1,570	(23)	(62)

The following significant exchange rates applied have been applied:

	Average rate		Year-end spot rate	
	2022	2021	2022	2021
AUD v USD	**0.7261**	0.7480	**0.6898**	0.7563
AUD v EUR	**0.6439**	0.6268	**0.6568**	0.6344
AUD v GBP	**0.5454**	0.5532	**0.5658**	0.5450

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 FY21.

	Profit or loss		Equity, net of tax	
Index	2022 $000	2021 $000	2022 $000	2021 $000
US/AUD exchange rate – increase (10%)	**(41)**	(189)	**(41)**	(189)
US/AUD exchange rate – decrease 10%	**50**	231	**50**	231
EUR/AUD exchange rate – increase (10%)	**5**	3	**5**	3
EUR/AUD exchange rate – decrease 10%	**(6)**	(4)	**(6)**	(4)
GBP/AUD exchange rate – increase (10%)	**32**	10	**32**	10
GBP/AUD exchange rate – decrease 10%	**(39)**	(12)	**(39)**	(12)
	1	39	**1**	39

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. The fair value of investments are considered Level 3 based on the recent transaction price, which is consistent between transaction date and 30 June 2022.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

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 as outlined in note A Going concern (p.23). There were no changes in the Group's approach to capital management during the year.

Movements in Share Capital

	2022 Shares	2021 Shares	2022 $000	2021 $000
Opening balance	**716,269,344**	713,435,303	**120,785**	120,785
Consolidation of Issued Shares	**(644,641,340)**	-	**-**	-
Shares issued under share based payments arrangements	**-**	2,834,041	**-**	-
Shares issued to Quickstep Employee Exempt Share Plan	**98,210**	-	**-**	-
Closing balance	**71,726,214**	716,269,344	**120,785**	120,785

During the year, the Company issued NIL (2021: 2,834,0141) shares pursuant to share-based payment arrangements with certain key management personnel and issued 98,201 (2021: NIL) shares to its employees under Exempt Share Plan.

The Company consolidated its issued share capital (in the ratio of one share for every 10 shares held) at its 2021 Annual General Meeting of Shareholders on 18 November 2021.

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 2022

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:

	2022 $000	2021 $000
Property, plant and equipment	**52**	289

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:

	2022 $000	2021 $000
Cash and cash equivalents	**3,021**	2,353
Trade and other receivables	**9,043**	8,844
Inventories	**14,910**	**9,660**
Property, plant and equipment	**13,998**	**14,995**

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

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

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

C.8 Provisions

	Restructuring costs $000	Make good provision $000	Total $000
Balance at 1 July 2021	-	**3,448**	**3,448**
Provisions made during the year	-	-	-
Provisions used during the year	-	-	-
Balance at 30 June 2022	-	**3,448**	**3,448**

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 2022

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 and Software

D.5 Intangibles

D.6 Goodwill

D.1 Trade and Other Receivables

	2022 $000	2021 $000
Current assets		
Trade receivables	**8,973**	8,744
Other receivables	**70**	101
	9,043	8,845

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 2022

D. Operating Assets and Liabilities

D.2 Inventories

	2022 $000	2021 $000
Current assets		
Raw materials and consumables	**14,733**	9,239
Work in progress	**177**	421
	14,910	9,660

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

	2022 $000	2021 $000
Current	**10,294**	8,051

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 2022

D. Operating Assets and Liabilities

D.4 Property, Plant and Equipment and Software

	Plant and equipment $000	Assets under construction $000	Office furniture & equipment $000	Software $000	Total $000
June 2022					
Opening net book amount	**12,997**	**1,602**	**396**	**382**	**15,378**
Additions	**-**	**1,280**	**-**	**-**	**1,280**
Acquired through business combination	**-**	**-**	**-**	**-**	**-**
Government funding received	**(104)**	**-**	**-**	**-**	**(104)**
Transfers from assets under construction	**1,660**	**(2,638)**	**884**	**94**	**-**
Disposals	**(5)**	**-**	**-**	**-**	**(5)**
Amortisation of grant	**309**	**-**	**-**	**-**	**309**
Depreciation charge	**(2,530)**	**-**	**(176)**	**(153)**	**(2,859)**
Impairment charge	**-**	**-**	**-**	**-**	**-**
Closing net book amount	**12,328**	**245**	**1,103**	**323**	**13,999**
Cost	**43,057**	**245**	**2,165**	**2,028**	**47,495**
Accumulated depreciation	**(30,729)**	**-**	**(1,062)**	**(1,705)**	**(33,496)**
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
Customer and 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
Cost	39,854	1,602	1,271	1,242	42,285
Accumulated depreciation	(26,857)	-	(875)	(859)	(28,591)

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

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.

The impairment charge in 2021 related to the write down in the carrying value of the flare housing facility due to the unsuccessful proposal to supply MJU-68B flare housings to Chemring Australia.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

D. Operating Assets and Liabilities

D.5 Investments

	June 2022 $000	June 2021 $000
Non-current Investments	**3,044**	-

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 July 2022. The $1.5m obligation under the SSA is recorded in Other Liabilities. On 18 March 2022 the automatic conversion to equity was triggered by a qualifying finance event. Quickstep earnt interest on the Convertible Note to 16 March 2022 – being $43,539. Total Conversion Value is $2,000,000 plus $43,539 in Interest.

The fair value of these Level 3 Investments is based on the recent third party prices, which is consistent between the Quickstep transaction date and 30 June 2022.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

D. Operating Assets and Liabilities

D.6 Goodwill

Assessing for impairment to Goodwill

The group tests property, plant and equipment and intangible assets for impairment to ensure they are not carried at above their recoverable amounts:

- at least annually for goodwill
- where there is an indication that the assets may be impaired (which is assessed at least each reporting date).

These tests for impairment are performed by assessing the recoverable amount of each individual asset or, if this is not possible, then the recoverable amount of the cash generating unit (CGU) to which the asset belongs. CGUs are the lowest levels at which assets are grouped and generate separately identifiable cash flows. The recoverable amount is determined each reporting period using the CGU's fair value which is calculated using the discounted cash flows expected to arise from the asset. Management judgment is required in these valuations to forecast future cash flows and to determine a suitable discount rate in order to calculate the present value of these future cash flows.

If the recoverable amount of a cash generating unit is estimated to be less than its carrying amount, the carrying amount of the cash generating unit is reduced to its recoverable amount with any impairment recognised through the statement of comprehensive income.

The carrying amount of QAS goodwill is $2,287,000 (30 June 2021: $2,287,000). The recoverable amounts of the cash generating units that include goodwill are determined using discounted cash flow projections.

Key assumptions used in the impairment assessments:

- Cash flow forecasts: The cash flows are modelled over a five-year period with a terminal value used from year six onwards. The first five years represent financial plans forecast by management, based on the group's view of the most recent outlook on MRO activity levels, with the terminal year representing long-term average activity levels.
- Pre-tax discount rate: The valuation is calculated using an annual discount rate of 10.32%.
- Terminal value: The terminal value annual growth rate assumed is 3.35%.

Key assumptions used in the impairment assessment are consistent with those outlined above. The cash flow forecast for QAS assumes a recovery in market activity. Following the detailed impairment review of future cash flow projections, the recoverable amount of the CGU is estimated to exceed the carrying amount of the CGU at 30 June 2022. The impact of reasonable possible changes in key assumptions has also been considered and no goodwill impairment has been identified.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

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

	2022 $000	2021 $000
Employee benefit obligation		
- Annual leave (current)	**1,990**	2,073
- Long service leave (non-current)	**1,515**	1,235
	3,505	3,308

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

	2022 $000	2021 $000
Wages and salaries	**26,916**	24,951
Defined superannuation contribution expense	**2,289**	2,353
Increase in leave liabilities	**197**	891
Share based payments expense	**166**	368
	29,568	28,563

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

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:

	2022 $000	2021 $000
Short-term employee benefits	**1,284**	1,162
Share-based payments	**154**	221
	1,438	1,383

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 2022

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. The Board reviews the Rights Plan from time to time and adjusts the Rules to ensure the IRP continues to reflect market practice and remained appropriate for the Company. These Revised Rules were approved by shareholders at the Company's 2019 Annual General Meeting on 18 November 2021.

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 2022 an expense of $98,000 (2021: $387,000) 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	FY18	FY19	FY20	FY21	FY22 Director Rights	FY22 Management Rights
Grant date	1/12/2017	1/09/2018	1/09/2019	15/01/2021	18/11/2021	16/12/2021
First testing date	31/08/2020	31/08/2021	31/08/2022	31/08/2023	1/09/2024	1/09/2024
Expiry date	31/08/2022	31/08/2023	31/08/2024	31/08/2025	1/09/2024	1/09/2024
Share price at grant date	$0.09	$0.09	$0.12	$0.09	$0.52	$0.45
Expected life (years)	3.1	3.3	3.3	3	2.8	2.7
Risk free factor	1.93%	2.03%	1.04%	0.11%	0.97%	1.00%
Volatility of QHL	40%	40%	50%	55%	55%	55%
Volatility of AOAI	12%	12%	12%	20%	-	-
Volatility of XSO	-	-	-	-	21%	21%
Dividend yield	0%	0%	0%	0%	0%	0%

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

E. Employee Benefits

E.4 Quickstep Incentive Rights Plan (IRP)

Rights

Movements in unissued shares under rights:

	2022 No of rights	2021 No of rights
Opening balance	**34,577,143**	31,118,897
Consolidation of Rights Granted	**(31,119,429)**	
Granted during the year	**927,515**	9,242,025
Rights vested	**-**	(363,870)
Rights forfeited/lapsed	**(1,608,402)**	(5,419,909)
Closing balance	**2,776,827**	34,577,143

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

In 2022, Employees are eligible to receive short term incentives (STI) in cash based on achievement of key performance indicators (KPIs), noting that certain executives received their STI in shares in 2022. 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.

In 2022 NIL (2021: 1,296,522) shares were issued to employees in relation to Short Term Incentive.

Notes to the Consolidated Financial Statements

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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 2022 %	Ownership Interest 2021 %
Parent entity			
Quickstep Holdings Limited	Australia		
Controlled entities			
Quickstep Technologies Pty Limited *	Australia	**100**	100
Quickstep Systems Pty Limited *	Australia	**100**	100
Quickstep GmbH	Germany	**100**	100
Quickstep Automotive Pty Limited *	Australia	**100**	100
Quickstep Aerospace Pty Limited *	Australia	**100**	100
Quickstep USA Inc.	USA	**100**	100
Quickstep Aerospace Services Pty Limited*	Australia	**100**	100
Quickstep Unmanned Services Pty Limited^	Australia	**n/a**	100

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

^ De-registered during the year.

F.2 Parent Entity Financial Information

As at, and throughout, the financial year ending 30 June 2022 the parent entity of the Group was Quickstep Holdings Limited.

	2022 $000	2021 $000
Results of the parent entity		
(Loss) for the year	**(2,981)**	(7,138)
Total Comprehensive (loss)	**(2,981)**	(7,138)
Financial position of the parent entity at year end		
Total assets	**11,427**	8,780
Total liabilities	**(3,403)**	(9,119)
Net assets / (liabilities)	**8,024**	(339)
Total equity of the parent entity comprises		
Share capital	**120,785**	120,785
Share based payments reserve	**6,899**	6,733
Accumulated losses	**(119,660)**	(127,857)
Total equity	**8,024**	(339)

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

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.

Statement of Profit and other Comprehensive Income	**2022 $000**	**2021 $000**
Revenue	**86,675**	84,286
Profit / (loss) before income tax	**(1,081)**	(325)
Income tax benefit	**951**	900
Profit for the year	**(130)**	575
Cash flow hedges	**(575)**	22
Total comprehensive income for the year	**(704)**	597
Balance Sheet		
Assets		
Current assets		
Cash and cash equivalents	**2,949**	2,304
Term deposits	**891**	733
Trade and other receivables	**9040**	8,102
Contract asset	**10,294**	8,052
Prepayments and other assets	**1,640**	915
Inventories	**14,910**	9,008
Total current assets	**39,725**	29,114
Non-current assets		
Property, plant and equipment and software	**13,675**	14,622
Right-of-use asset	**15,551**	13,985
Goodwill	**2,610**	2,287
Investments	**3,044**	-
Deferred tax asset	**5,052**	4,101
Total non-current assets	**39,932**	34,995
Total assets	**79,657**	64,109
Liabilities		
Current liabilities		
Trade and other payables	**20,781**	11,531
Provisions	**-**	-
Financial instruments	**593**	18
Loans and borrowings	**2,564**	4,464
Lease liabilities	**1,628**	983
Employee benefit obligations	**1,990**	2,072
Total current liabilities	**27,556**	19,068
Non-current liabilities		
Loans and borrowings	**180**	3,205
Lease liabilities	**17,443**	15,874
Provisions	**3,448**	3,189
Employee benefit obligations	**1,515**	1,236
Total non-current liabilities	**22,586**	23,504
Total liabilities	**50,142**	42,572
Net assets	**29,515**	21,537
Equity		
Share capital	**120,749**	120,785
Reserves	**6,976**	7,385
Accumulated losses	**(98,210)**	(106,633)
Total equity	**29,515**	21,537

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

F. Other Disclosures

F.4 Auditor's Remuneration

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

	2022 $	2021 $
Audit services	**245,000**	223,400
Other services		
Accounting and tax services	-	11,385
Total non-audit fee	-	11,385
	245,000	234,785

F.5 Business Combinations

	2022 $000	2021 $000
Property, plant and equipment	-	**498**
Rotable assets	-	**250**
Right of use asset	-	**2,671**
Inventory and consumables	-	**455**
Employee liabilities	-	**(591)**
Lease liability	-	**(2,671)**
Make good provision	-	**(259)**
Identifiable net assets acquired (fair value)	-	**353**
Add: Goodwill	-	**2,287**
Total assets acquired	-	**2,640**

During the year ended 30 June 2022 there were no investments made resulting in a business combination.

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.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

F. Other Disclosures

F.6 Subsequent Events

Management have considered the matters or circumstances that have arisen since 30 June 2022 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 events are disclosed.

Export Finance Australia loan facility

In July 2022, the Group executed a new loan facility with Export Finance Australia for the amount of $5.0 million. The term of the new facility is 18 months ending 31 December 2023. This new facility will be applied to fund additional interim working capital requirements arising from H2 FY22 operational challenges. Investigation of further funding sources to support the Group's operational and strategic requirements continues. Furthermore, a customer cash advance and accelerated customer payment terms have been negotiated in August 2022.

Other than the matters disclosed above, no matter or circumstance has arisen since 30 June 2022 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

F.7 New Accounting Standards Not Yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2022 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

Director's Declaration

for the year ended 30 June 2022

In the Directors' opinion:

(a) the consolidated financial statements and notes set out on pages 25 to 63 and the Remuneration report on pages 17 to 24 in the Director's 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 2022 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 2022.

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

29 August 2022
Sydney, New South Wales

Auditor's Independence Declaration

KPMG

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 2022 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Daniel Camilleri
Partner
Sydney
29 August 2022

Independent Auditor's Report

KPMG

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 2022 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 2022;
- 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 2022;
- Notes including a summary of significant accounting policies;
- 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.

Independent Auditor's Report

Key Audit Matters

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

- Revenue recognition
- Going concern basis of accounting
- 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 ($86,675,000)	
Refer to Note B.1 'Key Performance Measures' to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The Group generates revenue through sale of goods to customers under contractual arrangements and the Group's policy is that 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 judgement required to determine the timing of revenue recognition, the significance of the quantum of revenue recognised combined with the large volume of transactions. This necessitated additional audit effort across the transactions.	Our procedures included: • Obtaining an understanding of the Group's process for revenue recognition and assessing 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, certificates of conformity, customer signed dispatch dockets or other signed evidence of delivery and remittance advice (where applicable); • Selecting a sample of pre and post year end revenue transactions and assessing the recognition of revenue in the period to underlying certificates of conformity, customer signed dispatch dockets or other signed evidence of delivery and remittance advice (where applicable) or other evidence that performance obligations have been met; • 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; • Evaluating the Group's revenue disclosures in the financial report using our understanding obtained from our testing and against accounting standard requirements.

Independent Auditor's Report

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**
The Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required by us in evaluating the Group's assessment of going concern and the events or conditions which may cast significant doubt on their ability to continue as a going concern. These are outlined in Note A. The Directors have prepared the financial report on a going concern basis of accounting. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated a number of assumptions and significant judgements. The range of possible outcomes considered in arriving at this judgement has been concluded by the Directors to not give rise to significant uncertainty casting significant doubt on the Group's ability to continue as a going concern. We critically assessed the levels of uncertainty, as it is related to the Group's ability to continue as a going concern, within these assumptions and judgements, focusing on the following: • the Group's planned levels of operational expenditure including efficiencies and, improvement in working capital. This included the feasibility, projected timing, and quantum of potential improvements in working capital and efficiencies and progress of these plans; • the Group's planned deferral of payment terms with creditors, and the ability of the Group to negotiate the deferral with creditors; and • the Group's ability to secure additional funding via a customer advance and accelerated customer payment terms and the projected timing thereof. In assessing this key audit matter, we involved senior audit team members who understand the Group's business, industry and the economic environment it operates in.	Our procedures included: • We analysed the cash flow projections by: - Evaluating the underlying data used to generate the projections. We specifically looked for their consistency with those used by the Directors, and tested by us, their consistency with the Group's intentions, and their comparability to past practices; - Analysing the impact of possible changes in projected cash flows and their timing, to the projected periodic cash positions. Assessing the resultant impact to the ability of the Group to pay debts as and when they fall due and continue as a going concern. The specific areas we focused on were informed from our test results of the accuracy of previous Group cash flow projections and sensitivity analysis on key cash flow projection assumptions; - Assessing the planned levels of operating 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 of the Group; - Assessing 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; - Assessing the ability of the Group to negotiate the deferral of payment terms with creditors, and reading relevant correspondence with creditors; - Assessing the ability of the Group to secure additional funding via a customer advance, and accelerated customer payment terms, and reading relevant correspondence with the customer; • We read correspondence with existing financiers to understand and assess the options available to the Group including renegotiation of existing

Independent Auditor's Report

	debt facilities, waivers in meeting financial loan covenants and negotiation of revised funding arrangements; • We evaluated the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements.

Recognition of deferred tax assets $5,052,000	
Refer to Note A 'About this report' and B.6 'Income Tax Benefit' to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The recoverability of deferred tax assets (DTA) is dependent on the ability of the Group to generate sufficient taxable income in the future to which the historical tax losses can be applied. This is a key audit matter due to the 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. We involved our tax specialists and senior audit team members in assessing this key audit matter.	Our procedures included: • Involving our tax specialists in assessing the Group's continuity of ownership assessment and the tax loss availability for consistency with regulatory parameters and legislation; • Comparing the forecasts included in the Group's estimate of future taxable income used in the DTA recoverability assessment to those used in the Group's assessment of the going concern assumption for consistency. Our approach in testing these forecasts was consistent with the approach detailed above in addressing material uncertainty regarding going concern; • Understanding the timing of future taxable income and considering the consistency of the timeframes of expected recovery to our knowledge of the business and its plans; and • Evaluating the Group's tax disclosures in the financial report by comparing them to our understanding of the tax matters occurring during the year, and accounting standard requirements.

Independent Auditor's Report

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.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' report. The Chairs Report, CEO & MD Review, and other sections of the Annual Report before the Directors' Report are expected to be made available to us after the date of the Auditor's Report.

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

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
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf .This description forms part of our Auditor's Report.

Independent Auditor's Report

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Quickstep Holdings Limited for the year ended 30 June 2022, 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 17 to 24 of the Annual Report for the year ended 30 June 2022.

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

KPMG

KPMG

Daniel Camilleri

Partner

Sydney

29 August 2022

Shareholder Information

for the year ended 30 June 2022

The shareholder information set out below was applicable as at 08 August 2022.

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 7,288,259 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 08 August 2022:

Ordinary fully paid shares

Range	Holders	Units	%
1 - 1,000	1,194	711,985	0.99
1,001 - 5,000	2,067	5,399,193	7.53
5,001 - 10,000	654	5,000,909	6.97
10,001 - 100,000	871	25,642,016	35.75
100,001 - Over	74	34,972,111	48.76
Total	4,860	71,726,214	100.00

Performance Rights

Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	2	87,022	3.13
100,001 - Over	5	2,689,805	96.87
Total	7	2,776,827	100.00

E. Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being $500 parcel at $0.42 per share):

Holders	Units
1,360	894,659

Shareholder Information

for the year ended 30 June 2022

F. Top holders

The 20 largest registered holders of each class of quoted security as at 08 August 2022 were:

Rank	Holder Name	Securities	%
1	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	7,353,159	10.25
2	DEAKIN UNIVERSITY	3,333,334	4.65
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,500,042	3.49
4	CARRIER INTERNATIONAL PTY LIMITED <SUPER FUND A/C>	2,191,628	3.06
5	SANDHURST TRUSTEES LTD <CYAN C3G FUND A/C>	1,798,544	2.51
6	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	1,427,845	1.99
7	FARJOY PTY LTD	1,368,099	1.91
8	ROMSUP PTY LTD <ROMADAK SUPER FUND A/C>	881,243	1.23
9	VCM INVESTMENTS PTY LTD	804,732	1.12
10	CITICORP NOMINEES PTY LIMITED	689,277	0.96
11	WSF PTY LTD <WOODSTOCK SUPER FUND A/C>	641,533	0.89
12	EXWERE INVESTMENTS PTY LTD <EXWERE SUPER FUND A/C>	540,000	0.75
13	HOBSON COVE PTY LTD <ELDER HEIGHTS EIGHTH A/C>	500,000	0.70
14	MR ANDREW JAMES VERCETTI	430,515	0.60
15	EQUITY PLAN SERVICES PTY LTD	403,461	0.56
16	MR RENE ENJOLRAS	373,065	0.52
17	YARRAANDOO PTY LTD <YARRAANDOO SUPER FUND A/C>	350,994	0.49
18	MR DAVID CREIGHTON GELLATLY	350,000	0.49
19	MR JAMES WINSTON HUNTER + MRS ELIZABETH JOAN HENDERSON-HUNTER <H&H SUPERANNUATION FND A/C>	307,785	0.43
20	MR RONALD SMIT + MRS JULIE MARIE SMIT <LUCKY JAR SUPERFUND A/C>	291,474	0.41
Total		**26,536,70**	**37.00**

Corporate Directory

for the year ended 30 June 2022

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

Email: info@quickstep.com.au

Registered Office

361 Milperra Road
Bankstown Airport
New South Wales 2200
Australia

Auditor

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

Share registry

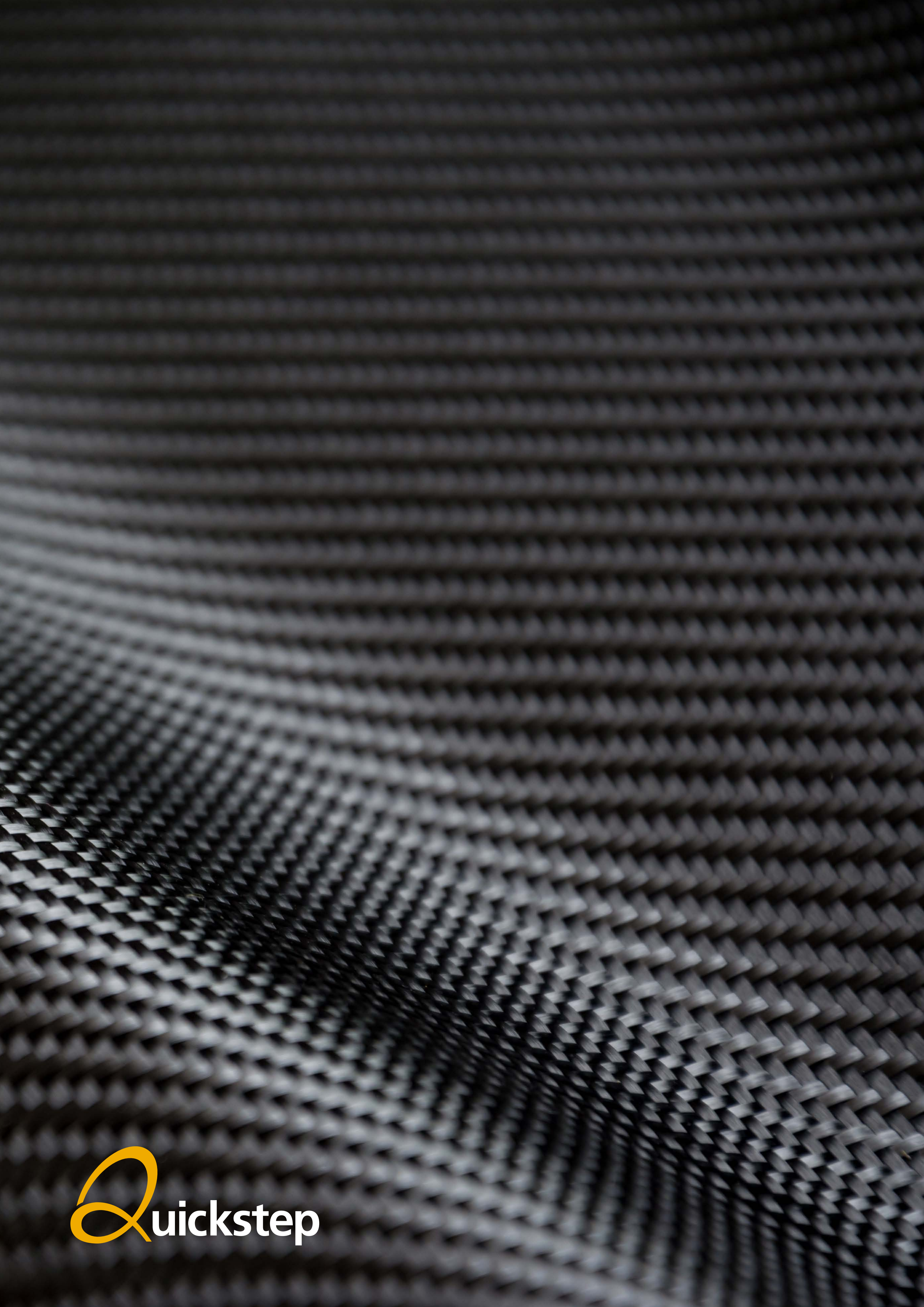
Computershare Investor Services Pty Ltd
452 Johnston Street
Abbotsford
Victoria 3067
Telephone +61 3 9415 5000

Stock Exchange

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

ASX Code: QHL

Jay Hide Manufacturing Operator, Fabrication


Quickstep