

Quickstep Holdings Limited

ABN: 55 096 268 156

Interim Financial Report for the half year ended 31 December 2023

Interim Financial Report

For the half-year ended 31 December 2023

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Directors' Report

The Directors present their report on the consolidated entity consisting of Quickstep Holdings Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2023. Throughout the report, the consolidated entity is referred to as the "Group" or "Quickstep".

Directors

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

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

Review of Operations

The H1 FY24 Group performance demonstrates the continued recovery for Quickstep with improved results in the core Aerostructures business and greatly improved performance in the Aftermarket business. Notable in these results are productivity improvements in Aerostructures which delivered a 5% lift in gross margin on the same period last year while Aftermarket saw 117% revenue growth on the same period last year.

Total Revenue for the H1 FY24 of \$52.1 million (H1 FY23 \$45.5 million) represents a 15% increase on the prior half-year. The revenue increase is attributable to strong production volume and improved productivity in the Aerostructures business which was up \$2.8 million or 7% along with a very encouraging \$3.4 million or 117% growth in Aftermarket. The Applied Composites business delivered growth of \$0.5 million or 85%.

The H1 FY24 \$5.6 million Gross Profit (H1 FY23 \$4.3 million) represents a \$1.3 million or 29% improvement reflecting the business's focus on productivity. Consistent production volumes throughout H1 FY24 in the Aerostructures business and increased volume in the Aftermarket business along with direct productivity measures across the business are starting to deliver improved results.

The H1 FY24 EBIT of \$1.1 million loss is a significant improvement on the H1 FY23 loss of \$3.6 million. Similarly, the Loss after Interest and Tax reduced to \$2.3 million from \$4.4 million in the same period last year.

Net debt as at 31 December 2023 was \$7.2 million (down from \$7.7 million at 30 June 2023).

Cash from operating activities of \$1.8 million for H1 FY24 reflects the improved operating performance of the business with strong customer receipts and ongoing cost and cashflow initiatives. This was an improvement of \$4.6 million on H1 FY23.

Directors' Report

Subsequent events

In January 2024, Quickstep changed its organisation structure to two operating Lines of Business – being Quickstep Structures and Quickstep Services. To align our business structure with key priorities we have simplified our operating structure absorbing our Applied Composites line of business into our core manufacturing operations which will be referred to as Quickstep Structures. The Aftermarket line of business which includes our commercial and defence MRO operations will be referred to as Quickstep Services.

Auditor's Independence Declaration

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

Rounding of Amounts

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

This report is made in accordance with a resolution of Directors on 22 February 2024.



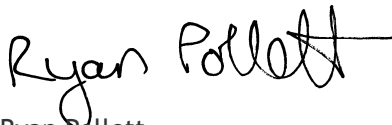
M H Burgess
Director
Sydney, New South Wales

DECLARATION OF INDEPENDENCE BY RYAN POLLETT TO THE DIRECTORS OF QUICKSTEP HOLDINGS LIMITED

As lead auditor for the review of Quickstep Holdings Limited for the half-year ended 31 December 2023, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Quickstep Holdings Limited and the entities it controlled during the period.



Ryan Pollett
Director

BDO Audit Pty Ltd

Sydney, 22 February 2024

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Quickstep Holdings Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Quickstep Holdings Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2023 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other matter

The financial report of Quickstep Holdings Limited for the year ended 30 June 2023 was audited by another auditor who expressed an unmodified opinion on that report on 25 August 2023.

Material uncertainty relating to going concern

We draw attention to Note A.2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Responsibility of the directors for the financial report

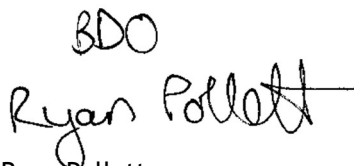
The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

BDO Audit Pty Ltd

A handwritten signature in black ink that reads 'Ryan Pollett'. Above the signature, the letters 'BDO' are handwritten in a similar style.

Ryan Pollett
Director

Sydney, 22 February 2024

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

for the half-year ended 31 December 2023

	Notes	31 Dec 2023 \$000	31 Dec 2022 \$000
Revenue	B.1	52,123	45,445
Cost of sales of goods		(46,551)	(41,134)
Gross profit		5,572	4,311
Other income		13	111
Research and development expenses		(747)	(541)
Business development expenses		(567)	(607)
Corporate and administrative expenses		(5,066)	(4,222)
Impairment expenses		-	(2,287)
(Loss)/Profit from operating activities		(795)	(3,235)
Finance income	C.4	33	19
Finance expenses	C.4	(1,370)	(1,370)
Net finance costs		(1,337)	(1,351)
Profit/(Loss) before income tax		(2,132)	(4,586)
Income tax (benefit)/expense	B.2	(166)	162
(Loss)/Profit for the half year		(2,298)	(4,424)
Other comprehensive income/(loss) net of income tax			
Item that may be reclassified to profit or loss			
Cash flow hedges		320	192
Exchange difference on translation of a foreign operation		28	(176)
Other comprehensive income/(loss) for the half-year, net of income tax		348	16
Total comprehensive (loss) for the half year		(1,950)	(4,408)
Profit per share:		Cents	Cents
Basic (loss) per share		(3.20)	(6.17)
Diluted (loss) per share		(3.20)	(6.17)

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

Condensed Consolidated Balance Sheet

as at 31 December 2023

	Notes	Dec 2023 \$'000	Jun 2023 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		5,483	5,611
Trade and other receivables	D.1	16,682	12,297
Prepayment and other assets		1,208	1,715
Financial instruments	C.2	311	-
Inventories	D.2	13,591	12,902
Contract assets	D.3	9,570	11,158
Total current assets		46,845	43,683
Non-current assets			
Property, plant and equipment and intangibles	D.4	10,875	11,819
Right-of-use asset		12,634	13,649
Investments	D.5	3,585	3,044
Deferred tax asset	B.2	5,271	5,530
Total non-current assets		32,365	34,042
Total assets		79,210	77,725
LIABILITIES			
Current liabilities			
Trade and other payables		12,165	13,489
Financial instruments	C.2	-	101
Loans and borrowings	C.1	12,700	1,200
Contract Liabilities	D.3	14,797	8,868
Lease Liabilities		2,122	1,856
Employee benefit obligations		2,172	2,046
Total current liabilities		43,956	27,560
Non-current liabilities			
Loans and borrowings	C.1	-	12,100
Lease Liabilities		14,550	15,697
Provisions		3,448	3,448
Employee benefit obligations		1,846	1,702
Total non-current liabilities		19,844	32,947
Total liabilities		63,800	60,507
Net assets		15,410	17,218
EQUITY			
Share capital	C.5	120,785	120,785
Reserves		7,173	6,683
Accumulated losses		(112,548)	(110,250)
Total equity		15,410	17,218

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

Condensed Consolidated Statement of Changes in Equity

for the half-year ended 31 December 2023

	Share capital \$000	Foreign currency translation reserve \$000	Cash flow hedges reserve \$000	Share based payments \$000	Accumulated losses \$000	Total equity \$000
Dec 2023						
Balance at 1 July 2023	120,785	(367)	(102)	7,152	(110,250)	17,218
(Loss) for the half year	-	-	-	-	(2,298)	(2,298)
Other comprehensive income/(loss)						
Foreign currency translation difference for foreign operations	-	28	-	-	-	28
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	320	-	-	320
Total comprehensive income for the half year	-	28	320	-	(2,298)	(1,950)
Transactions with owners of the company:						
Share based payments expenses	-	-	-	142	-	142
Balance at 31 December 2023	120,785	(339)	218	7,294	(112,548)	15,410

Dec 2022						
Balance at 1 July 2022	120,785	(174)	(594)	6,899	(104,541)	22,375
Loss for the half year	-	-	-	-	(4,424)	(4,424)
Other comprehensive income / (loss)						
Foreign currency translation difference for foreign operations	-	(176)	-	-	-	(176)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	192	-	-	192
Total comprehensive income / (loss) for the half year	-	(176)	192	-	(4,424)	(4,408)
Transactions with owners of the company:						
Share based payments expenses	-	-	-	234	-	234
Balance at 31 December 2022	120,785	(350)	(402)	7,133	(108,965)	18,201

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

Condensed Consolidated Statement of Cash Flows

for the half-year ended 31 December 2023

	Dec 2023 \$000	Dec 2022 \$000
Cash flows from operating activities		
Cash receipts in course of operations	55,790	53,927
Interest received	33	19
Interest paid	(490)	(251)
Cash payments in the course of operations	(53,552)	(56,468)
Net cash from operating activities	1,781	(2,773)
Cash flows from/ (used in) investing activities		
Acquisition costs of plant and equipment and intangible assets	(206)	(947)
Disposal of plant and equipment and intangible assets	13	-
Proceeds from customer and government funding of capital works	440	-
Net cash from/ (used in) investing activities	247	(947)
Cash flows from/ (used in) financing activities		
Proceeds from borrowings	-	5,000
Repayment of borrowings	(600)	(641)
Repayment of lease liabilities	(1,420)	(1,367)
Net cash (used in) / from financing activities	(2,020)	2,992
Net increase in cash and cash equivalents	8	(728)
Cash and cash equivalents at the beginning of the financial year	5,611	3,021
Effects of exchange rate changes on cash and cash equivalents	(136)	(440)
Cash and cash equivalents at end of half year	5,483	1,853

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

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2023

A. About this Report

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

A.1 General Accounting Principles

A.2 Accounting Estimates and Judgements

A.1 General Accounting Principles

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

The Financial Report does not include all the information required for a complete set of annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 30 June 2023.

These interim financial statements were authorised for issue by the Board of Directors on 22 February 2024.

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.

The interim financial statements are presented in Australian dollars.

Rounding of Amounts

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

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2023

A. About this Report

A.2 Accounting Estimates and Judgements

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

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

Going Concern

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

The Group has generated a loss after tax for the period ended 31 December 2023 of (\$2.3 million) (half-year to 31 December 2022 loss of (\$4.4 million)). The Group has net assets of \$15.4 million (30 June 2023 \$17.2 million) and net current assets of \$2.9 million (30 June 2023 \$16.1 million). Current loans and borrowings are \$14.8 million (including lease liabilities of \$2.1m) compared to 30 June 2023 \$3.1 million. Operating cash inflow for the period was \$1.8 million (half year to 31 December 2022 outflow of (\$2.8 million)).

Profitability and operating cash flow are both expected to improve over H2 FY24 and FY25 benefiting from an increase in profits on the back of higher production output against contracted revenue, an ongoing focus on cost control and new business in both the Aftermarket and Composite Technology lines-of-business.

Management have prepared 18-month cashflow forecasts underpinning the basis of preparation as a going concern. Management prepared cashflow forecasts for the Group are dependent on a combination of the following assumptions:

- securing additional funding in January 2024 via a customer performance-based payment, which has been received on 1st February 2024.
- continuing the implementation of cash management controls including agreement with creditors of interim deferred payment terms.
- executing on plans to return to a lower level of working capital inventory through a combination of reduced purchasing and a return to normalised production.
- on-going support from financiers in amending the facility agreement to accommodate forecasted covenant breaches for the third and fourth quarters of the 2024 financial year.
- Whilst the secured loan and working capital facility remain fully drawn, an asset financing facility of \$1.0m is undrawn and available for use.

The going concern basis presumes that a combination of the above funding and operational solutions, as deemed appropriate by the Directors, will be achieved and that the realisation of assets and settlement of liabilities will occur in the normal course of business. The group had not met gross leverage and debt service cover covenant thresholds in the second quarter of 2024 financial year. However, management obtained a waiver prior to 31 December 2023 that contained administrative conditions to be met by 30 January 2024, which have been completed and met and accordingly the loans are not payable on demand. Given the timing of the conditions crossed the half year review period, in accordance with *AASB 101 Presentation of Financial Statements* the secured loan and working capital facility have been reclassified to current liabilities. Upon confirmation from CBA that all conditions of the waiver have been met, during the second half of FY24 the non-current portion of the loan will be reclassified to non-current liabilities. There is a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2023

B. Business Performance

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

B.1 Segment Reporting

B.2 Income Tax Losses not brought to Account and Deferred Tax Assets

B.1 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 segments of the group are Aerostructures, which is involved in manufacturing of aerospace composites products, Aftermarket, which is responsible for maintenance, repair and overhaul services and Applied Composites which provide advanced composite based engineering and manufacturing services.

Dec 2023	Aerostructures \$'000	Aftermarket \$'000	Applied Composites \$'000	Corporate \$'000	Combined QHL Group \$'000
Revenue	44,852	6,230	1,041	-	52,123
Gross Profit	7,390	(951)	(867)	-	5,572
Other Expenses	-	-	-	(7,704)	(7,704)
Profit before income tax	-	-	-	-	(2,132)
Total Assets	58,511	9,453	2,822	8,424	79,210

Dec 2022	Aerostructures \$'000	Aftermarket \$'000	Applied Composites \$'000	Corporate* \$'000	Combined QHL Group \$'000
Revenue	42,013	2,870	562	-	45,445
Gross Profit	7,023	(2,240)	(472)	-	4,311
Other Expenses	-	-	-	(8,897)	(8,897)
Profit before income tax	-	-	-	-	(4,586)
Total Assets	57,061	6,340	1,292	9,646	74,339

* Note: The comparative information has been restated.

B.2 Income Tax Losses not brought to Account and Deferred Tax Assets

Tax Losses not brought to account

	31 Dec 2023 \$000	30 Jun 2023 \$000
The gross amount of unused tax losses for which no deferred tax asset has been recognised	59,800	57,614

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2023

B. Business Performance

Deferred tax assets/(liabilities)

Particulars	Balance as on 1 July 2023 \$'000	Unrecognised tax losses \$'000	Tax losses utilised \$'000	Recognised in the P&L \$'000	Recognised in the OCI \$'000	Net Balance as on 31 Dec 2023 \$'000
Provision for Annual Leave	614	-	-	38	-	652
Other provisions	621	-	-	(445)	-	176
Super	76	-	-	(9)	-	67
Provision for LSL	511	-	-	43	-	554
Work in progress – deductible	79	-	-	172	-	251
Lease liabilities	5,266	-	-	(264)	-	5,002
Other expenditure	9	-	-	(5)	-	4
PPE & Intangibles and ROU	(3,060)	-	-	304	-	(2,756)
Derivative Financial Asset	-	-	-	-	(93)	(93)
Tax losses carried forward	1,414	-	-	-	-	1,414
Total deferred tax balances	5,530	-	-	(166)	(93)	5,271

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

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

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

The Group continues to review previously unrecognised tax losses. Additional losses recognised at 31 December 2023 was \$nil (compared to \$nil for the year end 30 June 2023).

Effective Income Tax Rate

The effective income tax rate for the half year ended 31 December 2023 was (7.79%). The tax rate resulted from net loss before tax, tax differential relating to foreign tax jurisdictions and deferred tax assets and liabilities movements.

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2023

C. Capital and Financial Risk Management

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

- C.1 Loans and Borrowings**
- C.2 Financial Instruments**
- C.3 Financial Risk Management**
- C.4 Finance Income and Finance Costs**
- C.5 Share Capital**
- C.6 Capital and other Commitments**

C.1 Loans and Borrowings

	Current \$000	Dec 2023 Non- current \$000	Total \$000	Current \$000	June 2023 Non- current \$000	Total \$000
Secured bank loan	2,700	-	2,700	1,200	2,100	3,300
Working Capital Facility	10,000	-	10,000	-	10,000	10,000
	12,700	-	12,700	1,200	12,100	13,300

Term and Debt Repayment Schedule

		Dec 2023	June 2023
	Effective interest rate	Year of maturity	Maximum facility value \$000
Secured loan	7.30%	2026	2,700
Working capital facility	7.30%	2026	10,000

Secured Loan and Working capital facility

On 6 March 2023 Quickstep Holdings Limited refinanced with Commonwealth Bank of Australia (CBA). The new arrangement includes a working capital facility of \$10 million and a term loan of \$3.6 million. The working capital facility requires repayment in 3 years. The term loan is reduced by quarterly repayments of \$300,000. The interest rate on the facility comprises a variable base rate and fixed margin with quarterly repayments to be completed by June 2026. The facility is secured against the working capital of the group.

Loan covenant

The group exceeded its EBITDA and Debt Service Cover covenant threshold in the second quarter of 2024 financial year. However, management obtained a waiver prior to 31 December 2023 from CBA bank that waived covenant compliance thresholds for Debt to EBITDA and Debt Service Cover as at 31 December 2023.

Loan classification

The waiver provided prior to 31 December 2023 contained administrative conditions to be met by 31 January 2024, which have been completed and met and accordingly the loans are not payable on demand. Given the timing of the conditions crossed the half year review period, in accordance with *AASB 101 Presentation of Financial Statements* the secured loan and working capital facility have been reclassified to current liabilities. Upon confirmation from CBA that all conditions of the waiver have been met, during the second half of FY24 the non-current portion of the loan will be reclassified to non-current liabilities.

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2023

C. Capital and Financial Risk Management

C.2 Financial Instruments

	Dec 2023	June 2023
	\$000	\$000
(Current liability)		
Forward foreign exchange contracts – cash flow hedges	311	(101)

Recognition and Measurement

Fair Value Measurement

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

Valuation of Financial Measurement – cash flow hedges

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

Fair Value Hierarchy

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

C.3 Financial Risk Management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2023.

C.4 Finance Income and Finance Costs

	Dec 2023 \$000	Dec 2022 \$000
Finance income		
Interest income	33	19
Finance income	33	19
Finance costs		
Interest expense on liabilities measured at amortised cost	(507)	(414)
Interest expense on lease liabilities and make good provision	(538)	(585)
Foreign currency gains/(losses)	(276)	(277)
Other expenses	(49)	(94)
Finance costs	(1,370)	(1,370)
Net finance costs	(1,337)	(1,351)

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2023

C. Capital and Financial Risk Management

C.5 Share Capital

Movements in Share Capital

	Dec 2023 Shares	June 2023 Shares	Dec 2023 \$000	June 2023 \$000
Opening balance	71,726,214	71,726,214	120,785	120,785
Consolidation of Issued Shares	-	-	-	-
Shares issued under share-based payments arrangements	-	-	-	-
Shares issued to Quickstep Employee Exempt Share Plan	-	-	-	-
Closing balance	71,726,214	71,726,214	120,785	120,785

During the half year ended 31 December 2023, the Company issued NIL (2023: NIL) shares pursuant to share-based payment arrangements with certain key management personnel and issued NIL (2023: NIL) shares to its employees under Exempt Share Plan.

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 (2023: NIL) unissued ordinary shares of Quickstep Holdings Limited under option at the date of this report. No options were granted during the half year ended 31 December 2023.

During the half year, the Company did not issue any shares (2023: NIL).

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

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

C.6 Capital and other Commitments

Capital Commitments

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

	Dec 2023 \$000	June 2023 \$000
Property, plant and equipment	363	72
Total Commitments	363	72

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2023

D. Operating Assets and Liabilities

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

D.1 Trade and Other Receivables

D.2 Inventories

D.3 Contract Asset

D.4 Property, Plant and Equipment

D.5 Investments

D.6 Goodwill Impairment

D.1 Trade and Other Receivables

	Dec 2023 \$000	June 2023 \$000
Current assets		
Trade receivables	16,644	12,224
Other receivables	38	73
	16,682	12,297

All trade receivables are current.

D.2 Inventories

	Dec 2023 \$000	June 2023 \$000
Current assets		
Raw materials and consumables	13,536	12,533
Work in progress	55	369
	13,591	12,902

D.3 Contract Assets/Liabilities

	Dec 2023 \$000	June 2023 \$000
Current Contract Assets	9,570	11,158

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.

	Dec 2023 \$000	June 2023 \$000
Current Contract Liabilities	14,797	8,868

Contract Liabilities primarily relate to advance consideration received from customers for revenue which is recognised over time. The performance obligations in respect of these amounts are expected to be completed in the 2024 financial year. The amount of \$14,587,000 at 31 December 2023 will be recognised as revenue in 2024.

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2023

D. Operating Assets and Liabilities

D.4 Property, Plant and Equipment

	Plant and equipment \$000	Assets under construction \$000	Office furniture & equipment \$000	Intangibles and software \$000	Total \$000
Dec 2023					
Opening net book amount	10,556	128	971	164	11,819
Additions	-	207	-	-	207
Customer and government funding received	(170)	-	-	-	(170)
Transfers from assets under construction	136	(151)	15	-	-
Disposals	-	-	-	-	-
Amortisation of grant	284	-	-	-	284
Depreciation charge	(1,084)	-	(124)	(57)	(1,265)
Closing net book amount	9,722	184	862	107	10,875
Cost	43,988	184	2,287	2,028	48,487
Accumulated depreciation	(34,266)	-	(1,425)	(1,921)	(37,612)
June 2023					
Opening net book amount	12,328	245	1,103	323	13,999
Additions	-	890	-	-	890
Acquired through business combination	-	-	-	-	-
Government funding received	(400)	-	-	-	(400)
Transfers from assets under construction	900	(1,007)	107	-	-
Disposals	(45)	-	-	-	(45)
Amortisation of grant	226	-	-	-	226
Depreciation charge	(2,453)	-	(239)	(159)	(2,851)
Impairment charge	-	-	-	-	-
Closing net book amount	10,556	128	971	164	11,819
Cost	43,738	128	2,272	2,028	48,166
Accumulated depreciation	(33,182)	-	(1,301)	(1,864)	(36,347)

D.5 Investments

	Dec 2023 \$000	June 2023 \$000
Non-current Investments	3,584	3,044

In August 2023 Quickstep made a \$0.5m investment in a minority equity stake in TB2 Aerospace LLC (TB2), a Colorado, USA private company with a patented TB2 Pod interface system. The patented system provides an autonomous means of connecting a range of podded solutions to drones and is designed to work on any UAS capable of accepting the TB2 system. The system will allow operators to deliver rapid-change, multi-mission capabilities with reduced human intervention. Under the terms of the agreement, Quickstep will provide an initial \$0.5m of engineering and structural integration services for the incorporation of the TB2 interface to customer aircraft, and will assist TB2 with the design, integration, supplier management and servicing of podded solutions.

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2023

D. Operating Assets and Liabilities

The agreement also includes Quickstep taking a minority equity position in TB2 Aerospace LLC, funded via a merchandise credit note which will be drawn down in respect of design, development and prototyping work. This program and the equity position in TB2 is intended to further expand Quickstep's reach across the UAS manufacturing and services sector.

Quickstep previously made a \$1.0m investment in a minority equity stake in Carbonicboats Pty Ltd (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.

Further Quickstep previously made a \$2.0m minority equity stake investment in Swoop Aero Pty Ltd (Swoop). Swoop is an Australian company with strong capability in the design, development, manufacture and operation of next generation unmanned solutions for commercial cargo applications. Quickstep has paid \$0.5m in cash in respect of this investment in Swoop and the remaining \$1.5m obligation is covered under a Strategic Supply Agreement (SSA), which requires Quickstep to supply engineering, manufacturing services, tooling and an initial production run of aircraft for Swoop's recently launched KITE™ unmanned cargo aircraft. The delivery under the Strategic Supply Agreement is expected to commence in February 2023. The \$1.5m obligation under the SSA is recorded in Other Liabilities net of revenue recognised as at 31 December 2023 resulting in \$0.4m closing balance.

The fair value of these Level 3 investments is based on recent transaction prices, which are consistent between the transaction date and 31 December 2023 as there has been no material change in fair value.

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2023

E. Other Disclosures

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

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

E. Other Disclosures

E.1 Subsequent Events

In January 2024, Quickstep undertook an organisational change into two operating Lines of Business – being Quickstep Structures and Quickstep Services. To align our business structure with key priorities we have simplified our operating structure absorbing our Applied Composites line of business into our core manufacturing operations which will be referred to as Quickstep Structures. The Aftermarket line of business which includes our commercial and defence MRO operations will be referred to as Quickstep Services.

Other than the matters disclosed above, no matter or circumstance has arisen since 31 December 2023 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

E.2 Significant Accounting Policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as and for the year ended 30 June 2023. A number of new standards are effective from 1 July 2023 but they do not have a material effect on the Group's financial statements.

E.3 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2023 and earlier application is permitted, however the Group has not early adopted any of the forthcoming new or amended standards in preparing these condensed consolidated interim financial statements.

Directors' Declaration

for the half-year ended 31 December 2023

In the Directors' opinion:

- (a) the condensed consolidated half-year financial statements and notes set out on pages 8 to 22 are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - ii. giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Mr. M H Burgess

Director

22 February 2024

Sydney, New South Wales