

APPENDIX 4D AND FY23 HALF YEAR REPORT

Friday 24 February 2023: Quickstep Holdings Ltd (ASX: QHL) (Company or Quickstep) releases its Appendix 4D and Interim Report for the half year ended 31 December 2022.

Authorised by the Board of Quickstep Holdings Limited.

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About Quickstep Holdings

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

Forward looking statements

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

QUICKSTEP HOLDINGS LTD

Appendix 4D

Half Year Report Period Ended 31 December 2022 (Corresponding Period 31 December 2021)

Results for announcement to the Market

	<u>Percentage Change</u>		<u>Dec 2022</u> <u>\$000</u>	<u>Dec 2021</u> <u>\$000</u>
Revenue from ordinary activities	4.02% down	to	\$45,445	\$47,348
EBIT	191.85% down	to	(\$3,606)	\$3,926
Profit/(Loss) from ordinary activities after tax attributable to members	235.00% down	to	(\$4,424)	\$3,277
Net Profit/(Loss) for the period attributable to members	235.00% down	to	(\$4,424)	\$3,277

The Net Profit for the half year December 2022 is (\$4,424,000) which is (235.00%) decrease compared to the period ended 31 December 2021. The decrease in net profit is due to lower production output, employee restructuring costs and Aftermarket Goodwill impairment.

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

Dividends

Amount per security

Percentage Franked

Current period:

Interim Dividend

Nil

N/A

Date the Dividend is Payable:

N/A

Record Date for determining entitlements to the Dividend:

N/A

Prior corresponding period:

Interim Dividend

Nil

N/A

Net Tangible Assets per Security

As at 31 December 2022

25.0 cents

As at 31 December 2021

31.5 cents

Quickstep Holdings Limited

ABN: 55 096 268 156

Interim Financial Report for the half year ended 31 December 2022

Interim Financial Report

For the half-year ended 31 December 2022

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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 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 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 FY23 Group performance was impacted by the continuation of operational challenges disclosed in late H2 FY22, in particular industry wide supply chain disruption and skilled labour shortages in the wake of the pandemic, specific key equipment reliability issues (Aerostructures impact) and abnormal employee restructuring costs and Aftermarket Goodwill impairment.

Total Revenue for the half year ended 31 December 2022 was \$45.4 million (H1 FY22 \$47.3 million) representing a 4.0% decrease on the prior comparative period. An uplift in Revenue from both the growing Aftermarket and Applied Composites lines-of-business (favourable \$1 million) was offset by lower H1 FY23 Aerostructures Revenue impact (unfavourable \$2.9 million) driven by reduced production output (noting that contracted customer volumes remained unchanged and that over time this delayed production will be recovered).

The H1 FY23 Gross Profit of \$4.3 million or 9.5% (H1 FY22 \$9.1 million or 19.2%) reflects a 9.7% margin fall. Group profitability was impacted from the ongoing investment in the establishment of both the Aftermarket and Applied Composites lines-of-business (Gross Profit loss of \$2.7 million) along with the impact of under recovered Aerostructures costs arising from lower production volumes due to the factors mentioned above.

The H1 FY23 Operating Loss of (\$3.2 million) (H1 FY22 Profit \$3.9 million) includes the favorable impact of a \$0.4 million legal accrual writeback, unfavourable (\$2.3 million) Aftermarket Goodwill impairment charge and unfavourable (\$0.5 million) employee restructuring costs.

The Aftermarket Goodwill impairment decision (refer Note D.6) was taken due to the inherent uncertainty in the timing of production volumes reaching planned levels, even though major airlines remain very supportive of an on-shore MRO capability.

Total debt as at 31 December 2022 was \$14.2 million (H1 FY22 \$9.8 million). The increase reflects the \$5 million additional Export Finance Australia loan facility executed in July 2022.

Cash outflows from operating activities of (\$2.8 million) reflects the lower revenue and profitability plus the continuation of elevated inventory levels arising from the H2 FY22 operational challenges (as noted). It is expected that inventory will be reduced over H2 FY23.

Directors' Report

Subsequent events

In February 2023, Quickstep refinanced its existing debt facilities with the Commonwealth Bank of Australia. Within a total facility limit of \$15.7 million, \$13.6 million is secured with a term of 3 Years, \$1 million up to 5 Years with the balance AU\$1.1 million subject to annual review. \$3.6 million of the facility is subject to quarterly amortisation over a 3 Year period. The refinancing structure will result in a material reclassification of Loans and Borrowings from Current to Non-Current liabilities.

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 24 February 2023.



M H Burgess
Director
Sydney, New South Wales



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

To the Directors of Quickstep Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Quickstep Holdings Limited for the half-year ended 31 December 2022 there have been:

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

KPMG

KPMG

A handwritten signature in blue ink, appearing to read 'C Slapp', with a stylized flourish at the end.

Cameron J Slapp

Partner

Sydney

24 February 2023



Independent Auditor's Review Report

To the shareholders of Quickstep Holdings Limited

Conclusion

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

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

- giving a true and fair view of the **Group's** financial position as at 31 December 2022 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Condensed consolidated balance sheet as at 31 December 2022;
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Half-year ended on that date;
- Notes A to E comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

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

Basis for Conclusion

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

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



Material uncertainty related to going concern

We draw attention to Note A.2, "Going Concern" in the Interim Financial Report. The events or conditions disclosed in Note A.2, indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the Interim Financial Report. Our conclusion is not modified in respect of this matter.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

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

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

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the Half-Year Period ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

KPMG

Cameron J Slapp

Partner

Sydney

24 February 2023

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

for the half-year ended 31 December 2022

	Notes	31 Dec 2022 \$000	31 Dec 2021 \$000
Revenue	B.1	45,445	47,348
Cost of sales of goods		(41,134)	(38,275)
Gross profit		4,311	9,073
Other income		111	118
Research and development expenses		(541)	(915)
Business development expenses		(607)	(684)
Corporate and administrative expenses	B.2	(4,222)	(3,690)
Impairment expenses	D.6	(2,287)	-
Profit from operating activities		(3,235)	3,902
Finance income	C.4	19	1
Finance expenses	C.4	(1,370)	(700)
Net finance costs		(1,351)	(699)
Profit before income tax		(4,586)	3,203
Income tax benefit	B.3	162	74
Profit for the half year		(4,424)	3,277
Other comprehensive income/(loss) net of income tax			
Item that may be reclassified to profit or loss			
Cash flow hedges		192	(203)
Exchange difference on translation of a foreign operation		(176)	6
Other comprehensive income/(loss) for the half-year, net of income tax		16	197
Total comprehensive income for the half year		(4,408)	3,080
Profit per share:		Cents	Cents
Basic profit per share		(6.17)	4.30
Diluted profit per share		(6.17)	4.30

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 2022

	Notes	Dec 2022 \$000	Jun 2022 \$000
ASSETS			
Current assets			
Cash and cash equivalents		1,853	3,021
Term deposits		891	891
Trade and other receivables	D.1	6,722	9,043
Prepayment and other assets		1,288	1,639
Inventories	D.2	15,394	14,910
Contract assets	D.3	11,931	10,294
Total current assets		38,079	39,789
Non-current assets			
Property, plant and equipment and intangibles	D.4	13,455	13,999
Right-of-use asset		14,547	15,551
Investments	D.5	3,044	3,044
Goodwill	D.6	-	2,287
Deferred tax asset	B.3	5,214	5,052
Total non-current assets		36,260	39,933
Total assets		74,339	79,731
LIABILITIES			
Current liabilities			
Trade and other payables		9,789	19,393
Financial instruments	C.2	402	593
Loans and borrowings	C.1	8,205	2,564
Other Liabilities		6,486	1,500
Lease Liabilities		1,713	1,628
Employee benefit obligations		1,982	1,990
Total current liabilities		28,577	27,668
Non-current liabilities			
Loans and borrowings	C.1	6,000	7,282
Lease Liabilities		16,577	17,443
Provisions		3,448	3,448
Employee benefit obligations		1,536	1,515
Total non-current liabilities		27,561	29,688
Total liabilities		56,138	57,356
Net assets		18,201	22,375
EQUITY			
Share capital	C.5	120,785	120,785
Reserves		6,381	6,131
Accumulated losses		(108,965)	(104,541)
Total equity		18,201	22,375

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 2022

	Share capital \$000	Foreign currency translation reserve \$000	Cash flow hedges reserve \$000	Share based payments \$000	Accumulated losses \$000	Total equity \$000
Dec 2022						
Balance at 1 July 2022	120,785	(174)	(594)	6,899	(104,541)	22,375
Profit for the half year	-	-	-	-	(4,424)	(4,424)
Other comprehensive income						
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 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

Dec 2021						
Balance at 1 July 2021	120,785	(247)	(19)	6,733	(105,327)	21,925
Profit for the half year	-	-	-	-	3,277	3,277
Other comprehensive income / (loss)						
Foreign currency translation difference for foreign operations	-	6	-	-	-	6
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	(203)	-	-	(203)
Total comprehensive income / (loss) for the half year	-	6	(203)	-	3,277	3,080
Transactions with owners of the company:						
Share based payments expenses	-	-	-	236	-	236
Balance at 31 December 2021	120,785	(241)	(222)	6,969	(102,050)	25,241

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 2022

	Dec 2022 \$000	Dec 2021 \$000
Cash flows from operating activities		
Cash receipts in course of operations	53,927	48,522
Interest received	19	1
Interest paid	(251)	(672)
Other income	-	50
Cash payments in the course of operations	(56,468)	(43,868)
Net cash from operating activities	(2,774)	4,034
Cash flows from investing activities		
Acquisition costs of plant and equipment and intangible assets	(947)	(985)
Proceeds from customer and government funding of capital works	-	34
Investments in Carbonix & Swoop Aero	-	(1,500)
Net cash (used in) investing activities	(947)	(2,451)
Cash flows from financing activities		
Proceeds from borrowings	5,000	1,000
Repayment of borrowings	(641)	(1,782)
Repayment of lease liabilities	(1,367)	(766)
Net cash (used in) financing activities	2,992	(1,548)
Net increase in cash and cash equivalents	(728)	35
Cash and cash equivalents at the beginning of the financial year	3,021	2,353
Effects of exchange rate changes on cash and cash equivalents	(440)	58
Cash and cash equivalents at end of half year	1,853	2,446

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

Directors' Declaration

for the half-year ended 31 December 2022

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 2022.

These interim financial statements were authorised for issue by the Board of Directors on 24 February 2023.

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

The interim financial statements are presented in Australian dollars.

Rounding of Amounts

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

Directors' Declaration

for the half-year ended 31 December 2022

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 2022 of (\$4.4 million) (year to 30 June 2022 profit of \$0.8 million). The Group has net assets of \$18.2 million (30 June 2021 \$22.4 million) and net current assets of \$9.5 million (30 June 2021 \$12.1 million). Current loans and borrowings are \$9.9 million (including lease liabilities of \$1.7m) compared to 30 June 2021 \$4.2 million. Operating cash outflow for the period was (\$2.8 million) (half year to 31 December 2021 inflow of \$4.0 million).

Profitability and operating cash flow are both expected to improve over H2 FY23 and FY24 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.

Subsequent to 31 December 2022, Quickstep has refinanced its existing debt facilities with the Commonwealth Bank of Australia. Within a total facility limit of \$15.7 million, \$13.6 million is secured with a term of 3 Years, \$1 million up to 5 Years with the balance AU\$1.1 million subject to annual review. \$3.6 million of the facility is subject to quarterly amortisation over a 3 Year period.

Management have prepared 12 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 March 2023 via a customer performance based payment, which is currently under administrative processing;
- 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;
- recovery from industry wide supply chain and operational disruption in the wake of the pandemic, specific key equipment reliability issues (Aerostructures impact) and skilled labour shortages experienced in H1 FY23; and
- completion of the review of strategic options for the Aftermarket segment.

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 combined effect of the above represents a material uncertainty as to whether the Group would continue as a going concern.

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.

Directors' Declaration

for the half-year ended 31 December 2022

B. Business Performance

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

- B.1 Segment Reporting**
- B.2 Corporate and Administrative Expenses**
- B.3 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 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.

	Aerostructures	Other Businesses	Corporate	Combined QHL Group
	\$'000	\$'000	\$'000	\$'000
Revenue	42,013	3,432	-	45,445
Gross Profit	7,023	(2,712)	-	4,311
Other Expenses	-	-	(8,897)	(8,897)
Profit before income tax	-	-	-	(4,586)
Total Assets	57,061	9,097	8,181	74,339

The operating segment reporting model was restructured in January 2022. As a result, the Aftermarket and Applied Composites segment information for H1 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 half year ended 31 December 2021.

B.2 Corporate and Administrative Expenses

Corporate and administrative expenses include a \$400K write back of legal accruals previously held. Any outflow related to those accruals is no longer considered probable.

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

Tax Losses not brought to account

The gross amount of unused tax losses for which no deferred tax asset has been recognised

31 Dec 2022 \$000	30 Jun 2022 \$000
57,070	53,046

Directors' Declaration

for the half-year ended 31 December 2022

B. Business Performance

Deferred tax assets/(liabilities)

Particulars	Balance as on 1 July 2022 \$'000	Unrecognised tax losses \$'000	Tax losses utilised \$'000	Recognised in the P&L \$'000	Net Balance as on 31 Dec 2022 \$'000
Provision for Annual Leave	539	-	-	(2)	537
Other provisions	382	-	-	(181)	201
Super	74	-	-	101	175
Provision for LSL	332	-	-	10	342
Work in progress – deductible	146	-	-	78	224
Lease liabilities	5,721	-	-	(234)	5,487
Other expenditure	75	-	-	(32)	43
PPE & Intangibles and ROU	(3,631)	-	-	301	(3,330)
Derivative Financial Asset	-	-	-	121	121
Tax losses carried forward	1,414	-	-	-	1,414
Total deferred tax balances	5,052	-	-	162	5,214

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 2022 was \$nil (compared to \$712,000 for the year end 30 June 2022).

Effective Income Tax Rate

The effective income tax rate for the half year ended 31 December 2022 was (3.52%). The lower tax rate resulted from net loss before tax and tax differential relating to foreign tax jurisdictions.

Directors' Declaration

for the half-year ended 31 December 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 Financial Instruments
- C.3 Financial Risk Management
- C.4 Finance Income and Finance Costs
- C.5 Share Capital
- C.6 Capital and other Commitments

C.1 Loans and Borrowings

	Dec 2022			June 2022		
	Current \$000	Non-current \$000	Total \$000	Current \$000	Non-current \$000	Total \$000
Secured loan	8,205	-	8,205	2,564	1,282	3,846
Short term facility	8,205	-	8,205	2,564	1,282	3,846
Working Capital Facility	-	6,000	6,000	-	6,000	6,000
	8,205	6,000	14,205	2,564	7,282	9,846

Term and Debt Repayment Schedule

	Effective interest rate	Year of maturity	Dec 2022	June 2022
			Maximum facility value \$000	Maximum facility value \$000
Secured loan	6.82%	2023	8,205	3,846
Working capital facility	4.92%	2024	6,000	6,000

Secured 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 31 December 2023. The facility limit is reduced by the amount of each payment and is \$3,205,000 as at 31 December 2022. The interest rate on the facility comprises a variable base rate and fixed margin.

On 13 July 2022 Quickstep Holdings Limited executed a loan agreement with Export Finance Australia for \$5,000,000 to provide additional working capital support. Quarterly repayments commenced on 31 January 2023 with the final repayment due on 31 December 2023. The facility limit is reduced by the amount of each payment. The interest rate on the facility comprises a variable base rate and fixed margin.

Short term facility

On 17 March 2022 Quickstep Holdings Limited executed a loan agreement with ANZ for \$6,000,000 to provide working capital facilities. 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.

Directors' Declaration

for the half-year ended 31 December 2022

C. Capital and Financial Risk Management

C.2 Financial Instruments

	Dec 2022	June 2022
	\$000	\$000
(Current liability)		
Forward foreign exchange contracts – cash flow hedges	(402)	(593)

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 2022.

C.4 Finance Income and Finance Costs

	Dec 2022 \$000	Dec 2021 \$000
Finance income		
Interest income	19	1
Finance income	19	1
Finance costs		
Interest expense on liabilities measured at amortised cost	(414)	(200)
Interest expense on lease liabilities and make good provision	(585)	(444)
Foreign currency gains/(losses)	(277)	(29)
Other expenses	(94)	(27)
Finance costs	(1,370)	(700)
Net finance costs	(1,351)	(699)

Directors' Declaration

for the half-year ended 31 December 2022

C. Capital and Financial Risk Management

C.5 Share Capital

Movements in Share Capital

	Dec 2022 Shares	June 2022 Shares	Dec 2022 \$000	June 2022 \$000
Opening balance	71,726,214	716,269,344	120,785	120,785
Consolidation of Issued Shares	-	(644,641,340)	-	-
Shares issued under share-based payments arrangements	-	-	-	-
Shares issued to Quickstep Employee Exempt Share Plan	-	98,210	-	-
Closing balance	71,726,214	71,726,214	120,785	120,785

During the half year ended 31 December 2022, the Company issued NIL (2022: NIL) shares pursuant to share-based payment arrangements with certain key management personnel and issued NIL (2022: 98,201) 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 (2022: 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 2022.

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

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

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

C.6 Capital and other Commitments

Capital Commitments

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

	Dec 2022 \$000	June 2022 \$000
Property, plant and equipment	113	52
Total Commitments	113	52

Directors' Declaration

for the half-year ended 31 December 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 Asset**
- D.4 Property, Plant and Equipment**
- D.5 Investments**
- D.6 Goodwill Impairment**

D.1 Trade and Other Receivables

	Dec 2022 \$000	June 2022 \$000
Current assets		
Trade receivables	6,722	8,973
Other receivables	-	70
	6,722	9,043

All trade receivables are current.

D.2 Inventories

	Dec 2022 \$000	June 2022 \$000
Current assets		
Raw materials and consumables	15,090	14,733
Work in progress	304	177
	15,394	14,910

D.3 Contract Assets

	Dec 2022 \$000	June 2022 \$000
Current	11,931	10,294

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.

Directors' Declaration

for the half-year ended 31 December 2022

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 2022					
Opening net book amount	12,328	245	1,103	323	13,999
Additions	-	727	-	-	727
Customer and government funding received	-	-	-	-	-
Transfers from assets under construction	851	(947)	96	-	-
Disposals	-	-	-	-	-
Amortisation of grant	147	-	-	-	147
Depreciation charge	(1,223)	-	(115)	(80)	(1,418)
Closing net book amount	12,104	25	1,084	242	13,455
Cost	44,057	25	2,261	2,028	48,371
Accumulated depreciation	(31,954)	-	(1,177)	(1,785)	(34,916)
June 2022					
Opening net book amount	12,997	1,602	396	382	15,377
Additions	-	1,280	-	-	1,280
Acquired through business combination	-	-	-	-	-
Government funding received	(104)	-	-	-	(104)
Transfers from assets under construction	1,666	(2,638)	884	94	-
Disposals	(5)	-	-	-	(5)
Amortisation of grant	309	-	-	-	309
Depreciation charge	(2,530)	-	(176)	(154)	(2,859)
Impairment charge	-	-	-	-	-
Closing net book amount	12,328	245	1,103	323	13,999
Cost	43,057	245	2,165	2,028	47,565
Accumulated depreciation	(30,729)	-	(1,062)	(1,705)	(33,496)

D.5 Investments

	Dec 2022 \$000	June 2022 \$000
Non-current Investments	3,044	3,044

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.

A further \$2.0m minority equity stake investment is held 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.

Directors' Declaration

for the half-year ended 31 December 2022

D. Operating Assets and Liabilities

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.

The fair value of these Level 3 investments is based on recent transaction prices, which are consistent between transaction date and 31 December 2022 as there has been no material change in fair value.

D.6 Goodwill Impairment

Goodwill is allocated to each of the Group's cash-generating units ("CGU") expected to benefit from the synergies of the combination. A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. An assessment of impairment indicators, including both internal and external factors, has been performed.

I. Impairment of Individual Assets

The Group had initially recognised goodwill of \$2,287,000 in relation to its investment in Quickstep Aerospace Services Pty Ltd ("QAS"), following its acquisition on 18 February 2021. The QAS operation is based in Tullamarine, Victoria, Australia and represents the Group's Aftermarket business segment. During the half year ended 31 December 2022, the Group has recognised a Goodwill impairment of (\$2,287,000) (2022: \$nil) in respect of this Goodwill.

II. Events and Circumstances that contribute to the impairment.

During the half year the board has reassessed its short and medium forecasts for the Aftermarket business segment. During the first half of FY2023, Aftermarket revenue and profitability has been impacted by a combination of factors including supply chain constraints, availability of skilled staff and lower work volume inductions. Whilst broad industry representations remain supportive of on-shore MRO capability establishment, the timing of uplift in induction volumes is inherently uncertain.

III. Methodology used for recoverable amount of impairment.

The recoverable amount of the Aftermarket CGU has been based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The carrying amount of the CGU was determined to be higher than its recoverable amount of \$784,000 and an impairment loss of \$2,287,000 was recognised. The impairment loss was fully allocated to goodwill. The fair value less cost of disposal of the CGU was not considered to be more than its value in use.

Key assumptions used in the determination of the recoverable amount were as follows:

Cashflow projections: Management cashflow forecasts for each CGU for the next 5 years, with a terminal growth rate of 3.35% thereafter.

Forecast sales growth rates: Forecast sales growth rates based on experience adjusted for the strategic direction and near-term investment priorities within each CGU.

Discounted Rate: Discount rate is the weighted average cost of capital used to determine the present value of future cash flows in a discounted cash flow (DCF) analysis. The discount rate used was 11.54% post tax.

Following the impairment loss recognised in the Group's Aftermarket CGU, the recoverable amount was equal to the carrying amount. Therefore, any adverse movement in a key assumption may lead to further impairment of other non-current assets allocated to the CGU.

Directors' Declaration

for the half-year ended 31 December 2022

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 February 2023, Quickstep refinanced its existing debt facilities with the Commonwealth Bank of Australia. Within a total facility limit of \$15.7 million, \$13.6 million is secured with a term of 3 Years, \$1 million up to 5 Years with the balance AU\$1.1 million subject to annual review. \$3.6 million of the facility is subject to quarterly amortisation over a 3 Year period. The refinancing structure will result in a material reclassification of Loans and Borrowings from Current to Non-Current liabilities.

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 2022. A number of new standards are effective from 1 July 2022 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 2022 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 2022

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 2022 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Mr. M H Burgess

Director

24 February 2023

Sydney, New South Wales