

QUARTERLY REPORT

TO 31 DECEMBER 2010

HIGHLIGHTS

- Development program for Joint Strike Fighter (JSF) manufacturing on schedule
- Delivery of first JSF parts on-track for 2012
- Further high-calibre additions to Quickstep Board, with appointment of David Singleton and David Wills as Non-Executive Directors
- Licensing agreement signed with Vector Composites in US, allowing Vector to use patented Quickstep Process for manufacturing – first licensing agreement signed in key North American market
- Formal teaming agreement signed with Vector to jointly promote the Quickstep Process in North America
- Funding received from German federal government to develop next-generation manufacturing moulds using ‘spray forming’ technique
- Cash reserves and investments in term deposits at the end of the December Quarter of \$12.494 million

PREPARATIONS FOR F-35 JOINT STRIKE FIGHTER (JSF) MANUFACTURING

During the December Quarter the Company’s core focus in Australia remained on completing the necessary work to commence manufacturing for the international F-35 Joint Strike Fighter (JSF) program.

The Company’s manufacturing readiness, as demonstrated by its equipment, facilities, processes, procedures and trained workforce, has been reviewed and tested and found to be ready to commence commercial operations.

Quickstep staff members have continued training and their practical skills demonstrated through the production of various test panels.

Qualification of the plant and staff training to the required standards for aerospace production is progressing on schedule.

The Company expects that the first Long Term Agreement relating to JSF manufacturing contracts will be signed in early 2011, with first delivery of JSF parts set for early 2012.

LICENSING AGREEMENT SIGNED WITH VECTOR COMPOSITES

Quickstep has taken a major step in introducing its patented Quickstep Process into the highly strategic North American market, after granting Vector Composites, Inc. (“Vector”) a license to use the Quickstep Process for development and manufacturing of advanced composite components. Vector is the first licensee of the Quickstep Process in North America.

The licensing agreement will allow Vector to develop and produce composite structural parts using the Quickstep Process for aerospace and defence customers in the North American market from its Dayton, Ohio facility.

Initially, Vector will lease time on a Quickstep machine from Quickstep Composites LLC, a wholly owned subsidiary of Quickstep, located adjacent to the Vector facilities in Dayton. However the non-exclusive license agreement includes thresholds which would trigger the purchase of a Quickstep manufacturing machine by Vector, together with the payment of associated royalties and service fees consistent with Quickstep's business model.

In addition, Quickstep and Vector also signed a strategic teaming agreement under which the companies will jointly promote the Quickstep Process for system applications and customers in the aerospace and defence industries of North America.

INTERNATIONAL SHOWCASE SITES AND DEVELOPMENT FACILITIES

Quickstep GmbH (Germany)

During the Quarter, Quickstep received funding under the German federal government's WING materials research program, coordinated by the German Ministry for Education & Research (BMBF), to develop a new technique for building thin-wall moulds for composites manufacturing.

The technique is called 'Sprayforming' and is expected to have important implications for composites manufacturing due to its ability to create moulds - or 'tools' – of complex parts, while also delivering cost efficiencies in the manufacturing process. Thin-wall moulds have a lower thermo mass than traditional alternatives (such as metal) and are therefore faster and more energy efficient to heat and cool during the manufacturing process.

If the technology can be successfully developed, Sprayforming would enable the rapid and economic production of thin-wall moulds for large-sized composite aerospace parts with complex geometry.

Tooling is currently a key cost component within the manufacturing process, and Quickstep believes the twin benefits of complex geometries and enhanced cost efficiencies will be highly attractive to end users.

Quickstep Composites LLC (United States)

Quickstep Composites LLC is working with Vector Composites on Research and Development work associated with the contract awarded by the U.S. Air Force in May 2010, aimed at qualifying the Quickstep Process for the manufacture of materials used in the F-35 Joint Strike Fighter.

This R&D program is progressing well and is generating cash flow for the Company.

CORPORATE

Board Appointments

During the Quarter the Company appointed two high calibre Non-Executive Directors, Mr David Singleton and Mr David Wills, to the Board.

Mr David Singleton is currently Chief Executive Officer of Poseidon Nickel and was formerly CEO of Clough Engineering.

He also has significant experience in the global aerospace industry, having held numerous senior roles with BAE Systems (British Aerospace). These include Group Head of Strategy and M&A, Managing Director – Asset Management, and Chief Executive Officer of AMS NV – an Anglo-Italian Joint Venture between BAE Systems and Finmeccanica operating in defence and civil electronics.

Prior to joining BAE, David held senior management roles with several British defence manufacturers. He brings a wealth of experience and strategic vision in international aerospace business, defence contracting, technology-based products and ASX-listed companies.

Mr David Wills is a Chartered Accountant and was an audit partner with PricewaterhouseCoopers for 24 years. He retired from the firm in 2004 having held a number of management positions including Deputy Chairman of PwC in Australia, Managing Partner of the Sydney office, Chairman of the manufacturing practice and Managing Partner of the PNG practice.

He is currently a Non-Executive Director of Washington H Soul Pattinson & Company Limited; Clover Corporation Limited; Souls Private Equity Limited; Wesfarmers General Insurance Limited; InterRisk Australia Pty Limited (Chairman); and Cromford Australia Limited.

Cash Position

At the end of the Quarter the consolidated group balance of cash and term deposits was of \$12.494 million

OUTLOOK

Quickstep expects to sign a Long Term Agreement in relation to Joint Strike Fighter manufacturing in the in the 1st Quarter 2011. This agreement will provide the framework under which initial manufacturing contracts are placed, and will represent a major milestone in the Company's history.

The Company's sights therefore remain firmly set on completing the necessary work to prepare for JSF manufacturing, as well as seeking to secure additional contracts.

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

QUICKSTEP HOLDINGS LIMITED

ABN

55 096 268 156

Quarter ended ("current quarter")

31 DECEMBER 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from customers	191	351
1.2 Payments for		
(a) staff costs	(2,061)	(3,280)
(b) advertising and marketing	(13)	(33)
(c) research and development	(201)	(253)
(d) leased assets	(1)	(2)
(e) other working capital	(1,222)	(5,100)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	181	633
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes received/(paid) – R&D	-	-
1.7 Other (Export Market Development Grant & Climate Ready Grant)	-	320
Net operating cash flows	(3,126)	(7,364)

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (6 months) \$A'000
1.8 Net operating cash flows (carried forward)	(3,126)	(7,364)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets*	(959)	(2,112)
(e) other non-current assets	(76)	(173)
<i>*including in-house asset construction</i>		
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other – investment in term deposits*	(3,700)	(7,000)
Net investing cash flows	(4,735)	(9,285)
1.14 Total operating and investing cash flows	(7,861)	(16,649)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc (net)	-	-
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other	24	21
Net financing cash flows	24	21
Net increase (decrease) in cash held	(7,837)	(16,630)
1.21 Cash at beginning of quarter/year to date	13,398	22,226
1.22 Effects of exchange rate changes on cash held in foreign currencies	(67)	(102)
1.23 Cash at end of quarter	5,494	5,494

* Investments in term deposits with an original maturity of greater than 3 months are cash flows related to investing activities. These deposits do not meet the strict definition of a cash equivalent within *AASB107 Cash Flow Statements* hence do not form part of Cash at the end of quarter. As at 31 December 2010, the total of Cash and investments in term deposits with an original maturity of greater than 3 months is \$12,494k (30 September 2010: \$16,698k).

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	284
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

		<u>\$A'000</u>
	- Directors' remuneration (Item 1.24)	240
	- Research and development consultancy services (Item 1.24)	7
	- Staff costs - marketing and promotion (Item 1.24)	37

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	NIL	NIL
3.2	Credit standby arrangements	NIL	NIL

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	494	1,698
4.2 Deposits at call	5,000	11,700
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)	5,494	13,398

As at 31 December 2010, the total of cash and investments in term deposits with an original maturity of greater than 3 months is \$12,494k (30 September 2010: \$16,698k).

Acquisitions and disposals of business entities

	Acquisitions <i>(Item 1.9(a))</i>	Disposals <i>(Item 1.10(a))</i>
5.1 Name of entity	NIL	NIL
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: 
 (Company Secretary)

Date: 31 January 2011

Print name: **Phillip MacLeod**

+ See chapter 19 for defined terms.

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.