

Appendix 4E

Preliminary Final Report to the Australian Securities Exchange

Part 1

| | |
|---|-----------------------------------|
| Name of Entity | Quickstep Holdings Limited |
| ABN | 55 096 268 156 |
| Financial Period | Year ended 30 June 2017 |
| Previous Corresponding Reporting Period | Year ended 30 June 2016 |

Part 2 – Results for Announcement to the Market

| | 2017 | 2016 | Percentage increase /(decrease) over previous corresponding period |
|--|----------------|---------|---|
| | \$'000 | \$'000 | |
| Revenue from continuing operations | 51,915 | 50,198 | 4% |
| EBIT before R&D Costs | (208) | 1,306 | - |
| R&D Costs (including new technology and product development costs) | (5,492) | (3,487) | (57%) |
| EBIT | (5,700) | (2,181) | (161%) |
| Net Financing Costs | (962) | (3,604) | 73% |
| Loss after related income tax benefit | (6,662) | (5,785) | (15%) |
| Net loss attributable to members of the parent entity | (6,662) | (5,785) | (15%) |

| Dividends (distributions) | Amount per security | Franked amount per security |
|--|----------------------------|------------------------------------|
| Final Dividend | Nil | Nil |
| Interim Dividend | Nil | Nil |
| Record date for determining entitlements to the dividends (if any) | Not Applicable | |

Brief explanation of any of the figures reported above necessary to enable the figures to be understood:

Sales increased by 4% to \$51.9 million with strong growth in JSF volumes offset by lower volumes of wing flap assemblies for C-130J. Total JSF deliveries were 1,230 parts, an increase of 108% on the 590 parts delivered in FY16. C-130J shipset deliveries of 27.25 (26 shipsets and 5 spares) returned to normal program volumes after 35 ship-sets were delivered in FY16 as scheduled by Lockheed Martin.

Gross margin was impacted in FY17 with a change in business mix from the stable C-130J program to higher JSF revenues. Margin was impacted by the learning curve as the business ramped up vertical tails production (514 parts delivered in FY17 versus 32 in the prior year), commissioning of the automated drilling equipment for C-130J in February 2017 and the low capacity utilisation at Bankstown. Future production volumes will increase substantially; current JSF production represents approximately 50% of FY19 forecast volumes and 45% of FY20 and FY21 volumes, and as production increases, the company will benefit from economies of scale and increased margins.

Research & Development costs were higher at \$5.5 million compared to \$3.5 million in the prior year. This was critical to further developing the company's proprietary process technologies and the new business and production programs at the company's Geelong facilities. R&D expenditure is fully expensed in the year incurred.

Net financing costs were lower in FY17 at \$1.6 million compared to \$4.6 million in the prior year. FX impacts were \$(0.5) million in FY17 versus \$(1.4) million in FY16 and the prior year also included \$2.2 million of non-cash interest costs relating to the Newmarket loan.

The Group incurred a loss of \$6.7 million in the current year versus a loss of \$5.8 million in FY16.

Operating cashflow was \$0.1 million after the \$5.5 million investment in R&D. Inventory decreased \$1.3 million to close at \$10.6 million at 30 June 2017. Income from grants was \$0.5 million, in line with the previous year.

Net cash decreased to \$3.7 million after the \$3.9 million capital equipment investment for future capacity which was completed during the year. The business also had a net financing cash outflow of \$0.3 million in FY17, with repayments of principal and capitalised interest made against the \$10 million long term Efic loan and \$1.5 million drawn down against a new Efic \$3 million Export Contract Loan.

As at 30 June 2017 the company had total cash and deposits of \$4.4 million of which \$0.7 million were in restricted term deposits. Net assets at 30 June 2017 were \$8.0 million.

The group's cash balance closed in line with management expectations and will support delivery of Quickstep's booked orders as well as forecast reduced investment of \$2.8 million in R&D for FY18.

Part 3 – Contents of ASX Appendix 4E

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Part 4 – Consolidated statement of profit and loss and other comprehensive income

| | 2017 (\$000) | 2016 (\$000) |
|--|-----------------|-----------------|
| Sales revenue | 51,915 | 50,128 |
| Cost of sales | <u>(44,175)</u> | <u>(39,700)</u> |
| Gross profit | 7,740 | 10,428 |
| Other income | 532 | 460 |
| Research and development expenses | (5,492) | (3,487) |
| Corporate and administrative expenses | (8,083) | (7,567) |
| Other expenses | <u>(398)</u> | <u>(2,015)</u> |
| Loss from operating activities | (5,700) | (2,181) |
| Financial income | 606 | 1,008 |
| Financial expense | <u>(1,568)</u> | <u>(4,612)</u> |
| Net financing costs | (962) | (3,604) |
| Loss before income tax | (6,662) | (5,785) |
| Income tax (expense) benefit | <u>-</u> | <u>-</u> |
| Loss for the period | (6,662) | (5,785) |
| Other comprehensive loss, (income) net of income tax | | |
| Items that may be reclassified to profit and loss | | |
| Foreign currency translation difference for foreign operations | 68 | (55) |
| Reclassification of foreign currency differences on closure of US subsidiary | - | 301 |
| Other comprehensive income for the period, net of tax | <u>68</u> | <u>246</u> |
| Total comprehensive loss for the period | (6,594) | (5,539) |

Part 5 – Consolidated Statement of Changes in Equity

| | Share capital | Foreign Currency Translation reserve | Share based payments | Accumulated losses | Total Equity |
|--|------------------|---|----------------------------|-----------------------|--------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| Balance at 1 July 2015 | 88,228 | (549) | 3,655 | (92,567) | (1,233) |
| Total comprehensive income for the period | | | | | |
| Loss for the period | - | - | - | (5,785) | (5,785) |
| Other comprehensive income | | | | | |
| Reclassification of foreign currency differences on closure of US subsidiary | - | 301 | - | - | 301 |
| Foreign currency translation difference | - | (55) | - | - | (55) |
| Total comprehensive income for the period | - | 246 | - | (5,785) | (5,539) |
| Transactions with owners in their capacity as owners: | | | | | |
| Issue ordinary shares | 20,890 | - | - | - | 20,890 |
| Share based transaction payments | - | - | 114 | - | 114 |
| Total transactions with owners | 20,890 | - | 114 | - | 21,004 |
| Balance at 30 June 2016 | 109,118 | (303) | 3,769 | (98,352) | 14,232 |
| Balance at 1 July 2016 | 109,118 | (303) | 3,769 | (98,352) | 14,232 |
| Total comprehensive income for the period | | | | | |
| Loss for the period | - | - | - | (6,662) | (6,662) |
| Other comprehensive income | | | | | |
| Foreign currency translation difference | - | 68 | - | - | 68 |
| Total comprehensive income for the period | - | 68 | - | (6,662) | (6,594) |
| Transactions with owners in their capacity as owners: | | | | | |
| Share based transaction payments | - | - | 326 | - | 326 |
| Balance at 30 June 2017 | 109,118 | (235) | 4,095 | (105,014) | 7,964 |

Part 6 – Consolidated Balance Sheet

| | 2017 (\$000) | 2016 (\$000) |
|--------------------------------------|-----------------|-----------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | 3,722 | 7,578 |
| Trade and other receivables | 6,292 | 5,320 |
| Inventories | 10,599 | 11,906 |
| Other financial assets | 718 | 963 |
| Other assets | 635 | 398 |
| Total Current Assets | 21,966 | 26,165 |
| NON CURRENT ASSETS | | |
| Property, plant and equipment | 14,753 | 13,058 |
| Intangible assets | 61 | 25 |
| Total Non Current Assets | 14,814 | 13,083 |
| TOTAL ASSETS | 36,780 | 39,248 |
| CURRENT LIABILITIES | | |
| Trade and other payables | 10,563 | 7,196 |
| Deferred income | 4,220 | 3,182 |
| Loans and borrowings | 3,763 | 2,159 |
| Employee benefits | 1,138 | 950 |
| Total Current Liabilities | 19,684 | 13,487 |
| NON CURRENT LIABILITIES | | |
| Employee benefits | 210 | 199 |
| Deferred income | 682 | 1,566 |
| Loans and borrowings | 8,240 | 9,764 |
| Total Non Current Liabilities | 9,132 | 11,529 |
| TOTAL LIABILITIES | 28,816 | 25,016 |
| NET ASSETS | 7,964 | 14,232 |
| EQUITY | | |
| Issued capital | 109,118 | 109,118 |
| Reserves | 3,860 | 3,466 |
| Accumulated losses | (105,014) | (98,352) |
| TOTAL EQUITY | 7,964 | 14,232 |

Part 7 – Consolidated Statement of Cash Flows

| | 2017 (\$000) | 2016 (\$000) |
|---|-------------------------------|-----------------|
| Cash flows from operating activities | | |
| Cash receipts in the course of operations | 50,860 | 49,190 |
| Interest received | 31 | 83 |
| Interest, other finance cost paid and realized FX | (74) | (1,370) |
| Government grants | 532 | 460 |
| Cash payments in the course of operations | (51,255) | (53,278) |
| | <hr/> | <hr/> |
| <i>Net cash provided by/ (used in) operating activities</i> | 94 | (4,915) |
| Cash flows from investing activities | | |
| Payments for property, plant and equipment | (3,970) | (3,412) |
| Receipts from (investment in) term deposits | 245 | (254) |
| | <hr/> | <hr/> |
| <i>Net cash (used in) investing activities</i> | (3,725) | (3,666) |
| Cash flows from financing activities | | |
| Net proceeds from issues of shares | - | 20,890 |
| Proceeds from borrowings | 1,500 | - |
| Repayment of borrowings | (1,250) | (5,500) |
| Payment of borrowing costs | (542) | (329) |
| Finance lease payments | (1) | (8) |
| | <hr/> | <hr/> |
| <i>Net cash (used in)/ provided by financing activities</i> | (293) | 15,053 |
| Net (decrease) increase in cash held | (3,924) | 6,472 |
| Effects of foreign exchange rate changes | 68 | (64) |
| Cash at the beginning of the year | 7,578 | 1,170 |
| | <hr/> | <hr/> |
| CASH AT THE END OF THE YEAR | 3,722 | 7,578 |
| | <hr/> | <hr/> |

Part 8 – Other Income and Expenses

| The loss before income tax includes the following items of revenue and expense: | 2017 (\$000) | 2016 (\$000) |
|---|-----------------|-----------------|
| (a) Other income | | |
| Government grants | 532 | 460 |
| (b) Other expenses | | |
| Marketing expenses | 53 | 199 |
| Write off bad debt | 345 | - |
| Indirect taxes related to German operations | - | 1,633 |
| Loss on disposal of plant and equipment | - | 183 |
| | <u>398</u> | <u>2,015</u> |
| (c) Employee benefits expense | | |
| Wages and salaries | 19,050 | 19,710 |
| Defined contribution plan expenses | 1,536 | 1,355 |
| Increase in liability for annual leave | 199 | 288 |
| Expense of share based payments | 326 | 114 |
| | <u>21,111</u> | <u>21,467</u> |

Part 9 – Details Relating to Dividends

| | |
|--|-----|
| Date the dividend is payable | N/A |
| Record date to determine entitlement to the dividend | N/A |
| Amount per security | N/A |
| Total dividend | N/A |
| Amount per security of foreign sourced dividend or distribution | N/A |
| Details of any dividend reinvestment plans in operation | N/A |
| The last date for receipt of an election notice for participation in any dividend reinvestment plans | N/A |

Part 10 – Loss per Share

| | 2017 | 2016 |
|--|---------------------|--------------|
| <i>Basic loss per share</i> | | |
| Ordinary shares | (1.18 cents) | (1.17 cents) |
| | No. | No. |
| Weighted average number of ordinary shares used as the denominator in the calculation of basic earnings per share. | 562,538,584 | 495,782,664 |
| <i>Diluted loss per share</i> | | |
| Diluted ordinary shares | (1.18 cents) | (1.17 cents) |
| | No. | No. |
| Weighted average number of diluted ordinary shares used as the denominator in the calculation of diluted earnings per share. | 562,538,584 | 495,782,664 |

Part 11 – Net Tangible Assets per Security

| | 2017 | 2016 |
|--|------------|------------|
| Net tangible asset backing per ordinary security | 1.40 cents | 2.53 cents |

Part 12 – Details of Entities over Which Control has been Gained or Lost

Not applicable.

Part 13 – Issued Securities

| | 2017 (\$000) | 2016 (\$000) |
|---|-----------------|-----------------|
| Issued capital | | |
| 562,880,792 (2016 562,474,143) fully paid ordinary shares | <u>109,118</u> | <u>109,118</u> |

The following movements in issued capital occurred during the year:

| | <u>2017</u> | | <u>2016</u> | |
|---------------------------------------|--------------------|----------------|--------------------|----------------|
| | No. of shares | \$000 | No. of shares | \$000 |
| Balance at the beginning of the year | 562,474,143 | 109,118 | 397,873,501 | 88,228 |
| Shares issued on exercise of rights | 406,649 | - | 595,053 | - |
| Share issue and capital raising costs | - | - | 164,005,589 | 20,890 |
| Balance at the end of the year | <u>562,880,792</u> | <u>109,118</u> | <u>562,474,143</u> | <u>109,118</u> |

Options

Options granted during the year

During the financial year, the Company granted no options.

Unissued shares under option

At 30 June 2017, unissued ordinary shares of the Company under option are:

| Expiry Date | Exercise Price | Number of Options | |
|------------------|----------------|-------------------|------------|
| | | 2017 | 2016 |
| 31 December 2018 | \$0.1625 | 25,000,000 | 25,000,000 |

These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

Exercise of options

During the current financial year the company issued no shares as a result of the exercise of options (2016: Nil).

Lapse of options

During the current financial year and the previous financial year, no options lapsed.

Part 14– Financial Position

As at 30 June 2017 the company has cash and deposits of \$ 4.4 million of which \$718,000 is in restricted term deposits held in Other Financial Assets.

Part 15– Subsequent Events

On 1 August 2017, the business announced a number of changes to drive profitability and growth, following a comprehensive strategy and operational review by its new CEO/Managing Director, the executive management team and the Board. The updated strategy, OneQuickstep, includes a revised organisational structure and leadership roles, productivity and efficiency improvements, refocused R&D investment and a focus on targeted business development and growth.

Part 16 – Audit Status

| This report is based on accounts to which one of the following applies: (Tick one) | | | |
|--|-------------------------------------|--|--------------------------|
| The accounts have been audited | <input type="checkbox"/> | The accounts have been subject to review | <input type="checkbox"/> |
| The accounts are in the process of being audited or subject to review | <input checked="" type="checkbox"/> | The accounts have not yet been audited or reviewed | <input type="checkbox"/> |

If the accounts have not yet been audited and are likely to contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.

The Group has incurred a loss after tax for the year ended 30 June 2017 of \$6,662K (2016: loss after tax of \$5,785K). At 30 June 2017 the Group has net assets of \$7,964K (2016: net assets of \$14,232K). Operating cashflow for the year was \$94K after R&D investment of \$5,492K.

The loss reflects the ongoing investment by the business in R&D and lower margins from its operations due to the JSF program still being below 50% of future volumes, changed business mix, learning curve costs in the first year of vertical tails production and commissioning of the C-130J automated drilling equipment.

The existing cash position of the Group and the need to support further growth requirements, uncertainty associated with foreign exchange rate fluctuations on US\$ denominated sales and commercialisation of new technology has resulted in some risk as to the future cash flow of the Group being dependent on a combination of the following solutions:

- Cost controls
- Delivering manufacturing efficiencies for existing programs;
- Reduced R&D spend; and
- Additional sources of debt funding

The going concern basis presumes that a combination of the above 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. Notwithstanding the confidence of the Directors, if the combined effect of the above solutions should not be wholly successful, there is a material uncertainty as to whether the Group would continue as a going concern.

The Directors consider that there is a basis to expect the Group will be able to meet its commitments and accordingly, the financial report has been prepared on the basis of a going concern. The business announced a number of measures on 1 August 2017 under the OneQuickstep program which include a revised organisational structure and leadership roles, productivity and efficiency improvements, refocused R&D investment and a focus on targeted business development and growth.

If the accounts have been audited and contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.

Not Applicable