

QUARTERLY REPORT

TO 30 JUNE 2010

HIGHLIGHTS

- Cash inflows from sales, grants and interest income exceeding \$2 million for the year which is nearly double the figure for the previous year, showing Quickstep's successful growth in selling its technology
- Cash reserves at the end of the June Quarter of \$22.23 million
- Development program for Joint Strike Fighter (JSF) manufacturing progressing on schedule, with all deadlines initially agreed with Northrop Grumman met
- Upgrade to North Coogee manufacturing facility proceeding on schedule, with pre-development work now underway to manufacture trial JSF parts to Northrop Grumman specifications
- Long Term Agreement for ~\$700M in JSF contracts expected to be signed before end of calendar 2010
- Australian Federal Defence Minister, Sen. John Faulkner, visited Quickstep's North Coogee facility to review progress towards JSF manufacturing capability
- Quickstep and Vector Composites awarded U.S. Air Force contract to qualify "Quickstep Process" for JSF production
- U.S subsidiary established to target development and commercial contracts in North America
- \$500,000 of new European development contracts secured by Quickstep's Germany subsidiary
- All these contracts are expected to show further substantial growth in revenue for next financial year.

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

With the Company's sights remaining firmly set on completing the necessary developments to commence Joint Strike Fighter (JSF) manufacturing work, the June 2010 Quarter has been an extremely active period for Quickstep with preparations continuing apace at the Company's North Coogee manufacturing facility.

At the end of the Quarter, Quickstep had completed the following development activities required for the commencement of JSF manufacturing:

- **Autoclaves** – all autoclaves are fully installed, commissioned and calibrated and are now making pre-development parts for JSF.



Quickstep team members Sean Scammell and David Howarth operating Quickstep's new Ply Cutting machine

- **Upgrade to Breton 5 Axis Machine** – an upgrade has been completed to allow manufacturing using liquid coolants (a requirement for JSF manufacturing). BAe, Lockheed Martin and Northrop Grumman have requested tests be conducted to confirm the machine's accuracy - these tests have been completed and Quickstep is awaiting the results.
- **Coordinate Measuring Machine** – site preparations for the installation of a CMM, which provides precise measurements for manufactured parts, have been completed and the machine is scheduled to be delivered during August and available for production in September.

- **Clean Room & Assembly Hall** – a brand new clean room has been completed and is currently being used for production of pre-development parts for JSF. A refit of the old clean room has been completed to create a dedicated space for JSF component assembly. Northrop Grumman will supply custom-built Jigs and Tools for each JSF component, with delivery of these jigs expected to occur closer to the commencement of manufacturing.



Team member Mick James operating Quickstep's 5 Axis Milling Machine

- **Non Destructive Test Plant** – this ultrasonic equipment, used to test the integrity of composite structures to evaluate factors such as voids and porosity, has been fully commissioned and preliminary tests have been conducted on Quickstep-manufactured JSF composite panels. These test results have been sent to Northrop Grumman to allow verification of the testing process.



Ply Projection Equipment in operation in Quickstep's new clean room

- **Paint Facility** – construction of the paint shop is complete. Training will be provided for Quickstep employees in the September Quarter to ensure painting is completed to aerospace standard.

- **New equipment installed** – new machinery installed during the Quarter includes a Laser Projection System (the latest technology for the precise layout of carbon fibre pieces) and a Ply Cutter (to cut sheets of carbon fibre to shape).

- **Enterprise Resource Planning (ERP) System** – an integrated ERP System has been selected and implemented to provide Quickstep with a 'one-stop' interface to manage all aspects of Quickstep financial and manufacturing planning, including areas such as capacity planning, resource planning, material ordering and key business measures such as budgets and workforce shift patterns. The system went live on 1 July 2010.



A Generation 3 Quickstep plant next to one of Quickstep's three autoclaves

- **Integration of the IT environment** – All the major equipment is interconnected through a data network. The Company has proven the transfer of data from the client source to the actual output of each machine, therefore delivering a compliant part. A number of software packages have been installed including additional Catia seats and Fibresim licences which allow integrating these equipments in a coherent way.

- **International Traffic in Arms Regulations (ITAR)** – Quickstep has completed the necessary steps to be compliant with ITAR, an essential prerequisite to work with US technology.

When Quickstep signed the original Memorandum of Understanding (MOU) with lead JSF contractors Northrop Grumman and Lockheed Martin in November 2009, the Company was set a deadline to be ready to manufacture demonstration and qualification panels for JSF by October 2010.

These qualification panels are used for testing the material properties of the composite materials, with Quickstep to perform tests on one half of the qualification panel and then send the remaining half to Northrop Grumman who will perform the same tests and correlate the results.

Quickstep is pleased to report that the first panels have been produced using all its equipment and procedures including the ERP system. They are meeting the quality requirements that were mandated by Northrop Grumman.

Quickstep remains confident of signing a Long Term Agreement (LTA) with Lockheed Martin and Northrop Grumman in relation to around \$700M of potential JSF contracts before the end of the calendar year. While this process has been slightly delayed due to the administrative process required by the US Department of State for the release of JSF data, this delay has in no way affected the projected start date for JSF part delivery which remains as planned to start in the first quarter of 2102.

Northrop Grumman representatives have visited Quickstep's North Coogee manufacturing facility during planned management, technical and executive reviews and are holding twice-weekly phone conferences with Quickstep to discuss and review progress.

In the coming Quarter Northrop Grumman has requested that a group of Quickstep employees visit their American manufacturing headquarters to receive training on the methods, tools and processes for the manufacture of JSF parts.

RESEARCH & DEVELOPMENT

U.S. Air Force contract to validate "Quickstep Process" for JSF production

Quickstep received a further boost in its bid to become a process supplier to the global aerospace and defence industries in May, with the announcement that the U.S Air Force had committed to a Phase II research and development program aimed at qualifying the use of Quickstep's patented out-of-autoclave curing technology to manufacture composite materials used in the JSF program. Lockheed Martin is continuously working to deliver more affordability for the aircraft. With that objective in mind they are backing this project. Potential suppliers of parts such as BAe Systems and ITT Edo could use the Quickstep Process when qualified for the JSF. For Quickstep, it is a step towards licensing the Company's proprietary technology to the largest and one of the most visible aircraft programs in the world.

The research will be completed by Quickstep and Dayton, Ohio based advanced composites fabricator, Vector Composites, and follows the successful completion of a Vector/Quickstep SBIR Phase I effort in 2009 to demonstrate proof of concept in the curing of high temperature carbon fibre/bismaleimide (BMI) materials. The Phase II research will focus on process qualification of bismaleimide (BMI) and epoxy resin composite materials using the Quickstep Process. These two materials constitute the majority of the advanced structural composites used in the JSF.

The Phase II research has been deemed critical by the Air Force and has therefore been awarded one of the highest levels of funding available under the U.S DOD Small Business Innovation Research (SBIR) program to encourage successful transition and implementation, with a US\$2.6 million base contract and potential US\$1.4 million follow-on option (US\$4 million total program authorisation).

Key benefits identified in ‘Binder Activation’

Quickstep has identified and validated a major new opportunity for the patented ‘Quickstep Process’, with the development of Binder Activation – a new processing technique with important applications in the aerospace industry due to its ability to overcome many of the limitations of existing composites manufacturing techniques which utilise ‘prepreg’ material.

The Quickstep Process has been fully validated for Binder activation and has been found to provide major cost efficiencies compared to its competitors.

Due to Quickstep’s ability to precisely control the heating and cooling of resins within the curing process, we have been able to reduce the cycle time by between 35 and 50% compared with alternative processes, which also means fewer tools are required for Binder activation.

Because Binder activation is classified as a non critical operation by aerospace companies, it does not need the lengthy and expensive qualification process that a new curing technology requires. Therefore, because the process has already been fully validated, it can be used for commercial industrial applications immediately and Quickstep is ready to licence its technology and supply its equipment to commence manufacturing.

German subsidiary, Quickstep GmbH, secures \$500,000 in new European development contracts

Quickstep’s European subsidiary company, Quickstep GmbH in Germany, has secured new development contracts with a total value of over \$500,000 including further collaborative work with a large European aerospace company.

The projects include paid development work on:

- The manufacture of integrated parts in one cure cycle; and
- Composite repair solutions.

These externally funded and partnered development programs will be undertaken in Quickstep’s wholly-owned German development facility and are focused on individual commercially confidential programs.

The programs are in keeping with Quickstep’s 3-part Business Strategy, which comprises contract manufacturing work, paid Quickstep Process development work and Quickstep Process technology transfer.

INTERNATIONAL SHOWCASE SITES AND DEVELOPMENT FACILITIES

Quickstep GmbH (Germany)

Quickstep GmbH is continuing to work closely with a number of high-profile development partners, including Eurocopter Germany, Airbus UK, EADS Innovation Works, Fraunhofer ICT Augsburg, EDAG, to promote Quickstep’s manufacturing abilities.

The facility in Ottobrun includes a QS20 manufacturing machine, curing chambers, a small oven for resin infusion, an ultrasonic Non Destructive Testing, a DSC analyser, a stereo microscope, a sample cutting and polishing machine and a storage system.

Recent developments include an expansion of the work space, a new conference room and the establishment of new clean room that meets ISO Class 8 standards.



Quickstep’s curing chamber in operation at Quickstep’s German facilities

Quickstep's German workforce has also been increased and now totals seven employees.

In addition to the paid development work outlined above, Quickstep GmbH is also undertaking:

- A project on behalf of Airbus UK focused on thick laminates and infusion technologies;
- A project for Composite Technologies Research Malaysia development work for Airbus parts.
- Binder activation development work
- Development of ballistic panels using the "Quickstep Process" to cure
- Development work for infusion technologies and "Quickstep Process" curing

United States

Quickstep is accelerating its efforts to target aerospace and defence manufacturing contracts in the United States, with the incorporation of a new subsidiary company based in Dayton, Ohio. The new company, called 'Quickstep Composites LLC', will operate from Quickstep's existing North American showcase site in Dayton, with Quickstep's US Manager Dale Brosius appointed President.

The establishment of a formal subsidiary in the United States will enable Quickstep to deal directly with the various tiers of the composites industry in America, including the aerospace and defence sectors, and directly contract with prime defence contractors based in the US, including on projects subject to International Traffic in Arms Regulations (ITAR) that restrict access to foreign nationals.

The decision to establish a subsidiary in the US follows the completion of an initial 3-year collaboration agreement with the National Composite Center (NCC) in Dayton, which enabled Quickstep to demonstrate its patented composites manufacturing process to potential customers and evaluate the prospective market. Following the completion of this initial three year term, we now have ample confidence in the potential of the US market to establish a formal subsidiary and deal directly with the various tiers of the composites industry.



Quickstep's Dayton, Ohio facility being prepared for the SBIR JSF materials approval program

CORPORATE

Corporate

- At the time of the Quickstep's Initial Public Offering in 2005, the Company issued 7,500,000 unlisted options to shareholders with an expiry date of 15th April 2010 and an exercise price of 25 cents. Some of these options had been exercised in prior periods. At December 2009 around 6,000,000 of these options remained unexercised.
- Over the period from January to mid April 2010 the majority of the options were exercised
- State One Equities Pty Ltd agreed to underwrite up to 760,000 of the outstanding options. The underwriting agreement was finalised with State One underwriting 655,870 options.
- The exercise of options between January and April has increased share capital by around \$1.4 million

Cash Position

- At the end of the year the consolidated group cash balance was \$22,226,000. This is an increase of \$19,541,000 over the previous year.
- The substantial net inflow reflects the equity contributions from shareholders through the share placement, share purchase plan, conversion of convertible notes and exercise of options which took place during the year.
- Importantly the Group has achieved significant levels of cash inflows from other sources with sales, grants and interest income exceeding \$2,021,000 for the year which is an increase of \$1,122,000 over the previous year and reflects the substantial efforts to commercialise the Group's technologies.
- Substantial investments have been made in capital equipment \$2,022,000 primarily to support the JSF program and into research and development of new technologies, \$2,018,000

OUTLOOK

The September 2010 Quarter will be an exceptionally busy period for Quickstep as the Company works to meet Northrop Grumman's deadline of being ready to manufacture qualification parts for JSF by October 2010.

Quickstep has now established a manufacturing facility and aerospace team that are unrivalled by any other independent group in Australia – putting the Company in an excellent position to secure both JSF and other aerospace manufacturing contracts in the months ahead.

The securing of manufacturing and Quickstep Process contracts will remain a key focus for the Company in the forthcoming quarter.

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")

30 JUNE 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from customers	177	419
1.2 Payments for		
(a) staff costs	(1,298)	(4,466)
(b) advertising and marketing	(119)	(555)
(c) research and development	(1,685)	(2,018)
(d) leased assets	(2)	(9)
(e) other working capital	(154)	(2,207)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	186	542
1.5 Interest and other costs of finance paid	(15)	(267)
1.6 Income taxes received/(paid) – R&D	-	-
1.7 Other (Export Market Development Grant & Climate Ready Grant)	584	1,060
Net operating cash flows	(2,326)	(7,501)

+ 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 (12 months) \$A'000
1.8 Net operating cash flows (carried forward)	(2,326)	(7,501)
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*	(857)	(2,022)
(e) other non-current assets	-	-
<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 (provide details if material)	-	-
Net investing cash flows	(857)	(2,022)
1.14 Total operating and investing cash flows	(2,560)	(6,340)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc (net)	1,482	25,064
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	4,000
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other	-	-
Net financing cash flows	1,482	29,064
Net increase (decrease) in cash held	(1,701)	19,541
1.21 Cash at beginning of quarter/year to date	23,944	2,816
1.22 Effects of exchange rate changes on cash held in foreign currencies	(17)	(131)
1.23 Cash at end of quarter	22,226	22,226

+ 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	172
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)	114
	- Research and development consultancy services (Item 1.24)	18
	- Marketing and promotion expenses (Item 1.24)	40

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 ¹	6,000	nil
3.2	Credit standby arrangements	NIL	NIL

¹ Relates to a convertible loans facility for \$10 million which has previously been drawn upon for \$4,000,000 and subsequently converted to capital.

+ 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	7,226	944
4.2	Deposits at call	15,000	23,000
4.3	Bank overdraft	-	-
4.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)		22,226	23,944

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: 30 July 2010

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.