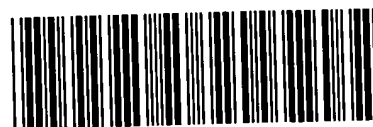


REGISTERED NUMBER: 10238820 (England and Wales)

**GROUP STRATEGIC REPORT,
REPORT OF THE DIRECTOR AND
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021
FOR
FERRA HOLDINGS LIMITED**

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for the Year Ended 31 December 2021**

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FERRA HOLDINGS LIMITED

COMPANY INFORMATION
for the Year Ended 31 December 2021

DIRECTOR: M Scherrer

REGISTERED OFFICE: C/o Fox Williams
10 Finsbury Square
London
EC2A 1AF

REGISTERED NUMBER: 10238820 (England and Wales)

AUDITORS: Oury Clark Chartered Accountants
Statutory Auditors
Herschel House
58 Herschel Street
Slough
Berkshire
SL1 1PG

FERRA HOLDINGS LIMITED (REGISTERED NUMBER: 10238820)

**GROUP STRATEGIC REPORT
for the Year Ended 31 December 2021**

The director presents his strategic report of the company and the group for the year ended 31 December 2021.

REVIEW OF THE BUSINESS

Ferra Holdings Limited ("The Company") is an investment holding company and the principal activity of its subsidiary undertakings continues to be design, build and maintaining of complex sub-systems in the aerospace and defence sectors.

The Group is headquartered in the UK, with facilities in the United States, Australia and India.

The financial statements and notes within are stated in United States Dollars, being the presentational currency.

SECTION 172(1) STATEMENT

A company director must act in good faith and in a way that promotes the likely success of the company for the benefit of its members as a whole, and in so doing have regard to:

- Likely consequences of any decisions in the long-term;
- Interests of the group's employees;
- Maintaining strong business relationships with customers, suppliers and others;
- The impact of the company's operations on the communities where it operates and the environment;
- The need to protect group reputation and maintain high standards of business conduct; and
- The responsibility to act fairly between company stakeholders.

In discharging his section 172 duties the director considers he has had regard to the above in all material respects.

- The key stakeholders include employee, shareholders, suppliers, customers, creditors, bankers and local communities in proximity to the group's production bases. To ensure the board considers the likely consequences of decisions in the long term, it has set clear strategies, targets and development plans. Progress against these plans is reviewed at board meetings and the plans are updated as necessary.
- The employees are fundamental to the delivery of future success and as such the director's aim is to recruit, train and develop the best talent in order to continue the group's development.
- Customers, suppliers and others are pivotal to the delivery of the business plan. It is essential the director maintains the reputation of the group for providing a product that meets all the customers' requirements for quality of manufacture and delivery. Suppliers are also key and the director ensures that terms of business are strictly complied with to maintain their goodwill.
- The director aims to be a responsible member of the community and to minimise impact on the environment.
- The director intends to behave responsibly towards the shareholders and to communicate with them on any matters of significance affecting their positions.

Key decisions in the year

The board confirms that during the year under review it has acted to promote the long-term success of the group for key stakeholders. Some examples of decisions taken include:

- During the year the group consolidated its bank finance via a global finance facility with Commonwealth Bank of Australia. The facility provides working capital, equipment finance and the availability of funds for potential future acquisitions.
- The development of new products is considered key to the group's future prosperity and the continued development of the Loyal Wingman project is considered a major part of this development.

Employees

Commentary regarding the director's S172 report regarding employees is contained in the Report of The Director.

Engagement with suppliers, customers and others

Commentary regarding the director's S172 report regarding suppliers, customers and others is contained in the Report of The Director.

**GROUP STRATEGIC REPORT
for the Year Ended 31 December 2021**

RESULTS AND PERFORMANCE

The Group increased sales to \$53.017m, showing continued revenue growth with an Operating Profit of \$10.460m. Revenue growth is expected to continue to increase rapidly over the next 3 years, with 2022 on target to create and maintain healthy long-term returns.

BUSINESS ENVIRONMENT

Overall market dynamics in the global aerospace and defence market are favourable, with defence spending across the world by major governments remaining robust, supported by several ongoing geopolitical events. Defence spending remains a high priority for nation states. The Ferra Group has a strong global presence and competitive capability to deliver the benefits of low-cost international production and proximity to its key customers.

Defence spending in Australia remains high. In addition to the procurement of advanced air, land and maritime platforms, the Australian government is also providing industry with strong support through federal and state grant schemes, aimed at helping with global competitiveness and increasing sovereign capability. The recent change in administration in the US is seen as favorable for the Australian defence industry with a more global partnership and collaborative approach expected.

Global integration has created competitive pressures in the commodity machining industry where lower margins are earned. The group's Indian presence helps to add a competitive cost advantage under the Globally Integrated Enterprise (GIE) model and management continue to capitalise on our current market position, while looking to move further into more complex / higher margin assemblies and into design-to-build rather than build to print, creating value through IP.

COVID-19

COVID-19 presents a threat to the Ferra Group, as it does to any business currently. Management are happy to report that a swift implementation of a COVID-19 policy has resulted in minimal cases across the group's facilities. Management continue to be vigilant in this area and are taking necessary precautions at each site to ensure the safety of our workforce, customers and key stakeholders.

Due to the Group's focus on defence contracts at the present time, management expect the effect of COVID-19 to be temporary. The effects felt by the business during the period under review included schedule delays on commercial contracts, increased freight costs, raw material availability challenges and operational efficiency challenges that a global pandemic brings. These costs have largely been offset by government grants and forgivable loans made available in Australia and the USA. Management are mindful of the effect of the pandemic on the wider industry and in particular the Group's immediate supply chain. Open communication and pro-active requisitioning have helped the group mitigate larger negative effects, a strategy that is intended to continue for the foreseeable future.

STRATEGY

In the aerospace and defence industry, we have continued to consolidate our position. We believe it is important to retain a diversified portfolio of risks in order to achieve stable profits.

The Group will continue to consolidate its position and concentrate its efforts on achieving maximum growth in its existing market segments. We aim to improve efficiency in all areas of our operations, ensure disciplined contract selection and contract management. Customer service remains a top priority.

GROUP STRATEGIC REPORT
for the Year Ended 31 December 2021

KEY PERFORMANCE INDICATORS ('KPIs')

Management evaluate performance based on three main Key Performance Indicators as a percentage of revenue:

GROUP

	2020 \$'000	2020 % of Revenue	2021 \$'000	2021 % of Revenue
Revenue	52,059		53,017	
EBITDA	21,248	40	17,945	34
Operating Profit	14,212	27	10,460	20
Net Cash Generated	4,698	9	0	0

EBITDA and Operating Profit reduced as a percentage of Revenues in 2021 primarily due to a change in sales mix, with less mature programs increasing in overall percentage of revenues, along with exceptional professional fees as a result of M&A activity (see note 25). In December 2021 a share purchase agreement (SPA) was entered into which is expected to result in a change of ownership of the Group post the year end. The SPA is subject to the fulfilment of certain conditions and approvals which, as at the date of the audit report, are still in the process of being obtained.

Management expects the margins to increase as the upcoming programs mature and are pleased to see its revenue diversification strategies paying off as planned.

The Group also uses non-financial KPIs to monitor the effectiveness of the Group's operations. In particular the Group monitors its Supplier delivery performance, being parts delivered compared to delivered on time and its Customer delivery performance, being parts ordered compared to delivered on time.

PRINCIPAL RISKS AND UNCERTAINTIES

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management, risk management and internal audit.

Compliance with regulation, legal and ethical standards is a high priority for the Group and the compliance team and the Group finance department take on an important oversight role in this regard.

FUTURE DEVELOPMENTS

The Group continues to look to grow its position in the market while diversifying its client base, primarily through continuing expansion in its US and Indian operations. Ferra are looking to extend its most recent US expansion in Washington D.C. to increase US government relations, and further enhance our congressional relationships with elected officials.

The business intends to continue to focus on consolidating its position and ensuring the high level of controls and management overview are being maintained to show increased success in future periods.

SIGNED BY:



Mark Scherrer (Apr 1, 2022 11:13 GMT+1)

.....
M Scherrer - Director

Date: **Apr 1, 2022**
.....

**REPORT OF THE DIRECTOR
for the Year Ended 31 December 2021**

The director presents his report with the financial statements of the company and the group for the year ended 31 December 2021.

DIVIDENDS

No interim dividend was paid on any of the issued shares. The director recommends that no final dividend be paid on any shares.

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in the notes to the financial statements.

DIRECTOR

M Scherrer held office during the whole of the period from 1 January 2021 to the date of this report.

COMPLIANCE WITH THE MODERN SLAVERY ACT

Following the enactment of the Modern Slavery Act the group has reviewed its procurement and human rights practices and those of its supply chain in light of this act. The group's suppliers are based predominantly in Australia, United States of America and India and the group has taken action to comply with the regulations. The group does not support forced labour or the exploitation of children.

ENGAGEMENT WITH EMPLOYEES

The group appreciates the vital role that employees play in its success and development and has continued its practice of keeping the employees informed of matters affecting them as employees and of the financial and economic factors affecting the performance of the group.

ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS

The group appreciates the need to maintain good working relationships with its suppliers, customers and others and to that end deals with each in accordance with the terms and conditions agreed between both parties at the commencement of the relationship and as amended by subsequent agreement.

STREAMLINED ENERGY AND CARBON REPORTING

The group's production facilities are in Australia, United States of America and India. The energy consumption of the UK entities is below the disclosure requirement limits.

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The director is responsible for preparing the Group Strategic Report, the Report of the Director and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with UK-adopted international accounting standards. Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's and the group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable him to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

FERRA HOLDINGS LIMITED (REGISTERED NUMBER: 10238820)

**REPORT OF THE DIRECTOR
for the Year Ended 31 December 2021**

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the director is aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the group's auditors are unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

AUDITORS

The auditors, Oury Clark Chartered Accountants, are deemed to be re-appointed under Section 487 (2) of the Companies Act 2006.

ON BEHALF OF THE BOARD:

Mark Scherrer

Mark Scherrer (Apr 1, 2022 11:13 GMT+1)

.....
M Scherrer - Director

Apr 1, 2022
Date:

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF FERRA HOLDINGS LIMITED

Opinion

We have audited the financial statements of Ferra Holdings Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021 which comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and Notes to the Consolidated Statement of Cash Flows, Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the UK.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the UK;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the UK and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the director with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Report of the Directors, but does not include the financial statements and our Report of the Auditors thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is consistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be misstated. If we identify such inconsistencies or apparent misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Group Strategic Report and the Report of the Director for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Group Strategic Report and the Report of the Director have been prepared in accordance with applicable legal requirements.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF FERRA HOLDINGS LIMITED

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the parent company and its environment obtained during the course of the audit, we have not identified any matters in the Report of the Director or the Strategic Report that are inconsistent with our overall view of the financial statements.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of director

As explained more fully in the Statement of Director's Responsibilities set out on page five, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the director determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the director is responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the director either intends to liquidate the group or the parent company or to cease operations, or has no realistic alternative but to do so.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF FERRA HOLDINGS LIMITED

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a Report of the Auditors that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

Identifying and assessing potential irregularities, including fraud

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- Considering the nature of the industry, sector, control environment and current business activities, including possible financial covenants, performance targets and subsequent remuneration and quality assurance risks.
- Enquiring of management concerning policies and procedures relating to:
 1. Complying with laws, regulations and registrations and whether there were any instances of non-compliance
 2. Mitigating, detecting and responding to fraud risk and whether there has been any actual or possible instances of fraud
- Discussing within the engagement team, with component auditors and internal specialists, where necessary, regarding how and where fraud may occur in the financial statements along with possible indicators of fraud. We identified the following areas most likely to be susceptible to fraud:
 1. Stock valuation
 2. Revenue recognition
 3. Management override
- Discussing within the engagement team, with component auditors and internal specialists, where necessary, the legal and regulatory framework in which the group operates and, in particular, those which would have an impact on the financial statements. The key laws and regulations considered were the Companies Act 2006, UK tax legislation and UK employment law for the UK registered companies, together with their equivalents within the operating territories of the subsidiary entities, and Quality Assurance standard AS9100 for the Australian subsidiary.

Audit response to the risks identified

As noted above, we identified stock valuation, revenue recognition and management override as matters that would be most likely to be susceptible to fraud. Our procedures to respond to these risks included:

- Stock valuation testing to ensure that costs included within the valuation were correct and appropriate and that the resultant valuation was lower than the net realisable value
- Revenue recognition testing included confirmation of delivery dates, cut-off procedures around the year-end and confirming milestone trigger points had been achieved in accordance with contracts with customers
- Management override testing included reviewing journals posted during the year to ensure the rationale and support of such journals were valid and appropriate

Furthermore, we also identified compliance with key laws, regulations and registrations, as above, as being significant areas where there may be potential non-compliance. Our procedures to respond to these risks included the following:

- Review financial statements and disclosures to supporting documentation to assess compliance with the Companies Act 2006
- Review tax computations and returns to ensure compliant with relevant tax legislation
- Review payroll reports and employee contracts to ensure compliant with employment legislation
- Confirmation by reviewing the Lloyd's Register Certificate of Approval that the Australian subsidiary company retained its AS9100 certification.

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
FERRA HOLDINGS LIMITED**

The above matters and identified laws, regulations and registrations and potential fraud risks were communicated to all the engagement team members, component auditors and internal specialists, where necessary, in order to ensure the audit team have the ability to identify such risks. The whole team remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

There are inherent limitations in the audit procedures described above and the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditors.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Rachel Lockwood (Apr 1, 2022 17:36 GMT+1)

Rachel Lockwood (Senior Statutory Auditor)
for and on behalf of Oury Clark Chartered Accountants
Statutory Auditors
Herschel House
58 Herschel Street
Slough
Berkshire
SL1 1PG

Date: Apr 1, 2022

FERRA HOLDINGS LIMITED (REGISTERED NUMBER: 10238820)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the Year Ended 31 December 2021**

	Notes	31.12.21 \$	31.12.20 \$
CONTINUING OPERATIONS			
Revenue		53,017,691	52,059,073
Cost of sales		(29,903,183)	(25,680,791)
GROSS PROFIT		<u>23,114,508</u>	<u>26,378,282</u>
Other operating income	4	1,575,804	1,786,230
Distribution costs		(1,089,834)	(1,084,327)
Administrative expenses		(13,140,650)	(12,868,129)
OPERATING PROFIT		<u>10,459,828</u>	<u>14,212,056</u>
Finance costs	6	(256,212)	(48,891)
Finance income	6	361,853	102,223
PROFIT BEFORE INCOME TAX	7	<u>10,565,469</u>	<u>14,265,388</u>
Income tax	9	(3,363,438)	(4,048,010)
PROFIT FOR THE YEAR		<u><u>7,202,031</u></u>	<u><u>10,217,378</u></u>
Profit attributable to: Owners of the parent		<u><u>7,202,031</u></u>	<u><u>10,217,378</u></u>

The notes form part of these financial statements

FERRA HOLDINGS LIMITED (REGISTERED NUMBER: 10238820)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the Year Ended 31 December 2021

	31.12.21 \$	31.12.20 \$
PROFIT FOR THE YEAR	7,202,031	10,217,378
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss:		
Consolidation foreign exchange movement	(294,009)	565,523
IFRS 16 adoption adjustment Purchase of own shares	-	(2,325,000)
Income tax relating to items that will not be reclassified to profit or loss	-	-
	<u>(294,009)</u>	<u>(1,759,477)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		
	<u>(294,009)</u>	<u>(1,759,477)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>6,908,022</u>	<u>8,457,901</u>
Total comprehensive income attributable to: Owners of the parent	<u>6,908,022</u>	<u>8,457,901</u>

The notes form part of these financial statements

FERRA HOLDINGS LIMITED (REGISTERED NUMBER: 10238820)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2021

	Notes	31.12.21 \$	31.12.20 \$
ASSETS			
NON-CURRENT ASSETS			
Goodwill	11	462,214	513,572
Owned			
Intangible assets	12	5,810,987	5,805,481
Property, plant and equipment	13	20,617,594	18,021,944
Right-of-use			
Property, plant and equipment	13, 22	8,153,906	6,849,982
Investments	14	1,132	1,132
Trade and other receivables	16	10,225,577	5,874,372
		<u>45,271,410</u>	<u>37,066,483</u>
CURRENT ASSETS			
Inventories	15	12,882,930	16,961,423
Trade and other receivables	16	12,898,353	6,007,728
Tax receivable		839,323	-
Cash and cash equivalents	17	7,599,579	7,684,933
		<u>34,220,185</u>	<u>30,654,084</u>
TOTAL ASSETS		<u><u>79,491,595</u></u>	<u><u>67,720,567</u></u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	18	145,005	145,002
Share premium	19	910,316	910,316
Foreign exchange reserve	19	(149,210)	144,799
Retained earnings	19	29,990,689	22,788,658
TOTAL EQUITY		<u><u>30,896,800</u></u>	<u><u>23,988,775</u></u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	20	841,068	886,498
Financial liabilities - borrowings			
Interest bearing loans and borrowings	21	25,957,313	23,654,523
Tax payable		623,183	-
Deferred tax	23	2,841,347	2,613,945
		<u>30,262,911</u>	<u>27,154,966</u>
CURRENT LIABILITIES			
Trade and other payables	20	7,019,445	10,290,491
Financial liabilities - borrowings			
Interest bearing loans and borrowings	21	11,199,338	6,089,752
Tax payable		113,101	196,583
		<u>18,331,884</u>	<u>16,576,826</u>
TOTAL LIABILITIES		<u><u>48,594,795</u></u>	<u><u>43,731,792</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>79,491,595</u></u>	<u><u>67,720,567</u></u>

The notes form part of these financial statements

FERRA HOLDINGS LIMITED (REGISTERED NUMBER: 10238820)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued
31 December 2021

The financial statements were approved by the director and authorised for issue on Apr 1, 2022 and were signed by:

Mark Scherrer

Mark Scherrer (Apr 1, 2022 11:13 GMT+1)

M Scherrer - Director

The notes form part of these financial statements

FERRA HOLDINGS LIMITED (REGISTERED NUMBER: 10238820)

COMPANY STATEMENT OF FINANCIAL POSITION
31 December 2021

	Notes	31.12.21 \$	31.12.20 \$
ASSETS			
NON-CURRENT ASSETS			
Goodwill	11	-	-
Owned			
Intangible assets	12	-	-
Property, plant and equipment	13	-	-
Right-of-use			
Investments	14	3,769,731	3,759,731
		<u>3,769,731</u>	<u>3,759,731</u>
CURRENT ASSETS			
Trade and other receivables	16	599,190	194,200
Cash and cash equivalents	17	417,267	600,334
		<u>1,016,457</u>	<u>794,534</u>
TOTAL ASSETS		<u><u>4,786,188</u></u>	<u><u>4,554,265</u></u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	18	145,005	145,002
Share premium	19	910,316	910,316
Foreign exchange reserve	19	(59,682)	(45,750)
Retained earnings	19	494,487	409,719
		<u>1,490,126</u>	<u>1,419,287</u>
TOTAL EQUITY		<u><u>1,490,126</u></u>	<u><u>1,419,287</u></u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	20	3,184,378	3,102,836
Tax payable		111,684	32,142
		<u>3,296,062</u>	<u>3,134,978</u>
TOTAL LIABILITIES		<u><u>3,296,062</u></u>	<u><u>3,134,978</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>4,786,188</u></u>	<u><u>4,554,265</u></u>

Apr 1, 2022

The financial statements were approved by the director and authorised for issue on and were signed by:

Mark Scherrer
 Mark Scherrer (Apr 1, 2022 11:13 GMT+1)

.....
 M Scherrer - Director

The notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the Year Ended 31 December 2021

	Called up share capital \$	Retained earnings \$	Share premium \$	Foreign exchange reserve \$	Total equity \$
Balance at 1 January 2020	1,245,004	13,708,491	910,316	915,502	16,779,313
Changes in equity					
Reduction in share capital	(1,100,002)	-	-	-	(1,100,002)
Total comprehensive income	-	9,080,167	-	(770,703)	8,309,464
Balance at 31 December 2020	<u>145,002</u>	<u>22,788,658</u>	<u>910,316</u>	<u>144,799</u>	<u>23,988,775</u>
Changes in equity					
Issue of share capital	3	-	-	-	3
Total comprehensive income	-	7,202,031	-	(294,009)	6,908,022
Balance at 31 December 2021	<u><u>145,005</u></u>	<u><u>29,990,689</u></u>	<u><u>910,316</u></u>	<u><u>(149,210)</u></u>	<u><u>30,896,800</u></u>

The notes form part of these financial statements

FERRA HOLDINGS LIMITED (REGISTERED NUMBER: 10238820)

**COMPANY STATEMENT OF CHANGES IN EQUITY
for the Year Ended 31 December 2021**

	Called up share capital \$	Retained earnings \$	Share premium \$	Foreign exchange reserve \$	Total equity \$
Balance at 1 January 2020	1,245,004	459,434	910,316	7,905	2,622,659
Changes in equity					
Reduction in share capital	(1,100,002)	-	-	-	(1,100,002)
Total comprehensive income	-	(49,715)	-	(53,655)	(103,370)
Balance at 31 December 2020	<u>145,002</u>	<u>409,719</u>	<u>910,316</u>	<u>(45,750)</u>	<u>1,419,287</u>
Changes in equity					
Issue of share capital	3	-	-	-	3
Total comprehensive income	-	84,768	-	(13,932)	70,836
Balance at 31 December 2021	<u><u>145,005</u></u>	<u><u>494,487</u></u>	<u><u>910,316</u></u>	<u><u>(59,682)</u></u>	<u><u>1,490,126</u></u>

The notes form part of these financial statements

FERRA HOLDINGS LIMITED (REGISTERED NUMBER: 10238820)

**CONSOLIDATED STATEMENT OF CASH FLOWS
for the Year Ended 31 December 2021**

		31.12.21 \$	31.12.20 \$
Cash flows from operating activities			
Cash generated from operations	1	5,537,146	18,565,259
Interest paid		(1,093,878)	(1,041,853)
Lease interest paid		(259,417)	(195,223)
Tax paid		(3,435,658)	(4,211,377)
Net cash from operating activities		<u>748,193</u>	<u>13,116,806</u>
Cash flows from investing activities			
Purchase of intangible fixed assets		(2,035,420)	(2,449,596)
Purchase of tangible fixed assets		(5,300,514)	(5,887,230)
Sale of tangible fixed assets		111,704	(2,071)
Interest received		361,853	102,223
Net cash from investing activities		<u>(6,862,377)</u>	<u>(8,236,674)</u>
Cash flows from financing activities			
Net movement on loans		6,300,313	4,250,462
Payment of lease liabilities		(1,827,045)	(1,007,469)
Amount withdrawn by directors		(20,245)	-
Share issue		3	-
Reduction in share capital		-	(3,425,001)
Government grants received		93,562	-
Government loans forgiven		1,482,242	-
Net cash from financing activities		<u>6,028,830</u>	<u>(182,008)</u>
(Decrease)/increase in cash and cash equivalents		<u>(85,354)</u>	<u>4,698,124</u>
Cash and cash equivalents at beginning of year	2	<u>7,684,933</u>	<u>2,986,809</u>
Cash and cash equivalents at end of year	2	<u><u>7,599,579</u></u>	<u><u>7,684,933</u></u>

The notes form part of these financial statements

**NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS
for the Year Ended 31 December 2021**

1. RECONCILIATION OF PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	31.12.21	31.12.20
	\$	\$
Profit before income tax	10,565,469	14,265,388
Depreciation charges	6,324,477	5,830,834
(Profit)/loss on disposal of fixed assets	(14,859)	17,728
Government loans forgiven	(1,482,242)	-
Forex on consolidation restatement	(294,010)	565,523
Production overhead interest	1,097,082	1,188,185
Government grants	(93,562)	-
Finance costs	256,212	48,891
Finance income	(361,853)	(102,223)
	<hr/>	<hr/>
Decrease/(increase) in inventories	15,996,714	21,814,326
(Increase)/decrease in trade and other receivables	4,078,493	(2,187,315)
Decrease in trade and other payables	(11,221,585)	491,093
	<hr/>	<hr/>
Cash generated from operations	5,537,146	18,565,259
	<hr/> <hr/>	<hr/> <hr/>

2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Statement of Cash Flows in respect of cash and cash equivalents are in respect of these Statement of Financial Position amounts:

Year ended 31 December 2021

	31.12.21	1.1.21
	\$	\$
Cash and cash equivalents	7,599,579	7,684,933
	<hr/> <hr/>	<hr/> <hr/>

Year ended 31 December 2020

	31.12.20	1.1.20
	\$	\$
Cash and cash equivalents	7,684,933	2,986,809
	<hr/> <hr/>	<hr/> <hr/>

The notes form part of these financial statements

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the Year Ended 31 December 2021**

1. **STATUTORY INFORMATION**

Ferra Holdings Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the General Information page.

2. **ACCOUNTING POLICIES**

Basis of preparation

These financial statements have been prepared in accordance with UK-adopted international accounting standards and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

Going concern

The Group operates in the Global Aerospace and Defence Industry and has a range of customers with whom it trades on normal trade terms. This comprises a substantial part of current revenue. Contracts with Boeing, as well as relating to the F-35 Joint Strike Fighter program form a major part of the Group's revenue. As is usual practice in the industry, to gain economies of scale these contracts are for significant quantities of product over a number of years and involve significant start up and research and development costs. These costs are funded through the Group's bank facilities, government grants and shareholder funding.

As disclosed in notes 21 and 26, the Group is dependent upon these contracts and the current funding arrangements to enable it to realise its assets and liabilities in the normal course of business and at the amounts stated in the financial report. Management and the Board has a major focus on ongoing cash flow forecasting and management of cash flows to ensure that the Group has sufficient funds to cover its planned activities and any ongoing obligations.

As disclosed in note 25, it is the director's opinion that the Covid-19 outbreak will continue to not have a material impact on the Group's ability to operate as a going concern.

On the basis of the above, the Director is of the opinion the Group has sufficient funds to meet its debts as and when they fall due and realise its assets and settle its liabilities in the ordinary course of business. The financial report has been prepared on a going concern basis and no adjustments have been made relating to the recoverability and classification of recorded amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and those of its subsidiaries.

Ferra Aerospace Private Limited, incorporated in India, is required to prepare its financial statements to 31 March. For the years ended 31 December 2019 to 2021 audited financial statements were prepared for this company for inclusion in the consolidated accounts.

The other four entities in the Group, being Ferra Engineering Pty Ltd, incorporated in Australia, Ferra Aerospace, Inc. and its subsidiary company, Ferra Aerospace Inc., incorporated in United States of America and Ferra Systems Limited, incorporated in England & Wales, all prepare accounts to 31 December.

The consolidated financial statements do not include any revenue or expenses derived from inter-company trading. In addition, all inter-company indebtedness has been eliminated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

2. ACCOUNTING POLICIES - continued

Changes in accounting policies, disclosures, standards and interpretations
New and amended standards and interpretations

There were no new standards adopted in the current financial year.

Summary of significant accounting policies

Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within 12 months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when it is:

- Expected to be settled in the normal operating cycle
- Held primarily for the purpose of trading
- Due to be settled within 12 months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The director has classified those interest-bearing loans and borrowings as non-current at 31 December 2021 where the director does not believe the Group will be required to make any repayments within 12 months.

The Group classifies all other liabilities as non-current.

Foreign currencies

The functional currency of the Group is dependent upon the location of the relevant group member. The functional currencies used are Great British pounds (£), Australian dollars (AUS \$), United States of America dollars (US \$) and Indian rupees (Rup).

The presentational currency for the Group is United States of America dollars (\$).

Transactions in foreign currencies are initially recorded by the Group member at its respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. Differences arising on settlement of monetary items are recognised in profit or loss.

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

2. ACCOUNTING POLICIES - continued

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprises cash at bank and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of such cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

Trade and other receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

The Group's financial assets at amortised cost includes trade receivables and loans to employees.

Allowance for expected credit losses (ECLs)

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate (EIR). The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Investments

Investments held by the Group are accounted for at cost in the statement of financial position less any impairment charges.

In the individual accounts of the Company, Investments in subsidiaries are accounted for at cost in the statement of financial position less any impairment charges.

Financial instruments

Financial instruments are considered to be non-complex and solely trade related, such that the risks associated therewith are considered to be normal trade risks as regards to recoverability or liability to settle.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

2. ACCOUNTING POLICIES - continued

Property, plant and equipment, software and goodwill

Property, plant and equipment, software and goodwill are stated at cost, net of accumulated depreciation/amortisation and accumulated impairment losses, if any.

Plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit and loss as incurred.

Goodwill relates to the excess of the purchase price paid on the acquisition of a business over the fair value of the net assets acquired. Goodwill is shown at cost less impairment.

Depreciation/amortisation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Property	4 - 6%
Plant and equipment	4 - 50%
Computer equipment	19 - 75%
Fixtures and fittings	4 - 50%
Tools and measuring tools	15 - 60%
Software pool	15 - 50%
Motor vehicles	12.5%

An item of plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

All other items, except for plant and equipment, are derecognised on sale and are subject to review for impairment at each financial year and adjusted prospectively, if appropriate.

Development costs

Development costs are included in the statement of profit and loss and other comprehensive income as incurred, except as outlined below:

Capitalisation of defence project start up costs

Costs associated with the Group's participation in the worldwide Joint Striker Fighter (JSF) projects have been capitalised in previous years. The Group's contracts are expected to extend over 25 years. The life cycle of these contracts have moved from the development phase and as such, no expenses were capitalised in 2021. These capitalised costs were fully amortised at the end of 2021.

The Group is participating in multiple defence development projects with customers and has confirmed orders for one project until 2023 with a market potential out to 2060. The development costs associated with these projects have been capitalised in 2020 and 2021 and will begin to be amortised when full rate production is expected to be reached.

Automation projects

In previous years, development costs have been incurred in connection with growing the Group's capabilities to supply the automotive, medical equipment and aeronautics industry, with similar benefits accruing to the JSF project with long term contracts gained in that area. These costs have included, but are not limited to personnel costs in gaining and maintaining appropriate Quality Assurance certification, materials and machining costs in testing and production of dies, patterns and moulds for the industry, and upgrading facilities as required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

2. ACCOUNTING POLICIES - continued

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (ie. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Plant and machinery	1 to 3 years
Property	5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies - Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease terms reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are presented separately in the statement of financial position.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

2. ACCOUNTING POLICIES - continued

Goodwill

Goodwill represents the excess of cost over fair value of net assets acquired through business acquisitions and is not amortized. The Group evaluates goodwill at least on an annual basis and whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. The Group performs a two-step test to assess goodwill for impairment. The first step of the goodwill impairment test requires a determination of whether the fair value of each reporting unit that generates the goodwill is less than its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further testing is performed. The second step is performed only if the carrying value exceeds the fair value. The second step involves an analysis reflecting the allocation of fair value determined in the first step (as if it was the purchase price in a business combination). This process may result in the determination of a new amount of goodwill. If the calculated fair value of the goodwill resulting from this allocation is lower than the carrying value of the goodwill in the reporting unit, the difference is reflected as a noncash impairment loss. The purpose of the second step is only to determine the amount of goodwill that should be recorded on the consolidated balance sheet. Management of the Group believes that goodwill is not impaired at December 31, 2021.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU)'s fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the statement of profit or loss and other comprehensive income as an expense.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss and other comprehensive income.

Trade and other payables

Trade and other payables are carried at amortised cost and, due to their short-term nature, they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIRE) method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Contract liabilities

Monies have been received from customers in advance for services not yet provided. As a result, income has not been recognised during the financial year and contract liabilities are recognised at the end of the year, to the extent services were not performed by the year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

2. ACCOUNTING POLICIES - continued

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Wages and salaries

Liabilities for wages and salaries, including non-monetary benefits, which are expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave and annual leave

The Group does not expect its long service leave or annual leave benefits to be settled wholly within 12 months of each reporting period. The Group recognizes a liability for long service leave and annual leave measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of equipment. The normal credit term is 30 to 90 days upon delivery.

The Group considers whether there are other promises in the contract that have separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

Finance income

Interest revenue is recognised on a proportional basis taking into account interest rates applicable to financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

2. ACCOUNTING POLICIES - continued

Taxation

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred taxation

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred income tax liability arises from the initial recognition of goodwill or an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is similarly recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in the statement of Other Comprehensive Income or directly in equity.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Value added tax (VAT) and Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of VAT and GST, except:

- When the VAT or GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the VAT or GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable
- When receivables and payables are stated with the amount of VAT or GST included

The net amount of VAT or GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of VAT or GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the VAT or GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

2. ACCOUNTING POLICIES - continued

Research and development

Research and development tax offsets are recognised on an accruals basis.

Government grants

Government Grants are recognised in accordance with the terms of the issuing authority.

Revenue grants are recognised on an accruals basis in the accounting period in which the relevant expense is recognised or in the period to which the income relates.

Employee benefit costs

The group operates a defined contribution pension scheme. Contributions payable to the group's pension scheme are charged to the income statement in the period to which they relate.

Cash flow statement

The Consolidated cash flow statement has been prepared using the indirect method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial report requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the financial report was prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Development costs

The Group capitalises development costs for projects in accordance with its accounting policy. Initial capitalisation of costs is based on managements' judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone. In determining the amounts to be capitalised, management makes assumptions about the expected future cash generation of the project and the expected period of benefits. During the year capitalised development costs amounted to \$1,506,167 (2020: \$2,514,692). At 31 December 2021, the carrying amount of capitalised development costs was \$4,475,662 (2020: \$4,646,844).

Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of the deferred tax asset that can be recognised based on the timing and level of future taxable profits.

Depreciation and amortisation

Management uses judgement to estimate the useful lives and residual value of depreciating tangible and intangible assets. Capitalised development costs will be amortised over future periods of production from when the project reaches commercial production levels. Future amortisation will then be allocated over the project's remaining useful life. Refer to note 12.

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value of the right-to-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Determining the lease term of contracts with renewal and termination options - Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

**Determining the lease term of contracts with renewal and termination options - Group as lessee
(Continued)**

The Group included the renewal period as part of the lease term for leases of plant and machinery with shorter non-cancellable periods (i.e. 3 to 5 years). The Group typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewable periods for leases of plant and machinery with longer non-cancellable periods (i.e. 10 to 15 years) are not included as part of the lease term as these are not reasonably certain to be exercised. In addition, the renewal options for leases of motor vehicles are not included as part of the lease term because the Group typically leases motor vehicles for not more than five years and, hence, is not exercising any renewal options. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

4. OTHER OPERATING INCOME	31.12.21	31.12.20
	\$	\$
Government loans forgiven	1,482,242	-
Government grants	93,562	1,786,230
	<u>1,575,804</u>	<u>1,786,230</u>
5. EMPLOYEES AND DIRECTORS	31.12.21	31.12.20
	\$	\$
Wages and salaries	11,969,729	11,285,170
Social security costs	746,495	458,718
Other pension costs	521,389	471,848
	<u>13,237,613</u>	<u>12,215,736</u>
The average number of employees during the year was as follows:	31.12.21	31.12.20
Operations	154	152
Administrative	43	35
Corporate	14	17
	<u>211</u>	<u>204</u>
Director's remuneration	31.12.21	31.12.20
	\$	\$
	<u>137,750</u>	<u>127,698</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021**

6. NET FINANCE INCOME

	31.12.21	31.12.20
	\$	\$
Finance income:		
Interest received	361,853	102,223
	<u>361,853</u>	<u>102,223</u>
Finance costs:		
Bank and other interest	256,212	86,135
Leasing interest	-	5,723
	<u>256,212</u>	<u>91,858</u>
Production overheads:		
Bank and other interest	969,150	998,685
Leasing interest	259,417	189,500
	<u>1,228,567</u>	<u>1,188,185</u>
Net finance costs	<u>1,122,926</u>	<u>1,178,049</u>

7. PROFIT BEFORE INCOME TAX

The profit before income tax is stated after charging/(crediting):

	31.12.21	31.12.20
	\$	\$
Cost of inventories recognised as expense	29,903,183	25,680,791
Leases	105,048	43,751
Depreciation - owned assets	2,582,439	2,176,353
Depreciation - assets on finance leases	1,635,185	1,461,436
(Profit)/loss on disposal of fixed assets	(14,859)	17,728
Development costs amortisation	1,677,349	1,966,897
Computer software amortisation	378,144	226,147
Foreign exchange differences	(334,187)	1,013,059
	<u>1,228,567</u>	<u>1,188,185</u>

8. AUDITORS' REMUNERATION

	31.12.21	31.12.20
	\$	\$
Fees payable to the company's auditors and their associates for the audit of the company's financial statements	54,336	25,539
Total audit fees	<u>54,336</u>	<u>25,539</u>
Other non- audit services	76,178	50,368
Total non-audit fees	<u>76,178</u>	<u>50,368</u>
Total fees payable	<u>130,514</u>	<u>75,907</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

9. INCOME TAX

Analysis of tax expense

	31.12.21	31.12.20
	\$	\$
Current tax:		
Tax	3,123,071	2,674,682
Adjustment for prior year's R and D claim	12,965	-
Total current tax	<u>3,136,036</u>	<u>2,674,682</u>
Deferred tax	<u>227,402</u>	<u>1,373,328</u>
Total tax expense in consolidated statement of profit or loss	<u><u>3,363,438</u></u>	<u><u>4,048,010</u></u>

Factors affecting the tax expense

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	31.12.21	31.12.20
	\$	\$
Profit before income tax	<u>10,565,469</u>	<u>14,265,388</u>
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2020 - 19%)	2,007,439	2,710,424
Effects of:		
Research and development concession refund released / (recognised)	(70,326)	(109,106)
Deferred tax provision movement	227,402	1,373,328
Expenses not eligible for tax deduction	160,531	35,057
Other foreign tax and exchange adjustments	-	(2,524)
Effect of different tax rates in foreign jurisdictions	1,565,903	739,665
Prior period amendments	12,965	(72,311)
Losses (utilised) / carried forward re a subsidiary	(1,758)	88,966
Non-taxable income	(281,722)	-
Capital allowances in excess of depreciation and other fixed asset timing differences	<u>(256,996)</u>	<u>(715,489)</u>
Tax expense	<u><u>3,363,438</u></u>	<u><u>4,048,010</u></u>

10. PROFIT OF PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year was \$84,768 (2020 - \$2,275,285).

Included in the parent company's profit for the financial year was a dividend received from group members totalling \$Nil (2020 - \$2,240,228).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

11. GOODWILL

Group	\$
COST	
At 1 January 2021 and 31 December 2021	<u>513,572</u>
AMORTISATION	
Charge for year	<u>51,358</u>
At 31 December 2021	<u>51,358</u>
NET BOOK VALUE	
At 31 December 2021	<u>462,214</u>
At 31 December 2020	<u>513,572</u>

12. INTANGIBLE ASSETS

Group	Development costs \$	Computer software \$	Totals \$
COST			
At 1 January 2021	8,935,282	2,292,710	11,227,992
Additions	1,506,167	529,253	2,035,420
Transfer on reclassification	-	25,579	25,579
At 31 December 2021	<u>10,441,449</u>	<u>2,847,542</u>	<u>13,288,991</u>
AMORTISATION			
At 1 January 2021	4,288,438	1,134,073	5,422,511
Amortisation for year	1,677,349	378,144	2,055,493
At 31 December 2021	<u>5,965,787</u>	<u>1,512,217</u>	<u>7,478,004</u>
NET BOOK VALUE			
At 31 December 2021	<u>4,475,662</u>	<u>1,335,325</u>	<u>5,810,987</u>
At 31 December 2020	<u>4,646,844</u>	<u>1,158,637</u>	<u>5,805,481</u>

Development costs have been capitalised in the areas described in Note 2 Development costs, being the JSF project, automation, Loyal Wingman project, Triton and Boeing commercial production efficiency. Existing capitalised costs are now being amortised as commercial levels of activities have been reached for each project. The JSF project was fully amortised as at the end of 2021. New capitalised development costs will begin amortisation when full rate production is reached. The carrying value attributed to development expenditure is dependent on levels of future sales projections and the Group's ability to deliver suitable product.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements \$	Right of use assets \$	Capital work in progress \$	Plant and equipment \$
COST				
At 1 January 2021	496,276	9,430,426	72,084	22,808,957
Additions	385,359	2,939,109	1,679,180	2,656,419
Disposals	-	-	-	(1,078,922)
Transfer on reclassification	8,072	-	-	664,226
At 31 December 2021	889,707	12,369,535	1,751,264	25,050,680
DEPRECIATION				
At 1 January 2021	68,491	2,580,444	-	7,279,270
Charge for year	50,829	1,635,185	-	2,203,331
Eliminated on disposal	-	-	-	(1,051,399)
Transfer on reclassification	-	-	-	-
At 31 December 2021	119,320	4,215,629	-	8,431,202
NET BOOK VALUE				
At 31 December 2021	770,387	8,153,906	1,751,264	16,619,478
At 31 December 2020	427,785	6,849,982	72,084	15,529,687
	Fixtures and fittings \$	Motor vehicles \$	Computer equipment \$	Totals \$
COST				
At 1 January 2021	2,658,477	19,676	621,909	36,107,805
Additions	460,576	4,721	114,259	8,239,623
Disposals	(69,322)	-	-	(1,148,244)
Transfer on reclassification	(1,192,309)	4,224	17,811	(497,976)
At 31 December 2021	1,857,422	28,621	753,979	42,701,208
DEPRECIATION				
At 1 January 2021	1,008,984	9,853	288,837	11,235,879
Charge for year	218,284	5,793	104,202	4,217,624
Eliminated on disposal	-	-	-	(1,051,399)
Transfer on reclassification	(472,396)	-	-	(472,396)
At 31 December 2021	754,872	15,646	393,039	13,929,708
NET BOOK VALUE				
At 31 December 2021	1,102,550	12,975	360,940	28,771,500
At 31 December 2020	1,649,493	9,823	333,072	24,871,926

During the year assets held within the Indian subsidiary have been recategorised, moving the items from Fixtures and fittings to various other more appropriate headings. The effect of this reclassification relates solely to tangible and intangible assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

14. INVESTMENTS

Group

	Unlisted investments \$
COST	
At 1 January 2021 and 31 December 2021	1,132
NET BOOK VALUE	
At 31 December 2021	<u>1,132</u>
At 31 December 2020	<u>1,132</u>

Company

	Shares in group undertakings \$
COST	
At 1 January 2021	3,759,731
Additions	10,000
At 31 December 2021	<u>3,769,731</u>
NET BOOK VALUE	
At 31 December 2021	<u>3,769,731</u>
At 31 December 2020	<u>3,759,731</u>

The group or the company's investments at the Statement of Financial Position date in the share capital of companies include the following:

Joint venture

Ferra-BRS Private Limited

Registered office: India

Nature of business: Aeronautical engineering

Class of shares:	%
Ordinary	holding 49.00

The principal place of business is India.

The group's unlisted investment relates to an investment in a joint venture with Ferra-BRS Private Limited, a company incorporated in India. The company has been dormant since incorporation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

15. INVENTORIES

	Group	
	31.12.21	31.12.20
	\$	\$
Raw materials	3,380,688	3,586,253
Work-in-progress	6,434,067	7,332,901
Finished goods	3,068,175	6,042,269
	<u>12,882,930</u>	<u>16,961,423</u>

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31.12.21	31.12.20	31.12.21	31.12.20
	\$	\$	\$	\$
Current:				
Trade debtors	9,025,091	3,950,256	-	-
Amounts owed by group undertakings	-	-	571,947	72,987
Other debtors	2,290,126	1,004,073	-	7,051
Directors' current accounts	20,245	-	20,245	-
VAT	151,188	281,829	6,998	114,162
Prepayments and accrued income	1,411,703	771,570	-	-
	<u>12,898,353</u>	<u>6,007,728</u>	<u>599,190</u>	<u>194,200</u>
Non-current:				
Other debtors	<u>10,225,577</u>	<u>5,874,372</u>	-	-
Aggregate amounts	<u>23,123,930</u>	<u>11,882,100</u>	<u>599,190</u>	<u>194,200</u>

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	31.12.21	31.12.20	31.12.21	31.12.20
	\$	\$	\$	\$
Cash in hand	887	388	-	-
Bank accounts	7,598,692	7,684,545	417,267	600,334
	<u>7,599,579</u>	<u>7,684,933</u>	<u>417,267</u>	<u>600,334</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

18. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:		Nominal	31.12.21	31.12.20
Number:	Class:	value:	\$	\$
7,000,000	A Ordinary (voting)	\$0.020714707	145,002	145,002
1,700,000	B,C,D Ordinary (non-voting)	\$0.0000015	3	-
			<u>145,005</u>	<u>145,002</u>

1,700,000 B,C,D Ordinary (non-voting) shares of \$0.0000015 each were allotted and fully paid for cash at par during the year.

A Ordinary shares carry voting rights and B Ordinary shares, C Ordinary shares, and D Ordinary shares do not carry voting rights. Each A Ordinary share carries three votes at general meetings.

19. RESERVES

Group

	Retained earnings \$	Share premium \$	Foreign exchange reserve \$	Totals \$
At 1 January 2021	22,788,658	910,316	144,799	23,843,773
Profit for the year	7,202,031			7,202,031
Movement on items held at historic rates	-	-	(294,009)	(294,009)
At 31 December 2021	<u>29,990,689</u>	<u>910,316</u>	<u>(149,210)</u>	<u>30,751,795</u>

Company

	Retained earnings \$	Share premium \$	Foreign exchange reserve \$	Totals \$
At 1 January 2021	409,719	910,316	(45,750)	1,274,285
Profit for the year	84,768			84,768
Movement on items held at historic rates	-	-	(13,932)	(13,932)
At 31 December 2021	<u>494,487</u>	<u>910,316</u>	<u>(59,682)</u>	<u>1,345,121</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

20. TRADE AND OTHER PAYABLES

	Group		Company	
	31.12.21	31.12.20	31.12.21	31.12.20
	\$	\$	\$	\$
Current:				
Trade creditors	1,670,483	2,574,623	51,420	24,840
Amounts owed to group undertakings	-	-	3,005,251	2,999,550
Social security and other taxes	40,280	153,084	7,052	8,503
Other creditors and deferred income	4,084,647	6,216,065	2,473	4,410
Accruals	1,224,035	1,346,719	118,182	65,533
	<u>7,019,445</u>	<u>10,290,491</u>	<u>3,184,378</u>	<u>3,102,836</u>
Non-current:				
Employee benefit liabilities	841,068	886,498	-	-
	<u>841,068</u>	<u>886,498</u>	<u>-</u>	<u>-</u>
Aggregate amounts	<u>7,860,513</u>	<u>11,176,989</u>	<u>3,184,378</u>	<u>3,102,836</u>

Included in Other creditors and deferred income are \$3,528,692 (2020: \$5,139,873) which represent Milestone Payments received by the Group for which revenue will be recognised once the performance obligations have been satisfied by the Group in accordance with IFRS 15. It is expected that this revenue will be recognised through the delivery of manufactured parts throughout 2022.

21. FINANCIAL LIABILITIES - BORROWINGS

	Group	
	31.12.21	31.12.20
	\$	\$
Current:		
Other loans	9,628,413	4,484,933
Leases (see note 22)	1,570,925	1,604,819
	<u>11,199,338</u>	<u>6,089,752</u>
Non-current:		
Other loans	18,925,357	17,768,524
Leases (see note 22)	7,031,956	5,885,999
	<u>25,957,313</u>	<u>23,654,523</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021**

21. FINANCIAL LIABILITIES - BORROWINGS - continued

Terms and debt repayment schedule

Group

	1 year or less \$	1-2 years \$	2-5 years \$	More than 5 years \$	Totals \$
Other loans	9,628,413	-	18,925,357	-	28,553,770
Leases	1,570,925	1,665,257	4,967,155	399,544	8,602,881
	<u>11,199,338</u>	<u>1,665,257</u>	<u>23,892,512</u>	<u>399,544</u>	<u>37,156,651</u>

Chattel mortgage and hire purchase liabilities are secured over the goods described in the chattel mortgage and hire purchase agreements.

In March 2021, the Group's Australian subsidiary secured a global finance facility comprising a mixture of AUD and USD facility lines equating to AUD \$85,000,000 with the Commonwealth Bank of Australia (CBA). This new facility replaced the EFIC facility which was repaid as well as the existing CBA facility with the exception of the previously negotiated working capital facility secured in 2020. The facility is split between equipment finance both for the Australian and US businesses, working capital finance and a new facility for additional capex and/or acquisition opportunities. As of the 31 December 2021 the Group/Company had utilised AUD \$38,841,500 of this facility. The new loan structure is secured by mortgaged property and a charge over all other personal property (fixed and floating) of Ferra Engineering Pty. Ltd and Ferra Aerospace Inc.. As of the date of this report the USD loans are currently being repaid in quarterly instalments of USD \$108,388 per quarter. All other loans (excluding equipment finance) are currently interest only.

The Group's American subsidiaries have a long term debt of USD \$150,000 from a grant from the State of Oklahoma due August 2023. The American subsidiaries received loans through the Paycheck Protection Program in 2020 and 2021 for a total of USD \$1,482,242. These loans were forgiven by the lender in 2021.

22. LEASING

Group

Right-of-use assets

Property, plant and equipment

	31.12.21 \$	31.12.20 \$
COST		
At 1 January 2021	9,430,426	8,543,810
Additions	2,939,109	886,616
	<u>12,369,535</u>	<u>9,430,426</u>
DEPRECIATION		
At 1 January 2021	2,580,444	1,119,008
Charge for year	1,635,185	1,461,436
	<u>4,215,629</u>	<u>2,580,444</u>
NET BOOK VALUE	<u>8,153,906</u>	<u>6,849,982</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021

22. LEASING - continued

Group

Group
Other leases

	31.12.21	31.12.20
	\$	\$
Short-term leases	105,048	43,751
	<u> </u>	<u> </u>

Group
Lease liabilities

Minimum lease payments fall due as follows:

	31.12.21	31.12.20
	\$	\$
Gross obligations repayable:		
Within one year	1,877,106	1,865,593
Between one and five years	7,223,346	5,148,060
In more than five years	403,935	1,290,165
	<u> </u>	<u> </u>
	9,504,387	8,303,818

Finance charges repayable:

Within one year	306,181	260,774
Between one and five years	590,934	511,954
In more than five years	4,391	40,272
	<u> </u>	<u> </u>
	901,506	813,000

Net obligations repayable:

Within one year	1,570,925	1,604,819
Between one and five years	6,632,412	4,636,106
In more than five years	399,544	1,249,893
	<u> </u>	<u> </u>
	8,602,881	7,490,818

23. DEFERRED TAX

The deferred tax provision of \$2,841,347 (2020 : \$2,613,945) relates to timing differences between accounting and tax treatment of items, primarily fixed assets.

At the balance sheet date no group companies recognised a deferred tax asset due to uncertainty as to the timing of relief for unutilised losses.

24. CAPITAL COMMITMENTS

The Group's subsidiary company, Ferra Engineering Pty. Ltd., had a capital commitment amounting to AUS \$1.6m for a Breton 5 Axis CNC machine, acquired to increase production capabilities and capacity required by the business. A further two machines, costing AUS \$3m in total, have not yet been contracted for but are expected to be procured during 2022 with commissioning in 2022-2023.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2021**

25. EVENTS AFTER THE REPORTING PERIOD

Potential change of ownership

In December 2021 a share purchase agreement (SPA) was entered into which is expected to result in a change of ownership of the Group post the year end. The SPA is subject to the fulfilment of certain conditions and approvals which, as at the date of the audit report, are still in the process of being obtained.

26. ECONOMIC DEPENDENCE

The Group operates in the Global Aerospace and Defence Industry and has a range of customers with whom it trades on normal terms. This comprises a substantial part of current turnover.

The group has previously entered into a number of contracts with key customers. As is usual practice in the industry, to gain economies of scale, these contracts are for significant amounts and involve large start up and research and development costs. Capitalised development costs primarily relate to the contracts with these customers.

27. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern, and
- to provide an adequate return to shareholders by pricing products and services in a way that reflects the level of risk involved in providing those goods and services.

The Group monitors capital on the basis of the carrying amount of equity, less cash and cash equivalents as presented in the consolidated statement of financial position.

The Group's goal in capital management is to maintain a net worth ratio of more than 30%. This is in line with the Group's covenants included in the terms of the Australian loan facility.

Management assesses the Group's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group has honoured its covenant obligations, including maintaining capital ratios, since the Loan facility was established in March 2021.