Appendix 4D

Half year report
Period ending on 31 December 2020

Name of entity

Matrix Composites & Engineering Ltd

ABN or equivalent company reference

54 009 235 450

The information contained in this report relates to the following years:

Current half-year ended	31 December 2020
Previous half-year ended	31 December 2019

Results for announcement to the market

				$000s
Revenue	Decreased	64.4%	To	8,056
Losses after tax attributable to members	Increased	67.1%	To	(6,979)
Losses after tax attributable to owners of the parent	Increased	67.1%	To	(6,979)

Dividend payments	Amount per security	Franked amount per security
Year ended 30 June 2020 Final dividend (cents per share)	-	-
Half year ended 31 December 2020 Interim dividend (cents per share)	-	-
Record date for determining entitlement to dividend	n/a	
Date the interim 2021 dividend is payable	n/a	

Net tangible assets	Current half year $	Previous half year $
Net tangible assets per ordinary security (include right-of-use assets and lease liabilities)	$0.22	$0.72

Total interim dividend to be paid on all securities	Current half year $	Previous half year $
Ordinary securities	nil	nil

The above information should be read in conjunction with the attached Half Year Report for the period ending 31 December 2020.

This report is based on accounts that have been reviewed.

BRENDAN COCKS
CHIEF FINANCIAL OFFICER

Date: 25 February 2021

HALF YEAR REPORT

31 DECEMBER 2020

CONTENTS

DIRECTORS' REPORT

The directors of Matrix Composites & Engineering Ltd ("Matrix" or "the Company") submit herewith the financial report of the Company and its subsidiaries ("Group" or "Consolidated Entity") for the half-year ended 31 December 2020. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Directors

The names and particulars of the directors of the Company during or since the end of the half-year are:

Peter J Hood	*(Independent Non-Executive Chairman)*
Aaron P Begley	*(Managing Director & Chief Executive Officer)*
Steven Cole	*(Independent Non-Executive Director)*
Craig N Duncan	*(Independent Non-Executive Director)*
Chris Sutherland	(*Independent Non-Executive Director, appointed on 10th December 2020*)

The above named directors held office since the start of the half-year to the date of this report, except for specified otherwise.

Review of Operations

Overview

The Consolidated Entity's principal activities during the course of the period were the supply of manufactured goods and provision of engineering services. The goods manufactured and services provided by Matrix can be summarised as follows:

- Manufacture and supply of capital drilling equipment (primarily comprised of syntactic foam buoyancy) and provision of inspection, maintenance and repair services to the oil and gas sector;
- Manufacture and supply of subsea umbilical risers and flowline (SURF) ancillary equipment and associated services;
- Manufacture and supply of VIV suppression equipment for rigid pipelines;
- Manufacture and supply of well construction products, including centralisers and conductors;
- Distribution of epoxy based coating system and related equipment hire and technical support; and
- Consultancy for, and manufacture of, advanced composite materials and products for the defence, energy, resource and transport sectors.

Financial Performance

The Group recorded a net loss after tax of $7.0m (Dec 2019: net loss $4.2m) for the six month period ended 31 December 2020.

The Group reported an EBITDA loss of ($3.7m) on revenue of $8.1m which was significantly down on the comparative 6 month period revenue of $22.6m ended December 2019, but a 69% increase on the revenue for the 6 months to June 2020, where revenues totalled $4.8m. The period experienced continued subdued activity in the offshore oil and gas sector following low oil prices impacted by low economic activity due largely to the Covid 19 pandemic.

The period included contribution from the sale of its traditional offshore buoyancy products and well construction products, and also included sales of epoxy paint and hire of associated equipment following the award of the distribution rights of Humidur coatings in Australia.

The company continued to focus on keeping fixed overheads as low as possible in the subdued market, and as a result on low revenue, recorded a net operating cash out flow of $0.7m. Including the capital expenditure, the majority of which was coating application equipment, and the repayment of lease liabilities ($0.2m), the total cash outflow for the period was $2.8m, which reflected the Company's focus on cost and working capital management.

Net cash at the end of the period was $11.5m with no trade or term debt facility liabilities.

Strategy and Outlook

Matrix continues its strategy to grow its position with its core products in the global oil and gas industry, while diversifying its products and services and leveraging manufacturing capabilities and customer relationships. Key to the financial success of the Company is the ability to secure sufficient work to efficiently load its manufacturing capacity.

The Company continues to service quotations and complete work in the offshore oil and gas activity, however has dedicated significant to market its capability to the Resources, Civil & Infrastructure and Defence sectors under its diversification strategy.

A number of encouraging awards have been achieved during the period with major local companies which were announced to the market during the period including agreements with Woodside Energy and Newcrest Mining.

Dividends

The directors have determined that no interim dividend will be paid for the period ended 31 December 2020.

Government Assistance

The Company became eligible for the JobKeeper scheme from its inception in March 2020 and expects to continue receiving payments under this scheme until its currently scheduled completion on 28 March 2021.

During this reporting period, the Company has received the government subsidies of $1.4m. The amounts received have offset the employee benefit expenses in the statement of profit or loss.

Auditor's independence declaration

The auditor's independence declaration is included on page 6 of the half-year report.

This Directors' report is signed in accordance with a resolution of directors made pursuant to s306(3) of the *Corporations Act 2001*.

ASIC Instrument 2016/91

The Company is of an entity to which Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instruments 2016/191, dated 24 March 2016 applies. Amounts in the Directors' Report and the Financial Statements have been rounded to the nearest thousand dollars in accordance with ASIC Instrument 2016/91, unless otherwise indicated.

On behalf of the Directors

____

A P Begley
Managing Director & Chief Executive Officer

Perth, 25 February 2021

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Matrix Composites & Engineering Ltd
150 Quill Way
Henderson WA 6166

25 February 2021

Dear Board Members

Auditor's Independence Declaration to Matrix Composites & Engineering Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Matrix Composites & Engineering Ltd.

As lead audit partner for the review of the financial report of Matrix Composites & Engineering Ltd for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

David Newman
Partner
Chartered Accountants

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	Note	31 Dec 2020	31 Dec 2019
		$'000	**$'000**
Continuing operations			
Revenue		8,056	22,604
Cost of sales		(9,322)	(21,734)
Gross profit/(loss)		**(1,266)**	**870**
Other income	3	83	41
Other losses	3	(1,463)	(1,276)
Administration expenses		(1,844)	(1,457)
Finance costs	3	(1,094)	(151)
Marketing expenses		(983)	(1,049)
Research expenses		(139)	(768)
Engineering expenses		(273)	(387)
Loss before income tax		**(6,979)**	**(4,177)**
Income tax benefit	4	-	-
Loss for the period from continuing operations		**(6,979)**	**(4,177)**
Loss attributable to:			
Owners of the parent		(6,979)	(4,177)
		(6,979)	**(4,177)**

Loss per share			
Basic loss per share (cents)		(13.6)	(4.1)
Diluted loss per share (cents)		(13.6)	(4.1)

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

		31 Dec 2020	31 Dec 2019
		$'000	**$'000**
Loss for the period		(6,979)	(4,177)
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Net foreign currency translation differences		733	6
Change in fair value of cash flow hedges		-	111
Income tax on fair value movements		-	-
Total comprehensive expense for the period		(6,246)	(4,060)
Total comprehensive expense attributable to:			
Owners of the parent		(6,246)	(4,060)
Total comprehensive expense for the period		(6,246)	(4,060)

The above condensed consolidated statement of other comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	31 Dec 2020	30 Jun 2020
		$'000	**$'000**
CURRENT ASSETS			
Cash and cash equivalents		11,536	14,681
Trade and other receivables	5	4,883	5,365
Inventory		6,950	7,597
Other current assets		799	541
TOTAL CURRENT ASSETS		**24,168**	**28,184**
NON CURRENT ASSETS			
Property, plant and equipment	6	18,296	17,449
Right-of-use assets	7	15,898	16,316
Intangible assets	8	35	-
TOTAL NON CURRENT ASSETS		**34,229**	**33,765**
TOTAL ASSETS		**58,397**	**61,949**
CURRENT LIABILITIES			
Trade and other payables	9	4,044	2,308
Progress claims and deposits	10	1,209	1,266
Provisions		596	499
Lease liabilities	7	499	475
TOTAL CURRENT LIABILITIES		**6,348**	**4,548**
NON CURRENT LIABILITIES			
Provisions		828	797
Lease liabilities	7	27,459	27,716
Other non-current payables	11	889	-
TOTAL NON CURRENT LIABILITIES		**29,176**	**28,513**
TOTAL LIABILITIES		**35,524**	**33,061**
NET ASSETS		**22,873**	**28,888**
EQUITY			
Issued capital	12	114,170	114,170
Reserves		953	(11)
Accumulated losses		(92,250)	(85,271)
Equity attributable to owners of the Company		**22,873**	**28,888**
TOTAL EQUITY		**22,873**	**28,888**

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

		31 Dec 2020	31 Dec 2019
		$'000	**$'000**
CASH FLOWS USED IN OPERATING ACTIVITIES			
Receipts from customers		9,540	21,861
Payments to suppliers and employees		(9,180)	(26,364)
Interest received		19	22
Finance costs paid		(36)	(151)
Interest expense on lease liabilities		(1,058)	-
Net cash (used in) operating activities		**(715)**	**(4,632)**
CASH FLOWS (USED IN)/GENERATED BY INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		1	20,000
Payments for property, plant and equipment		(1,786)	(1,220)
Payments for research and development costs		(35)	(626)
Net cash (used in)/generated by investing activities		**(1,820)**	**18,154**
CASH FLOWS USED IN FINANCING ACTIVITIES			
Proceeds from borrowings		-	6,087
Repayment of borrowings		-	(8,643)
Repayment of lease liabilities		(233)	(351)
Net cash (used in) financing activities		**(233)**	**(2,907)**
Net (decrease)/increase in cash and cash equivalents		**(2,768)**	**10,615**
Cash and cash equivalents at 1 July		14,681	9,374
Effects of exchange rate changes on the balance of cash held in foreign currencies		(377)	117
Cash and cash equivalents at 31 December		**11,536**	**20,106**

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	Issued capital	Accumulated losses	Cash flow hedge reserve	Foreign currency translation reserve	Share based payment reserve	Attributable to owners of the parent	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2020	**114,170**	**(85,271)**	**-**	**(1,039)**	**1,028**	**28,888**	**28,888**
Loss for the period		(6,979)	-	-	-	(6,979)	(6,979)
Other comprehensive income for the year, net of income tax	-	-	-	-	-	-	-
Foreign currency translation	-	-	-	733	-	733	733
Change in fair value of cash flow hedges net of tax	-	-	-	-	-	-	-
Total comprehensive income for the period	-	(6,979)	-	733	-	(6,246)	(6,246)
Share based payments	-	-	-	-	231	231	231
Balance at 31 December 2020	**114,170**	**(92,250)**	**-**	**(306)**	**1,259**	**22,873**	**22,873**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	Issued capital	Accumulated losses	Cash flow hedge reserve	Foreign currency translation reserve	Share based payment reserve	Attributable to owners of the parent	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2019	**114,170**	**(20,793)**	**(106)**	**(882)**	**676**	**93,065**	**93,065**
Loss for the period	-	(4,177)	-	-	-	(4,177)	(4,177)
Other comprehensive income for the year, net of income tax							
Foreign currency translation	-	-	-	6	-	6	6
Change in fair value of cash flow hedges net of tax	-	-	111	-	-	111	111
Total comprehensive income for the period	-	(4,177)	111	6	-	(4,060)	(4,060)
Share based payments	-	-	-	-	(152)	(152)	(152)
Balance at 31 December 2019	**114,170**	**(24,970)**	**5**	**(876)**	**524**	**88,853**	**88,853**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying not

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

General Information

Matrix Composites & Engineering Ltd ("the Company") is a limited liability company incorporated in Australia.

Statement of Compliance

The half-year financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report for the year ended 30 June 2020 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

The half-year financial report comprises the consolidated half-year financial reports of the Group. For the purpose of preparing the consolidated financial report, the Company is a for profit entity.

The half-year financial report was authorised for issue by the directors on 25 February 2021.

Basis of Preparation

The consolidated half-year report has been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2020 annual financial report for the financial year ended 30 June 2020. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its operations and effective for the current reporting period.

Application of New and Revised Accounting Standards

Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to their operations and are mandatorily effective for the current reporting period.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. Adoption of these pronouncements will, however, result in changes to information currently disclosed in the financial statement. The analysis of impact on adoption of these pronouncements has not yet been performed because the lack of assessable information. The Group does not intend to adopt any of these pronouncements before their effective dates.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and AASB2017-5 Amendments to Australian Accounting Standards-Effective Date of Amendments to AASB10 and AASB128 and Editorial Corrections	*1 January 2022* *(Editorial corrections in AASB2017-5 apply from 1 January 2018*	*30 June 2024*
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current and AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date	*1 January 2023*	*30 June 2025*
AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments	*1 January 2022*	*30 June 2024*
AASB 2020-8 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2	*1 January 2021*	*30 June 2023*

2. OPERATING SEGMENT

In conjunction with AASB 8 Operating Segments, the Group has identified its operating segment based on internal reports that are reviewed and used by the Chief Operating Decision Maker (CODM) in assessing performance and in determining the allocation of resources.

Performance Monitoring and Evaluation

The CODM is identified as the Chief Executive Officer (CEO) who monitors the operating results of the consolidated group and organises its business activities and product lines to serve the global oil and gas industry. The performance of the consolidated group is evaluated based on Earnings before Interest, Taxes, Depreciation and Amortisation ("EBITDA") and Earnings before Interest, Taxes, Depreciation, Amortisation, and Foreign Exchange ("EBITDAF") which are measured in accordance with the Group's accounting policies.

2. OPERATING SEGMENT (CONTINUED)

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

	MCE Group 31 Dec 2020 $'000	MCE Group 31 Dec 2019 $'000
Revenue	8,056	22,604
EBITDAF	(2,199)	236
Foreign exchange loss	(1,460)	(396)
EBITDA	(3,659)	(160)
Depreciation and amortisation	(2,244)	(3,888)
EBIT	(5,903)	(4,048)
Net finance costs	(1,076)	(129)
(Loss) before tax (continuing operations)	(6,979)	(4,177)

	MCE Group 31 Dec 2020 $'000	MCE Group 30 Jun 2020 $'000
Total consolidated assets	58,397	61,949
Total consolidated liabilities	35,524	33,061
Geographical Assets		
Australia	57,378	61,586
Others	1,019	363
	58,397	61,949
Geographical Liabilities		
Australia	35,490	33,054
Others	34	7
	35,524	33,061

Major Customers

Matrix supplies goods and services to a broad range of customers in the global oil & gas and resources industries. During the reporting period, 5 major customers (31 December 2019: four major customer), collectively accounted for greater than 67 per cent of total group revenue.

3. OTHER INCOME AND LOSSES

The following revenue and expense items are relevant in explaining the financial performance for the period:

3. OTHER INCOME AND LOSSES (CONTINUED)

	31 Dec 2020 $'000	31 Dec 2019 $'000
Other Income		
Interest received	18	22
Profit on sale of scrap	15	13
Sundry income	50	6
	83	41
Other losses		
Loss arising on sale and leaseback	-	(669)
Inventory write-off	-	(211)
Loss on sale of fixed asset	(3)	-
Net foreign exchange loss	(1,460)	(396)
	(1,463)	(1,276)
Finance costs		
Finance costs	(36)	(125)
Lease interest	(1,058)	(26)
	(1,094)	(151)

4. INCOME TAX BENEFIT

Income tax benefit recognised in profit or loss

	31 Dec 2020 $'000	31 Dec 2019 $'000
The component of tax benefit comprises		
Current tax in respect of prior years	-	-
Deferred tax in respect of current period	-	164
	-	164

The income tax benefit for the period can be reconciled to the accounting loss as follows:

	31 Dec 2020 $'000	31 Dec 2019 $'000
Loss before tax from continuing operations	**6,979**	**4,177**
Income tax benefit calculated at 26% (2019:30%)	1,815	1,253
Effect of expenses that are not deductible in determining taxable profit	(67)	(259)
Adjustments recognised in the current period in relation to the deferred tax of prior periods	-	-
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(1,748)	(830)
Income tax benefit in the current period	-	164
Income tax benefit not recognised in the current period	-	(164)
Total income tax benefit in the current period relating to continuing operations	-	-

The Directors have made a decision not to recognise deferred tax assets in the financial statements for this reporting period. However, this decision has no effect on the amount accumulated tax losses that can be carried forward by the Company.

5. TRADE AND OTHER RECEIVABLES

	31 Dec 2020	30 Jun 2020
CURRENT	**$'000**	**$'000**
Trade receivables (i)	2,450	2,687
Other receivables – Trade (ii), (iii)	2,277	2,558
GST refundable	156	120
	4,883	5,365

(i) The Company's standard terms and conditions require customers to pay trade receivables within 30 days from invoice date. The average collectability timeframe is ordinarily between 30 to 60 days. No interest is charged on outstanding trade receivables.

(ii) Other receivables – Trade, relates to products completed which have been revenue recognised but are yet to be invoiced, pending collection by customer.

(iii) The JobKeeper receivable of $257k (30 June 2020: $225k) is also included in other receivables. In addition to the receivable amount, the Company has received the government JobKeeper subsidies of $1.4m which has been offset against employee benefit expenses in the statement of profit or loss for this reporting period.

6. PROPERTY PLANT AND EQUIPMENT

	Leasehold improvement	Plant & equipment	Motor vehicle	Office equipment	Comp equipment	Asset under construction	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Opening carrying amount at 1 July 2020	29	17,082	3	4	135	196	17,449
Addition	-	2,810	4	-	-	-	2,814
Disposal	-	(3)	-	-	-	-	(3)
Transfer	-	-	-	-	-	(138)	(138)
Depreciation expenses	(10)	(1,772)	(5)	(2)	(37)		(1,826)
Closing carrying amount at 31 December 2020	19	18,117	2	2	98	58	18,296

Further to the binding agreement with Arotec NV of becoming an exclusive distributor of Humidur product, the Company settled an asset sale agreement with TLC Distribution Pty Ltd in July 2020 and acquired the specialised application and preparation equipment. The additions with this acquisition are included in plant & equipment additions for the period. Total consideration for the asset acquisition was $2,400k including $1,250k upfront cash payment and $1,150k deferred consideration payable in 30 months from July 2020.

7. LEASES

Right-of-use asset	31 Dec 2020	30 Jun 2020
	$'000	$'000
Cost:		
At the beginning of the reporting period	33,699	-
Additions of Right-of-use land	-	9,394
Additions of Right-of-use buildings	-	24,305
At the end of the reporting period	33,699	33,699
Accumulated Depreciation		
At 1 July 2019	(17,383)	-
Charge for the year	-	(892)
Impairment loss	-	(16,491)
At 30 June 2020	(17,383)	(17,383)
Charge for the half year	(418)	-
At 31 December 2020	(17,801)	-
Carrying amount		
At 30 June 2020	16,316	16,316
At 31 December 2020	15,898	-

Lease liability	31 Dec 2020 $'000	30 Jun 2020 $'000
Maturity analysis		
Not later than one year	499	475
Later than one year but not later than five years	3,740	3,542
Later than five years	23,719	24,174
	27,958	28,191
Analysed as:		
Current	499	475
Non-current	27,459	27,716
	27,958	28,191

The Company does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored internally by the Company's management. A total of $3.3m bank guarantees are in place as a security over the leases.

Lease exemptions

At 31 December 2020, the Company is committed to $54k (2019:$41k) in relation to office equipment and service office leases. The Company has assessed the value of the underlying assets and considered them as low value or short-term assets, respectively. Therefore, the Company has applied the lease exemptions and accounted for the lease payments as an operating expense on a straight-line basis over the lease term. The operating expense is presented in the consolidated statement of profit or loss.

	31 Dec 2020 $'000	31 Dec 2019 $'000
Multiple copiers	8	7
Multiple IT equipment	34	34
Serviced office	12	-
	54	41

8. INTANGIBLE ASSETS

	31 Dec 2020 $'000	30 Jun 2020 $'000
Development costs [i]	35	6,803
Accumulated amortisation expense	-	(4,630)
Impairment loss		(2,173)
	35	-

(i) Development costs incurred in the current period relates to several ongoing projects that are in the development phase prior to anticipated commercialisation and impairment assessment.

At 30 June 2020, the intangible assets were impaired to nil as a result of the assessment of recoverable amount against carrying amount.

At 31 December 2020, the Company considered whether the recoverable amount of the CGU exceeds its carrying amount. The recoverable amount is determined to be the higher of its fair value less costs to sell or its value in use.

In its consideration of impairment, the Company considered whether any new impairment indicators had arisen in the six months to 31 December 2020, and also revisited the impairment calculation performed at 30 June 2020 to ensure that it remained valid as at 31 December 2020.

As outlined in note 14 to the Company's 30 June 2020 annual financial statements, the assessment of the recoverable amount as at 30 June 2020 led to an impairment of $36.3m being recognised.

For the purposes of concluding whether any new impairment indicators existed as at 31 December 2020, we have considered a range of internal and external factors such as financial performance and brent crude price movements. There has been no indication of a material deterioration in the prospects of the business as at 31 December 2020 compared to that envisaged at 30 June 2020.

As a result of this work, we concluded that there are no new impairment indicators that arose in the six months to 31 December 2020 and therefore there is no additional impairment required at reporting date.

Additionally we have updated the 30 June 2020 impairment model to reflect actual performance experienced over the last 6 months (i.e. for the half year ended 31 December 2020), including reflecting current activity levels and demonstrated overheads. In utilising this model, we included the impact of the market recovering slower than expected as at 30 June 2020.

As at 30 June 2020, and 31 December 2020, the Company has used a value in use model. The value in use model uses cash flow projections previously approved by the directors covering a five year period with a steady growth rate for years beyond the five year period.

The estimation of future cash flows requires significant estimates and judgements. Details of the key assumptions used in the value in use model at 30 June 2020, and 31 December 2020, and adopted by the Board are included below.

8. INTANGIBLE ASSETS (CONTINUED)

Key Assumptions:

Discount Rate

A post-tax discount rate of 11 per cent (2020: 11 per cent) reflecting the Company's long term weighted average cost of capital adjusted for market risk.

Revenue

Sustained low oil and gas prices over recent years led to reduced levels of activity in the oil and gas sector which the Company primarily services. After experiencing a recovering market in 2018 and 2019, the industry was significantly impacted by low oil prices following the Covid 19 pandemic.

The Company has forecast subdued orders for oil and gas products, with moderate increases in revenue from 2023 onwards. Revenue only increases in the oil and gas products to approximately 30% of our average annual revenue during the peak years from 2010 to 2015. There is an increasing contribution from revenue from our coatings division, and services and advanced composite products for the local LNG and resources markets.

Although there has been no material deterioration in the prospects of the business as at 31 December 2020 compared to that envisaged at 30 June 2020, the Company has updated the base case value in use impairment model prepared as at 30 June 2020, to reflect a slower ramp up in activity over FY21 and FY22. This has resulted in no further impairment arising as at 31 December 2020.

Cost of Goods Sold

In determining gross margin, management has used historical performance trends, overlaying the impacts of recent initiatives and changes to product mix to reduce costs. It is also consistent with current quotation activity.

Terminal Growth Rate

A terminal value growth rate of 2 per cent (2020: 2 per cent) has been applied.

Sensitivity Analysis:

Sensitivity analyses were performed to determine whether carrying values are supported by different assumptions. Key variables to the sensitivity analysis include:

- Discount rate
- Terminal value growth rate
- Annual Capex Cost to maintain facility and order book
- Change in Growth timeframe

Each of the assumptions in the analysis has been evaluated at levels above and below expected values, as described above. The following table sets out the impact on the recoverable amount for a change in the key assumptions based on the carrying value as at 31 December 2020, and revised revenue expectations for FY21 and FY22:

8. INTANGIBLE ASSETS (CONTINUED)

Assumption	Variance	Negative Impact $ million	Positive Impact $ million
Discount rate	± 2%	8.6	12.7
Terminal value growth rate	± 0.5%	1.4	1.4
Sustaining and Project Capex	± $1M p. a	11.0	11.0
Change in Growth Timeframe	1 Year movement	9.1	5.6

The impairment analysis is based on a number of industry and operational assumptions by management over the 5 year period to 2025, which have been endorsed by the Board. A number of those industry assumptions are beyond the control of the Company. Should some of these assumptions fail to materialise over that period then the carrying cost and value in use of the relevant underlying assets may need to be impaired commensurate with the degree to which the non-satisfaction of those assumptions impact upon the relevant assumptions. For instance, management have forecasted annual revenue to increase by an average of 32.7% p.a. in the 5 year period. Should this level of growth not be achieved then the carrying cost and value in use of the relevant assets may need to be revisited.

9. TRADE AND OTHER PAYABLES

	31 Dec 2020	30 Jun 2020
CURRENT	**$'000**	**$'000**
Trade creditors	2,115	1,542
Other creditors and accruals	1,832	746
GST payables	97	20
	4,044	2,308

10. PROGRESS CLAIMS AND DEPOSITS

	31 Dec 2020	30 Jun 2020
CURRENT	**$'000**	**$'000**
Progress claims and deposits	1,209	1,266
	1,209	1,266

Progress claims and deposits represent cash consideration received for products that have not been produced or not reached invoicing milestones under a contract with customer. The productions in relation to the aforementioned progress claims will be substantially completed by 30 June 2021.

11. OTHER NON-CURRENT PAYABLES

	31 Dec 2020	30 Jun 2020
CURRENT	**$'000**	**$'000**
Other creditors and accruals (i)	889	-
	889	-

(i) Relates to outstanding deferred consideration refer note 6 for further information.

12. ISSUED CAPITAL

Movements in Ordinary Share Capital

	31 Dec 2020 $'000	30 Jun 2020 $'000
Issued and paid up capital 102,321,429 (2020: 102,321,429) fully paid ordinary shares	114,170	114,170
	114,170	114,170

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

Date	Number of shares	$'000
Balance 1 July 2019	102,321,429	114,134
Balance 30 June 2020	102,321,429	114,170
Balance 31 December 2020	102,321,429	114,170

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. Ordinary shares carry one vote per share.

13. DIVIDENDS

In respect of the reporting period ended 31 December 2020, no interim dividend was paid (June 2020: nil).

14. CONTINGENT LIABILITIES AND ASSETS

The Group had no contingent liabilities or assets requiring disclosure at 31 December 2020.

15. EVENTS SUBSEQUENT TO REPORTING DATE

There are no other events of a material nature that have occurred subsequent to the reporting date other than the matters disclosed in the Directors' report.

DIRECTORS' DECLARATION

The directors declare that:

a) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

b) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the directors

____
A P Begley
Managing Director & Chief Executive Officer

Perth, 25 February 2021

Deloitte.

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Independent Auditor's Review Report to the members of Matrix Composites & Engineering Ltd

Conclusion

We have reviewed the half-year financial report of Matrix Composites & Engineering Ltd (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2020, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001.*

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 Review of a *Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the "Code") that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibilities for the Half-year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

David Newman
Partner
Chartered Accountants
Perth, 25 February 2021