

Appendix 4D

Half year report Period ending on 31 December 2023

Name of entity

Matrix Composites & Engineering Ltd

ABN or equivalent company
reference

54 009 435 250

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

Current half-year ended	31 December 2023
Previous half-year ended	31 December 2022

Results for announcement to the market

					\$000s
Revenue	Increased	125.4%	To		26,703
Profit / (loss) after tax attributable to members	Decreased	138.4%	To		(3,845)
Profit / (loss) after tax attributable to owners of the parent	Decreased	136.2%	To		(3,577)

Dividend payments	Amount per security	Franked amount per security
<u>Year ended 30 June 2023</u> Final dividend (cents per share)	-	-
<u>Half year ended 31 December 2023</u> Interim dividend (cents per share)	-	-
Record date for determining entitlement to dividend	n/a	
Date the interim 2024 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)	\$0.10	\$0.06

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 2023.

This report is based on accounts that have been reviewed.



BRENDAN COCKS
CHIEF FINANCIAL OFFICER

Date: 22 February 2024

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Interim Consolidated Financial Report

For the Half Year Ended 31 December 2023

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

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Matrix Composites & Engineering Ltd

ABN 54 009 435 250

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 2023. 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 AO	(Independent Non-Executive Chairman)
Aaron P Begley	(Managing Director & Chief Executive Officer)
Steven Cole	(Independent Non-Executive Director)
Craig Duncan	(Independent Non-Executive Director, resigned 19 February 2024)
Chris Sutherland	(Independent Non-Executive Director)
Alison Terry	(Independent Non-Executive Director, appointed 12 February 2024)
Brendan Cocks	(Executive Director & Chief Financial Officer, appointed 12 February 2024)

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 \$3.8m (Dec 2022: net profit after tax of \$10.0m) for the six-month period ended 31 December 2023. Excluding a non-cash impairment reversal of \$15.8m included in last years profit, the period represented an improvement in business earnings generated by the increased activity and project revenue.

Revenue of \$26.7m was significantly higher than the prior corresponding period of \$11.8m although lower than the June 23 half of \$35.4m. The increased revenue levels reflect a pick up in the Subsea Buoyancy market, especially in the Production Market (SURF) where we have penetrated that market receiving a number of significant contracts. This current year will be underpinned by execution of a SURF job in South America which is expected to generate revenue in excess of \$44m when complete.

EBITDAF was a profit of \$0.6m for the period. Prior corresponding period was \$13.5m profit however excluding the non-cash impairment reversal of \$15.8m reflects an encouraging improvement in earnings for the period. Increasing revenues and delivery on quoted project margins has contributed to this improvement during the period.

The Company continues to maintain its corrosion technology business with revenue for the period of \$3.8m (31 December 2022: \$4.4m). Continued momentum was driven from sales to existing customers and continuing customer engagement across new prospective companies.

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Directors' Report

Review of operations (continued)

Financial Performance (continued)

The company continues to attract work in development of advanced composite products for local major companies. Activity in this area increased due to the finalisation of a qualification process with Aramco with initial orders, and manufacture of a product for the civil market.

The Company focused on prudent use of cash through the period, focusing on prudent working capital management to deliver current projects. Operating cash was a positive \$9.0m inflow for the half (31 December 2022: \$1.5m outflow), favorably impacted by the receipt of funds for a large project completed at the start of the period. Investing activities generated a positive inflow of \$4.4m stemming from the reclassification of \$7.5m of term deposits back into cash after being removed from cash due to deposit tenure. There was \$3.1m spent on capital expenditure, mostly for project specific tooling. Financing activities generated a cash outflow of \$2.6m with \$1.9m going towards a cash backed performance bond.

Cash at the end of the period was \$23.3m (Dec 22 \$10.5m).

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.

In recent years there has been encouraging growth in the Company's share of the Production Buoyancy market (SURF), with 3 large orders worth \$90m received and to be manufactured and delivered during the 2023, 24 and 25 financial years. The Company will continue to pursue market penetration and share in this sector. Servicing the Drilling market which is in a recovery phase and experiencing increasing rig utilization and day rates will also continue where Matrix is the market leader in the provision of drilling riser buoyancy.

The company will continue to pursue opportunities in the advanced materials space, which will potentially lead to manufacturing opportunities upon development success. Opportunities in the renewables space and also with local Iron Ore majors will be a priority.

Increasing market share through new customer conversions and adoption of Humidur in their coating specifications will be a focus of our coating technology division to target revenue growth. Growth into new regions within our distribution agreement will be a focus including Eastern Australia growth and sales into Papua New Guinea.

Dividend

The directors have determined that no interim dividend will be paid for the period ended 31 December 2023 (31 December 2022: nil).

Events occurring after the reporting date

The directors have determined that there are no events of a material nature that have occurred subsequent to the reporting date that require disclosure.

Auditor's independence declaration

The auditor's independence declaration is included on page 4 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 corporations instrument 2016/191 rounding of amounts

The Company is 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 2016/191, unless otherwise indicated.

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Directors' Report

This report is signed in accordance with a resolution of the Board of Directors.



.....
Aaron P Begley
Managing Director & Chief Executive Officer

22 February 2024



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Matrix Composites & Engineering Ltd

I declare that, to the best of my knowledge and belief, in relation to the review of Matrix Composites & Engineering Ltd for the half-year ended 31 December 2023 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'G L + 177'.

Graham Hogg
Partner
Perth
22 February 2024

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Interim Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half Year Ended 31 December 2023

	Notes	31 December 2023 \$000	31 December 2022 \$000
Revenue	3	26,703	11,848
Cost of sales		(23,279)	(11,490)
Gross profit		<u>3,424</u>	<u>358</u>
Other income	4	6	100
Reversal of property, plant and equipment impairment losses	10	-	7,603
Reversal of right-of-use asset impairment losses		-	8,197
Administration expenses		(2,328)	(2,100)
Finance income	4	523	63
Finance costs	4	(1,982)	(2,287)
Marketing expenses		(831)	(850)
Research expenses		(437)	(234)
Engineering expenses		(1,257)	(844)
Other expenses	4	(963)	-
(Loss) / profit before tax		<u>(3,845)</u>	<u>10,006</u>
Income tax expense	5	-	-
(Loss) / profit for the period		<u>(3,845)</u>	<u>10,006</u>
Other comprehensive profit / (loss) for the period, net of tax			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Net foreign currency translation differences		268	(131)
Other comprehensive profit / (loss) for the period, net of tax		268	(131)
Total comprehensive (loss) / profit for the period		<u>(3,577)</u>	<u>9,875</u>
(Loss) / profit attributable to:			
Owners of the Company		<u>(3,845)</u>	<u>10,006</u>
Total comprehensive (loss) / profit attributable to:			
Owners of the parent entity		<u>(3,577)</u>	<u>9,875</u>
(Loss) / profit per share			
Basic (loss) / profit per share (cents)		(1.76)	6.85
Diluted (loss) / profit per share (cents)		(1.76)	5.28

The accompanying notes form part of these financial statements

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Interim Consolidated Statement of Financial Position

As at 31 December 2023

	Notes	31 December 2023 \$'000	30 June 2023 \$'000
Assets			
Current assets			
Cash and cash equivalents	6	23,252	12,547
Term deposits		-	7,471
Trade and other receivables	7	8,644	21,672
Inventories	8	10,415	5,879
Prepayments	9	2,203	718
Other current assets		77	77
Total current assets		44,591	48,364
Non-current assets			
Prepayments	9	721	1,116
Property, plant and equipment	10	15,785	14,085
Right-of-use assets	11	19,378	15,378
Intangibles		862	944
Total non-current assets		36,746	31,523
Total assets		81,337	79,887
Liabilities			
Current liabilities			
Trade and other payables	12	7,774	4,043
Progress claims and deposits	3	5,235	8,530
Lease liabilities	11	654	726
Employee benefits		1,687	1,572
Forward contract liability		291	800
Total current liabilities		15,641	15,671
Non-current liabilities			
Lease liabilities	11	30,180	25,908
Employee benefits		83	86
Provisions		2,645	2,608
Convertible note	13	9,337	8,849
Total non-current liabilities		42,245	37,451
Total liabilities		57,886	53,122
Net assets		23,451	26,765
Equity			
Issued capital	15	139,992	139,851
Reserves		(389)	1,005
Accumulated losses		(116,152)	(114,091)
Total surplus in equity		23,451	26,765

The accompanying notes form part of these financial statements

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Interim Consolidated Statement of Changes in Equity

For the Half Year Ended 31 December 2023

	Issued capital	Accumulated losses	Foreign currency translation reserve	Share-based payment reserve	Total
	\$000's	\$000's	\$000's	\$000's	\$000's
Balance at 1 July 2023	139,851	(114,091)	(1,423)	2,428	26,765
Loss for the period	-	(3,845)	-	-	(3,845)
Other comprehensive profit for the period, net of income tax	-	-	268	-	268
Total comprehensive profit / (loss) for the period	-	(3,845)	268	-	(3,577)
Share-based payments expense	-	-	-	263	263
Vesting / lapse of equity-settled share-based payments	141	1,784	-	(1,925)	-
Balance at 31 December 2023	139,992	(116,152)	(1,155)	766	23,451
Balance at 1 July 2022	120,713	(122,773)	(1,108)	1,864	(1,304)
Profit for the period	-	10,006	-	-	10,006
Other comprehensive loss for the period, net of income tax	-	-	(131)	-	(131)
Total comprehensive profit / (loss) for the period	-	10,006	(131)	-	9,875
Share-based payments expense	-	-	-	271	271
Balance at 31 December 2022	120,713	(112,767)	(1,239)	2,135	8,842

The accompanying notes form part of these financial statements

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Interim Consolidated Statement of Cash Flows For the Half Year Ended 31 December 2023

	31 December 2023 \$'000	31 December 2022 \$'000
OPERATING ACTIVITIES		
Receipts from customers (inclusive of GST)	39,364	15,444
Payments to suppliers and employees (inclusive of GST)	(29,806)	(15,982)
Interest received	523	63
Finance costs paid	(15)	(20)
Interest expense on lease liabilities	(1,083)	(1,020)
Net cash provided by / (used in) operating activities	8,983	(1,515)
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	15	25
Purchase of property, plant and equipment	(3,128)	(1,061)
Payments for intangibles	-	(75)
Receipt of term deposits	7,471	-
Net cash provided by / (used in) investing activities	4,358	(1,111)
FINANCING ACTIVITIES		
Proceeds from issue of convertible note (net of issue costs)	-	7,131
Interest paid on convertible note	(396)	(1,243)
Payment of security deposit	(1,887)	-
Repayment of lease liabilities (principal portion)	(353)	(312)
Net cash (used in) / provided by financing activities	(2,636)	5,576
Net increase in cash and cash equivalents held	10,705	2,950
Cash and cash equivalents at 1 July	12,547	7,591
Cash and cash equivalents at 31 December	23,252	10,541

The accompanying notes form part of these financial statements

Notes to the Interim Consolidated Financial Statements For the Half Year Ended 31 December 2023

1 Statement of significant accounting policies

(a) General information

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

(b) 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 2023 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 22 February 2024.

(c) 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 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 2023 annual financial report for the financial year ended 30 June 2023.

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.

(d) 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.

Standards and Interpretations in issue not yet adopted

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

(e) Going concern

The financial statements have been prepared on a going concern basis which assumes the settlement of liabilities and the realisation of assets in the normal course of business.

For the period ended 31 December 2023, the Group recognised a net loss of \$3.845m and operating cash inflows of \$8.983m. The Group's net current assets as at 31 December 2023 amounted to \$28.950m of which \$5.767m is restricted cash.

Notes to the Interim Consolidated Financial Statements For the Half Year Ended 31 December 2023

1 Statement of significant accounting policies (continued)

Management operating forecast for the next 12 months includes:

- Execution and delivery of current contracted work at budgeted margins
- Expected work to convert in-progress (outstanding) and expected upcoming quotations with established customers, into cashflow at forecast levels and margins
- Recurring sales of established products at forecast levels and margins.

The Directors have reviewed the Company's overall financial position, including forecast operating and financing assumptions, and believe the use of the going concern basis of accounting is appropriate as they believe the Company has sufficient funds available for at least the next 12 months.

2 Operating segments

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 on-IFRS measures including Earnings before Interest, Taxes, Depreciation and Amortisation ("EBITDA") and Earnings before Interest, Taxes, Depreciation, Amortisation, and Foreign Exchange ("EBITDAF").

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

	MCE Group* 31 December 2023 000's \$	MCE Group* 31 December 2022 000's \$
Revenue	26,703	11,848
EBITDAF (i)	561	13,491
Change in fair value of embedded derivative (ii)	(183)	(1,129)
Foreign exchange (loss) / gain	(926)	53
EBITDA	(548)	12,415
Depreciation and amortisation	(1,984)	(1,314)
EBIT	(2,532)	11,101
Net interest	(1,313)	(1,095)
(Loss) / profit before tax	(3,845)	10,006

(i) EBITDAF is reconciled to (loss) / profit as above.

(ii) Relates to the change in fair value of the convertible note embedded derivative. Refer to Note 13.

**Notes to the Interim Consolidated Financial Statements
For the Half Year Ended 31 December 2023**

2 Operating segments (continued)

	MCE Group* 31 December 2023 000's \$	MCE Group* 30 June 2023 000's \$
Total consolidated assets	81,337	79,887
Total consolidated liabilities	57,886	53,122
Geographical Assets		
Australia	80,973	79,433
Others	364	454
	<u>81,337</u>	<u>79,887</u>
Geographical Liabilities		
Australia	57,884	53,120
Others	2	2
	<u>57,886</u>	<u>53,122</u>

Major customers

Matrix supplies goods and services to a broad range of customers in the global oil & gas industry. During the reporting period, five major customers accounted for 71% of total group revenue (31 December 2022: 72%).

*MCE Group consists of Matrix Composites & Engineering Ltd, Matrix Henderson Property Pty Ltd, Specialist Engineering Services (Aust) Pty Ltd and Matrix Composites & Engineering (US) Inc.

Notes to the Interim Consolidated Financial Statements
For the Half Year Ended 31 December 2023

3 Revenue

	31 December 2023 000's \$	31 December 2022 000's \$
Revenue from contracts with customers	26,703	11,848

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

Major product lines

Design, manufacture, and supply of engineered composite products	21,409	7,099
Coatings products, equipment and service	3,831	4,365
Others	1,463	384
	<u>26,703</u>	<u>11,848</u>

Geographical regions

Australia	10,936	10,771
Brazil	10,311	-
United States of America	3,382	723
Others	2,074	354
	<u>26,703</u>	<u>11,848</u>

Timing of revenue recognition

Goods and services transferred at a point in time	11,392	6,071
Goods and services transferred over time	15,311	5,777
	<u>26,703</u>	<u>11,848</u>

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	31 December 2023 000's \$	30 June 2023 000's \$
Trade receivables	6,178	12,302
Progress claims and deposits - contract liabilities	(5,235)	(8,530)
Other receivables - Trade	221	9,102
	<u>1,164</u>	<u>12,874</u>

The contract assets comprise trade receivables and other receivables which primarily relate to the Group's rights to consideration for work completed but not yet billed at reporting date on construction contracts. The contract assets are transferred to trade receivables when the rights become unconditional. This usually occurs when the Group invoices the customer.

The contract liabilities primarily relates to advance consideration received from contracts with customers.

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Interim Consolidated Financial Statements For the Half Year Ended 31 December 2023

4 Other income / expenses and finance income / costs

	31 December 2023 000's \$	31 December 2022 000's \$
Other income		
Profit on disposal of assets	3	25
Sundry income	3	22
Net foreign exchange gain	-	53
	<u>6</u>	<u>100</u>
Finance income		
Interest received	523	63
	<u>523</u>	<u>63</u>
Other expenses		
Net foreign exchange loss	(926)	-
Accretion on asset retirement obligation	(15)	-
Change in discount on asset retirement obligation	(22)	-
	<u>(963)</u>	<u>-</u>
Finance costs		
Finance costs	(15)	(32)
Lease interest	(1,083)	(1,020)
Convertible note interest	(701)	(106)
Change in fair value of embedded derivative (i)	(183)	(1,129)
	<u>(1,982)</u>	<u>(2,287)</u>

(i) Relates to the change in fair value of the convertible note embedded derivative. Refer to Note 13.

**Notes to the Interim Consolidated Financial Statements
For the Half Year Ended 31 December 2023**

5 Income Tax

The income tax expense for the year can be reconciled to the accounting loss as follows:

	31 December 2023	31 December 2022
	000's	000's
	\$	\$
(Loss) / profit before tax	(3,845)	10,006
Income tax (benefit) / expense calculated at 30% (2022: 25%)	(1,154)	2,502
Effect of expenses that are not deductible in determining tax payable profit	60	185
Effect of change in income tax rates from 25% to 30%	(6,407)	-
Utilisation of tax losses not previously recognised	-	(2,687)
Effect of unused tax losses not recognised	7,501	-
Total income tax expenses recognised in the current year	-	-

The tax rate used for December 2023 was 30% payable by Australian corporate entities on taxable profits under Australian tax law.

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

6 Cash and Cash Equivalents

	31 December 2023	30 June 2023
	000's	000's
	\$	\$
Cash and bank balances	17,485	12,547
Short-term deposits (i)	5,767	-
	<u>23,252</u>	<u>12,547</u>

(i) The short-term deposits were classified as term deposits at 30 June 2023 as they did not meet the cash classification requirement. The deposits have a maturity of 3 months and have been reclassified as cash at 31 December 2023. A portion of short-term deposit (\$3.3m) is placed as a security over the leased land, factory and administration buildings and the Group as a policy, ensures that the minimum balance of the same amount is maintained in the bank.

Notes to the Interim Consolidated Financial Statements
For the Half Year Ended 31 December 2023

7 Trade and other receivables

	31 December	30 June
	2023	2023
	000's	000's
	\$	\$
Trade receivables (i)	6,178	12,302
Other receivables (ii)	321	9,201
Security deposits (iii)	1,847	15
GST refundable	298	154
	<u>8,644</u>	<u>21,672</u>

(i) The Group'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. These amounts are generally non- interest bearing, although, there are customers who will be subjected to interest charges at management's discretion. The Group has assessed the recoverability of all amounts and no allowance is required for the trade receivables.

(ii) Other receivables of \$0.221m (June 2023: \$9.102m) relate to completed products which have been recognised as revenue but are yet to be invoiced, pending collection by customers.

(iii) Balance relates primarily to a security deposit paid to Export Finance Australia to fully or partially cash-back bank guarantees.

8 Inventories

	31 December	30 June
	2023	2023
	000's	000's
	\$	\$
Raw materials	5,636	2,657
Work in progress (i)	2,650	1,428
Finished goods	2,129	1,794
	<u>10,415</u>	<u>5,879</u>

(i) The work in progress at cost reflected the resources consumed for uncompleted projects which are to be completed in the subsequent financial period.

9 Prepayments

	31 December	30 June
	2023	2023
	000's	000's
	\$	\$
CURRENT		
Prepayments (i)	<u>2,203</u>	<u>718</u>
NON-CURRENT		
Prepayments (i)	<u>721</u>	<u>1,116</u>

(i) Interest prepayment on convertible note has been classified as \$0.46m current and \$0.72m non-current.

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Interim Consolidated Financial Statements For the Half Year Ended 31 December 2023

10 Property, plant and equipment

	Plant and equipment	Motor vehicles	Office equipment	Computer equipment	Assets under construction	Total
	000's	000's	000's	000's	000's	000's
	\$	\$	\$	\$	\$	\$
Opening carrying amount at 1 July 2023	13,881	44	6	12	142	14,085
Additions	23	-	-	37	3,068	3,128
Transfers	658	-	-	-	(658)	-
Disposals	-	(14)	-	-	-	(14)
Depreciation/amortisation expenses	(1,406)	(1)	(1)	(6)	-	(1,414)
Closing carrying amount at 31 December 2023	13,156	29	5	43	2,552	15,785

Impairment

At 31 December 2023, management have completed an impairment indicator and reversal assessment for all material cash-generating units to ensure that the carrying values can be supported. There are no indicators of impairment nor indicators for the reversal of previously recognised impairment losses.

At 31 December 2022, the Group re-evaluated whether the recoverable amount of the CGU exceeded its carrying amount due to the existence of impairment reversal indicators. The recoverable amount is determined to be the higher of its fair value less costs to sell or its value in use. For impairment reversal testing purposes, the Group prepared a value in use model. The value in use model used cash flow projections approved by the directors covering a five-year period with a steady growth rate for years beyond the five-year period.

The assessment of the recoverable amount lead to an impairment reversal for the period of \$15.8m comprising of \$7.603m for property, plant and equipment and \$8.197m for right-of-use assets.

The estimation of future cash flows requires significant estimates and judgements. Details of the key assumptions used in the value in use model at 31 December 2022 and adopted by the Board are included below.

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Notes to the Interim Consolidated Financial Statements For the Half Year Ended 31 December 2023

10 Property, plant and equipment (continued)

Key Assumptions:

Discount Rate

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

Revenue

Revenue forecasts used in the impairment model are based on existing awarded and quoted projects that are likely to be awarded to Matrix for the first 2 years of revenue. For years 3 to 5 it focuses on revenue levels based on a reasonable market share of our core markets at the expected level of spend indicated from medium term industry forecasts.

Cost of Goods Sold

In determining gross margin, management has used demonstrated industry margins which are aligned to both prior project delivery and the margins contained in current outstanding quotes.

Terminal Growth Rate

A terminal growth rate of two percent 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
- Buoyancy margins
- Annual capex cost to maintain facility and order book
- Industry recovery

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:

**Notes to the Interim Consolidated Financial Statements
For the Half Year Ended 31 December 2023**

10 Property, plant and equipment (continued)

Assumption	Variance	Negative impact \$ million	Positive impact \$ million
Discount rate	+/- 2%	5.3	7.4
Terminal value growth rate	+/- 1%	1.9	2.1
Buoyancy (i.e. Riser Buoyancy and Surf) margins	+/- 2%	9.4	7.7
Sustaining and project capex	+/- \$1M p.a.	11	10.9
Change in growth timeframe (i.e. Riser Buoyancy and Surf)	+/- \$2.5M Yr 3-5	12.4	12.3

The impairment analysis is based on a number of industry and operational assumptions by management over the 5 year period to 31 December 2027, which have been endorsed by the Board.

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Notes to the Interim Consolidated Financial Statements For the Half Year Ended 31 December 2023

11 Leases

Right-of-use asset

	Right-of-use asset 000's \$
Cost:	
At 1 July 2023	38,520
Additions / change in rate	<u>4,553</u>
At 31 December 2023	<u>43,073</u>
Accumulated depreciation and impairment:	
At 1 July 2023	(23,142)
Charge for the period	<u>(553)</u>
At 31 December 2023	<u>(23,695)</u>
Carrying amount	
At 30 June 2023	<u>15,378</u>
At 31 December 2023	<u>19,378</u>

Lease liability

	31 December 2023 000's \$	30 June 2023 000's \$
Current	654	726
Non-current	<u>30,180</u>	<u>25,908</u>
	<u>30,834</u>	<u>26,634</u>

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

The bank guarantee is issued by ANZ. Any bank guarantees issued by ANZ are secured by a right of set off over term deposits held by the Company to the value of the outstanding bank guarantees. The value of this right of set off at 31 December 2023 was \$3.3m (31 December 2022: \$3.3m).

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Notes to the Interim Consolidated Financial Statements For the Half Year Ended 31 December 2023

11 Leases (continued)

Lease exemptions

At 31 December 2023, Matrix is committed to \$85k (31 Dec 2022: \$142k) in relation to the office equipment leases. Matrix has assessed the value of the underlying assets and considered them as short-term or low value assets, respectively. Therefore, Matrix 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 presented in the interim consolidated statement of profit or loss and other comprehensive income are as follows:

	31 December 2023 000's \$	31 December 2022 000's \$
Multiple copiers	5	7
Multiple IT equipment	23	21
Serviced office Equipment	-	6
	-	18
	<u>28</u>	<u>52</u>

12 Trade and other payables

	31 December 2023 000's \$	30 June 2023 000's \$
Trade payables	4,671	2,076
Other creditors and accruals	2,996	1,758
GST payable	107	209
	<u>7,774</u>	<u>4,043</u>

Trade and other payables are generally paid within 30 to 45 days. No security is provided for these liabilities and no interest has been paid.

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Notes to the Interim Consolidated Financial Statements For the Half Year Ended 31 December 2023

13 Convertible note

	\$000
Derivative liability at 30 June 2023	3,238
Change in fair value	183
Derivative liability at 31 December 2023	3,421
Financial liability at 30 June 2023	5,611
Interest paid	(396)
Interest charged (using effective interest rate)	701
Financial liability at 31 December 2023	5,916
Total convertible note liability at 31 December 2023	9,337

The derivative liability has been revalued at 31 December 2023 with the fair value adjustment being recognised in the profit or loss. The Company has calculated the fair value of the derivative using a Black Scholes Model. Key assumptions are set out below.

- Maturity of 23 months
- Volatility of 67%
- Risk free rate of 3.614%
- Conversion price of 30.63 cents

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Notes to the Interim Consolidated Financial Statements For the Half Year Ended 31 December 2023

14 Financial Instruments

Fair value of financial instruments

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the financial asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data.

It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2023

	Note	Fair value				Level 1	Level 2	Level 3	Total
		FVTPL	Financial assets at amortised cost	Financial liabilities at amortised cost	Total				
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Financial assets not measured at fair value									
Cash and other equivalents	6	-	23,252	-	23,252	-	-	-	-
Trade and other receivables	7	-	8,346	-	8,346	-	-	-	-
		-	31,598	-	31,598	-	-	-	-
Financial liabilities measured at fair value									
Convertible note – embedded derivative	13	(3,421)	-	-	(3,421)	-	(3,421)	-	-
Forward contract liability		(291)	-	-	(291)	-	(291)	-	-
		(3,712)	-	-	(3,712)	-	(3,712)	-	-
Financial liabilities not measured at fair value									
Trade and other payables	12	-	-	(7,667)	(7,667)	-	-	-	-
Lease liabilities	11	-	-	(30,834)	(30,834)	-	-	-	-
Convertible note – liability component	13	-	-	(5,916)	(5,916)	-	-	-	-
		-	-	(44,417)	(44,417)	-	-	-	-

Matrix Composites & Engineering Ltd

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**Notes to the Interim Consolidated Financial Statements
For the Half Year Ended 31 December 2023**

14 Financial Instruments (continued)

30 June 2023

	Note	Fair value			Total	Level 1	Level 2	Level 3	Total
		FVTPL	Financial assets at amortised cost	Financial liabilities at amortised cost					
		\$'000	\$'000	\$'000					
Financial assets not measured at fair value									
Cash and other equivalents	6	-	12,547	-	12,547	-	-	-	-
Term deposits		-	7,471	-	7,471	-	-	-	-
Trade and other receivables	7	-	21,518	-	21,518	-	-	-	-
		-	41,536	-	41,536	-	-	-	-
Financial liabilities measured at fair value									
Convertible note – embedded derivative	13	(3,238)	-	-	(3,238)	-	(3,238)	-	(3,238)
Forward contract liability		(800)	-	-	(800)	-	(800)	-	(800)
		(4,038)	-	-	(4,038)	-	(4,038)	-	(4,038)
Financial liabilities not measured at fair value									
Trade and other payables	12	-	-	(3,834)	(3,834)	-	-	-	-
Lease liabilities	11	-	-	(26,634)	(26,634)	-	-	-	-
Convertible note – liability component	13	-	-	(5,611)	(5,611)	-	-	-	-
		-	-	(36,079)	(36,079)	-	-	-	-

Matrix Composites & Engineering Ltd

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Notes to the Interim Consolidated Financial Statements For the Half Year Ended 31 December 2023

14 Financial Instruments (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial liabilities	Valuation technique and key inputs	Significant unobservable inputs	Relationship and sensitivity of unobservable inputs to fair value
Convertible note – embedded derivative	Black-Scholes model. The following variables were taken into consideration: current underlying share price, options strike price, time until expiration, implied share price volatility and risk-free rate.	N/A	N/A
Forward contract liability	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

15 Issued Capital

	31 December 2023 000's \$	30 June 2023 000's \$
Issued and paid up capital 219,550,565 (2023: 218,146,168) ordinary shares	139,992	139,851

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 Group does not have a limited amount of authorised capital and issued shares do not have a par value.

Movements in ordinary share capital

	Number of shares	\$000's
Balance 1 July 2022	146,071,429	120,713
Shares issued during the period	72,074,739	19,138
Balance 30 June 2023	218,146,168	139,851
Shares issued during the period (i)	1,404,397	141
Balance 31 December 2023	219,550,565	139,992

(i) Share issue relates to partial vesting of FY20 performance rights.

Matrix Composites & Engineering Ltd

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Notes to the Interim Consolidated Financial Statements For the Half Year Ended 31 December 2023

15 Issued Capital (continued)

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.

Share-based payment

On 12 October 2023, the Board approved the issue of Long-Term Incentives (LTIs) to Mr Aaron Begley. The incentives constitute the following:

- the issue of 1,010,621 share options with an exercise price of \$0.35 and a value of \$0.1224 each,
- the issue of 601,609 performance rights with a value of \$0.1619 each.

On 22 December 2023, LTIs were issued to senior executives. The incentives constitute the following:

- the issue of 1,162,214 share options with an exercise price of \$0.35 and a value of \$0.1639 each,
- the issue of 691,851 performance rights with a value of \$0.2229 each

All the above LTIs have a hurdle based on the Company's 14-day VWAP reaching \$0.35 at the end of the FY26 year, and continuous tenure with the Company during that time.

16 Dividends

In respect of the reporting period ended 31 December 2023, no interim dividend was paid (2022: nil)

17 Contingencies

The Group had no contingent liabilities or assets requiring disclosure at 31 December 2023 (2022: nil).

18 Events occurring after the reporting date

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

Matrix Composites & Engineering Ltd

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Directors' Declaration

The directors of the Company declare that:

1. The interim consolidated financial statements and notes, as set out on pages 5 to 25 are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (b) give a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the half year ended on that date.
2. 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 with the continuing support of creditors.

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



.....
Aaron P Begley
Managing Director & Chief Executive Officer

22 February 2024



Independent Auditor's Review Report

To the shareholders of Matrix Composites & Engineering Ltd

Report on the Interim Consolidated Financial Report

Conclusion

We have reviewed the accompanying **Interim Consolidated Financial Report** of Matrix Composites & Engineering Ltd.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Consolidated Financial Report of Matrix Composites & Engineering Ltd does not comply with the *Corporations Act 2001*, including:

- Giving a true and fair view of the **Group's** financial position as at 31 December 2023 and of its performance for the half-year ended on that date; and
- Complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Consolidated Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2023;
- Consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date;
- Notes comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The **Group** comprises Matrix Composites & Engineering Ltd (the Company) and the entities it controlled at the half year's end or from time to time during the half-year.

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 Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and 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 these requirements.



Responsibilities of the Directors for the Interim Consolidated Financial Report

The Directors of the Company are responsible for:

- The preparation of the Interim Consolidated Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- Such internal control as the Directors determine is necessary to enable the preparation of the Interim Consolidated 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 Interim Consolidated Financial Report

Our responsibility is to express a conclusion on the Interim Consolidated 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 Interim Consolidated Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and its performance for the half-year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Consolidated 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.

KPMG

Graham Hogg

Partner

Perth

22 February 2024