

Results for announcement to the market

Appendix 4E

Preliminary Final Report
Period Ended 30 June 2019

Name of entity

Matrix Composites & Engineering Ltd

ABN or equivalent company reference

009 435 250

Period ended ('Current Period')

30 June 2019
Previous corresponding period: 30 June 2018

Extracts from this report for announcement to the market

| | | | | |
|---|----------------------------|--------|------------------------------------|---------|
| | | | | \$000s |
| Revenues from ordinary activities | Up | 95.40% | to | 38,187 |
| Loss from ordinary activities after tax attributable to members | Down | 43.6% | to | (8,684) |
| Net loss after tax for period attributable to members | Down | 43.6% | to | (8,684) |
| Dividends (distributions) | Amount per security | | Franked amount per security | |
| Final dividend | nil | | N/A | |
| Interim Dividend | nil | | N/A | |
| Record date for determining entitlements to the dividend | N/A | | | |
| Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market: | | | | |
| Not applicable | | | | |

Commentary on Results

For commentary on the results of Matrix Composites & Engineering Ltd refer to the announcement relating to the release of the Matrix Composites & Engineering Ltd results in conjunction with the details and explanations provided herewith and in the accompanying financial statements.

Ratios and Other measures

NTA backing

Net tangible asset backing per ordinary security

| Current Period | Previous corresponding Period |
|----------------|-------------------------------|
| \$0.76 | \$0.90 |

Dividends

Date the dividend is payable

| |
|-----|
| N/A |
|-----|

Record date to determine entitlements to the dividend

| |
|-----|
| N/A |
|-----|

Amount per security

Final Dividend:

Current year

Previous year

Interim Dividend:

Current year

Previous year

| Amount per security | Franked amount per security |
|---------------------|-----------------------------|
| nil | nil |
| nil | nil |
| nil | nil |
| nil | nil |
| nil | nil |

Total Dividends

Total Dividend:

Current year

Previous year

| Amount per security | Total amount (\$000s) |
|---------------------|-----------------------|
| nil | nil |
| nil | nil |

Control gained over entities having material effect

During the year ended 30 June 2019 there was no control gained over entities having material effect on the financial results or financial position of the Consolidated Entity.

Loss of control of entities having material effect

During the year ended 30 June 2019 there was no loss of control over entities having material effect on the financial results or financial position of the Consolidated Entity.

This report is based on accounts that have been audited.



Brendan Cocks
Chief Financial Officer

22 August 2019
Perth, Western Australia



FINANCIAL STATEMENTS

30 JUNE 2019

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CORPORATE DIRECTORY

DIRECTORS

Mr P J Hood (Chairman)
Mr A P Begley (CEO)
Mr S Cole
Mr C N Duncan

COMPANY SECRETARY

Mr B W Cocks
Mrs Julie Jones

HEAD OFFICE

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58 Herschel Street
Slough Berkshire SL1 1HD
Email: uk@matrixengineered.com

BANKER

ANZ
Level 10, 77 St Georges Terrace
Perth WA 6000

LAWYERS

Lavan Legal
1 William Street
PERTH WA 6000

Squire Patton Boggs

Level 21, 200 Murray Street
PERTH WA 6000

AUDITOR

Deloitte Touche Tohmatsu
Brookfield Place, Tower 2
123 St Georges Terrace
PERTH WA 6000

SHARE REGISTRY

Link Market Services Ltd
Level 4 Central Park
152-158 St Georges Terrace
PERTH WA 6000

DIRECTORS' REPORT

DIRECTORS' REPORT

The directors of Matrix Composites & Engineering Ltd ("Matrix" or "the Company") submit herewith the annual report of the Company for the financial year ended 30 June 2019. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows.

Information about the Directors

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

Peter J Hood

Independent Non-Executive Chairman

Qualifications & Experience

Peter Hood is a qualified Chemical Engineer with over 47 years of experience in senior management and project development in the mining, oil and gas, and chemical industries.

Mr Hood was previously the CEO of Coogee Resources Ltd, a company involved in the exploration and production of oil and gas in the Timor Sea. Prior to this he was the CEO of Coogee Chemicals Pty Ltd where he oversaw a period of significant growth in the company's value.

Mr Hood is a Past President of the Australian Chamber of Commerce and Industry (ACCI), and a Non-Executive Director of, GR Engineering Ltd, De Grey Mining Ltd and Cue Energy Resources Ltd, and Chairman of MAK Industrial Water Systems Pty Ltd. He was also previously Chairman of Apollo Gas Ltd and Vice-Chairman of APPEA.

Mr Hood chairs the Remuneration and Nominations Committees and is a member of the Audit and Risk Committees.

Education

Bachelor of Engineering (Chemical), Melbourne University, 1970

Advanced Management Program, Harvard Business School, 1997

Graduate Diploma of Administration, Western Australian Institute of Technology (now Curtin University), 1974

Memberships

Fellow of the Australian Institute of Company Directors

Fellow of the Institute of Chemical Engineers

Member of the Australian Institute of Mining and Metallurgy

DIRECTORS' REPORT

Aaron P Begley

Managing Director & Chief Executive Officer

Qualifications & Experience

Aaron Begley has over 20 years' experience in manufacturing and marketing specialized industrial equipment, materials and services to the oil & gas and marine technology sectors.

Prior to his current role as Managing Director and Chief Executive Officer, Mr Begley held various positions within Matrix Composites & Engineering Ltd since starting with the company in 1993. Throughout his tenure, Mr Begley has overseen the company's growth from a local engineering firm to a global market leader in the manufacture and development of composite materials technologies and engineered products for the oil & gas sector.

Education

Post Graduate Diploma of Management (Curtin), 2002

Bachelor of Economics (University of Western Australia), 1993

Memberships

Society of Underwater Technology (SUT)

Society of Petroleum Engineers (SPE)

International Association of Drilling Contractors (IADC)

Steven Cole

Independent Non-Executive Director

Qualifications & Experience

Steven Cole has over 40 years' of legal, business and corporate experience as well as a range of executive management and non-executive appointments. His extensive boardroom and board sub-committee experience includes ASX listed, statutory, proprietary and NFP organisations covering the industrial, financial, educational, professional services, health, local government and resources sectors. Mr Cole is Chairman of Neometals Limited, the Queen Elizabeth II Medical Centre Trust, Perth Markets Limited and Non-Executive Director of Bilton Canning Pty Ltd, DGB Investment Funds Pty Ltd, Reed Advanced Materials Pty Ltd. Mr Cole was also previously WA State President and a national board member of the Australian Institute of Company Directors.

Mr Cole chairs the Audit Committee and is a member of the Risk, Remuneration and Nomination Committees.

Education

Bachelor of Laws (Hons)

Memberships

Fellow of the Australian Institute of Company Directors

DIRECTORS' REPORT

Craig N Duncan

Independent Non-Executive Director

Qualifications & Experience

Mr Duncan has over 40 years' experience in the petroleum and mining industries in Australia, PNG, Asia, the Middle East and Africa. He has over 20 years' experience managing well construction operations. Prior to this role, Mr Duncan was involved in manufacturing specialised equipment for the gold mining industry. Mr Duncan is a Non-Executive Director of Sandalwood Growers Pty Ltd.

Mr Duncan chairs the Risk Committee and is a member of the Audit and Remuneration Committees.

Education

Graduate Diploma in Petroleum Engineering, University of New South Wales, 2005

The above named directors held office during the whole of the financial year and since the end of the financial year.

Directorships of Other Listed Companies

Directorships of other listed companies held by directors in the three years immediately before the end of the financial year are as follows:

| Name | Company | Period of directorship |
|-----------------|--------------------------|------------------------|
| PJ Hood | GR Engineering Ltd | 2010 – Current |
| PJ Hood | Cue Energy Resources Ltd | 2018 – Current |
| P J Hood | De Grey Mining Ltd | 2018 - Current |
| S Cole | Neometals Ltd | 2008 – Current |

Directors' Shareholdings

The following table sets out each director's relevant interest in shares, and share appreciation rights or options in shares of the Company or a related body corporate as at the date of this report.

| Directors | Fully paid shares Number | Share Appreciation Rights |
|------------------|-----------------------------|------------------------------|
| PJ Hood | 874,000 | nil |
| AP Begley | 3,462,763 | 4,465,429 |
| S Cole | 20,000 | nil |
| CN Duncan | 590,429 | nil |

DIRECTORS' REPORT

No shares, share appreciation rights or options in shares have been issued for compensation purposes during or since the end of the financial year to any Director of the Company, other than 1,845,455 Executive Share Appreciation Rights (2018: 1,486,641) that have been granted to Mr Aaron Begley pursuant to the Matrix Rights Plan. The grant of Executive Share Appreciation Rights to Mr Aaron Begley was approved by shareholders at the Annual General Meeting of shareholders held on 8 November 2018.

Remuneration of key management personnel

Information about the remuneration of key management personnel is set out in the remuneration report of this director's report, on pages 12 to 23. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

Rights granted to directors and executive management

During and since the end of the financial year, an aggregate 3,196,028 Executive Share Appreciation Rights were granted to the following directors and senior executives of the company and its controlled entities as part of their remuneration:

| Director/Executive | Issuing Entity | Executive Share Appreciation Rights | Executive Performance Rights |
|----------------------|-------------------------------------|-------------------------------------|------------------------------|
| Aaron Begley | Matrix Composites & Engineering Ltd | 1,845,455 | Nil |
| Brendan Cocks | Matrix Composites & Engineering Ltd | 755,400 | Nil |
| Peter Pezet | Matrix Composites & Engineering Ltd | 595,173 | Nil |

Company Secretary

Mr Brendan Cocks (BCom, CA) joined Matrix on 12 September 2016 and held the position of Company Secretary of the Company at the end of the financial year. Mr Cocks is an experienced public company executive having broad experience as Company Secretary and CFO for a number of publicly listed companies in Australia.

Mrs Julie Jones (LLB, Grad. Dip Taxation) was appointed Joint Company Secretary on 13 July 2018 and held the position at the end of the financial year. Mrs Jones is admitted to practice as a barrister and solicitor of the Supreme Court of Western Australia and NSW and the High Court of Australia. Mrs Jones is an experienced legal practitioner with a broad range of legal experience both within professional practice, and in commerce.

Principal Activities for FY19

The consolidated entity's principal activities during the course of the financial year were the:

- Manufacture and supply of capital drilling equipment (primarily comprised of syntactic foam buoyancy) and provision of inspection, maintenance and repair services;

DIRECTORS' REPORT

- Manufacture and supply of subsea umbilical risers and flowline (SURF) ancillary equipment and associated services; and
- Manufacture and supply of VIV suppression equipment for rigid pipelines; and
- Manufacture and supply of well construction products, including centralizers and conductors; and
- Consultancy for, and manufacture of, advanced composite materials and products for the defence, energy, resource and transport sectors.

Review of Operations

Overview

Matrix experienced improved levels of activity and revenue as the global oil and gas market showed signs of recovery. Led by an increase in orders for drilling riser buoyancy products, the business has increased its revenue by 97% from last year, with 70% of the year's revenue coming in the second half.

Safety

Matrix continued its strong focus on safety performance across all of its operating sites during the financial year. During the year MCE recorded one LTI, its first recorded LTI at its primary facility in Henderson since May 2014.

Matrix operates an occupational health and safety (OHS) management system that is accredited to AS/NZS 4801: 2001 and OHSAS18001: 2007. Matrix continues to scrutinise and identify hazards and risks to prevent injuries and illnesses. Matrix continues to improve controls of recognised hazards and continues to resolve or lower the risks with appropriate actions.

Manufacturing

Matrix continues to plan and execute production based on project workload, rather than a continuous production plan, due to demand and efficiency. Production labour was increased during the period to meet increasing throughput, while historical labour efficiencies were maintained through the period.

Production of low friction centralisers is maintained on a regular basis due to the recurring nature of sales for that product.

During the period Matrix commissioned a new Roto Moulding machine to increase capability both within the Oil and Gas market, and with diversified revenue opportunities underpinned by an exclusive manufacturing contract for a civil application.

Furthermore a new composites workshop was established for construction of large composite structures. This enables the business to attract new work from the Oil and Gas, Defence, and transport sectors.

Financial Results for the Year

- Revenue of \$38.2 million (FY18: \$19.5 million), impacted favourably by a recovering global oil and gas market.

DIRECTORS' REPORT

- Pre Tax loss \$9.4 million (FY18: \$15.4 million loss), impacted by the lower revenue environment, and maintenance of core capability within the business.
- Resulting NPAT loss of \$8.7 million (FY18: \$15.4 million loss).
- Negative operating cash flow of negative \$3.7 million (FY18: negative \$4.4 million) and a net decrease in cash of \$1.0m (FY18: \$6.2 million outflow).

MCE recorded an EBITDA loss of \$1.1 million (FY18: \$7.0 million EBITDA loss). Improved throughput meant that after an EBITDA loss of \$1.9m in H1 FY19, the business made profitable EBITDA in H2 FY19, largely off the back of 2 distributed riser buoyancy jobs delivered during the half.

Revenue of \$38.2 million was significantly higher than the prior year (\$19.5 million) buoyed by the pick up in activity and the afore mentioned projects.

The business continued to maintain a reasonable balance sheet position with cash and cash equivalents of \$9.4 million, a net cash position of \$2.1m million when allowing for the trade finance facility drawdown, and no term debt.

Changes in State of Affairs

During the year Matrix continued on a diversification strategy to target opportunities both within its traditional oil and gas field and also for engineered composite products outside of the oil and gas industry targeting innovative opportunities in transport, infrastructure and defence.

Other than these matters, there were no significant changes in the state of affairs of the consolidated entity during the financial year.

Subsequent Events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Future Developments

Matrix is committed to pursuing revenue across a number of sectors including resources, civil & infrastructure and defence, to complement its traditional source of revenue from the oil and gas sector.

With the global oil and gas market showing encouraging signs of a sustained recovery Matrix will continue to market strongly its traditional buoyancy products to its existing customer base. This will include traditional riser buoyancy, products suitable for the SURF market and the application of the Company's Matrix LGS™ products across both areas. Current outstanding quotations and new opportunities are encouraging in this area.

Matrix will focus on consolidating its position in US for well construction products. We will target growth outside of the US to grow this product line. During the period we received our first order in the Middle East. An area we have targeted for a number of years.

There will be a continued focus on developing products for other markets to diversify revenue. A focus on products that can be manufactured and / or distributed through our existing facility and utilising our current capabilities are a priority.

DIRECTORS' REPORT

Environmental Regulations

The consolidated entity's principal operating site at Henderson, Western Australia is subject to the operation of the Environmental Protection Act 1986 (WA) (EP Act). Compliance with the provisions of the EP Act and reporting of any material breaches is overseen by the Company Occupational Health Safety and Environment department. When breaches occur, they are reported to the Department of Environmental Regulation (DER) as required and actions taken to prevent recurrences.

During the year there were no breaches of the EP Act and Matrix has been able to demonstrate continued good environmental performance. This is demonstrated by compliance against the environmental licence in accordance with Part V of the EP Act. The Henderson site continues to operate as designed, and had no reportable events.

Environmental objectives and key performance indicators (KPIs) have been agreed, and accepted at the senior management level.

Dividends

In respect of the financial year ended 30 June 2019, no interim dividend was paid and the directors have determined that no final dividend will be paid (2018: nil).

Shares under option or issued on exercise of options

During the financial year there were no shares issued as a result of exercise of options.

Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above) and all executive officers of the Company and any related body corporate against a liability incurred as such director or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate, against a liability incurred as such an officer or auditor.

The Company was not a party to any such proceedings during the year.

Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 11 board meetings, two remuneration committee meetings, two nominations committee meetings, two risk committee meetings and two audit committee meetings were held.

DIRECTORS' REPORT

| Directors | Board of directors | | Remuneration Committee | | Nomination Committee | | Audit Committee | | Risk Committee | |
|------------------|--------------------|----------|------------------------|----------|----------------------|----------|-----------------|----------|----------------|----------|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| PJ Hood | 11 | 11 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| AP Begley | 11 | 11 | - | - | - | - | - | - | - | - |
| S Cole | 11 | 11 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| CN Duncan | 11 | 11 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |

DIRECTORS' REPORT

Proceedings on Behalf of Company

No person has applied for leave of Court under the Corporations Act 2001 to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or any part of those proceedings.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 5 to the financial statements. The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 5 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor's independence declaration

The auditor's independence declaration is included on page 24 of the annual report.

Corporate Governance Statement

The Board of Matrix is responsible for the corporate governance of the company and its subsidiaries. The Board has governance oversight of all matters relating to the strategic direction, corporate governance, policies, practices, management and operations of Matrix with the aim of delivering value to its Shareholders and respecting the legitimate interests of its other valued stakeholders, including employees, customers and suppliers.

Under ASX Listing Rule 4.10.3, Matrix is required to provide in its annual report details of where shareholders can obtain a copy of a corporate governance statement, disclosing the extent to which the Company has followed the ASX Corporate Governance Council Principles and Recommendations in the reporting period. Matrix has published its corporate governance statement on the "Corporate Governance" page of its web site at <https://www.matrixengineered.com/about-us/who-we-are/corporate-governance/>

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of the Company's directors and key management personnel for the financial year ended 30 June 2019.

The term Key Management Personnel refers to those persons having authority and responsibility for planning, controlling and directing the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity. Any reference to "Executives" in this report refers to those Key Management Personnel who are not Non-Executive Directors. The prescribed details for each person covered by this report are detailed below under the following headings:

- Key management personnel
- Remuneration policy
- Remuneration structure
- Relationship between the remuneration policy and company performance
- Remuneration of directors and key management personnel
- Key terms of employment contracts
- Key management personnel equity holdings
- Key management personnel Share Based Payment holdings – Share Appreciation Rights
- Key management personnel Share Based Payment holdings – Performance Rights

Key Management Personnel

The directors and other Key Management Personnel of the consolidated entity during or since the end of the financial year were:

Non-Executive Directors

The following persons acted as non-executive directors of the Company during the financial year:

Mr PJ Hood (Chairperson)

Mr CN Duncan

Mr S Cole

Unless otherwise stated, the named persons held their current position for the whole of the financial year and since the end of the financial year.

Executive Officers

The following persons were employed as Matrix executives during the financial year:

Mr AP Begley (Chief Executive Officer)

Mr BW Cocks (Chief Financial Officer / Company Secretary)

Mr P Pezet (Division Manager – Oil & Gas)

Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

Remuneration Policy

Non-Executive Directors

The remuneration policy aims to attract, retain and motivate talented and highly skilled non-executive Directors and to remunerate fairly and responsibly having regard to the following factors:

- the level of fees paid to non-executive Directors are at market rate for comparable companies;
- the size and complexity of the Company's operations; and
- the responsibilities and work requirements of the Directors.

The Remuneration Committee determines payments to the non-executive Directors and reviews their remuneration annually based on market practice, duties and accountability. Independent external advice is sought where required.

Non-executive Directors are paid fixed annual fees; they do not receive any variable, performance based remuneration. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders (currently \$500,000 per annum).

The allocation of fees to non-executive directors within this cap has been determined after consideration of a number of factors including the time commitment of directors, the size and scale of the Company's operations, the skillsets of Directors, the quantum of fees paid to non-executive directors of comparable companies and participation in Board Committee work.

The fees for directors remained unchanged throughout the financial year 2019. The table below reflects the annual fees of non-executive directors (inclusive of superannuation) for the financial year ending 30 June 2019 as opposed to the previous year to 30 June 2018.

| Name | FY19 Fees | FY18 Fees |
|---------------------|-----------|-----------|
| Peter Hood | \$80,000 | \$80,000 |
| Steven Cole | \$50,000 | \$50,000 |
| Craig Duncan | \$50,000 | \$50,000 |

In FY19 the Chairman received actual total annual fees of \$80,000 (2018: \$80,000). All other non-executive directors received an annual fee of \$50,000 (2018: \$50,000). All amounts specified in this section are inclusive of superannuation contributions.

Matrix Executives

The Company's remuneration policy for Matrix executives (including executive directors) is to fairly and responsibly reward them having regard to the performance of the Company, the performance of the executive and prevailing remuneration expectations in the market.

The Company also seeks to establish remuneration structures which align the interests of its key management personnel with the interests of the Company and its shareholders. The payment of any incentive amounts to executive Directors and Matrix executives is based on the delivery of key Group and individual outcomes, and the profitability of the Matrix Group.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

As detailed in this report, certain Matrix executives are entitled to receive short term incentive payments in respect of FY19 based on delivery of key financial and non-financial outcomes. Matrix executives were not paid incentives resulting from increases in the Company's share price in FY19.

The details of Matrix's long term incentive plan for its executives are provided below.

The amount of compensation for current and future periods for Matrix executives is based on consideration of market factors, comparison to peers and reference to the individual's experience and performance. Overall, remuneration policies are subject to the discretion of the Board and can be changed to reflect the competitive market and business conditions when in the interest of the Company and shareholders.

Remuneration Structure

The remuneration structure for Matrix Executives comprises fixed and variable components which are reviewed annually by the Remuneration Committee.

Fixed remuneration

Fixed remuneration comprises base salary, employer superannuation contributions and other allowances and non-cash benefits. Each Executive's fixed remuneration is reviewed and benchmarked annually.

The level of remuneration is set to enable the Company to attract and retain proven performers.

Variable remuneration

Variable remuneration comprises short term incentives (STIs) linked to Company and individual performance over one year, and long term incentives (LTIs) linked to performance over a period greater than a year.

The following table sets out the maximum variable remuneration each Executive can achieve for FY19, expressed as percentage of total remuneration, if maximum performance was achieved for the STI and LTI components of their variable remuneration.

| Executive | Maximum STI (% of Total Rem) | Maximum LTI (% of Total Rem) | Maximum Total Variable Remuneration (% of Total Rem) |
|--|---------------------------------|---------------------------------|---|
| Aaron Begley <i>Managing Director & Chief Executive Officer</i> | 13.9 | 25.5 | 39.4 |
| Brendan Cocks <i>Chief Financial Officer & Company Secretary</i> | 12.0 | 18.1 | 30.1 |
| Peter Pezet <i>General Manager - Engineering</i> | 11.7 | 17.0 | 28.7 |

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

STI remuneration

A comprehensive Short Term Incentive Plan (STI Plan) was in place for key management personnel for FY19. The STI Plan is based on a number of key performance indicators (KPIs) including a subjective performance KPI, safety performance KPI and profitability KPI. The STI Plan allows executives and employees to benefit from achieving results that surpass their target KPIs. Conversely, they will only be proportionately rewarded should the KPI targets not be fully achieved.

STI Key Performance Indicators

The STI KPIs comprise a mix of financial and non-financial metrics which are aligned to both the financial success of the Company and its longer term sustainability and are set each year. The KPIs for each Executive are tailored to their individual responsibilities but are broadly described in the following categories:

- i) Financial: Achievement of predetermined targets for EBITDA and cost management.
- ii) Safety: The Board reviews the Company's safety performance and has established a series of lagging and lead indicators to measure the Company's performance in ensuring a safe workplace. The primary metrics include lost time injuries, medical treatment injury frequency rate (MTIFR) and hazard reporting, which is a behaviour based lead indicator.
- iii) Leadership: Providing leadership in pre-determined functional areas (technical, operational and quality) has been identified by the Board as critical to the ongoing success of the Company. Executives have tailored KPIs set in those functional areas that they have the ability to influence.
- iv) Personal Objectives: The Board recognises each Executive contributes to the Company's business strategy differently. Progress in the achievement of each Executive's personal objectives is monitored by the Board and is included in the STI plan to ensure that an appropriate balance is maintained between the Company's short term and long term objectives.

The following table sets out the various KPI categories for the FY18 STI Plan and the weightings attributable to each of them. The FY19 STI plan is under review by the Board. In the Board's view, the KPIs that have been established align the reward of the Executives with the interests of shareholders.

| KPI | A Begley | BW Cocks | P Pezet |
|----------------------------|----------|----------|---------|
| Financial | 40.0 | 42.5 | 27.5 |
| Safety | 10.0 | 5.0 | 5.0 |
| Leadership | 15.0 | 0.0 | 25.0 |
| Personal Objectives | 35.0 | 52.5 | 42.5 |
| TOTAL | 100.0 | 100.0 | 100.0 |

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

LTI remuneration

Long term incentive remuneration is determined in accordance with the Matrix Rights Plan. The Matrix Rights Plan includes a Senior Executive Performance Rights Plan (SEPRP) and a Senior Executive Share Appreciation Rights Plan (SESARP) (together "the LTI Plans"). The LTI Plans apply exclusively to those Matrix Executives who are Key Management Personnel. Separate long term incentive plans have been established for other Matrix employees.

The Executives named below were invited to accept a dollar value grant of rights, which they could allocate between rights issued under the SEPRP and the SESARP respectively, with an allocation to the SEPRP not to exceed a maximum of 50 per cent of the total value of their respective LTI Plan grants. The total dollar value of the grant offered to each of these executives and their respective allocations of rights under the SEPRP and SESARP in FY19 are set out in the following table:

| Name | Entitlement / Grant | Performance Rights | SARs |
|---------------|---------------------|--------------------|------------------|
| Aaron Begley | \$203,000 | nil | 1,845,455 |
| Brendan Cocks | \$83,094 | Nil | 755,400 |
| Peter Pezet | \$65,469 | Nil | 595,173 |
| TOTAL | | | 3,196,028 |

This LTI grant made in FY19 relates to FY18 performance.

Rights granted under the SEPRP

Performance Rights (PRs) granted under the SEPRP are entitlements to receive a Share on the basis of one Share for each Performance Right that vests upon satisfaction of the relevant vesting conditions and other terms and conditions determined by the Board under the Plan.

Rights granted under the SEPRP are subject to the following vesting conditions:

- three year service and TSR performance testing period from 1 July 2017; and
- relative total shareholder return (TSR) ranking of the Company against a TSR comparator group comprising all companies in the ASX300 as follows:

| TSR ranking at end of performance period | % of Performance Rights vested |
|--|--------------------------------|
| 75% and over | 100% |
| 50 – 75% | 50 – 100% on sliding scale |
| Below 50% | Nil |

For example, an Eligible Participant receiving an indicative annual grant value of \$20,000 will receive 66,667 Performance Rights ($\$20,000 \div \0.30). Should the vesting conditions be met, the Performance Rights will convert into 66,667 Shares in Matrix, or a cash equivalent (subject to Board discretion). If the vesting conditions are not met, the Performance Rights will lapse.

All Executives elected to receive Share Appreciation Rights in relation to their FY18 LTI grants. As a result, no Performance Rights were granted in relation to the FY18 LTI grants.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

Rights granted under the SESARP

Share Appreciation Rights (**SARs**) issued under the SESARP are entitlements to acquire a number of Shares equal to the growth in the value of the underlying Shares (if any) upon satisfaction of the relevant vesting conditions and other terms and conditions determined by the Board under the Plan.

SARs granted under the SESARP during FY19 are subject to the following vesting conditions:

- three year service period from 1 July 2018; and
- the same TSR target and comparator group as applies to the PRs.

Upon vesting of any SARs, participants will be issued with Shares or the cash equivalent equal to the value derived by multiplying the number of vested Rights by the relative growth in share price over the performance period. Relative share price growth is determined by a comparison of the MCE share price growth with the hurdle share price. The hurdle share price of \$0.60 is calculated by reference to the five day volume weighted average price of MCE shares on 25 September 2018, being \$0.42.

For example, an Eligible Participant receiving an indicative annual grant value of \$20,000 in FY19 will receive 181,818 SARs ($\$20,000 \div \0.11) which, should the vesting conditions be met in FY20, convert into a number of ordinary fully paid shares in Matrix dependent upon the range of share price outcomes set out below, or a cash equivalent (subject to Board discretion).

| Target Future Share Price | \$0.50 | \$1.00 | \$2.00 |
|---------------------------|----------|----------|-----------|
| Grant Value | \$20,000 | \$20,000 | \$20,000 |
| SAR value | \$0.11 | \$0.11 | \$0.11 |
| SARs granted | 181,818 | 181,818 | 181,818 |
| Hurdle Price | \$0.60 | \$0.60 | \$0.60 |
| Share Price Uplift | Nil | \$0.40 | \$1.40 |
| Benefit | Nil | \$72,727 | \$254,545 |
| Matrix share conversion | Nil | 72,727 | 127,273 |

If the vesting conditions are not met, all benefits under these rights will lapse.

Hedging LTI grants

The Company's Remuneration Policy expressly prohibits participants in an equity based remuneration plan from entering into transactions which limit the economic risk of participating in the plan, through the use of derivatives or otherwise.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

Relationship between Remuneration and Company Performance

One of the directors' remuneration objectives is to align the interests of its key management personnel with the interests of the Company and its shareholders. In FY19 this was achieved through the continuation of the STI Plan which placed a material proportion of executives' remuneration at risk, with STI Plan KPIs linked to financial performance, safety performance and the achievement of key strategic goals and objectives.

In addition, the operation of the Matrix Rights Plan in FY19 further aligns the interests of the Company's key management personnel with its shareholders.

Remuneration of Directors and Key Management Personnel

Details of the elements comprising the remuneration of the Company's key management personnel are set out in the following table. The table does not include the following components of remuneration because they were not part of the remuneration package offered to Executives during FY19:

- Short term cash profit sharing bonuses;
- Payments made to KMP in respect of a period before or after the person held the KMP position;
- Long term incentives distributed in cash;
- Post employment benefits other than superannuation; and
- Non-monetary benefits.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

Remuneration of Directors & Key Management Personnel

| | | Short-term Benefits | | | Post Employment Benefits | Long-term Benefits | Share Based Payments | Total | Proportion Performance related |
|---------------------------|------|---------------------|-----|-----------|--------------------------|--------------------|---|-----------|--------------------------------|
| | | Salary & fees | STI | Total | Super-annuation benefits | Long Service Leave | Performance rights and share appreciation rights ¹ | | |
| | | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % |
| Executive Director | | | | | | | | | |
| AP Begley (MD & CEO) | 2019 | 465,922 | - | 465,922 | 20,531 | 15,761 | 161,056 | 663,270 | 24.3% |
| | 2018 | 465,922 | - | 465,922 | 20,049 | 9,854 | 139,350 | 635,175 | 21.9% |
| Non - Executive Directors | | | | | | | | | |
| PJ Hood | 2019 | 73,059 | - | 73,059 | 6,941 | - | - | 80,000 | - |
| | 2018 | 73,059 | - | 73,059 | 6,941 | - | - | 80,000 | - |
| S Cole | 2019 | 45,662 | - | 45,662 | 4,338 | - | - | 50,000 | - |
| | 2018 | 45,662 | - | 45,662 | 4,338 | - | - | 50,000 | - |
| CN Duncan | 2019 | 45,662 | - | 45,662 | 4,338 | - | - | 50,000 | - |
| | 2018 | 45,662 | - | 45,662 | 4,338 | - | - | 50,000 | - |
| Executive officers | | | | | | | | | |
| BW Cocks | 2019 | 299,646 | | 299,646 | 20,531 | - | 40,298 | 360,475 | 11.2% |
| | 2018 | 295,000 | | 295,000 | 20,049 | - | 14,082 | 329,131 | 4.3% |
| PB Pezet | 2019 | 254,640 | - | 254,640 | 20,531 | 7,053 | 50,908 | 333,132 | 15.3% |
| | 2018 | 252,459 | - | 252,459 | 20,049 | 5,302 | 46,003 | 323,813 | 14.2% |
| Total | 2019 | 1,184,591 | - | 1,184,591 | 77,210 | 22,814 | 252,262 | 1,536,877 | - |
| Total | 2018 | 1,177,764 | - | 1,177,764 | 75,764 | 15,156 | 199,435 | 1,468,119 | - |

¹ Share based payments are accounted for progressively over the three year vesting period.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

Key terms of Employment Contracts

Executive service agreements

The Company entered into new executive service agreements with each of its Key Management Personnel during the financial year. The key terms of the executive service agreements are as follows.

| Name | Original Start Date | Term | Notice period |
|---|---------------------|------------|---|
| AP Begley <i>Managing Director & CEO</i> | 04/10/1999 | Indefinite | 6 months (Company) / 3 months (individual) |
| BW Cocks <i>CFO & Company Secretary</i> | 12/09/2016 | Indefinite | 3 months (Company) / 3 months (individual) |
| PB Pezet <i>General Manager - Engineering</i> | 14/07/2008 | Indefinite | 6 months (Company) / 3 months (individual) |

Each of the above executives is entitled to participate in the Company's STI and LTI programmes.

Loans to Key management personnel

There are no loans from the Company to a Key management person.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

Key management personnel equity holdings

The movement during the reporting period in the number of shares in Matrix Composites & Engineering Ltd held directly, indirectly or beneficially, by each key management person, including related parties, is as follows:

| 2019 | Balance at 1 July 2018 No. | Granted as Remuneration No. | On Exercise of Options No. | Net Other Change No. | Balance at 30 June 2019 No. |
|-------------------|---|--|---|-------------------------------------|--|
| Directors | | | | | |
| PJ Hood | 720,000 | - | - | 154,000 | 874,000 |
| AP Begley | 3,462,763 | - | - | - | 3,462,763 |
| S Cole | 20,000 | - | - | - | 20,000 |
| CN Duncan | 590,429 | - | - | - | 590,429 |
| Executives | | | | | |
| BW Cocks | 163,000 | - | - | - | 163,000 |
| PB Pezet | - | - | - | - | - |
| 2018 | Balance at 1 July 2017 No. | Granted as Remuneration No. | On Exercise of Options No. | Net Other Change No. | Balance at 30 June 2018 No. |
| Directors | | | | | |
| PJ Hood | 630,000 | - | - | 90,000 | 720,000 |
| AP Begley | 3,422,763 | - | - | 40,000 | 3,462,763 |
| S Cole | 20,000 | - | - | - | 20,000 |
| CN Duncan | 590,429 | - | - | - | 590,429 |
| Executives | | | | | |
| BW Cocks | - | - | - | 163,000 | 163,000 |
| PB Pezet | - | - | - | - | - |

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

Key management personnel share-based payment holdings – Performance Rights (PR)

At the reporting date, there is no Performance Rights granted to key management personnel. The Performance Rights previously granted has lapsed.

Key management personnel share-based payment holdings – Share Appreciation Rights (SAR)

| 2019 | Balance at 1 July 2018 No. | Granted as Remuneration No. | Exercised No. | Net Other Change No. | Balance at 30 June 2019 No. | Balance Vested at 30 June 2019 No. | Vested but not exercisable No. | Vested and exercisable No. | SARs Vested during year No. |
|-------------------|----------------------------------|-----------------------------------|------------------|----------------------------|-----------------------------------|---|---|----------------------------------|---|
| Directors | | | | | | | | | |
| PJ Hood | - | - | - | - | - | - | - | - | - |
| AP Begley | 4,165,429 | 1,845,455 | - | (1,545,455) | 4,465,429 | - | - | - | - |
| DP Clegg | - | - | - | - | - | - | - | - | - |
| S Cole | - | - | - | - | - | - | - | - | - |
| CN | - | - | - | - | - | - | - | - | - |
| Duncan | - | - | - | - | - | - | - | - | - |
| Executives | | | | | | | | | |
| BW Cocks | 552,847 | 755,400 | - | - | 1,308,427 | - | - | - | - |
| PB Pezet | 1,280,512 | 595,173 | - | (454,545) | 1,421,140 | - | - | - | - |

| 2018 | Balance at 1 July 2017 No. | Granted as Remuneration No. | Exercised No. | Net Other Change No. | Balance at 30 June 2018 No. | Balance Vested at 30 June 2018 No. | Vested but not exercisable No. | Vested and exercisable No. | SARs Vested during year No. |
|-------------------|----------------------------------|-----------------------------------|------------------|----------------------------|-----------------------------------|---|---|----------------------------------|---|
| Directors | | | | | | | | | |
| PJ Hood | - | - | - | - | - | - | - | - | - |
| AP Begley | 3,271,381 | 1,486,641 | - | (592,593) | 4,165,429 | - | - | - | - |
| S Cole | - | - | - | - | - | - | - | - | - |
| DP Clegg | - | - | - | - | - | - | - | - | - |
| CN | - | - | - | - | - | - | - | - | - |
| Duncan | - | - | - | - | - | - | - | - | - |
| Executives | | | | | | | | | |
| BW Cocks | - | 552,847 | - | - | 552,847 | - | - | - | - |
| PB Pezet | 787,878 | 492,634 | - | - | 1,280,512 | - | - | - | - |

DIRECTORS' REPORT

This Directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Director



Aaron P Begley
Managing Director and Chief Executive Officer

Perth, 22 August 2019

The Board of Directors
Matrix Composites & Engineering Ltd
150 Quill Way,
Henderson WA 6166

22 August 2019

Dear Board Members

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.

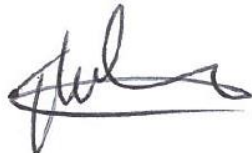
As lead audit partner for the audit of the financial statements of Matrix Composites & Engineering Ltd for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU



John Sibenaler
Partner
Chartered Accountants

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 30 JUNE 2019**

| | Note | 2019 | 2018 |
|---|-------------|--------------------|---------------------|
| | | \$ | \$ |
| Continuing operations | | | |
| Revenue | | 38,187,291 | 19,538,785 |
| Cost of sales | | (38,442,228) | (25,710,873) |
| Gross loss | | (254,937) | (6,172,088) |
| Other income | 3 | 163,378 | 1,031,346 |
| Other losses | 3 | (206,807) | (44,039) |
| Administration expenses | | (3,479,247) | (3,846,289) |
| Finance costs | | (313,502) | (126,225) |
| Marketing expenses | | (2,958,982) | (3,429,503) |
| Research expenses | | (1,273,706) | (1,156,850) |
| Engineering expenses | | (1,149,005) | (1,629,301) |
| Loss before income tax | 4 | (9,472,808) | (15,372,949) |
| Income tax benefit/(expense) | 6 | 788,714 | (16,498) |
| Loss for the year from continuing operations | | (8,684,094) | (15,389,447) |
| Loss attributable to : | | | |
| Owners of the Company | | (8,684,094) | (15,389,447) |
| Non-controlling interest | | - | - |
| | | (8,684,094) | (15,389,447) |
| Loss per share | | | |
| Basic loss per share (cents) | 26 | (8.8) | (16.4) |
| Diluted loss per share (cents) | 26 | (8.8) | (16.4) |

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019**

| | 2019 | 2018 |
|---|--------------------|---------------------|
| | \$ | \$ |
| Loss for the year | (8,684,094) | (15,389,447) |
| Other comprehensive (expenses)/income | | |
| <i>Items that may be reclassified subsequent to profit or loss:</i> | | |
| Net foreign currency translation differences | (406,207) | (268,713) |
| | (406,207) | (268,713) |
| Change in fair value of cash flow hedges | (35,535) | (72,053) |
| Net income tax (expense)/benefit | (20,080) | 21,616 |
| | (55,615) | (50,437) |
| Total other comprehensive (expenses)/income | (55,615) | (319,150) |
| Total comprehensive expense for the year | (9,145,916) | (15,708,597) |
| Total comprehensive expense attributable to: | | |
| Owners of the parent entity | (9,145,916) | (15,708,597) |
| Total comprehensive expense for the year | (9,145,916) | (15,708,597) |

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

| | Note | 2019 | 2018 |
|--|------|--------------------|--------------------|
| | | \$ | \$ |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 7 | 9,374,200 | 10,594,618 |
| Trade and other receivables | 8 | 8,273,630 | 5,406,052 |
| Inventories | 9 | 9,763,539 | 7,815,581 |
| Other current assets | | 433,874 | 489,066 |
| TOTAL CURRENT ASSETS | | 27,845,243 | 24,305,317 |
| NON CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | 65,168,309 | 69,819,461 |
| Intangible assets | 11 | 2,671,746 | 2,559,045 |
| Deferred tax assets | 6 | 12,555,184 | 12,555,184 |
| TOTAL NON CURRENT ASSETS | | 80,395,239 | 84,933,690 |
| TOTAL ASSETS | | 108,240,482 | 109,239,007 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 12 | 6,508,710 | 4,196,353 |
| Progress claims and deposits | | 59,426 | 615,797 |
| Financial liabilities | 13 | 7,265,269 | 3,993,238 |
| Provisions | 14 | 619,124 | 520,836 |
| TOTAL CURRENT LIABILITIES | | 14,452,529 | 9,326,224 |
| NON CURRENT LIABILITIES | | | |
| Provisions | 14 | 723,261 | 515,807 |
| TOTAL NON CURRENT LIABILITIES | | 723,261 | 515,807 |
| TOTAL LIABILITIES | | 15,175,790 | 9,842,031 |
| NET ASSETS | | 93,064,692 | 99,396,976 |
| EQUITY | | | |
| Issued capital | 15 | 114,169,768 | 111,283,768 |
| Reserves | 16 | (312,258) | 221,932 |
| Accumulated losses | 17 | (20,792,818) | (12,108,724) |
| Equity attributable to owners of the Company | | 93,064,692 | 99,396,976 |
| TOTAL EQUITY | | 93,064,692 | 99,396,976 |

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019**

| | Note | 2019 | 2018 |
|--|-------|--------------------|--------------------|
| | | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 27,008,681 | 22,406,916 |
| Payments to suppliers and employees | | (30,440,462) | (26,731,093) |
| Interest received | | 127,958 | 64,538 |
| Finance costs paid | | (313,502) | (126,225) |
| Net (payment) for/receipt from tax | | (58,742) | (32,511) |
| Net cash from operating activities | 18(b) | (3,676,067) | (4,418,375) |
| CASH FLOWS USED IN INVESTING ACTIVITIES | | | |
| Proceeds from sale of property, plant and equipment | | - | 10,500 |
| Payments for property, plant and equipment | | (2,519,827) | (3,422,276) |
| Payments for capitalised development costs | | (1,162,629) | (691,413) |
| Net cash used in investing activities | | (3,682,456) | (4,103,189) |
| CASH FLOWS USED IN FINANCING ACTIVITIES | | | |
| Proceeds from issue of share capital (net of capital raising costs) | | 2,886,000 | - |
| Proceeds from borrowings | | 8,247,835 | 4,334,674 |
| Repayment of borrowings | | (4,803,588) | (2,040,883) |
| Net cash from financing activities | | 6,330,247 | 2,293,791 |
| Net decrease in cash and cash equivalents | | (1,028,276) | (6,227,773) |
| Cash and cash equivalents at 1 July | | 10,594,618 | 16,603,004 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | (192,142) | 219,387 |
| Cash and cash equivalents at 30 June | 18(a) | 9,374,200 | 10,594,618 |

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

| | Issued capital | Accumulated losses | Cash flow hedge reserve | Foreign currency translation reserve | Share based payment reserve | Attributable to owners of the parent | Total |
|--|--------------------|---------------------|-------------------------|--------------------------------------|-----------------------------|--------------------------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July 2018 | 111,283,768 | (12,108,724) | (50,437) | (475,513) | 747,882 | 99,396,976 | 99,396,976 |
| Loss for the year | - | (8,684,094) | - | - | - | (8,684,094) | (8,684,094) |
| Other comprehensive income for the year, net of income tax | - | - | (55,615) | (406,207) | - | (461,822) | (461,822) |
| Total comprehensive (expense)/income for the year | - | (8,684,094) | (55,615) | (406,207) | - | (9,145,916) | (9,145,916) |
| Issue of shares net of costs and tax | 2,886,000 | | | | | 2,886,000 | 2,886,000 |
| Reversal of share- based payments | - | - | - | - | (72,368) | (72,368) | (72,368) |
| Balance at 30 June 2019 | 114,169,768 | (20,792,818) | (106,052) | (881,720) | 675,514 | 93,064,692 | 93,064,692 |

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018**

| | Issued capital | Retained earnings | Option premium reserve | Properties revaluation reserve | Cash flow hedge reserve | Foreign currency translation reserve | Share based payment reserve | Attributable to owners of the parent | Total |
|--|--------------------|---------------------|------------------------|--------------------------------|-------------------------|--------------------------------------|-----------------------------|--------------------------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July 2017 | 111,283,768 | 3,280,723 | - | - | - | (206,800) | 455,998 | 114,813,689 | 114,813,689 |
| Loss for the year | - | (15,389,447) | - | - | - | - | - | (15,389,447) | (15,389,447) |
| Other comprehensive income for the year, net of income tax | - | - | - | - | (50,437) | (268,713) | - | (319,150) | (319,150) |
| Total comprehensive (expense)/income for the year | - | (15,389,447) | - | - | (50,437) | (268,713) | - | (15,708,597) | (15,708,597) |
| Recognition of share- based payments | - | - | - | - | - | - | 291,884 | 291,884 | 291,884 |
| Balance at 30 June 2018 | 111,283,768 | (12,108,724) | - | - | (50,437) | (475,513) | 747,882 | 99,396,976 | 99,396,976 |

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

General Information

Matrix Composites & Engineering Ltd (the Company) is a limited liability company incorporated in Australia. The addresses of its registered office, principal places of business and principal activities are disclosed in the introduction to the annual report.

Statement of Compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Company. For the purpose of preparing the consolidated financial statements, the Company is a for profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Company comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 22 August 2019.

Basis of Preparation

The consolidated financial statements have 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, as explained in the accounting policies below. 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.

Application of New and Revised Accounting Standards

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

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

The adoption of these amendments has not resulted in any changes to the Company's accounting policies and has no significant effect on the disclosures or the amounts reported for the current or prior periods.

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. The potential effect of the revised Standards and Interpretations on the Company's financial statements has not yet been determined.

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|------------------------------|--|---|
| <i>AASB 16 Leases</i> | <i>1 January 2019</i> | <i>30 June 2020</i> |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| <i>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</i> | <i>1 January 2022 (Editorial corrections in AASB2017-5 apply from 1 January 2018)</i> | <i>30 June 2023</i> |
| <i>AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation</i> | <i>1 January 2019</i> | <i>30 June 2020</i> |
| <i>AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures</i> | <i>1 January 2019</i> | <i>30 June 2020</i> |
| <i>AASB 2018-1- Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle</i> | <i>1 January 2019</i> | <i>30 June 2020</i> |
| <i>AASB 2008-3 Amendments to Australian Accounting Standards – Reduced Disclosure Requirements</i> | <i>1 January 2019</i> | <i>30 June 2020</i> |
| <i>AASB 2008-6 Amendments to Australian Accounting Standards – Definition of a Business</i> | <i>1 January 2020</i> | <i>30 June 2021</i> |
| <i>AASB 2008-7 Amendments to Australian Accounting Standards – Definition of Material</i> | <i>1 January 2020</i> | <i>30 June 2021</i> |
| <i>AASB 2009-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework Business</i> | <i>1 January 2020</i> | <i>30 June 2021</i> |
| <i>AASB Interpretation 23 Uncertainty over Income Tax Treatments</i> | <i>1 January 2019</i> | <i>30 June 2020</i> |

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(a) Basis of Consolidation

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

(b) Operating Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses (including those relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Chief Operating Decision Makers (CODM) for which discrete financial information is available. The CODM has identified that the Company has one single operating segment.

(c) Income Tax

The charge for current income tax expense is based on the profit for the year end adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantively enacted by the end of the reporting period.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax is recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Current and deferred tax is recognised in the profit or loss except where it relates to items that may be recognised directly in equity or in other comprehensive income.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(c) Income Tax

Deferred tax assets and liabilities are offset if there is a legally enforceable right to do so, and where they relate to income taxes levied by the same tax authority on the same or different tax entities that intend to settle current tax liabilities and assets on a net basis.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Tax Consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2010 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Matrix Composites & Engineering Ltd. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the

‘separate taxpayer within group’ approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the Company in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Matrix Composites & Engineering Ltd and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

(d) Inventories

Inventories include raw materials, work in progress and finished goods, and are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate share of manufacturing overheads. Costs are assigned using a standard costing methodology.

(e) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Properties in the course of construction for production, supply or administration purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company’s accounting policy.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(e) Property, Plant and Equipment

Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Plant and equipment

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment is measured at cost basis less accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of self-constructed assets includes the cost of materials, direct labour, borrowing costs (where such assets are qualifying assets) and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all non-current assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate (%) |
|----------------------|-----------------------|
| Buildings | 2.5 |
| Plant and equipment | 1.0 – 50.0 |
| Motor vehicles | 22.5 |
| Office equipment | 11.25 – 25.0 |
| Computer equipment | 37.50 – 50.0 |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

Software is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight line basis over the estimated useful life of three to five years.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(e) Property, Plant and Equipment

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(f) Leases

Matrix has carried out the following assessment in determining the impact of the application of AASB16.

Transition approach

Matrix elects to apply the “cumulative catch-up” approach to recognise the cumulative impact of AASB 16, Lease.

Under this approach, Matrix is not required to restate the comparative information. Instead, Matrix will recognise the cumulative effect of initial application at the date of initial application, 1 July 2019.

The assessment of cumulative effect relates to the existing operating leases only. Matrix does not have finance lease to carry forward from the financial year ending 30 June 2019.

As such, Matrix will recognise a right-of-use asset and a corresponding lease liability with respect to the leased land located at 150 Quill Way, Henderson. The initial measurement of the right-of-use asset is \$13.9m. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate. This initial measurement will be presented as a separate line item in the consolidated statement of financial position at commencement date 1 July 2019.

Subsequently, the right-of-use asset will be depreciated over the lease term. The carrying amount of the lease liability will be gradually reduced upon each repayment made, whilst the interest component embedded in the lease liability will be presented in the consolidated statement of profit and loss.

Matrix has opted to recognise the lease payment in relation to low value asset and short-term leases as an operating expense on a straight-line basis over the lease term. This expense is presented within other expenses in the consolidated statement of profit or loss.

Matrix has considered the following factors with respect to the initial measurement.

Identification of type of leased assets

At present, Matrix has identified below three existing lease contracts:

- Lease of land at 150 Quill Way Henderson, WA
- Lease of office equipment (low value)
- Lease of office in the USA (short term)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(f) Leases

Recognition and measurement

- **Lease of land**

The lease of land will no longer be treated as an operating lease upon adoption of AASB 16. The lease of land will be recognised as a right-of-use asset and a lease liability in the statement of financial position from 1 July 2019.

The measurement of the lease of land is based on the present value of the unpaid rental amounts for the original lease terms, ending in 31 July 2044. The lease liability amount is equal to the present value of the leased asset. The present value is calculated by using the discount rate of 3.9 per cent at this reporting date 30 June 2019. In the subsequent reporting periods, the present value will be reassessed by considering the factors affecting the incremental borrowing rate.

The rental amount is specified in the lease contract; however, the incremental borrowing rate is determined by applying a set of assumptions and calculations.

Ideally, the incremental borrowing rate is determined by using the interest rate that Matrix would have to pay to borrow the funds to obtain a similar value to the right-to-use asset over a similar term, and with a similar security in a similar economic environment.

However, given the nature of the lease and the widely different appraisals of individual entity's credit risk and borrowing capacity, the lender's assessment of interest rate is difficult to get and not necessarily appropriate to use as the incremental borrowing rate. Furthermore, Matrix does not have long-term financing arrangement to benchmark what a long-term borrowing rate would be.

As such, Matrix has considered a range of interest rates including the weighted average effective interest rate of Matrix's current funding facilities and freehold land yield in determining the appropriate and practical incremental borrowing rate. The weighted average effective interest rate is 3.3 per cent as illustrated in note 19. The freehold land yield is calculated as 4.5 per cent by using the average valuation of the freehold land and rental payment over the remaining lease term of 25 years. Hence, the incremental borrowing rate is reasonably determined as 3.9 per cent, being the average of 3.3 and 4.5. As a result, the initial measurement of the present value of the right-of-use asset arrived at \$13.9m which is equal to the lease liability.

An option to extend the ground lease a further 35 years is available in 2044. However, considering the length of time involved the Company has not yet determined the likelihood of extension. Therefore, the optional 35 years have not been taken into account in calculating the value of right-to-use leave asset and lease liability.

- **Lease of office equipment and lease of office in the USA**

The lease of office equipment is related to office copiers. Matrix has considered the leased copiers as low value assets and therefore applied the low-value exemption.

The office lease in the USA is virtually a hire of shared services without fixed commitment. The lease contract will end in September 2019. In the event that the extension option is taken, the extension will be 12 months or less.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(g) Financial Instruments

Matrix adopted AASB 9 Financial Instruments from 1 July 2018. This standard stipulates new requirements for the impairment of financial assets, classification and measurement of financial assets and liabilities and general hedge accounting.

Matrix has reviewed its financial assets and liabilities and impact on adoption of the new standard on 1 July 2018. According to the assessment, the Group's financial assets and liabilities have been presented under the new guidance of AASB 9.

Other key assessments made by Matrix in evaluating the impact on the adoption of AASB9 include the following:

- Matrix has applied hedge accounting to account for derivatives in the same approach consistent to prior years. The hedged items form a portion of the foreign currency designated revenue which are likely to be realised in the near future, and the timing is close to the progression of contract completion. Furthermore, Matrix's risk management strategy in respect with hedge accounting remains unchanged.
- Assessment of measurement
The measurement categories have remained unchanged and as such, the adoption of AASB9 has not resulted in significant impact on our carrying value of financial instruments.
- Assessment of credit risk
Matrix is of the view that the credit risk has not significantly increased since initial recognition.
- Assessment of impairment provisions
AASB9 requires the recognition of impairment provisions based on a forward-looking expected credit losses model. The new impairment model applies to financial assets classified at amortised cost. Matrix has performed an assessment of the expected credit losses based on historical, current and forecast information. According to the assessment, the estimated impact was not material. Therefore, no loss allowance for expected credit losses on financial assets was required.

According to the above assessments, Matrix has determined that the adoption of AASB9 has no significant impact on our consolidated financial statements for this reporting period.

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value unless it is measured at amortised cost. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(g) Financial Instruments

Financial assets

Financial assets are classified into the following specified categories: financial assets at either fair value or at amortised cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The classification is based on the business model under which the financial asset is managed and its contractual cash flow.

Amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met:

- (i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (ii) The contractual terms of the financial asset give rise on specified dates to cash flows that meet the sole payment of principal and interest requirements.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in profit or loss in the period in which they arise.

Financial liabilities

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest rate method.

Derivative financial instruments and hedging

The Company uses derivative financial instruments (including forward exchange contracts, currency options, call/put options and interest rate swaps) to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently measured at fair value.

Derivative financial instruments that do not qualify for hedge accounting are remeasured at fair value with changes in fair value recognised immediately in the income statement.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(g) Financial Instruments

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting. The documentation and the risk management objective and strategy for undertaking the hedge includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

The hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

Cash flow hedges are hedges of the Company's exposure to variability in cash flows that is attributable to a particular risk associated with a highly probable forecast transaction and that could affect profit and loss. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts recognised in other comprehensive income and accumulated in equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss previously recognised in equity remains in equity until the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, amounts recognised in equity are transferred immediately to profit or loss.

The Company tests each of the designated cash flow hedges for effectiveness at the inception of the hedge and then at each reporting date retrospectively.

For foreign currency cash flow hedges if the risk is over-hedged, the ineffective portion is recognised immediately to profit or loss.

Fair value of financial instruments

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Company's risk management activities have also been introduced. In accordance with IFRS 9's transition provisions for hedge accounting, the Company has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018. The Company's qualifying hedging relationships in place as at 1 July 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 July 2018.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(g) Financial Instruments

As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Company has also not designated any hedging relationships under AASB 9 that would not have met the qualifying hedge accounting criteria under AASB 139.

(h) Impairment of Non-Financial Assets Other than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. The Company assesses impairment of all non-financial assets other than goodwill at each reporting date by evaluating conditions specific to the Company and to the particular asset that may lead to impairment.

These include product and service delivery performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

The carrying amounts of all assets, other than inventory, financial assets and deferred tax assets, are reviewed half-yearly to determine whether there is indication of an impairment loss. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(i) Foreign Currency Transactions and Balances

Transaction and balances

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Australian dollars ('\$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the translation of monetary and non-monetary items are recognised in profit or loss, except where recognised in other comprehensive income as a qualifying cash flow or net investment hedge.

Foreign currency cash flows

Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

Cash flows denominated in a foreign currency are reported in a manner consistent with IAS 21 The Effects of Changes in Foreign Exchange Rates. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign subsidiary. However, IAS 21 does not permit use of the exchange rate at the end of the reporting period when translating the cash flows of a foreign subsidiary.

Foreign currency cash flows

Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

(j) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Short-term employee benefits are measured at nominal value, plus related on-costs. Long-term employee benefits are measured at the present value of the estimated future cash outflows to be made for those benefits. Payments to defined contribution plans are recognised as an expense when employees have rendered service entitling them to contributions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(k) Provisions

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(l) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(m) Revenue Recognition

In this reporting year, the Company has applied AASB15 *Revenue from Contracts with Customers* from the date of initial application, 1 July 2018.

The Standard requires identification of distinct performance obligations within a contract and allocation of the transaction price to those performance obligations. Revenue is recognised as each performance obligation is satisfied and the entity expects to receive entitled consideration in exchange for the promised goods or services transferred to customers.

Matrix has elected to apply the modified retrospective method to existing contracts from the date of initial adoption, 1 July 2018. Under this transition method, Matrix elected to apply this Standard retrospectively only to contracts that were not completed at the date of initial application, 1 July 2018.

The assessment of the cumulative effect of initially applying this Standard has resulted in no adjustment to the opening balance of the consolidated financial statements in this reporting period.

Matrix has evaluated the performance obligations of each contract based on the nature and final deliverables and identified the performance obligations categorises as supply of manufactured goods and rendering services. Matrix's main revenue stream is derived from sale of manufactured goods, primarily being buoyancy riser modules. Buoyancy modules manufactured by Matrix are customised products, tailored according to the customer's specifications. The average production period of each job varies between six to nine months and can in certain instances extend up to a year. The contracts signed by Matrix are designed in such a way that customers are invoiced upon completion of each milestone stage of production.

Matrix has used the five-step model in the whole assessment process of revenue recognition. As an outcome of the assessment, Matrix has determined that the adoption of AASB 15 has no impact on the consolidated financial statements in the current reporting period.

Sale of goods

The Company recognises revenue when it transfers control of a product or service to a customer and the cost incurred or to be incurred in respect of the transaction can be measured reliably.

The Company becomes entitled to invoice customers for products or services based on achieving a relevant invoicing milestone. The Company will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date, then the Company recognises a contract liability for the difference. There is not considered to be a significant financing component in the contract with customers as the period between the recognition of revenue and the milestone payments is generally less than one year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(m) Revenue Recognition

Transfer of controls are assessed in relation to the:

- i) delivery of the goods to the customers;
- ii) rights to payment for performance completed to date;
- iii) achieving a relevant invoicing milestone under a contract with the customer;
- iv) the customer has the significant risks and rewards of ownership of the goods; or
- v) contractual terms.

Ex-works revenue

Revenue in relation to ex-works contracts are recognised over time when the goods are produced, and contract terms are fulfilled. The transaction price is allocated to the products on a relative stand-alone selling prices basis. The stand-alone selling price per part is estimated based on specified consideration and quantity in a contract. The contracts signed by Matrix are designed such that customers are invoiced upon completion of each milestone stage of production. The milestones in a contract generally comprise advance payment upon design of product, production of first article and the remaining balance payment at final completion. Milestone payments received from customers are credited to the balance sheet under the 'progress claim' account and released to revenue when revenue recognition criteria are satisfied.

Service revenue

Service revenue and expenses are recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be relied upon or estimated. Where it is probable that a loss will arise from a contract, the excess of total expected contract costs over total expected contract revenue is recognised as an expense immediately. Where the contract outcome cannot be reliably estimated, revenue is recognised only to the extent of the expenses incurred that are likely to be recoverable.

The management has assessed the stage of completion determined as the proportion of the total costs or total time spent at the end of each reporting period is an appropriate measure of progress towards complete satisfaction of the performance obligations under AASB 15.

Rendering of services

Revenue from consulting services is recognised at a point in time which the services have been provided and where the amount can be reliably estimated and is considered recoverable.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

All revenue is stated net of the amount of goods and services tax (GST).

(n) Cost of Sales

The cost of manufactured products includes direct materials, direct labour and manufacturing overheads.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(p) Earnings per Share

Basic earnings per share is calculated as net profit or loss attributable to members of the Company divided by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is determined by adjusting the profit or loss attributable to members of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(q) Comparative Figures

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(r) Significant Accounting Estimates and Judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements.

The following critical accounting policies were identified as requiring significant judgements, estimates and assumptions.

i. Valuation of financial instruments

As described in note 19, the Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 19 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions.

The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

ii. Taxes (Refer to Note 6)

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(r) Significant Accounting Estimates and Judgements

on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile. As the Company assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

iii. impairment of non-current asset

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. A specific key estimate and assumption that has a significant risk of causing a material adjustment to these carrying amounts within the next annual reporting period is the impairment of property, plant and equipment.

In accordance with Company policy, management have completed an impairment assessment at 30 June 2019 for all material cash generating units to ensure that the carrying values can be supported. The assessment of the recoverable value of these assets requires significant judgement in respect of assumptions such as discount rates, forecast revenue growth and forecast terminal growth rates. This has been discussed further in Note 11

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

2. OPERATING SEGMENTS

In conjunction with AASB 8 Operating Segments, the Company 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 Company's accounting policies.

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

| | MCE Group 30 Jun 2019 | MCE Group 30 Jun 2018 |
|--|----------------------------------|----------------------------------|
| | \$ | \$ |
| Revenue | 38,187,291 | 19,538,785 |
| EBITDAF | (942,356) | (7,995,166) |
| Foreign exchange gain/(loss) | (136,347) | 954,550 |
| EBITDA | (1,078,703) | (7,040,616) |
| Depreciation and amortisation | (8,208,561) | (8,270,646) |
| EBIT | (9,287,264) | (15,311,262) |
| Net finance costs | (185,544) | (61,687) |
| Loss before tax (continuing operations) | (9,472,808) | (15,372,949) |
| | MCE Group 30 Jun 2019 | MCE Group 30 Jun 2018 |
| | \$ | \$ |
| Total consolidated assets | 108,240,482 | 109,239,007 |
| Total consolidated liabilities | 15,175,790 | 9,842,031 |
| Geographical Assets | | |
| Australia | 107,112,304 | 107,477,857 |
| Others | 1,128,178 | 1,761,150 |
| | 108,240,482 | 109,239,007 |
| Geographical Liabilities | | |
| Australia | 15,131,354 | 11,169,815 |
| Others | 44,436 | (1,327,784) |
| | 15,175,790 | 9,842,031 |

Major Customers

Matrix supplies goods and services to a broad range of customers in the global oil & gas industry. During the reporting periods, two major customers (2018: two major customers), each individually accounted for greater than 10 per cent of total group revenue; collectively representing 68 per cent (2018: 47 per cent) of the total group revenue.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. OTHER INCOME/(LOSSES)

| | 2019 | 2018 |
|-----------------------|------------------|------------------|
| | \$ | \$ |
| Other Income | | |
| Interest received | 127,958 | 64,538 |
| Sundry income | 35,420 | 12,258 |
| Foreign exchange gain | - | 954,550 |
| | <u>163,378</u> | <u>1,031,346</u> |
| Other Losses | | |
| Foreign exchange loss | (136,347) | - |
| Other expenses | (70,460) | (44,039) |
| Total other losses | <u>(206,807)</u> | <u>(44,039)</u> |

The Company generates revenue in foreign currencies. As part of its risk management practices Matrix hedges a portion of this revenue.

4. LOSS BEFORE INCOME TAX

Loss before income tax is stated after charging the following expenses:

| | 2019 | 2018 |
|-------------------------------|----------------|----------------|
| | \$ | \$ |
| Depreciation and amortisation | 8,208,561 | 8,270,646 |
| Employee benefits expense | 11,727,221 | 8,529,426 |
| Finance costs | <u>313,502</u> | <u>126,225</u> |

5. AUDITORS' REMUNERATION

| | 2019 | 2018 |
|--|---------------|---------------|
| | \$ | \$ |
| <i>Auditor of the parent entity (Deloitte Touche Tohmatsu)</i> | | |
| Audit and review fees for the year | <u>99,840</u> | <u>93,320</u> |

6. INCOME TAX (BENEFIT)/EXPENSE

| | 2019 | 2018 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Current tax | | |
| In respect of prior years | <u>(804,633)</u> | - |
| Deferred tax | | |
| In respect of the current year | (2,312,406) | (3,947,928) |
| In respect of prior years | <u>776,420</u> | <u>8,187</u> |
| | <u>(1,535,986)</u> | <u>(3,939,741)</u> |
| Total income tax (benefit)/expense recognised in the current year relating to continuing operations | <u>(788,714)</u> | <u>16,498</u> |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

6. INCOME TAX (BENEFIT)/EXPENSE

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

| | 2019 | 2018 |
|--|--------------------|---------------------|
| | \$ | \$ |
| Loss before tax from continuing operations | (9,472,806) | (15,372,949) |
| Income tax benefit calculated at 30% (2018:30%) | (2,841,842) | (4,611,885) |
| Effect of expenses that are not deductible in determining taxable profit | 529,436 | 658,839 |
| Effect of concessions (R&D and other allowances) | (249,714) | - |
| Effect of unused tax losses and tax offsets not recognised as deferred tax assets | 1,551,905 | 3,961,357 |
| | (1,010,215) | 8,311 |
| Adjustments recognised in the current year in relation to the deferred tax expense of prior years | 221,501 | 8,187 |
| Total income tax (benefit)/expenses recognised in the Current year relating to continuing operations | (788,714) | 16,498 |

The tax rate used for the 2019 and 2018 reconciliations above is the corporate tax rate of 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 of \$1,551,905 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.

Income tax recognised directly in other comprehensive income

| | 2019 | 2018 |
|--|--------|----------|
| | \$ | \$ |
| Deferred tax | | |
| <i>Arising on income and expenses recognised in other comprehensive income:</i> | | |
| Fair value measurements of hedging instruments entered into for cash flow hedges | 20,080 | (21,616) |
| Total income tax recognised in other comprehensive income | 20,080 | (21,616) |

Income tax recognised directly in equity

| | 2019 | 2018 |
|---|----------|------|
| | \$ | \$ |
| <i>Deferred tax</i> | | |
| <i>Arising on transactions with owners:</i> | | |
| Share issue costs deductible over 5 years | (36,000) | - |
| Total income tax recognised in other comprehensive income | (36,000) | - |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

6. INCOME TAX (BENEFIT)/EXPENSE

Deferred tax assets and liabilities

| | 2019 | 2018 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Deferred tax assets | | |
| Benefit of tax losses to be carried back to recover taxes paid in prior periods | | |
| Assessed losses | 14,016,707 | 12,589,712 |
| Research and development claims | 4,983,414 | 4,983,414 |
| Provisions | 436,229 | 321,543 |
| Other creditors & accruals | 144,329 | 255,428 |
| Intangible assets | 448,109 | 550,559 |
| Derivatives | 691 | 52,356 |
| Capital raising costs | 36,000 | - |
| Other | 242,378 | 252,037 |
| | <u>20,307,857</u> | <u>19,005,049</u> |
| Deferred tax liabilities | | |
| Cash assets | (24,129) | (23,771) |
| Property, plant & equipment | (2,108,002) | (2,337,782) |
| Inventories | (87,378) | (112,486) |
| Prepayments | (19,902) | (14,469) |
| | <u>(2,239,411)</u> | <u>(2,488,508)</u> |
| Deferred tax balances | | |
| Deferred tax assets | 20,307,857 | 19,005,049 |
| Deferred tax liabilities | (2,239,411) | (2,488,508) |
| Not recognised as deferred tax assets | (5,513,262) | (3,961,357) |
| | <u>12,555,184</u> | <u>12,555,184</u> |

| 2019 | Opening | Recognised in profit or loss | Recognised in other comprehensive income | Recognised directly in equity | Reclassified from equity to profit or loss | Closing |
|---------------------------------------|--------------------|------------------------------|--|-------------------------------|--|-------------------|
| Temporary differences | | | | | | |
| Provisions | 321,543 | 114,686 | - | - | - | 436,229 |
| Other creditors & accruals | 255,428 | (111,099) | - | - | - | 144,329 |
| Intangible assets | 550,559 | (102,450) | - | - | - | 448,109 |
| Cash assets | (23,771) | (358) | - | - | - | (24,129) |
| Property, plant & equipment | (2,337,782) | 229,780 | - | - | - | (2,108,002) |
| Inventories | (112,486) | 25,108 | - | - | - | (87,378) |
| Prepayments | (14,469) | (5,433) | - | - | - | (19,902) |
| Derivatives | 52,356 | (31,585) | (20,080) | - | - | 691 |
| Capital raising costs | - | - | - | 36,000 | - | 36,000 |
| Other | 252,037 | (9,659) | - | - | - | 242,378 |
| | <u>(1,056,585)</u> | <u>108,990</u> | <u>(20,080)</u> | <u>36,000</u> | <u>-</u> | <u>(931,675)</u> |
| Unused tax losses and credits | | | | | | |
| Tax losses and R&D Credits | 17,573,126 | 1,426,995 | - | - | - | 19,000,121 |
| Not recognised as deferred tax assets | (3,961,357) | (1,551,905) | - | - | - | (5,513,262) |
| | <u>12,555,184</u> | <u>(15,920)</u> | <u>(20,080)</u> | <u>36,000</u> | <u>-</u> | <u>12,555,184</u> |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

6. INCOME TAX (BENEFIT)/ EXPENSE

| 2018 | Opening | Recognised in profit or loss | Recognised in other comprehen- sive income | Recognised directly in equity | Reclassified from equity to profit or loss | Closing |
|---------------------------------------|--------------------|------------------------------------|---|-------------------------------------|---|--------------------|
| Temporary differences | | | | | | |
| Provisions | 290,120 | 31,423 | - | - | - | 321,543 |
| Other creditors & accruals | 168,107 | 87,321 | - | - | - | 255,428 |
| Intangible assets | 304,525 | 246,034 | - | - | - | 550,559 |
| Cash assets | 528,412 | (552,183) | - | - | - | (23,771) |
| Property, plant & equipment | (2,170,194) | (167,588) | - | - | - | (2,337,782) |
| Inventories | (115,628) | 3,142 | - | - | - | (112,486) |
| Prepayments | (7,244) | (7,225) | - | - | - | (14,469) |
| Derivatives | - | 30,740 | 21,616 | - | - | 52,356 |
| Other | - | 252,037 | - | - | - | 252,037 |
| | (1,001,902) | (76,299) | 21,616 | - | - | (1,056,585) |
| Unused tax losses and credits | | | | | | |
| Tax losses and R&D Credits | 13,557,086 | 4,016,040 | - | - | - | 17,573,126 |
| Not recognised as deferred tax assets | - | (3,961,357) | - | - | - | (3,961,357) |
| | 12,555,184 | (21,616) | 21,616 | - | - | 12,555,184 |

Unrecognised deferred tax assets

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognised are attributable to the following:

| Unrecognised deferred tax assets | At 100% | At 30% |
|----------------------------------|------------|-----------|
| Transferred tax losses | 1,069,452 | 320,836 |
| Capital losses | 3,876,570 | 1,162,971 |
| Tax losses | 18,377,540 | 5,513,262 |

7. CASH AND CASH EQUIVALENTS

| | 2019 \$ | 2018 \$ |
|--------------------------|------------------|-------------------|
| Cash management accounts | 6,625,369 | 6,809,640 |
| Cash and bank balances | 2,748,831 | 3,784,978 |
| | 9,374,200 | 10,594,618 |

8. TRADE AND OTHER RECEIVABLES

| | 2019 \$ | 2018 \$ |
|--------------------------------|------------------|------------------|
| CURRENT | | |
| Trade receivables (i) | 4,816,579 | 1,088,961 |
| Other receivables – Trade (ii) | 3,314,240 | 4,239,384 |
| GST refundable | 142,811 | 77,707 |
| | 8,273,630 | 5,406,052 |

- (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. These amounts are generally non-interest bearing, although, there are customers who will be subjected to interest charges at management's discretion. No loss allowance is required for the trade receivables.
- (ii) Other receivables – Trade, relates to completed products which have been recognised as revenue but are yet to be invoiced, pending collection by customers. Refer to note 19 credit risk for further information.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

9. INVENTORIES

| | 2019 | 2018 |
|------------------------------|------------------|------------------|
| | \$ | \$ |
| Raw materials at cost | 4,743,023 | 4,611,965 |
| Work in progress at cost (i) | 2,496,452 | 865,324 |
| Finished goods at cost | 2,524,064 | 2,338,292 |
| | <u>9,763,539</u> | <u>7,815,581</u> |

- (i) The work in progress at cost reflected the resources consumed for on-going projects which are to be completed in the subsequent financial year.

10. PROPERTY, PLANT AND EQUIPMENT

| | 2019 | 2018 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Land and Building/Leasehold improvements | | |
| Buildings ¹ | 34,817,462 | 34,817,462 |
| Other leasehold improvements ² | 281,116 | 281,116 |
| Less: accumulated depreciation | (8,077,333) | (7,026,326) |
| | <u>27,021,245</u> | <u>28,072,252</u> |
| Plant and Equipment: | | |
| Plant and equipment at cost | 96,094,331 | 92,735,004 |
| Less: accumulated depreciation | (59,438,446) | (53,555,027) |
| | <u>36,655,885</u> | <u>39,179,977</u> |
| Motor Vehicles: | | |
| Motor vehicles at cost | 33,035 | 33,035 |
| Less: accumulated depreciation | (24,759) | (21,514) |
| | <u>8,276</u> | <u>11,521</u> |
| Office Equipment: | | |
| Office equipment at cost | 438,295 | 438,295 |
| Less: accumulated depreciation | (423,175) | (412,689) |
| | <u>15,120</u> | <u>25,606</u> |
| Computer Equipment: | | |
| Computer equipment at cost | 2,036,473 | 1,699,637 |
| Less: accumulated depreciation | (1,595,930) | (1,390,198) |
| | <u>440,543</u> | <u>309,439</u> |
| Assets under construction: | | |
| Plant and equipment in progress at cost | 1,027,240 | 2,220,666 |
| | <u>65,168,309</u> | <u>69,819,461</u> |

¹ Relates to the Company's Henderson manufacturing and office complex.

² Leasehold improvements are located at Henderson.

Assets pledged as security

Buildings and leasehold improvements with a carrying amount of approximately \$27,021,245 (2018: \$28,072,252) have been pledged to secure the Company's working capital, bonding and overdraft facilities (see note 13). The Company is not permitted to pledge these assets as security for other borrowings.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial year are set out below:

| | Land and Building/ leasehold improvement | Plant and equipment | Motor vehicles | Office equipment | Computer equipment | Assets under construction | Total |
|------------------------------------|---|------------------------|----------------|---------------------|-----------------------|------------------------------|-------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Consolidated | | | | | | | |
| Carrying amount at 1 July 2018 | 28,072,252 | 39,179,977 | 11,521 | 25,606 | 309,439 | 2,220,666 | 69,819,461 |
| Additions | - | 3,376,418 | - | - | 336,835 | - | 3,713,253 |
| Disposals/(transfers) | - | (12,346) | - | - | - | (1,193,426) | (1,205,772) |
| Depreciation/amortisation expenses | (1,051,007) | (5,888,164) | (3,245) | (10,486) | (205,731) | - | (7,158,633) |
| Carrying amount at 30 June 2019 | 27,021,245 | 36,655,885 | 8,276 | 15,120 | 440,543 | 1,027,240 | 65,168,309 |
| Carrying amount at 1 July 2017 | 29,026,281 | 43,528,192 | 14,767 | 35,908 | 425,468 | 696,690 | 73,727,306 |
| Additions | 84,909 | 1,761,390 | - | 2,446 | 49,555 | 1,523,976 | 3,422,276 |
| Disposals/write-offs | - | - | - | (1,596) | - | - | (1,596) |
| Depreciation/amortisation expenses | (1,038,938) | (6,109,605) | (3,246) | (11,152) | (165,584) | - | (7,328,525) |
| Carrying amount at 30 June 2018 | 28,072,252 | 39,179,977 | 11,521 | 25,606 | 309,439 | 2,220,666 | 69,819,461 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

11. INTANGIBLE ASSETS

| | 2019 | 2018 |
|--------------------------|-------------|-------------|
| | \$ | \$ |
| Development costs (i) | 6,703,098 | 5,540,469 |
| Accumulated amortisation | (4,031,352) | (2,981,424) |
| | 2,671,746 | 2,559,045 |

- (i) Development costs incurred to date relate to various ongoing projects that are in the development phase prior to anticipated commercialisation.

At 30 June 2019, the Company has re-evaluated whether the recoverable amount of the CGU exceeds its carrying amount due to the existence of impairment indicators. The carrying amount is determined to be the higher of its fair value less costs to sell or its value in use. For impairment testing purposes at 30 June 2019 the Company has prepared a value in use model. The value in use model uses 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 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 2019 and adopted by the Board are included below.

Key Assumptions:

Discount Rate

A post-tax discount rate of 11 per cent (2018: 10 per cent) reflecting the Company's long term weighted average cost of capital adjusted for market risk.

Revenue

The sustained low oil price over recent years has led to reduced levels of activity in the oil and gas sector which the Company primarily services. Revenue forecasts used in the impairment considerations have incorporated a gradual recovery of the Oil and Gas sector over the next 5 years, with industry consensus appearing to suggest the sector is in the early stages of a recovery. We have used industry forecasts and commentary from our key suppliers, and the Company's revenue growth over the last 12 months of 97% would be consistent with this view.

Our revenue growth forecast peaks at a revenue which is 2% lower than our 10 year average revenue, and 40% lower than our highest revenue for which we still retain the capacity to achieve. We believe this is a conservative position in a recovered market. There has been no material revenue forecast for diversification opportunities outside the oil and gas sector. Selling prices reflect current expected values.

Cost of Goods Sold

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

Terminal Growth Rate

A terminal value growth rate of two per cent (2018: two per cent) has been applied.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

11. INTANGIBLE ASSETS

Foreign Exchange Rate

A AUD:USD foreign exchange rate of 0.70 (2018: 0.75) 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:

- Revenue – sales price achieved per Buoyancy module over the next five year period
- Discount rate
- Terminal value growth rate
- Foreign exchange rate
- Annual Capex Cost to maintain facility and order book.

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:

| Assumption | Variance | Negative Impact \$ million | Positive Impact \$ million |
|--------------------------------|------------|-------------------------------|-------------------------------|
| Revenue – per unit sales price | ± USD500 | 33.4 | 33.4 |
| Discount rate | ± 2% | 19.1 | 30.1 |
| Terminal value growth rate | ± 0.5% | 4.2 | 4.6 |
| Foreign exchange rate | ± \$0.05 | 24.9 | 24.9 |
| Sustaining and Project Capex | ± \$1M p.a | 11.0 | 11.0 |

Using this sensitivity analysis, the directors determined that a reasonably possible increase in raw material costs, being the predominant component of direct costs, of 5 per cent, without any associated increase in revenue, would result in a reduction in gross margin sufficient to cause the carrying value of the CGU to exceed its recoverable value. Our raw materials costs are well established with demonstrated prices achieved with long term suppliers.

Similarly, a reasonably possible reduction in revenue of 3 per cent, without any associated reduction in material prices, or improvements in plant efficiencies, would result in a reduction in gross margin sufficient to cause the carrying value of the CGU to exceed its recoverable value.

The impairment analysis is based on a number of industry and operational assumptions by management over the 5 year period to 30 June 2024, 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 revenue assumptions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

11. INTANGIBLE ASSETS

By way of clarification, given the revenue increase and resulting impact to cash flows from operations, required in support of the impairment analysis model, assuming achievement of FY20 budgeted performance outcome, unless an annual average revenue increase of 18%p.a was achieved over the remaining balance of the 5 year period to 30 June 2024, then the carrying cost and value in use of the relevant assets may need to be revisited.

12. TRADE AND OTHER PAYABLES

| | 2019 | 2018 |
|------------------------------|------------------|------------------|
| | \$ | \$ |
| Trade payables | 4,910,439 | 2,292,604 |
| Other creditors and accruals | 1,585,215 | 1,897,055 |
| GST payable | 13,056 | 6,694 |
| | <u>6,508,710</u> | <u>4,196,353</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.

13. FINANCIAL LIABILITIES

| | 2019 | 2018 |
|---|------------------|------------------|
| | \$ | \$ |
| CURRENT | | |
| Trade finance (i) | 7,262,966 | 3,818,719 |
| Forward exchange contracts liability (hedge accounted) (ii) | 2,303 | 174,519 |
| | <u>7,265,269</u> | <u>3,993,238</u> |

- (i) The Company had hedge liability of \$2,303 at 30 June 2019(2018: \$174,519). Refer to note 19 financial instruments for further details on the instruments.

TERMS AND CONDITIONS OF FACILITY

| Working Capital and Contingent Lines | Currency | Nominal interest rate | Approved Facilities | Amount Utilised | Available Facilities |
|--------------------------------------|----------|-----------------------|---------------------|------------------|----------------------|
| | | % | \$ | \$ | \$ |
| ANZ Multi-option Bank Guarantee | AUD/USD | 0.5 | 10,325,000 | 1,837,707 | 1,177,204 |
| ANZ Working capital (i) | AUD/USD | | | 7,310,089 | |
| | | | <u>10,325,000</u> | <u>9,147,796</u> | <u>1,177,204</u> |

- (i) The Company has a \$10.3 million multi-option, multi-currency funding package with Australia and New Zealand Banking Group Limited (ANZ). The facility covers the Company's working capital, trade finance and bonding facilities and encompasses sub-limits for certain facilities. The working capital and bonding facilities can be drawn in multiple currencies using a variety of instruments. The working capital consists of \$3.2m Daily Loans at an interest rate of BBSY plus 3.25% margin and \$4.1m Trade Finance at LIBOR rate plus 8% margin.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

14. PROVISIONS

| | 2019 \$ | 2018 \$ |
|-----------------------|------------|------------|
| CURRENT | | |
| Employee Entitlements | 619,124 | 520,836 |
| NON-CURRENT | | |
| Employee Entitlements | 723,261 | 515,807 |

15. ISSUED CAPITAL

| | 2019 \$ | 2018 \$ |
|---|-------------|-------------|
| Issued and paid up capital 102,321,429 (2018: 93,750,000) fully paid ordinary shares | 114,169,768 | 111,283,768 |
| | 114,169,768 | 111,283,768 |

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.

Movements in Ordinary Share Capital

| Date | Number of shares | \$ |
|-----------------------------------|------------------|-------------|
| Balance 1 July 2017 | 93,750,000 | 111,283,768 |
| Balance 30 June 2018 | 93,750,000 | 111,283,768 |
| Balance 30 June 2019 ¹ | 102,321,429 | 114,133,768 |

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.

¹ On 19 December 2018, the Company issued 8,571,429 fully paid ordinary shares in Matrix to institutional and sophisticated investors. The capital balance has net off the associated capital raising costs.

Capital Management

The directors' main objective is to ensure that the Company continues as a going concern and generates a return for shareholders better than the industry average benchmark. Management also seeks to maintain a capital structure that ensures the lowest cost of capital available to the Company.

The directors' are constantly reviewing the capital structure to ensure they can minimise the cost of capital. As the market is constantly changing, the directors may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company targets a gearing ratio of up to 20 per cent, determined as a proportion of adjusted net debt to equity. Adjusted net debt is determined after considering the value of any progress claims and deposits received in advance of work commencing as debt. The gearing ratio at 30 June 2019 of negative 2.2 per cent (2018: negative 6.2 per cent) is below the target gearing level which is prudent in the current oil and gas market.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

15. ISSUED CAPITAL

| | 2019 | 2018 |
|---|-------------|--------------|
| | \$ | \$ |
| Trade finance ¹ | 7,262,966 | 3,818,719 |
| Progress claims and deposits | 59,426 | 615,797 |
| Cash and cash equivalents | (9,374,200) | (10,594,618) |
| Adjusted net asset | (2,051,808) | (6,160,102) |
| Equity ² | 93,064,692 | 99,396,976 |
| Net (asset)/debt to equity ratio at 30 June | (2.2%) | (6.2%) |

¹Trade finance forms part of the Company's working capital facilities, refer to note 13.

²Equity includes all capital and reserves of the Company that are managed as capital.

16. RESERVES

| | 2019 | 2018 |
|--------------------------------------|-----------|-----------|
| | \$ | \$ |
| Cash flow hedge reserve | (106,052) | (50,437) |
| Foreign currency translation reserve | (881,720) | (475,513) |
| Share based payment reserve | 675,514 | 747,882 |
| | (312,258) | 221,932 |

Cash Flow Hedge Reserve

| | 2019 | 2018 |
|---|-----------|----------|
| | \$ | \$ |
| Cash Flow Hedge Reserve | | |
| Balance at beginning of year | (50,437) | - |
| <i>(Loss)/gain arising on changes in fair value of hedging instruments entered into for cash flow hedges:</i> | | |
| - Forward foreign exchange contracts | (35,535) | (72,053) |
| - Income tax related to gains/(losses) recognised in other comprehensive income | (20,080) | 21,616 |
| <i>Cumulative gain/(loss) arising on changes in fair value of hedging instruments reclassified to profit or loss:</i> | | |
| - Forward foreign exchange contracts | - | - |
| - Income tax related to amounts reclassified to profit or loss | - | - |
| Balance at end of year | (106,052) | (50,437) |

The cash flow hedge reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be included as a basis adjustment to the non-financial hedged item consistent with the relevant accounting policy.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

16. RESERVES

Foreign Currency Translation Reserve

| | 2019 \$ | 2018 \$ |
|---|------------------|------------------|
| Foreign Currency Translation Reserve | | |
| Balance at beginning of year | (475,513) | (206,800) |
| Exchange differences arising on translation of foreign operations | (406,207) | (268,713) |
| Balance at end of year | <u>(881,720)</u> | <u>(475,513)</u> |

Exchange differences relating to the translation of results and net assets of the Company's foreign operations from their functional currencies to the Company's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

Share based Premium Reserve

| | 2019 \$ | 2018 \$ |
|------------------------------------|----------------|----------------|
| Share-based Premium Reserve | | |
| Balance at beginning of year | 747,882 | 455,998 |
| Arising on share-based payments | (72,368) | 291,884 |
| Balance at end of year | <u>675,514</u> | <u>747,882</u> |

The above share-based premium reserve relates to equity based instruments granted by the Company to its employees under its employee equity-based instruments plan. The negative \$72,368 resulted from reversal of lapsed securities. Further information about share-based payments is set out in note 22.

17. Accumulated losses

| | 2019 \$ | 2018 \$ |
|--|---------------------|---------------------|
| Accumulated losses | <u>(20,792,818)</u> | <u>(12,108,724)</u> |
| Balance at beginning of year | (12,108,724) | 3,280,723 |
| Loss attributable to owners of the company | (8,684,094) | (15,389,447) |
| Balance at end of year | <u>(20,792,818)</u> | <u>(12,108,724)</u> |

18. NOTES TO THE STATEMENT OF CASH FLOWS

| | 2019 \$ | 2018 \$ |
|--|------------|------------|
|--|------------|------------|

(a) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

| | | |
|---------------------------|------------------|-------------------|
| Cash and cash equivalents | <u>9,374,200</u> | <u>10,594,618</u> |
|---------------------------|------------------|-------------------|

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

18. NOTES TO THE STATEMENT OF CASH FLOWS

(b) Reconciliation of cash flow from operations with loss after income tax

| | | |
|---|--------------------|--------------------|
| Loss after income tax | (8,684,094) | (15,389,447) |
| Adjustment for non-cash items | | |
| - Depreciation of property, plant & equipment | 7,158,633 | 7,328,525 |
| - Amortisation of intangibles | 1,049,928 | 942,121 |
| - (Gain)/expense recognised in respect of equity-settled share-based payments | (72,368) | 291,884 |
| - Effects of exchange rate changes on the balance of cash held in foreign currencies | 192,142 | (219,387) |
| - Effects of translation of foreign operations | (406,207) | (268,713) |
| - Net (gain)/loss arising on financial liabilities designated as at fair value through profit or loss | (227,830) | 124,083 |
| - Loss/(gain) on disposal of property, plant & equipment | 12,346 | (8,904) |
| Changes in assets & liabilities | | |
| - (Increase)/decrease in trade and other receivables | (2,867,578) | 998,083 |
| - Decrease/(increase) in other assets | 55,192 | (68,470) |
| - (Increase)/decrease in inventories | (1,947,958) | 927,538 |
| - Increase in trade & other payables, progress claims & deposits | 1,755,986 | 809,437 |
| - Increase in employee provisions | 305,741 | 114,875 |
| - Increase in deferred tax asset | 249,098 | 195,442 |
| - Decrease in deferred tax liability | (249,098) | (195,442) |
| Net cash flows from operating activities | (3,676,067) | (4,418,375) |

19. FINANCIAL INSTRUMENTS

Financial Risk Management Policies

The Company's financial instruments consist mainly of deposits with banks, trade and other receivables, trade and other payables, bank borrowings, and derivatives. The main purpose of non-derivative financial liabilities is to raise finance for Group operations. Derivatives are used by the Company for hedging purposes. The Company does not speculate in the trading of derivative instruments. Senior executives meet regularly to analyse and monitor the financial risk associated with the financial instruments used by the Company.

Financial Risk Exposures and Management

The main risks the Company is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Interest Rate Risk

The Company is exposed to interest rate risk because entities in the Company borrow funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowing. Hedging activities are evaluated on a regular basis to align with interest rate views and defined risk appetite, ensuring the most cost-effective measures are put in place.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS

Interest Rate Sensitivity Analysis

The following sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At 30 June 2019, the after tax effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant at balance date would be as follows:

| | 2019 \$ | 2018 \$ |
|---|-----------------------------|-----------------------------|
| Change in profit | | |
| Increase in interest rate by 2% (200 basis point) | 145,259 | 76,374 |
| Decrease in interest rate by 2% (200 basis point) | (145,259) | (76,374) |
| | <u> </u> | <u> </u> |
| Change in other comprehensive income | | |
| Increase in interest rate by 2% (200 basis point) | - | - |
| Decrease in interest rate by 2% (200 basis point) | - | - |
| | <u> </u> | <u> </u> |

The sensitivity to a 200 basis point increase or decrease in interest rates is considered reasonable given the markets forecast available at the reporting date and under the current economic environment in which the Company operates.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

| | Weighted Average Effective Interest Rate | | Floating Interest Rate | | Fixed Interest Rate Maturing | | | | Non-Interest Bearing | |
|-----------------------------|--|------|------------------------|------|------------------------------|------|-------------|------|----------------------|------------|
| | | | | | Within 1 Year | | Over 1 Year | | | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | % | % | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Cash and Cash Equivalents | - | - | - | - | - | - | - | - | 9,374,200 | 10,594,618 |
| Trade and Other Receivables | - | - | - | - | - | - | - | - | 8,130,819 | 5,328,345 |
| Total Financial Assets | | | - | - | - | - | - | - | 17,505,019 | 15,922,963 |

FINANCIAL LIABILITIES

| | Weighted Average Effective Interest Rate | | Floating Interest Rate | | Fixed Interest Rate Maturing | | | | Non-Interest Bearing | |
|-----------------------------|--|------|------------------------|-----------|------------------------------|------|-------------|------|----------------------|-----------|
| | | | | | Within 1 Year | | Over 1 Year | | | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | % | % | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Trade and Other Payables | - | - | - | - | - | - | - | - | 6,495,654 | 4,189,659 |
| Trade Finance | 3.32 | 2.16 | 7,262,966 | 3,818,719 | - | - | - | - | - | - |
| Total Financial Liabilities | | | 7,262,966 | 3,818,719 | - | - | - | - | 6,495,654 | 4,189,659 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS

Credit Risk

Credit risk relates to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Company.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. There is no material amount of collateral held as security at 30 June 2019.

Credit risk is managed on a Group basis and reviewed regularly by senior executives. It arises from exposures to customers and deposits with financial institutions. The following criteria are applied by senior executives in the assessment of counter party risk:

- Deposits and borrowings are with Australian based banks;
- Significant customers are rated for credit worthiness.

The consolidated entity's maximum exposure to credit risk at the reporting date was:

| | 2019 | 2018 |
|-------------------|-------------|-------------|
| | \$ | \$ |
| Trade receivables | 4,816,579 | 1,088,961 |

At balance date, the aging analysis of trade receivables is as follows:

| | | |
|-------|-----------|-----------|
| Days | | |
| 0-30 | 4,726,317 | 1,009,622 |
| 31-60 | 3,247 | 44,886 |
| 61-90 | 87,015 | 34,453 |
| 90+ | - | - |
| | 4,816,579 | 1,088,961 |

Trade receivables of \$189,966 (2018: \$79,339) were past due at 30 June, of which \$180,274 have been collected up to the date of this report (2018: \$79,339). There were no impairment provisions in respect of trade receivables that were past due as at 30 June 2019.

Foreign Currency Risk

The Company undertakes transactions denominated in foreign currencies and is consequently exposed to exchange rate fluctuations arises. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Company's foreign currency denominated assets and monetary liabilities at the end of the period are as follows:

| | Liabilities | | Assets | |
|------------|--------------------|-------------|---------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ |
| US Dollars | 5,283,638 | 4,658,645 | 11,134,275 | 9,950,577 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS

Foreign Currency Sensitivity Analysis

The Company is mainly exposed to fluctuations in the US Dollar.

The following table details the Company's sensitivity to a 10 per cent increase and decrease in the Australian dollar against the relevant foreign currencies. 10 per cent is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10 per cent change in foreign currency rates. A positive number below indicates an increase in profit or equity where the Australian dollar strengthens 10 per cent against the relevant currency. For a 10 per cent weakening of the Australian dollar against the relevant currency, there would be a comparable impact on the profit or equity, and the balances would be negative.

| | | Profit after tax | | Other Comprehensive Income | |
|-------------|------|---------------------|-------|----------------------------|-------|
| | | Increase/(Decrease) | | Increase/(Decrease) | |
| | | 2019 | 2018 | 2019 | 2018 |
| | | \$000 | \$000 | \$000 | \$000 |
| A\$ vs US\$ | +10% | (532) | (481) | 454 | 599 |
| A\$ vs US\$ | -10% | 585 | 529 | (499) | (659) |

The movement in other comprehensive income is due to an increase/decrease in the fair value of forward foreign exchange contracts designated as cash flow hedges.

Forward Foreign Exchange Contracts

It is the policy of the Company to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within 50 to 100 per cent of the net exposure generated. The Company also enters into forward foreign exchange contracts to manage the risk associated with contracted sales transactions for the period of contracts within 50 to 100 per cent of the net exposure generated. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

Forward Foreign Exchange Contracts

The following table details the forward foreign currency (FC) contract outstanding at the end of the reporting period:

| | Average exchange rate | | Foreign currency | | Notional value | | Fair value | |
|-------------------------|-----------------------|--------|------------------|---------|----------------|-------|------------|--------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | US\$000 | US\$000 | \$000 | \$000 | \$000 | \$000 |
| Cash flow hedges | | | | | | | | |
| Sell US Dollar | | | | | | | | |
| Less than 1 month | 0.6897 | - | 1,650 | - | - | - | 42 | - |
| Less than 3 months | 0.7315 | 0.7894 | - | 1,100 | 2,392 | 1,430 | - | (59) |
| 3 to 6 months | 0.7180 | 0.7684 | - | - | - | - | - | - |
| 6 months to 1 year | 0.7177 | 0.7598 | 1,853 | 1,915 | 2,582 | 2,520 | (45) | (65) |
| More than 1 year | - | 0.7598 | - | 1,853 | - | 2,439 | - | (51) |
| | | | | | | | (3) | (175) |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS

At 30 June 2019, the aggregate amount of loss under forward foreign exchange contracts recognised in other comprehensive income and accumulated in the cash flow reserve relating to the exposure on these anticipated future transactions is a loss of \$106,052 (2018: \$50,437 loss). It is anticipated that the sales will take place during the next financial year, at which time the amount deferred in equity will be included in basis adjustment.

Foreign Currency Options

The Company did not enter into any foreign currency options in the financial year ended 30 June 2019.

Liquidity Risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

The Company manages liquidity risk by monitoring forecast cash flows, maintaining cash reserves and managing trade payables.

The following table details the Company's expected maturity for its financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on financial assets is necessary in order to understand the Company's liquidity risk management as the liquidity is managed on a net asset and liability basis.

| | Weighted average effective interest rate | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | Total |
|-----------------------------|---|----------------------|--------------------|-----------------------|-----------------|------------------|
| | % | \$ | \$ | \$ | \$ | \$ |
| 30 June 2019 | | | | | | |
| Cash and other equivalents | - | 9,374,200 | - | - | - | 9,374,200 |
| Trade and other receivables | - | 6,290,815 | 1,256,550 | 583,454 | - | 8,130,819 |
| Foreign Exchange Contracts | - | 42,214 | - | (44,517) | - | (2,303) |
| Trade and other payables | - | (3,683,757) | (2,571,042) | (240,855) | - | (6,495,654) |
| Borrowing | 3.32 | - | (2,712,941) | (4,550,025) | - | (7,262,966) |
| | | <u>12,023,472</u> | <u>(4,027,433)</u> | <u>(4,251,943)</u> | <u>-</u> | <u>3,744,096</u> |
| 30 June 2018 | | | | | | |
| Cash and other equivalents | - | 10,594,618 | - | - | - | 10,594,618 |
| Trade and other receivables | - | 1,009,622 | 79,339 | - | - | 1,088,961 |
| Foreign Exchange Contracts | - | - | (58,802) | (64,892) | (50,825) | (174,519) |
| Trade and other payables | - | (932,348) | (1,337,979) | (6,125) | (16,152) | (2,292,604) |
| Borrowing | 1.78 | (385,327) | (1,766,169) | (1,667,223) | - | (3,818,719) |
| | | <u>10,286,565</u> | <u>(3,083,611)</u> | <u>(1,738,240)</u> | <u>(66,977)</u> | <u>5,397,737</u> |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS

The amounts included above for variable interest rate instruments for both financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Fair Value of Financial Instruments

The Directors consider that the carrying amount of financial assets and liabilities recorded in the financial statements approximates their fair value.

Fair Value Hierarchy

The Directors consider that the carrying amount of financial assets and liabilities recorded in the financial statements represents or approximate their respective fair values.

20. OPERATING LEASE COMMITMENTS

| | 2019 | 2018 |
|--|------------|------------|
| | \$ | \$ |
| Not later than 1 year | 902,635 | 1,371,172 |
| Later than 1 year but not later than 5 years | 3,732,920 | 5,102,317 |
| Later than 5 years | 26,109,577 | 33,471,112 |

The lease commitment relates predominately to land at 150 Quill Way, Henderson and the USA office.

21. FRANKING ACCOUNT

| | 2019 | 2018 |
|-------------------------------------|------------|------------|
| | \$ | \$ |
| Franking account balance at 1 July | 14,284,418 | 14,284,418 |
| Franking account balance at 30 June | 13,479,785 | 14,284,418 |
| Net franking credits available | 13,479,785 | 14,284,418 |

22. SHARE-BASED PAYMENTS

Share Options

There have been no share options brought forward, issued or exercised during the year (2018: nil).

Long Term Incentive Plans

Matrix has established a long term incentive plan designed to provide the opportunity to employees to acquire Matrix shares and thus assist with:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. SHARE-BASED PAYMENTS

- attracting, motivating and retaining employees;
- delivering rewards to employees for individuals and Company performance;
- giving employees the opportunity to become shareholders; and
- aligning the interests of employees and shareholder.

The Board is able to grant long term incentive awards to eligible participants, including senior executives. In general, those executives and employees who have capacity to impact the long term performance of the Company will be granted either performance rights or share appreciation rights under the Matrix Rights Plan. Other employees will have the opportunity to acquire shares in Matrix under the Matrix Tax Exempt Share Plan (TESP).

All incentives granted to eligible participants under the Matrix long term incentive plan will only vest on the satisfaction of appropriate vesting conditions. The vesting conditions will be measured and tested over a period of three years.

There are three types of grant under the Rights plan offered to professional staff, senior management and senior executives of the Matrix. The plans are summarised below:

TESP

The TESP is open to all employees not covered by a higher level plan, provided they have two years or more of service with Matrix. The value of shares to be issued under the grant will be not greater than \$1,000 and at the absolute discretion of the Board.

Shares issued to employees under the TESP will be tax-exempt in the hands of the employee, not subject to FBT and tax deductible to the Company.

Holders of TESP shares will be entitled to vote at shareholder meetings and participate in dividends and other shareholder distributions. The TESP shares will have a trading restriction which will expire at the earlier of three years from the date of issue or upon the holder ceasing to be employed by Matrix.

Management Performance Rights Plan (MPRP)

MPRP will be open to certain professional staff with two or more years' service with Matrix. Eligible participants will be offered a grant of Performance Rights in dollar value terms up to but not exceeding \$2,000. Performance Rights granted under the MPRP will be subject to a vesting condition of a three year service period from beginning of financial year. Upon vesting, the Performance Rights will convert to Matrix fully paid ordinary shares on a one for one basis or the cash equivalent, at the discretion of the Board. Any shares transferred to MPRP participants on conversion of Performance Rights may be acquired either on-market, or by way of a new issue of shares.

Executive Performance Rights Plan (EPRP)

EPRP will be open to executives who are not participants in the Senior Executive Plan with two or more years' services with Matrix. Eligible participants will be offered a grant of Performance Rights in dollar value terms up to but not exceeding \$10,000. Performance Rights granted under the EPRP will be subject to the following vesting conditions:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. SHARE-BASED PAYMENTS

- three year service period; and
- Total Shareholder Return (TSR) target based on a TSR comparator group comprising of ASX 300 group of companies as follows:

| TSR Target achieved during performance period | % of Performance Rights vested |
|---|--------------------------------|
| 75% and over | 100% |
| 50 – 75% | 50 – 100% of sliding scale |
| Below 50% | Nil |

Upon vesting, the Performance Rights will convert to Matrix fully paid ordinary shares on a one for one basis or the cash equivalent, at the discretion of the Board. Any shares transferred to MPRP participants on conversion of Performance Rights may be acquired either on-market, or by way of a new issue of shares.

Senior Executive Plan – Senior Executive Performance Rights Plan (SEPRP) & Senior Executive Share Appreciation Rights Plan (SESARP)

Under the SEPRP and SESARP senior executives will be offered an annual dollar value grant in accordance with the terms of their respective Executive Service Agreements, which they may allocate to participate in the SEPRP or the SESARP. A participant may elect to allocate up to a maximum of 50 per cent of the grant entitlement to the SEPRP.

Grants under the SEPRP and SESARP are made on an annual basis.

SEPRP

Rights granted under the SEPRP will be subject to the following conditions:

- three year service period; and
- TSR target based on a TSR comparator group comprising of ASX 300 group of companies as follows:

| TSR Target achieved during performance period | % of Performance Rights vested |
|---|--------------------------------|
| 75% and over | 100% |
| 50 – 75% | 50 – 100% of sliding scale |
| Below 50% | Nil |

Upon vesting, the Performance Rights will convert to Matrix fully paid ordinary shares on a one for one basis or the cash equivalent, at the discretion of the Board. Any shares transferred to SEPRP participants on conversion of Performance Rights may be acquired either on-market, or by way of a new issue of shares.

SESARP

Under the SESARP, Share Appreciation Rights (SARs) will be issued to participants. SARs are an entitlement to a number of Shares equal to the growth in value of the underlying Shares, or to receive a cash equivalent value on terms and conditions determined by the Board.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. SHARE-BASED PAYMENTS

SARs granted under the SEPRP will be subject to the following vesting conditions:

- three year service period; and
- TSR target based on a TSR comparator group comprising of ASX 300 group of companies as follows:

| TSR Target achieved during performance period | % of Performance Rights vested |
|---|--------------------------------|
| 75% and over | 100% |
| 50 – 75% | 50 – 100% of sliding scale |
| Below 50% | Nil |

Upon vesting of any SARs, participants will be issued with Shares, or the cash equivalent, equal to the value derived by multiplying the number of vested Rights by the growth in share price over the performance period, determined by the Matrix share price growth over and above the hurdle share price. The hurdle share price will be based on the growth rate for the ASX300 Accumulation Index over the five years prior to the grant date of the Rights.

Holders of rights under the SEPRP and SESARP will be not entitled to vote at shareholder meetings or participate in dividends or any other shareholder distributions. The rights are non-transferable however once the vesting condition is met, should shares be issued, there are no additional trading restrictions in relation to the shares. Should the rights have been converted into shares these shareholders will be entitled to vote at shareholder meetings and participate in dividends and other shareholder distributions.

The rights are not taxable in the hands of the employees until the vesting conditions are met. At this point the value is crystallised and subject to income tax in the employees hands. The value of the rights is only tax deductible to Matrix at the point of vesting even though it is an expense for accounting (amortised over the three year vesting period) at the point of granting.

Share Rights in Existence in the Year

The following share-based payment arrangements were in existence during the current and prior reporting periods:

| Series | Grant Date | Grant Date Fair Value \$ | Value \$ | Hurdle Growth Rate | Hurdle Price \$ | Expiry Date | Vesting Date |
|-------------|-------------|--------------------------|----------|--------------------|-----------------|-------------|--------------|
| FY16 MPRP | 08 Dec 2016 | 0.40 | 0.41 | n/a | n/a | 08 Dec 2019 | 08 Dec 2019 |
| FY16 SEPRP | 08 Dec 2016 | 0.40 | 0.30 | n/a | n/a | 08 Dec 2019 | 08 Dec 2019 |
| FY16 SESARP | 08 Dec 2016 | 0.40 | 0.15 | 7.12% | 0.52 | 09 Dec 2019 | 09 Dec 2019 |
| FY17 MPRP | 08 Dec 2017 | 0.51 | 0.48 | n/a | n/a | 08 Dec 2020 | 08 Dec 2020 |
| FY17 SEPRP | 08 Dec 2017 | 0.51 | 0.36 | n/a | n/a | 08 Dec 2020 | 08 Dec 2020 |
| FY17 SESARP | 08 Dec 2017 | 0.51 | 0.13 | 11.42% | 0.65 | 09 Dec 2020 | 09 Dec 2020 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. SHARE-BASED PAYMENTS

There has been no alteration of the terms and conditions of the above share based payment arrangements since the grant date.

Fair Value of Share Rights Granted in the Year

The Performance Rights and Share Appreciation Rights contemplated by the Rights Plan have been subject to valuation reports by BDO dated 13 October 2016, 28 September 2017 and 8 October 2018 respectively. The valuations were adopted by the Directors of the Company.

The valuation used a Monte-Carlo simulation as the appropriate methodology to value the rights granted under the SEPRP and SESARP. A Monte-Carlo simulation is a highly flexible valuation technique which can cope with a variety of award structures and is often used where instruments have more than one hurdle. The key assumptions adopted when valuing the rights is set out below:

| Series | FY16 MPRP | FY16 EPRP/ SEPRP | FY16 SESARP | FY17 MPRP | FY17 EPRP/ SEPRP | FY17 SESARP | FY18 MPRP | FY18 EPRP/ SEPRP | FY18 SESARP |
|-------------------------|--------------|------------------------|----------------|--------------|------------------------|----------------|--------------|------------------------|----------------|
| Grant date | 08 Dec 2016 | 08 Dec 2016 | 08 Dec 2016 | 08 Dec 2017 | 08 Dec 2017 | 08 Dec 2017 | 08 Dec 2018 | 08 Dec 2018 | 08 Dec 2018 |
| Vesting date | 08 Dec 2019 | 08 Dec 2019 | 09 Dec 2019 | 08 Dec 2020 | 08 Dec 2020 | 08 Dec 2020 | 09 Dec 2021 | 09 Dec 2021 | 09 Dec 2021 |
| Share price at grant | \$0.40 | \$0.40 | \$0.40 | \$0.51 | \$0.51 | \$0.51 | \$0.40 | \$0.40 | \$0.40 |
| Value | 0.41 | 0.30 | 0.15 | 0.48 | 0.36 | 0.13 | 0.42 | 0.23 | 0.11 |
| Hurdle Growth Rate | n/a | n/a | 7.12% | n/a | n/a | 11.42% | n/a | n/a | n/a |
| Hurdle Price | n/a | n/a | \$0.52 | n/a | n/a | \$0.65 | n/a | \$0.60 | \$0.60 |
| Expected life | 3 years | 3 years | 3 years | 3 years | 3 years | 3 years | 3 years | 3 years | 3 years |
| Volatility | 60% | 60% | 60% | 55% | 55% | 55% | 55% | 55% | 55% |
| Risk free interest rate | 1.65% | 1.65% | 1.65% | 2.11% | 2.11% | 2.11% | 2.15% | 2.15% | 2.15% |
| Dividend yield | 3.4% | 3.4% | 3.4% | 2.0% | 2.0% | 2.0% | nil | nil | nil |

Movements in Share Plans during the Year

The following table reconciles the share plans outstanding at the beginning and end of the year:

MPRP

| 2019 | Balance at beginning of the year No. | Granted during the year No. | Forfeited during the year No. | Exercised during the year No. | Lapsed during the year No. | Balance at end of the year No. |
|--------------|--------------------------------------|-----------------------------|-------------------------------|-------------------------------|----------------------------|--------------------------------|
| FY15 MPRP | 323,064 | - | - | 170,749 | 152,315 | - |
| FY16 MPRP | 182,925 | - | - | - | 21,951 | 160,974 |
| FY17 MPRP | 125,520 | - | - | - | 18,828 | 106,692 |
| FY18 MPRP | - | 163,898 | - | - | 14,252 | 149,646 |
| Total | 631,509 | 163,898 | - | 170,749 | 207,346 | 417,312 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. SHARE-BASED PAYMENTS

EPRP

| 2019 | Balance at beginning of the year No. | Granted during the year No. | Forfeited during the year No. | Exercised during the year No. | Lapsed during the year No. | Balance at end of the year No. |
|--------------|--------------------------------------|-----------------------------|-------------------------------|-------------------------------|----------------------------|--------------------------------|
| FY15 EPRP | 381,481 | - | - | - | 381,481 | - |
| FY16 EPRP | 366,663 | - | - | - | 33,333 | 333,330 |
| FY17 EPRP | 214,289 | - | - | - | - | 214,289 |
| FY18 EPRP | - | 686,693 | - | - | 42,918 | 643,775 |
| Total | 962,433 | 686,693 | - | - | 457,732 | 1,191,394 |

SESARP

| 2019 | Balance at beginning of the year No. | Granted during the year No. | Forfeited during the year No. | Exercised during the year No. | Lapsed during the year No. | Balance at end of the year No. |
|--------------|--------------------------------------|-----------------------------|-------------------------------|-------------------------------|----------------------------|--------------------------------|
| FY15 SESARP | 2,561,827 | - | - | - | 2,561,827 | - |
| FY16 SESARP | 1,466,666 | - | - | - | - | 1,466,666 |
| FY17 SESARP | 2,532,122 | - | - | - | - | 2,532,122 |
| FY18 SESARP | - | 3,196,028 | - | - | - | 3,196,028 |
| Total | 6,560,615 | 3,196,028 | - | - | 2,561,827 | 7,194,816 |

23. RELATED PARTY DISCLOSURES

(a) Key Management Personnel Compensation

| | 2019 \$ | 2018 \$ |
|--------------------------------|------------------|------------------|
| Short term employment benefits | 1,184,591 | 1,177,764 |
| Share based payments | 252,262 | 199,435 |
| Post-employment benefits | 100,024 | 90,920 |
| | <u>1,536,877</u> | <u>1,468,119</u> |

(b) Parent Entity

The ultimate parent entity within the Company is Matrix Composites & Engineering Ltd.

(c) Related Party Transactions

There were no transactions between related parties during this financial year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

23. RELATED PARTY DISCLOSURES

(d) Option Holdings of Key Management Personnel

There have been no movements during the reporting period (2018: nil movement) in the number of options over ordinary shares in Matrix Composites & Engineering Ltd held, directly, indirectly or beneficially, by each key management person, including related parties.

(e) Key Management Personnel

- There were no loans to key management personnel during the year or outstanding at the end of the year (2018: nil).
- No options have been issued to key management personnel during the year (2018: nil).

(f) Other Transactions and Balances with Key Management Personnel

There were no other transactions with key management personnel at the end of the year (2018: nil).

24. SUBSIDIARIES

The consolidated financial statements include the following subsidiaries:

| Name | Incorporation | Shares | Equity Holding % | |
|--|---------------|----------|------------------|------|
| | | | 2019 | 2018 |
| Specialist Engineering Services (Aust) Pty Ltd | Australia | Ordinary | 100 | 100 |
| Matrix Henderson Property Pty Ltd | Australia | Ordinary | 100 | 100 |
| MC&E (Europe) Limited ¹ | UK | Ordinary | 100 | 100 |
| Matrix Composites & Engineering (US) Inc. | USA | Ordinary | 100 | 100 |

1. MC&E (Europe) Limited was deregistered in June 2019 and thus will no longer exist in subsequent reporting periods.

25. PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 1 for a summary of the significant accounting policies relating to the Company.

Financial position

| | 2019 | 2018 |
|--------------------|-------------|-------------|
| | \$ | \$ |
| Assets | | |
| Current assets | 26,721,749 | 30,975,949 |
| Non-current assets | 80,390,555 | 93,296,921 |
| Total assets | 107,112,304 | 124,272,870 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

25. PARENT ENTITY INFORMATION

Liabilities

| | | |
|-------------------------|------------|-------------|
| Current liabilities | 14,408,092 | 10,654,008 |
| Non-current liabilities | 723,261 | 515,807 |
| Total liabilities | 15,131,353 | 11,169,815 |
| Net assets | 91,980,951 | 113,103,055 |

Equity

| | | |
|-----------------------------|--------------|-------------|
| Issued capital | 114,169,768 | 111,283,768 |
| Retained earnings | (22,838,877) | 1,121,842 |
| Reserves | (25,454) | (50,437) |
| Share based payment reserve | 675,514 | 747,882 |
| Total equity | 91,980,951 | 113,103,055 |

| | 2019 \$ | 2018 \$ |
|--------------------------------------|--------------|--------------|
| Financial Performance | | |
| Loss for the year | (12,717,782) | (10,121,095) |
| Other comprehensive income/(expense) | 24,983 | (50,437) |
| Total comprehensive expense | (12,692,799) | (10,171,532) |

Commitments for the acquisition of property, plant and equipment by the parent entity

| | | |
|-----------------------|---------|---------|
| No longer than 1 year | 295,415 | 273,590 |
| | 295,415 | 273,590 |

26. EARNINGS PER SHARE

| | 2019 | 2018 |
|--|-------------|--------------|
| Loss attributable to members of parent entity (\$) | (8,684,094) | (15,389,447) |
| Weighted average number of shares on issue (number) | 98,562,623 | 93,750,000 |
| Weighted average number of shares adjusted for dilution (number) | 98,562,623 | 93,750,000 |
| Basic loss per share (cents) | (8.8) | (16.4) |
| Diluted loss per share (cents) | (8.8) | (16.4) |

27. DIVIDENDS PAID AND PROPOSED

In respect of the reporting period ended 30 June 2019, no dividend was proposed nor paid (2018: nil)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

28. COMPANY DETAILS

The registered office and principal place of business of the company is 150 Quill Way, Henderson, Western Australia.

29. CONTINGENT LIABILITIES AND ASSETS

There were no contingent liabilities or assets at 30 June 2019.

30. EVENTS AFTER THE 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 Directors' report.

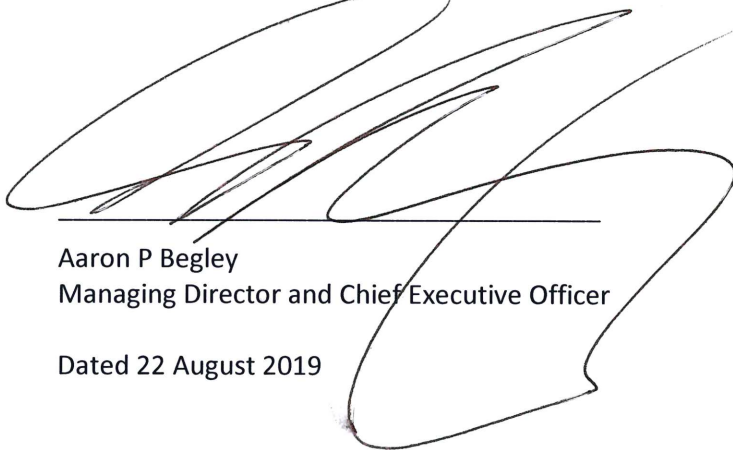
DIRECTORS' DECLARATION

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;
- (b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements;
- (c) 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; and
- (d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors:



Aaron P Begley
Managing Director and Chief Executive Officer

Dated 22 August 2019

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Matrix Composites & Engineering Ltd (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit 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* (the Code) that are relevant to our audit of the 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 report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|--|--|
| <p>Recoverability of long lived assets</p> <p>As at 30 June 2019, the carrying value of the Group's long lived assets totalled \$93.6 million. The assets are assessed for impairment as one Cash Generating Unit (CGU) as disclosed in note 12.</p> <p>Significant judgement is required in determining an estimate of the recoverable amount of the CGU due to the economic climate surrounding the Oil and Gas industry at present. Key assumptions include:</p> <ul style="list-style-type: none"> revenue growth over the forecast period, and the discount rate applied over the forecast period. | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> Evaluating management's assessment of the determination of CGU's; Evaluating management's process for developing cash flow forecasts; Assessing the reasonableness of cash flow forecasts through comparison of historical and forecast performance in line with actual and projected crude oil prices; Testing on a sample basis the mathematical accuracy of the underlying "value in use" calculations; Assessing the consistency of the cash flow forecasts with Board approved budgets and the key assumptions were subject to oversight from the directors. <p>In conjunction with our valuation specialists, our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> Assessing the following key assumptions used in management's cash flow forecasts; <ul style="list-style-type: none"> The revenue growth rates by comparing them with economic and industry forecasts, and <p>We also assessed the appropriateness of the disclosures in note 12 to the financial statements</p> |

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|--|--|
| <p>Assessment of deferred tax assets</p> <p>As at 30 June 2019 the carrying value of the Group's net deferred tax asset totals \$12.56 million, inclusive of \$14.02 million of carry forward tax losses.</p> <p>Judgement is required in assessing management's forecasted taxable income and the expected utilisation of the recognised tax losses over the period.</p> | <p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Evaluating management's assessment of the recoverable amount of carry forward tax losses and confirmation of the availability of tax losses; • Evaluating management's forecasts with consideration of future taxable income in Australia through assessing the key underlying assumptions such as future taxable income against historic performance and where appropriate external industry data; • Reconciling the latest Board approved budget with management's forecast of future assessable profits; and • Performing sensitivity analysis to the forecasted future taxable income. <p>We also assessed the appropriateness of the disclosures in note 6 to the financial statements.</p> |

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report and Review of Operations which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the Group's annual report (but does not include the financial report and our auditor's report thereon): Chairman's Report and Chief Executive Officers report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior

to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman's Report and Chief Executive Officers report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 23 of the Directors' Report for the year ended 30 June 2019.

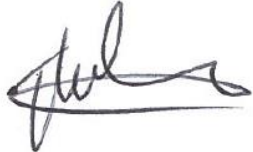
In our opinion, the Remuneration Report of Matrix Composites & Engineering Ltd, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

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DELOITTE TOUCHE TOHMATSU

A handwritten signature in dark ink, appearing to read 'John Sibenaler', written over a horizontal line.

John Sibenaler

Partner

Chartered Accountants

Perth, 22 August 2019