Appendix 4D

Half year report
Period ending on 31 December 2019

Name of entity

Matrix Composites & Engineering Ltd

ABN or equivalent company reference

54 009 235 450

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

Current half-year ended	31 December 2019
Previous half-year ended	31 December 2018

Results for announcement to the market

				$000s
Revenue	Increased	99.6%	To	22,604
Losses after tax attributable to members	Decreased	21.3%	To	(4,177)
Losses after tax attributable to owners of the parent	Decreased	21.3%	To	(4,177)

Dividend payments	Amount per security	Franked amount per security
Year ended 30 June 2019 Final dividend (cents per share)	-	-
Half year ended 31 December 2019 Interim dividend (cents per share)	-	-
Record date for determining entitlement to dividend	n/a	
Date the interim 2020 dividend is payable	n/a	

Net tangible assets	Current half year $	Previous half year $
Net tangible assets per ordinary security (include right-of-use assets and lease liabilities)	$0.72	$0.79

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

The above information should be read in conjunction with the attached Half Year Report for the period ending 31 December 2019.

This report is based on accounts that have been reviewed.

BRENDAN COCKS
CHIEF FINANCIAL OFFICER

Date: 24 February 2020

HALF YEAR REPORT

31 DECEMBER 2019

CONTENTS

DIRECTORS' REPORT

The directors of Matrix Composites & Engineering Ltd ("Matrix" or "the Company") submit herewith the financial report of the Company and its subsidiaries ("Group" or "Consolidated Entity") for the half-year ended 31 December 2019. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Directors

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

Peter J Hood	*(Independent Non-Executive Chairman)*
Aaron P Begley	*(Managing Director & Chief Executive Officer)*
Steven Cole	*(Independent Non-Executive Director)*
Craig N Duncan	*(Independent Non-Executive Director)*

The above named directors held office since the start of the half-year to the date of this report.

Review of Operations

Overview

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

- Manufacture and supply of capital drilling equipment (primarily comprised of syntactic foam buoyancy) and provision of inspection, maintenance and repair services;
- Manufacture and supply of subsea umbilical risers and flowline (SURF) ancillary equipment and associated services;
- Manufacture and supply of well construction products, including centralisers and conductors; and
- Consultancy for, and manufacture of, advanced composite materials and products for the defence, energy, resource and transport sectors.

Financial Performance

The Group recorded a net loss after tax of $4.2m (Dec 2018: net loss $5.3m) for the six month period ended 31 December 2019.

The Group reported an EBITDA loss of ($0.2m) for the six month period ended 31 December 2019 on revenue of $22.6m. The improved result was consistent with a pick up in activity over the last 12 months. From revenue in the prior period Dec 18 half of $11.3m the Company has recorded revenue of $26.9m in the June 2019 half, and then $22.6m in the last 6 months. The Company has continued to maintain an efficient cost structure with the view of maintaining capability within the business so that as global oil and gas market conditions improve the Company is ready to participate. The Company is also investing in increasing its presence in the Defence and Resources industry utilising existing capability and capacity.

The Company undertook a sale and leaseback of our Henderson facility, which included assignment of our long term ground lease and sale of our Buildings attached to the site to APIL. The transaction generated

$20m in cash, with an increased annual lease cost of $1.7m. This helped generate a positive cash movement of $10.6m for the period. This included a negative ($4.6m) in operating cashflow as projects were delivered late in the period with a number of milestone payments invoiced during the period due for payment in the March 2020 quarter. There was also negative ($2.9m) in financing cashflows during the period relating to the net repayment of trade finance during the period.

Net cash (cash on hand of $20.1m less the finance liabilities of $4.7m) at the end of the period was $15.4m.

Strategy and Outlook

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

The business is encouraged by continued healthy levels of quotation activity during the half for work in the offshore drilling and SURF sectors within the Oil and Gas market. As spending increases in the sector, we are seeing increased level of enquiry for our LGS technology. The Company continues to receive material enquiries from its historical customer base.

The Company continues to market its capability to the Resources, Civil & Infrastructure and Defence sectors under its diversification strategy.

Dividends

The directors have determined that no interim dividend will be paid for the period ended 31 December 2019.

Auditor's independence declaration

The auditor's independence declaration is included on page 5 of the half-year report.

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

ASIC Instrument 2016/91

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

On behalf of the Directors

A P Begley
Managing Director & Chief Executive Officer

Perth, 24 February 2020

Deloitte.

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

24 February 2020

Dear Board Members

Auditor's Independence Declaration to Matrix Composites & Engineering Ltd

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

As lead audit partner for the review of the financial report of Matrix Composites & Engineering Ltd for the half-year ended 31 December 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 review; and
(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

John Sibenaler
Partner
Chartered Accountants

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Note	31 Dec 2019	31 Dec 2018
		$'000	$'000
Continuing operations			
Revenue		22,604	11,322
Cost of sales		(21,734)	(13,806)
Gross profit/(loss)		**870**	**(2,484)**
Other income	3	41	371
Other losses	3	(1,276)	-
Administration expenses		(1,457)	(1,352)
Finance costs	3	(151)	(143)
Marketing expenses		(1,049)	(1,404)
Research expenses		(768)	(614)
Engineering expenses		(387)	(439)
Loss before income tax		**(4,177)**	**(6,065)**
Income tax benefit	4	-	755
Loss for the period from continuing operations		**(4,177)**	**(5,310)**
Loss attributable to:			
Owners of the parent		(4,177)	(5,310)
Non-controlling interest		-	-
		(4,177)	**(5,310)**

Loss per share			
Basic loss per share (cents)		(4.1)	(5.6)
Diluted loss per share (cents)		(4.1)	(5.6)

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

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

		31 Dec 2019	31 Dec 2018
		$'000	**$'000**
Loss for the period		(4,177)	(5,310)
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Net foreign currency translation differences		6	(348)
Change in fair value of cash flow hedges		111	(115)
Income tax on fair value movements		-	-
Total comprehensive expense for the period		(4,060)	(5,773)
Total comprehensive expense attributable to:			
Owners of the parent		(4,060)	(5,773)
Total comprehensive expense for the period		(4,060)	(5,773)

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	31 Dec 2019	30 Jun 2019
		$'000	$'000
CURRENT ASSETS			
Cash and cash equivalents		20,106	9,374
Trade and other receivables	5	13,698	8,274
Inventory		8,757	9,763
Other current assets		619	434
TOTAL CURRENT ASSETS		**43,180**	**27,845**
NON CURRENT ASSETS			
Property, plant and equipment	6	36,079	65,168
Right-of-use assets	7	33,699	-
Intangible assets	8	2,825	2,672
Deferred tax assets		12,555	12,555
TOTAL NON CURRENT ASSETS		**85,158**	**80,395**
TOTAL ASSETS		**128,338**	**108,240**
CURRENT LIABILITIES			
Trade and other payables	9	5,366	6,509
Progress claims and deposits	10	635	59
Financial liabilities	11	4,742	7,265
Provisions		474	619
Lease liabilities	7	2,394	-
TOTAL CURRENT LIABILITIES		**13,611**	**14,452**
NON CURRENT LIABILITIES			
Provisions		779	723
Lease liabilities	7	25,095	-
TOTAL NON CURRENT LIABILITIES		**25,874**	**723**
TOTAL LIABILITIES		**39,485**	**15,175**
NET ASSETS		**88,853**	**93,065**
EQUITY			
Issued capital	12	114,170	114,170
Reserves		(347)	(312)
Accumulated losses		(24,970)	(20,793)
Equity attributable to owners of the Company		**88,853**	**93,065**
TOTAL EQUITY		**88,853**	**93,065**

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

		31 Dec 2019	31 Dec 2018
		$'000	**$'000**
CASH FLOWS USED IN OPERATING ACTIVITIES			
Receipts from customers		21,861	14,261
Payments to suppliers and employees		(26,364)	(15,565)
Interest received		22	61
Finance costs paid		(151)	(142)
Net receipt from tax		-	(30)
Net cash used in operating activities		**(4,632)**	**(1,415)**
CASH FLOWS GENERATED BY/(USED IN) INVESTING ACTIVITIES			
Proceeds from sale and leaseback of land and buildings		20,000	-
Payments for property, plant and equipment		(1,220)	(881)
Payments for research and development costs		(626)	(552)
Net cash generated by/(used in) investing activities		**18,154**	**(1,433)**
CASH FLOWS (USED IN)/GENERATED BY FINANCING ACTIVITIES			
Proceeds from issue of ordinary share capital (net of capital raising costs and tax)		-	2,850
Proceeds from borrowings		6,087	4,960
Repayment of borrowings		(8,643)	(1,413)
Repayment of lease assets (principal portion)		(351)	-
Net cash (used in)/generated by financing activities		**(2,907)**	**6,397**
Net increase in cash and cash equivalents		**10,615**	**3,549**
Cash and cash equivalents at 1 July		9,374	10,595
Effects of exchange rate changes on the balance of cash held in foreign currencies		117	349
Cash and cash equivalents at 31 December		**20,106**	**14,493**

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

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

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Issued capital	Accumulated losses	Cash flow hedge reserve	Foreign currency translation reserve	Share based payment reserve	Attributable to owners of the parent	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2018	**111,284**	**(12,109)**	**(50)**	**(476)**	**748**	**99,397**	**99,397**
Loss for the year	-	(5,310)	-	-	-	(5,310)	(5,310)
Other comprehensive income for the year, net of income tax							
Foreign currency translation	-	-	-	(348)	-	(348)	(348)
Change in fair value of cash flow hedges net of tax	-	-	(115)	-	-	(115)	(115)
Total comprehensive income for the year	-	(5,310)	(115)	(348)	-	(5,773)	(5,773)
Issue of shares net of costs and tax	2,850	-	-	-	-	2,850	2,850
Share based payments	-	-	-	-	(298)	(298)	(298)
Balance at 31 December 2018	**114,134**	**(17,419)**	**(165)**	**(824)**	**450**	**96,176**	**96,176**

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

General Information

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

Statement of Compliance

The half-year financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

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

The half-year financial report was authorised for issue by the directors on 24 February 2020.

Basis of Preparation

The consolidated half-year report has been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, 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.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2019 annual financial report for the financial year ended 30 June 2019, except for new Standards and Interpretations described below These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

Application of New and Revised Accounting Standards

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

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

A description of the adoption of the new Standards follows.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 16 Leases

Matrix has adopted AASB 16 from 1 July 2019. AASB 16 replaced prior leases guidance, including AASB 117 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

Under AASB 16, a contract is a lease or contains a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Under AASB 117, a lease was either a finance lease (on balance sheet) or an operating lease (off balance sheet). AASB 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' if the recognition requirements of a lease are met.

In the reporting period ended 31 December 2019, Matrix has applied AASB 16 Leases by applying the "cumulative catch-up" approach which recognised the cumulative effect of 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 leases to carry forward from the financial year ending 30 June 2019. The operating lease was related to leased land with the Western Australian Land Authority ("Landcorp") with an initial right-of-use asset of $13.9m and equal amount of lease liability as of 1 July 2019.

Subsequently, Matrix entered a sale and leaseback transaction. As a result of completion of the sale and leaseback transaction, the Landcorp lease has been terminated and replaced by a new lease incorporating both land and buildings with a revised right-of-use asset value of $33.7m.

As such, Matrix has accounted for the sale and leaseback transaction in accordance with AASB 16 and re-assessed the value of the right-of-use asset and corresponding lease liability with respect to the leasehold interest which combines the use of the premises and all the buildings on that premises.

The lease liability is measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate. The right-of-use asset is measured as the sum of initial lease liability, lease payment made at or before the commencement date and initial direct costs incurred by the lessee.

The lease transaction details are disclosed in note 7.

Standards and Interpretations in issue not yet adopted

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an	***1 January 2022***	***30 June 2023***

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
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	*(Editorial corrections in AASB2017-5 apply from 1 January 2018*	
AASB 2008-6 Amendments to Australian Accounting Standards – Definition of a Business	*1 January 2020*	*30 June 2021*
AASB 2008-7 Amendments to Australian Accounting Standards – Definition of Material	*1 January 2020*	*30 June 2021*
AASB 2009-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework Business	*1 January 2020*	*30 June 2021*

2. OPERATING SEGMENT

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

Performance Monitoring and Evaluation

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

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

	MCE Group 31 Dec 2019 $'000	MCE Group 31 Dec 2018 $'000
Revenue	22,604	11,322
EBITDAF	236	(2,171)
Foreign exchange (loss)/gain	(396)	285
EBITDA	(160)	(1,886)
Depreciation and amortisation	(3,888)	(4,097)
EBIT	(4,048)	(5,983)
Net finance costs	(129)	(82)
(Loss) before tax (continuing operations)	(4,177)	(6,065)

2. OPERATING SEGMENT (CONTINUED)

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

	MCE Group 31 Dec 2019 $'000	MCE Group 30 Jun 2019 $'000
Total consolidated assets	128,338	108,240
Total consolidated liabilities	39,485	15,175
Geographical Assets		
Australia	127,000	107,112
Others	1,338	1,128
	128,338	108,240
Geographical Liabilities		
Australia	39,383	15,131
Others	102	44
	39,485	15,175

Major Customers

Matrix supplies goods and services to a broad range of customers in the global oil & gas industry. During the reporting periods, 4 major customers (31 December 2018: six major customer), collectively accounted for greater than 89 per cent of total group revenue.

3. OTHER INCOME AND EXPENSES

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

	31 Dec 2019 $'000	31 Dec 2018 $'000
Other Income		
Interest received	22	61
Profit on sale of Scrap	13	-
Sundry income	6	25
Net foreign exchange gain	-	285
	41	371
Other losses		
Loss arising on sale and leaseback	(669)	-
Inventory write-off	(211)	-
Net foreign exchange loss	(396)	-
	(1,276)	-
Finance costs		
Finance costs	(125)	(143)
Lease interest	(26)	-
	(151)	(143)

4. INCOME TAX BENEFIT

Income tax benefit recognised in profit or loss

	31 Dec 2019 $'000	31 Dec 2018 $'000
The component of tax benefit comprises		
Current tax in respect of prior years	-	805
Deferred tax in respect of current year	164	1,579
Deferred tax in respect of prior years	-	(574)
	164	1,810

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

	31 Dec 2019 $'000	31 Dec 2018 $'000
Loss before tax from continuing operations	**4,177**	**6,065**
Income tax benefit calculated at 30% (2018:30%)	1,253	1,820
Effect of expenses that are not deductible in determining taxable profit	(259)	(240)
Adjustments recognised in the current period in relation to the deferred tax of prior periods	-	(574)
Effect of R&D tax concessions	-	804
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(830)	-
Income tax benefit in the current period	164	1,810
Income tax benefit not recognised in the current period	(164)	(1,055)
Total income tax benefit in the current period relating to continuing operations	-	755

The Directors have made a decision not to recognise deferred tax assets of $164k in the financial statements for this reporting period. However, this decision has no effect on the amount accumulated tax losses that can be carried forward by the Company.

5. TRADE AND OTHER RECEIVABLES

CURRENT	31 Dec 2019 $'000	30 Jun 2019 $'000
Trade receivables (i)	9,392	4,817
Other receivables – Trade (ii)	4,189	3,314
GST refundable	117	143
	13,698	8,274

(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 subject to individual contractual arrangements and management's discretion.

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

6. PROPERTY PLANT AND EQUIPMENT

	Building[1]	Plant & equip	Motor vehicle	Office equip	Comp equip	Asset under constr.	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Opening carrying amount at 1 July 2019	27,021	36,656	8	15	441	1,027	65,168
Addition		884			10	160	1,054
Disposal	(26,408)	(599)					(27,007)
Depreciation expenses	(526)	(2,493)	(1)	(4)	(112)		(3,136)
Closing carrying amount at 31 December 2019	87	34,448	7	11	339	1,187	36,079

1. Building written down value of $26.4m has been derecognised following completion of the sale and leaseback transaction in December 2019.

7. LEASES

Matrix has entered a Sale and Leaseback contract with Australian Property Investment Limited ("APIL") with respect to the leasehold interests, including the use of the premises and the buildings on the premises. The transaction was settled on 19 December 2019.

Under this arrangement, Matrix has recognised a right-of-use asset and a corresponding lease liability with respect to the leased interests. The initial lease term is 20 years with an option of a further extension of 15 years. At the reporting date, considering the length of time, Matrix has not yet determined the likelihood of extension. Hence, the optional 15 years has not been considered in calculating the value of the right-of-use asset and lease liability.

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 of 7.9 per cent.

The right-of-use asset comprises the initial measurement of the corresponding lease liability, lease payments made at the commencement day and initial direct costs incurred by Matrix. The right-of-use asset is depreciated over 20 years.

Right-of-use asset	**31 Dec 2019**	**30 Jun 2019**
	$'000	**$'000**
Cost:		
At 1 July 2019	13,933	-
Disposed of	(13,933)	-
Right-of-use land	9,394	-
Right-of-use buildings	24,305	
At 31 December 2019	33,699	-

7. LEASES (CONTINUED)

Accumulated Depreciation:		
At 1 July 2019	-	-
Charge for the half year	-	-
	-	-
Carrying amount		
At 31 December 2019	33,699	-

Lease liability	**31 Dec 2019 $'000**	**30 Jun 2019 $'000**
Maturity analysis		
Not later than one year	2,394	-
Later than one year but not later than five years	9,970	-
Later than five years	15,125	-
	27,489	-
Analysed as:		
Current	2,394	-
Non-current	25,095	-
	27,489	-

The Company does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored internally by the Company's management.

Lease exemptions

At 31 December 2019, the Company is committed to $41k (2018:70k) for the office equipment leases. The Company has assessed the value of the underlying assets and considered them as low value assets. Therefore, the Company has applied low-value lease exemptions and accounted for the lease payments as an operating expense on a straight-line basis over the lease term. The operating expense is presented in the consolidated statement of profit or loss.

	31 Dec 2019 $'000	**31 Dec 2018 $'000**
Multiple copiers	7	12
Multiple IT equipment	34	-
Office lease in the USA	-	58
	41	70

8. INTANGIBLE ASSETS

	31 Dec 2019 $'000	**30 Jun 2019 $'000**
Development costs (i)	6,973	6,703
Accumulated amortisation expense	(4,148)	(4,031)
	2,825	2,672

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

8. INTANGIBLE ASSETS (CONTINUED)

At 31 December 2019, the Company considered 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.

In its consideration of impairment, the Company revisited the calculation performed at 30 June 2019. Based on the Company's results to date, growing year on year revenue, and forecast to achieve the Year 1 forecast results the Company determined that there had been no material change in any assumptions from the calculation performed in June 2019. As such the Company has adopted those calculations as the basis of its impairment assessment for December 2019.

The Company has used a value in use model. The value in use model uses cash flow projections previously approved by the directors covering a five year period with a steady growth rate for years beyond the five year period.

The estimation of future cash flows requires significant estimates and judgements. Details of the key assumptions used in the value in use model at 30 June 2019, and 31 December 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

Sustained low oil and gas prices over recent years led to reduced levels of activity in the oil and gas sector which the Company primarily services. However a revenue increase in the last 12 months (December 19 calendar year) of $49.5m compared with $18.9 in the 12 months prior supports our view of a recovering market. Our revenue forecast for the 5 year model predicts a gradual recovery in demand over the next five year period returning to modest levels of production (approximately 65% of our average annual revenue during the peak years from 2010 to 2015). This increase is expected to continue as a number of new projects come on line in the next 3 years, and offshore exploration continues to ramp up as the major oil companies look to replenish future reserves.

Cost of Goods Sold

In determining gross margin, management has used historical performance trends, overlaying the impacts of recent initiatives and changes to product mix to reduce costs.

Terminal Growth Rate

A terminal value growth rate of 2 per cent (2018: 2 per cent) has been applied.

Foreign Exchange Rate

A AUD:USD foreign exchange rate of 0.70 (2018: 0.75) has been applied.

8. INTANGIBLE ASSETS (CONTINUED)

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.

9. TRADE AND OTHER PAYABLES

	31 Dec 2019	30 Jun 2019
CURRENT	**$'000**	**$'000**
Trade creditors	1,198	4,910
GST payable	1,914	13
Other creditors and accruals	2,254	1,586
	5,366	6,509

10. PROGRESS CLAIMS AND DEPOSITS

	31 Dec 2019	30 Jun 2019
CURRENT	**$'000**	**$'000**
Progress claims and deposits	635	59
	635	59

Progress claims and deposits represent cash consideration received for products that have not been produced or not reached invoicing milestones under a contract with customer. The productions in relation to the aforementioned progress claims will be substantially completed by 30 June 2019.

11. FINANCIAL LIABILITIES

	31 Dec 2019	30 Jun 2019
CURRENT	**$'000**	**$'000**
Trade finance (i)	4,707	7,263
Forward exchange contracts liability (hedge accounted) (ii)	35	2
	4,742	7,265

(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 Group's working capital, bonding and trade finance 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.

(ii) The Group had a net hedge liability position of $35k (30 June 2019: $2k) reflecting the negative mark-to-market value of foreign exchange contract.

12. ISSUED CAPITAL

Movements in Ordinary Share Capital

	31 Dec 2019	30 Jun 2019
	$'000	**$'000**
Issued and paid up capital 102,321,429 (2019: 102,321,429) fully paid ordinary shares	114,170	114,170
	114,170	114,170

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

12. ISSUED CAPITAL (CONTINUED)

	Number of shares	$'000
Date		
Balance 1 July 2018	93,750,000	111,284
Balance 30 June 2019	102,321,429	114,170
Balance 31 December 2019	102,321,429	114,170

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

13. DIVIDENDS

In respect of the reporting period ended 31 December 2019, no interim dividend was paid (June 2019: nil).

14. CONTINGENT LIABILITIES AND ASSETS

The Group had no contingent liabilities or assets requiring disclosure at 31 December 2019.

15. EVENTS SUBSEQUENT TO REPORTING DATE

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

DIRECTORS' DECLARATION

The directors declare that:

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

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

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

On behalf of the directors

A P Begley
Managing Director & Chief Executive Officer

Perth, 24 February 2020

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

We have reviewed the accompanying half-year financial report of Matrix Composites & Engineering Ltd, which comprises the condensed statement of financial position as at 31 December 2019, the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Matrix Composites & Engineering Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Matrix Composites & Engineering Ltd, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

John Sibenaler
Partner
Chartered Accountants
Perth, 24 February 2020