

Appendix 4D

Half year report Period ending on 31 December 2018

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 2018
Previous half-year ended	31 December 2017

Results for announcement to the market

					\$000s
Revenue	Decreased	4.6%	To		11,322
Profit/(losses) after tax attributable to members	Decreased	19.5%	To		(5,310)
Profit/(losses) after tax attributable to owners of the parent	Decreased	19.5%	To		(5,310)

Dividend payments	Amount per security	Franked amount per security
<u>Year ended 30 June 2018</u> Final dividend (cents per share)	-	-
<u>Half year ended 31 December 2018</u> Interim dividend (cents per share)	-	-
Record date for determining entitlement to dividend	n/a	
Date the interim 2019 dividend is payable	n/a	

Net tangible assets	Current half year \$	Previous half year \$
Net tangible assets per ordinary security	\$0.91	\$1.00

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 2018.

This report is based on accounts that have been reviewed.



BRENDAN COCKS
CHIEF FINANCIAL OFFICER

Date: 21 February 2019



HALF YEAR REPORT

31 DECEMBER 2018

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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 2018. 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	<i>(Independent Non-Executive Chairman)</i>
Aaron P Begley	<i>(Managing Director & Chief Executive Officer)</i>
Steven Cole	<i>(Independent Non-Executive Director)</i>
Craig N Duncan	<i>(Independent Non-Executive Director)</i>

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 \$5.3m (Dec 2017: net loss \$6.6m) for the six month period ended 31 December 2018.

The Group reported an EBITDA loss of (\$1.9m) for the six month period ended 31 December 2018 on revenue of \$11.3m. The result was at a similar level with the previous corresponding period (Revenue \$11.9m, EBITDA loss of \$2.3m) but a revenue increase from the \$7.9m recorded in the 6 months ending June 18. The company has continued to maintain a low cost structure with the view of maintaining capability within the business, so that it can participate in a recovery in the global oil and gas market. While revenue has continued to be subdued, there have been a number of material orders received during the half resulting in the commencement of a ramp up in activity which was evident during the later part of the half. An increase in both production and orders of our traditional riser buoyancy products was a highlight during the half.

The Company undertook a capital raising during the period and recorded a strong cash position with cash in the bank at the end of the period at \$14.5m (Jun 18: \$10.6m). Cash usage for the period included an operating deficit of (\$1.4m) and Capital expenditure and R&D of (\$1.4m).

The Company maintained banking facilities with no term debt and \$7.4m of trade finance outstanding at the end of the period.

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 an increasing order book during the period whilst maintaining a healthy level of quotation activity during the half. The Company continues to receive material enquiries from its historical customer base.

The Company is also marketing its capability to the Resources, Civil & Infrastructure and Defence sectors under its diversification strategy. During the period the business commenced a material order to produce large composite prototypes for a transport application.

Engagement within the Defence sector continues to gain momentum.

Dividends

The directors have determined that no interim dividend will be paid for the period ended 31 December 2018.

Auditor's independence declaration

The auditor's independence declaration is included on page 4 of the half-year report.

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

On behalf of the Directors



A P Begley
Managing Director & Chief Executive Officer

Perth, 21 February 2019

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

21 February 2019

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.

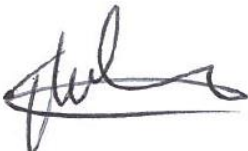
As lead audit partner for the review of the financial report of Matrix Composites & Engineering Ltd for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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 2018**

	Note	31 Dec 2018	31 Dec 2017
		\$	\$
Continuing operations			
Revenue		11,322,479	11,873,670
Cost of sales		(13,806,503)	(14,073,644)
Gross loss		(2,484,024)	(2,199,974)
Other income	3	371,204	333,719
Administration expenses		(1,351,527)	(1,762,566)
Finance costs	3	(142,697)	(44,790)
Marketing expenses		(1,404,377)	(1,707,900)
Research expenses		(614,279)	(493,303)
Engineering expenses		(439,367)	(716,781)
Loss before income tax		(6,065,067)	(6,591,595)
Income tax (expense)/ benefit	4	755,252	(1,879)
Loss for the period from continuing operations		(5,309,815)	(6,593,474)
Loss attributable to :			
Owners of the parent		(5,309,815)	(6,593,474)
Non-controlling interest		-	-
		(5,309,815)	(6,593,474)

Loss per share			
Basic loss per share (cents)		(5.6)	(7.0)
Diluted loss per share (cents)		(5.6)	(7.0)

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 2018**

	31 Dec 2018	31 Dec 2017
	\$	\$
Loss for the period	(5,309,815)	(6,593,474)
Other comprehensive expense		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Net foreign currency translation differences	(347,902)	69,581
Change in fair value of cash flow hedges	(115,222)	(4,384)
Income tax on fair value movements	-	-
Total comprehensive expense for the period	(5,772,939)	(6,528,277)
Total comprehensive expense attributable to:		
Owners of the parent	(5,772,939)	(6,528,277)
Total comprehensive expense for the period	(5,772,939)	(6,528,277)

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 2018**

	Note	31 Dec 2018	30 Jun 2018
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents		14,492,895	10,594,618
Trade and other receivables	5	7,554,054	5,406,052
Inventory		8,905,573	7,815,581
Other current assets		794,493	489,066
TOTAL CURRENT ASSETS		31,747,015	24,305,317
NON CURRENT ASSETS			
Property, plant and equipment		67,090,216	69,819,461
Intangible assets	6	2,616,510	2,559,045
Deferred tax assets		12,555,184	12,555,184
TOTAL NON CURRENT ASSETS		82,261,910	84,933,690
TOTAL ASSETS		114,008,925	109,239,007
CURRENT LIABILITIES			
Trade and other payables	7	4,205,160	4,196,353
Progress claims and deposits	8	4,676,787	615,797
Financial liabilities	9	7,826,869	3,993,238
Provisions		510,343	520,836
TOTAL CURRENT LIABILITIES		17,219,159	9,326,224
NON CURRENT LIABILITIES			
Provisions		613,364	515,807
TOTAL NON CURRENT LIABILITIES		613,364	515,807
TOTAL LIABILITIES		17,832,523	9,842,031
NET ASSETS		96,176,402	99,396,976
EQUITY			
Issued capital	10	114,133,768	111,283,768
Reserves		(538,827)	221,932
Retained earnings		(17,418,539)	(12,108,724)
Equity attributable to owners of the Company		96,176,402	99,396,976
TOTAL EQUITY		96,176,402	99,396,976

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 2018**

	31 Dec 2018	31 Dec 2017
	\$	\$
CASH FLOWS GENERATED BY/(USED IN) OPERATING ACTIVITIES		
Receipts from customers	14,261,354	4,638,660
Payments to suppliers and employees	(15,564,705)	(7,934,726)
Interest received	61,015	22,291
Finance costs paid	(142,697)	(44,790)
Net receipt from tax	(29,838)	59,533
Net cash used in operating activities	(1,414,871)	(3,259,032)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	-	10,500
Payments for property, plant and equipment	(880,856)	(345,825)
Payments for research and development costs	(552,433)	(252,927)
Net cash used in investing activities	(1,433,289)	(588,252)
CASH FLOWS GENERATED BY FINANCING ACTIVITIES		
Issue of ordinary shares net of costs and tax	2,850,000	-
Proceeds from borrowings	4,960,549	488,901
Repayment of borrowings	(1,413,116)	(1,524,927)
Net cash generated by/(used in) financing activities	6,397,433	(1,036,026)
Net increase/(decrease) in cash and cash equivalents	3,549,273	(4,883,310)
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	349,004	(160,056)
Cash and cash equivalents at 31 December	14,492,895	11,559,638

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 2018**

	Issued capital	Retained earnings	Cash flow hedging 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		(5,309,815)				(5,309,815)	(5,309,815)
Other comprehensive income for the year, net of income tax							
Foreign currency translation				(347,902)		(347,902)	(347,902)
Change in fair value of cash flow hedges net of tax			(115,222)			(115,222)	(115,222)
Total comprehensive income for the year	-	(5,309,815)	(115,222)	(347,902)	-	(5,772,939)	(5,772,939)
Issue of shares net of costs and tax	2,850,000					2,850,000	2,850,000
Share based payments	-	-	-	-	(297,635)	(297,635)	(297,635)
Balance at 31 December 2018	114,133,768	(17,418,539)	(165,659)	(823,415)	450,247	96,176,402	96,176,402

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 2018**

	Issued capital	Retained earnings	Cash flow hedging 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	-	(6,593,474)	-	-	-	(6,593,474)	(6,593,474)
<i>Other comprehensive income for the year, net of income tax</i>							
Foreign currency translation	-	-	(4,384)	-	-	(4,384)	(4,384)
Change in fair value of cash flow hedges net of tax	-	-	-	69,581	-	69,581	69,581
Total comprehensive income for the year	-	(6,593,474)	(4,384)	69,581	-	(6,528,277)	(6,528,277)
Share based payments	-	-	-	-	191,793	191,793	191,793
Balance at 31 December 2017	111,283,768	(3,312,751)	(4,384)	(137,219)	647,791	108,477,205	108,477,205

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 2018

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 2018 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 21 February 2019.

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 2018 annual financial report for the financial year ended 30 June 2018, 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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2018****1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****AASB 15 Revenue from Contracts with Customers**

The standard requires identification of distinct performance obligations within a contract and allocation of 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 elects 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 are categorised 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.

The newly adopted standard also requires the management to use significant judgements in considering the contract terms and all the facts and circumstances, in determining which method provides the most relevant and useful information for the business and the external users of their financial statements. Based on Matrix's practice in consistent with previous years, the input method has been widely used in revenue recognition which is very similar to the comparative reporting period.

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 our consolidated financial statements in the current reporting period.

AASB 9 Financial Instruments

Matrix adopted this standard 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 met the conditions of classification and measurement under the new guidance of AASB 9.

Other key assessments made by Matrix in evaluating the impact on the adoption of AASB 9 include the following:

- Matrix only has financial liability in terms of derivatives as at 31 December 2018. 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 for 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. The timing of hedged instruments broadly matches the hedging items.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2018**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Assessment of measurement

The measurement categories have remained unchanged and as such, the adoption of AASB 9 has not resulted in significant impact on our carrying value of financial instruments.

- Assessment of effectiveness test

Matrix has assessed the economic relationship between each hedged item and the hedging instrument. Matrix has determined that the effectiveness testing has been satisfied since the critical terms of the hedged items match the critical terms of the derivatives.

- Assessment of credit risk

Matrix is of the view that the credit risk has not significantly increased since initial recognition.

- Assessment of impairment provisions

AASB 9 requires the recognition of impairment provisions based on 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 AASB 9 has no significant impact on our consolidated financial statements for this reporting period.

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
<i>AASB 16 'Lease'</i>	1 January 2019	30 June 2020
<i>AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB 10 & AASB 128]'</i>	1 January 2022 (Editorial corrections in AASB2017-5 apply from 1 January 2018)	30 June 2023
<i>Interpretation 23 'Uncertainty over Income Tax Treatments'</i>	1 January 2019	30 June 2020

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

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 2018	MCE Group 31 Dec 2017
	\$	\$
Revenue	11,322,479	11,873,670
EBITDAF	(2,171,118)	(2,625,030)
Foreign exchange gain	284,547	301,666
EBITDA	(1,886,571)	(2,323,364)
Depreciation and amortisation	(4,096,814)	(4,245,732)
EBIT	(5,983,385)	(6,569,096)
Net finance costs	(81,682)	(22,499)
(Loss)/profit before tax (continuing operations)	(6,065,067)	(6,591,595)

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

	MCE Group 31 Dec 2018	MCE Group 30 Jun 2018
	\$	\$
Total consolidated assets	114,008,925	109,239,007
Total consolidated liabilities	17,832,523	9,842,031
Geographical Assets	\$	\$
Australia	112,717,505	107,477,857
Others	1,291,420	1,761,150
	114,008,925	109,239,007
Geographical Liabilities		
Australia	19,245,620	11,169,815
Others	(1,413,097)	(1,327,784)
	17,832,523	9,842,031

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

2. OPERATING SEGMENT (CONTINUED)

Major Customers

Matrix supplies goods and services to a broad range of customers in the global oil & gas industry. During the reporting periods, six major customers (31 December 2017: five major customer), collectively accounted for greater than 78 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 2018	31 Dec 2017
	\$	\$
Other Income		
Interest received	61,015	22,291
Sundry income	25,642	9,762
Net foreign exchange gain	284,547	301,666
	<u>371,204</u>	<u>333,719</u>
Operating Expenses		
Depreciation and amortisation	(4,096,814)	(4,245,732)
Finance costs	(142,697)	(44,790)
	<u>(4,239,511)</u>	<u>(4,290,522)</u>

4. INCOME TAX BENEFIT/(EXPENSE)

Income tax benefit/(expense) recognised in profit or loss

	31 Dec 2018	31 Dec 2017
	\$	\$
The component of tax benefit/(expense) comprise		
Current tax in respect of prior years	804,633	-
Deferred tax in respect of current year	1,579,496	(1,879)
Deferred tax in respect of prior years	(574,172)	-
	<u>1,809,957</u>	<u>(1,879)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

4. INCOME TAX BENEFIT/(EXPENSE) (CONTINUED)

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

	31 Dec 2018	31 Dec 2017
	\$	\$
Loss before tax from continuing operations	6,065,067	6,591,595
Income tax benefit calculated at 30% (2017:30%)	1,819,520	1,977,478
Effect of expenses that are not deductible in determining taxable profit	(240,024)	(353,952)
Adjustments recognised in the current period in relation to the deferred tax of prior periods	(574,172)	(195,749)
Effect of R&D tax concessions	804,633	-
Income tax benefit in the current period	1,809,957	1,427,777
Income tax benefit not recognised in the current period	(1,054,705)	(1,429,656)
Total income tax benefit/(expense) in the current period relating to continuing operations	<u>755,252</u>	<u>(1,879)</u>

The Directors have made a decision not to recognise deferred tax assets of \$1,054,705 in the financial statements for this reporting period. However, this decision has no effect on the amount accumulated tax losses that can be carried forward by the Company.

5. TRADE AND OTHER RECEIVABLES

	31 Dec 2018	30 Jun 2018
	\$	\$
CURRENT		
Trade receivables ⁽ⁱ⁾	5,398,897	1,088,961
Other receivables – Trade ⁽ⁱⁱ⁾	1,985,390	4,239,384
GST refundable	169,767	77,707
	<u>7,554,054</u>	<u>5,406,052</u>

(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. INTANGIBLE ASSETS

	31 Dec 2018	30 Jun 2018
	\$	\$
Development costs ⁽ⁱ⁾	6,096,215	5,540,469
Accumulated amortisation expense	(3,479,705)	(2,981,424)
	<u>2,616,510</u>	<u>2,559,045</u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**FOR THE HALF YEAR ENDED 31 DECEMBER 2018****6. INTANGIBLE ASSETS (CONTINUED)**

At 31 December 2018, 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 2018. Based on the Company's results to date, growing order book, 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 2018. As such the Company has adopted those calculations as the basis of its impairment assessment for December 2018.

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 2018, and 31 December 2018, and adopted by the Board are included below.

Key Assumptions:*Discount Rate*

A post-tax discount rate of 10 per cent (2017: 10 per cent) reflecting the Company's long term weighted average cost of capital adjusted for market risk.

Revenue

The sustained low oil and gas price over recent years has led to reduced levels of activity in the oil and gas sector which the Company primarily services. Revenue forecasts have incorporated the impacts of the lower levels of activity but incorporate a gradual recovery in demand over the next five year period returning to modest levels of production. This increase is expected to occur through a recovery in the oil and gas price and increased availability of industry capex, and a take up of the Company's Longitudinally Grooved Suppression (LGS) system into the overall product mix. The model assumes manufacturing products and providing services based on current volumes achieved with a gradual recovery in demand over the next five year period. The model assumes the Company's revenue returns to a level that is approximately 60%-65% of the revenue achieved prior to the fall in the oil price in late 2014 and into 2015. In the most recent 18 months the industry experienced a material improvement in the oil price resulting in an increase in the quality and quantum of quotation activity. This indicates a recovery for the industry is underway and aligns with our assumptions last year and this year. There is also allowance for new products where there is a contract in place. Selling prices reflect current expected values.

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 two per cent (2017: two per cent) has been applied.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2018**

6. INTANGIBLE ASSETS (CONTINUED)

Foreign Exchange Rate

A AUD:USD foreign exchange rate of 0.75 (2017: 0.76) 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 growth over the next five year period
- Discount rate
- Terminal value growth rate
- Foreign exchange rate

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 – sales price growth	± USD500	18.4	18.4
Discount rate	± 2%	34.2	57.5
Terminal value growth rate	± 0.5%	8.0	8.9
Foreign exchange rate	± \$0.05	45.9	45.9
WCP Volume	± 10%	9.8	9.8

None of the above sensitivities, when individually compared against the base case, indicate any impairment to the carrying values as the negative impact amounts are all less than the impairment headroom.

The impairment analysis is based on a number of industry and operational assumptions by management over the 5 year period to 30 June 2023, 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.

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 FY19 budgeted performance outcome, unless an annual average revenue increase of 26%p.a was achieved over the remaining balance of the 5 year period to 30 June 2023, then the carrying cost and value in use of the relevant assets may need to be revisited. Based on the current order book, the Company is on track to achieve a revenue increase in FY19 of at least 79% to 105% reflecting the improving oil and gas environment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2018
7. TRADE AND OTHER PAYABLES

	31 Dec 2018	30 Jun 2018
CURRENT	\$	\$
Trade creditors	2,017,496	2,292,604
GST payable	68,916	1,897,055
Other creditors and accruals	2,118,748	6,694
	<u>4,205,160</u>	<u>4,196,353</u>

8. PROGRESS CLAIMS AND DEPOSITS

	31 Dec 2018	30 Jun 2018
CURRENT	\$	\$
Progress claims and deposits	4,676,787	615,797
	<u>4,676,787</u>	<u>615,797</u>

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.

9. FINANCIAL LIABILITIES

	31 Dec 2018	30 Jun 2018
CURRENT	\$	\$
Trade finance ⁽ⁱ⁾	7,366,151	3,818,719
Forward exchange contracts liability (hedge accounted) ⁽ⁱⁱ⁾	460,718	174,519
	<u>7,826,869</u>	<u>3,993,238</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 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. Subsequent to the half-year end, a significant \$1.1m, trade finance has been repaid.

(ii) The Group had a net hedge liability position of \$460,718 (30 June 2018: 174,519) reflecting the negative mark-to-market value of foreign exchange contract.

10. ISSUED CAPITAL
Movements in Ordinary Share Capital

	31 Dec 2018	30 Jun 2018
	\$	\$
Issued and paid up capital 102,321,429 (2018: 93,750,000) fully paid ordinary shares	114,133,768	111,283,768
	<u>114,133,768</u>	<u>111,283,768</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

10. ISSUED CAPITAL (CONTINUED)

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

Date	Number of shares	\$
Balance 1 July 2017	93,750,000	111,283,768
Balance 30 June 2018	93,750,000	111,283,768
Shares issued ⁽ⁱ⁾	8,571,429	3,000,000
Less: capital issue costs net of tax	-	(150,000)
Balance 31 December 2018	102,321,429	114,133,768

(i) On 19 December 2018, the Company issued 8,571,429 fully paid ordinary shares in Matrix to institutional and sophisticated investors.

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.

11. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

This note provides information about how the Group determines the fair values of various financial assets and financial liabilities.

Fair Value of the Group's Financial Assets and Financial Liabilities that are measured at fair value on a recurring basis

The Group has financial assets and financial liabilities that are measured at fair value at the end of each reporting date.

At 31 December 2018, Matrix only has level 2 financial liability as disclosed below:

- Foreign exchange derivative liability of \$460,718 (30 June 2018: 174,519), that are valued using discounted cash flow techniques. Under this technique future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of the counterparties.
- At balance date, the carrying amount of financial liability for the Group is considered to approximate their fair value.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2018****12. DIVIDENDS**

In respect of the reporting period ended 31 December 2018, no interim dividend was paid (June 2018: nil).

13. CONTINGENT LIABILITIES AND ASSETS

The Group had no contingent liabilities or assets requiring disclosure at 31 December 2018.

14. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to year end, the Company has entered into an agreement with Colliers International to explore market interest for a sale and leaseback of our Henderson property. This process will commence during the June 19 half. If the initiative progresses, then funds would be available for enhanced capital flexibility for the company.

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, 21 February 2019

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 2018, 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 2018 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 2018 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, 21 February 2019