

Results for announcement to the market

Appendix 4E

Preliminary Final Report
Period Ended 30 June 2022

Name of entity

Matrix Composites & Engineering Ltd

ABN or equivalent company reference

009 435 250

Period ended ('Current Period')

30 June 2022
Previous corresponding period: 30 June 2021

Extracts from this report for announcement to the market

				\$000s
Revenues from ordinary activities	Up	62.5%	to	28,625
Loss from ordinary activities after tax attributable to members	Down	82.9%	to	(4,776)
Net loss after tax for period attributable to members	Down	82.9%	to	(4,776)
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:				
<i>Not applicable</i>				

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
(\$0.07)	(\$0.11)

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

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 2022 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 2022 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

30 August 2022
Perth, Western Australia

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Consolidated Annual Report - 30 June 2022

Matrix Composites & Engineering Ltd

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Matrix Composites & Engineering Ltd
Corporate directory
For the year ended 30 June 2022

Directors	Mr P J Hood AO (Chairman) Mr A P Begley (CEO) Mr S Cole Mr C N Duncan Mr C Sutherland
Company Secretary	Mr B W Cocks Mr P A Hardie
Head Office	Matrix Composites & Engineering Ltd 150 Quill Way Henderson WA 6166 Telephone: +61 (08) 9412 1200 E-mail: matrix@matrixengineered.com
Overseas Offices	Matrix Composites & Engineering (US), Inc 2925 Richmond Avenue, Suite 1200 Houston Texas 77027 U.S.A Email: us@matrixengineered.com
Auditor	KPMG 235 St Georges Terrace Perth WA 6000
Lawyers	Squire Patton Boggs Level 21, 200 Murray Street PERTH WA 6000
Bankers	ANZ Level 10, 77 St Georges Terrace Perth WA 6000
Share Registry	Link Market Services Ltd Level 4 Central Park 152-158 St Georges Terrace PERTH WA 6000

Matrix Composites & Engineering Ltd
Directors' report
For the year ended 30 June 2022

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 2022. 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 AO	<i>Independent Non-Executive Chairman</i>
Qualifications & Experience	<p>Peter Hood is a qualified Chemical Engineer with nearly 50 years of experience in senior management and project development in the mining, oil and gas, and chemical industries.</p> <p>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.</p> <p>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.</p> <p>Mr Hood chairs the Remuneration and Nomination Committees and is a member of the Audit and Risk Committees.</p>
Education	<p>Bachelor of Engineering (Chemical), Melbourne University, 1970</p> <p>Advanced Management Program, Harvard Business School, 1997</p> <p>Graduate Diploma of Administration, Western Australian Institute of Technology (now Curtin University), 1974</p>
Memberships	<p>Fellow of the Australian Institute of Company Directors</p> <p>Fellow of the Institute of Chemical Engineers</p> <p>Member of the Australian Institute of Mining and Metallurgy</p>

Aaron P Begley	<i>Managing Director & Chief Executive Officer</i>
Qualifications & Experience	<p>Aaron Begley has over 25 years' experience in manufacturing and marketing specialised industrial equipment, materials and services to the oil & gas and marine technology sectors.</p> <p>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.</p>
Education	<p>Post Graduate Diploma of Management (Curtin), 2002</p> <p>Bachelor of Economics (University of Western Australia), 1993</p>
Memberships	<p>Society of Underwater Technology (SUT)</p> <p>Society of Petroleum Engineers (SPE)</p> <p>International Association of Drilling Contractors (IADC)</p>

Matrix Composites & Engineering Ltd
Directors' report
For the year ended 30 June 2022

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, property management and development and resources sectors. Mr Cole is Chairman of Neometals Limited, the Queen Elizabeth II Medical Centre Trust, Non-Executive Director of Bilton Canning Pty Ltd, DGB Investment Funds Pty Ltd and 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

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

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

Chris Sutherland *Independent Non-Executive Director*

Qualifications & Experience Mr Sutherland has significant executive leadership expertise spanning more than 20 years, encompassing a wide array of sectors in Australia; including oil and gas, resources, infrastructure and manufacturing. Mr Sutherland previously spent 11 years as Managing Director and Chief Executive Officer of Programmed Maintenance Services Ltd. He has also served in other leadership roles which followed executive and management roles at major multidisciplinary engineering firms.

Mr Sutherland is a member of the Risk, Audit, Nomination and Remuneration Committees.

Education Bachelor of Engineering (Hons), University of Western Australia

Advanced Management Program Harvard Business School

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

Matrix Composites & Engineering Ltd
Directors' report
For the year ended 30 June 2022

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
S Cole	Primobius GmbH	2022 - Current
C Sutherland	Remsense Technologies Ltd	2021 – Current
C Sutherland	Programmed Maintenance Services Ltd	2008 – 2019
C Sutherland	MACA Ltd	2020 – 2020
C Sutherland	Copper Search Ltd	2021 - Current

Directors' Shareholdings

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

Directors	Fully paid shares Number	Share Appreciation Rights	Share Options	Performance Rights
PJ Hood	1,448,500	0	0	0
AP Begley	6,933,041	4,632,153	4,929,566	2,091,124
S Cole	332,500	0	0	0
CN Duncan	902,929	0	0	0
C Sutherland	312,500	0	0	0

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 2,414,773 Executive Share Options and 1,244,510 Executive Performance Rights (2021: 2,514,793 Executive Share Options and 846,614 Executive Performance Rights) that have been granted to Mr Aaron Begley pursuant to the Matrix Rights Plan. The grant of Rights to Mr Aaron Begley was approved by shareholders at the Annual General Meeting of shareholders held in December 2021.

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 11 to 21. 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.

Matrix Composites & Engineering Ltd
Directors' report
For the year ended 30 June 2022

Rights granted to directors and executive management

During and since the end of the financial year, an aggregate 3,835,228 Executive Options and 1,976,574 Executive Performance 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 Options	Executive Performance Rights
Aaron Begley	Matrix Composites & Engineering Ltd	2,414,773	1,244,510
Brendan Cocks	Matrix Composites & Engineering Ltd	1,420,455	732,064

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 a Company Secretary and CFO for a number of publicly listed companies in Australia.

Mr Paul Hardie (BEc, LLB) was appointed Joint Company Secretary on 11 October 2021 and held the position at the end of the financial year. Mr Hardie is a corporate and commercial lawyer with more than 20 years of business and legal experience across a wide range of industry sectors. Mr Hardie also has extensive Board experience having previously held a number of non-executive roles with public companies listed on the ASX.

Principal Activities for FY22

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

- Consultancy for, and manufacture of, advanced composite materials, products and solutions for the defence, energy, resource and transport sectors;
- 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 VIV suppression equipment for rigid pipelines;
- Manufacture and supply of well construction products, including centralizers and conductors; and
- Supply of Epoxy based coating systems, hire of associated application equipment and coatings application training.

Review of Operations

Overview

The company continued to experience improving conditions during the year and appears to be in an encouraging recovery phase. After the significant impact to the oil and gas markets shocked by a fall in the oil price due to Covid 19, and some other geopolitical events during the 2nd half of the FY20 year, activity in the industry is improving.

Matrix recorded revenue for the year of \$28.6m which is our biggest year since 2019 and also reflects 4 halves of continued double digit revenue growth since the June 2020 half.

Revenue growth is not just coming from our traditional buoyancy products, but also growth in our Coatings division which contributed in excess of \$10m this year more than doubling last years revenue.

Encouragingly, current activity and orders won in recent months, suggest the revenue growth will continue for the business.

Matrix Composites & Engineering Ltd
Directors' report
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Safety

Matrix continued its strong focus on safety performance across all of its operating sites during the financial year. During the year and similar to last year Matrix recorded no LTIs (Lost Time Injuries). Matrix has only recorded one LTI at its primary facility in Henderson since May 2014.

Matrix operates a work health and safety system that is accredited to ISO 45001. 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 maintain its state of the art manufacturing facility in Henderson, which provides the Company the capability to produce advanced composite products utilising the following technologies:

- Composite Syntactic Foam
- Engineering Thermoplastics
- Composite Laminates including carbon fibre, glass fibre and kevlar

Over the downturn in recent years Matrix has maintained its full capacity and industry qualifications in the Henderson facility ensuring that the Company will benefit from a continued market recovery for our core products with just the addition of variable production labour.

Impact of Covid 19 during the period

Matrix has continued to be impacted from the Oil and Gas market which was significantly affected by the low oil price during the early stages of covid in the June 20 half.

Matrix saw near term opportunities either disappear or get suspended, and a number of significant FIDs (Final Investment Decisions) on large upcoming projects in Australia and globally being deferred. This impacted the company's ability to generate work during recent financial years and incur losses supporting and maintaining the large facility in Henderson.

In response Matrix implemented a number of cost reduction initiatives such as accessing jobkeeper support and temporary varied salary reductions across the company to ensure the company maintained sufficient capability to participate in a market recovery. It also diversified its revenue mix adding on a coatings product line which was more exposed to consistent maintenance spend of local major resource and energy companies.

During the financial year oil prices continued to recover driving a recovery in our buoyancy markets with the Company experiencing a growing order bank of new projects.

The company will continue to monitor the impact of global freight costs and lead times and make sure these are reflected in production forecasts and client proposal and contracts.

Financial Results for the Year

Matrix recorded an improved revenue of \$28.6m for the year (FY21: \$17.6m). This reflects the 4th consecutive half of double digit revenue growth as our markets recover from the severe oil price reduction in the June 20 half. Revenue growth has also been supported by continued growth in our Coating technology business which recorded revenue in excess of \$10m for the year.

The Company recorded a pre tax loss of \$5.0m (FY21: \$27.9m). The loss reflected that revenue is still not at a level where the fixed costs associated with the company and maintaining the facility and industry qualifications are offset by the contributions from the projects, although as revenue increases this deficit has been improving.

Operating cash outflow was \$4.1m (FY21: \$3.9m). The operating cash outflow was impacted by the operating loss, lease liability interest expense and an increase in working capital as activities increased. The company recorded a cash outflow of \$1.5m (FY21: \$3.1m) for investing activities, made up of project tooling and sustaining capex and product development for the SURF market. Offsetting these was financing activity inflows of \$6.0m (FY21: \$0.5m outflow) resulting from the \$6.5m funds from a capital raising during the year.

Cash and cash equivalent at the end of the period was \$7.6m (FY21: \$7.2m).

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Changes in State of Affairs

Matrix has continued to explore opportunities with local companies to utilise its advanced materials and manufacturing expertise with the view to creating new product lines in future years utilising the Henderson facility.

While the Company has maintained its capacity and qualifications to manufacture subsea buoyancy, a focus has been on utilising that technology for other purposes. During the year opportunities were being explored in the offshore wind market and green hydrogen markets, and also for applications in our advanced materials business. The business continues to take orders at an increasing level for our advanced materials business.

The Company also continues to focus on growth of the Coatings technology division which has grown from no revenue prior to 2020, to over \$10m this financial year.

Subsequent Events

There has not been any other 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

In the up coming years, Matrix will focus on securing work in a recovering energy sector. Securing a strong share of forecast spend in the subsea buoyancy markets in the upcoming years is a priority to improve utilisation in our facility and return to profitability.

The company will continue to pursue opportunities in the advanced materials space, which will potentially lead to manufacturing opportunities upon development success, is an increasing focus for the business. Opportunities with local major companies is the primary focus for this and a number of initiatives are currently underway.

The coating technology division has experienced growth in recent years and another focus will be on continuing to grow market share and revenue as we grow our client base with these products and equipment hire.

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's 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. In addition, the Company has attained ISO 14001 accreditation.

Climate Risk

Matrix acknowledges the increasing interest of the Company's stakeholders regarding the possible risks and opportunities presented by climate change and the increasing momentum towards a low carbon economy.

While Matrix's core traditional market is in the subsea oil and gas market, which the Company acknowledges as having longer term fossil fuel connotations, the focus of the Company reflects the changing nature of our clients and pursuit of alternate energy options. Matrix is looking to service the energy market as a whole driven from our client's priorities, and also servicing local major resource companies and their technology needs which may include development of advanced composite and thermoplastic components for specific needs.

Matrix Composites & Engineering Ltd
Directors' report
For the year ended 30 June 2022

Activities of the company in supporting our clients on energy transition projects include:

- Technology partner to Fortescue Future Industries in their Green Hydrogen program
- Actively quoting buoyancy solutions for upcoming offshore floating wind developments
- Actively recycling buoyancy products for customers where buoyancy otherwise may have ended up in landfill.
- Retaining equipment and capability to support energy client decommissioning of subsea oil and gas projects in the coming years

Further to the above, the company is exploring other avenues and work with our local client bases to support energy transition initiatives using our advanced materials and manufacturing experience.

Matrix continues to identify ways to reduce its carbon footprint. The company is progressing a number of initiatives including sourcing alternate energy sources for the Henderson site, supporting customers with their carbon reduction initiatives and using recycled plastics in engineered composite products produced on site.

Dividends

In respect of the financial year ended 30 June 2022, no interim dividend was paid and the directors have determined that no final dividend will be paid (2021: nil).

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, nine board meetings, two remuneration committee meetings, two nomination committee meetings, two risk committee meetings and three audit committee meetings were held.

Directors	Board of Directors		Remuneration Committee		Nomination Committee		Audit Committee		Risk Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
PJ Hood	9	9	2	2	2	2	3	3	2	2
AP Begley	9	9	2	2	2	2	3	3	2	2
S Cole	9	9	2	2	2	2	3	3	2	2
CN Duncan	9	9	2	2	2	2	3	3	2	2
C Sutherland	9	9	2	2	2	2	3	3	2	2

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.

Matrix Composites & Engineering Ltd
Directors' report
For the year ended 30 June 2022

Provision of Non-Audit Services

No non-audit services in the current financial year.

Auditor's independence declaration

The auditor's independence declaration is included on page 23 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 include in its annual report either a corporate governance statement that meets the requirements of that rule of the URL to the page its website. 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/>

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.

Matrix Composites & Engineering Ltd
Directors' report
For the year ended 30 June 2022

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 2022.

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
- Related Party Transactions
- 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

Mr C Sutherland

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)

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.

AUDITED REMUNERATION REPORT (continued)

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 table below reflects the annual fees of non-executive directors (inclusive of superannuation) for the financial year ended 30 June 2022 as opposed to the previous year to 30 June 2021.

Name	FY22 Fees \$	FY21 Fees \$
Peter Hood	80,365	80,000
Steven Cole	50,228	50,000
Craig Duncan	50,228	50,000
Chris Sutherland	50,228	29,167 ¹

¹ Mr Sutherland was appointed on 10 December 2020. Fee above represents pro rata fees for the period of his appointment.

In FY22 the Chairman received actual total annual fees of \$80,365 (2021: \$80,000). All other non-executive directors received an annual fee of \$50,228 (2021: \$50,000). All amounts specified in this section are inclusive of superannuation contributions.

AUDITED REMUNERATION REPORT (continued)

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.

As detailed in this report, certain Matrix executives are entitled to receive short term incentive payments in respect of FY22 based on delivery of key financial and non-financial outcomes.

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 FY22, expressed as a percentage of total remuneration, if maximum performance was achieved for the STI and LTI components of their variable remuneration.

Executive	Maximum STI	Maximum LTI	Maximum Total Variable Remuneration
	(% of Total Rem)	(% of Total Rem)	(% of Total Rem)
Aaron Begley <i>Managing Director & Chief Executive Officer</i>	15.7	27.6	43.3
Brendan Cocks <i>Chief Financial Officer & Company Secretary</i>	10.5	25.8	36.3

AUDITED REMUNERATION REPORT (continued)

STI remuneration

A comprehensive Short Term Incentive Plan (STI Plan) was in place for key management personnel for FY22. 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. STIs are paid as 100% cash.

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 EBITDAF (Earnings before Interest, Taxes, Depreciation, Amortisation, and Foreign Exchange) 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. **Individual 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 FY22 STI Plan and the weightings attributable to each of them. The FY22 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
EBITDAF	50.0	50.0
Safety	10.0	5.0
Individual Objectives	40.0	45.0
TOTAL	100.0	100.0

For the year the EBITDAF target was not met. The Safety and individual measures were either partially met, or met in full.

AUDITED REMUNERATION REPORT (continued)

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 Options Plan (SESOP) (together “the LTI Plans”). The SESOP replaced the Senior Executive Share Appreciation Rights Plan (SESARP) that had been in place from 2015 to 2020. 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 in prior years.

The Executives named below are invited to accept a dollar value grant of rights, which are allocated between rights issued under the SEPRP and the SESOP respectively, with an allocation of 50 per cent of the total value of their respective LTI Plan grants to the SEPRP and the remaining 50 per cent to the SESOP based on 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 SESOP during the year are set out in the following table:

Name	Entitlement / Grant Value	Performance Rights Issued during year		Share Options issued during year (Exercise price \$0.32)	
	<u>Value Granted</u>	<u>Fair value per right</u> ¹	<u>Number Issued</u>	<u>Fair value per option</u> ¹	<u>Number Issued</u>
Aaron Begley	\$193,160	\$0.0774	1,244,510	\$0.0401	2,414,773
Brendan Cocks	\$134,339	\$0.0918	732,064	\$0.0472	1,420,455
TOTAL			1,976,574		3,835,228

¹ The fair value of the rights and options were valued using a Monte Carlo Simulation.

Aaron Begley’s options and rights were granted on 15 December 2021 with Brendan Cock’s being granted on 8 March 2022. All options and rights have a vesting date of 31 August 2024 and an expiry of 8 March 2025.

The entitlement amount issued to each KMP is per their Executive Services Agreement.

This LTI grant made in FY22 relates to FY21 performance. The Rights and Options issued during the year have a hurdle and exercise price of \$0.32c. The Board determined that the target of \$0.32 was the most appropriate target providing a stretch growth target from the share price at time of issue.

Rights granted under the SESOP

Share Options granted under the SESOP are entitlements to purchase shares at the exercise price, should they vest.

Share Options granted under the SESOP are subject to the following vesting conditions:

- three-year service period from issue period; and
- the 7-day VWAP of MCE shares at the vesting date reaching \$0.32.

AUDITED REMUNERATION REPORT (continued)

Options issued under the SESOP in prior years that had not vested prior to the start of the financial year are as follows:

Name	Date of Issue	Fair Value per option	Exercise price / Hurdle	Number Issued	Value \$	Expiry Date
Issued During FY21 – Senior Executive Share Options Plan						
Aaron Begley	29/01/2021	\$0.0338	\$0.32	2,514,793	\$85,000	28/09/23
Brendan Cocks	29/01/2021	\$0.0338	\$0.32	857,988	\$29,000	28/09/23

Rights granted under the SEPRP

Performance Rights granted under the SEPRP are entitlements to receive a set number of shares should the rights vest.

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

- three-year service period from issue period; and
- the 7-day VWAP of MCE shares at the vesting date reaching \$0.32.

Rights issued under the SEPRP in prior years that had not vested prior to the start of the financial year are as follows:

Name	Date of Issue	Fair Value per option	Exercise price / Hurdle	Number Issued	Value \$	Expiry Date
Issued During FY21 – Senior Executive Performance Rights Plan						
Aaron Begley	29/01/2021	\$0.1004	\$0.32	846,614	\$85,000	28/09/23
Brendan Cocks	29/01/2021	\$0.1004	\$0.32	288,845	\$29,000	28/09/23

Rights granted under the SESARP

In prior periods the company had offered Senior Executive Share Appreciation Rights. These have been replaced by the options issued under the SESOP.

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 and FY20 are subject to the following vesting conditions:

- three year service period from issue period; and
- FY18 - TSR target ranking against ASX300 all companies, and
- FY19 – Share price (28 day VWAP at 30 June 2022) reaching 60c

AUDITED REMUNERATION REPORT (continued)

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. For FY19 rights 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 FY20 a hurdle share price of 60c was determined after consideration by the Board and with the removal for the TSR hurdle.

Options issued under the SESARP in prior years that had not vested prior to the start of the financial year are as follows:

Name	Date of Issue	Fair Value per option	Exercise price / Hurdle	Number Issued	Value \$	Expiry Date
<i>Issued During FY20 – Senior Executive Share Appreciation Rights</i>						
Aaron Begley	16/12/19	\$0.0367	\$0.60	4,632,153	\$170,000	17/12/22
Brendan Cocks	16/12/19	\$0.0367	\$0.60	1,580,381	\$58,000	17/12/22
Peter Pezet	16/12/19	\$0.0367	\$0.60	1,362,398	\$50,000	17/12/22
Ian Phillips	16/12/19	\$0.0367	\$0.60	1,362,398	\$50,000	17/12/22
<i>Issued During FY19 - Senior Executive Share Appreciation Rights</i>						
Aaron Begley	08/12/18	\$0.1100	\$0.60	1,845,455	\$203,000	09/12/21
Brendan Cocks	08/12/18	\$0.1100	\$0.60	755,400	\$83,094	09/12/21
Peter Pezet	08/12/18	\$0.1100	\$0.60	595,173	\$65,469	09/12/21

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.

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 FY22, 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.

Matrix Composites & Engineering Ltd
Directors' report
For the year ended 30 June 2022

AUDITED REMUNERATION REPORT (continued)

The table below sets out summary information about the consolidated entity's earnings and movement in shareholder wealth for the five years to 30 June 2022.

		FY22	FY21	FY20	FY19	FY18
Revenue	\$	28,625	17,618	27,437	38,187	19,539
Net loss before tax	\$	(5,035)	(27,924)	(55,310)	(9,473)	(15,311)
Net loss after tax	\$	(4,776)	(27,924)	(67,865)	(8,684)	(15,389)
Share price at start of year	\$	0.14	0.16	0.32	0.53	0.41
Share price at end of year	\$	0.15	0.14	0.16	0.32	0.53
Dividends paid	cps	-	-	-	-	-
Shareholder return of capital	\$	-	-	-	-	-
Basic loss per share	cps	(3.27)	(27.3)	(66.3)	(8.8)	(16.4)
Diluted loss per share	cps	(3.27)	(27.3)	(66.3)	(8.8)	(16.4)

In addition, the operation of the Matrix Rights Plan in FY22 further aligns the interests of the Company's key management personnel with its shareholders.

Matrix Composites & Engineering Ltd
Directors' report
For the year ended 30 June 2022

AUDITED REMUNERATION REPORT (continued)

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.

		Short-term Benefits				Total	Post Employment Benefits	Long-term Benefits	Share Based Payments	Total	Proportion Performance related
		Salary & fees	Cash Bonus ¹	Annual Leave ²	Super-annuation benefits		Long Service Leave	Performance rights and share options / share appreciation rights ³			
									\$		\$
Executive Director											
AP Begley (MD & CEO)	2022	372,738	57,750	(5,785)	424,704	23,568	6,471	196,117	650,860	39.0%	
	2021	392,195	-	4,849	397,044	21,694	3,005	151,753	573,496	26.5%	
Non - Executive Directors											
PJ Hood	2022	73,059	-	-	73,059	7,306	-	-	80,365	-	
	2021	73,059	-	-	73,059	6,941	-	-	80,000	-	
S Cole	2022	45,662	-	-	45,662	4,566	-	-	50,228	-	
	2021	45,662	-	-	45,662	4,338	-	-	50,000	-	
CN Duncan	2022	45,662	-	-	45,662	4,566	-	-	50,228	-	
	2021	45,662	-	-	45,662	4,338	-	-	50,000	-	
C Sutherland	2022	45,662	-	-	45,662	4,566	-	-	50,228	-	
	2021	26,636	-	-	26,636	2,530	-	-	29,167	-	
Executive officers											
BW Cocks	2022	300,128	31,625	3,536	335,290	23,568	5,108	71,238	435,203	23.6%	
	2021	263,546	-	17,570	281,115	21,694	8,389	56,386	367,585	15.3%	
PB Pezet ⁴	2022	-	-	-	-	-	-	-	-	-	
	2021	223,962	-	223,962		21,694	4,219	46,554	295,871	15.7%	
I Phillips ⁴	2022	-	-	-	-	-	-	-	-	-	
	2021	173,875	-	173,875		16,974	22,495	61,953	275,297	22.5%	
Total	2022	882,913	89,375	(2,249)	970,039	68,141	11,579	267,355	1,317,113	-	
Total	2021	1,224,598	-		1,267,017	99,644	38,108	316,647	1,721,416	-	

¹ Cash bonus includes FY21 bonus payments of \$30,250 for Aaron Begley and \$17,875 for Brendan Cocks. Remaining balance is the FY22 bonus accrual.

² Represents the movement in accrued annual leave

³ Share based payments are accounted for progressively over the vesting period.

⁴ The company determined that only Mr Begley and Mr Cocks fit the definition of Key Management Personnel based on current activities and board direction. Therefore, Mr Pezet and Mr Phillips have not continued to be included as Key Management Personnel for purposes of this report.

Matrix Composites & Engineering Ltd
Directors' report
For the year ended 30 June 2022

AUDITED REMUNERATION REPORT (continued)

Key terms of Employment Contracts

Executive service agreements

The Company has executive service agreements with each of its Key Management Personnel. The key terms of the executive service agreements are as follows.

Name	Original Start Date	Term	Notice period ¹
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)

¹ There are no other contracted termination payments other the notice periods detailed.

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

Related Party Transactions

A local customer Remsense Pty Ltd has a common director Chris Sutherland. All transactions with Remsense Pty Ltd are quoted on arm's length basis. The total invoiced as at 30 June 2022 was \$272,084 (2021: \$103,000).

No other transactions with key management personnel and their related parties for the year ended 30 June 2022.

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:

2021	Balance at 1 July 2021 No.	Granted as Remuneration No.	On Exercise of Options No.	Purchased / (Sold) on market	Balance at 30 June 2022 No.
Directors					
PJ Hood	1,261,000	-	-	187,500	1,448,500
AP Begley	6,633,041	-	-	300,000	6,933,041
S Cole	20,000	-	-	312,500	332,500
CN Duncan	590,429	-	-	312,500	902,929
C Sutherland	-	-	-	312,500	312,500
Executives					
BW Cocks	163,000	-	-	156,250	319,250

Matrix Composites & Engineering Ltd
Directors' report
For the year ended 30 June 2022

AUDITED REMUNERATION REPORT (continued)

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

2022	Balance at 1 July 2021 No.	Granted as Remuneration No.	Exercised No.	Expired Rights	Balance at 30 June 2022 No.	Balance Vested at 30 June 2022 No.	Vested but not exercisable No.	Vested and exercisable No.	PRs Vested during year No.
Directors									
PJ Hood	-	-	-	-	-	-	-	-	-
AP Begley	846,614	1,244,510	-	-	2,091,124	-	-	-	-
S Cole	-	-	-	-	-	-	-	-	-
CN Duncan	-	-	-	-	-	-	-	-	-
C Sutherland	-	-	-	-	-	-	-	-	-
Executives									
BW Cocks	288,845	732,064	-	-	1,020,909	-	-	-	-

Key management personnel share-based payment holdings – Share Options (SO)

2022	Balance at 1 July 2021 No.	Granted as Remuneration No.	Exercised No.	Expired Options	Balance at 30 June 2022 No.	Balance Vested at 30 June 2022 No.	Vested but not exercisable No.	Vested and exercisable No.	SOs Vested during year No.
Directors									
PJ Hood	-	-	-	-	-	-	-	-	-
AP Begley	2,514,793	2,414,773	-	-	4,929,566	-	-	-	-
S Cole	-	-	-	-	-	-	-	-	-
CN Duncan	-	-	-	-	-	-	-	-	-
C Sutherland	-	-	-	-	-	-	-	-	-
Executives									
BW Cocks	857,988	1,420,455	-	-	2,278,443	-	-	-	-

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

2022	Balance at 1 July 2021 No.	Granted as Remuneration No.	Exercised No.	Expired Rights ¹	Balance at 30 June 2022 No.	Balance Vested at 30 June 2022 No.	Vested but not exercisable No.	Vested and exercisable No.	SARs Vested during year No.
Directors									
PJ Hood	-	-	-	-	-	-	-	-	-
AP Begley	6,477,608	-	-	(1,845,455)	4,632,153	-	-	-	-
S Cole	-	-	-	-	-	-	-	-	-
CN Duncan	-	-	-	-	-	-	-	-	-
C Sutherland	-	-	-	-	-	-	-	-	-
Executives									
BW Cocks	2,335,781	-	-	(755,400)	1,580,381	-	-	-	-

¹ The rights which were issued during FY19 did not vest and were forfeited during the year.

Matrix Composites & Engineering Ltd
Directors' report
For the year ended 30 June 2022

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, 30 August 2022



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

To the Directors of Matrix Composites & Engineering Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Matrix Composites & Engineering Ltd for the financial year ended 30 June 2022 there have been:

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

KPMG

KPMG

GL + 177

Graham Hogg
Partner
Perth
30 August 2022

Matrix Composites & Engineering Ltd
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2022

	Note	Consolidated 2022 \$'000	2021 \$'000
Revenue	5	28,625	17,618
Cost of sales		<u>(26,948)</u>	<u>(20,446)</u>
Gross profit/(loss)		<u>1,677</u>	<u>(2,828)</u>
Other income	6	2,989	211
Expenses			
Administration expenses		(3,884)	(3,674)
Finance costs	7	(2,100)	(2,180)
Marketing expenses		(2,251)	(1,674)
Research expenses		(345)	(245)
Engineering expenses		(1,081)	(730)
Impairment losses on property, plant and equipment	12	-	(7,667)
Impairment losses of right-of-use assets	13	-	(7,296)
Impairment losses on intangibles	14	-	(86)
Other expenses	7	<u>(40)</u>	<u>(1,755)</u>
Loss before income tax benefit		(5,035)	(27,924)
Income tax benefit	8	<u>259</u>	<u>-</u>
Loss after income tax benefit for the year		(4,776)	(27,924)
Other comprehensive (loss)/income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net foreign currency translation differences		<u>(643)</u>	<u>574</u>
Other comprehensive (loss)/income for the year, net of tax		<u>(643)</u>	<u>574</u>
Total comprehensive loss for the year		<u><u>(5,419)</u></u>	<u><u>(27,350)</u></u>
Loss for the year is attributable to:			
Non-controlling interest		-	-
Owners of Matrix Composites & Engineering Ltd		<u>(4,776)</u>	<u>(27,924)</u>
		<u><u>(4,776)</u></u>	<u><u>(27,924)</u></u>
Total comprehensive loss for the year is attributable to:			
Non-controlling interest		-	-
Owners of Matrix Composites & Engineering Ltd		<u>(5,419)</u>	<u>(27,350)</u>
		<u><u>(5,419)</u></u>	<u><u>(27,350)</u></u>
		Cents	Cents
Earnings per share for loss			
Basic earnings per share	30	(3.27)	(27.29)
Diluted earnings per share	30	(3.27)	(27.29)

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

Matrix Composites & Engineering Ltd
Consolidated statement of financial position
As at 30 June 2022

	Note	Consolidated 2022 \$'000	2021 \$'000
Assets			
Current assets			
Cash and cash equivalents	9	7,591	7,164
Trade and other receivables	10	3,463	5,309
Inventories	11	6,516	6,563
Prepayments		392	327
Total current assets		<u>17,962</u>	<u>19,363</u>
Non-current assets			
Property, plant and equipment	12	6,777	8,902
Right-of-use assets	13	7,876	8,232
Intangibles	14	605	-
Total non-current assets		<u>15,258</u>	<u>17,134</u>
Total assets		<u>33,220</u>	<u>36,497</u>
Liabilities			
Current liabilities			
Trade and other payables	15	2,438	3,046
Progress claims and deposits	5	456	2,304
Lease liabilities	16	635	551
Employee benefits	17	1,626	1,192
Total current liabilities		<u>5,155</u>	<u>7,093</u>
Non-current liabilities			
Lease liabilities	16	26,625	27,165
Employee benefits	17	57	242
Provisions	18	2,687	4,859
Total non-current liabilities		<u>29,369</u>	<u>32,266</u>
Total liabilities		<u>34,524</u>	<u>39,359</u>
Net liabilities		<u>(1,304)</u>	<u>(2,862)</u>
Equity			
Issued capital	19	120,713	114,170
Reserves	20	756	965
Accumulated losses		<u>(122,773)</u>	<u>(117,997)</u>
Total deficiency in equity		<u>(1,304)</u>	<u>(2,862)</u>

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

Matrix Composites & Engineering Ltd
Consolidated statement of changes in equity
For the year ended 30 June 2022

Consolidated	Issued capital \$'000	Foreign currency translation reserve \$'000	Share-based payment reserve \$'000	Accumulated losses \$'000	Total deficiency in equity \$'000
Balance at 1 July 2020	114,170	(1,039)	1,028	(90,073)	24,086
Loss after income tax expense for the year	-	-	-	(27,924)	(27,924)
Other comprehensive income for the year, net of tax	-	574	-	-	574
Total comprehensive (loss)/income for the year	-	574	-	(27,924)	(27,350)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments (note 26)	-	-	402	-	402
Total transactions with owners in their capacity as owners	-	-	402	-	402
Balance at 30 June 2021	<u>114,170</u>	<u>(465)</u>	<u>1,430</u>	<u>(117,997)</u>	<u>(2,862)</u>

Consolidated	Issued capital \$'000	Foreign currency translation reserve \$'000	Share-based payment reserve \$'000	Accumulated losses \$'000	Total deficiency in equity \$'000
Balance at 1 July 2021	114,170	(465)	1,430	(117,997)	(2,862)
Loss after income tax benefit for the year	-	-	-	(4,776)	(4,776)
Other comprehensive loss for the year, net of tax	-	(643)	-	-	(643)
Total comprehensive loss for the year	-	(643)	-	(4,776)	(5,419)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 19)	6,543	-	-	-	6,543
Share-based payments (note 26)	-	-	434	-	434
Total transactions with owners in their capacity as owners	6,543	-	434	-	6,977
Balance at 30 June 2022	<u>120,713</u>	<u>(1,108)</u>	<u>1,864</u>	<u>(122,773)</u>	<u>(1,304)</u>

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

Matrix Composites & Engineering Ltd
Consolidated statement of cash flows
For the year ended 30 June 2022

	Note	Consolidated 2022 \$'000	2021 \$'000
Operating activities			
Receipts from customers (inclusive of GST)		31,486	20,474
Payments to suppliers and employees (inclusive of GST)		(33,765)	(24,027)
Receipt of government grants - Jobkeeper		-	1,802
Interest received		7	22
Finance costs paid		(29)	(73)
Interest expense on lease liabilities		(2,071)	(2,107)
Income taxes refunded		259	-
		<u> </u>	<u> </u>
Net cash used in operating activities	23	(4,113)	(3,909)
Investing activities			
Purchase of property, plant and equipment	12	(937)	(3,047)
Payments for intangibles	14	(605)	(86)
Proceeds from disposal of property, plant and equipment		91	-
		<u> </u>	<u> </u>
Net cash used in investing activities		(1,451)	(3,133)
Financing activities			
Proceeds from issue of shares (net of issue costs)	19	6,543	-
Repayment of lease liabilities (principal portion)		(552)	(475)
		<u> </u>	<u> </u>
Net cash from/(used in) financing activities		5,991	(475)
Net increase/(decrease) in cash and cash equivalents		427	(7,517)
Cash and cash equivalents at the beginning of the financial year		7,164	14,681
		<u> </u>	<u> </u>
Cash and cash equivalents at the end of the financial year	9	<u>7,591</u>	<u>7,164</u>

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

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 1. General information

The consolidated financial statements cover Matrix Composites & Engineering Ltd as a consolidated entity (the 'Group') consisting of Matrix Composites & Engineering Ltd (the 'Company') and the entities it controlled at the end of, or during, the year.

Matrix Composites & Engineering Ltd 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.

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the consolidated financial statements. The Group operates as a "for-profit" enterprise.

The consolidated financial statements were authorised for issue by the directors on 30 August 2022.

Note 2. Summary of significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report. These policies have been consistently applied to all the years presented, unless otherwise stated.

Going concern

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

For the year ended 30 June 2022, the Group recognised a net loss of \$4.776m and had operating cash outflows of \$4.113m. The Group's net current assets as at 30 June 2022 amounted to \$12.807m.

Management forecasts include execution and delivery of current contracted work, expected work to convert from the outstanding and upcoming quotations with established customers, and recurring sales of established products. The going concern assessment is based on the achievement of these forecasts.

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

Basis of preparation

These consolidated 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 Group and 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 Group comply with International Financial Reporting Standards ('IFRS').

Historical cost convention

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 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.

Critical accounting estimates

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Note 2. Summary of significant accounting policies (continued)

Standards and interpretations in issue not yet effective

A number of new standards are effective for annual periods beginning after 1 July 2021 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

A. Onerous contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 July 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated. The Group has determined that all contracts existing at 30 June 2022 will be completed before the amendments become effective.

B. Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and provision for asset retirement liabilities. The amendments apply for annual reporting periods beginning on or after 1 July 2023. For leases and provision for asset retirement liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Group accounts for deferred tax on leases and provision for asset retirement liabilities applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the Group will recognise a separate deferred tax asset and a deferred tax liability. As at 30 June 2022, the taxable temporary difference in relation to the right-of-use asset is \$7.903m (note 8) and the deductible temporary difference in relation to the lease liability is \$6.815m (note 8), resulting in a net deferred tax asset of \$1.088m (note 8).

C. Other standards

The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- *COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16).*
- *Annual Improvements to IFRS Standards 2018–2020.*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *Reference to Conceptual Framework (Amendments to IFRS 3).*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.*
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).*
- *Definition of Accounting Estimates (Amendments to IAS 8).*

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 29.

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 2. Summary of significant accounting policies (continued)

Principles 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.

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 consolidated financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

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.

Operating segments

An operating segment is a component of the Group 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 Group has one single operating segment which is the business operations of the Group.

Note 2. Summary of significant accounting policies (continued)

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 parent and Australian subsidiaries 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 the consolidated profit or loss and other comprehensive income, 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 AASB 121 The Effects of Changes in Foreign Exchange Rates. This permits the use of an exchange rate that approximates the actual rate.

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 consolidated 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.

Revenue and other income

Sale of goods

Revenue from the sale of goods is recognised when the Group satisfies performance obligations by transferring control of a promised good to the customer. The amount of revenue recognised is the amount of the transaction price allocated to the performance obligation.

The Group becomes entitled to invoice customers for products or services based on achieving a relevant invoicing milestone. The Group recognised 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 Group 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.

Transfer of controls are assessed in relation to the:

- delivery of the goods to the customers (including goods that have been delivered to the customer under the contract and await pick up on site);
- rights to payment for performance completed to date;
- achieving a relevant invoicing milestone under a contract with the customer;
- the customer has the significant risks and rewards of ownership of the goods; or
- contractual terms

Matrix Composites & Engineering Ltd
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Note 2. Summary of significant accounting policies (continued)

Service revenue

Service revenue and expenses are recognised at a point in time or over time following the satisfaction of performance obligations unless the outcome of the contract cannot be relied upon or estimated. If a performance obligation is satisfied over time, revenue is recognised based on the percentage of completion reflecting the progress towards complete satisfaction of that performance obligation. 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.

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

The Group assesses 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.

Interest

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).

Government support

For the financial years ended 30 June 2022 and 2021, the Group has received the following support.

Cash flow boost

The Group did not receive any cash flow boost during the year (2021: \$50k). Since the Group had been in a GST refundable position, the cash flow boosts were reported as other income on the consolidated statement of profit or loss in the prior year.

Job Keeper

The Group did not receive any Job Keeper subsidies during the year. The Group was eligible for the Job Keeper subsidies and had claimed \$1,802k from July 2020 to March 2021. The Group incurred a more than 30 per cent fall in GST turnover and had 72 eligible employees for the initial claim of Job Keeper. At 30 June 2021, the Group had offset the \$1,802k to the employee benefit expenses on the consolidated statement of profit or loss and other comprehensive income (refer to note 7).

Cost of sales

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

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 consolidated 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.

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.

Note 2. Summary of significant accounting policies (continued)

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.

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 Group establishes provisions, based 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 Group 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.

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 Group 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.

Current and non-current classification

Assets and liabilities are presented in the consolidated statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 2. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include 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 consolidated statement of financial position.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the above.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

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 inventories is based on the weighted average principle, and included expenditures incurred in acquiring the inventories. 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.

Property, plant and equipment

Each class of property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Recognition and measurement

Property, 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 expenditure

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 consolidated statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of property, plant and equipment 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 asset are shown below:

Fixed asset class	Depreciation rate (%)
Building/Leasehold improvements	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

Note 2. Summary of significant accounting policies (continued)

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

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 consolidated statement of profit or loss and other comprehensive income.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Land and buildings 20 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section 'Impairment of non-financial assets'.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term. This expense is presented within "administration expenses" in the consolidated statement of profit or loss and other comprehensive income.

Note 2. Summary of significant accounting policies (continued)

Intangible assets

Recognition and measurement

Research and development

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the assets, Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific assets to which it related. All other expenditure is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives of development costs and software for current and comparatives periods are 3 to 5 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 2. Summary of significant accounting policies (continued)

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

Financial assets – Subsequent measurement and gains and losses

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is recognised in the consolidated statement of profit or loss and other comprehensive income.

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets

The Group derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
 - (a) substantially all of the risks and rewards of ownership of the financial asset are transferred; or
 - (b) the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Note 2. Summary of significant accounting policies (continued)

Impairment of non-financial assets

At the end of each reporting period, the Group 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 Group 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 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.

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 the consolidated statement of profit or loss and other comprehensive income. The Group assesses impairment of all non-financial assets at each reporting date by evaluating conditions specific to the Group 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, non-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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Provisions

A provision has been recognised for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with the end of the lease term. The calculation of this provision requires assumptions such as application of end dates and cost estimates. The provision is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the consolidated statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Note 2. Summary of significant accounting policies (continued)

Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Black-Scholes or Monte Carlo option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Issued capital

Ordinary shares are classified as equity.

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
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Note 2. Summary of significant accounting policies (continued)

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

Goods and Services Tax ('GST') and other similar taxes

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.

Rounding of amounts

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.

Note 3. Critical accounting judgements, estimates and assumptions

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

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

Impairment of non-financial assets (refer to note 12, 13 and 14)

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 those carrying amounts within the next annual reporting period is the impairment of property, plant and equipment.

In accordance with Group policy, management have completed an impairment indicator and reversal assessment at 30 June 2022 (2021: impairment indicator assessment) for all material cash generating units to ensure that the carrying values can be supported. During the financial year, there are no indicators of impairment nor indicators of possible reversals of previously recognised impairment losses of non-financial assets.

As there were impairment indicators in FY21, this has been discussed further in note 12.

Provision for asset retirement obligation

A provision has been made for the present value of anticipated costs for future restoration of leased premise. The provision includes future cost estimates associated with closure of the premise. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for the site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for site are recognised in the consolidated statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Note 4. Operating segments

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

Performance monitoring and evaluation

The CODM is identified as the Chief Executive Officer (CEO) who monitors the operating results of the consolidated group and organises its business activities and product lines to serve the global oil and gas industry. The performance of the consolidated group is evaluated based on 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 2022 \$'000	MCE Group 2021 \$'000
Revenue	<u>28,625</u>	<u>17,618</u>
EBITDAF	(742)	(19,887)
Foreign exchange gain/(loss)	693	(1,319)
EBITDA	<u>(49)</u>	<u>(21,206)</u>
Depreciation and amortisation	<u>(3,497)</u>	<u>(4,560)</u>
EBIT	<u>(3,546)</u>	<u>(25,766)</u>
Net finance costs	<u>(1,489)</u>	<u>(2,158)</u>
Loss before tax (continuing operations)	<u>(5,035)</u>	<u>(27,924)</u>
Total consolidated assets	<u>33,220</u>	<u>36,497</u>
Total consolidated liabilities	<u>34,524</u>	<u>39,359</u>
Geographical Assets		
Australia	32,689	35,947
Others	531	550
	<u>33,220</u>	<u>36,497</u>
Geographical Liabilities		
Australia	34,512	39,353
Others	12	6
	<u>34,524</u>	<u>39,359</u>

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For the year ended 30 June 2022

Note 4. Operating segments (continued)

Major customers

Matrix supplies goods and services to a broad range of customers in the global oil & gas industry. During the reporting periods, three major customers (2021: three major customers), each individually accounted for greater than 10 per cent of total group revenue; collectively representing 56 per cent (2021: 46 per cent) of the total group revenue.

The impairment losses recognised for the current financial year amounted to \$nil (2021: \$15.0m) which are attributable to Australian operations.

Note 5. Revenue

	Consolidated	
	2022	2021
	\$'000	\$'000
Revenue from contracts with customers	28,625	17,618
<i>Disaggregation of revenue</i>		
The disaggregation of revenue from contracts with customers is as follows:		
<i>Major product lines</i>		
Design, manufacture, and supply of engineered composite products	16,619	11,063
Coatings products, equipment and service	10,430	5,755
Others	1,576	800
	28,625	17,618
<i>Geographical regions</i>		
Australia	15,341	10,170
Others	13,284	7,448
	28,625	17,618
<i>Timing of revenue recognition</i>		
Goods and services transferred at a point in time	15,424	8,854
Goods and services transferred over time	13,201	8,764
	28,625	17,618

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
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Note 5. Revenue (continued)

Performance obligations and revenue recognition policies

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

	Design, manufacture, and supply of engineered composite products	Coatings products, equipment and service	Others
Nature of goods or services	The construction contract business generates revenue from design, manufacture, and supply of engineered composites products.	The Coating business generates revenue from supply of Epoxy based coating systems and associated equipment.	Consultancy for and manufacture of advanced composite materials, products and solutions for the defence, energy, and resource sectors.
When revenue is recognised	Revenue is recognised over time when performance obligations are satisfied.	Revenue is recognised when goods are delivered to the customer and all criteria for acceptance have been satisfied.	Revenue is recognised when goods/services are delivered to the customer and all criteria for acceptance have been satisfied.
Significant payment terms	Payment is due when the milestone is satisfied.	Payment is due when goods are delivered to the customer.	Payment is due when goods are delivered to the customer.
Obligations for returns and Refunds if any	Bespoke products with no obligations for return or refunds.	No contractual requirement to accept returns. May be considered on a commercial basis.	No contractual requirement to accept returns. May be considered on a commercial basis.
Obligation for warranties	12 - 24 months	Nil	12 months

Contract balances

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

	Consolidated	
	2022	2021
	\$'000	\$'000
Trade receivables	3,096	4,746
Progress claims and deposits - contract liabilities	(456)	(2,304)
Other receivables – Trade	216	406
	<u>2,856</u>	<u>2,848</u>

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

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

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 5. Revenue (continued)

Significant changes in the contract assets and the contract liabilities balances during the period are as follows:

	Contract assets		Contract liabilities	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	-	-	2,278	1,252
Increase due to cash received, excluding amounts recognised as revenue during the year	-	-	(430)	(2,290)
Contract asset reclassified to trade receivables	406	(1,429)	-	-

Note 6. Other income

	Consolidated	
	2022 \$'000	2021 \$'000
Net foreign exchange gain	693	-
Net gain on disposal of property, plant and equipment	74	-
Interest received	7	22
Government grants (i)	-	66
Sundry income (ii)	1,571	123
Change discount on asset retirement obligation	644	-
Other income	<u>2,989</u>	<u>211</u>

(i) The government grants include an Department of Defence & Department of Job, Tourism and Innovation grant of \$nil (2021: \$11k) and Covid 19 cash boost of \$nil (2021: \$50k).

(ii) Sundry income in FY22 includes \$1.568m relating to the change in estimate of the asset retirement obligation. Refer note 18.

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 7. Expenses

	Consolidated	
	2022	2021
	\$'000	\$'000
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Depreciation and amortisation	3,497	4,560
<i>Finance costs</i>		
Interest and finance charges paid on lease liabilities	2,071	2,107
Other finance costs	29	73
	<u>2,100</u>	<u>2,180</u>
<i>Employee benefits expense</i>		
Employee benefits expense (i)	11,770	7,491
<i>Other expenses</i>		
Foreign exchange loss	-	1,319
Write off discontinued projects	-	436
Accretion on assets retirement obligation	40	-
	<u>40</u>	<u>1,755</u>

(i) The employee benefits expenses have net off the \$nil Job Keeper in FY2022 (2021: \$1.802m from July to March 2021).

Note 8. Income tax benefit

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Income tax benefit</i>		
Current tax	(259)	-
Aggregate income tax benefit	<u>(259)</u>	<u>-</u>
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax benefit	(5,035)	(27,924)
Tax at the statutory tax rate of 25% (2021: 26%)	(1,259)	(7,260)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Effect of (benefit)/expenses that are not deductible in determining tax payable profit	186	191
Effect of change in income tax rates from 26% to 25% and other adjustments	1,073	3,445
Effect of concessions (R&D and other allowances)	(259)	-
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	-	3,624
Income tax benefit	<u>(259)</u>	<u>-</u>

The reduced tax rate used for 2022 was 25% (2021: 26%) payable by Australian corporate entities on taxable profits under Australian tax law.

The Directors have made a decision not to recognise any additional deferred tax assets for tax losses in the financial statements for this reporting period (2021: \$3.2 million) given uncertainty over recovery.

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 8. Income tax benefit (continued)

Income tax recognised directly in equity

	Consolidated	
	2022	2021
	\$'000	\$'000
Deferred tax		
Share issue costs	114	-

Deferred tax assets and liabilities

	Consolidated	
	2022	2021
	\$'000	\$'000
Deferred tax assets		
Assessed losses	20,647	19,476
Capital losses	1,855	1,929
Research and development claims	4,055	4,056
Provisions	13,905	14,966
Other creditors & accruals	44	51
Intangible assets	416	432
Lease liabilities	6,815	7,206
Capital raising costs	99	48
Cash assets	-	28
Inventories	231	133
Other	398	568
	<u>48,465</u>	<u>48,893</u>

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Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 8. Income tax benefit (continued)

	Consolidated	
	2022	2021
	\$'000	\$'000
Deferred tax liabilities		
Property, plant & equipment	(2,244)	(1,565)
Right-of-use assets	(7,903)	(8,312)
Cash assets	(6)	-
Prepayments	(5)	(4)
	<u>(10,158)</u>	<u>(9,881)</u>
Deferred tax balances		
Deferred tax assets	48,465	48,893
Deferred tax liabilities	(10,158)	(9,881)
Not recognised as deferred tax assets	(38,307)	(39,012)
	<u>-</u>	<u>-</u>

2022

	Opening	Recognised	Recognised	Closing
	\$'000	in profit or	directly in	\$'000
		loss	equity	
		\$'000	\$'000	
Temporary differences				
Provisions	14,966	(1,061)	-	13,905
Other creditors & accruals	51	(7)	-	44
Intangible assets	432	(16)	-	416
Cash and cash equivalents	28	(34)	-	(6)
Property, plant and equipment	(1,565)	(679)	-	(2,244)
Inventories	133	98	-	231
Prepayments	(4)	(1)	-	(5)
Capital raising costs	48	(63)	114	99
Right-of-use assets	(8,312)	409	-	(7,903)
Leased liabilities	7,206	(391)	-	6,815
Other	568	(170)	-	398
	<u>13,551</u>	<u>(1,915)</u>	<u>114</u>	<u>11,750</u>
Unused tax losses and credits				
Tax losses and R&D Credits	25,461	1,096	-	26,557
Not recognised as deferred tax assets	(39,012)	819	(114)	(38,307)
	<u>(13,551)</u>	<u>1,915</u>	<u>(114)</u>	<u>(11,750)</u>

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 8. Income tax benefit (continued)

2021

	Opening Restated \$'000	Recognised in profit or loss \$'000	Recognised directly in equity \$'000	Closing \$'000
Temporary differences				
Provisions	1,849	13,117	-	14,966
Other creditors & accruals	152	(101)	-	51
Intangible assets	1,150	(718)	-	432
Cash and cash equivalents	11	17	-	28
Property, plant and equipment	4,607	(6,172)	-	(1,565)
Inventories	283	(150)	-	133
Prepayments	-	(4)	-	(4)
Capital raising costs	27	21	-	48
Right-of-use assets	(4,895)	(3,417)	-	(8,312)
Leased liabilities	8,457	(1,251)	-	7,206
Other	444	124	-	568
	<u>12,085</u>	<u>1,466</u>	<u>-</u>	<u>13,551</u>
Unused tax losses and credits				
Tax losses and R&D Credits	23,303	2,158	-	25,461
Not recognised as deferred tax assets	(35,388)	(3,624)	-	(39,012)
	<u>(12,085)</u>	<u>(1,466)</u>	<u>-</u>	<u>(13,551)</u>

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:

	At 100% 2022 \$'000	At 100% 2021 \$'000
Unrecognised deferred tax assets		
Transferred tax losses	1,069	1,069
Capital losses	7,421	7,421
Group tax losses	81,518	73,840
Others	63,218	67,714
	<u>153,226</u>	<u>150,044</u>

Note 9. Cash and cash equivalents

	Consolidated 2022 \$'000	2021 \$'000
<i>Current assets</i>		
Cash and bank balance	4,080	2,064
Short-term deposits (i)	3,511	5,100
	<u>7,591</u>	<u>7,164</u>

Reconciliation to cash and cash equivalents at the end of the financial year

The above figures are reconciled to cash and cash equivalents at the end of the financial year.

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 9. Cash and cash equivalents (continued)

(i) The short-term deposit has a term of 31 days and matures on 31 August 2022. A portion of short-term deposit is placed as a security over the leased land, factory and administration buildings and the Group as a policy, ensures that the minimum balance of the same amount is maintained in the bank.

Note 10. Trade and other receivables

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current assets</i>		
Trade receivables (i)	3,096	4,746
Other receivables - Trade (ii)	304	485
GST refundable	63	78
	<u>3,463</u>	<u>5,309</u>

(i) The Group's standard terms and conditions require customers to pay trade receivables within 30 days from invoice date. The average collectability timeframe is ordinarily between 30 to 60 days. These amounts are generally non-interest bearing, although, there are customers who will be subjected to interest charges at management's discretion. The Group has assessed the recoverability of all amounts including evaluating the economic impacts of Covid-19 and current oil price volatility, and no allowance is required for the trade receivables.

(ii) Other receivables – Trade, relates primarily to completed products which have been recognised as revenue but are yet to be invoiced, pending collection by customers. Refer to note 24 credit risk for further information.

Note 11. Inventories

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current assets</i>		
Raw materials	2,675	3,031
Work in progress (i)	1,850	2,095
Finished goods	1,991	1,437
	<u>6,516</u>	<u>6,563</u>

The cost of materials and finished goods of \$7,248k (2021: \$3,415k) were charged to consolidated statement of profit or loss and other comprehensive income and part of cost of sales.

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

Write-off

Inventories have been increased by \$155k (2021: reduced by \$207k) for reversal of slow moving stock provision. The adjustment is included in cost of sales.

Inventories of \$235k previously recorded in the slow moving stock provision have been written off during the year. An additional \$80k has been provided for slow moving stock (2021: \$207k).

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 12. Property, plant and equipment

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Non-current assets</i>		
Buildings - at cost (i)	8,409	8,409
Other leasehold improvements - at cost (ii)	281	281
Less: accumulated depreciation and impairment loss	<u>(8,690)</u>	<u>(8,682)</u>
	-	8
Plant and equipment - at cost	100,825	100,005
Less: accumulated depreciation and impairment loss	<u>(94,265)</u>	<u>(91,367)</u>
	<u>6,560</u>	<u>8,638</u>
Motor vehicles - at cost	33	38
Less: accumulated depreciation and impairment loss	<u>(33)</u>	<u>(37)</u>
	-	1
Computer equipment - at cost	2,123	2,113
Less: accumulated depreciation and impairment loss	<u>(2,111)</u>	<u>(2,053)</u>
	<u>12</u>	<u>60</u>
Office equipment - at cost	448	439
Less: accumulated depreciation and impairment loss	<u>(440)</u>	<u>(437)</u>
	<u>8</u>	<u>2</u>
Asset under construction - at cost	<u>197</u>	<u>193</u>
	<u><u>6,777</u></u>	<u><u>8,902</u></u>

(i) Buildings were sold as part of the sale and lease back transactions in December 2019. However, the Group is deemed to control the offices and factory complex and hence accounted for the value to the extent of control under right-of-use assets.

(ii) Leasehold improvements are located at Henderson.

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
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Note 12. Property, plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Building/ leasehold improvement	Plant and equipment	Motor vehicles	Computer equipment	Office equipment	Assets under construction	Total \$'000
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2020	29	16,883	3	135	4	395	17,449
Additions	-	2,990	4	52	1	-	3,047
Disposals/(transfers)	-	(2)	-	-	-	(202)	(204)
Depreciation expense	(14)	(3,628)	(6)	(73)	(2)	-	(3,723)
Impairment losses recognised in profit or loss	(7)	(7,605)	-	(54)	(1)	-	(7,667)
Balance at 30 June 2021	8	8,638	1	60	2	193	8,902
Additions	-	916	-	9	8	4	937
Disposals/(transfers)	-	(17)	-	-	-	-	(17)
Depreciation expense	(8)	(2,977)	(1)	(57)	(2)	-	(3,045)
Balance at 30 June 2022	-	6,560	-	12	8	197	6,777

Impairment

At 30 June 2022, the Group has assessed impairment of non-financial assets by evaluating conditions specific to the Group and to the particular assets that may lead to impairment. Factors considered included current year results, forecast performance and secured contracts, commodity prices, market interest rates and the ongoing impact of COVID 19. It was determined that no impairment indicators exist and no impairment has been recognised for the year.

At 30 June 2021, the Group prepared a value in use model to determine whether the recoverable amount of the assets exceeded its carrying amount due to the existence of impairment indicators. The value in use model used cash flow projections approved by the directors covering a five year period with a steady growth rate for years beyond the five year period.

The assessment of the recoverable amount led to an impairment of \$15m comprising of \$86k for intangible assets, \$7.7m for property, plant and equipment and \$7.3m for right-of-use assets in the prior year.

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 2021 and adopted by the Board are included below.

Key Assumptions:

Discount Rate

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

Revenue

Revenue forecasts used in the impairment considerations incorporated a modest level of income in FY22 based on current order book and likely opportunities, and then a gradual recovery of the Oil and Gas sector over the next 5 years. With inherent uncertainty prevailing in the market we forecast revenue to only return to approximately 70% of our 12 year average revenue and 36% of our all time high revenue. We used current industry forecasts to indicate when and how fast the market may take to recover.

Cost of Goods Sold

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

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 12. Property, plant and equipment (continued)

Terminal Growth Rate

A terminal value growth rate of 2 per cent was applied.

Foreign Exchange Rate

A AUD:USD foreign exchange rate of 0.75 was applied.

Sensitivity analysis

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

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

Each of the assumptions in the analysis has been evaluated at levels above and below expected values, as described above. The following table sets out the impact on the recoverable amount for a change in the key assumptions:

Assumption	Variance	Negative impact \$ million	Positive impact \$ million
Discount rate	± 2%	4.9	7.2
Terminal value growth rate	± 0.5%	1.0	1.1
Foreign exchange rate	± \$0.05	8.0	8.0
Sustaining and Project Capex	± \$1M p.a	11.0	11.0
Change in growth timeframe	1 Yr Movement	22.8	14.1

In performing the impairment assessment at 30 June 2022, the Group has not identified any factors that would trigger a reversal of the prior period impairment.

Note 13. Right-of-use assets

	Consolidated	
	2022 \$'000	2021 \$'000
<i>Non-current assets</i>		
Right-of-use assets - at cost	38,511	38,415
Less: accumulated depreciation and impairment loss	(30,635)	(30,183)
	<u>7,876</u>	<u>8,232</u>

Matrix Composites & Engineering Ltd
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Note 13. Right-of-use assets (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Right-of-use assets \$'000
Balance at 1 July 2020	16,316
Depreciation expense	(837)
Impairment losses recognised in profit or loss	<u>(7,247)</u>
Balance at 30 June 2021	8,232
Additions	96
Depreciation expense	<u>(452)</u>
Balance at 30 June 2022	<u><u>7,876</u></u>

According to the lease arrangement with APIL, Matrix had recognised a right-of-use asset value of \$38.4m (prior to amortisation and impairment) and accordingly a lease liability of \$27.7m. The right-of-use asset is depreciated over 20 years on a straight-line basis.

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 have not been considered in calculating the value of the right-of-use asset and lease liability.

Note 14. Intangibles

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Non-current assets</i>		
Development - at cost (i)	7,494	6,889
Less: Accumulated amortisation	(4,630)	(4,630)
Less: Impairment	<u>(2,259)</u>	<u>(2,259)</u>
	<u><u>605</u></u>	<u><u>-</u></u>

(i) Development costs incurred to date relate to various ongoing projects that are in the development phase. The Group recognised an impairment loss in FY 2021 reducing the then carrying amount to zero (note 12).

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Notes to the consolidated financial statements
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Note 14. Intangibles (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Development costs \$'000
Balance at 1 July 2020	-
Additions	86
Impairment losses recognised in profit or loss	(86)
	<hr/>
Balance at 30 June 2021	-
Additions	605
	<hr/>
Balance at 30 June 2022	<u>605</u>

Note 15. Trade and other payables

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	1,064	1,224
Other creditors and accruals	1,241	1,623
GST payable	133	199
	<hr/>	<hr/>
	<u>2,438</u>	<u>3,046</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.

Note 16. Lease liabilities

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Lease liabilities	<u>635</u>	<u>551</u>
<i>Non-current liabilities</i>		
Lease liabilities	<u>26,625</u>	<u>27,165</u>

This lease liability is measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the average incremental borrowing rate of 7.9 per cent.

At 30 June 2022, the lease liabilities have reduced to \$27.260m (2021: \$27.716m). The reduction primarily reflected the principal portion of the lease repayments.

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Note 16. Lease liabilities (continued)

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Maturity analysis</i>		
Not later than one year	635	551
Later than one year but not later than five years	3,359	3,918
Later than five years	23,266	23,247
	<u>27,260</u>	<u>27,716</u>

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

Lease exemptions

At 30 June 2022, Matrix is committed to \$180k (2021: \$128k) in relation to the serviced office and the equipment leases. Matrix has assessed the value of the underlying assets and considered them as short-term or low value assets, respectively. Therefore, Matrix has applied the lease exemptions and accounted for the lease payments as an operating expense on a straight-line basis over the lease term. The operating expense presented in the consolidated statement of profit or loss and other comprehensive income are as follows:

Multiple copiers	11	22
Multiple IT equipment	68	68
Serviced office	41	38
Equipment	60	-
	<u>180</u>	<u>128</u>

Amounts recognised in profit or loss

Interest on lease liabilities	2,071	2,107
Expenses relating to short-term leases	101	38
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	79	90
	<u>2,251</u>	<u>2,235</u>

Amounts recognised in consolidated statement of cash flows

Total cash outflow of leases	<u>(2,623)</u>	<u>(2,582)</u>
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Note 17. Employee benefits

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Employee entitlements - annual leave and long service leave	<u>1,626</u>	<u>1,192</u>
<i>Non-current liabilities</i>		
Employee entitlements - long service leave	<u>57</u>	<u>242</u>

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Note 18. Provisions

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Non-current liabilities</i>		
Asset retirement obligation	<u>2,687</u>	<u>4,859</u>

Asset retirement obligation

The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

Movements in provisions

Movements in provision during the current and previous financial years, other than employee benefits, are set out below:

	Consolidated	
	2022	2021
	\$'000	\$'000
Carrying amount at the start of the year	4,859	4,802
Accretion	40	49
Decrease in provision	(1,568)	-
Change in discount	(644)	8
Carrying amount at the end of the year	<u>2,687</u>	<u>4,859</u>

An external specialist was engaged during the year to estimate the asset retirement obligation at termination of the lease, resulting in a reduction to the provision of \$1.57 million brought by changes in estimates for values such as assumptions and data available as at 30 June 2022. As the asset retirement obligation asset was fully impaired in the prior year, the adjustment has been recognised in the profit or loss as sundry income.

Note 19. Issued capital

	Consolidated			
	2022	2021	2022	2021
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	<u>146,071,429</u>	<u>102,321,429</u>	<u>120,713</u>	<u>114,170</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2021	102,321,429		114,170
Issue of shares (net of issue costs of \$184,251)	6 December 2021	15,348,214	\$0.16	2,271
Issue of shares (net of issue costs of \$272,657)	20 January 2022	<u>28,401,786</u>	\$0.16	<u>4,272</u>
Balance	30 June 2022	<u>146,071,429</u>		<u>120,713</u>

Ordinary shares

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

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.

Matrix Composites & Engineering Ltd
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Note 19. Issued capital (continued)

Capital management

The directors' main objective is to ensure that the Group 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 Group.

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.

There are no change in Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Note 20. Reserves

	Consolidated	
	2022	2021
	\$'000	\$'000
Foreign currency translation reserve	(1,108)	(465)
Share-based payments reserve	1,864	1,430
	<u>756</u>	<u>965</u>

Foreign currency translation reserve

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

Share-based payments reserve

The above share-based premium reserve relates to equity-based instruments granted by the Group to its employees under its employee equity-based instruments plan. Further information about share-based payments is set out in note 26.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency translation reserve \$'000	Share-based payment reserve \$'000	Total \$'000
Balance at 1 July 2020	(1,039)	1,028	(11)
Exchange differences arising on translation of foreign operation	574	-	574
Arising on share-based payments	-	402	402
	<u>(465)</u>	<u>1,430</u>	<u>965</u>
Balance at 30 June 2021	(465)	1,430	965
Exchange differences arising on translation of foreign operation	(643)	-	(643)
Arising on share-based payments	-	434	434
	<u>(1,108)</u>	<u>1,864</u>	<u>756</u>
Balance at 30 June 2022	<u>(1,108)</u>	<u>1,864</u>	<u>756</u>

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Note 21. Key management personnel disclosures

Compensation Practices

The Board's policy for determining the nature and amount of compensation of key management for the Group is as follows:

The compensation structure for key management is based on particular experience of the individual concerned, the overall performance of the Group, their role and function within the organisation, key result areas and deliverables, and their performance as measured against these key result areas as part of an annual review. The employment conditions of key management are formalised in contracts of employment.

Note 22. Remuneration of auditors

	Consolidated	
	2022	2021
	\$	\$
<i>KPMG and related network firms</i>		
Audit of financial reports - Group	<u>165,956</u>	<u>80,000</u>
<i>Deloitte Touche Tohmatsu and related network firms</i>		
Audit of financial reports - Group	<u>-</u>	<u>44,836</u>

KPMG have been appointed as Auditor of the Company since 19 July 2021.

Note 23. Cash flow information

Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2022	2021
	\$'000	\$'000
Loss after income tax benefit for the year	(4,776)	(27,924)
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	3,045	3,723
Depreciation of right-of-use assets	452	837
Impairment loss on property, plant and equipment	-	7,667
Impairment loss on right-of-use asset	-	7,296
Impairment loss of intangibles	-	86
Expense recognised in respect of equity-settled share-based payments	434	402
Effects of translation of foreign operations	(643)	574
Net loss/(gain) on disposal of property, plant and equipment	(74)	204
Change in asset retirement obligation (net)	(2,172)	8
Change in operating assets and liabilities:		
Decrease in trade and other receivables	1,846	56
Decrease in inventories	47	1,034
Decrease/(increase) in prepayments	(65)	393
Increase/(decrease) in trade and other payables and progress billings	(2,456)	1,597
Increase in employee benefits	249	138
Net cash used in operating activities	<u>(4,113)</u>	<u>(3,909)</u>

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
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Note 23. Cash flow information (continued)

Changes in liabilities arising from financing activities

	Lease liabilities \$'000
Balance at 1 July 2020	28,191
Payment of lease liabilities	(475)
Balance at 30 June 2021	<u>27,716</u>
Additions	96
Payment of lease liabilities	(552)
Balance at 30 June 2022	<u><u>27,260</u></u>

Note 24. Financial instruments

Financial risk management policies

The Group's financial instruments consist mainly of deposits with banks, trade and other receivables, trade, and other payables. The main purpose of non-derivative financial liabilities is to raise finance for Group operations. Senior executives meet regularly to analyse and monitor the financial risk associated with the financial instruments used by the Group.

Financial risk exposures and management

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

Foreign currency risk

The Group 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 amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Consolidated				
US dollars	2,913	3,003	(515)	(888)
Euros	1,576	1,156	(32)	(449)
	<u>4,489</u>	<u>4,159</u>	<u>(547)</u>	<u>(1,337)</u>

Foreign currency sensitivity analysis

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

The following table details the Group's sensitivity to a 10 per cent increase and decrease in the Australian dollar against the relevant foreign currency. 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.

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Note 24. Financial instruments (continued)

		Loss after tax Increase/ (decrease) 2022 \$'000	Loss after tax Increase/ (decrease) 2021 \$'000
US dollar	+10%	(218)	(218)
US dollar	-10%	240	240
EUR	+10%	(140)	(64)
EUR	-10%	154	70

Credit risk

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

The maximum exposure to credit risk, excluding the value of any collateral or other security, at the reporting date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the consolidated statement of financial position and consolidated notes to the financial statements.

At 30 June 2022, there is no outstanding credit facility that has any material amount of collateral provided. The Company issues bank guarantee for projects and as security for its leased property under a facility from the ANZ bank. ANZ retain a right of set off over term deposits held by the company to the value of the outstanding bank guarantees. The value of this right of set off at 30 June 2022 was \$3.320m (2021: \$3.410m).

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 counterparty risk:

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

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

	Consolidated	
	2022	2021
	\$'000	\$'000
Trade receivables	3,096	4,746
Other receivables	304	485
Trade and other receivables	<u>3,400</u>	<u>5,231</u>

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

	Consolidated	
	2022	2021
	\$'000	\$'000
0-30 days	2,838	4,013
31-60 days	410	1,185
61-90 days	152	33
	<u>3,400</u>	<u>5,231</u>

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
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Note 24. Financial instruments (continued)

Trade and other receivables of \$562,000 (2021: \$1,218,000) were past due at 30 June, of which \$490,000 have been collected up to the date of this report (2021: \$33,000). There were no impairment provisions in respect of trade receivables that were past due as at 30 June 2022.

Cash and cash equivalents

The Group and the Company held cash and cash equivalents of \$7,591,000 at 30 June 2022 (2021: \$7,164,000). The cash and cash equivalents are held with regulated bank and financial institution counterparties.

Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The amount of the allowance on cash and cash equivalents is negligible.

Exposure to credit risk

The exposure to credit risk for trade and other receivables and contract assets at the reporting date by geographic region was as follows:

	Consolidated	
	2022	2021
	\$'000	\$'000
Australia	2,016	2,715
Singapore	556	1,325
United States of America	502	741
Others	326	450
	<u>3,400</u>	<u>5,231</u>

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group'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 Group's reputation.

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

Financing arrangements

Working capital and contingent lines	Currency	Nominal interest rate %	Approved facilities \$'000	Amount utilized \$'000	Available facilities at 30 June 2022 \$'000
Bank/performance guarantees	AUD	0.70%	3,370	3,320	50

Remaining contractual maturities

The following table details the Group'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 Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

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Note 24. Financial instruments (continued)

Consolidated - 2022	Weighted average interest rate %	Less than 1 month \$'000	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives							
<i>Non-interest bearing</i>							
Trade and other receivables	-	2,838	410	152	-	-	3,400
Trade and other payables	-	(2,191)	(100)	(14)	-	-	(2,305)
<i>Interest-bearing</i>							
Cash and other equivalents	0.07%	4,080	3,511	-	-	-	7,591
Lease liabilities	7.85%	-	-	(635)	(3,359)	(23,266)	(27,260)
Total non-derivatives		4,727	3,821	(497)	(3,359)	(23,266)	(18,574)

Consolidated - 2021	Weighted average interest rate %	Less than 1 month \$'000	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives							
<i>Non-interest bearing</i>							
Trade and other receivables	-	4,013	1,185	33	-	-	5,231
Trade and other payables	-	(924)	(874)	(1,049)	-	-	(2,847)
<i>Interest-bearing - fixed rate</i>							
Cash and other equivalents	0.30%	2,064	5,100	-	-	-	7,164
Lease liabilities	7.86%	-	-	(551)	(3,918)	(23,247)	(27,716)
Total non-derivatives		5,153	5,411	(1,567)	(3,918)	(23,247)	(18,168)

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.

Note 25. Dividends

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Franking credits

Consolidated	
2022	2021
\$'000	\$'000

Franking credits available for subsequent financial years based on a tax rate of 25% (2021: 26%)

<u>13,221</u>	<u>13,480</u>
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The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

Matrix Composites & Engineering Ltd
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Note 26. Share-based payments

Share options

There have been no share options exercised during the year (2021: 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:

- attracting, motivating and retaining employees;
- delivering rewards to employees for individuals and Group 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 Group 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 four types of grant under the Rights plan offered to professional staff, senior management and senior executives of the Matrix. The plans are summarised below:

Employee Performance Rights Plan (EMPRP)

EMPRP 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 \$1,500. Performance Rights granted under the EMPRP 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 EMPRP participants on conversion of Performance Rights may be acquired either on-market, or by way of a new issue of shares.

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 \$3,000. 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 generally be subject to the following vesting conditions:

- three year service period; and
- the 28-day VWAP of MCE shares at the end of a 3 year period exceeding a board set hurdle share price.

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.

Note 26. Share-based payments (continued)

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 SEASARP. 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
- the 28-day VWAP of MCE shares at the end of a 3 year period exceeding a board set hurdle share price.

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.

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

- three year service period;
- the 28-day VWAP of MCE shares at the end of a 3 year period exceeding a board set hurdle share price.

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.

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Note 26. Share-based payments (continued)

SESOP

Under the SESOP, Share Options (SOs) will be issued to participants. The SOs will be an option to acquire a share in Matrix at a pre determined exercise price. The Option only vests if the share price of Matrix is above the exercise price at the end of the 3 year period.

SOs granted under the SESOP will be subject to the following vesting conditions:

- three year service period; and
- the 14-day VWAP of MCE shares at the end of a 3 year period exceeding a board set hurdle share price.

Upon vesting of any of the SO's, participants will be able to subscribe for shares in the company at the exercise price up to the amount of options they have.

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	Share price at issue \$	Right/option price at grant date \$	Hurdle growth rate	Hurdle price \$	Expiry date	Vesting date
FY17 MPRP	08/12/2017	\$0.51	\$0.48	n/a	n/a	09/12/2020	31/08/2020
FY17 SEPRP	08/12/2017	\$0.51	\$0.36	n/a	n/a	09/12/2020	31/08/2020
FY17 SESARP	08/12/2017	\$0.51	\$0.13	11.42%	\$0.65	09/12/2020	31/08/2020
FY18 MPRP	08/12/2018	\$0.42	\$0.42	n/a	n/a	09/12/2021	31/08/2021
FY18 SEPRP	08/12/2018	\$0.42	\$0.23	67%	\$0.60	09/12/2021	31/08/2021
FY18 SESARP	08/12/2018	\$0.42	\$0.11	67%	\$0.60	09/12/2021	31/08/2021
FY19 MPRP	16/12/2019	\$0.30	\$0.30	n/a	n/a	17/12/2022	31/08/2022
FY19 SEPRP	16/12/2019	\$0.30	\$0.06	103%	\$0.60	17/12/2022	31/08/2022
FY19 SESARP	16/12/2019	\$0.30	\$0.04	103%	\$0.60	17/12/2022	31/08/2022
FY19 EMPRP	16/12/2019	\$0.30	\$0.30	n/a	n/a	17/12/2022	31/08/2022
FY20 EPRP	29/01/2021	\$0.15	\$0.10	113%	\$0.32	28/09/2023	31/08/2023
FY20 SESOP	29/01/2021	\$0.15	\$0.03	113%	\$0.32	28/09/2023	31/08/2023
FY21 EPRP - Aaron Begley	15/12/2021	\$0.16	\$0.08	106%	\$0.32	08/03/2025	31/08/2024
FY21 SESOP - Aaron Begley	15/12/2021	\$0.16	\$0.04	106%	\$0.32	08/03/2025	31/08/2024
FY20 EPRP Top Up	08/03/2022	\$0.18	\$0.10	78%	\$0.32	08/03/2024	31/08/2023
FY21 EPRP	08/03/2022	\$0.18	\$0.09	83%	\$0.32	08/03/2025	31/08/2024
FY21 SESOP	08/03/2022	\$0.18	\$0.05	83%	\$0.32	08/03/2025	31/08/2024

There have been no options or rights granted in the current financial year.

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

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 26. Share-based payments (continued)

Fair value of share rights granted in the year

The Performance Rights, Share Appreciation Rights and Share Options contemplated by the Rights Plan have been subject to valuation reports by BDO dated 28 September 2017 and 8 October 2018 and by Stantons International Securities dated 11 September 2019, 25 September 2020 and 22 June 2022 respectively. The valuations were adopted by the Directors of the Group.

The valuation used a Monte-Carlo simulation as the appropriate methodology to value the rights and options granted under the SEPRP, SESARP and SESOP. 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 and options is set out below:

Series	Expected life	Volatility %	Risk free interest rate %	Dividend yield
FY17 MPRP	3 years	55.00%	2.11%	2.00%
FY17 EPRP/SEPRP	3 years	55.00%	2.11%	2.00%
FY17 SESARP	3 years	55.00%	2.11%	2.00%
FY18 MPRP	3 years	55.00%	2.15%	nil
FY18 EPRP/SEPRP	3 years	55.00%	2.15%	nil
FY18 SESARP	3 years	55.00%	2.15%	nil
FY19 MPRP	3 years	47.00%	0.96%	nil
FY19 EPRP/SEPRP	3 years	47.00%	0.96%	nil
FY19 SESARP	3 years	47.00%	0.96%	nil
FY19 EMPRP	3 years	47.00%	0.96%	nil
FY20 EPRP	2.6 years	66.00%	0.18%	nil
FY20 SESOP	2.6 years	66.00%	0.18%	nil
FY21 EPRP - Aaron Begley	3.3 years	70.00%	0.94%	nil
FY21 SESOP - Aaron Begley	3.3 years	70.00%	0.94%	nil
FY20 EPRP Top Up	2 years	66.00%	0.18%	nil
FY21 EPRP	3 years	70.00%	1.54%	nil
FY21 SESOP	3 years	70.00%	1.54%	nil

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 26. Share-based payments (continued)

Movements in share plans during the year

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

	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 the end of the year No.
MPRP						
FY18 MPRP	99,764	-	-	(71,260)	(28,504)	-
FY19 MPRP	70,588	-	-	-	(10,084)	60,504
	<u>170,352</u>	<u>-</u>	<u>-</u>	<u>(71,260)</u>	<u>(38,588)</u>	<u>60,504</u>
EMPRP						
FY19 EMPRP	<u>50,420</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,084)</u>	<u>40,336</u>
SESOP						
FY20 SESOP	4,852,071	-	-	-	-	4,852,071
FY21 SESOP	-	5,255,682	-	-	-	5,255,682
	<u>4,852,071</u>	<u>5,255,682</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,107,753</u>
EPRP						
FY18 EPRP	600,857	-	-	-	(600,857)	-
FY19 EPRP	1,714,284	-	-	-	(537,815)	1,176,469
FY20 EPRP	1,633,467	-	-	-	-	1,633,467
FY20 ERP Top Up	-	1,952,208	-	-	(199,204)	1,753,004
FY21 EPRP	-	5,578,332	-	-	(292,826)	5,285,506
	<u>3,948,608</u>	<u>7,530,540</u>	<u>-</u>	<u>-</u>	<u>(1,630,702)</u>	<u>9,848,446</u>
SESARP						
FY18 SESARP	3,196,028	-	-	-	(3,196,028)	-
FY19 SESARP	8,937,330	-	-	-	-	8,937,330
	<u>12,133,358</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,196,028)</u>	<u>8,937,330</u>

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 27. Related party transactions

Parent entity

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

Subsidiaries

Interests in subsidiaries are set out in note 28.

Key management personnel compensation

	Consolidated	
	2022	2021
	\$	\$
Short term employment benefits	970,039	1,267,017
Share based payments	267,355	316,647
Post-employment benefits	79,720	137,753
	<u>1,317,114</u>	<u>1,721,417</u>

Related party transactions

A local customer Remsense Pty Ltd has a common director Chris Sutherland. All transactions with Remsense Pty Ltd are quoted on arm's length basis. The total invoiced as at 30 June 2022 was \$272,084 (2021: \$103,000).

Key management personnel

There were no loans to key management personnel during the year or outstanding at the end of the year (2021: nil).

Other transactions and balances with key management personnel

There were no other transactions with key management personnel at the end of the year (2021: nil).

Disclosures relating to key management personnel are set out in note 21 and the remuneration report included in the directors' report.

Note 28. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2022	2021
		%	%
Specialist Engineering Services (Aust) Pty Ltd	Australia	100%	100%
Matrix Henderson Property Pty Ltd	Australia	100%	100%
Matrix Coating Technologies Pty Ltd	Australia	100%	100%
Matrix Composites & Engineering (US) Inc.	USA	100%	100%

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 29. 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 2 for a summary of the significant accounting policies relating to the Group.

	2022	2021
	\$'000	\$'000
Statement of financial position		
Assets		
Current assets	17,433	18,814
Non-current assets	12,159	16,705
Total assets	<u>29,592</u>	<u>35,519</u>
Liabilities		
Current liabilities	4,208	5,634
Non-current liabilities	30,004	32,817
Total liabilities	<u>34,212</u>	<u>38,451</u>
Equity		
Issued capital	120,713	114,170
Accumulated loss	(127,197)	(118,532)
Share based payment reserve	1,864	1,430
Total deficit	<u>(4,620)</u>	<u>(2,932)</u>
	2022	2021
	\$'000	\$'000
Statement of profit or loss and other comprehensive income		
Loss for the year	(8,665)	(26,798)
Other comprehensive income	-	-
Total comprehensive loss	<u><u>(8,665)</u></u>	<u><u>(26,798)</u></u>

Guarantees

The parent entity had a bank guarantee of \$3.32m as at 30 June 2022 (2021: \$3.41m).

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2022 and 30 June 2021.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2022 and 30 June 2021.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Matrix Composites & Engineering Ltd
Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 30. Earnings per share

	Consolidated	
	2022	2021
	\$'000	\$'000
Loss after income tax	<u>(4,776)</u>	<u>(27,924)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>146,071,429</u>	<u>102,321,429</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>146,071,429</u>	<u>102,321,429</u>
	Cents	Cents
Basic earnings per share	(3.27)	(27.29)
Diluted earnings per share	(3.27)	(27.29)

Note 31. Contingencies

In the opinion of the Directors, the Group did not have any contingencies at 30 June 2022 (30 June 2021: None).

Note 32. Commitments

The Group had no capital commitments as at 30 June 2022 and 30 June 2021.

Note 33. COVID-19 impact

The consequences of the Coronavirus (COVID-19) pandemic are continuing to be felt around the world, and its impact on the Group, if any, has been reflected in the results to date. Whilst it would appear that control measures and related government policies, including the roll out of the vaccine and boosters, have started to mitigate the risks caused by COVID19, it is not possible at this time to state that the pandemic will not subsequently impact the Group's operations going forward. The Group now has experience in the swift implementation of business continuation processes should future lockdowns of the population occur, and these processes continue to evolve to minimise any operational disruption. Management continues to monitor the situation both locally and internationally.

Note 34. Events after the reporting period

No matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Matrix Composites & Engineering Ltd
Directors' declaration
For the year ended 30 June 2022

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors



Aaron P Begley
Managing Director and Chief Executive Officer

30 August 2022



Independent Auditor's Report

To the shareholders 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).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the **Group's** financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and
- Complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated Statement of financial position as at 30 June 2022;
- Consolidated Statement of profit or loss and other comprehensive income, Consolidated Statement of changes in equity, and Consolidated Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for Opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 *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 fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matters** we identified are:

- Going concern basis of accounting; and
- Recognition of contract revenue.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of 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.



Going concern basis of accounting	
Refer to Note 2 Going Concern of the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>The Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required by us in evaluating the Group's assessment of going concern and the events or conditions that may cast significant doubt on their ability to continue as a going concern. These are outlined in Note 2 Going Concern.</p> <p>The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated a number of assumptions and significant judgements, and the Directors have concluded that the range of possible outcomes considered in arriving at this judgement does not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern.</p> <p>We critically assessed the levels of uncertainty, as it related to the Group's ability to continue as a going concern, within these assumptions and judgements, focusing on the following:</p> <ul style="list-style-type: none"> • The Group's forecast net cash inflows from operations including planned levels of sales volumes and operational expenditures; and • The ability of the Group to manage cash outflows within available funding, particularly in light of continuing loss-making operations, continuing impact of the COVID 19 pandemic to operations and the economic impact of Ukraine and Russia war crisis. <p>In assessing this key audit matter, we involved senior audit team members who understand the Group's business, industry and the economic environment it operates</p>	<p>Our procedures included:</p> <p>We analysed the cash flow projections by:</p> <ul style="list-style-type: none"> • Assessing the planned sales volumes and levels of operating expenditures for consistency of relationships and trends to the Group's historical results, particularly in light of continuing loss-making operations, continuing impact of the COVID 19 pandemic to operating results since year end, the Ukraine and Russia war crisis, and our understanding of the business, industry and expected economic conditions. In addition, we agreed the forecasted revenue growth and the estimated cash flow timing to external evidence (i.e., signed contracts for projects that have been won and external correspondence between the Group and the potential customers, including the copy of commercial proposals to verify the status of negotiations); • Evaluating the underlying data used to generate the cash flow projections. We specifically assessed this against our understanding of the Directors' COVID-19 impact plans, obtained from our additional inquiries with them. Critical elements considered included the potential for further/future impacts to the Group, an estimated rate of recovery, and expectations of full return to business as usual; and • Analysing the impact of reasonably possible changes in projected cash flows and their timing, to the projected periodic cash positions. We assessed the resultant impact to the ability of the Group to pay debts as and when they fall due and continue as a going concern. The specific areas we focused on were informed from our test results of the accuracy of previous Group cash flow projections and sensitivity analysis on key cash flow projection assumptions. <p>We evaluated the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter and COVID-19 implications for the Group, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements.</p>



Recognition of Contract Revenue (\$28.6 million)

Refer to Note 5 of the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>Revenue recognition is a key audit matter due to the.</p> <ul style="list-style-type: none"> • Presumed fraud risk pursuant to the auditing standard ASA 240 <i>Auditor’s Responsibilities Relating to Fraud in an Audit of a Financial Report</i> whilst the risk is assessed to be concentrated towards the year-end and post year-end revenue transactions; • Significance of revenue to the financial statements; and • Large number of customer contracts during the financial year where the Group recognised revenue when or as it satisfies a performance obligation by transferring a good or services to customer, either at a point in time or over time. <p>Therefore, significant audit effort is required to gather sufficient appropriate audit evidence for revenue recognition.</p> <p>The key revenue streams of the Group includes design, manufacture and supply of engineered composite products and, coating products, equipment and services, representing 58% and 36%, respectively of the total Group’s revenue for the financial year ended 30 June 2022.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Understanding the Group’s contract revenue accounting process; • We read key contracts and other underlying documentation such as customer correspondence to evaluate the inputs to the Group’s calculation of revenue; • We also checked for compliance of the revenue recognition applied by the Group with AASB15, <i>Revenue from Contracts with Customers</i>; • We tested a statistical sample of revenue transactions by agreeing it to documentation to support the satisfaction of the performance obligation; • For key contracts where revenue is recognised on a percentage of completion basis, we obtained an understanding of the activities required to complete the customer contract from reviewing the underlying sales contract and customer’s purchase order. We then recalculated the amount of revenue including the modifications to the contract and compared the recalculated amounts against the amounts recorded by the Group; • We tested significant credit notes recognised post year end to check the Group’s recognition of revenue in the correct period; • We performed cut off testing through testing contract revenue pre and post year end to ascertain whether they had been recognised in the correct period; • We tested subsequent receipts for trade receivables at the end of the year; and • Assessing the appropriateness of the disclosures in Note 5.



Other Information

Other Information is financial and non-financial information in Matrix Composites & Engineering Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report. The Chairman's Report and Chief Executive Officers Report are expected to be made available to us after the date of the Auditor's Report. Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- Preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- Implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- Assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Matrix Composites & Engineering Ltd for the year ended 30 June 2022, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' 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 responsibilities

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2022.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Graham Hogg

Partner

Perth

30 August 2022