



FINANCIAL STATEMENTS

30 JUNE 2016

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CORPORATE DIRECTORY

DIRECTORS

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

COMPANY SECRETARY

Mr P J Tazewell
Mr A Santa Maria

HEAD OFFICE

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BANKER

ANZ
Level 10, 77 St Georges Terrace
Perth WA 6000

LAWYERS

Lavan Legal
1 William Street
PERTH WA 6000

Ashurst

32/2 The Esplanade
PERTH WA 6000

AUDITOR

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

SHARE REGISTRY

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

DIRECTORS' REPORT

DIRECTORS' REPORT

The directors of Matrix Composites & Engineering Ltd ("Matrix" or "the Company") submit herewith the annual report of the Company for the financial year ended 30 June 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows.

Information about the Directors

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

Peter J Hood

Independent Non-Executive Chairman

Qualifications & Experience

Peter Hood is a qualified Chemical Engineer with over 45 years' experience in senior management and project development in the mining, oil and gas, and chemical industries.

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

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

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

Education

Bachelor of Engineering (Chemical), Melbourne University, 1970

Advanced Management Program, Harvard Business School, 1997

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

Memberships

Fellow of the Australian Institute of Company Directors

Fellow of the Institute of Chemical Engineers

Member of the Australian Institute of Mining and Metallurgy

DIRECTORS' REPORT

Aaron P Begley

Managing Director & Chief Executive Officer

Qualifications & Experience

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

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

Education

Post Graduate Diploma of Management (Curtin), 2002

Bachelor of Economics (University of Western Australia), 1993

Memberships

Australian Institute of Company Directors

Society of Underwater Technology (SUT)

Society of Petroleum Engineers (SPE)

International Association of Drilling Contractors (IADC)

Duncan P Clegg

Independent Non-Executive Director

Qualifications & Experience

Dr Clegg has 40 years' experience in the global oil and gas industry as an engineer and business executive. With extensive leadership experience, Dr Clegg has worked in venture formation, project development and management of large scale projects in Australia, Asia, Europe and Africa. Dr Clegg is a consultant to a number of energy companies. Previously, Dr Clegg was the Manager of Projects and Developments at Coogee Resources Pty Ltd, and has held senior management and executive positions at Woodside Petroleum Limited and Shell International Petroleum Maatschappij.

Dr Clegg is a member of the Risk, Remuneration and Nomination Committees.

Education

Chartered Engineer, 1985

Doctor of Philosophy (Soil Mechanics), University of Cambridge, 1981

Bachelor of Science (Hons), University of Cardiff, 1975

Memberships

Graduate of the Australian Institute of Company Directors

DIRECTORS' REPORT

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 and resources sectors. Mr Cole is Chairman of Neometals Limited, the Queen Elizabeth II Medical Centre Trust, Brightwater Care Group Ltd and a board member of the Chamber of Commerce & Industry (WA). 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 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

Craig Duncan has over 35 years' experience in the petroleum and mining industries in Australia, Asia, the Middle East and Africa. He was previously a Drilling Superintendent at Apache Energy for 12 years and was responsible for 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 Committee.

Education

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

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

DIRECTORS' REPORT

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
S Cole	Neometals Ltd	2008 – Current

Directors' Shareholdings

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

Directors	Fully paid shares Number	Share Appreciation Rights – FY15	Share Appreciation Rights – FY14
PJ Hood	630,000	nil	nil
AP Begley	3,643,077	1,545,455	592,593
DP Clegg	39,918	nil	nil
S Cole	20,000	nil	nil
CN Duncan	590,429	nil	nil

No shares, share appreciation rights or options in shares have been issued for compensation purposes during or since the end of the financial year to any Director of the Company, other than 1,545,455 Executive Share Appreciation Rights (2015: 592,593) that have been granted to Mr Aaron Begley pursuant to the Matrix Rights Plan. The grant of Executive Share Appreciation Rights to Mr Aaron Begley, was approved by shareholders at the Annual General Meeting of shareholders held on 4 November 2015.

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 18_ to 30. 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.

DIRECTORS' REPORT

Rights granted to directors and executive management

During and since the end of the financial year, an aggregate 3,727,272 Executive Share Appreciation Rights and 16,129 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 Appreciation Rights	Executive Performance Rights
Aaron Begley	Matrix Composites & Engineering Ltd	1,545,455	Nil
Stephen Edgar	Matrix Composites & Engineering Ltd	454,545	Nil
Peter Pezet	Matrix Composites & Engineering Ltd	454,545	16,129
Peter Tazewell	Matrix Composites & Engineering Ltd	772,727	Nil
Alex Vincan	Matrix Composites & Engineering Ltd	500,000	Nil

Company Secretary

Mr Peter Tazewell (BCom, FCA, F Fin) joined Matrix in December 2011 and held the position of company secretary of the Company at the end of the financial year. He is a Fellow of the Institute of Chartered Accountants in Australia and Senior Associate of the Financial Services Institute of Australasia.

Mr Adam Santa Maria (BA, LLB (Hons), M.AppFin) was appointed Joint Company Secretary on 26 October 2015 and held the position at the end of the financial year. Mr Santa Maria is admitted to practice as a barrister and solicitor of the Supreme Court of Western Australia and Victoria and the High Court of Australia.

Principal Activities for FY16

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

- manufacture and supply of capital drilling equipment (primarily comprised of syntactic foam buoyancy) and provision of inspection, maintenance and repair services;
- manufacture and supply of subsea umbilical risers and flowline (SURF) ancillary equipment and associated services; and
- manufacture and supply of well construction products, including centralizers and conductors.

Review of Operations

Overview

Matrix's financial performance was adversely impacted by the significant downturn suffered by oil field service companies globally. Lower oil and gas prices have resulted in the deferral, and in some instances, cancellation of oil field projects and the associated equipment and services required to commission them. In the face of this outlook, Matrix has reduced buoyancy production to match customer demand. This reduction in buoyancy production had a significant adverse impact on output, revenue and earnings.

DIRECTORS' REPORT

During the financial year Matrix completed the closure of its fabrication and machine shop services, due to declining demand, and sold the resultant surplus real property and equipment assets.

Matrix continued to grow its distribution base for well construction products entering into key distribution agreements with agents in USA, Saudi Arabia and United Arab Emirates.

Safety

Matrix continued to improve safety performance across all of its operating sites during the financial year, improving on the existing low recordable incidents and organisational safety culture.

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

Matrix maintained a lost time injury frequency rate (LTIFR) of zero, with 25 months of no lost time injuries across the company. Matrix also achieved a medical treatment injury frequency rate of zero (MTIFR) on 19 February 2016, having had the last MTI on 19 February 2015 and has been maintained at zero also. The total recordable injury frequency rate (TRIFR) is less than a third of the previous year.

Proactive lead indicators have been applied, and the annual review of those indicators has shown an improved understanding of the workplace safety culture and commitment to safety. The lead indicators support the company wide no-blame culture, which is still evident at all levels and supports the positive mindset of a lean and dynamic operating environment.

Matrix has an annual plan to measure safety success, so that the agreed objectives can be monitored and achieved. The objectives are aligned with the management of Matrix's risk profile and support the Company values.

Matrix is a member of IFAP, has an affiliation with the Occupational Health Society of WA, and is again providing mentoring for undergraduate HSE students from Curtin University of Technology.

Manufacturing Operations

Demand for buoyancy products declined further in FY16 causing Matrix to revert to a two-shift roster in December 2015. Headcount was reduced in proportion to the reduction in output. As a result, actual production across the full year was approximately 50 per cent lower than in FY15. Matrix has maintained a backlog (US\$35 million at 30 June 2016) which will substantially underwrite production, at current rates, throughout 1H FY17.

Matrix continued its continuous improvement programme during FY16 which resulted in ongoing efficiencies in process management, labour costs and materials costs.

Matrix continued production of its patented centralizer products at Henderson. Demand for centralizers was approximately 45 per cent lower than in FY15, primarily due to continued weakness in the North American market. Notwithstanding this, North America comprised 58 per cent of global sales volumes and new markets in Asia accounted for 30 per cent.

DIRECTORS' REPORT

Commercial

Matrix continued to service the oil and gas sector maintaining sales and support functions in the key markets of Asia (Perth), North America (Houston) and Europe (Alnwick). Due to the consolidation of customer purchasing functions, sales resources have been refocussed more prominently into North America.

In February 2016, Matrix introduced its LGS™ drag reduction system for offshore buoyancy products. Matrix has submitted quotations for in excess of US\$150 million of LGS™ buoyancy with the first installed system being deployed in the Gulf of Mexico in June 2016. The LGS™ system reduces drag and vortex induced vibration for floating drill rigs operating in strong ocean current conditions, allowing operators to reduce costs and increase productivity through less rig downtime. Matrix anticipates growing demand for this product as operators become more confident of the financial and operating benefits of the system.

As noted previously, Matrix expanded its distribution network for well construction products and services with new distributors appointed in USA, Saudi Arabia and the United Arab Emirates. Matrix is in advanced negotiations with a local distributor in Indonesia. Matrix is also expanding its product range in this offering.

Matrix has established a strategically located service base in Karratha, Western Australia to service mobile drilling equipment. Although revenue generation from this facility has not met short term projections, primarily due to the reduction in the number of offshore vessels operating in Australian waters, the facility provides a footprint to expand Matrix's range of equipment servicing capabilities to both fixed and mobile offshore rigs and processing installations.

Financial Results for the Year

Group Financial Metrics

- Sales revenue of \$95.7 million, 33.6 per cent lower than FY15 of \$144.1 million.
- EBITDA of \$6.5 million, 67 per cent lower than FY15 EBITDA of \$19.5 million.
- Underlying EBITDA of \$10.2 million, 55 per cent lower than FY15 Underlying EBITDA of \$22.7 million
- Net loss after tax of \$2.1 million, compared to the FY15 result of \$3.8 million net profit after tax.

DIRECTORS' REPORT

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 2016.

		FY16	FY15	FY14	FY13	FY12
Revenue	\$	95,728,426	144,074,596	158,580,565	145,487,485	144,811,799
EBITDAF ¹	\$	7,509,574	21,090,256	20,044,132	9,639,029	(10,801,872)
EBITDA	\$	6,447,022	19,518,743	18,569,036	7,477,215	(13,204,784)
Net profit/(loss) before tax	\$	(4,600,311)	5,980,772	4,703,267	(4,171,282)	(25,675,142)
Net profit/(loss) after tax	\$	(2,114,028)	3,633,828	3,018,004	(2,947,138)	(14,445,748)
Share price at start of year	\$	0.46	1.18	0.78	1.75	7.22
Share price at end of year	\$	0.40	0.46	1.18	0.78	1.75
Interim dividend ²	cps	-	2.0	-	-	2.0
Final dividend ³	cps	-	1.0	-	-	-
Basic (loss)/ earnings per share	cps	(2.2)	3.8	3.2	(3.1)	(18.4)
Diluted (loss)/ earnings per share	cps	(2.2)	3.8	3.2	(3.1)	(18.4)

¹ EBITDAF represent earnings before interest, taxes, depreciation, amortisation and foreign exchange gains and losses.

² Franked to 100 per cent at 30 per cent corporate income tax rate.

³ Declared after the end of the reporting period and not reflected in the financial statements.

Earnings

Matrix reported reduced earnings in FY16, a result of lower production in response to reduced demand across its product and service lines, particularly for buoyancy products. Operating margins were adversely impacted by the production inefficiencies of low production rates, despite ongoing labour and materials efficiencies being achieved. Raw material costs have continued to fall in response to lower levels of global economic activity.

Earnings from well construction products were adversely impacted by lower volumes in the Company's principal centralizer product line, with new product lines and services contributing positively to the overall result.

Interest and finance charges have reduced as a result of lower term debt and a more favourable banking facility. Depreciation is also significantly reduced following the closure of the Malaga fabrication and machining workshop.

DIRECTORS' REPORT

Matrix's statutory result was adversely impacted by a series of non-recurring items as set out below:

Reconciliation of Underlying EBITDAF	\$
Statutory EBIT	(4,162,244)
Depreciation and amortisation	10,609,266
Foreign Exchange losses	1,062,552
Statutory EBITDA	7,509,574
Redundancy Costs	1,965,827
Prior year workers compensation insurance adjustment	556,541
Write off of raw material inventory	420,858
Loss on disposal of Camboon Road property	679,580
Other	150,769
Underlying EBITDA¹	11,283,149

Profitability (NPAT) continues to be challenged by the high level of depreciation resulting from the significant capital expenditure incurred between 2010 and 2012. Matrix's ongoing future capital expenditure is expected to remain relatively constant at approximately 50 per cent of annual depreciation. As noted above, depreciation charges are significantly reduced, and are expected to fall further in future years.

Matrix incurred significantly lower foreign exchange losses in FY16, despite the currency trending higher over the course of the year.

Cash flow

Matrix generated positive cash flow from operations of \$2.8 million during the financial year. Net cash flow for the year was \$(6.4) million. Key impacts on net cash flow included:

- i) Repayment of \$8.0 million in term debt;
- ii) \$1.2 million in shareholder distributions (dividends and on-market share buy back); and
- iii) \$4.1 million received for the sale of real property and other surplus plant and equipment.

Capital expenditure of \$5.6 million was higher than the previous year (2015: \$4.7 million), primarily due to research and development and tooling costs associated with developing the new LGSTTM buoyancy system.

During the financial year Matrix paid a final dividend in relation to FY15 of 1.0 cents per share in September 2015. Matrix also completed its on-market share buy-back of 805,428 shares at an average price of \$0.54 per share.

¹ Underlying EBITDA excludes non-recurring costs and foreign exchange losses.

DIRECTORS' REPORT

Matrix maintained positive operating cash flow, as set out in Chart 1 below.

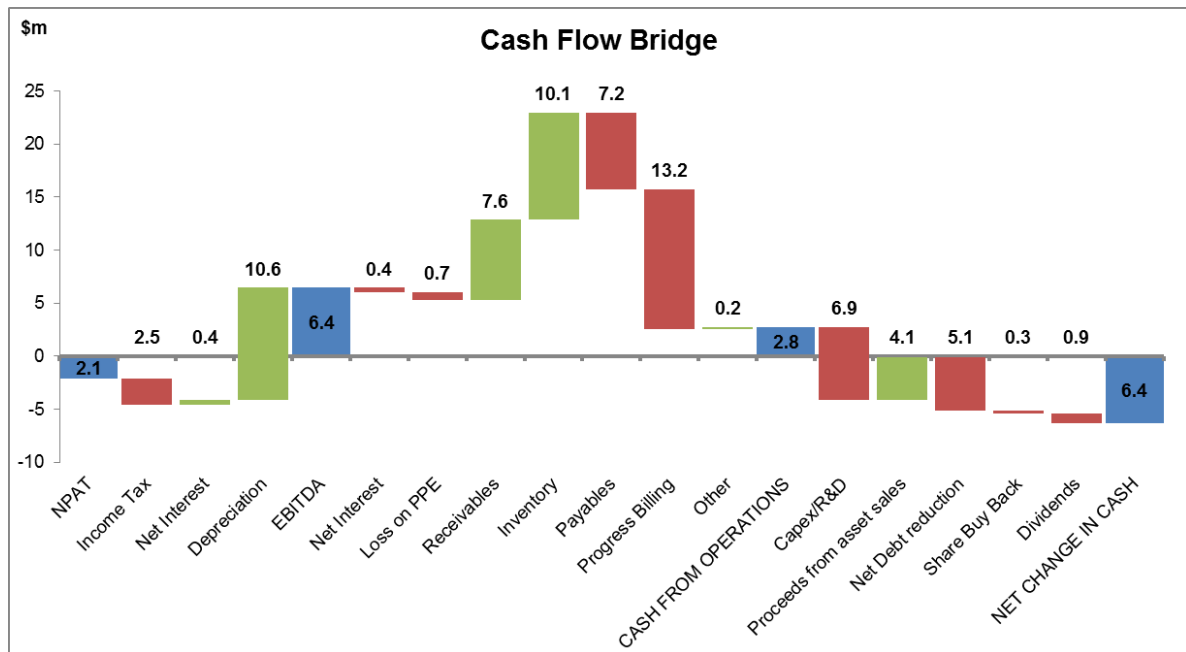


Chart 1: Cash Flow Bridge

Financial Position

As at the end of the financial year, Matrix maintained a strong financial position with positive cash earnings and strong balance sheet management. Term debt has been eliminated and the Company is in a net cash position. Working capital is sufficient to support the current operations of the Company.

Business Strategies

Matrix's business strategies are as follows:

- i) broaden range of service and products targeting operational expenditure and the IMR sector of the Oil & Gas industry;
- ii) continue to drive unit costs down through labour efficiencies and supply chain improvements;
- iii) leverage materials technologies into high value technical applications; and
- iv) pursue market diversification opportunities in the infrastructure space via organic growth and acquisition opportunities.

Outlook

The market for buoyancy products for the offshore oil and gas sector continues to be challenging and while the longer term outlook for energy demand remains strong, the short to medium term outlook remains uncertain as the global economy adjusts to the current imbalance between oil supply and oil demand. Matrix has prudently adapted to this new macro environment by reducing short term production output.

DIRECTORS' REPORT

Drillship utilisation and day-rates remain at levels below what is necessary to drive new investment. Notwithstanding this, Matrix LGS™ is a product that can be retro-fitted and can be targeted at the global deployed rig fleet. The accessible market size is global demand for deployed semi and drillship market which is projected to recover from 173 units in 2016 to 215 units in 2020. Matrix LGS also has applications in the SURF market for flexible and rigid risers, tethers and other structures. Matrix remains confident that LGS™ technology will drive volumes of replacement buoyancy over the next few years.

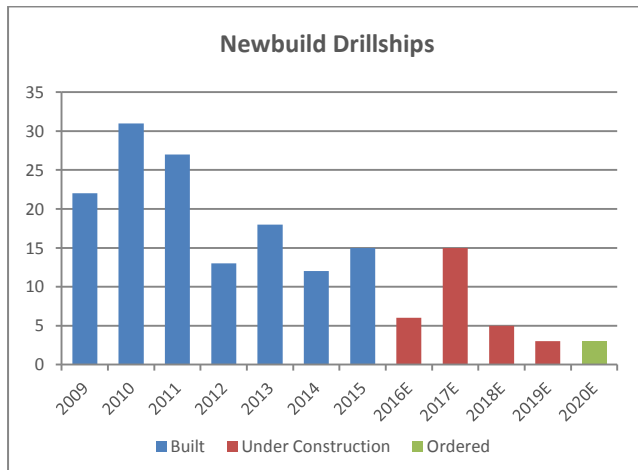


Chart 2 shows the anticipated construction profile for new drill ships, historically and over the next three years. While the outlook for newbuild drillships is highly uncertain, Matrix expects increased volumes for buoyancy products to come from the replacement market until drillship utilisation rates improve.

Chart 2 (Source: Company Data)

In addition, fleet retirements are being accelerated as older vessels are either scrapped or cold-stacked where drilling contractors are unable to secure new contracts. Ultimately this will lead to increased newbuild commitments when the oil price recovers.

Matrix expects there will be continued demand from the replacement market, primarily for LGS™ products.

Chart 3 shows the supply-demand balance of the existing global floater fleet. Utilisation is forecast to continue to trend downwards before stabilising in 2017 and recovering thereafter. Typically, utilisation rates are in excess of 80 per cent to stimulate new drillship construction. Matrix does not expect to see a recovery in buoyancy supply to the newbuild sector until 2018 or later.

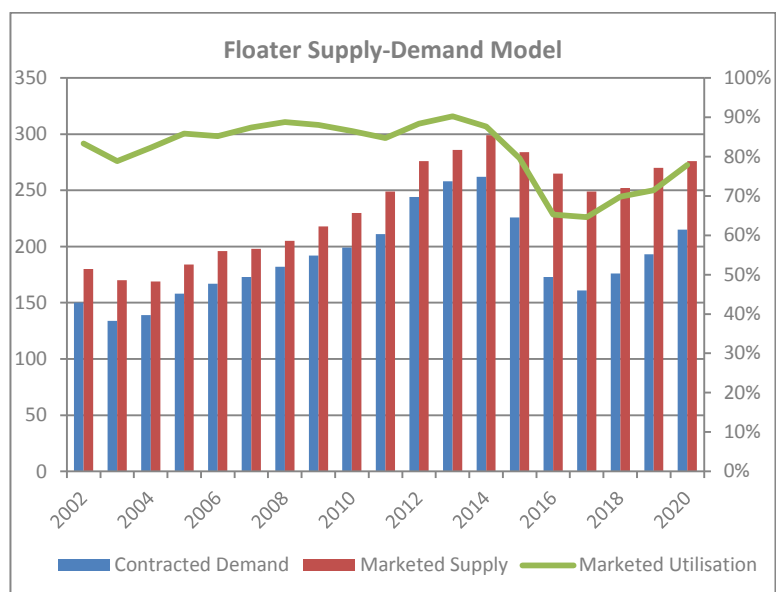


Chart 3 (Source: Company Data)

DIRECTORS' REPORT

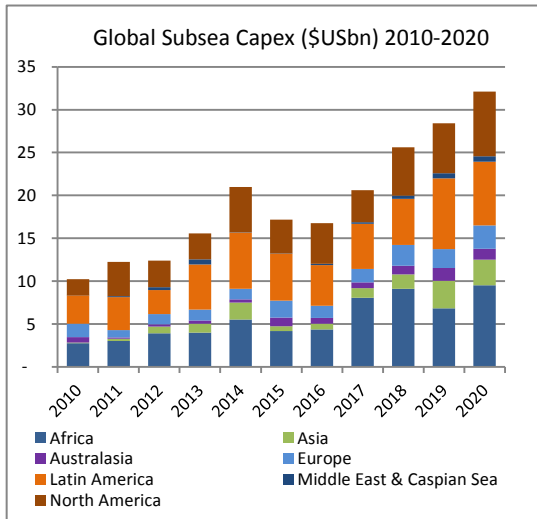


Chart 4 (Source: Infield, February 2015)

The market for Matrix's well construction products has also been adversely impacted by the fall in the oil price. Chart 5 sets out the historical and forecast 'feet volume' to be drilled on land and offshore wells. While there has been a sharp fall (approximately 44 per cent) from the peak activity recorded in 2014, "feet volume" is forecast to grow strongly in 2017 and over the next five years. In addition, Matrix has been successful in developing new markets for its well construction products and expects increased revenue in FY17.

Matrix continues to develop products for SURF applications which remains a significant opportunity for the Company. Subsea expenditure stabilised in CY16 after a significant reduction experienced in CY15. Global capital expenditure forecast to increase sharply in CY17, returning to CY14 levels, before experiencing significant growth. Chart 4 sets out the forecast capital expenditure for offshore oil and gas developments over the next five years which is a lead indicator for SURF buoyancy products.

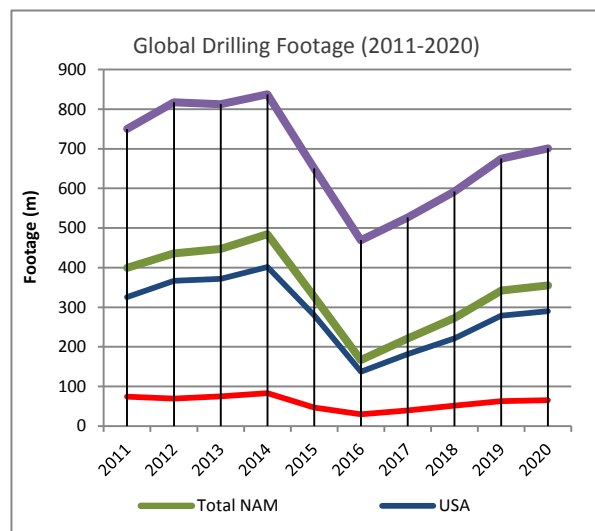


Chart 5 (Source: Spears & Associates, June 2016)

The outlook for Matrix's products has been significantly impacted by the sustained period of low oil and gas prices. Notwithstanding this, Matrix has continued to reduce output and costs to ensure the business remains cash flow positive. Matrix's disciplined approach to reducing debt over the past three years has resulted in the company having a strong balance sheet with no term debt and significant liquidity.

Changes in State of Affairs

During the year Matrix successfully launched its range of new LGS™ drag reduction technologies. Matrix also disposed of surplus real property and equipment associated with its former fabrication and machining workshop activities. Other than these matters, there were no significant changes in the state of affairs of the consolidated entity during the financial year.

DIRECTORS' REPORT

Subsequent Events

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

Future Developments

Having regard to its current balance of contracted work for buoyancy products (including both drilling and SURF products), Matrix will continue to flex production and overheads in order to meet demand. The principal risk to Matrix's ongoing production rates is the presence of global client demand and its ability to secure contracted work in a timely manner.

Matrix expects that demand for its well construction products will continue, as new products are introduced and new markets entered. Despite lower oil and gas prices, there continues to be significant drilling activity, both onshore and offshore.

Matrix expects ongoing demand for maintenance services to the offshore oil and gas sector in Western Australia will continue to provide market opportunities for inspection, maintenance and repair services. The Karratha Riser base provides a footprint to expand Matrix's range of equipment servicing to both fixed and mobile offshore rigs and onshore processing installations.

Matrix is continuing to market its new range of Matrix LGS™ products which targets the existing global rig fleet and new applications for subsea production, reducing reliance on the newbuild rig cycle. Matrix is also targeting new growth markets outside of the oil and gas industry where it can leverage its core skills in engineering and advanced materials. These markets include marine, defence and civil.

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 Group Occupational Health Safety and Environment department. When breaches occur, they are reported to the Department of Environmental Regulation (DER) as required and actions taken to prevent recurrences.

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

Environmental objectives and key performance indicators (KPIs) have been agreed, and accepted at the senior management level. These KPIs have been reviewed and monitored over the financial year to ensure opportunities for improvement are identified and acted on.

DIRECTORS' REPORT

Dividends

In respect of the financial year ended 30 June 2015, as detailed in the directors' report for that financial year, an interim dividend of 2.0 cents per share and a final dividend of 1.0 cents per share, each franked to 100 per cent at the 30 per cent corporate income tax rate, was paid to holders of fully paid shares on 31 March 2015 and 30 September 2015 respectively.

In respect of the financial year ended 30 June 2016, no interim dividend was paid and the directors have determined that no final dividend will be paid.

Shares under option or issued on exercise of options

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

Indemnification of Officers and Auditors

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

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

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

Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, nine board meetings, two remuneration committee meetings, one nominations committee meeting, three 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	1	1	3	3	3	3
AP Begley	9	9	-	-	-	-	-	-	-	-
DP Clegg	9	9	2	2	1	1	-	-	3	3
S Cole	9	9	2	2	1	1	3	3	-	-
CN Duncan	9	7	-	-	-	-	3	3	3	3

DIRECTORS' REPORT

Proceedings on Behalf of Company

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

Non-audit services

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

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

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

Auditor's independence declaration

The auditor's independence declaration is included on page 32 of the annual report.

Corporate Governance Statement

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

Under ASX Listing Rule 4.10.3, Matrix is required to provide in its annual report details of where shareholders can obtain a copy of a corporate governance statement, disclosing the extent to which the Company has followed the ASX Corporate Governance Council Principles and Recommendations in the reporting period. Matrix has published its corporate governance statement on the "Corporate Governance" page of its web site at www.matrix-corp.org

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of the Company's directors and key management personnel for the financial year ended 30 June 2016.

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

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

Key Management Personnel

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

Non-Executive Directors

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

Mr PJ Hood (Chairperson)

Dr DP Clegg

Mr S Cole

Mr CN Duncan

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 S Edgar (General Manager - Commercial)

Mr P Pezet (General Manager - Engineering)

Mr P Tazewell (Chief Financial Officer/Company Secretary)

Mr A Vincan (Chief Operating Officer)

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. Messrs Edgar and Pezet are continuing employees who were designated as Key Management Personnel effective 1 July 2015.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

Remuneration Policy

Non-Executive Directors

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

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

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

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

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

As a result of a market review conducted during FY15, the annual fees of non-executive directors (inclusive of superannuation) were revised in accordance with the following table, effective 1 July 2015.

Name	Previous Fees	Revised Fees
Peter Hood	\$98,325	\$125,000
Duncan Clegg	\$60,088	\$75,000
Steven Cole	\$60,088	\$75,000
Craig Duncan	\$60,088	\$75,000

Having regard to changing market conditions throughout the financial year and the Company's efforts to achieve cost savings where practicable, the Board determined to reduce the annual fees (inclusive of superannuation) paid to non-executive directors by 10 per cent, as set out in the following table, effective 1 April 2016. This 10 per cent reduction in Directors' fees is in line with reductions for salaried staff outlined on page 21.

Name	Previous Fees	Revised Fees
Peter Hood	\$125,000	\$112,500
Duncan Clegg	\$75,000	\$67,500
Steven Cole	\$75,000	\$67,500
Craig Duncan	\$75,000	\$67,500

DIRECTORS' REPORT

In FY16 the Chairperson received an annual fee of \$122,158 (2015: \$98,550). All other non-executive directors received an annual fee of \$73,295 (2015: \$60,225). All amounts specified in this section are inclusive of superannuation contributions.

Matrix Executives

The Company's remuneration policy for Matrix executives (including executive directors) is to fairly and responsibly reward them having regard to the performance of the Group, 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 FY16 based on delivery of key financial and non-financial outcomes. Matrix executives were not paid incentives resulting from increases in the Company's share price in FY16.

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.

As a result of cost saving initiatives implemented by the Company, Mr A Begley, as the Chief Executive Officer of Matrix, agreed to a fixed salary reduction of 10 per cent, effective 1 April 2016 for a period of one year. In addition, all full time employees (including Executives, but excluding Mr A Begley) have agreed, effective 1 July 2016, to participate in the Company's Flexible Day Off (FDO) programme, which results in an effective reduction in salary of 10 per cent.

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.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

The following table sets out the maximum variable remuneration each Executive can achieve in FY16, expressed as percentage of total remuneration, if maximum performance was achieved for the STI and LTI components of their variable remuneration.

Executive	Maximum STI (% of Total Rem)	Maximum LTI (% of Total Rem)	Maximum Total Variable Remuneration (% of Total Rem)
Aaron Begley <i>Managing Director & Chief Executive Officer</i>	13.77	21.27	35.04
Stephen Edgar <i>General Manager – Commercial</i>	14.40	13.09	27.49
Peter Pezet <i>General Manager - Engineering</i>	12.53	13.93	26.46
Peter Tazewell <i>Chief Financial Officer</i>	10.79	16.68	27.47
Alex Vincan <i>Chief Operating Officer</i>	10.92	10.92	21.84

STI remuneration

A comprehensive Short Term Incentive Plan (STI Plan) was in place for key management personnel for FY16. 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.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

STI Key Performance Indicators

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

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

The following table sets out the various KPI categories for the FY16 STI Plan and the weightings attributable to each of them. 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	P Tazewell	A Vincan	S Edgar	P Pezet
Financial	40.0	42.5	30.0	40.0	35.0
Safety	10.0	5.0	15.0	10.0	10.0
Leadership	15.0	0.0	40.0	0.0	30.0
Personal Objectives	35.0	52.5	15.0	50.0	25.0
TOTAL	100.0	100.0	100.0	100.0	100.0

Despite certain STI KPIs being met, the Board has determined that no STI payments will be made in relation to FY16.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

LTI remuneration

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

The Executives named below were invited to accept a dollar value grant of rights, which they could allocate between rights issued under the SEPRP and the SESARP respectively, with an allocation to the SEPRP not to exceed a maximum of 50 per cent of the total value of their respective LTI Plan grants. The total dollar value of the grant offered to each of these executives and their respective allocations of rights under the SEPRP and SESARP in FY16 are set out in the following table:

Name	Grant Value	Performance Rights	SARs
Aaron Begley	\$170,000	nil	1,545,455
Stephen Edgar	\$50,000	nil	454,545
Peter Pezet	\$50,000	nil	454,545
Peter Tazewell	\$85,000	nil	772,727
Alex Vincan	\$55,000	nil	500,000

This LTI grant made in FY16 relates to FY15.

Rights granted under the SEPRP

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

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

- three year service and TSR performance testing period from 1 July 2015; and
- relative total shareholder return (TSR) ranking of the Company against a TSR comparator group comprising all companies in the ASX300 as follows:

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

For example, an Eligible Participant receiving an indicative annual grant value of \$20,000 will receive 74,074 Performance Rights ($\$20,000 \div \0.27). Should the vesting conditions be met, the Performance Rights will convert into 74,074 Shares in Matrix, or a cash equivalent (subject to Board discretion). If the vesting conditions are not met, the Performance Rights will lapse.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

All Executives elected to receive Share Appreciation Rights in relation to their FY15 LTI grants. As a result, no Performance Rights were granted in relation to the FY15 LTI grants.

Rights granted under the SESARP

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

SARs granted under the SESARP during FY16 are subject to the following vesting conditions:

- three year service period from 1 July 2015; and
- the same TSR target and comparator group as applies to the PRs.

Upon vesting of any SARs, participants will be issued with Shares or the cash equivalent equal to the value derived by multiplying the number of vested Rights by the relative growth in share price over the performance period. Relative share price growth is determined by a comparison of the MCE share price growth with the hurdle share price. The hurdle share price of \$0.53 is calculated by reference to:

- the 28 day volume weighted average price of MCE shares following the release of the Company's 2015 Financial Year statutory accounts on 19 August 2015, being \$0.44; and
- the annual growth rate of 6.53 per cent for the ASX300 Accumulation Index over the five years prior to 1 July 2015.

For example, an Eligible Participant receiving an indicative annual grant value of \$20,000 in FY16 will receive 181,818 SARs ($\$20,000 \div \0.11) which, should the vesting conditions be met in FY18, convert into a number of ordinary fully paid shares in Matrix dependent upon the range of share price outcomes set out below, or a cash equivalent (subject to Board discretion).

Target Future Share Price	\$0.50	\$1.00	\$2.00
Grant Value	\$20,000	\$20,000	\$20,000
SAR value	\$0.11	\$0.11	\$0.11
SARs granted	181,818	181,818	181,818
Hurdle Price	\$0.53	\$0.53	\$0.53
Share Price Uplift	Nil	\$0.47	\$1.47
Benefit	Nil	\$85,454	\$267,272
Matrix share conversion	Nil	85,454	133,636

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

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

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 FY16 this was achieved through the continuation of the STI Plan which placed a material proportion of executives' remuneration at risk, with STI Plan KPIs linked to financial performance, safety performance and the achievement of key strategic goals and objectives.

In addition, the operation of the Matrix Rights Plan in FY16 further aligns the interests of the Company's key management personnel with its shareholders.

As noted previously, no payments of STI will be made to Executives in relation to FY16.

Remuneration of directors and key management personnel

Details of the elements comprising the remuneration of the Company's key management personnel are set out in the following table. The table does not include the following components of remuneration because they were not part of the remuneration package offered to Executives during FY16:

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

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

Remuneration of Directors & Key Management Personnel

		Short-term Benefits			Post Employment Benefits	Long-term Benefits	Share Based Payments	Total	Proportion Performance related
		Salary & fees	STI ¹	Total	Super-annuation benefits	Long Service Leave	Performance rights and share appreciation rights ³		
		\$	\$	\$	\$	\$	\$	\$	%
Executive Director									
AP Begley (MD & CEO)	2016	499,784	-	499,784	19,308	(678)	37,006	555,420	6.7%
	2015	496,004	45,500	541,504	18,783	31,048	3,951	595,286	8.3%
Non - Executive Directors									
PJ Hood	2016	111,560	-	111,560	10,598	-	-	122,158	-
	2015	90,000	-	90,000	8,550	-	-	98,550	-
S Cole	2016	66,936	-	66,936	6,359	-	-	73,295	-
	2015	55,000	-	55,000	5,225	-	-	60,225	-
CN Duncan	2016	66,936	-	66,936	6,359	-	-	73,295	-
	2015	55,000	-	55,000	5,225	-	-	60,225	-
DP Clegg	2016	66,936	-	66,936	6,359	-	-	73,295	-
	2015	43,389	-	43,389	4,122	-	-	47,511	-
P Wright	2016	-	-	-	-	-	-	-	-
	2015	22,917	-	22,917	2,177	-	-	25,094	-
Executive officers									
PJ Tazewell (CFO/Company Secretary)	2016	350,204	-	350,204	19,308	-	19,451	388,963	5.0%
	2015	349,813	31,250	381,063	18,783	-	2,923	402,769	8.5%
A Vincan (Chief Operating Officer)	2016	374,424	-	374,424	19,308	-	11,791	405,523	2.9%
	2015	369,371	34,300	403,671	18,783	-	1,096	423,550	8.4%
SRH Edgar ² (General Manager – Commercial)	2016	257,643	-	257,643	19,308	-	9,722	286,673	3.4%
	2015	-	-	-	-	-	-	-	-
PB Pezet ² (General Manager – Engineering)	2016	244,706	-	244,706	19,308	-	10,569	274,583	3.8%
	2015	-	-	-	-	-	-	-	-
G Rooke (General Manager – MOSE)	2016	-	-	-	-	-	-	-	-
	2015	94,861	-	94,861	4,696	-	-	99,557	-
Total	2016	2,039,129	-	2,039,129	126,215	(678)	88,539	2,253,205	-
Total	2015	1,576,355	111,050	1,687,405	86,344	31,048	7,970	1,812,767	-

¹ The STI amounts shown above in relation to FY15 were accrued in the FY15 financial results but paid in the year ending 30 June 2016. No STI has been accrued for FY16.

² Messrs Edgar and Pezet were designated as Key Management Personnel effective 1 July 2015.

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

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

Key terms of Employment Contracts

Executive service agreements

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

Name	Original Start Date	Term	Notice period
AP Begley <i>Managing Director & CEO</i>	04/10/1999	Indefinite	6 months (Company) / 3 months (individual)
SRH Edgar <i>General Manager - Commercial</i>	28/04/2014	Indefinite	6 months (Company) / 3 months (individual)
PB Pezet <i>General Manager - Engineering</i>	14/07/2008	Indefinite	6 months (Company) / 3 months (individual)
PJ Tazewell <i>CFO & Company Secretary</i>	19/12/2011	Indefinite	6 months (Company) / 3 months (individual)
A Vincan <i>Chief Operating Officer</i>	14/09/2009	Indefinite	6 months (Company) / 3 months (individual)

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

Loans to Key management personnel

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

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

Key management personnel equity holdings

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

2016	Balance at 1 July 2015 No.	Granted as Remuneration No.	On Exercise of Options No.	Net Other Change No.	Balance at 30 June 2016 No.
Directors					
PJ Hood	500,000	-	-	130,000	630,000
AP Begley	3,625,877	-	-	17,200	3,643,077
DP Clegg ²	-	-	-	39,918	39,918
S Cole	20,000	-	-	-	20,000
CN Duncan	590,429	-	-	-	590,429
Executives					
SRH Edgar ¹	-	-	-	-	-
PB Pezet ¹	-	-	-	-	-
PJ Tazewell	15,000	-	-	-	15,000
A Vincan	386,038	-	-	-	386,038
2015					
	Balance at 1 July 2014 No.	Granted as Remuneration No.	On Exercise of Options No.	Net Other Change No.	Balance at 30 June 2015 No.
Directors					
PJ Hood	260,000	-	-	240,000	500,000
AP Begley	3,545,877	-	-	80,000	3,625,877
DP Clegg ²	-	-	-	-	-
S Cole	-	-	-	20,000	20,000
CN Duncan	590,429	-	-	-	590,429
PR Wright	1,435,635	-	-	n/a*	n/a*
Executives					
G Rooke	-	-	-	n/a*	n/a*
PJ Tazewell	-	-	-	15,000	15,000
A Vincan	-	-	-	386,038	386,038

¹ Messrs Edgar and Pezet were designated as Key Management Personnel effective 1 July 2015.

² Dr D Clegg was appointed as a director on 17 September 2014.

* These individuals ceased to be key management personnel during the relevant reporting period and the presentation in this table may not indicate the status of their shareholding at the end of the relevant reporting period.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

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

2016	Balance at 1 July 2015 No.	Granted as Remuneration No.	Exercised No.	Net Other Change No.	Balance at 30 June 2016 No.	Balance Vested at 30 June 2016 No.	Vested but not exercisable No.	Vested and exercisable No.	PRs Vested during year No.
Directors									
PJ Hood	-	-	-	-	-	-	-	-	-
AP Begley	-	-	-	-	-	-	-	-	-
DP Clegg	-	-	-	-	-	-	-	-	-
S Cole	-	-	-	-	-	-	-	-	-
CN Duncan	-	-	-	-	-	-	-	-	-
PR Wright	-	-	-	-	-	-	-	-	-
Executives									
SRH Edgar ¹	-	-	-	-	-	-	-	-	-
PB Pezet ¹	-	16,129	-	-	16,129	-	-	-	-
PJ Tazewell	64,516	-	-	-	64,516	-	-	-	-
A Vincan	24,193	-	-	-	24,193	-	-	-	-
2015									
	Balance at 1 July 2014 No.	Granted as Remuneration No.	Exercised No.	Net Other Change No.	Balance at 30 June 2015 No.	Balance Vested at 30 June 2015 No.	Vested but not exercisable No.	Vested and exercisable No.	PRs Vested during year No.
Directors									
PJ Hood	-	-	-	-	-	-	-	-	-
AP Begley	-	-	-	-	-	-	-	-	-
DP Clegg	-	-	-	-	-	-	-	-	-
S Cole	-	-	-	-	-	-	-	-	-
CN Duncan	-	-	-	-	-	-	-	-	-
PR Wright	-	-	-	-	-	-	-	-	-
Executives									
G Rooke	-	-	-	-	-	-	-	-	-
PJ Tazewell	-	64,516	-	-	64,516	-	-	-	-
A Vincan	-	24,193	-	-	24,193	-	-	-	-

¹ Messrs Edgar and Pezet were designated as key management personnel effective from 1 July 2015.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

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

2016	Balance at 1 July 2015 No.	Granted as Remuneration No.	Exercised No.	Net Other Change No.	Balance at 30 June 2016 No.	Balance Vested at 30 June 2016 No.	Vested but not exercisable No.	Vested and exercisable No.	SARs Vested during year No.
Directors									
PJ Hood	-	-	-	-	-	-	-	-	-
AP Begley	592,593	1,545,455	-	-	2,138,048	-	-	-	-
DP Clegg	-	-	-	-	-	-	-	-	-
S Cole	-	-	-	-	-	-	-	-	-
CN Duncan	-	-	-	-	-	-	-	-	-
Executives									
SRH Edgar ¹	-	454,545	-	-	454,545	-	-	-	-
PB Pezet ¹	-	454,545	-	-	454,545	-	-	-	-
PJ Tazewell	148,148	772,727	-	-	920,875	-	-	-	-
A Vincan	55,555	500,000	-	-	555,555	-	-	-	-
2015									
	Balance at 1 July 2014 No.	Granted as Remuneration No.	Exercised No.	Net Other Change No.	Balance at 30 June 2015 No.	Balance Vested at 30 June 2015 No.	Vested but not exercisable No.	Vested and exercisable No.	SARs Vested during year No.
Directors									
PJ Hood	-	-	-	-	-	-	-	-	-
AP Begley	-	592,593	-	-	592,593	-	-	-	-
S Cole	-	-	-	-	-	-	-	-	-
DP Clegg	-	-	-	-	-	-	-	-	-
CN Duncan	-	-	-	-	-	-	-	-	-
PR Wright	-	-	-	-	-	-	-	-	-
Executives									
G Rooke	-	-	-	-	-	-	-	-	-
PJ Tazewell	-	148,148	-	-	148,148	-	-	-	-
A Vincan	-	55,555	-	-	55,555	-	-	-	-

¹ Messrs Edgar and Pezet were designated as Key Management Personnel effective 1 July 2015

DIRECTORS' REPORT

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

On behalf of the Director



Aaron P Begley
Managing Director and Chief Executive Officer

Perth, 24 August 2016

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

24 August 2016

Dear Board Members

Matrix Composites & Engineering Ltd

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

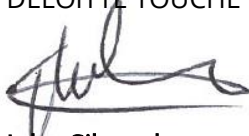
As lead audit partner for the audit of the financial statements of Matrix Composites & Engineering Ltd for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU



John Sibenaler
Partner
Chartered Accountants

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$	2015 \$
Continuing operations			
Revenue		95,728,426	144,074,596
Cost of sales		(86,511,912)	(123,013,503)
Gross profit		9,216,514	21,061,093
Other income	3	311,284	613,778
Other losses	3	(1,767,657)	(1,673,465)
Administration expenses		(6,291,448)	(7,511,532)
Finance costs		(459,826)	(1,022,615)
Marketing expenses		(4,164,016)	(4,829,210)
Research expenses		(1,445,162)	(657,277)
(Loss)/profit before income tax	4	(4,600,311)	5,980,772
Income tax benefit/(expense)	6	2,486,283	(2,346,944)
(Loss)/profit for the year from continuing operations		(2,114,028)	3,633,828
(Loss)/profit attributable to :			
Owners of the Company		(2,114,028)	3,633,828
Non-controlling interest		-	-
		(2,114,028)	3,633,828
(Loss)/profit per share			
Basic (loss)/profit per share (cents)	29	(2.2)	3.8
Diluted (loss)/profit per share (cents)	29	(2.2)	3.8

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016**

	2016	2015
	\$	\$
(Loss)/profit for the year	(2,114,028)	3,633,828
Other comprehensive (expense)/income		
<i>Items that may be reclassified subsequent to profit or loss:</i>		
Net foreign currency translation differences	40,758	(602,748)
	40,758	(602,748)
Change in fair value of cash flow hedges	(520,442)	(18,487)
Net income tax benefit	134,168	29,371
	(386,274)	10,884
Property revaluation reserve transferred to profit or loss	(787,664)	-
	(787,664)	-
Total comprehensive (expense)/income for the year	(3,247,208)	3,041,964
Total comprehensive (expense)/income attributable to:		
Owners of the parent entity	(3,247,208)	3,041,964
Non-controlling interest	-	-
Total comprehensive (expense)/income for the year	(3,247,208)	3,041,964

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016**

	Note	2016	2015
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	7	8,403,463	14,468,450
Trade and other receivables	8	25,487,486	34,482,261
Inventories	9	10,632,083	20,726,023
Other current assets	10	746,754	943,787
Financial assets	12	-	501,615
TOTAL CURRENT ASSETS		45,269,786	71,122,136
NON CURRENT ASSETS			
Trade and other receivables	8	1,444,576	-
Property, plant and equipment	11	81,742,949	91,321,352
Intangible assets	13	9,004,065	8,699,057
Deferred tax assets	6	9,179,510	9,071,097
TOTAL NON CURRENT ASSETS		101,371,100	109,091,506
TOTAL ASSETS		146,640,886	180,213,642
CURRENT LIABILITIES			
Trade and other payables	14	4,414,667	11,618,252
Progress claims and deposits	15	1,879,063	14,297,482
Financial liabilities	16	3,429,048	6,164,911
Provisions	17	780,272	1,098,092
TOTAL CURRENT LIABILITIES		10,503,050	33,178,737
NON CURRENT LIABILITIES			
Financial liabilities	16	-	4,000,000
Deferred tax liabilities	6	2,304,788	4,847,458
Provisions	17	396,032	373,820
TOTAL NON CURRENT LIABILITIES		2,700,820	9,221,278
TOTAL LIABILITIES		13,203,870	42,400,015
NET ASSETS		133,437,016	137,813,627
EQUITY			
Issued capital	18	111,283,768	111,555,600
Reserves	19	(645,725)	678,468
Retained earnings	20	22,809,176	25,589,762
Equity attributable to owners of the Company		133,447,219	137,823,830
Non-controlling interest		(10,203)	(10,203)
TOTAL EQUITY		133,437,016	137,813,627

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$	2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		95,483,922	148,913,385
Payments to suppliers and employees		(92,294,403)	(145,869,550)
Interest received		21,759	296,334
Finance costs paid		(459,826)	(1,022,615)
Net receipt from tax		2,671	1,189,657
Net cash from operating activities	21(b)	2,754,123	3,507,211
CASH FLOWS USED IN INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		4,111,827	236,520
Payments for property, plant and equipment		(5,608,550)	(4,655,142)
Payments for capitalised development costs		(1,329,241)	(392,808)
Net cash used in investing activities		(2,825,964)	(4,811,430)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Buy-back of ordinary shares		(234,045)	(200,659)
Share buy-back costs		(37,787)	(28,604)
Payment of dividends		(939,558)	(1,891,109)
Proceeds from borrowings		2,930,811	-
Repayment of borrowings		(8,000,000)	(4,947,262)
Net cash used in financing activities		(6,280,579)	(7,067,634)
Net decrease in cash and cash equivalents		(6,352,420)	(8,371,853)
Cash and cash equivalents at 1 July		14,468,450	19,546,289
Effects of exchange rate changes on the balance of cash held in foreign currencies		287,433	3,294,014
Cash and cash equivalents at 30 June	21(a)	8,403,463	14,468,450

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016**

	Issued capital	Retained earnings	Option premium reserve	Properties revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Share based payment reserve	Attributable to owners of the parent	Non-controlling interest	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2015	111,555,600	25,589,762	273,000	787,664	(6,336)	(455,860)	80,000	137,823,830	(10,203)	137,813,627
Payment of dividends	-	(939,558)	-	-	-	-	-	(939,558)	-	(939,558)
Loss for the year	-	(2,114,028)	-	-	-	-	-	(2,114,028)	-	(2,114,028)
Other comprehensive (expense)/income for the year, net of income tax	-	-	-	(787,664)	(386,274)	40,758	-	(1,133,180)	-	(1,133,180)
Total comprehensive (expense)/income for the year	-	(2,114,028)	-	(787,664)	(386,274)	40,758	-	(3,247,208)	-	(3,247,208)
De-recognition of expired options	-	273,000	(273,000)	-	-	-	-	-	-	-
Recognition of share- based payments	-	-	-	-	-	-	81,987	81,987	-	81,987
Buy-back of ordinary shares	(234,045)	-	-	-	-	-	-	(234,045)	-	(234,045)
Share buy-back costs	(37,787)	-	-	-	-	-	-	(37,787)	-	(37,787)
Balance at 30 June 2016	111,283,768	22,809,176	-	-	(392,610)	(415,102)	161,987	133,447,219	(10,203)	133,437,016

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016**

	Issued capital	Retained earnings	Option premium reserve	Properties revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Share based payment reserve	Attributable to owners of the parent	Non-controlling interest	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2014	111,784,863	23,847,043	273,000	787,664	(17,220)	146,888	-	136,822,238	(10,203)	136,812,035
Payment of dividends	-	(1,891,109)	-	-	-	-	-	(1,891,109)	-	(1,891,109)
Profit for the year	-	3,633,828	-	-	-	-	-	3,633,828	-	3,633,828
Other comprehensive income for the year, net of income tax	-	-	-	-	10,884	(602,748)	-	(591,864)	-	(591,864)
Total comprehensive income for the year	-	3,633,828	-	-	10,884	(602,748)	-	3,041,964	-	3,041,964
Recognition of share- based payments	-	-	-	-	-	-	80,000	80,000	-	80,000
Buy-back of ordinary shares	(200,659)	-	-	-	-	-	-	(200,659)	-	(200,659)
Share buy-back costs	(28,604)	-	-	-	-	-	-	(28,604)	-	(28,604)
Balance at 30 June 2015	111,555,600	25,589,762	273,000	787,664	(6,336)	(455,860)	80,000	137,823,830	(10,203)	137,813,627

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

General Information

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

Statement of Compliance

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

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

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

The financial statements were authorised for issue by the directors on 24 August 2016.

Basis of Preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Application of New and Revised Accounting Standards

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

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

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

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The potential effect of the revised Standards and Interpretations on the Group's financial statements has not yet been determined.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<i>AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective Date of AASB 15', and AASB 2016-3 'Amendments to Australian Accounting Standards – Clarifications to AASB 15'</i>	1 January 2018	30 June 2019
<i>AASB 1057 'Application of Australian Accounting Standards' and AASB 2015-9 'Amendments to Australian Accounting Standards – Scope and Application Paragraphs'</i>	1 January 2016	30 June 2017
<i>AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'</i>	1 January 2016	30 June 2017
<i>AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'</i>	1 January 2016	30 June 2017
<i>AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'</i>	1 January 2016	30 June 2017
<i>AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'</i>	1 January 2017	30 June 2018

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

(a) Basis of Consolidation

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

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

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

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(a) Basis of Consolidation

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

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

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

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

(b) 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 (being the Board of Directors) for which discrete financial information is available.

(c) Income Tax

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

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

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

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(c) Income Tax

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.

(d) Inventories

Inventories include raw materials, work in progress and finished goods, and are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate share of manufacturing overheads. Costs are assigned on the basis of weighted average costs.

(e) Property, Plant and Equipment

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

Property

Properties in the course of construction for production, supply or administration purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated

Plant and equipment

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(e) Property, Plant and Equipment

Plant and equipment

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

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

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

Depreciation

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

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

Class of Fixed Asset	Depreciation Rate (%)
Buildings	2.5
Plant and equipment	7.5 – 30.0
Motor vehicles	22.5
Office equipment	11.25 – 25.0
Computer equipment	37.50 – 50.0

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

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

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(f) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to the Group's cash-generating unit that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(g) Leases

Leases are classified as operating leases where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Group. All other leases are classified as operating leases.

Operating lease payments are expenses over the lease term or where another systematic basis is more representative of the time pattern in which the economic benefits from the asset are consumed. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(h) Financial Instruments

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

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(h) Financial Instruments

Financial assets at fair value through profit and loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these assets are measured at amortised cost using the effective interest rate method, less any impairment losses.

Financial liabilities and equity instruments

Classification as debt or equity

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

Financial liabilities

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

Derivative financial instruments and hedging

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

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

The Group has entered into various put and call currency option transactions as part of its overall hedging strategy. Details of call/put options outstanding at 30 June are included in Note 22. There were no put option positions at 30 June. Movements in the value of these derivative instruments are recognised immediately in profit or loss.

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

Such hedges, if expected to be highly effective in achieving offsetting changes in the fair value or cash flows, are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(h) Financial Instruments

Cash flow hedges

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

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

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

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

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

Fair value

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

Impairment of financial assets

At each reporting date, the company assesses whether there is objective evidence that a financial asset not carried at fair value through profit or loss has been impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred, and where the decline in fair value is considered significant or prolonged. Impairment losses are recognised in profit or loss.

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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

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

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

A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. The Group assesses impairment of all non-financial assets other than goodwill 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, financial assets and deferred tax assets, are reviewed half-yearly to determine whether there is indication of an impairment loss. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

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

(j) Foreign Currency Transactions and Balances

Transaction and balances

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(j) Foreign Currency Transactions and Balances

Foreign currency cash flows

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

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

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

Foreign currency cash flows

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

(k) Employee Benefits

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

(l) Provisions

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

(m) Cash and Cash Equivalents

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

(n) Revenue Recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(n) Revenue Recognition

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the cost incurred or to be incurred in respect of the transaction can be measured reliably.

Risks and rewards are assessed in relation to the:

- i) delivery of the goods to the customers;
- ii) receipt of payment from the customer;
- iii) achieving a relevant invoicing milestone under a contract with the customer; or
- iv) contractual terms.

Ex-works revenue

Revenue in relation to ex-works contracts are recognised when the goods are produced and contract terms are fulfilled.

Service revenue

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

Rendering of services

Revenue from consulting services is recognised when the services have been provided and where the amount can be reliably estimated and is considered recoverable.

Interest

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

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

(o) Cost of Sales

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

(p) Goods and Services Tax (GST)

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(q) Earnings per Share

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

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

(r) Comparative Figures

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

(s) Significant Accounting Estimates and Judgements

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

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

i. Impairment of goodwill (Refer to Note 13)

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

ii. Valuation of financial instruments

As described in note 22, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 22 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions.

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

iii. Taxes (Refer to Note 6)

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(s) Significant Accounting Estimates and Judgements

iii. Taxes (Refer to Note 6)

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

2. OPERATING SEGMENTS

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

Performance Monitoring and Evaluation

The CODM is identified as the Chief Executive Officer (CEO) who monitors the operating results of the consolidated group and organises its business activities and product lines to serve the global oil and gas industry. The performance of the consolidated group is evaluated based on 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 30 Jun 2016	MCE Group 30 Jun 2015
	\$	\$
Revenue	95,728,426	144,074,596
EBITDAF	7,509,574	21,090,256
Foreign exchange loss	(1,062,552)	(1,571,513)
EBITDA	6,447,022	19,518,743
Depreciation and amortisation	(10,609,266)	(12,811,690)
EBIT	(4,162,244)	6,707,053
Net finance costs	(438,067)	(726,281)
(Loss)/profit before tax (continuing operations)	(4,600,311)	5,980,772
	MCE Group 30 Jun 2016	MCE Group 30 Jun 2015
	\$	\$
Total consolidated assets	146,640,886	180,213,642
Total consolidated liabilities	13,203,870	42,400,015
Geographical Assets		
Australia	145,304,651	178,675,604
Others	1,336,235	1,538,038
	146,640,886	180,213,642
Geographical Liabilities		
Australia	6,661,816	37,386,415
Others	6,542,054	5,013,600
	13,203,870	42,400,015

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 (2015: four major customers), each individually accounted for greater than 10 per cent of total group revenue; collectively representing 64 per cent (2014: 74 per cent) of the total group revenue.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. OTHER INCOME/(LOSSES)

	2016	2015
	\$	\$
Other Income		
Interest received	21,759	296,334
Sundry income	86,231	113,811
Interest rate swap revaluation gain	203,294	203,633
	<u>311,284</u>	<u>613,778</u>
Other Losses		
Foreign exchange loss	(1,062,552)	(1,571,513)
Fixed assets disposals/write off	(702,429)	(42,403)
Other expenses	(2,676)	(59,549)
Total other losses	<u>(1,767,657)</u>	<u>(1,673,465)</u>

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

4. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is stated after charging the following expenses:

	2016	2015
	\$	\$
Depreciation and amortisation	10,609,266	12,811,690
Employee benefits expense	22,968,304	32,896,143
Finance costs	459,826	1,022,615
	<u>459,826</u>	<u>1,022,615</u>

5. AUDITORS' REMUNERATION

	2016	2015
	\$	\$
<i>Auditor of the parent entity (Deloitte Touche Tohmatsu)</i>		
Audit and review fees for the year	129,056	123,690
Taxation and other advisory services	-	23,000
Internal controls review	-	33,088
	<u>129,056</u>	<u>179,778</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

6. INCOME TAX (BENEFIT)/EXPENSE

	2016	2015
	\$	\$
Current tax		
In respect of the current year	-	488,129
In respect of prior years	25,528	506,005
	<u>25,528</u>	<u>994,134</u>
Deferred tax		
In respect of the current year	(1,191,013)	1,367,830
In respect of prior years	(1,320,798)	(15,020)
	<u>(2,511,811)</u>	<u>1,352,810</u>
Total income tax (benefit)/expense recognised in the current year relating to continuing operations	<u>(2,486,283)</u>	<u>2,346,944</u>

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

	2016	2015
	\$	\$
(Loss)/profit before tax from continuing operations	(4,600,311)	5,980,772
Income tax (benefit)/expense calculated at 30% (2015:30%)	(1,380,093)	1,794,232
Effect of expenses that are not deductible in determining taxable profit	275,530	413,257
Effect of concessions (R&D and other allowances)	(276,692)	(351,529)
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	190,242	-
	<u>(1,191,013)</u>	<u>1,855,960</u>
Adjustments recognised in the current year in relation to the deferred tax (benefit)/expense of prior years	(1,295,270)	490,984
Total income tax (benefit)/expense recognised in the current year relating to continuing operations	<u>(2,486,283)</u>	<u>2,346,944</u>

The tax rate used for the 2016 and 2015 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

Income tax recognised directly in other comprehensive income

	2016	2015
	\$	\$
Deferred tax		
<i>Arising on income and expenses recognised in other comprehensive income:</i>		
Fair value measurements of hedging instruments entered into for cash flow hedges	(139,582)	(29,371)
<i>Arising on income and expenses reclassified from equity to profit and loss:</i>		
Relating to cash flow hedges	5,414	-
Total income tax recognised in other comprehensive income	<u>(134,168)</u>	<u>(29,371)</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

6. INCOME TAX (BENEFIT)/EXPENSE

Deferred tax assets and liabilities

	2016	2015
	\$	\$
Deferred tax assets		
Benefit of tax losses to be carried back to recover taxes paid in prior periods		
Assessed losses	4,466,449	5,316,049
Research and development claims	3,469,233	2,508,653
Trade and other payables	-	206,354
Provisions	389,798	373,884
Capital raising costs	-	84,653
Borrowing costs	16,316	183,890
Other creditors & accruals	43,200	280,556
Employee entitlements	-	58,713
Intangible assets	350,312	43,042
Cash flow hedges	149,471	15,303
Other	294,731	-
	9,179,510	9,071,097
Deferred tax liabilities		
Trade and other receivables	-	(1,150,017)
Property, plant & equipment	(2,209,722)	(2,697,610)
Inventories	(79,592)	(80,855)
Prepayments	(15,474)	(36,846)
Financial liabilities	-	(61,090)
Asset revaluation reserve	-	(814,497)
Other	-	(6,543)
	(2,304,788)	(4,847,458)
Deferred tax balances		
Deferred tax assets	9,179,510	9,071,097
Deferred tax liabilities	(2,304,788)	(4,847,458)
	6,874,722	4,223,639

2016	Opening	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Reclassified from equity to profit or loss	Closing
Temporary differences						
Cash flow hedges	15,303	-	139,582	-	(5,414)	149,471
Asset revaluation reserve	(814,497)	814,497	-	-	-	-
Trade and other payables	206,354	(206,354)	-	-	-	-
Provisions	373,884	15,914	-	-	-	389,798
Capital raising costs	84,653	(84,653)	-	-	-	-
Borrowing costs	183,890	(167,574)	-	-	-	16,316
Other creditors & accruals	280,556	(237,356)	-	-	-	43,200
Employee entitlements	58,713	(58,713)	-	-	-	-
Intangible assets	43,042	307,270	-	-	-	350,312
Other	(6,543)	301,274	-	-	-	294,731
Trade and other receivables	(1,150,017)	1,150,017	-	-	-	-
Property, plant & equipment	(2,697,610)	487,888	-	-	-	(2,209,722)
Inventories	(80,855)	1,263	-	-	-	(79,592)
Prepayments	(36,846)	21,372	-	-	-	(15,474)
Financial liabilities	(61,090)	61,090	-	-	-	-
	(3,601,063)	2,405,935	139,582	-	(5,414)	(1,060,960)
Unused tax losses and credits						
Tax losses and R&D Credits	7,824,702	110,980	-	-	-	7,935,682
	7,824,702	110,980	-	-	-	7,935,682
	4,223,639	2,516,915	139,582	-	(5,414)	6,874,722

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

6. INCOME TAX (BENEFIT)/EXPENSE

2015	Opening	Recognised in profit or loss	Recognised in other comprehen- sive income	Recognised directly in equity	Reclassified from equity to profit or loss	Closing
Temporary differences						
Cash flow hedges	(14,068)	-	29,371	-	-	15,303
Asset revaluation reserve	(814,497)	-	-	-	-	(814,497)
Trade and other payables	183,790	22,564	-	-	-	206,354
Provisions	389,709	(15,825)	-	-	-	373,884
Capital raising costs	242,691	(158,038)	-	-	-	84,653
Borrowing costs	-	183,890	-	-	-	183,890
Other creditors & accruals	83,695	196,861	-	-	-	280,556
Employee entitlements	165,290	(106,577)	-	-	-	58,713
Intangible assets	-	43,042	-	-	-	43,042
Other	1,887	(8,430)	-	-	-	(6,543)
Trade and other receivables	(113,966)	(1,036,051)	-	-	-	(1,150,017)
Property, plant & equipment	(2,241,429)	(456,181)	-	-	-	(2,697,610)
Inventories	(74,139)	(6,716)	-	-	-	(80,855)
Prepayments	(24,587)	(12,259)	-	-	-	(36,846)
Financial liabilities	(62,000)	910	-	-	-	(61,090)
	(2,277,624)	(1,352,810)	29,371	-	-	(3,601,063)
Unused tax losses and credits						
Tax losses and R&D Credits	10,000,816	(2,176,114)	-	-	-	7,824,702
	10,000,816	(2,176,114)	-	-	-	7,824,702
	7,723,192	(3,528,924)	29,371	-	-	4,223,639

Unrecognised deferred tax assets

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

Unrecognised deferred tax assets	At 100%	At 30%
Transferred tax losses	1,069,452	320,836
Capital losses	3,876,570	1,162,971

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

7. CASH AND CASH EQUIVALENTS

	2016	2015
	\$	\$
Cash on hand	305	1,028
Cash management accounts	5,137,304	6,889,669
Cash and bank balances	3,265,854	7,577,753
	<u>8,403,463</u>	<u>14,468,450</u>

8. TRADE AND OTHER RECEIVABLES

	2016	2015
	\$	\$
CURRENT		
Trade receivables (i)	8,825,068	21,168,585
Other receivables – Trade (ii)	16,512,282	13,077,247
GST refundable	150,136	236,429
	<u>25,487,486</u>	<u>34,482,261</u>
NON-CURRENT		
Other receivables – Trade (ii)	<u>1,444,576</u>	-

- (i) The Company's standard terms and conditions require customers to pay trade receivables within 30 days from invoice date. The average collectability timeframe is ordinarily between 30 to 60 days. These amounts are generally non-interest bearing, although, there are customers who will be subjected to interest charges at management's discretion.
- (ii) Other receivables – Trade, relates to products completed which have recognised as revenue but are yet to be invoiced, pending collection by customer. Refer to note 22 credit risk for further information.

9. INVENTORIES

	2016	2015
	\$	\$
Raw Materials at cost	6,071,490	8,814,030
Work in progress at cost	1,242,175	3,374,539
Finished goods at cost	3,318,418	8,537,454
	<u>10,632,083</u>	<u>20,726,023</u>

10. OTHER CURRENT ASSETS

	2016	2015
	\$	\$
Prepayments	<u>746,754</u>	<u>943,787</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT

	2016	2015
	\$	\$
Land and Building/Leasehold improvements		
Land at independent valuation ¹	-	3,406,700
Building at independent valuation ¹	-	1,243,300
Buildings ²	34,817,462	34,817,462
Other leasehold improvements ³	1,117,702	705,806
Less: accumulated depreciation	(5,523,262)	(4,221,457)
	<u>30,411,902</u>	<u>35,951,811</u>
Plant and Equipment:		
Plant and equipment at cost	90,478,436	89,894,676
Less: accumulated depreciation	(41,710,119)	(36,901,886)
	<u>48,768,317</u>	<u>52,992,790</u>
Motor Vehicles:		
Motor vehicles at cost	41,150	140,796
Less: accumulated depreciation	(22,976)	(97,577)
	<u>18,174</u>	<u>43,219</u>
Office Equipment:		
Office equipment at cost	460,445	462,879
Less: accumulated depreciation	(410,726)	(311,250)
	<u>49,719</u>	<u>151,629</u>
Computer Equipment:		
Computer equipment at cost	2,653,337	2,311,417
Less: accumulated depreciation	(2,293,965)	(2,139,481)
	<u>359,372</u>	<u>171,936</u>
Assets under construction:		
Plant and equipment in progress at cost	2,135,465	2,009,967
	<u>81,742,949</u>	<u>91,321,352</u>

¹ The land and buildings located at 185 Camboon Road, Malaga were independently valued by Knight Frank in June 2014 and was subsequently sold on 11 April 2016.

² Relates to the Group's Henderson manufacturing and office complex.

³ Leasehold improvements are located at Malaga, Karratha and US Houston office.

Assets pledged as security

Buildings and leasehold improvements with a carrying amount of approximately \$30,411,902 (2015: \$35,951,811) have been pledged to secure the Group's working capital, bonding and overdraft facilities (see note 16). The Group is not permitted to pledge these assets as security for other borrowings.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT

Reconciliations

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

	Land and Building/ leasehold improvement	Plant and equipment	Motor vehicles	Office equipment	Computer equipment	Assets under construction	Total
	\$	\$	\$	\$	\$	\$	\$
Consolidated							
Carrying amount at 1 July 2015	35,951,811	52,992,790	43,219	151,629	171,936	2,009,967	91,321,352
Additions	411,708	4,703,301	-	13,458	354,585	125,498	5,608,550
Disposals/write-offs	(4,650,000)	(911,937)	(17,198)	(12,229)	(10,556)	-	(5,601,920)
Depreciation/amortisation expenses	(1,301,617)	(8,015,837)	(7,847)	(103,139)	(156,593)	-	(9,585,033)
Carrying amount at 30 June 2016	30,411,902	48,768,317	18,174	49,719	359,372	2,135,465	81,742,949
Carrying amount at 1 July 2014	37,035,641	60,295,104	31,480	194,964	254,877	2,039,625	99,851,691
Additions	3,088	4,510,588	35,805	9,563	108,663	2,298	4,670,005
Disposals/write-offs	-	(508,212)	(8,890)	(2,148)	(2,060)	(31,956)	(553,266)
Depreciation/amortisation expenses	(1,086,918)	(11,304,690)	(15,176)	(50,750)	(189,544)	-	(12,647,078)
Carrying amount at 30 June 2015	35,951,811	52,992,790	43,219	151,629	171,936	2,009,967	91,321,352

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

12. FINANCIAL ASSETS

	2016	2015
	\$	\$
Foreign currency options (hedge-accounted)	-	501,615
	<u>-</u>	<u>501,615</u>

The group had a net hedge liability position of \$498,237 (2015: net hedge liability position of \$1,460,002) reflecting the negative mark-to-market value of foreign exchange contracts and call/put options. Refer to note 22, financial instruments for further details on the instruments.

13. INTANGIBLE ASSETS

	2016	2015
	\$	\$
Development costs net of amortisation (i)	3,786,874	2,457,633
Accumulated amortisation	(1,198,024)	(173,791)
Goodwill on acquisition of Specialist Engineering Services (Aust) Pty Ltd (ii)	6,415,215	6,415,215
	<u>9,004,065</u>	<u>8,699,057</u>

- (i) Development costs incurred to date relate to several ongoing projects that are in the development phase prior to anticipated commercialisation.
- (ii) Goodwill is associated with acquisition of Specialist Engineering Services (Aust) Pty Ltd. Following the business reorganisation undertaken in 2014, goodwill was allocated for impairment testing purposes too a single cash generating unit (CGU), being the MCE Group, refer Note 2 for details.

The Group has evaluated whether the recoverable amount of the CGU exceeds its carrying amount. The carrying amount is determined to be the higher of its fair value less costs to sell or its value in use. For impairment testing purposes at 30 June 2016 the Group has prepared a value in use model. The value in use model uses cash flow projections approved by the directors covering a five year period with a steady growth rate for years beyond the five year period.

The estimation of future cash flows requires significant estimates and judgements. Details of the key assumptions used in the value in use model at 30 June 2016 and adopted by the Board are included below.

Key Assumptions:

Discount Rate

A post-tax discount rate of 10 per cent (2015: 10 per cent) reflecting the Group's long term weighted average cost of capital adjusted for market risk.

Revenue

The sustained low oil and gas price over the past year has led to reduced levels of activity in the oil and gas sector which the Group primarily services. Revenue forecasts have incorporated the impacts of the lower levels of activity but incorporate a gradual recovery in demand over the next five year period. The model assumes manufacturing products and providing services based on current volumes achieved with a gradual recovery in demand over the next five year period. Selling prices reflect current values with an assumption that over the next five year period the price will retain its baseline USD price and will also grow at a rate of US CPI being two per cent.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

13. INTANGIBLE ASSETS

In addition, the model incorporates the introduction of the Longitudinally Grooved Suppression (LGS) system into the overall product mix including a pricing structure that represents recent contract prices and industry guidance.

Cost of Goods Sold

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

Terminal Growth Rate

A terminal value growth rate of two per cent (2015: two per cent) has been applied.

Foreign Exchange Rate

A AUD:USD foreign exchange rate of 0.74 (2015: 0.73) has been applied.

Sensitivity Analysis:

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

- Revenue – production growth rates over the next five year period
- Revenue – sales price growth rates over the next five year period
- Discount rate
- Terminal value growth rate
- Foreign exchange rate

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

Assumption	Variance	Negative Impact \$ million	Positive Impact \$ million
Revenue – production growth rate	± 10%	52.7	51.1
Revenue – sales price growth rate	± 10%	103.5	100.2
Discount rate	± 2%	54.6	91.7
Terminal value growth rate	± 0.5%	10.9	12.3
Foreign exchange rate	± 0.05	37.3	41.4

Using this sensitivity analysis, the directors determined that a reasonably possible increase in raw material costs, being the predominant component of direct costs, of 28.5 per cent, without any associated increase in revenue, would result in a reduction in gross margin sufficient to cause the carrying value of the CGU to exceed its recoverable value.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

13. INTANGIBLE ASSETS

Similarly, a reasonably possible reduction in revenue of 16.3 per cent, without any associated reduction in material prices, or improvements in plant efficiencies, would result in a reduction in gross margin sufficient to cause the carrying value of the CGU to exceed its recoverable value.

14. TRADE AND OTHER PAYABLES

	2016	2015
	\$	\$
Trade payables	3,749,926	8,841,152
Other creditors and accruals	655,936	2,710,200
GST payable	8,805	66,900
	<u>4,414,667</u>	<u>11,618,252</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.

15. PROGRESS CLAIMS AND DEPOSITS

	2016	2015
	\$	\$
Progress claims and deposits	<u>1,879,063</u>	<u>14,297,482</u>

Progress claims and deposits represents cash deposits received for products that have not been produced or not reached the relevant invoicing milestone under a contract with the customer.

16. FINANCIAL LIABILITIES

	2016	2015
	\$	\$
CURRENT		
Bank loan (i)	-	4,000,000
Trade finance (i)	2,930,811	-
Interest rate swap option (ii)	-	203,294
Foreign currency options (hedge accounted) (iii)	231,975	510,556
Forward exchange contracts liability (hedge accounted) (iii)	266,262	1,451,061
	<u>3,429,048</u>	<u>6,164,911</u>
NON CURRENT		
Bank loan (i)	<u>-</u>	<u>4,000,000</u>

(i) The Company has a \$20 million multi-option, multi-currency funding package with Australia and New Zealand Banking Group Limited (ANZ). The \$20 million facility covers the Group's working capital, bonding and overdraft facilities and encompasses sub-limits for certain facilities. The working capital, bonding and overdraft facilities can be drawn in multiple currencies using a variety of instruments.

(ii) These were held at fair value through profit or loss and expired on 29 February 2016.

(iii) The Group had a net hedge liability position of \$498,237 represented by net movement foreign currency options and net foreign exchange contracts (2015: net hedge liability position of \$1,460,002) reflecting the negative mark-to-market value of foreign exchange contracts and call/put options. Refer to note 22 financial instruments for further details on the instruments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

16. FINANCIAL LIABILITIES

TOTAL CURRENT AND NON CURRENT INTEREST BEARING LOAN LIABILITIES:	2016	2015
	\$	\$
Bank loan	-	8,000,000
Trade finance	2,930,811	-
	<u>2,930,811</u>	<u>8,000,000</u>

TERMS AND CONDITIONS OF FACILITY

Working Capital and Contingent Lines	Currency	Nominal interest rate	Approved Facilities	Amount Utilised	Available Facilities
		%	\$	\$	\$
ANZ Multi-option Bank Guarantee	AUD/USD	0.5	20,000,000	4,161,060	12,881,600
ANZ Working capital	AUD/USD	1.72		2,957,340	
NAB Bank Guarantee	AUD	BBSY + 2%	837,794	837,794	-
			<u>20,837,794</u>	<u>7,956,194</u>	<u>12,881,600</u>

17. PROVISIONS

	2016	2015
	\$	\$
CURRENT		
Employee Entitlements	<u>780,272</u>	<u>1,098,092</u>
NON-CURRENT		
Employee Entitlements	<u>396,032</u>	<u>373,820</u>

18. ISSUED CAPITAL

	2016	2015
	\$	\$
Issued and paid up capital 93,750,000 (2015: 94,231,942) fully paid ordinary shares	111,555,600	111,784,863
Less: Buy-back of ordinary shares	(234,045)	(200,659)
Less: Share buy-back costs	(37,787)	(28,604)
	<u>111,283,768</u>	<u>111,555,600</u>

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

Movements in Ordinary Share Capital

Date	Number of shares	\$
Balance 1 July 2014	94,555,428	111,784,863
Less: Buy-back of ordinary shares	(323,486)	(200,659)
Less: Share buy-back costs	-	(28,604)
Balance 30 June 2015	94,231,942	111,555,600
Less: Buy-back of ordinary shares	(481,942)	(234,045)
Less: Share buy-back costs	-	(37,787)
Balance 30 June 2016	<u>93,750,000</u>	<u>111,283,768</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

18. ISSUED CAPITAL

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.

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.

The Group targets a gearing ratio of up to 20 per cent, determined as a proportion of adjusted net debt to equity. Adjusted net debt is determined after considering the value of any progress claims and deposits received in advance of work commencing as debt. The gearing ratio at 30 June 2016 of negative 2.7 per cent (2015: 5.7 per cent) is below the target gearing level.

	2016	2015
	\$	\$
Term Debt ¹	-	8,000,000
Trade finance ²	2,930,811	-
Progress claims and deposits	1,879,063	14,297,482
Cash and cash equivalents	(8,403,463)	(14,468,450)
Adjusted net (asset)/debt	<u>(3,593,589)</u>	<u>7,829,032</u>
Equity ³	133,437,016	137,813,627
Net (asset)/debt to equity ratio at 30 June	<u>(2.7%)</u>	<u>5.7%</u>

¹Term Debt is defined as long-term and short-term amortising borrowings (excluding derivatives and financial guarantee contracts). Refer to note 16.

²Trade finance forms part of the Company's working capital facilities.

³Equity includes all capital and reserves of the Group that are managed as capital.

19. RESERVES

	2016	2015
	\$	\$
Option premium reserve	-	273,000
Properties revaluation reserve	-	787,664
Cash flow hedge reserve	(392,610)	(6,336)
Foreign currency translation reserve	(415,102)	(455,860)
Share based payment reserve	161,987	80,000
	<u>(645,725)</u>	<u>678,468</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

19. RESERVES

Option Premium Reserve

The option premium reserve relates to share options granted by the Company to some of its directors under a share option plan. The share options expired during the period and the share option plan has been discontinued.

Properties Revaluation Reserve

	2016 \$	2015 \$
Properties Revaluation Reserve		
Balance at beginning of year	787,664	787,664
Transferred to profit & loss on disposal of freehold land and building	(787,664)	-
Balance at end of year	<u>-</u>	<u>787,664</u>

The properties revaluation reserve arose on the revaluation of land and buildings in prior periods. The revalued land and building was sold during the financial year and as a result of the loss incurred on disposal, the attributable revaluation reserve was transferred to the statement of profit or loss.

Cash Flow Hedge Reserve

	2016 \$	2015 \$
Cash Flow Hedge Reserve		
Balance at beginning of year	(6,336)	(17,220)
<i>Gain/(loss) arising on changes in fair value of hedging instruments entered into for cash flow hedges:</i>		
- Forward foreign exchange contracts	(538,488)	15,549
- Income tax related to loss recognised in other comprehensive income	139,582	(4,665)
<i>Cumulative gain/(loss) arising on changes in fair value of hedging instruments reclassified to profit or loss:</i>		
- Forward foreign exchange contracts	18,046	-
- Income tax related to amounts reclassified to profit or loss	(5,414)	-
Balance at end of year	<u>(392,610)</u>	<u>(6,336)</u>

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

Cumulative (gains)/losses arising on changes in fair value of hedging instruments reclassified from equity into profit or loss during the year are included in the following line items:

	2016 \$	2015 \$
Foreign exchange	18,046	-
Income tax expense	(5,414)	-
	<u>12,632</u>	<u>-</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

19. RESERVES

Foreign Currency Translation Reserve

	2016 \$	2015 \$
Foreign Currency Translation Reserve		
Balance at beginning of year	(455,860)	146,888
Exchange differences arising on translating the foreign operations	40,758	(602,748)
Balance at end of year	<u>(415,102)</u>	<u>(455,860)</u>

Exchange differences relating to the translation of results and net assets of the Group's foreign operations 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 Premium Reserve

	2016 \$	2015 \$
Share-based Premium Reserve		
Balance at beginning of year	80,000	-
Arising on share-based payments	81,987	80,000
Balance at end of year	<u>161,987</u>	<u>80,000</u>

The above share-based premium reserve relates to equity based instruments granted by the Company to its employees under its employee equity-based instruments plan. Further information about share-based payments is set out in note 25.

20. RETAINED EARNINGS

	2016 \$	2015 \$
Retained earnings	<u>22,809,176</u>	<u>25,589,762</u>
Balance at beginning of year	25,589,762	23,847,043
(Loss)/profit attributable to owners of the company	(2,114,028)	3,633,828
Payment of dividends	(939,558)	(1,891,109)
Expiry of options	273,000	-
Balance at end of year	<u>22,809,176</u>	<u>25,589,762</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

21. NOTES TO THE STATEMENT OF CASH FLOWS

	2016 \$	2015 \$
(a) Reconciliation of cash and cash equivalents		
Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:		
Cash and cash equivalents	8,403,463	14,468,450
(b) Reconciliation of cash flow from operations with (loss)/profit after income tax		
(Loss)/profit after income tax	(2,114,028)	3,633,828
Adjustment for non-cash items		
- Depreciation of property, plant & equipment	9,585,033	12,647,078
- Amortisation of intangibles	1,024,233	164,612
- Expense recognised in respect of equity-settled share-based payments	81,987	80,000
- Effects of exchange rate changes on the balance of cash held in foreign currencies	(287,433)	(3,294,014)
- Effects of translation of foreign operations	40,758	(602,751)
- Net (gain)/loss arising on financial liabilities designated as at fair value through profit or loss	(1,551,332)	1,575,339
- Loss on disposal of property, plant & equipment	702,429	42,403
- Loss on disposal of property, plant & equipment included in cost of sales	-	274,343
Changes in assets & liabilities		
- Decrease/(increase) in trade and other receivables	7,550,199	(998,191)
- Decrease/(increase) in other assets	197,033	(388,487)
- Decrease/(increase) in inventories	10,093,940	(1,967,891)
- Decrease in trade & other payables, progress claims & deposits	(19,622,004)	(10,749,758)
- (Decrease)/increase in employee provisions	(295,609)	(408,851)
- (Increase)/decrease in deferred tax asset	(108,413)	1,982,712
- (Decrease)/increase in deferred tax liability	(2,542,670)	1,516,839
Net cash flows from operating activities	2,754,123	3,507,211

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. 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, finance leases, bank borrowings, other borrowings and derivatives. The main purpose of non-derivative financial instruments is to raise finance for Group operations. Derivatives are used by the Group for hedging purposes. The Group does not speculate in the trading of derivative instruments. Senior executives meet regularly to analyse and monitor the financial risk associated with the financial instruments used by the Group.

Financial Risk Exposures and Management

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

Interest Rate Risk

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

Interest Rate Sensitivity Analysis

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

At 30 June 2016, the after tax effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant at balance date would be as follows:

	2016	2015
	\$	\$
Change in profit		
Increase in interest rate by 2% (200 basis point)	68,581	203,298
Decrease in interest rate by 2% (200 basis point)	(68,581)	(203,298)
	<u> </u>	<u> </u>
Change in other comprehensive income		
Increase in interest rate by 2% (200 basis point)	-	-
Decrease in interest rate by 2% (200 basis point)	-	-
	<u> </u>	<u> </u>

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing				Non-Interest Bearing		
	2016	2015	2016	2015	Within 1 Year		Over 1 Year		2016	2015	
	%	%	\$	\$	2016	2015	2016	2015	\$	\$	
Cash and Cash Equivalents	-	-	-	-	-	-	-	-	-	8,403,463	14,468,450
Trade and Other Receivables	-	-	-	-	-	-	-	-	-	26,781,926	34,245,832
Other Financial Assets	-	-	-	-	-	-	-	-	-	-	501,615
Total Financial Assets										35,185,389	49,215,897

FINANCIAL LIABILITIES

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing				Non-Interest Bearing		
	2016	2015	2016	2015	Within 1 Year		Over 1 Year		2016	2015	
	%	%	\$	\$	2016	2015	2016	2015	\$	\$	
Trade and Other Payables	-	-	-	-	-	-	-	-	-	4,405,862	11,551,352
Trade Finance	1.72	-	2,930,811	-	-	-	-	-	-	-	-
Bank Loan	-	3.35	-	8,000,000	-	-	-	-	-	-	-
Interest Rate Swaps	-	3.69	-	203,294	-	-	-	-	-	-	-
Other Financial Liabilities	-	-	498,237	1,961,617	-	-	-	-	-	-	-
Total Financial Liabilities			3,429,048	10,164,911						4,405,862	11,551,352

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS

Credit Risk

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

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. There is no material amount of collateral held as security at 30 June 2016.

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

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

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

	2016	2015
	\$	\$
Trade receivables	8,825,068	21,168,585

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

Days		
0-30	6,072,955	13,243,760
31-60	2,600,030	7,921,436
61-90	105,478	3,389
90+	46,605	-
	<u>8,825,068</u>	<u>21,168,585</u>

Trade receivables of \$2,861,042 (2015: \$463,153) were past due at 30 June, of which \$2,860,473 (2015: \$256,076) has been collected up to the date of this report. There were no impairment provisions in respect of trade receivables that were past due as at 30 June 2016.

Exposure to Credit Risk

Excluded from the above analysis is a trade receivable of US\$10.9 million which relates to a shipyard customer. The customer has requested a deferral of the payment terms associated with the contract. Matrix has completed the production and the goods have not yet been collected by the customer. Matrix is negotiating with the shipyard customer in order to reach an acceptable settlement of this matter. Matrix remains confident of receiving full settlement of this amount.

Foreign Currency Risk

The Group undertakes transactions denominated in foreign currencies; consequently exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and currency option contracts.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS

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

	Liabilities		Assets	
	2016	2015	2016	2015
	\$	\$	\$	\$
US Dollars	5,638,482	23,267,877	29,362,466	48,714,282

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

		Profit after tax		Other Comprehensive Income	
		Increase/(Decrease)	Increase/(Decrease)	Increase/(Decrease)	Increase/(Decrease)
		2016	2015	2016	2015
		\$000	\$000	\$000	\$000
A\$ vs US\$	+10%	(2,157)	(1,831)	918	1,929
A\$ vs US\$	-10%	2,372	2,015	(1,010)	(2,122)

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

Forward Foreign Exchange Contracts

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS

Forward Foreign Exchange Contracts

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

	Average exchange rate		Foreign currency		Notional value		Fair value	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$	\$	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Cash flow hedges								
Sell US Dollar								
Less than 1 month	-	0.8648	-	5,500	-	6,360	-	(776)
Less than 3 months	0.7629	0.8418	5,000	5,000	6,554	5,940	(178)	(580)
3 to 6 months	0.7598	0.7617	2,500	4,500	3,290	5,908	(88)	(74)
6 months to 1 year	-	0.7598	-	1,300	-	1,711	-	(21)
							(266)	(1,451)

At 30 June 2016, the aggregate amount of gains under forward foreign exchange contracts recognised in other comprehensive income and accumulated in the cash flow reserve relating to the exposure on these anticipated future transactions is a loss of \$392,610 (2014: loss \$6,336). It is anticipated that the sales will take place during the next financial year, at which time the amount deferred in equity will be reclassified to profit or loss.

The Group is exposed to fluctuations in foreign currencies arising from the sale of goods denoted in U.S. Dollars. Currently the Group uses derivatives to hedge against movements in foreign currency.

Foreign Currency Options

The Group has entered into a series of foreign currency options to protect a portion of the Group's future revenue against unfavourable exchange rate movements.

The face value of the foreign currency options as at 30 June 2016 was nil. (2015: US\$13.95 million).

At 30 June 2016, the aggregate amount of loss recognised under foreign currency option in profit or loss is \$501,615 (2015: loss \$162,133).

Liquidity Risk

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

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

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS

Liquidity Risk

	Weighted average effective interest rate %	Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$	Total \$
30 June 2016						
Cash and other equivalents	-	8,403,463	-	-	-	8,403,463
Trade and other receivables	-	6,464,104	3,641,136	15,232,110	1,444,576	26,781,926
Foreign Exchange Contracts	-	-	(177,584)	(88,678)	-	(266,262)
Call/Put Options liability	-	-	-	(231,975)	-	(231,975)
Trade and other payables	-	(3,415,315)	(990,547)	-	-	(4,405,862)
Borrowing	1.72	-	-	(2,930,811)	-	(2,930,811)
		11,452,252	2,473,005	11,980,646	1,444,576	27,350,479
30 June 2015						
Cash and other equivalents	-	14,468,450	-	-	-	14,468,450
Trade and other receivables	-	27,287,889	-	6,957,943	-	34,245,832
Foreign currency options	-	-	-	501,615	-	501,615
Foreign Exchange Contracts	-	(775,807)	(579,900)	(95,354)	-	(1,451,061)
Call/Put Options liability	-	-	-	(510,556)	-	(510,556)
Trade and other payables	-	(6,617,777)	(3,686,793)	(1,246,782)	-	(11,551,352)
Borrowing	3.35	-	-	(4,000,000)	(4,000,000)	(8,000,000)
Interest Rate Swap Option	3.69	-	-	(203,294)	-	(203,294)
		34,362,755	(4,266,693)	1,403,572	(4,000,000)	27,499,634

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS

Fair Value Hierarchy

Fair value measurements recognised in the consolidated statement of financial position.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, Grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

The fair value of the Group's financial assets and liabilities are determined on the following basis.

Financial Assets and Financial Liabilities that are measured at fair value on a recurring basis

Subsequent to initial recognition, at fair value financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Levels are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets of liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group has derivative financial assets and liabilities which are classified as level 2 fair value measurements. There were no transfers between level 1 and 2 in the current or prior period.

These level 2 financial assets and liabilities include:

- foreign exchange derivative assets of \$501,615 in prior year are valued using discounted cash flow techniques. Under this technique future cash flows are estimated based on forward exchange contract rates (from observable forward exchange contract rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the counterparties.
- foreign exchange derivative liabilities of \$498,237 (2015: \$2,164,911) are valued using discounted cash flow techniques. Under this technique future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of the counterparties.

In neither case are there significant unobservable inputs.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
30 June 2016				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	(498,237)	-	(498,237)
Total	-	(498,237)	-	(498,237)
30 June 2015				
Derivative financial assets	-	501,615	-	501,615
Derivative financial liabilities	-	(2,164,911)	-	(2,164,911)
Total	-	(1,663,296)	-	(1,663,296)

The Group has no significant financial assets and liabilities grouped as level 1 or level 3 fair value measurements.

Financial Assets and Financial Liabilities that are not measured at fair value on a recurring basis (but where fair value disclosures are required)

At balance date, the carrying amount of financial assets and financial liabilities for the Group is considered to approximate their fair values.

23. OPERATING LEASE COMMITMENTS

	2016	2015
	\$	\$
Not later than 1 year	2,159,761	1,620,040
Later than 1 year but not later than 5 years	4,540,430	4,203,106
Later than 5 years	30,768,979	28,438,821

The lease commitment relates to land at 150 Quill Way, Henderson. Land and buildings at 42 Truganina Road, Malaga, Karratha and US warehouse.

24. FRANKING ACCOUNT

	2016	2014
	\$	\$
Franking account balance at 1 July	14,594,111	16,687,218
Franking credits/(debits) that will arise from income tax return amendment refund	92,975	(1,282,632)
Franking debits that will arise from the payment of dividends	(402,668)	(810,475)
Franking account balance at 30 June	14,284,418	14,594,111
Net franking credits available	14,284,418	14,594,111

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

25. SHARE-BASED PAYMENTS

Share Options

There have been no share options brought forward, issued or exercised during the year (2015: 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 Company performance;
- giving employees the opportunity to become shareholders; and
- aligning the interests of employees and shareholder.

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

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

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

TESP

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

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

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

Management Performance Rights Plan (MPRP)

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

25. SHARE-BASED PAYMENTS

Executive Performance Rights Plan (EPRP)

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

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

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

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

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

Under the SEPRP and SESARP senior executives will be offered an annual dollar value grant in accordance with the terms of their respective Executive Service Agreements, which they may allocate to participate in the SEPRP or the 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
- TSR target based on a TSR comparator group comprising of ASX 300 group of companies as follows:

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

25. SHARE-BASED PAYMENTS

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

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

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

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

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

Share Rights in Existence in the Year

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

Series	Grant Date	Grant Date Fair Value \$	Value \$	Hurdle Growth Rate	Hurdle Price	Expiry Date	Vesting Date
FY14 SEPRP	29 Jul 2015	0.44	0.09	n/a	n/a	14 Sep 2017	14 Sep 2017
FY14 SESARP	29 Jul 2015	0.44	0.02	8.25%	\$1.39	14 Sep 2017	14 Sep 2017

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

25. SHARE-BASED PAYMENTS

Fair Value of Share Rights Granted in the Year

The Performance Rights and Share Appreciation Rights contemplated by the Rights Plan have been subject to valuation reports by Ernst & Young dated 19 August 2015 and 19 October 2015 respectively. The valuations were adopted by the Directors of the Company.

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

Series	FY14 MPRP	FY14 EPRP	FY15 MPRP	FY15 EPRP/ SEPRP	FY15 SESARP
Grant date	11 Sep 2015	11 Sep 2015	16 Sep 2015	16 Sep 2015	16 Sep 2015
Vesting date	28 Sep 2017	28 Sep 2017	16 Sep 2018	16 Sep 2018	16 Sep 2018
Share price at grant	\$0.44	\$0.44	\$0.46	\$0.46	\$0.46
Value	\$0.40	\$0.09	\$0.39	\$0.27	\$0.11
Hurdle Growth Rate	n/a	n/a	n/a	n/a	6.53%
Hurdle Price	n/a	n/a	n/a	n/a	\$0.53
Expected life	2 years	2 years	3 years	3 years	3 years
Volatility	55%	55%	55%	55%	55%
Risk free interest rate	1.85%	1.85%	1.94%	1.94%	1.94%
Dividend yield	4.1%	4.1%	4.3%	4.3%	4.3%

Movements in Share Plans during the Year

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

MPRP

2016	Balance at beginning of the year No.	Granted during the year No.	Forfeited during the year No.	Exercised during the year No.	Lapsed during the year No.	Balance at end of the year No.
FY14 MPRP	-	47,426		-	-	47,426
FY15 MPRP	-	338,448		-	-	338,448
Total	-	385,874		-	-	385,874

EPRP

2016	Balance at beginning of the year No.	Granted during the year No.	Forfeited during the year No.	Exercised during the year No.	Lapsed during the year No.	Balance at end of the year No.
FY14 EPRP	-	145,161		-	-	145,161
FY15 EPRP	-	418,518		-	-	418,518
Total	-	563,679		-	-	563,679

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

25. SHARE-BASED PAYMENTS

SESARP

2016	Balance at beginning of the year No.	Granted during the year No.	Forfeited during the year No.	Exercised during the year No.	Lapsed during the year No.	Balance at end of the year No.
FY14 SESARP	796,296	-	-	-	-	796,296
FY15 SESARP	-	3,727,272	-	-	-	3,727,272
Total	796,296	3,727,272	-	-	-	4,523,568

SEPRP

2016	Balance at beginning of the year No.	Granted during the year No.	Forfeited during the year No.	Exercised during the year No.	Lapsed during the year No.	Balance at end of the year No.
FY14 SEPRP	88,709	-	-	-	-	88,709
Total	88,709	-	-	-	-	88,709

26. RELATED PARTY DISCLOSURES

(a) Key Management Personnel Compensation

	2016 \$	2015 \$
Short term employment benefits	2,039,129	1,687,405
Share based payments	88,539	7,970
Post-employment benefits	125,537	117,392
	<u>2,253,205</u>	<u>1,812,767</u>

(b) Parent Entity

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

(c) Related Party Transactions

Transactions between related parties are at arms-length terms.

	2016 \$	2015 \$
The premise at 42 Truganina Road is leased from Kanu Pty Ltd, a company of which Maxwell Begley is a substantial shareholder. Mr Begley and his associated parties have a substantial shareholding in Matrix.	<u>371,588</u>	<u>370,767</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

26. RELATED PARTY DISCLOSURES

(d) Option Holdings of Key Management Personnel

There have been no movements during the reporting period (2015: nil movement) in the number of options over ordinary shares in Matrix Composites & Engineering Ltd held, directly, indirectly or beneficially, by each key management person, including related parties.

(e) Key Management Personnel

- There were no loans to key management personnel during the year or outstanding at the end of the year (2015: nil).
- No options have been issued to key management personnel during the year (2015: nil).

(f) Other Transactions and Balances with Key Management Personnel

There were no other transactions with key management personnel at the end of the year (2015: nil).

27. SUBSIDIARIES

The consolidated financial statements include the following subsidiaries:

Name	Incorporation	Shares	Equity Holding %	
			2016	2015
Specialist Engineering Services (Aust) Pty Ltd	Australia	Ordinary	100	100
Drilling Solutions Pty Ltd ¹	Australia	Ordinary	99	99
Matrix Henderson Property Pty Ltd	Australia	Ordinary	100	100
MC&E (Europe) Limited	UK	Ordinary	100	100
Matrix Composites & Engineering (US) Inc.	USA	Ordinary	100	100
MCE (Asia) Pte. Ltd. ²	Singapore	Ordinary	100	-

¹ This entity is owned by Specialist Engineering Services (Aust) Pty Ltd. During the year application was made to deregister this entity.

² This entity commenced operation on 5 February 2016.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

28. PARENT ENTITY INFORMATION

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

Financial position

	2016 \$	2015 \$
Assets		
Current assets	50,649,452	72,853,478
Non-current assets	97,789,715	108,838,022
Total assets	<u>148,439,167</u>	<u>181,691,500</u>
Liabilities		
Current liabilities	11,036,907	31,147,605
Non-current liabilities	2,850,228	8,018,609
Total liabilities	<u>13,887,135</u>	<u>39,166,214</u>
Net assets	<u>134,552,032</u>	<u>142,525,286</u>
Equity		
Issued capital	111,283,768	111,555,600
Retained earnings	23,498,887	30,623,022
Option premium reserve	-	273,000
Cash flow hedge reserve	(392,610)	(6,336)
Share based payment reserve	161,987	80,000
Total equity	<u>134,552,032</u>	<u>142,525,286</u>

	2016 \$	2015 \$
Financial Performance		
(Loss)/profit for the year	(6,457,577)	7,060,163
Other comprehensive (expense)/income	(386,274)	10,884
Total comprehensive (expense)/income	<u>(6,843,851)</u>	<u>7,071,047</u>

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

No longer than 1 year	323,240	1,406,898
Longer than 1 year and Not longer than 5 years	-	-
Longer than 5 years	-	-
	<u>323,240</u>	<u>1,406,898</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

29. EARNINGS PER SHARE

	2016	2015
(Loss)/profit attributable to members of parent entity (\$)	(2,114,028)	3,633,828
Weighted average number of shares on issue (number)	94,123,725	94,504,583
Weighted average number of shares adjusted for dilution (number)	94,123,725	94,504,583
Basic (loss)/profit per share (cents)	(2.2)	3.8
Diluted (loss)/profit per share (cents)	(2.2)	3.8

30. DIVIDENDS PAID AND PROPOSED

Recognised amounts	Year Ended 30 June 2016		Year Ended 30 June 2015	
	Cents per share	Total \$	Cents per share	Total \$
<u>Fully paid ordinary shares</u>				
Interim dividend	-	-	2.0	1,891,109
Final dividend	1.0	939,558	-	-
		<u>939,558</u>		<u>1,891,109</u>
Unrecognised amounts				
<u>Fully paid ordinary shares</u>				
Final dividend	-	-	1.0	939,558

31. CAPITAL AND OTHER COMMITMENTS

The Group has entered into capital commitments of \$323,240 for plant & equipment at 30 June 2016 (2015: \$1,406,898).

32. COMPANY DETAILS

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

33. CONTINGENT LIABILITIES AND ASSETS

There were no contingent liabilities or assets at 30 June 2016.

34. EVENTS AFTER THE REPORTING DATE

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

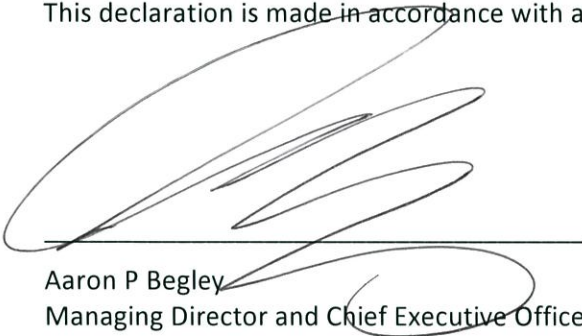
DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

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



Aaron P Begley
Managing Director and Chief Executive Officer

Dated 24 August 2016

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

Report on the Financial Report

We have audited the accompanying financial report of Matrix Composites & Engineering Ltd, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 34 to 85.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Independence Declaration

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

Opinion

In our opinion:

- (a) the financial report of Matrix Composites & Engineering Ltd is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

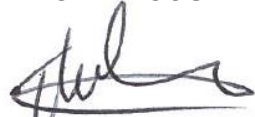
We have audited the Remuneration Report included in pages 19 to 31 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Matrix Composites & Engineering Ltd for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU



John Sibenaler
Partner
Chartered Accountants
Perth, 24 August 2016