

# **APPENDIX 4E AND ACCOUNTS**

**Appendix 4E and June 17 statutory accounts for release  
to the ASX**

**Matrix Composites & Engineering Ltd**

Final Report for the Year Ended 30 June 2017

Results for announcement to the market

Appendix 4E

Preliminary Final Report  
Period Ended 30 June 2017

Name of entity

Matrix Composites & Engineering Ltd

ABN or equivalent company reference

009 435 250

Period ended ('Current Period')

30 June 2017  
Previous corresponding period: 30 June 2016

*Extracts from this report for announcement to the market*

				\$000s
Revenues from ordinary activities	Down	65.4%	to	33,139
Loss from ordinary activities after tax attributable to members	Down	823.8%	to	(19,528)
Net loss after tax for period attributable to members	Down	823.8%	to	(19,528)
<b>Dividends (distributions)</b>	<b>Amount per security</b>		<b>Franked amount per security</b>	
Final dividend	nil		N/A	
Interim Dividend	nil		N/A	
Record date for determining entitlements to the dividend	N/A			
Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:				
<i>Not applicable</i>				

**Commentary on Results**

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

**Ratios and Other measures**

**NTA backing**

Net tangible asset backing per ordinary security

Current Period	Previous corresponding Period
\$1.06	\$1.25

**Dividends**

Date the dividend is payable

N/A
-----

Record date to determine entitlements to the dividend

N/A
-----

**Amount per security**

Final Dividend:

Current year

Previous year

Interim Dividend:

Current year

Previous year

Amount per security	Franked amount per security
nil	nil
Nil	nil
nil	nil
Nil	nil

**Total Dividends**

Total Dividend:

Current year

Previous year

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

**Control gained over entities having material effect**

During the year ended 30 June 2017 there was no control gained over entities having material effect on the financial results or financial position of the Consolidated Entity.

**Loss of control of entities having material effect**

During the year ended 30 June 2017 there was no loss of control over entities having material effect on the financial results or financial position of the Consolidated Entity.

This report is based on accounts that have been audited.



Brendan Cocks  
Chief Financial Officer

23 August 2017  
Perth, Western Australia



# **FINANCIAL STATEMENTS**

**30 JUNE 2017**

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## CORPORATE DIRECTORY

### DIRECTORS

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

### COMPANY SECRETARY

Mr B W Cocks  
Mr A Santa Maria

### HEAD OFFICE

Matrix Composites & Engineering Ltd  
150 Quill Way  
Henderson WA 6166  
Telephone: +61 (08) 9412 1200  
E-mail: [matrix@matrixengineered.com](mailto:matrix@matrixengineered.com)

### OVERSEAS OFFICES

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Suite 3300 Houston  
Texas 77027 U.S.A  
Email: [us@matrixengineered.com](mailto:us@matrixengineered.com)

### MC&E (Europe) Limited

Herschel House  
58 Herschel Street  
Slough Berkshire SL1 1HD  
Email: [uk@matrixengineered.com](mailto:uk@matrixengineered.com)

### 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  
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 2017. 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 46 years of experience in senior management and project development in the mining, oil and gas, and chemical industries.

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

Mr Hood is 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 GR Engineering Ltd and Chairman of MAK Industrial Water Systems Pty Ltd. He was also previously Chairman of Apollo Gas Ltd and Vice-Chairman of APPEA.

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

**Education**

Bachelor of Engineering (Chemical), Melbourne University, 1970

Advanced Management Program, Harvard Business School, 1997

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

**Memberships**

Fellow of the Australian Institute of Company Directors

Fellow of the Institute of Chemical Engineers

Member of the Australian Institute of Mining and Metallurgy

## DIRECTORS' REPORT

### **Aaron P Begley**

*Managing Director & Chief Executive Officer*

#### Qualifications & Experience

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

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

#### Education

Post Graduate Diploma of Management (Curtin), 2002

Bachelor of Economics (University of Western Australia), 1993

#### Memberships

Australian Institute of Company Directors

Society of Underwater Technology (SUT)

Society of Petroleum Engineers (SPE)

International Association of Drilling Contractors (IADC)

### **Steven Cole**

*Independent Non-Executive Director*

#### Qualifications & Experience

Steven Cole has over 40 years' of legal, business and corporate experience as well as a range of executive management and non-executive appointments. His extensive boardroom and board sub-committee experience includes ASX listed, statutory, proprietary and NFP organisations covering the industrial, financial, educational, professional services, health, local government and resources sectors. Mr Cole is Chairman of Neometals Limited, the Queen Elizabeth II Medical Centre Trust, Perth Markets Limited and 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 Risk, Remuneration and Nomination Committees.

#### Education

Bachelor of Laws (Hons)

#### Memberships

Fellow of the Australian Institute of Company Directors



## DIRECTORS' REPORT

### **Craig N Duncan**

*Independent Non-Executive Director*

#### Qualifications & Experience

Mr Duncan has over 40 years' experience in the petroleum and mining industries in Australia, PNG, Asia, the Middle East and Africa. He has over 20 years' experience managing well construction operations. Prior to this role, Mr Duncan was involved in manufacturing specialised equipment for the gold mining industry.

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

#### Education

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

### **Duncan P Clegg**

*Independent Non-Executive Director – Resigned 28/04/17*

#### 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 was 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

The above named directors held office during the whole of the financial year and since the end of the financial year except for Dr Clegg, who resigned as a director on 28 April 2017.

## 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
PJ Hood	630,000	nil
AP Begley	3,422,763	3,271,381
S Cole	20,000	nil
CN Duncan	590,429	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 1,133,333 Executive Share Appreciation Rights (2016: 1,545,455) 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 2 November 2016.

### Remuneration of key management personnel

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

## DIRECTORS' REPORT

### Rights granted to directors and executive management

During and since the end of the financial year, an aggregate 1,833,333 Executive Share Appreciation Rights were granted to the following directors and senior executives of the company and its controlled entities as part of their remuneration:

Director/Executive	Issuing Entity	Executive Share Appreciation Rights	Executive Performance Rights
<b>Aaron Begley</b>	Matrix Composites & Engineering Ltd	1,133,333	Nil
<b>Peter Pezet</b>	Matrix Composites & Engineering Ltd	333,333	Nil
<b>Alex Vincan</b>	Matrix Composites & Engineering Ltd	366,667	Nil

### Company Secretary

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

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 FY17

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 has continued to be impacted by the significant downturn suffered by oil field service companies globally. Continued weak demand for riser buoyancy products in the current oil price environment has seen revenue decrease and the business embark on a program to restructure the business to a size that reflects the current market conditions. The business has continued to focus on diversification of its revenue into sectors outside the energy sector.

## DIRECTORS' REPORT

### Safety

Matrix continued to maintain strong safety performance across all of its operating sites during the financial year. MCE has been LTI free at its primary facility at Henderson since May 2014 and recorded a zero LTIFR in FY17 (FY16: zero).

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

### Manufacturing

During the year Matrix moved from a continuous production plan where the speed of output was changed to suit current levels of work, to project based production. This was in response to a reduction in riser buoyancy production and a diversification of the types of projects going through the plant.

The production team were restructured so that ample capability was retained within the business to win new work, however the workforce would be more reliant on short term labour for some projects depending on the nature of the project and the skills required.

Production of low friction centralisers is maintained on a regular basis as sales of that product has grown.

### Financial Results for the Year

- Revenue of \$33.1 million (FY16: \$95.7 million), impacted by subdued global oil and gas prices throughout the year
- Pre Tax loss \$25.3 million (FY16: \$4.6 million loss), impacted by the lower revenue environment, restructure costs and an impairment write-off in the first half.
- Resulting NPAT loss of \$19.5 million (FY16: \$2.1 million loss).
- Positive operating cash flow of \$11.4 million (FY16 2.8 million) and a net increase in cash of \$8.3m (FY16: \$6.3 million outflow). Driven by strong cash receipts from debtors and a reduction in stock and payables to reflect current work load.

MCE recorded an EBITDA loss of \$15.6 million (FY16: \$6.4 million EBITDA), impacted by non-recurring restructuring costs and H1 FY17 impairment charges. Restructure costs were related to redundancy costs as the business reduced its permanent headcount to reflect the currently subdued market and also exit costs related to the exit from 3 leased properties (Houston, Karratha and Malaga). Furthermore at the December 2016 half year, Matrix recorded a \$6.4m impairment charge for the write off of goodwill relating to its MOSE engineering business.

Despite the difficult year financially the business ended up in a strong balance sheet position with cash and cash equivalents of \$16.6 million, only \$1.5 million outstanding on its trade finance facility and no term debt.

## **DIRECTORS' REPORT**

### **Changes in State of Affairs**

During the year Matrix embarked on a diversification strategy and a restructure of the business to target opportunities in three core areas being Oil and Gas, Civil and Mining and Performance Materials.

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

### **Subsequent Events**

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

### **Future Developments**

Matrix has moved to a project based manufacturing schedule, where it will plan production based upon the current order book rather than continuous production utilising the Riser Buoyancy line.

The business is committed to diversifying its revenue across a number of sectors, namely Energy, Resources, Civil & Infrastructure and Defence.

Matrix will continue to market strongly its traditional buoyancy products to its existing customer base. This will include traditional riser buoyancy, products suitable for the SURF market and the application of the Company's Matrix LGS™ products across both areas.

Matrix expects that demand for its well construction products will continue to grow. The Company has increased its presence in the US to grow our customer base and market share in this important market. We continue to see good momentum in Asia and Australia and will continue to push our presence in the Middle East. Despite lower oil and gas prices, there continues to be significant drilling activity, both onshore and offshore.

There will also be a continued focus on developing products for other markets to diversify revenue. A focus on products that can be manufactured and / or distributed through our existing facility and utilising our current capabilities are a priority and have led to the introduction of products such as Kinetica energy absorption systems, Paragon epoxy resins and LiCos lightweight aggregate for Concrete applications, among others.

### **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

## DIRECTORS' REPORT

environmental licence in accordance with Part V of the EP Act. The Henderson site continues to operate as designed, and had no reportable events.

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

### Dividends

In respect of the financial year ended 30 June 2017, no interim dividend was paid and the directors have determined that no final dividend will be paid (2016: nil).

### Shares under option or issued on exercise of options

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

### Indemnification of Officers and Auditors

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

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

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

### Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, eight board meetings, two remuneration committee meetings, two nominations committee meeting, two risk committee meetings and two 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
<b>PJ Hood</b>	8	8	2	2	2	2	2	2	2	2
<b>AP Begley</b>	8	8	-	-	-	-	-	-	-	-
<b>DP Clegg</b>	6	6	2	2	2	2	-	-	1	1
<b>S Cole</b>	8	8	2	2	2	2	2	2	1	1
<b>CN Duncan</b>	8	6	-	-	-	-	2	2	2	2

## **DIRECTORS' REPORT**

### **Proceedings on Behalf of Company**

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

### **Non-audit services**

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

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

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

### **Auditor's independence declaration**

The auditor's independence declaration is included on page 25 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](http://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 2017.

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

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

#### Key Management Personnel

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

#### ***Non-Executive Directors***

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

Mr PJ Hood (Chairperson)

Mr CN Duncan

Mr S Cole

Dr DP Clegg – *Resigned 28 April 2017*

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

#### ***Executive Officers***

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

Mr AP Begley (Chief Executive Officer)

Mr BW Cocks (Chief Financial Officer / Company Secretary)

Mr P Pezet (General Manager - Engineering)

Mr S Edgar (General Manager - Commercial) – *Departed 16 December 2016*

Mr P Tazewell (Chief Financial Officer/Company Secretary) – *Departed 9 September 2016*

Mr A Vincan (Chief Operating Officer) – *Departed 10 March 2017*

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



## DIRECTORS' REPORT

### AUDITED REMUNERATION REPORT

#### Remuneration Policy

##### *Non-Executive Directors*

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

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

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

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

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

The fees for directors were reduced in the financial year to 30 June 2017 from the previous year, effective 01 September 2016. The table below reflects the annual fees of non-executive directors (inclusive of superannuation) for the financial year ending 30 June 2017 as opposed to the previous year to 30 June 2016.

Name	Previous Fees	Revised Fees
Peter Hood	\$112,500	\$80,000
Steven Cole	\$67,500	\$50,000
Craig Duncan	\$67,500	\$50,000
Duncan Clegg	\$67,500	\$50,000

In FY17 the Chairman received actual total annual fees of \$85,417 (2016: \$122,158). All other non-executive directors received an annual fee of \$52,916 (2016: \$73,295), except for Dr Clegg whose annual fee paid was \$44,583. 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.

## DIRECTORS' REPORT

### AUDITED REMUNERATION REPORT

As detailed in this report, certain Matrix executives are entitled to receive short term incentive payments in respect of FY17 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 FY17.

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

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

#### Remuneration Structure

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

##### *Fixed remuneration*

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

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

##### *Variable remuneration*

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

The following table sets out the maximum variable remuneration each Executive can achieve for FY17, 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)
<b>Aaron Begley</b> <i>Managing Director &amp; Chief Executive Officer</i>	14.4	22.2	36.6
<b>Brendan Cocks</b> <i>Chief Financial Officer &amp; Company Secretary</i>	12.4	16.5	28.9
<b>Peter Pezet</b> <i>General Manager - Engineering</i>	13.1	14.5	27.6

## DIRECTORS' REPORT

### AUDITED REMUNERATION REPORT

#### STI remuneration

A comprehensive Short Term Incentive Plan (STI Plan) was in place for key management personnel for FY17. The STI Plan is based on a number of key performance indicators (KPIs) including a subjective performance KPI, safety performance KPI and profitability KPI. The STI Plan allows executives and employees to benefit from achieving results that surpass their target KPIs. Conversely, they will only be proportionately rewarded should the KPI targets not be fully achieved.

#### STI Key Performance Indicators

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

- i) **Financial:** Achievement of predetermined targets for EBITDA and cost management.
- ii) **Safety:** The Board reviews the Company's safety performance and has established a series of lagging and lead indicators to measure the Company's performance in ensuring a safe workplace. The primary metrics include lost time injuries (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 FY17 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	BW Cocks	P Pezet
<b>Financial</b>	40.0	42.5	35.0
<b>Safety</b>	10.0	5.0	10.0
<b>Leadership</b>	15.0	0.0	30.0
<b>Personal Objectives</b>	35.0	52.5	25.0
<b>TOTAL</b>	100.0	100.0	100.0

## DIRECTORS' REPORT

### AUDITED REMUNERATION REPORT

#### LTI remuneration

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

The Executives named below were invited to accept a dollar value grant of rights, which they could allocate between rights issued under the SEPRP and the SESARP respectively, with an allocation to the SEPRP not to exceed a maximum of 50 per cent of the total value of their respective LTI Plan grants. The total dollar value of the grant offered to each of these executives and their respective allocations of rights under the SEPRP and SESARP in FY17 are set out in the following table:

Name	Entitlement / Grant	Performance Rights	SARs
Aaron Begley	\$170,000	nil	1,133,333
Alex Vincan	\$55,000	nil	366,667
Peter Pezet	\$50,000	Nil	333,333
<b>TOTAL</b>			<b>1,833,333</b>

This LTI grant made in FY17 relates to FY16.

#### ***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 2016; 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
<b>75% and over</b>	100%
<b>50 – 75%</b>	50 – 100% on sliding scale
<b>Below 50%</b>	Nil

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

All Executives elected to receive Share Appreciation Rights in relation to their FY16 LTI grants. As a result, no Performance Rights were granted in relation to the FY16 LTI grants.

## DIRECTORS' REPORT

### AUDITED REMUNERATION REPORT

#### *Rights granted under the SESARP*

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

SARs granted under the SESARP during FY17 are subject to the following vesting conditions:

- three year service period from 1 July 2016; 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 \$0.52 is calculated by reference to:

- the 28 day volume weighted average price of MCE shares following the release of the Company's 2016 Financial Year statutory accounts on 24 August 2016, being \$0.42; and
- the annual growth rate of 7.12 per cent for the ASX300 Accumulation Index over the five years prior to 1 July 2016.

For example, an Eligible Participant receiving an indicative annual grant value of \$20,000 in FY17 will receive 133,333 SARs ( $\$20,000 \div \$0.15$ ) which, should the vesting conditions be met in FY20, convert into a number of ordinary fully paid shares in Matrix dependent upon the range of share price outcomes set out below, or a cash equivalent (subject to Board discretion).

Target Future Share Price	\$0.50	\$1.00	\$2.00
<b>Grant Value</b>	\$20,000	\$20,000	\$20,000
<b>SAR value</b>	\$0.15	\$0.15	\$0.15
<b>SARs granted</b>	133,333	133,333	133,333
<b>Hurdle Price</b>	\$0.52	\$0.52	\$0.52
<b>Share Price Uplift</b>	Nil	\$0.48	\$1.48
<b>Benefit</b>	Nil	\$64,000	\$197,332
<b>Matrix share conversion</b>	Nil	64,000	98,666

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

#### *Hedging LTI grants*

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

## **DIRECTORS' REPORT**

### **AUDITED REMUNERATION REPORT**

#### **Relationship between Remuneration and Company Performance**

One of the directors' remuneration objectives is to align the interests of its key management personnel with the interests of the Company and its shareholders. In FY17 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 FY17 further aligns the interests of the Company's key management personnel with its shareholders.

#### **Remuneration of Directors and Key Management Personnel**

Details of the elements comprising the remuneration of the Company's key management personnel are set out in the following table. The table does not include the following components of remuneration because they were not part of the remuneration package offered to Executives during FY17:

- 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 <sup>1</sup>	Total	Super-annuation benefits	Long Service Leave	Performance rights and share appreciation rights <sup>2</sup>		
		\$	\$	\$	\$	\$	\$	\$	%
<b>Executive Director</b>									
AP Begley (MD & CEO)	2017	465,923	-	465,923	19,616	8,063	93,673	587,275	16.0%
	2016	499,784	-	499,784	19,308	(678)	37,006	555,420	6.7%
<b>Non - Executive Directors</b>									
PJ Hood	2017	78,006	-	78,006	7,411	-	-	85,417	-
	2016	111,560	-	111,560	10,598	-	-	122,158	-
S Cole	2017	48,325	-	48,325	4,591	-	-	52,916	-
	2016	66,936	-	66,936	6,359	-	-	73,295	-
CN Duncan	2017	48,325	-	48,325	4,591	-	-	52,916	-
	2016	66,936	-	66,936	6,359	-	-	73,295	-
DP Clegg <i>Resigned 28/4/17</i>	2017	40,715	-	40,715	3,868	-	-	44,583	-
	2016	66,936	-	66,936	6,359	-	-	73,295	-
<b>Executive officers</b>									
BW Cocks <i>Appointed 12/9/16</i>	2017	236,000	-	236,000	14,712	-	-	250,712	-
	2016	-	-	-	-	-	-	-	-
PB Pezet	2017	217,699	11,625	229,324	19,616	4,338	26,873	280,151	13.7%
	2016	244,706	-	244,706	19,308	-	10,569	274,583	3.8%
A Vincan <i>Departed 10/3/17</i>	2017	468,594	34,066	502,660	15,805	-	30,124	548,589	11.7%
	2016	374,424	-	374,424	19,308	-	11,791	405,523	2.9%
SRH Edgar <i>Departed 16/12/16</i>	2017	292,654	-	292,654	21,946	-	8,797	323,397	2.7%
	2016	257,643	-	257,643	19,308	-	9,722	286,673	3.4%
PJ Tazewell <i>Departed 9/9/16</i>	2017	243,542	-	243,542	15,331	-	12,602	271,475	4.6%
	2016	350,204	-	350,204	19,308	-	19,451	388,963	5.0%
<b>Total</b>	<b>2017</b>	<b>2,139,783</b>	<b>45,691</b>	<b>2,185,474</b>	<b>127,487</b>	<b>12,401</b>	<b>172,069</b>	<b>2,497,431</b>	<b>-</b>
<b>Total</b>	<b>2016</b>	<b>2,039,129</b>	<b>-</b>	<b>2,039,129</b>	<b>126,215</b>	<b>(678)</b>	<b>88,539</b>	<b>2,253,205</b>	<b>-</b>

<sup>1</sup> The STI amounts shown above relate to H1 FY17 and were expensed and paid in that half.

<sup>2</sup> 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
<b>AP Begley</b> <i>Managing Director &amp; CEO</i>	04/10/1999	Indefinite	6 months (Company) / 3 months (individual)
<b>BW Cocks</b> <i>CFO &amp; Company Secretary</i>	12/09/2016	Indefinite	3 months (Company) / 3 months (individual)
<b>PB Pezet</b> <i>General Manager - Engineering</i>	14/07/2008	Indefinite	6 months (Company) / 3 months (individual)

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

#### Loans to Key management personnel

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



## DIRECTORS' REPORT

### AUDITED REMUNERATION REPORT

#### Key management personnel equity holdings

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

2017	Balance at 1 July 2016 No.	Granted as Remuneration No.	On Exercise of Options No.	Net Other Change No.	Balance at 30 June 2017 No.
<b>Directors</b>					
PJ Hood	630,000	-	-	-	630,000
AP Begley	3,643,077	-	-	(220,314)	3,422,763
S Cole	20,000	-	-	-	20,000
CN Duncan	590,429	-	-	-	590,429
DP Clegg*	39,918	-	-	n/a*	n/a*
<b>Executives</b>					
BW Cocks	-	-	-	-	-
PB Pezet	-	-	-	-	-
PJ Tazewell*	15,000	-	-	n/a*	n/a*
A Vincan*	386,038	-	-	n/a*	n/a*
<b>2016</b>					
	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.
<b>Directors</b>					
PJ Hood	500,000	-	-	130,000	630,000
AP Begley	3,625,877	-	-	17,200	3,643,077
S Cole	20,000	-	-	-	20,000
CN Duncan	590,429	-	-	-	590,429
DP Clegg*	-	-	-	39,918	39,918
<b>Executives</b>					
PB Pezet	-	-	-	-	-
PJ Tazewell*	15,000	-	-	-	15,000
A Vincan*	386,038	-	-	-	386,038

\* 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)

2017	Balance at 1 July 2016 No.	Granted as Remuneration No.	Exercised No.	Net Other Change No.	Balance at 30 June 2017 No.	Balance Vested at 30 June 2017 No.	Vested but not exercisable No.	Vested and exercisable No.	PRs Vested during year No.
<b>Directors</b>									
PJ Hood	-	-	-	-	-	-	-	-	-
AP Begley	-	-	-	-	-	-	-	-	-
DP Clegg	-	-	-	-	-	-	-	-	-
S Cole	-	-	-	-	-	-	-	-	-
CN Duncan	-	-	-	-	-	-	-	-	-
<b>Executives</b>									
BW Cocks	-	-	-	-	-	-	-	-	-
SRH Edgar	-	-	-	-	-	-	-	-	-
PB Pezet	16,129	-	-	-	16,129	-	-	-	-
PJ Tazewell <sup>1</sup>	64,516	-	-	(15,379)	49,137	-	-	-	-
A Vincan	24,193	-	-	-	24,193	-	-	-	-
<b>2016</b>									
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.
<b>Directors</b>									
PJ Hood	-	-	-	-	-	-	-	-	-
AP Begley	-	-	-	-	-	-	-	-	-
DP Clegg	-	-	-	-	-	-	-	-	-
S Cole	-	-	-	-	-	-	-	-	-
CN Duncan	-	-	-	-	-	-	-	-	-
<b>Executives</b>									
SRH Edgar	-	-	-	-	-	-	-	-	-
PB Pezet	-	16,129	-	-	16,129	-	-	-	-
PJ Tazewell	64,516	-	-	-	64,516	-	-	-	-
A Vincan	24,193	-	-	-	24,193	-	-	-	-

<sup>1</sup> Mr. Tazewell's invested Performance Rights have been pro-rated due to his departure.

## DIRECTORS' REPORT

### AUDITED REMUNERATION REPORT

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

2017	Balance at 1 July 2016 No.	Granted as Remuneration No.	Exercised No.	Net Other Change No.	Balance at 30 June 2017 No.	Balance Vested at 30 June 2017 No.	Vested but not exercisable No.	Vested and exercisable No.	SARs Vested during year No.
<b>Directors</b>									
PJ Hood	-	-	-	-	-	-	-	-	-
AP Begley	2,138,048	1,133,333	-	-	3,271,381	-	-	-	-
DP Clegg	-	-	-	-	-	-	-	-	-
S Cole	-	-	-	-	-	-	-	-	-
CN	-	-	-	-	-	-	-	-	-
Duncan	-	-	-	-	-	-	-	-	-
<b>Executives</b>									
BW Cocks	-	-	-	-	-	-	-	-	-
SRH Edgar	454,545	-	-	(214,636)	239,909	-	-	-	-
PB Pezet	454,545	333,333	-	-	787,878	-	-	-	-
PJ Tazewell	920,875	-	-	(487,846)	433,029	-	-	-	-
A Vincan	555,555	366,667	-	-	922,222	-	-	-	-
<b>2016</b>									
	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.
<b>Directors</b>									
PJ Hood	-	-	-	-	-	-	-	-	-
AP Begley	592,593	1,545,455	-	-	2,138,048	-	-	-	-
S Cole	-	-	-	-	-	-	-	-	-
DP Clegg	-	-	-	-	-	-	-	-	-
CN	-	-	-	-	-	-	-	-	-
Duncan	-	-	-	-	-	-	-	-	-
<b>Executives</b>									
SRH Edgar	-	454,545	-	-	454,545	-	-	-	-
PB Pezet	-	454,545	-	-	454,545	-	-	-	-
PJ Tazewell	148,148	772,727	-	-	920,875	-	-	-	-
A Vincan	55,555	500,000	-	-	555,555	-	-	-	-

## **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



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Aaron P Begley  
Managing Director and Chief Executive Officer

Perth, 23 August 2017

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

23 August 2017

## 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.

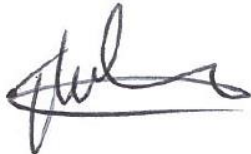
As lead audit partner for the audit of the financial statements of Matrix Composites & Engineering Ltd for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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 2017**

	Note	2017 \$	2016 \$
<b>Continuing operations</b>			
Revenue		33,138,764	95,728,426
Cost of sales		(41,822,085)	(86,511,912)
<b>Gross (loss)/profit</b>		<b>(8,683,321)</b>	<b>9,216,514</b>
Other income	3	56,461	311,284
Other losses	3	(7,901,727)	(1,767,657)
Administration expenses		(4,605,016)	(6,291,448)
Finance costs		(164,821)	(459,826)
Marketing expenses		(3,063,280)	(4,164,016)
Research expenses		(960,935)	(1,445,162)
<b>Loss before income tax</b>	4	<b>(25,322,639)</b>	<b>(4,600,311)</b>
Income tax benefit	6	5,794,186	2,486,283
<b>Loss for the year from continuing operations</b>		<b>(19,528,453)</b>	<b>(2,114,028)</b>
<b>Loss attributable to :</b>			
Owners of the Company		(19,528,453)	(2,114,028)
Non-controlling interest		-	-
		<b>(19,528,453)</b>	<b>(2,114,028)</b>
<b>Loss per share</b>			
Basic loss per share (cents)	28	(20.8)	(2.2)
Diluted loss per share (cents)	28	(20.8)	(2.2)

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 2017**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Loss for the year</b>	<b>(19,528,453)</b>	<b>(2,114,028)</b>
<b>Other comprehensive income/(expenses)</b>		
<i>Items that may be reclassified subsequent to profit or loss:</i>		
Net foreign currency translation differences	208,302	40,758
	208,302	40,758
Change in fair value of cash flow hedges	511,322	(520,442)
Net income tax (expenses)/benefit	(118,712)	134,168
	392,610	(386,274)
Property revaluation reserve transferred to profit or loss	-	(787,664)
	-	(787,664)
<b>Total comprehensive expense for the year</b>	<b>(18,927,541)</b>	<b>(3,247,208)</b>
<b>Total comprehensive expense attributable to:</b>		
Owners of the parent entity	(18,927,541)	(3,247,208)
Non-controlling interest	-	-
<b>Total comprehensive expense for the year</b>	<b>(18,927,541)</b>	<b>(3,247,208)</b>

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 2017**

	Note	2017	2016
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	16,603,004	8,403,463
Trade and other receivables	8	6,404,135	25,487,486
Inventories	9	8,743,119	10,632,083
Other current assets	10	420,596	746,754
<b>TOTAL CURRENT ASSETS</b>		<b>32,170,854</b>	<b>45,269,786</b>
<b>NON CURRENT ASSETS</b>			
Trade and other receivables	8	-	1,444,576
Property, plant and equipment	11	73,727,306	81,742,949
Intangible assets	12	2,809,753	9,004,065
Deferred tax assets	6	12,555,184	6,874,722
<b>TOTAL NON CURRENT ASSETS</b>		<b>89,092,243</b>	<b>99,066,312</b>
<b>TOTAL ASSETS</b>		<b>121,263,097</b>	<b>144,336,098</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	3,045,208	4,414,667
Progress claims and deposits	14	957,505	1,879,063
Financial liabilities	15	1,524,927	3,429,048
Provisions	16	507,617	780,272
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,035,257</b>	<b>10,503,050</b>
<b>NON CURRENT LIABILITIES</b>			
Provisions	16	414,151	396,032
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>414,151</b>	<b>396,032</b>
<b>TOTAL LIABILITIES</b>		<b>6,449,408</b>	<b>10,899,082</b>
<b>NET ASSETS</b>		<b>114,813,689</b>	<b>133,437,016</b>
<b>EQUITY</b>			
Issued capital	17	111,283,768	111,283,768
Reserves	18	249,198	(645,725)
Retained earnings	19	3,280,723	22,809,176
Equity attributable to owners of the Company		<b>114,813,689</b>	<b>133,447,219</b>
Non-controlling interest		-	(10,203)
<b>TOTAL EQUITY</b>		<b>114,813,689</b>	<b>133,437,016</b>

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 2017**

	Note	2017	2016
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		52,745,133	95,483,922
Payments to suppliers and employees		(41,298,823)	(92,294,403)
Interest received		44,087	21,759
Finance costs paid		(164,821)	(459,826)
Net receipt from tax		92,568	2,671
<b>Net cash from operating activities</b>	20(b)	<b>11,418,144</b>	<b>2,754,123</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		190,446	4,111,827
Payments for property, plant and equipment		(790,796)	(5,608,550)
Payments for capitalised development costs		(1,062,182)	(1,329,241)
<b>Net cash used in investing activities</b>		<b>(1,662,532)</b>	<b>(2,825,964)</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Buy-back of ordinary shares		-	(234,045)
Share buy-back costs		-	(37,787)
Payment of dividends		-	(939,558)
Proceeds from borrowings		-	2,930,811
Repayment of borrowings		(1,405,884)	(8,000,000)
<b>Net cash used in financing activities</b>		<b>(1,405,884)</b>	<b>(6,280,579)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>8,349,728</b>	<b>(6,352,420)</b>
Cash and cash equivalents at 1 July		8,403,463	14,468,450
Effects of exchange rate changes on the balance of cash held in foreign currencies		(150,187)	287,433
<b>Cash and cash equivalents at 30 June</b>	20(a)	<b>16,603,004</b>	<b>8,403,463</b>

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 2017**

	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
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2016</b>	<b>111,283,768</b>	<b>22,809,176</b>	-	-	<b>(392,610)</b>	<b>(415,102)</b>	<b>161,987</b>	<b>133,447,219</b>	<b>(10,203)</b>	<b>133,437,016</b>
Payment of dividends	-	-	-	-	-	-	-	-	-	-
Loss for the year	-	(19,528,453)	-	-	-	-	-	(19,528,453)	-	(19,528,453)
Other comprehensive income for the year, net of income tax	-	-	-	-	392,610	208,302	-	600,912	-	600,912
Total comprehensive (expense)/income for the year	-	(19,528,453)	-	-	392,610	208,302	-	(18,927,541)	-	(18,927,541)
Recognition of share- based payments	-	-	-	-	-	-	294,011	294,011	-	294,011
De-recognition of non-controlling interest	-	-	-	-	-	-	-	-	10,203	10,203
<b>Balance at 30 June 2017</b>	<b>111,283,768</b>	<b>3,280,723</b>	-	-	-	<b>(206,800)</b>	<b>455,998</b>	<b>114,813,689</b>	-	<b>114,813,689</b>

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 2017**

	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
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2015</b>	<b>111,555,600</b>	<b>25,589,762</b>	<b>273,000</b>	<b>787,664</b>	<b>(6,336)</b>	<b>(455,860)</b>	<b>80,000</b>	<b>137,823,830</b>	<b>(10,203)</b>	<b>137,813,627</b>
Payment of dividends	-	(939,558)	-	-	-	-	-	(939,558)	-	(939,558)
Loss for the year	-	(2,114,028)	-	-	-	-	-	(2,114,028)	-	(2,114,028)
Other comprehensive (expenses)/income for the year, net of income tax	-	-	-	(787,664)	(386,274)	40,758	-	(1,133,180)	-	(1,133,180)
<b>Total comprehensive (expenses)/ income for the year</b>	<b>-</b>	<b>(2,114,028)</b>	<b>-</b>	<b>(787,664)</b>	<b>(386,274)</b>	<b>40,758</b>	<b>-</b>	<b>(3,247,208)</b>	<b>-</b>	<b>(3,247,208)</b>
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)
<b>Balance at 30 June 2016</b>	<b>111,283,768</b>	<b>22,809,176</b>	<b>-</b>	<b>-</b>	<b>(392,610)</b>	<b>(415,102)</b>	<b>161,987</b>	<b>133,447,219</b>	<b>(10,203)</b>	<b>133,437,016</b>

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 23 August 2017.

#### 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
<i>AASB 9 'Financial Instruments', and the relevant amending standards</i>	<i>1 January 2018</i>	<i>30 June 2019</i>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<i>AASB 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>	<i>1 January 2018</i>	<i>30 June 2019</i>
<i>AASB 16 Leases</i>	<i>1 January 2019</i>	<i>30 June 2020</i>
<i>AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128</i>	<i>1 January 2018</i>	<i>30 June 2019</i>
<i>AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions</i>	<i>1 January 2018</i>	<i>30 June 2019</i>
<i>AASB 2016-6 Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts</i>	<i>1 January 2018</i>	<i>30 June 2019</i>
<i>AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements</i>	<i>1 January 2018</i>	<i>30 June 2019</i>
<i>AASB 2017-2 Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle</i>	<i>1 January 2017</i>	<i>30 June 2018</i>
<i>AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration</i>	<i>1 January 2018</i>	<i>30 June 2019</i>

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

### (a) Basis of Consolidation

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

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

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

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:

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### (a) Basis of Consolidation

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

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

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

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

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### (c) Income Tax

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

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

### Tax Consolidation

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2010 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Matrix Composites & Engineering Ltd. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the 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 using a standard costing methodology.

### (e) Property, Plant and Equipment

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

#### Property

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

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### (e) Property, Plant and Equipment

#### Plant and equipment

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

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

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

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

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

#### Depreciation

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

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

Class of Fixed Asset	Depreciation Rate (%)
Buildings	2.5
Plant and equipment	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.

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.

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## 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 12)**

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 21, 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 21 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.

	<b>MCE Group 30 Jun 2017</b>	<b>MCE Group 30 Jun 2016</b>
	\$	\$
Revenue	33,138,764	95,728,426
<b>EBITDAF</b>	(14,114,277)	7,509,574
Foreign exchange loss	(1,476,309)	(1,062,552)
<b>EBITDA</b>	(15,590,586)	6,447,022
Depreciation and amortisation	(9,589,547)	(10,609,266)
<b>EBIT</b>	(25,180,133)	(4,162,244)
Net finance costs	(142,506)	(438,067)
<b>(Loss)/profit before tax (continuing operations)</b>	<b>(25,322,639)</b>	<b>(4,600,311)</b>
	<b>MCE Group 30 Jun 2017</b>	<b>MCE Group 30 Jun 2016</b>
	\$	\$
Total consolidated assets	121,263,097	144,336,098
Total consolidated liabilities	6,449,408	10,899,082
<b>Geographical Assets</b>		
Australia	120,267,094	9,562,847
Others	996,003	1,336,235
	<b>121,263,097</b>	<b>144,336,098</b>
<b>Geographical Liabilities</b>		
Australia	7,763,767	4,357,028
Others	(1,314,359)	6,542,054
	<b>6,449,408</b>	<b>10,899,082</b>

#### Major Customers

Matrix supplies goods and services to a broad range of customers in the global oil & gas industry. During the reporting periods, four major customers (2016: three major customers), each individually accounted for greater than 10 per cent of total group revenue; collectively representing 87 per cent (2016: 64 per cent) of the total group revenue.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 3. OTHER INCOME/(LOSSES)

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Other Income</b>		
Interest received	44,087	21,759
Sundry income	12,374	86,231
Interest rate swap revaluation gain	-	203,294
	<u>56,461</u>	<u>311,284</u>
<b>Other Losses</b>		
Foreign exchange loss	(1,476,309)	(1,062,552)
Goodwill write off	(6,415,215)	-
Fixed asset disposals/write off	-	(702,429)
Other expenses	(10,203)	(2,676)
Total other losses	<u>(7,901,727)</u>	<u>(1,767,657)</u>

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

### 4. LOSS BEFORE INCOME TAX

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

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Depreciation and amortisation	9,589,547	10,609,266
Employee benefits expense	14,445,311	22,968,304
Finance costs	164,821	459,826
	<u>164,821</u>	<u>459,826</u>

### 5. AUDITORS' REMUNERATION

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<i>Auditor of the parent entity (Deloitte Touche Tohmatsu)</i>		
Audit and review fees for the year	90,000	129,056
Out-of-pocket reimbursement and fees for prior year	10,637	-
	<u>100,637</u>	<u>129,056</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 6. INCOME TAX (BENEFIT)/EXPENSE

	2017	2016
	\$	\$
<b>Current tax</b>		
In respect of the current year	-	-
In respect of prior years	-	25,528
	<u>-</u>	<u>25,528</u>
<b>Deferred tax</b>		
In respect of the current year	(5,789,611)	(1,191,013)
In respect of prior years	(9,563)	(1,320,798)
	<u>(5,799,174)</u>	<u>(2,511,811)</u>
<b>Total income tax (benefit)/expense recognised in the current year</b> relating to continuing operations	<u>(5,794,186)</u>	<u>(2,486,283)</u>

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

	2017	2016
	\$	\$
<b>(Loss)/profit before tax from continuing operations</b>	<b>(25,322,639)</b>	<b>(4,600,311)</b>
Income tax (benefit)/expense calculated at 30% (2016:30%)	(7,596,792)	(1,380,093)
Effect of expenses that are not deductible in determining taxable profit	2,023,782	275,530
Effect of concessions (R&D and other allowances)	(216,601)	(276,692)
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	-	190,242
	<u>(5,789,611)</u>	<u>(1,191,013)</u>
Adjustments recognised in the current year in relation to the deferred tax (benefit)/expense of prior years	(4,575)	(1,295,270)
Total income tax (benefit)/expenses recognised in the Current year relating to continuing operations	<u>(5,794,186)</u>	<u>(2,486,283)</u>

The tax rate used for the 2017 and 2016 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

	2017	2016
	\$	\$
<b>Deferred tax</b>		
<i>Arising on income and expenses recognised in other comprehensive income:</i>		
Fair value measurements of hedging instruments entered into for cash flow hedges	118,712	(139,582)
<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>118,712</u>	<u>(134,168)</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 6. INCOME TAX (BENEFIT)/EXPENSE

#### Deferred tax assets and liabilities

	2017	2016
	\$	\$
<b>Deferred tax assets</b>		
Benefit of tax losses to be carried back to recover taxes paid in prior periods		
Assessed losses	9,075,261	4,466,449
Research and development claims	4,481,826	3,469,233
Trade and other payables	-	-
Provisions	290,119	389,798
Capital raising costs	-	-
Borrowing costs	-	16,316
Other creditors & accruals	168,107	43,200
Employee entitlements	-	-
Intangible assets	304,525	350,312
Cash flow hedges	-	149,471
Other	528,412	294,731
	14,848,250	9,179,510
<b>Deferred tax liabilities</b>		
Trade and other receivables	-	-
Property, plant & equipment	(2,170,194)	(2,209,722)
Inventories	(115,627)	(79,592)
Prepayments	(7,245)	(15,474)
Financial liabilities	-	-
Asset revaluation reserve	-	-
Other	-	-
	(2,293,066)	(2,304,788)
<b>Deferred tax balances</b>		
Deferred tax assets	14,848,250	9,179,510
Deferred tax liabilities	(2,293,066)	(2,304,788)
	12,555,184	6,874,722

2017	Opening	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Reclassified from equity to profit or loss	Closing
<b>Temporary differences</b>						
Cash flow hedges	149,471	(30,759)	(118,712)	-	-	-
Provisions	389,798	(99,678)	-	-	-	290,120
Borrowing costs	16,316	(16,316)	-	-	-	-
Other creditors & accruals	43,200	124,907	-	-	-	168,107
Intangible assets	350,312	(45,787)	-	-	-	304,525
Other	294,731	233,681	-	-	-	528,412
Property, plant & equipment	(2,209,722)	39,528	-	-	-	(2,170,194)
Inventories	(79,592)	(36,036)	-	-	-	(115,628)
Prepayments	(15,474)	8,230	-	-	-	(7,244)
	(1,060,960)	177,770	(118,712)	-	-	(1,001,902)
<b>Unused tax losses and credits</b>						
Tax losses and R&D Credits	7,935,682	5,621,404	-	-	-	13,557,086
	7,935,682	5,621,404	-	-	-	13,557,086
	6,874,722	5,799,174	(118,712)	-	-	12,555,184

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 6. INCOME TAX (BENEFIT)/EXPENSE

2016	Opening	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Reclassified from equity to profit or loss	Closing
<b>Temporary differences</b>						
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	-	-	-	-
	<b>(3,601,063)</b>	<b>2,405,935</b>	<b>139,582</b>	-	<b>(5,414)</b>	<b>(1,060,960)</b>
<b>Unused tax losses and credits</b>						
Tax losses and R&D Credits	7,824,702	110,980	-	-	-	7,935,682
	7,824,702	110,980	-	-	-	7,935,682
	<b>4,223,639</b>	<b>2,516,915</b>	<b>139,582</b>	-	<b>(5,414)</b>	<b>6,874,722</b>

### 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

### 7. CASH AND CASH EQUIVALENTS

	2017 \$	2016 \$
Cash on hand	250	305
Cash management accounts	13,575,757	5,137,304
Cash and bank balances	3,026,997	3,265,854
	<b>16,603,004</b>	<b>8,403,463</b>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 8. TRADE AND OTHER RECEIVABLES

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT</b>		
Trade receivables (i)	2,221,911	8,825,068
Other receivables – Trade (ii)	4,120,789	16,512,282
GST refundable	61,435	150,136
	<u>6,404,135</u>	<u>25,487,486</u>
<b>NON-CURRENT</b>		
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 21 credit risk for further information. The Samsung receivable of \$1,416,147 is included in the current category and expected to be received by June 2018.

### 9. INVENTORIES

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Raw Materials at cost	4,554,484	6,071,490
Work in progress at cost	826,818	1,242,175
Finished goods at cost	3,361,817	3,318,418
	<u>8,743,119</u>	<u>10,632,083</u>

### 10. OTHER CURRENT ASSETS

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Prepayments	<u>420,596</u>	<u>746,754</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 11. PROPERTY, PLANT AND EQUIPMENT

	2017	2016
	\$	\$
<b>Land and Building/Leasehold improvements</b>		
Buildings <sup>1</sup>	34,817,462	34,817,462
Other leasehold improvements <sup>2</sup>	218,006	1,117,702
Less: accumulated depreciation	(6,009,187)	(5,523,262)
	<u>29,026,281</u>	<u>30,411,902</u>
<b>Plant and Equipment:</b>		
Plant and equipment at cost	92,001,541	90,478,436
Less: accumulated depreciation	(48,473,349)	(41,710,119)
	<u>43,528,192</u>	<u>48,768,317</u>
<b>Motor Vehicles:</b>		
Motor vehicles at cost	41,150	41,150
Less: accumulated depreciation	(26,383)	(22,976)
	<u>14,767</u>	<u>18,174</u>
<b>Office Equipment:</b>		
Office equipment at cost	459,276	460,445
Less: accumulated depreciation	(423,368)	(410,726)
	<u>35,908</u>	<u>49,719</u>
<b>Computer Equipment:</b>		
Computer equipment at cost	2,881,006	2,653,337
Less: accumulated depreciation	(2,455,538)	(2,293,965)
	<u>425,468</u>	<u>359,372</u>
<b>Assets under construction:</b>		
Plant and equipment in progress at cost	<u>696,690</u>	<u>2,135,465</u>
	<u><u>73,727,306</u></u>	<u><u>81,742,949</u></u>

<sup>1</sup> Relates to the Group's Henderson manufacturing and office complex.

<sup>2</sup> Leasehold improvements are located at Henderson and Huston office.

#### Assets pledged as security

Buildings and leasehold improvements with a carrying amount of approximately \$29,026,281 (2016: \$30,411,902) have been pledged to secure the Group's working capital, bonding and overdraft facilities (see note 15). 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
	\$	\$	\$	\$	\$	\$	\$
<b>Consolidated</b>							
Carrying amount at 1 July 2016	30,411,902	48,768,317	18,174	49,719	359,372	2,135,465	81,742,949
Additions	-	1,989,810	-	11,289	231,289	-	2,232,388
Disposals/write-offs	-	(48,336)	-	(10,802)	(1,850)	(1,438,775)	(1,499,763)
Depreciation/amortisation expenses	(1,385,621)	(7,181,599)	(3,407)	(14,298)	(163,343)	-	(8,748,268)
Carrying amount at 30 June 2017	29,026,281	43,528,192	14,767	35,908	425,468	696,690	73,727,306
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



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 12. INTANGIBLE ASSETS

	2017	2016
	\$	\$
Development costs (i)	4,849,056	3,786,874
Accumulated amortisation	(2,039,303)	(1,198,024)
Goodwill on acquisition of Specialist Engineering Services (Aust) Pty Ltd (ii)	-	6,415,215
	2,809,753	9,004,065

- (i) Development costs incurred to date relate to several ongoing projects that are in the development phase prior to anticipated commercialisation.
- (ii) Upon review of goodwill associated with the acquisition of Specialist Engineering Services (Aust) Pty Ltd and in accordance with AASB 136, the Company wrote off \$6,415,215 as a result of the impairment assessment performed at the interim reporting date, and as disclosed in the 31 December 2016 half year financial statements.

At 30 June 2017, the Group has re-evaluated whether the recoverable amount of the CGU exceeds its carrying amount due to the existence of impairment indicators. The carrying amount is determined to be the higher of its fair value less costs to sell or its value in use. For impairment testing purposes at 30 June 2017 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 2017 and adopted by the Board are included below.

#### Key Assumptions:

##### *Discount Rate*

A post-tax discount rate of 10 per cent (2016: 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 recent years 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 returning to modest levels of production. This increase is expected to occur through a recovery in the oil and gas price and increased availability of industry capex, and a take up of the Company's Longitudinally Grooved Suppression (LGS) system into the overall product mix. The model assumes manufacturing products and providing services based on current volumes achieved with a gradual recovery in demand over the next five year period. There is also allowance for new products where there have been sales established in the prior year. 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.

##### *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 (2016: two per cent) has been applied.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 12. INTANGIBLE ASSETS

#### *Foreign Exchange Rate*

A AUD:USD foreign exchange rate of 0.76 (2016: 0.74) 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%	17.3	17.3
Revenue – sales price growth rate	± 10%	8.3	8.3
Discount rate	± 2%	36.9	64.1
Terminal value growth rate	± 0.5%	8.9	10.1
Foreign exchange rate	± 0.05	12.0	13.7

Using this sensitivity analysis, the directors determined that a reasonably possible increase in raw material costs, being the predominant component of direct costs, of 5.0 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.

Similarly, a reasonably possible reduction in revenue of 3.6 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.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 13. TRADE AND OTHER PAYABLES

	2017	2016
	\$	\$
Trade payables	1,657,072	3,749,926
Other creditors and accruals	1,369,326	655,936
GST payable	18,810	8,805
	3,045,208	4,414,667

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.

### 14. PROGRESS CLAIMS AND DEPOSITS

	2017	2016
	\$	\$
Progress claims and deposits	957,505	1,879,063

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.

### 15. FINANCIAL LIABILITIES

	2017	2016
	\$	\$
<b>CURRENT</b>		
Trade finance (i)	1,524,927	2,930,811
Foreign currency options (hedge accounted) (ii)	-	231,975
Forward exchange contracts liability (hedge accounted) (ii)	-	266,262
	1,524,927	3,429,048

(i) The Company has a \$13.3 million multi-option, multi-currency funding package with Australia and New Zealand Banking Group Limited (ANZ). The facility covers the Group's working capital, trade finance and bonding facilities and encompasses sub-limits for certain facilities. The working capital and bonding facilities can be drawn in multiple currencies using a variety of instruments.

(ii) The Group had no hedge liability at 30 June 2017 (2016: net hedge liability position of \$498,237). Refer to note 21 financial instruments for further details on the instruments.

### TERMS AND CONDITIONS OF FACILITY

Working Capital and Contingent Lines	Currency	Nominal interest rate	Approved Facilities	Amount Utilised	Available Facilities
		%	\$	\$	\$
ANZ Multi-option Bank Guarantee	AUD/USD	0.5	13,325,000	3,828,364	7,947,586
ANZ Working capital/Trade Finance	USD	LIBOR+0.8		1,549,050	
			13,325,000	5,377,414	7,947,586

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 16. PROVISIONS

	2017 \$	2016 \$
<b>CURRENT</b>		
Employee Entitlements	507,617	780,272
<b>NON-CURRENT</b>		
Employee Entitlements	414,151	396,032

### 17. ISSUED CAPITAL

	2017 \$	2016 \$
Issued and paid up capital 93,750,000 (2016: 93,750,000) fully paid ordinary shares	111,283,768	111,555,600
Less: Buy-back of ordinary shares	-	(234,045)
Less: Share buy-back costs	-	(37,787)
	111,283,768	111,283,768

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

#### Movements in Ordinary Share Capital

Date	Number of shares	\$
Balance 1 July 2015	93,750,000	111,555,600
Less: Buy-back of ordinary shares	-	(234,045)
Less: Share buy-back costs	-	(37,787)
Balance 30 June 2016	93,750,000	111,283,768
Less: Buy-back of ordinary shares	-	-
Less: Share buy-back costs	-	-
Balance 30 June 2017	93,750,000	111,283,768

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

#### 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 2017 of negative 12.3 per cent (2016: negative 2.7 per cent) is below the target gearing level which is prudent in the current oil and gas market.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 17. ISSUED CAPITAL

	2017	2016
	\$	\$
Trade finance <sup>1</sup>	1,524,927	2,930,811
Progress claims and deposits	957,505	1,879,063
Cash and cash equivalents	(16,603,004)	(8,403,463)
Adjusted net (asset)/debt	<u>(14,120,572)</u>	<u>(3,593,589)</u>
Equity <sup>2</sup>	114,813,689	133,437,016
Net (asset)/debt to equity ratio at 30 June	<u>(12.3%)</u>	<u>(2.7%)</u>

<sup>1</sup>Trade finance forms part of the Company's working capital facilities, refer to note 15.

<sup>2</sup>Equity includes all capital and reserves of the Group that are managed as capital.

### 18. RESERVES

	2017	2016
	\$	\$
Cash flow hedge reserve	-	(392,610)
Foreign currency translation reserve	(206,800)	(415,102)
Share based payment reserve	455,998	161,987
	<u>(249,198)</u>	<u>(645,725)</u>

#### Cash Flow Hedge Reserve

	2017	2016
	\$	\$
<b>Cash Flow Hedge Reserve</b>		
Balance at beginning of year	(392,610)	(6,336)
<i>Gain/(loss) arising on changes in fair value of hedging instruments entered into for cash flow hedges:</i>		
- Forward foreign exchange contracts	511,322	(538,488)
- Income tax related to loss recognised in other comprehensive income	(118,712)	139,582
<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>-</u>	<u>(392,610)</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.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 18. RESERVES

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:

	2017	2016
	\$	\$
Foreign exchange	-	18,046
Income tax expense	-	(5,414)
	<u>-</u>	<u>12,632</u>

#### Foreign Currency Translation Reserve

	2017	2016
	\$	\$
<b>Foreign Currency Translation Reserve</b>		
Balance at beginning of year	(415,102)	(455,860)
Exchange differences arising on translating the foreign operations	208,302	40,758
Balance at end of year	<u>(206,800)</u>	<u>(415,102)</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

	2017	2016
	\$	\$
<b>Share-based Premium Reserve</b>		
Balance at beginning of year	161,987	80,000
Arising on share-based payments	294,011	81,987
Balance at end of year	<u>455,998</u>	<u>161,987</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 24.

### 19. RETAINED EARNINGS

	2017	2016
	\$	\$
<b>Retained earnings</b>	<u>3,280,723</u>	<u>22,809,176</u>
Balance at beginning of year	22,809,176	25,589,762
Loss attributable to owners of the company	(19,528,453)	(2,114,028)
Payment of dividends	-	(939,558)
Expiry of options	-	273,000
Balance at end of year	<u>3,280,723</u>	<u>22,809,176</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 20. NOTES TO THE STATEMENT OF CASH FLOWS

	2017 \$	2016 \$
<b>(a) Reconciliation of cash and cash equivalents</b>		
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	16,603,004	8,403,463
<b>(b) Reconciliation of cash flow from operations with (loss)/profit after income tax</b>		
Loss after income tax	(19,528,453)	(2,114,028)
<b>Adjustment for non-cash items</b>		
- Depreciation of property, plant & equipment	8,748,268	9,585,033
- Amortisation of intangibles	841,279	1,024,233
- Expense recognised in respect of equity-settled share-based payments	294,011	81,987
- Effects of exchange rate changes on the balance of cash held in foreign currencies	150,187	(287,433)
- Effects of translation of foreign operations	208,302	40,758
- Net gain arising on financial liabilities designated as at fair value through profit or loss	(105,627)	(1,551,332)
- Net movement in other reserves	10,203	-
- (Gain)/loss on disposal of property, plant & equipment	(132,275)	702,429
- Loss on disposal of intangibles	6,415,215	-
<b>Changes in assets &amp; liabilities</b>		
- Decrease in trade and other receivables	20,527,927	7,550,199
- Decrease in other assets	326,158	197,033
- Decrease in inventories	1,888,964	10,093,940
- Decrease in trade & other payables, progress claims & deposits	(2,291,017)	(19,622,004)
- Decrease in employee provisions	(254,536)	(295,609)
- Increase in deferred tax asset	(5,668,740)	(108,413)
- Decrease in deferred tax liability	(11,722)	(2,542,670)
<b>Net cash flows from operating activities</b>	<b>11,418,144</b>	<b>2,754,123</b>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 21. 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 2017, 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:

	<b>2017</b>	<b>2016</b>
	\$	\$
<b>Change in profit</b>		
Increase in interest rate by 2% (200 basis point)	30,499	68,581
Decrease in interest rate by 2% (200 basis point)	(30,499)	(68,581)
	<hr/>	<hr/>
<b>Change in other comprehensive income</b>		
Increase in interest rate by 2% (200 basis point)	-	-
Decrease in interest rate by 2% (200 basis point)	-	-
	<hr/> <hr/>	<hr/> <hr/>

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

### 21. FINANCIAL INSTRUMENTS

#### FINANCIAL ASSETS

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing				Non-Interest Bearing	
	2017	2016	2017	2016	Within 1 Year		Over 1 Year		2017	2016
					2017	2016	2017	2016		
	%	%	\$	\$	\$	\$	\$	\$	\$	\$
Cash and Cash Equivalents	-	-	-	-	-	-	-	-	16,603,004	8,403,463
Trade and Other Receivables	-	-	-	-	-	-	-	-	6,342,700	26,781,926
Other Financial Assets	-	-	-	-	-	-	-	-	-	-
<b>Total Financial Assets</b>									<b>22,945,704</b>	<b>35,185,389</b>

#### FINANCIAL LIABILITIES

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing				Non-Interest Bearing	
	2017	2016	2017	2016	Within 1 Year		Over 1 Year		2017	2016
					2017	2016	2017	2016		
	%	%	\$	\$	\$	\$	\$	\$	\$	\$
Trade and Other Payables	-	-	-	-	-	-	-	-	3,026,398	4,405,862
Trade Finance	2.16	1.72	1,524,927	2,930,811	-	-	-	-	-	-
Bank Loan	-	-	-	-	-	-	-	-	-	-
Interest Rate Swaps	-	-	-	-	-	-	-	-	-	-
Other Financial Liabilities	-	-	-	498,237	-	-	-	-	-	-
<b>Total Financial Liabilities</b>			<b>1,524,927</b>	<b>3,429,048</b>					<b>3,026,398</b>	<b>4,405,862</b>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 21. 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 2017.

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:

	<b>2017</b>	<b>2016</b>
	\$	\$
Trade receivables	2,221,911	8,825,068

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

Days		
0-30	1,379,366	6,072,955
31-60	835,306	2,600,030
61-90	7,239	105,478
90+	-	46,605
	<u>2,221,911</u>	<u>8,825,068</u>

Trade receivables of \$843,955 (2016: \$2,861,042) were past due at 30 June, of which \$336,638 (2016: \$2,860,473) 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 2017.

#### 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.

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

	<b>Liabilities</b>		<b>Assets</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	\$	\$	\$	\$
US Dollars	3,080,448	5,638,482	10,277,771	29,362,466

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 21. FINANCIAL INSTRUMENTS

#### 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)	
		2017	2016	2017	2016
		\$000	\$000	\$000	\$000
A\$ vs US\$	+10%	(654)	(2,157)	-	918
A\$ vs US\$	-10%	720	2,372	-	(1,010)

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.

#### 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	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
<b>Cash flow hedges</b>								
<b>Sell US Dollar</b>								
Less than 1 month	-	-	-	-	-	-	-	-
Less than 3 months	0.7584	0.7629	-	5,000	-	6,554	-	(178)
3 to 6 months	0.7505	0.7598	-	2,500	-	3,290	-	(88)
6 months to 1 year	-	-	-	-	-	-	-	-
							-	<b>(266)</b>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 21. FINANCIAL INSTRUMENTS

At 30 June 2017, 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 nil (2016: loss \$392,610). 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 face value of the foreign currency options as at 30 June 2017 was nil. (2016: nil).

At 30 June 2017, the aggregate amount of loss recognised under foreign currency option in profit or loss is nil (2016: loss \$501,615).

#### 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.

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total
	%	\$	\$	\$	\$	\$
<b>30 June 2017</b>						
Cash and other equivalents	-	16,603,004	-	-	-	16,603,004
Trade and other receivables	-	1,489,653	1,803,815	3,049,232	-	6,342,700
Foreign Exchange Contracts	-	-	-	-	-	-
Call/Put Options liability	-	-	-	-	-	-
Trade and other payables	-	(1,172,739)	(989,509)	(864,150)	-	(3,026,398)
Borrowing	2.16	-	(1,524,927)	-	-	(1,524,927)
		<u>16,919,918</u>	<u>(710,621)</u>	<u>2,185,082</u>	<u>-</u>	<u>18,394,379</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 21. FINANCIAL INSTRUMENTS

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)
		<u>11,452,252</u>	<u>2,473,005</u>	<u>11,980,646</u>	<u>1,444,576</u>	<u>27,350,479</u>

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

#### Fair Value of Financial Instruments

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

#### Fair Value Hierarchy

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

### 22. OPERATING LEASE COMMITMENTS

	2017	2016
	\$	\$
Not later than 1 year	1,331,602	2,159,761
Later than 1 year but not later than 5 years	5,110,644	4,540,430
Later than 5 years	<u>34,945,037</u>	<u>30,768,979</u>

The lease commitment relates to land at 150 Quill Way, Henderson and US office.

### 23. FRANKING ACCOUNT

	2017	2016
	\$	\$
Franking account balance at 1 July	14,284,418	14,594,111
Franking credits/(debits) that will arise from income tax return amendment refund	-	92,975
Franking debits that will arise from the payment of dividends	-	(402,668)
Franking account balance at 30 June	<u>14,284,418</u>	<u>14,284,418</u>
Net franking credits available	<u>14,284,418</u>	<u>14,284,418</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 24. SHARE-BASED PAYMENTS

#### Share Options

There have been no share options brought forward, issued or exercised during the year (2016: 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

### 24. 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

### 24. 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
FY14 MPRP	11 Sep 2015	0.44	0.40	n/a	n/a	11 Sep 2017	28 Sep 2017
FY14 SEPRP	11 Sep 2015	0.40	0.09	n/a	n/a	11 Sep 2017	28 Sep 2017
FY15 MPRP	16 Sep 2015	0.46	0.39	n/a	n/a	16 Sep 2018	16 Sep 2018
FY15 SEPRP	16 Sep 2015	0.46	0.27	n/a	n/a	16 Sep 2018	16 Sep 2018
FY15 SESARP	16 Sep 2015	0.46	0.11	6.53%	0.53	16 Sep 2018	16 Sep 2018



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 24. SHARE-BASED PAYMENTS

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

#### Fair Value of Share Rights Granted in the Year

The Performance Rights and Share Appreciation Rights contemplated by the Rights Plan have been subject to valuation reports by Ernst & Young dated 19 August 2015 and 19 October 2015 respectively and BDO dated 13 October 2016. 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	FY16 MPRP	FY16 EPRP/ SEPRP	FY16 SESARP
Grant date	11 Sep 2015	11 Sep 2015	16 Sep 2015	16 Sep 2015	16 Sep 2015	08 Dec 2016	08 Dec 2016	08 Dec 2016
Vesting date	28 Sep 2017	28 Sep 2017	16 Sep 2018	16 Sep 2018	16 Sep 2018	08 Dec 2019	08 Dec 2019	09 Dec 2019
Share price at grant	\$0.44	\$0.44	\$0.46	\$0.46	\$0.46	\$0.40	\$0.40	\$0.40
Value	\$0.40	\$0.09	\$0.39	\$0.27	\$0.11	0.41	0.30	0.15
Hurdle Growth Rate	n/a	n/a	n/a	n/a	6.53%	n/a	n/a	7.12%
Hurdle Price	n/a	n/a	n/a	n/a	\$0.53	n/a	n/a	\$0.52
Expected life	2 years	2 years	3 years	3 years	3 years	3 years	3 years	3 years
Volatility	55%	55%	55%	55%	55%	60%	60%	60%
Risk free interest rate	1.85%	1.85%	1.94%	1.94%	1.94%	1.65%	1.65%	1.65%
Dividend yield	4.1%	4.1%	4.3%	4.3%	4.3%	3.4%	3.4%	3.4%

#### Movements in Share Plans during the Year

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

##### MPRP

2017	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
FY16 MPRP	-	190,242	-	-	-	190,242
<b>Total</b>	<b>385,874</b>	<b>190,242</b>				<b>576,116</b>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 24. SHARE-BASED PAYMENTS

#### EPRP

2017	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
FY16 EPRP	-	399,996		-	-	399,996
<b>Total</b>	<b>563,679</b>	<b>399,996</b>		<b>-</b>	<b>-</b>	<b>963,675</b>

#### SESARP

2017	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	-	37,037	-	-	759,259
FY15 SESARP	3,727,272	-	665,445	-	-	3,061,827
FY16 SESARP	-	1,833,333	333,333	-	-	1,833,333
<b>Total</b>	<b>4,523,568</b>	<b>1,833,333</b>	<b>702,482</b>	<b>-</b>	<b>-</b>	<b>5,654,419</b>

#### SEPRP

2017	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	-	15,379	-	-	73,330
<b>Total</b>	<b>88,709</b>	<b>-</b>	<b>15,379</b>	<b>-</b>	<b>-</b>	<b>73,330</b>

### 25. RELATED PARTY DISCLOSURES

#### (a) Key Management Personnel Compensation

	2017	2016
	\$	\$
Short term employment benefits	2,185,474	2,039,129
Share based payments	172,069	88,539
Post-employment benefits	139,888	125,537
	2,497,431	2,253,205

#### (b) Parent Entity

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

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 25. RELATED PARTY DISCLOSURES

#### (c) Related Party Transactions

Transactions between related parties are at arms-length terms.

	2017	2016
	\$	\$
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. However, the lease was terminated in May 2017.	340,015	371,588

#### (d) Option Holdings of Key Management Personnel

There have been no movements during the reporting period (2016: 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 (2016: nil).
- No options have been issued to key management personnel during the year (2016: 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 (2016: nil).

### 26. SUBSIDIARIES

The consolidated financial statements include the following subsidiaries:

Name	Incorporation	Shares	Equity Holding %	
			2017	2016
Specialist Engineering Services (Aust) Pty Ltd	Australia	Ordinary	100	100
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.	Singapore	Ordinary	100	100

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 27. 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

	2017	2016
	\$	\$
<b>Assets</b>		
Current assets	37,169,219	50,649,452
Non-current assets	93,695,978	95,484,927
Total assets	<u>130,865,197</u>	<u>146,134,379</u>
<b>Liabilities</b>		
Current liabilities	7,349,615	11,036,907
Non-current liabilities	532,879	545,440
Total liabilities	<u>7,882,494</u>	<u>11,582,347</u>
Net assets	<u>122,982,703</u>	<u>134,552,032</u>
<b>Equity</b>		
Issued capital	111,283,768	111,283,768
Retained earnings	11,242,937	23,498,887
Cash flow hedge reserve	-	(392,610)
Share based payment reserve	455,998	161,987
Total equity	<u>122,982,703</u>	<u>134,552,032</u>

	2017	2016
	\$	\$
<b>Financial Performance</b>		
Loss for the year	(12,255,950)	(6,457,577)
Other comprehensive income/(expense)	294,011	(386,274)
Total comprehensive expense	<u>(11,961,939)</u>	<u>(6,843,851)</u>

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

No longer than 1 year	319,066	323,240
Longer than 1 year and Not longer than 5 years	-	-
Longer than 5 years	-	-
	<u>319,066</u>	<u>323,240</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 28. EARNINGS PER SHARE

	2017	2016
Loss attributable to members of parent entity (\$)	(19,528,453)	(2,114,028)
Weighted average number of shares on issue (number)	93,750,000	94,123,725
Weighted average number of shares adjusted for dilution (number)	93,750,000	94,123,725
Basic loss per share (cents)	(20.8)	(2.2)
Diluted loss per share (cents)	(20.8)	(2.2)

### 29. DIVIDENDS PAID AND PROPOSED

Recognised amounts	Year Ended 30 June 2017		Year Ended 30 June 2016	
	Cents per share	Total \$	Cents per share	Total \$
<u>Fully paid ordinary shares</u>				
Interim dividend	-	-	-	-
Final dividend	-	-	1.0	939,558
		-		939,558

### 30. COMPANY DETAILS

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

### 31. CONTINGENT LIABILITIES AND ASSETS

There were no contingent liabilities or assets at 30 June 2017.

### 32. 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:



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Aaron P Begley  
Managing Director and Chief Executive Officer

Dated 23 August 2017

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

## Report on the Audit of the Financial Report

### *Opinion*

We have audited the financial report of Matrix Composites & Engineering Ltd (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### *Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

### *Key Audit Matters*

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

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Recoverability of long lived assets</p> <p>As at 30 June 2017, the carrying value of the Group’s long lived assets totalled \$76.54 million. The assets are assessed for impairment as one Cash Generating Unit (CGU) as disclosed in note 12.</p> <p>Significant judgement is required in determining an estimate of the recoverable amount of the CGU due to the economic climate surrounding the Oil and Gas industry at present. Key assumptions include:</p> <ul style="list-style-type: none"> <li>• revenue growth over the forecast period,</li> <li>• forecast gross margin, and</li> <li>• the consideration of the deficit of net assets to market capitalisation.</li> </ul>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Evaluating management’s assessment of the determination of CGU’s,</li> <li>• Evaluating management’s process for developing cash flow forecasts,</li> <li>• Assessing the reasonableness of cash flow forecasts through comparison of historical and forecast performance in line with actual and projected crude oil prices,</li> <li>• Testing on a sample basis the mathematical accuracy of the underlying “value in use” calculations,</li> <li>• Assessing the consistency of the cash flow forecasts with Board approved budgets and the key assumptions were subject to oversight from the directors, and</li> </ul> <p>In conjunction with our valuation specialists, our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Assessing the following key assumptions used in management’s cash flow forecasts; <ul style="list-style-type: none"> <li>○ The revenue growth rates by comparing them with economic and industry forecasts, and</li> <li>○ Benchmarking implied earnings multiples used with comparable organisations.</li> </ul> </li> </ul> <p>We also assessed the appropriateness of the disclosures in note 12 to the financial statements.</p>



Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Assessment of deferred tax assets</p> <p>As at 30 June 2017 the carrying value of the Group's net deferred tax asset totals \$12.56 million, inclusive of \$9.08 million of carry forward tax losses.</p> <p>Judgement is required in assessing management's forecasted taxable income and the expected utilisation of the recognised tax losses over the period.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Evaluating management's assessment of the recoverable amount of carry forward tax losses and confirmation of the availability of tax losses;</li> <li>• Evaluating management's forecasts with consideration of future taxable income in Australia through assessing the key underlying assumptions such as future taxable income against historic performance and where appropriate external industry data;</li> <li>• Reconciling the latest Board approved budget with management's forecast of future assessable profits; and</li> <li>• Performing sensitivity analysis to the forecasted future income.</li> </ul> <p>We also assessed the appropriateness of the disclosures in note 6 to the financial statements.</p>

### *Other Information*

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

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

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

### *Responsibilities of the Directors for the Financial Report*

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

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

### *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

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

If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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

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

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

## **Report on the Remuneration Report**

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 12 to 23 of the Directors' Report for the year ended 30 June 2017.

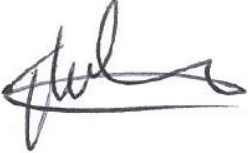
In our opinion, the Remuneration Report of Matrix Composites & Engineering Ltd, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

## *Responsibilities*

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

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DELOITTE TOUCHE TOHMATSU



**John Sibenaler**  
Partner  
Chartered Accountants  
Perth, 23 August 2017