

Results for announcement to the market

Appendix 4E

Preliminary Final Report
Period Ended 30 June 2020

Name of entity

Matrix Composites & Engineering Ltd

ABN or equivalent company reference

009 435 250

Period ended ('Current Period')

30 June 2021
Previous corresponding period: 30 June 2020

Extracts from this report for announcement to the market

				\$000s
Revenues from ordinary activities	Down	35.8%	to	17,618
Loss from ordinary activities after tax attributable to members	Up	58.9%	to	(27,924)
Net loss after tax for period attributable to members	Up	58.9%	to	(27,924)
Dividends (distributions)	Amount per security		Franked amount per security	
Final dividend	nil		N/A	
Interim Dividend	nil		N/A	
Record date for determining entitlements to the dividend	N/A			
Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:				
<i>Not applicable</i>				

Commentary on Results

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

Ratios and Other measures

NTA backing

Net tangible asset backing per ordinary security

Current Period	Previous corresponding Period
(\$0.11)	\$0.08

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
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 2021 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 2021 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

31 August 2020
Perth, Western Australia



FINANCIAL STATEMENTS

30 JUNE 2021

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Contents

For the Year Ended 30 June 2021

	Page
Consolidated Financial Statements	
Corporate Directory	1
Directors' Report	2
Auditor's Independence Declaration under Section 307C of the Corporations Act 2001	22
Consolidated Statement of Profit or Loss and Other Comprehensive Income	23
Consolidated Statement of Financial Position	24
Consolidated Statement of Changes in Equity	25
Consolidated Statement of Cash Flows	27
Notes to the Consolidated Financial Statements	28
Directors' Declaration	87
Independent Auditor's Report	88

CORPORATE DIRECTORY

DIRECTORS

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

COMPANY SECRETARY

Mr B W Cocks
Mrs J Jones

HEAD OFFICE

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

OVERSEAS OFFICES

Matrix Composites & Engineering (US), Inc
2925 Richmond Avenue,
Suite 1200 Houston
Texas 77027 U.S.A
Email: us@matrixengineered.com

BANKER

ANZ
Level 10, 77 St Georges Terrace
Perth WA 6000

LAWYERS

Squire Patton Boggs
Level 21, 200 Murray Street
PERTH WA 6000

AUDITOR

KPMG
235 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
30 June 2021

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 2021. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows.

Information about the Directors

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

Peter J Hood AO

Independent Non-Executive Chairman

Qualifications & Experience

Peter Hood is a qualified Chemical Engineer with nearly 50 years of experience in senior management and project development in the mining, oil and gas, and chemical industries.

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 a Past President of the Australian Chamber of Commerce and Industry (ACCI), and a Non-Executive Director of, GR Engineering Ltd, De Grey Mining Ltd and Cue Energy Resources Ltd, and Chairman of MAK Industrial Water Systems Pty Ltd. He was also previously Chairman of Apollo Gas Ltd and Vice-Chairman of APPEA.

Mr Hood chairs the Remuneration and Nomination 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

Aaron P Begley

Managing Director & Chief Executive Officer

Qualifications & Experience

Aaron Begley has over 25 years' experience in manufacturing and marketing specialised industrial equipment, materials and services to the oil & gas and marine technology sectors.

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

Directors' Report
30 June 2021

Memberships	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, property management and development and resources sectors. Mr Cole is Chairman of Neometals Limited, the Queen Elizabeth II Medical Centre Trust, Non-Executive Director of Bilton Canning Pty Ltd, DGB Investment Funds Pty Ltd and Reed Advanced Materials Pty Ltd. Mr Cole was also previously WA State President and a national board member of the Australian Institute of Company Directors.

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

Education

Bachelor of Laws (Hons)

Memberships

Fellow of the Australian Institute of Company Directors

Craig N Duncan

Independent Non-Executive Director

Qualifications & Experience

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

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

Education

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

Chris Sutherland

Independent Non-Executive Director

Qualifications & Experience

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

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

Education

Bachelor of Engineering (Hons), University of Western Australia

Advanced Management Program Harvard Business School

Directors' Report
30 June 2021

The above named directors held office during the whole of the financial year and since the end of the financial year, other than Chris Sutherland who was appointed on 10 December 2020.

Directorships of Other Listed Companies

Directorships of other listed companies held by directors in the three years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
PJ Hood	GR Engineering Ltd	2010 – Current
PJ Hood	Cue Energy Resources Ltd	2018 – Current
P J Hood	De Grey Mining Ltd	2018 - Current
S Cole	Neometals Ltd	2008 – Current
C Sutherland	Programmed Maintenance Services Ltd	2008 – 2019
C Sutherland	MACA Ltd	2020 – 2020

Directors' Shareholdings

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

Directors	Fully paid shares Number	Share Appreciation Rights	Share Options	Performance Rights
PJ Hood	1,261,000	-	-	-
AP Begley	6,633,041	6,477,608	2,514,793	846,614
S Cole	20,000	-	-	-
CN Duncan	590,429	-	-	-
C Sutherland	-	-	-	-

No shares, share appreciation rights or options in shares have been issued for compensation purposes during or since the end of the financial year to any Director of the Company, other than 2,514,793 Executive Share Options and 846,614 Executive Performance Rights (2020: 4,632,153 Executive Share Appreciation Rights) that have been granted to Mr Aaron Begley pursuant to the Matrix Rights Plan. The grant of Rights to Mr Aaron Begley was approved by shareholders at the Annual General Meeting of shareholders held in November 2020.

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 10 to 21. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

Directors' Report
30 June 2021**Rights granted to directors and executive management**

During and since the end of the financial year, an aggregate 4,852,071 Executive Options and 1,633,547 Executive Performance Rights were granted to the following directors and senior executives of the company and its controlled entities as part of their remuneration:

Director/Executive	Issuing Entity	Executive Share Options	Executive Performance Rights
Aaron Begley	Matrix Composites & Engineering Ltd	2,514,793	846,614
Brendan Cocks	Matrix Composites & Engineering Ltd	857,988	288,845
Peter Pezet	Matrix Composites & Engineering Ltd	739,645	249,044
Ian Philips	Matrix Composites & Engineering Ltd	739,645	249,044

Company Secretary

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

Mrs Julie Jones (LLB, Grad. Dip Taxation) was appointed Joint Company Secretary on 13 July 2018 and held the position at the end of the financial year, although had resigned from the position effective 1 July 2021. Mrs Jones is admitted to practice as a barrister and solicitor of the Supreme Court of Western Australia and NSW and the High Court of Australia.

Principal Activities for FY21

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

Review of Operations**Overview**

The company continued to experience subdued conditions following the impact of a disrupted oil and gas market shocked by a fall in the oil price due to Covid 19, and some other geopolitical events in the second half of last financial year. Matrix recorded revenue of \$17.6m for the year. Although lower than the \$27.4m recorded in FY20, it represents a material improvement on the \$4.8m recorded in the June 20 half. Subsequent halves of \$8.1m for December 20 and \$9.3m for June 21 showed slowly recovering conditions. The growing revenue also been supported by sales, equipment hire and consultancy in relation to our epoxy coatings product line.

Directors' Report
30 June 2021

Safety

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

Matrix operates 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

Matrix continues to maintain its state of the art manufacturing facility in Henderson, which provides the Company the capability to produce advanced composite products utilising the following technologies:

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

Matrix continues to plan and execute production based on project workload, rather than a continuous production plan, due to demand and efficiency. Production labour was varied during the period to meet production activity, while historical labour efficiencies continue to be maintained.

Impact of Covid 19 during the period

Matrix was materially impacted by Covid 19 during the period as the impacts of the low oil price shock during the June 20 half flowed through to a subdued market during the year.

The impact to Matrix was near term opportunities either disappeared or were suspended, and a number of significant FIDs (Final Investment Decisions) on large upcoming projects in Australia and globally were deferred having a significant impact on being able to generate an order bank for the June 21 financial year.

In response, Matrix has continued to reduce and avoid discretionary spending as far as possible. Furthermore the Company has made further redundancies during the year while maintaining a suitable level of expertise within the team to capture work from a recovering market. Most non-production staff were on varied contracts representing a 9 day fortnight and 90% of a full salary for the whole year. The Company received full entitlements from the Job Keeper program from the Australian Government for all eligible employees until the end of the program in March 21.

Strategically the Company has focused on its engagement expanding our expertise and products into the local market with large resource and LNG companies. Matrix has continued to quote opportunities in the Oil and Gas industry with activity in this area picking up in the second half of the year.

With the continued uncertainty of Covid 19 and its impact on the timing and size of a recovery of the oil and gas market the Company has incorporated an appropriate forecast in the impairment considerations for the determination of the recoverable values of Matrix's assets. As a result this led to an impairment charge during the period.

Directors' Report

30 June 2021

Financial Results for the Year

- Revenue of \$17.6 million (FY20: \$27.4 million), impacted by a subdued buoyancy market still impacted by the oil price decline in the June 20 half. The company experienced revenue growth from the June 20 half of \$4.7m which was the most impacted by the severe oil price reduction in the early months of Covid 19. Revenues improved during the year from the low point to \$8.1m in the December 20 half, and \$9.5m in the June 21 half. Revenue improvement was supported by the introduction of epoxy coatings products and associated equipment hire to local customers.
- Pre tax loss of \$27.9 million (FY20: \$55.3 million loss), impacted by
 - Subdued industry revenue.
 - Impairment charge of (\$15.0m)
 - Restructuring charges and overheads related to retaining capability and ensuring industry qualifications are all current.
- Resulting NPAT loss of \$27.9m as no tax benefit recognised. (FY20: \$67.9m loss).
- Operating cash outflow of \$3.9m (FY20: outflow \$5.6 million) and a net decrease in cash of \$7.5m (FY20: \$5.1 m increase). Focus for the business was retaining capability and capacity within the Henderson plant to participate in any recovery in the buoyancy market.

As a result of a current estimates of the 5 year forecast including uncertainty as to the timing of a material recovery in the subsea buoyancy market, Matrix recorded a \$15.0m impairment charge. As a result of this Intangibles (R&D expenditure) was impaired to by \$0.01m and the remaining charge was allocated to plant, property and equipment (\$7.7m charge) and the right-of-use asset (\$7.3m charge). After the impairment charges, the business continued to maintain a reasonable balance sheet position with current assets of \$19.4m compared with current liabilities of \$7.1m.

Changes in State of Affairs

During the year Matrix continued to expand and grow sales of our products and services to the local market in Australia to target opportunities both within its traditional oil and gas field and also for engineered composite products outside of the oil and gas industry targeting innovative opportunities in transport, infrastructure and defence.

Subsequent Events

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

Future Developments

Matrix is committed to growing service opportunities with large local resource companies who may require the Company's technologies to support brownfields maintenance and through life support solutions for their projects. Opportunities include replacement of steel structures with lighter and non-corrosive composite substitutes, corrosion repairs and solutions and project management.

Matrix will retain capacity and continue to service enquiries for its traditional markets in offshore oil and gas. Although at subdued levels over the prior 18 months, project awards, and enquiries are increasing in a higher oil price environment. We continue to pursue opportunities with our Well Construction products.

Environmental Regulations

The consolidated entity's principal operating site at Henderson, Western Australia is subject to the operation of the Environmental Protection Act 1986 (WA) (EP Act). Compliance with the provisions of the EP Act and reporting of any material breaches is overseen by the Company Occupational Health Safety and Environment department. When breaches occur, they are reported to the Department of Environmental Regulation (DER) as required and actions taken to prevent recurrences.

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

Directors' Report
30 June 2021

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

Climate Risk

Matrix acknowledges the increasing interest of the Company's stakeholders regarding the possible risks and opportunities presented by climate change and the increasing momentum towards a low carbon economy. Matrix core traditional market is in the subsea oil and gas market and the company continues to service enquiries and provide product to this market. In future years the oil and gas sector may experience reduced demand as sources of energy transition to alternate options. The primary capability of the company is designing and manufacturing engineered composite products, which is applicable to a range of industries. In recent years the company has focused on growing its revenue base in other industries, including resources, defence and infrastructure which reduces the companies exposure to the cycles experienced in in the oil and market and also protects against a longer term reduction in activity in the industry. Matrix will continue to pursue this expansion as one of the key pillars of its strategy.

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

Dividends

In respect of the financial year ended 30 June 2021, no interim dividend was paid and the directors have determined that no final dividend will be paid (2020: nil).

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

Indemnification of Officers and Auditors

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

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

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

Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, ten board meetings, two remuneration committee meetings, two nomination committee meetings, two risk committee meetings and three audit committee meetings were held.

Directors	Board of Directors		Remuneration Committee		Nomination Committee		Audit Committee		Risk Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
PJ Hood	10	10	2	2	2	2	3	3	2	2
AP Begley	10	10	-	-	-	-	-	-	-	-
S Cole	10	10	2	2	2	2	3	3	2	2
CN Duncan	10	10	2	2	2	2	3	3	2	2
C Sutherland¹	6	5	-	-	1	-	2	2	2	2

¹ Mr Sutherland was appointed as a Director on 10th December 2020

Directors' Report
30 June 2021

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 9 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 9 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 22 of the annual report.

Corporate Governance Statement

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

Under ASX Listing Rule 4.10.3, Matrix is required to include in its annual report either a corporate governance statement that meets the requirements of that rule or the URL to the page its website. Matrix has published its corporate governance statement on the "Corporate Governance" page of its web site at <https://www.matrixengineered.com/about-us/who-we-are/corporate-governance/>

ASIC Instrument 2016/91

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

Directors' Report
30 June 2021

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 2021.

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
Mr C Sutherland (Appointed 10 December 2020)

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 – Technology Group)
Mr I Phillips (General Manager – Commercial and Operations)

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
30 June 2021**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 remained unchanged throughout the financial year 2021. The table below reflects the annual fees of non-executive directors (inclusive of superannuation) for the financial year ending 30 June 2021 as opposed to the previous year to 30 June 2020.

Name	FY21 Fees \$	FY20 Fees \$
Peter Hood	80,000	80,000
Steven Cole	50,000	50,000
Craig Duncan	50,000	50,000
Chris Sutherland	29,167 ¹	Nil

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

In FY21 the Chairman received actual total annual fees of \$80,000 (2020: \$80,000). All other non-executive directors received an annual fee of \$50,000 (2020: \$50,000). 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 Company, the performance of the executive and prevailing remuneration expectations in the market.

The Company also seeks to establish remuneration structures which align the interests of its key management personnel with the interests of the Company and its shareholders. The payment of any incentive amounts to executive Directors and Matrix executives is based on the delivery of key Group and individual outcomes, and the profitability of the Matrix Group.

Directors' Report
30 June 2021**AUDITED REMUNERATION REPORT**

As detailed in this report, certain Matrix executives are entitled to receive short term incentive payments in respect of FY20 based on delivery of key financial and non-financial outcomes.

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

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

Remuneration Structure

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

Fixed remuneration

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

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

Variable remuneration

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

The following table sets out the maximum variable remuneration each Executive can achieve for FY21, expressed as a percentage of total remuneration, if maximum performance was achieved for the STI and LTI components of their variable remuneration.

Executive	Maximum STI	Maximum LTI	Maximum Total Variable Remuneration
	(% of Total Rem)	(% of Total Rem)	(% of Total Rem)
Aaron Begley <i>Managing Director & Chief Executive Officer</i>	14.7	22.8	37.5
Brendan Cocks <i>Chief Financial Officer & Company Secretary</i>	13.3	14.0	27.3
Peter Pezet <i>General Manager – Technology group</i>	12.8	14.2	27.0
Ian Phillips <i>General Manager – Commercial and Operations</i>	10.6	17.6	28.2

Directors' Report
30 June 2021

AUDITED REMUNERATION REPORT

STI remuneration

A comprehensive Short Term Incentive Plan (STI Plan) was in place for key management personnel for FY21. The STI Plan is based on a number of key performance indicators (KPIs) including a subjective performance KPI, safety performance KPI and profitability KPI. The STI Plan allows executives and employees to benefit from achieving results that surpass their target KPIs. Conversely, they will only be proportionately rewarded should the KPI targets not be fully achieved. STIs are paid as 100% cash.

STI Key Performance Indicators

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

- i. **Financial:**
Achievement of predetermined targets for EBITDAF (Earnings before Interest, Taxes, Depreciation, Amortisation, and Foreign Exchange) and cost management.
- ii. **Safety:**
The Board reviews the Company's safety performance and has established a series of lagging and lead indicators to measure the Company's performance in ensuring a safe workplace. The primary metrics include lost time injuries , medical treatment injury frequency rate (MTIFR) and hazard reporting, which is a behaviour based lead indicator.
- iii. **Individual Objectives:**
The Board recognises each Executive contributes to the Company's business strategy differently. Progress in the achievement of each Executive's personal objectives is monitored by the Board and is included in the STI plan to ensure that an appropriate balance is maintained between the Company's short term and long term objectives.

The following table sets out the various KPI categories for the FY21 STI Plan and the weightings attributable to each of them. The FY22 STI plan is under review by the Board. In the Board's view, the KPIs that have been established align the reward of the Executives with the interests of shareholders.

KPI	A Begley	BW Cocks	P Pezet	I Phillips
EBITDAF	50.0	50.0	25.0	25.0
Safety	10.0	5.0	5.0	15.0
Individual Objectives	40.0	45.0	70.0	60.0
TOTAL	100.0	100.0	100.0	100.0

For the year the EBITDAF target was not met. The Safety and individual measures were either partially met, or met in full. However due to the current impact to the business from the downturn in the oil and gas industry no cash STIs will be paid relating to the financial year.

Directors' Report
30 June 2021

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 Options Plan (SESOP) (together "the LTI Plans"). The SESOP replaced the Senior Executive Share Appreciation Rights Plan (SESARP) that had been in place from 2015 to 2020. The LTI Plans apply exclusively to those Matrix Executives who are Key Management Personnel. Separate long term incentive plans have been established for other Matrix employees in prior years.

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

Name	Entitlement / Grant Value	Performance Rights Issued during year		Share Options issued during year (Exercise price \$0.32)	
		Value Granted	Fair value per right ¹	Number Issued	Fair value per option ¹
Aaron Begley	\$170,000	\$0.1004	846,614	\$0.0338	2,514,793
Brendan Cocks	\$58,000	\$0.1004	288,845	\$0.0338	857,988
Peter Pezet	\$50,000	\$0.1004	249,004	\$0.0338	739,645
Ian Phillips	\$50,000	\$0.1004	249,004	\$0.0338	739,645
TOTAL			1,633,467		4,852,071

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

The above options and rights were granted on 29 January 2021 with a vesting date of 11 September 2023.

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

This LTI grant made in FY21 relates to FY20 performance. The Rights and Options issued during the year have a hurdle and exercise price of \$0.32. The Board determined that the target of \$0.32 was the most appropriate target providing a stretch growth target from the share price of \$0.15 at the time of issue.

Rights granted under the SESOP

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

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

- three-year service period from 30 June 2021; and
- the 7-day VWAP of MCE shares for the period ending 31 August 2023 reaching \$0.32 (2023 Financial Year VWAP).

Directors' Report
30 June 2021

AUDITED REMUNERATION REPORT

Rights granted under the SEPRP

The rights granted under the SEPRP are based

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

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

- three-year service period from 30 June 2021; and
- the 7-day VWAP of MCE shares for the period ending 31 August 2023 reaching \$0.32 (2023 Financial Year VWAP).

Rights granted under the SESARP

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

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

SARs granted under the SESARP during FY19 and FY20 are subject to the following vesting conditions:

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

Directors' Report
30 June 2021

AUDITED REMUNERATION REPORT

Upon vesting of any SARs, participants will be issued with Shares or the cash equivalent equal to the value derived by multiplying the number of vested Rights by the relative growth in share price over the performance period. Relative share price growth is determined by a comparison of the MCE share price growth with the hurdle share price. For FY19 rights the hurdle share price of \$0.60 is calculated by reference to the five day volume weighted average price of MCE shares on 25 September 2018, being \$0.42. For FY20 a hurdle share price of 60c was determined after consideration by the Board.

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

Name	Date of Issue	Fair Value per option	Exercise price / Hurdle	Number Issued	Value \$	End Date
Issued During FY20 – Senior Executive Share Appreciation Rights						
Aaron Begley	16/12/19	\$0.0367	\$0.60	4,632,153	\$170,000	17/12/22
Brendan Cocks	16/12/19	\$0.0367	\$0.60	1,580,381	\$58,000	17/12/22
Peter Pezet	16/12/19	\$0.0367	\$0.60	1,362,398	\$50,000	17/12/22
Ian Phillips	16/12/19	\$0.0367	\$0.60	1,362,398	\$50,000	17/12/22
Issued During FY19 - Senior Executive Share Appreciation Rights						
Aaron Begley	08/12/18	\$0.1100	\$0.60	1,845,455	\$203,000	09/12/21
Brendan Cocks	08/12/18	\$0.1100	\$0.60	755,400	\$83,094	09/12/21
Peter Pezet	08/12/18	\$0.1100	\$0.60	595,173	\$65,469	09/12/21
Issued During FY18 - Senior Executive Share Appreciation Rights						
Aaron Begley	08/12/17	\$0.1310	\$0.65	1,486,641	\$194,750	09/12/20
Brendan Cocks	08/12/17	\$0.1310	\$0.65	552,847	\$72,423	09/12/20
Peter Pezet	08/12/17	\$0.1310	\$0.65	492,634	\$54,535	09/12/20

Hedging LTI grants

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

Relationship between Remuneration and Company Performance

One of the directors' remuneration objectives is to align the interests of its key management personnel with the interests of the Company and its shareholders. In FY21 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.

Directors' Report
30 June 2021**AUDITED REMUNERATION REPORT**

The table below sets out summary information about the consolidated entity's earnings and movement in shareholder wealth for the five years to 30 June 2021.

		FY21	FY20	FY19	FY18	FY17
Revenue	\$	17,618	27,437	38,187	19,539	33,139
Net profit/(loss) before tax	\$	(27,924)	(55,310)	(9,473)	(15,311)	(25,323)
Net profit/(loss) after tax	\$	(27,924)	(67,865)	(8,684)	(15,389)	(19,528)
Share price at start of year	\$	0.16	0.32	0.53	0.41	0.40
Share price at end of year	\$	0.14	0.16	0.32	0.53	0.41
Dividends paid	cps	-	-	-	-	-
Basic (loss)/ earnings per share	cps	(27.3)	(66.3)	(8.8)	(16.4)	(20.8)
Diluted (loss)/ earnings per share	cps	(27.3)	(66.3)	(8.8)	(16.4)	(20.8)

In addition, the operation of the Matrix Rights Plan in FY21 further aligns the interests of the Company's key management personnel with its shareholders.

Directors' Report
30 June 2021

AUDITED REMUNERATION REPORT

Remuneration of Directors and Key Management Personnel

Details of the elements comprising the remuneration of the Company's key management personnel are set out in the following table.

		Short-term Benefits			Post Employment Benefits	Long-term Benefits	Share Based Payments	Total	Proportion Performance related
		Salary & fees	STI at risk payments ¹	Total	Super-annuation benefits	Long Service Leave	Performance rights and share options / share appreciation rights ²		
		\$	\$	\$	\$	\$	\$		
Executive Director									
AP Begley (MD & CEO)	2021	392,195	0	392,195	21,694	3,005	151,753	568,647	26.7%
	2020	434,776	15,125	449,901	21,003	9,283	189,250	669,437	30.5%
Non - Executive Directors									
PJ Hood	2021	73,059	0	73,059	6,941	-	-	80,000	-
	2020	73,059	-	73,059	6,941	-	-	80,000	-
S Cole	2021	45,662	-	45,662	4,338	-	-	50,000	-
	2020	45,662	-	45,662	4,338	-	-	50,000	-
CN Duncan	2021	45,662	-	45,662	4,338	-	-	50,000	-
	2020	45,662	-	45,662	4,338	-	-	50,000	-
C Sutherland	2021	26,636	-	26,636	2,530	-	-	29,167	-
	2020	-	-	-	-	-	-	-	-
Executive officers									
BW Cocks	2021	263,546	-	263,546	21,694	8,389	56,386	350,015	16.5%
	2020	283,627	18,563	302,190	21,003	-	63,117	386,310	21.1%
PB Pezet	2021	223,962	-	223,962	21,134	4,219	46,554	295,871	15.7%
	2020	241,027	6,188	247,215	20,413	4,891	60,001	332,520	19.9%
I Phillips	2021	173,875	-	173,875	16,974	22,495	61,953	275,297	22.5%
	2020	192,289	-	192,289	18,267	-	38,889	249,445	19.9%
Total	2021	1,244,598	-	1,244,598	99,645	38,108	316,647	1,698,997	-
Total	2020	1,316,102	39,876	1,355,978	96,303	14,174	351,257	1,817,712	-

¹ STI at risk payments were released in early FY20 in relation to FY19 STI. There were no STI cash payments during the period.

² Share based payments are accounted for progressively over the three-year vesting period.

Directors' Report
30 June 2021

AUDITED REMUNERATION REPORT

Key terms of Employment Contracts

Executive service agreements

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

Name	Original Start Date	Term	Notice period ¹
AP Begley <i>Managing Director & CEO</i>	04/10/1999	Indefinite	6 months (Company) / 3 months (individual)
BW Cocks <i>CFO & Company Secretary</i>	12/09/2016	Indefinite	3 months (Company) / 3 months (individual)
PB Pezet <i>General Manager – Technology Group</i>	14/07/2008	Indefinite	6 months (Company) / 3 months (individual)
I Phillips <i>General Manager – Commercial and Operations</i>	13/05/2013	Indefinite	3 months (Company) / 3 months (individual)

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

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

Loans to Key management personnel

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

Key management personnel equity holdings

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

2021	Balance at 1 July 2020 No.	Granted as Remuneration No.	On Exercise of Options No.	Purchased / (Sold) on market	Balance at 30 June 2021 No.
Directors					
PJ Hood	996,000	-	-	265,000	1,261,000
AP Begley	4,002,763	-	-	2,630,278	6,633,041
S Cole	20,000	-	-	-	20,000
CN Duncan	590,429	-	-	-	590,429
C Sutherland	-	-	-	-	-
Executives					
BW Cocks	163,000	-	-	-	163,000
PB Pezet	-	-	-	-	-
I Phillips	27,010	-	-	73,000	100,010

Directors' Report

30 June 2021

AUDITED REMUNERATION REPORT

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

2021	Balance at 1 July 2020 No.	Granted as Remuneration No.	Exercised No.	Expired Rights	Balance at 30 June 2021 No.	Balance Vested at 30 June 2021 No.	Vested but not exercisable No.	Vested and exercisable No.	PRs Vested during year No.
Directors									
PJ Hood	-	-	-	-	-	-	-	-	-
AP Begley	-	846,614	-	-	846,614	-	-	-	-
S Cole	-	-	-	-	-	-	-	-	-
CN Duncan	-	-	-	-	-	-	-	-	-
C Sutherland	-	-	-	-	-	-	-	-	-
Executives									
BW Cocks	-	288,845	-	-	288,845	-	-	-	-
PB Pezet	-	249,004	-	-	249,004	-	-	-	-
I Phillips	113,310	249,004	-	(27,473)	334,841	-	-	-	-

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

2021	Balance at 1 July 2020 No.	Granted as Remuneration No.	Exercised No.	Expired Options	Balance at 30 June 2021 No.	Balance Vested at 30 June 2021 No.	Vested but not exercisable No.	Vested and exercisable No.	SOs Vested during year No.
Directors									
PJ Hood	-	-	-	-	-	-	-	-	-
AP Begley	-	2,514,793	-	-	2,514,793	-	-	-	-
S Cole	-	-	-	-	-	-	-	-	-
CN Duncan	-	-	-	-	-	-	-	-	-
C Sutherland	-	-	-	-	-	-	-	-	-
Executives									
BW Cocks	-	857,988	-	-	857,988	-	-	-	-
PB Pezet	-	739,645	-	-	739,645	-	-	-	-
I Phillips ¹	-	739,645	-	-	739,645	-	-	-	-

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

2021	Balance at 1 July 2020 No.	Granted as Remuneration No.	Exercised No.	Expired Rights ¹	Balance at 30 June 2021 No.	Balance Vested at 30 June 2021 No.	Vested but not exercisable No.	Vested and exercisable No.	SARs Vested during year No.
Directors									
PJ Hood	-	-	-	-	-	-	-	-	-
AP Begley	7,964,249	-	-	(1,486,641)	6,477,608	-	-	-	-
S Cole	-	-	-	-	-	-	-	-	-
CN Duncan	-	-	-	-	-	-	-	-	-
C Sutherland	-	-	-	-	-	-	-	-	-
Executives									
BW Cocks	2,888,628	-	-	(552,847)	2,335,781	-	-	-	-
PB Pezet	2,450,205	-	-	(492,634)	1,957,571	-	-	-	-
I Phillips ¹	1,362,398	-	-	-	1,362,398	-	-	-	-

¹ During the year the rights which were issued during the 30 June 2018 did not vest and were forfeited during the year.

Matrix Composites & Engineering Ltd

ABN: 54 009 435 250

Directors' Report
30 June 2021

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

On behalf of the Director



Aaron P Begley
Managing Director and Chief Executive Officer

Perth, 31 August 2021



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

To the Directors of Matrix Composites & Engineering Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Matrix Composites & Engineering Ltd for the financial year ended 30 June 2021 there have been:

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

KPMG

KPMG

GL + 177

Graham Hogg
Partner
Perth
31 August 2021

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2021

		2021	2020
		000's	Restated*
	Note	\$	\$
Revenue	4	17,618	27,437
Cost of sales		<u>(20,446)</u>	<u>(29,785)</u>
Gross loss		(2,828)	(2,348)
Other income	5	211	547
Other expenses	5	(1,755)	(3,437)
Administration expenses		(3,674)	(3,826)
Finance costs	8	(2,180)	(1,477)
Marketing expenses	6	(1,674)	(2,083)
Research expenses	7	(245)	(1,590)
Engineering expenses		(730)	(1,604)
Impairment losses on property, plant and equipment	14	(7,667)	(17,636)
Impairment losses of right-of-use assets	15	(7,296)	(19,683)
Impairment losses of intangibles	16	<u>(86)</u>	<u>(2,173)</u>
Loss before income tax	8	(27,924)	(55,310)
Income tax expense	10	-	(12,555)
Loss for the year		<u>(27,924)</u>	<u>(67,865)</u>
Other comprehensive income/(loss), net of income tax			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Net foreign currency translation differences		574	(157)
Change in fair value of cash flow hedges		-	106
Other comprehensive income/(loss) for the year, net of tax		<u>574</u>	<u>(51)</u>
Total comprehensive loss for the year		<u>(27,350)</u>	<u>(67,916)</u>
Loss attributable to:			
Owners of the Company		(27,924)	(67,865)
Non-controlling interest		-	-
		<u>(27,924)</u>	<u>(67,865)</u>
Total comprehensive loss attributable to:			
Owners of the parent entity		(27,350)	(67,916)
Non-controlling interest		-	-
		<u>(27,350)</u>	<u>(67,916)</u>
Loss per share			
Basic loss per share (cents)	30	(27.3)	(66.3)
Diluted loss per share (cents)	30	(27.3)	(66.3)

* The comparative information is restated on account of correction of errors. Comparative information has also been re-presented due to a change in classification. See Note 35 and 36 respectively.

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Consolidated Statement of Financial Position As at 30 June 2021

		30 June 2020	1 July 2019
	30 June 2021	Restated*	Restated*
	000's	000's	000's
Note	\$	\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	11	7,164	14,681
Trade and other receivables	12	5,309	5,365
Inventories	13	6,563	7,597
Prepayments		327	541
TOTAL CURRENT ASSETS		19,363	28,184
NON-CURRENT ASSETS			
Property, plant and equipment	14	8,902	17,449
Right-of-use assets	15	8,232	16,316
Intangible assets	16	-	-
Deferred tax assets	10	-	-
TOTAL NON-CURRENT ASSETS		17,134	33,765
TOTAL ASSETS		36,497	61,949
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	3,046	2,308
Progress claims and deposits	4	2,304	1,266
Financial liabilities	19	-	-
Employee benefits	20	1,192	499
Lease liabilities	15	551	475
TOTAL CURRENT LIABILITIES		7,093	4,548
NON-CURRENT LIABILITIES			
Provisions	18	4,859	4,802
Employee benefits	20	242	797
Lease liabilities	15	27,165	27,716
TOTAL NON-CURRENT LIABILITIES		32,266	33,315
TOTAL LIABILITIES		39,359	37,863
NET (LIABILITIES)/ASSETS		(2,862)	24,086
EQUITY			
Issued capital	21	114,170	114,170
Reserves	22	965	(11)
Accumulated losses		(117,997)	(90,073)
Equity attributable to owners of the Company		(2,862)	24,086
TOTAL (DEFICIT)/EQUITY		(2,862)	24,086

* The comparative information is restated on account of correction of errors. See Note 35.

The accompanying notes form part of these financial statements.

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Consolidated Statement of Changes in Equity For the Year Ended 30 June 2021

	Issued capital	Accumulated losses	Cash flow hedge reserve	Foreign currency translation reserve	Share-based payment reserve	Attributable to owners of the parent	Total
	000's	000's	000's	000's	000's	000's	000's
Note	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2020 (as previously reported)	114,170	(85,271)	-	(1,039)	1,028	28,888	28,888
Recognition of asset retirement obligation	35	(4,802)	-	-	-	(4,802)	(4,802)
Balance at 1 July 2020 (restated)	114,170	(90,073)	-	(1,039)	1,028	24,086	24,086
Loss for the year	-	(27,924)	-	-	-	(27,924)	(27,924)
Other comprehensive income for the year, net of income tax	-	-	-	574	-	574	574
Total comprehensive (loss)/income for the year	-	(27,924)	-	574	-	(27,350)	(27,350)
Share-based payments	-	-	-	-	402	402	402
Balance at 30 June 2021	114,170	(117,997)	-	(465)	1,430	(2,862)	(2,862)

* The comparative information is restated on account of correction of errors. See Note 35.

The accompanying notes form part of these financial statements.

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Consolidated Statement of Changes in Equity For the Year Ended 30 June 2021

	Issued capital 000's \$	Accumulated losses 000's \$	Cash flow hedge reserve 000's \$	Foreign currency translation reserve 000's \$	Share-based payment reserve 000's \$	Attributable to owners of the parent 000's \$	Total 000's \$
Balance at 1 July 2019 (as previously reported)	114,170	(20,793)	(106)	(882)	676	93,065	93,065
Recognition of asset retirement obligation and adoption of lease standard	-	(1,415)	-	-	-	(1,415)	(1,415)
Balance at 1 July 2019 (restated)	114,170	(22,208)	(106)	(882)	676	91,650	91,650
Loss for the year (restated)	-	(67,865)	-	-	-	(67,865)	(67,865)
Other comprehensive (loss)/income for the year, net of income tax	-	-	106	(157)	-	(51)	(51)
Total comprehensive (loss)/income for the year (restated)	-	(67,865)	106	(157)	-	(67,916)	(67,916)
Share-based payments	-	-	-	-	352	352	352
Balance at 30 June 2020 (restated)	114,170	(90,073)	-	(1,039)	1,028	24,086	24,086

* The comparative information is restated on account of correction of errors. See Note 35.

The accompanying notes form part of these financial statements.

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Consolidated Statement of Cash Flows For the Year Ended 30 June 2021

	2021	2020
	000's	000's
Note	\$	\$
OPERATING ACTIVITIES:		
Receipts from customers	20,474	31,543
Payments to suppliers and employees	(24,027)	(36,418)
Receipt of government grants - Jobkeeper	1,802	681
Interest received	22	84
Finance costs paid	(73)	(224)
Interest expense on lease liabilities	(2,107)	(1,245)
Net cash used in operating activities	23(a) <u>(3,909)</u>	<u>(5,579)</u>
INVESTING ACTIVITIES:		
Proceeds from sale of property, plant and equipment	-	20,000
Payment for intangible assets	(86)	-
Payments for property, plant and equipment	(3,047)	(1,491)
Payments for capitalised development costs	-	(456)
Net cash (used in)/provided by investing activities	<u>(3,133)</u>	<u>18,053</u>
FINANCING ACTIVITIES:		
Repayment of borrowings	-	(7,263)
Repayment of lease liabilities (principal portion)	(475)	(122)
Net cash used in financing activities	<u>(475)</u>	<u>(7,385)</u>
Net (decrease)/increase in cash and cash equivalents	(7,517)	5,089
Cash and cash equivalents at 1 July	14,681	9,374
Effects of exchange rate changes on the balance of cash held in foreign currencies	-	218
Cash and cash equivalents at 30 June	11 <u>7,164</u>	<u>14,681</u>

The accompanying notes form part of these financial statements.

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

General information

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

Matrix Composites & Engineering Ltd (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.

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

The financial statements were authorised for issue by the directors on 31 August 2021.

Basis of preparation

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

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

Historical cost convention

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies

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

(a) Application of new and revised accounting standards

A number of new standards are effective from 1 July 2020 but these have no material impact on the Group's financial statements.

Standards and interpretations in issue not yet effective

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

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

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated. The Group has determined that all contracts existing at 30 June 2021 will be completed before the amendments become effective.

B. Other standards

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

- *COVID-19-Related Rent Concessions (Amendment to IFRS 16).*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *Reference to Conceptual Framework (Amendments to IFRS 3).*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.*

(b) Parent entity information

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

(c) 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.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(c) Basis of consolidation (continued)

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

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

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

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

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

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

Subsidiaries

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

Loss of control

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

Transactions eliminated on consolidation

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

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(d) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including those relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Chief Operating Decision Makers (CODM) for which discrete financial information is available. The CODM has identified that the Group has one single operating segment which is the business operations of the Group.

(e) Foreign currency transactions and balances

Transaction and balances

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

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

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

Foreign currency cash flows

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

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

Cash flows denominated in a foreign currency are reported in a manner consistent with IAS 21 The Effects of Changes in Foreign Exchange Rates. This permits the use of an exchange rate that approximates the actual rate.

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

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(f) Income tax

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

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

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

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

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

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

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile. As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

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.

(g) Current and non-current classification

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

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

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

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

(h) Cash and cash equivalents

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(i) Trade and other receivables

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

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

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

(j) Inventories

Inventories include raw materials, work in progress and finished goods, and are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and included expenditures incurred in acquiring the inventories. The cost of manufactured products includes direct materials, direct labour and an appropriate share of manufacturing overheads. Costs are assigned using a standard costing methodology.

(k) Property, plant and equipment

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

Recognition and measurement

Property, plant and equipment is measured at cost basis less accumulated depreciation and impairment losses.

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

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

Subsequent expenditure

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

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(k) Property, plant and equipment (continued)

Depreciation

The depreciable amount of property, plant and equipment is depreciated on a straight line basis over their useful lives to the entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class	Depreciation rate (%)
Building/Leasehold improvements	2.5
Plant and equipment	1.0 - 50.0
Motor vehicles	22.5
Office equipment	11.25 - 25.0
Computer equipment	37.50 - 50.0

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

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the consolidated statement of profit or loss and other comprehensive income.

(l) Intangibles assets

Recognition and measurement

Research and development costs

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

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

Software

Software is stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure

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

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(l) Intangibles assets (continued)

Amortisation

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

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

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

(m) Leases

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

Group as a lessee

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

i) Right-of-use assets

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

- Land and buildings 20 years

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

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section 1(o) Impairment of non-financial assets.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(m) Leases (continued)

ii) Lease liabilities

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

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

iii) Short-term leases and leases of low-value assets

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

(n) Financial instruments

Recognition and initial measurement

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(n) Financial instruments (continued)

Classification and subsequent measurement

Financial assets

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

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

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

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

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

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

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

Financial assets – Subsequent measurement and gains and losses

Financial assets at amortised cost

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

Financial liabilities - Classification, subsequent measurement and gains and losses

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

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(n) Financial instruments (continued)

Derecognition

Financial assets

The Group derecognises a financial asset when:

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

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

Financial liabilities

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

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

Offsetting

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

(o) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(o) Impairment of non-financial assets (continued)

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

A reversal of an impairment loss is recognised immediately in profit or loss. The Group assesses impairment of all non-financial assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment.

These include product and service delivery performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

The carrying amounts of all assets, other than inventory, non-financial assets and deferred tax assets, are reviewed half-yearly to determine whether there is indication of an impairment loss. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

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

(p) Trade and other payables

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

(q) Employee benefits

Short-term employee benefits

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

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(q) Employee benefits (continued)

Share-based payments

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

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

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

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

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

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

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

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

Defined contribution plans

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

Other long-term employee benefits

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

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(q) Employee benefits (continued)

Termination benefits

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

(r) 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.

Site restoration

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised when the land is contaminated. This includes provisions to restore the land and buildings in accordance with lease agreements at the end of the lease life.

(s) Issued capital

Ordinary shares are classified as equity.

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

(t) Earnings per share

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

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

(u) Revenue and other income

Sale of goods

The Group recognises revenue when it transfers control of a product or service to a customer and the cost incurred or to be incurred in respect of the transaction can be measured reliably.

The Group becomes entitled to invoice customers for products or services based on achieving a relevant invoicing milestone. The Group recognised trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date, then the Group recognises a contract liability for the difference. There is not considered to be a significant financing component in the contract with customers as the period between the recognition of revenue and the milestone payments is generally less than one year.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(u) Revenue and other income (continued)

Sale of goods (continued)

Transfer of controls are assessed in relation to the:

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

Service revenue

Service revenue and expenses are recognised at a point in time or over time following the satisfaction of performance obligations unless the outcome of the contract cannot be relied upon or estimated. If a performance obligation is satisfied over time, revenue is recognised based on the percentage of completion reflecting the progress towards complete satisfaction of that performance obligation. Where it is probable that a loss will arise from a contract, the excess of total expected contract costs over total expected contract revenue is recognised as an expense immediately. Where the contract outcome cannot be reliably estimated, revenue is recognised only to the extent of the expenses incurred that are likely to be recoverable.

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

The Group assesses the stage of completion determined as the proportion of the total costs or total time spent at the end of each reporting period is an appropriate measure of progress towards complete satisfaction of the performance obligations under AASB 15.

Interest

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).

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(v) Government support

The Group has taken various government support COVID-19 support. For the financial year ended 30 June 2021 and 2020, the Group has received the following support.

Cash flow boost

The Group is entitled to receive the cash flow boost up to \$50k (2020: \$100k). Since the Group has been in a GST refundable position, therefore, the cash flow boosts are reported as other income on the consolidated statement of profit or loss.

Job Keeper

The Group is eligible for the Job Keeper subsidies and has claimed \$1,802k from July to March 2021. The Group's has encountered a more than 30 per cent fall in turnover since the March quarter and had 72 eligible employees for the initial claim of Job Keeper. At 30 June 2021, the Group has offset the \$1,802k (2020 \$681k) to the employee benefit expenses on the consolidated statement of profit or loss and other comprehensive income (refer to Note 8).

(w) Cost of sales

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

(x) 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.

(y) Going concern

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

For the year ended 30 June 2021, the Group recognised a net loss of \$27.924m, after an impairment charge of \$15m and had operating cash outflows of \$3.909m. The Group's net current assets as at 30 June 2021 amounted to \$12.270m.

Management forecasts include execution and delivery of current contracted work, expected work to convert from the outstanding and upcoming quotations with established customers, and recurring sales of established products. Key assumptions used in management forecasts are described in Note 14. The going concern assessment is based on the achievement of these forecasts.

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

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

1 Summary of significant accounting policies (continued)

(z) Comparative figures

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

(aa) Rounding of amounts

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

2 Critical accounting estimates and judgments

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.

(a) Impairment of non-current asset (refer to Note 14, 15 and 16)

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. A specific key estimate and assumption that has a significant risk of causing a material adjustment to these carrying amounts within the next annual reporting period is the impairment of property, plant and equipment.

In accordance with Group policy, management have completed an impairment assessment at 30 June 2021 for all material cash generating units to ensure that the carrying values can be supported. The assessment of the recoverable value of these assets requires significant judgement in respect of assumptions such as discount rates, forecast revenue growth and forecast terminal growth rates. This has been discussed further in Note 14.

(b) Coronavirus (COVID-19) pandemic

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

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

2 Critical accounting estimates and judgments (continued)

(c) Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset, and the length of time until the next option extension date. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

3 Operating segments

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

Performance monitoring and evaluation

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

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

	MCE Group 2021	MCE Group 2020 Restated (Note 35,36)
	000's	000's
	\$	\$
Revenue	17,618	27,437
EBITDAF	(19,887)	(47,026)
Foreign exchange loss	(1,319)	(198)
EBITDA	(21,206)	(47,224)
Depreciation and amortisation	(4,560)	(6,693)
EBIT	(25,766)	(53,917)
Net finance costs	(2,158)	(1,393)
Loss before tax (continuing operations)	(27,924)	(55,310)
Total consolidated assets	36,497	61,949
Total consolidated liabilities	39,359	37,863
Geographical Assets		
Australia	35,947	61,586
Others	550	363
	36,497	61,949
Geographical Liabilities		
Australia	39,353	37,856
Others	6	7
	39,359	37,863

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

3 Operating segments (continued)

Major customers

Matrix supplies goods and services to a broad range of customers in the global oil & gas industry. During the reporting periods, three major customers (2020: three major customers), each individually accounted for greater than 10 per cent of total group revenue; collectively representing 46 per cent (2020: 70 per cent) of the total group revenue.

The impairment losses recognised for the current financial year amounted to \$15.0m (2020: \$39.5m) which are attributable to Australian operations.

4 Revenue

	2021	2020 Restated (Note 35,36)
	000's	000's
	\$	\$
Revenue from contracts with customers	17,618	27,437

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

Major product lines

Design, manufacture, and supply of engineered composite products	11,063	26,763
Coatings products, equipment and service	5,755	-
Others	800	674
	17,618	27,437

Geographical regions

Australia	10,170	4,078
Others	7,448	23,359
	17,618	27,437

Timing of revenue recognition

Goods and services transferred at a point in time	8,854	5,384
Goods and services transferred over time	8,764	22,053
	17,618	27,437

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

4 Revenue (continued)

Performance obligations and revenue recognition policies

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

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

Contract balances

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

	2021	2020
	000's	000's
	\$	\$
Trade receivables	4,746	2,687
Progress claims and deposits - contract liabilities	(2,304)	(1,266)
Other receivables – Trade	406	2,544
	2,848	3,965

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

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

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

4 Revenue (continued)

Contract balances (continued)

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

	Contract assets		Contract liabilities	
	2021	2020	2021	2020
	000's	000's	000's	000's
	\$	\$	\$	\$
Revenue recognised that was included in the contract liability balance at the beginning of the year	-	-	1,252	59
Increase due to cash received, excluding amounts recognised as revenue during the year	-	-	(2,290)	(1,266)
Contract asset reclassified to trade receivables	(1,429)	(1,394)	-	-

5 Other income/(losses)

	2021	2020
	000's	000's
	\$	\$
Other income		
Interest received	22	84
Sundry income	123	52
Government grants(i)	66	200
Forgiveness of debt	-	211
	211	547
Other losses		
Foreign exchange loss	(1,319)	(198)
Write off obsolete inventories(ii)	-	(1,167)
Write off discontinued projects	(436)	(656)
Loss on disposals of assets(iii)	-	(1,416)
	(1,755)	(3,437)

(i) The government grants include an Department of Defence & Department of Job, Tourism and Innovation grant of \$11k (2020: \$150k from Austrade) and Covid 19 cash boost of \$50k (2020: \$50k).

(ii) The Group has written off obsolete materials which were no longer applicable to production.

(iii) The disposal losses in the prior financial year were predominately related to the sale and leaseback of premises and buildings.

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

6 Marketing expenses

	2021 000's \$	2020 Restated (Note 36) 000's \$
Marketing expenses	1,674	2,083

7 Research expenses

	2021 000's \$	2020 Restated (Note 36) 000's \$
Research expenses	245	1,590

8 Loss before income tax

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

	2021 000's \$	2020 Restated (Note 35) 000's \$
Depreciation and amortisation	4,560	6,693
Employee benefits expenses(i)	7,491	11,483
Finance costs(ii)	2,180	1,477

(i) The employee benefits expenses have net off the \$1.802m Job Keeper from July to March 2021 (2020: \$681k from April to June 2020).

(ii) Finance costs for the financial year 30 June 2021 include \$2.107m interest on leases (2020: \$1.245m).

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

9 Auditors' remuneration

	2021 \$	2020 \$
KPMG and related network firms		
Audit or review of financial reports - Group	<u>80,000</u>	-
Deloitte Touche Tohmatsu and related network firms		
Audit or review of financial reports - Group	<u>44,836</u>	99,000
Other auditors and their related network firms		
Other services		
- tax consulting services	-	3,000
- tax compliance services	-	7,000
	<u>-</u>	<u>10,000</u>

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

10 Income tax expense

	2021 000's \$	2020 Restated (Note 35) 000's \$
Deferred tax		
In respect of prior years	-	(12,555)
	-	(12,555)
Total income tax expense recognised in the current year relating to continuing operations	<u>-</u>	<u>(12,555)</u>

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

Loss before tax from continuing operations	(27,924)	(55,310)
Income tax benefit calculated at 26% (2020: 30%)	(7,260)	(16,593)
Effect of (benefit)/expenses that are not deductible in determining tax payable profit	191	(160)
Effect of concessions (R&D and other allowances)	-	(133)
Effect of change in income tax rates from 30% to 26% and other adjustments	3,445	-
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	3,624	16,886
	-	-
Adjustments recognised in the current year in relation to the deferred tax expense of prior years	-	12,555
Total income tax expenses recognised in the current year relating to continuing operations	<u>-</u>	<u>12,555</u>

The tax rate used for the 2020 is 30% and 2021 reconciliations is reduced tax rate of 26% payable by Australian corporate entities on taxable profits under Australian tax law.

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

10 Income tax expense (continued)

The Directors have made a decision not to recognise deferred tax assets of \$3.2 million (2020: \$15.9 million) in the financial statements for this reporting period. In addition, the Group has derecognised the accumulated tax losses of \$Nil (2020: \$12.5 million).

Income tax recognised directly in equity

	2021 000's \$	2020 000's \$
Deferred tax		
<i>Arising on transactions with owners:</i>		
Adjustment to opening retained earnings due to change in accounting policy	-	(425)
Total income tax recognised in equity	<u>-</u>	<u>(425)</u>

Deferred tax assets and liabilities

	2021 000's \$	2020 Restated (Note 35) 000's \$
Deferred tax assets		
Assessed losses	19,476	16,655
Capital losses	1,929	1,063
Research and development claims	4,056	5,585
Provisions	14,966	1,849
Other creditors & accruals	51	152
Intangible assets	432	1,151
Derivatives	-	-
Lease liabilities	7,206	8,457
Capital raising costs	48	27
Cash assets	28	11
Inventories	133	283
Property, plant & equipment	-	4,607
Other	568	443
	<u>48,893</u>	<u>40,283</u>
Deferred tax liabilities		
Property, plant & equipment	(1,565)	-
Right-of-use assets	(8,312)	(4,895)
Prepayments	(4)	-
	<u>(9,881)</u>	<u>(4,895)</u>

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

10 Income tax expense (continued)

	2021 000's \$	2020 Restated (Note 35) 000's \$
Deferred tax balances		
Deferred tax assets	48,893	40,283
Deferred tax liabilities	(9,881)	(4,895)
Not recognised as deferred tax assets	(39,012)	(35,388)
	<u>-</u>	<u>-</u>

2021

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

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

10 Income tax expense (continued)

2020

	Opening 000's \$	Recognised in profit or loss 000's \$	Recognised in other comprehensive income 000's \$	Recognised directly in equity 000's \$	Reclassified from equity to profit or loss 000's \$	Closing Restated (Note 35) 000's \$
Temporary differences						
Provisions	437	987	-	425	-	1,849
Other creditors & accruals	144	8	-	-	-	152
Intangible assets	448	703	-	-	-	1,151
Cash and cash equivalents	(24)	35	-	-	-	11
Property, plant and equipment	(2,108)	6,715	-	-	-	4,607
Inventories	(88)	371	-	-	-	283
Prepayments	(20)	20	-	-	-	-
Derivatives	1	(1)	-	-	-	-
Capital raising costs	36	(9)	-	-	-	27
Right-of-use assets	-	(4,895)	-	-	-	(4,895)
Leased liabilities	-	8,457	-	-	-	8,457
Other	242	201	-	-	-	443
	(932)	12,592	-	425	-	12,085
Unused tax losses and credits						
Tax losses and R&D Credits	19,000	4,303	-	-	-	23,303
Not recognised as deferred tax assets	(5,513)	(29,450)	-	(425)	-	(35,388)
	12,555	(12,555)	-	-	-	-

Unrecognised deferred tax assets

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

	At 100% 2021 000's \$	At 26% 2020 000's \$
Unrecognised deferred tax assets		
Transferred tax losses	1,069	278
Capital losses	7,421	1,929
Group tax losses	73,840	19,198
Others	67,714	17,606

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

11 Cash and cash equivalents

	2021 000's \$	2020 000's \$
Cash and bank balances	2,064	14,681
Short-term deposits (i)	5,100	-
	<u>7,164</u>	<u>14,681</u>

(i) The short-term deposit has a term of 29 days and matures on 27 August 2021. A portion of short-term deposit is placed as a security over the leased land, factory and administration buildings and the Group as a policy, ensures that the minimum balance of the same amount is maintained in the bank.

12 Trade and other receivables

	2021 000's \$	2020 000's \$
CURRENT		
Trade receivables (i)	4,746	2,687
Other receivables – Trade (ii)	485	2,558
GST refundable	78	120
	<u>5,309</u>	<u>5,365</u>

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

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

13 Inventories

	2021 000's \$	2020 000's \$
Raw materials, at cost	3,031	3,490
Work in progress, at cost (i)	2,095	2,499
Finished goods, at cost	1,437	1,608
	<u>6,563</u>	<u>7,597</u>

The cost of materials and finished goods of \$3,415k (2020: \$9,520k) were charged to consolidated statement of profit or loss and other comprehensive income and part of cost of sales.

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

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

13 Inventories (continued)

Write-off

Inventories have been reduced by \$207k (2020: \$871k) for slow moving stock provision. The write-down is included in cost of sales.

14 Property, plant and equipment

	2021 000's \$	2020 000's \$
Building/Leasehold Improvements:		
Buildings ¹	8,409	8,409
Other leasehold improvements ²	281	281
Less: accumulated depreciation and impairment loss	<u>(8,682)</u>	<u>(8,661)</u>
	<u>8</u>	<u>29</u>
Plant and Equipment:		
Plant and equipment at cost	100,005	97,033
Less: accumulated depreciation and impairment loss	<u>(91,367)</u>	<u>(80,150)</u>
	<u>8,638</u>	<u>16,883</u>
Motor Vehicles:		
Motor vehicles at cost	38	33
Less: accumulated depreciation and impairment loss	<u>(37)</u>	<u>(30)</u>
	<u>1</u>	<u>3</u>
Office Equipment:		
Office equipment at cost	439	438
Less: accumulated depreciation and impairment loss	<u>(437)</u>	<u>(434)</u>
	<u>2</u>	<u>4</u>
Computer Equipment:		
Computer equipment at cost	2,113	2,062
Less: accumulated depreciation and impairment loss	<u>(2,053)</u>	<u>(1,927)</u>
	<u>60</u>	<u>135</u>
Assets under construction:		
Plant and equipment in progress at cost	<u>193</u>	<u>395</u>
	<u>8,902</u>	<u>17,449</u>

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

2. Leasehold improvements are located at Henderson.

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

14 Property, plant and equipment (continued)

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:

	Building/ leasehold improvement 000's \$	Plant and equipment 000's \$	Motor vehicles 000's \$	Office equipment 000's \$	Computer equipment 000's \$	Assets under construction 000's \$	Total 000's \$
Carrying amount at 1 July 2020	29	16,883	3	4	135	395	17,449
Additions	-	2,990	4	1	52	-	3,047
Disposals/(transfers)	-	(2)	-	-	-	(202)	(204)
Depreciation/amortisation expenses	(14)	(3,628)	(6)	(2)	(73)	-	(3,723)
Impairment losses recognised in profit or loss	(7)	(7,605)	-	(1)	(54)	-	(7,667)
Carrying amount at 30 June 2021	8	8,638	1	2	60	193	8,902
Carrying amount at 1 July 2019	27,021	36,656	8	15	441	1,027	65,168
Additions	-	2,097	-	-	26	-	2,123
Disposals/(transfers)	(26,408)	(599)	-	-	-	(632)	(27,639)
Depreciation/amortisation expenses	(554)	(3,808)	(3)	(7)	(195)	-	(4,567)
Impairment losses recognised in profit or loss	(30)	(17,463)	(2)	(4)	(137)	-	(17,636)
Carrying amount at 30 June 2020	29	16,883	3	4	135	395	17,449

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

14 Property, plant and equipment (continued)

Impairment

At 30 June 2021 and 2020, 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 2021 and 2020 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 assessment of the recoverable amount has led to an impairment for the year of \$15m (2020: \$36.3m) comprising of \$86k (2020: \$2.2m) for intangible assets, \$7.7m (2020: \$17.6m) for property, plant and equipment and \$7.3m (2020: \$20m) for right-of-use assets during the year.

The estimation of future cash flows requires significant estimates and judgements. Details of the key assumptions used in the value in use model at 30 June 2021 and 2020 and adopted by the Board are included below.

Key Assumptions:

Discount Rate

A post-tax discount rate of 11 per cent (2020: 11 per cent) reflecting the Group's long term weighted average cost of capital adjusted for market risk.

Revenue

Revenue has continued to be subdued due to the impact of Covid 19 on the Oil price at the end of last financial year. Revenue forecasts used in the impairment considerations have incorporated a modest level of income in the next 12 months based on current orderbank and likely opportunities, and then a gradual recovery of the Oil and Gas sector over the next 5 years. With inherent uncertainty prevailing in the market we have forecast revenue to only return to approximately 70% of our 12 year average revenue and 36% of our all time high revenue. We have used current industry forecasts to indicate when and how fast the market may take to recover.

Cost of Goods Sold

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

Terminal Growth Rate

A terminal value growth rate of two per cent (2020: two per cent) has been applied.

Foreign Exchange Rate

A AUD:USD foreign exchange rate of 0.75 (2020: 0.70) has been applied.

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

14 Property, plant and equipment (continued)

Sensitivity analysis

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

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

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

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

The impairment analysis is based on a number of industry and operational assumptions by management over the 5 year period to 30 June 2026, which have been endorsed by the Board. A number of those industry assumptions are beyond the control of the Company including the unprecedented impact of Covid-19. Should some of these assumptions fail to materialise over that period then the carrying cost and value in use of the relevant underlying assets may need to be impaired further.

15 Leases

Matrix settled a sale and leaseback contract with Henderson Pty Ltd (“APIL”) with respect to the leasehold interests, including the use of the premises and the buildings on the premises in December 2019. Consideration received under the sale was \$20m. The settlement has resulted in a derecognition of the initial \$13.9m right-of-use asset and associated lease liabilities in relation to the lease with Landcorp.

According to the new lease arrangement with APIL, Matrix has recognised an adjusted right-of-use asset value of \$33.7m and accordingly a revised lease liability of \$27.5m. The right-of-use asset is depreciated over 20 years on a straight-line basis.

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

This lease liability of \$28.3m is measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate of 7.9 per cent.

At 30 June 2021, the lease liability has reduced to \$27.716m (2020: \$28.191m). The reduction reflected the principal portion of the lease repayments.

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

15 Leases (continued)

Right-of-use asset

	Right-of-use asset 000's \$
Cost:	
At 1 July 2019 (as previously reported)	13,933
Recognition of asset retirement obligation (Note 35)	4,716
	<hr/>
At 1 July 2019 (restated)	18,649
Disposed of	(13,933)
Additions	33,699
	<hr/>
At 30 June 2020 (restated)	38,415
At 30 June 2021	38,415
	<hr/> <hr/>
Accumulated depreciation:	
At 1 July 2019 (as previously reported)	-
Charge for the year (Note 35)	(1,336)
	<hr/>
At 1 July 2019 (restated)	(1,336)
Charge for the year	(1,080)
Impairment loss (Restated Note 35)	(19,683)
	<hr/>
At 30 June 2020	(22,099)
Charge for the year	(837)
Impairment loss	(7,247)
	<hr/>
At 30 June 2021	(30,183)
	<hr/> <hr/>
	Right-of-use asset 000's \$
Carrying amount	
At 1 July 2019 (restated)*	17,313
At 30 June 2020	16,316
At 30 June 2021	8,232
	<hr/> <hr/>

* This includes \$13.933m of right-of-use assets recognised at the time of adoption of AASB 16 *Leases* at 1 July 2019.

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

15 Leases (continued)

Lease liability

	2021 000's \$	2020 000's \$
Maturity analysis		
Not later than one year	551	475
Later than one year but not later than five years	3,918	3,542
Later than five years	23,247	24,174
	<u>27,716</u>	<u>28,191</u>
Analysed as:		
Current	551	475
Non-current	27,165	27,716
	<u>27,716</u>	<u>28,191</u>

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

Lease exemptions

At 30 June 2021, Matrix is committed to \$128k (2020: \$99k) in relation to the serviced office and the office equipment leases. Matrix has assessed the value of the underlying assets and considered them as short-term or low value assets, respectively. Therefore, Matrix has applied the lease exemptions and accounted for the lease payments as an operating expense on a straight-line basis over the lease term. The operating expense presented in the consolidated statement of profit or loss and other comprehensive income are as follows:

Multiple copiers	22	15
Multiple IT equipment	68	68
Serviced office	38	16
	<u>128</u>	<u>99</u>

Amounts recognised in profit or loss

Interest on lease liabilities	2,107	1,281
Expenses relating to short-term leases	38	16
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	90	83
	<u>2,235</u>	<u>1,380</u>

Amounts recognised in consolidated statement of cash flows

Total cash outflow of leases	<u>(2,582)</u>	<u>(1,367)</u>
------------------------------	----------------	----------------

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

16 Intangible assets

	2021 000's \$	2020 000's \$
<i>Development costs</i>		
Development costs(i)	6,889	6,803
Accumulated amortisation	(4,630)	(4,630)
Impairment loss	(2,259)	(2,173)
	<u>-</u>	<u>-</u>

(i) Development costs incurred to date relate to various ongoing projects that are in the development phase. The Group has recognised an impairment loss and hence reduced the carrying amount to zero (Note 14).

Reconciliations

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

	Development costs 000's \$
Balance at 1 July 2020	-
Additions	86
Impairment losses recognised in profit or loss	(86)
Balance at 30 June 2021	<u>-</u>
Balance at 1 July 2019	2,672
Additions	100
Amortisation	(599)
Impairment losses recognised in profit or loss	(2,173)
Balance at 30 June 2020	<u>-</u>

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

17 Trade and other payables

	2021 000's \$	2020 000's \$
Trade payables	1,224	1,542
Other creditors and accruals	1,623	746
GST payable	199	20
	<u>3,046</u>	<u>2,308</u>

Trade and other payables are generally paid within 30 to 45 days. No security is provided for these liabilities and no interest has been paid.

18 Provisions

	2021 000's \$	2020 Restated (Note 35) 000's \$
NON-CURRENT		
Asset retirement obligation (Note 35)	<u>4,859</u>	<u>4,802</u>

Movement in provision

Movements in provision during the current financial year are set out below:

	30 June 2021 000's \$	30 June 2020 000's \$	1 July 2019 000's \$
Balance at beginning of year	4,802	4,795	4,715
Accretion	49	8	80
Change in discount	8	(1)	-
Balance at end of year	<u>4,859</u>	<u>4,802</u>	<u>4,795</u>

Asset retirement obligation

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

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

19 Financial liabilities

The Company has no financial liabilities as at 30 June 2021 and 2020.

The Company has no hedging liability as at 30 June 2021 and 2020.

Terms and conditions of facility

		Nominal interest rate	Approved facilities	Amount utilised	Available facilities at 30 June 2021
	Currency	%	000's \$	000's \$	000's \$
Working capital and contingent lines					
Bank/performance guarantees	AUD	0.70	5,000	3,410	1,590

20 Employee benefits

	2021 000's \$	2020 000's \$
CURRENT		
Employee entitlements - annual leave and long service leave	1,192	499
NON-CURRENT		
Employee entitlements - long service leave	242	797

21 Issued capital

	2021 000's \$	2020 000's \$
Issued and paid up capital 102,321,429 (2020: 102,321,429) fully paid ordinary shares	114,170	114,170

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

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

21 Issued capital (continued)

Movements in ordinary share capital

	Number of shares	\$000's
Balance 1 July 2019	<u>102,321,429</u>	114,170
Balance 30 June 2020	<u>102,321,429</u>	114,170
Balance 30 June 2021	<u><u>102,321,429</u></u>	<u>114,170</u>

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.

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

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

22 Reserves

	2021 000's \$	2020 000's \$
Foreign currency translation reserve	(465)	(1,039)
Share-based payment reserve	1,430	1,028
	<u>965</u>	<u>(11)</u>

Cash flow hedge reserve

Balance at beginning of year	-	(106)
<i>(Loss)/gain arising on changes in fair value of hedging instruments entered into for cash flow hedges:</i>		
Income tax related to gains/(losses) recognised in other comprehensive income	-	106
Balance at end of year	<u>-</u>	<u>-</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 included as a basis adjustment to the non-financial hedged item consistent with the relevant accounting policy. There was no cash flow hedge transaction entered during the year and in the prior year.

Foreign currency translation reserve

Balance at beginning of year	(1,039)	(882)
Exchange differences arising on translation of foreign operation	574	(157)
Balance at end of year	<u>(465)</u>	<u>(1,039)</u>

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

Share based premium reserve

Balance at beginning of year	1,028	676
Arising on share-based payments	402	352
Balance at end of year	<u>1,430</u>	<u>1,028</u>

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

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

23 Cash flow information

(a) Reconciliation of cash flow from operations with loss after income tax

	2021	2020
	000's	Restated
	\$	(note 35)
	\$	000's
	\$	\$
Loss after income tax	(27,924)	(67,865)
Adjustment for non-cash items		
Depreciation of property, plant and equipment	3,723	4,845
Depreciation of right-of-use assets	837	1,079
Impairment loss on property, plant and equipment	7,667	17,636
Impairment loss on right-of-use asset	7,296	19,683
Amortisation of intangibles	-	955
Impairment loss of intangibles	86	2,173
Expense recognised in respect of equity-settled share-based payments	402	353
Effects of exchange rate changes on the balance of cash held in foreign currencies	-	(218)
Effects of translation of foreign operations	574	(157)
Net loss arising on financial liabilities designated as at fair value through profit or loss	-	104
Loss on disposal of property, plant & equipment	204	1,416
Accretion of asset retirement obligation	8	8
Changes in assets & liabilities		
Decrease in trade and other receivables	56	2,909
Decrease/(increase) in other assets	393	(137)
Decrease in inventories	1,034	2,166
Increase/(decrease) in trade and other payables, progress claims & deposits	1,597	(2,916)
Decrease in lease liabilities (not later than 1 year)	-	(122)
Increase/(decrease) in employee benefits	138	(46)
Increase in tax provision	-	14,794
Decrease in deferred tax liability	-	(2,239)
Net cash flows used in operating activities	(3,909)	(5,579)

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

23 Cash flow information (continued)

(b) Reconciliation of cash and cash equivalents

	2021	2020
	000's	000's
	\$	\$
Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows is reconciled to items in the consolidated statement of financial position as follows:		
Cash and cash equivalents	<u>7,164</u>	<u>14,681</u>

(c) Changes in liabilities arising from financing activities

	Trade finance 000's \$	Lease liabilities 000's \$	Total 000's \$
Balance at 1 July 2019	7,263	13,933	21,196
Net cash used in financing activities	(7,263)	(122)	(7,385)
Acquisition of leases	-	14,380	14,380
Balance at 30 June 2020	<u>-</u>	<u>28,191</u>	<u>28,191</u>
Net cash used in financing activities	-	(475)	(475)
Balance at 30 June 2021	<u><u>-</u></u>	<u>27,716</u>	<u>27,716</u>

24 Financial instruments

Financial risk management policies

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

Financial risk exposures and management

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

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

24 Financial instruments (continued)

Credit risk

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

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

At 30 June 2021 there is no outstanding credit facility that has any material amount of collateral provided. The Company issues bank guarantees for projects and as security for its leased property under a facility from the ANZ bank. ANZ retain a right of set off over term deposits held by the company to the value of the outstanding bank guarantees. The value of this right of set off at 30 June 2021 was \$3.410m (2020: \$3.846m).

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

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

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

	2021	2020
	000's	000's
	\$	\$
Trade and other receivables	<u>5,231</u>	<u>5,245</u>

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

Days	2021	2020
0-30	4,013	3,976
31-60	1,185	184
61-90	33	33
90+	-	1,052
	<u>5,231</u>	<u>5,245</u>

Trade and other receivables of \$1,218,000 (2020: \$1,269,000) were past due at 30 June, of which \$33,000 have been collected up to the date of this report (2020: \$182,000). There were no impairment provisions in respect of trade receivables that were past due as at 30 June 2021.

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

24 Financial instruments (continued)

Credit risk (continued)

Cash and cash equivalents

The Group and the Company held cash and cash equivalents of \$7,164,000 at 30 June 2021 (2020: \$14,681,000). The cash and cash equivalents are held with regulated bank and financial institution counterparties.

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

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

Exposure to credit risk

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

	2021	2020
	000's	000's
	\$	\$
Australia	2,715	2,606
Singapore	1,325	301
United States of America	741	1,103
Others	450	1,235
	5,231	5,245

Foreign currency risk

The Group undertakes transactions denominated in foreign currencies and is consequently exposed to exchange rate fluctuations arises. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

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

	Liabilities		Assets	
	2021	2020	2021	2020
	000's	000's	000's	000's
	\$	\$	\$	\$
US Dollars	888	1,288	3,003	5,695
EUR	449	-	1,156	-

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

24 Financial instruments (continued)

Foreign currency sensitivity analysis

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

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

		Loss after tax	
		Increase/(decrease)	
		2021	2020
		000's	000's
		\$	\$
US dollar	+10%	(218)	(401)
US dollar	-10%	240	441
EUR	-10%	(64)	-
EUR	-10%	70	-

Liquidity risk

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

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

Financing arrangements

Working capital and contingent lines	Currency	Nominal interest rate	Approved facilities	Amount utilised	Available facilities
					at 30 June 2021
		%	000's	000's	000's
Bank/performance guarantees	AUD	0.70	5,000	3,410	1,590

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

24 Financial instruments (continued)

Liquidity risk (continued)

Remaining contractual maturities

The following table details the Group's expected maturity for its financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Weighted average effective interest %	Less than 1 month 000's \$	1-3 months 000's \$	3 months to 1 year 000's \$	1-5 years 000's \$	Over 5 years 000's \$	Total 000's \$
30 June 2021							
Cash and other equivalents	0.30	2,064	5,100	-	-	-	7,164
Trade and other receivables	-	3,387	1,413	317	114	-	5,231
Trade and other payables	-	(924)	(874)	(1,049)	-	-	(2,847)
Lease liabilities	7.86	-	-	(551)	(3,918)	(23,247)	(27,716)
		<u>4,527</u>	<u>5,639</u>	<u>(1,283)</u>	<u>(3,804)</u>	<u>(23,247)</u>	<u>(18,168)</u>
30 June 2020							
Cash and other equivalents	0.57	7,500	-	7,181	-	-	14,681
Trade and other receivables	-	2,258	97	1,152	1,738	-	5,245
Trade and other payables	-	(659)	(1,533)	(95)	-	-	(2,287)
Lease liabilities	7.86	(38)	(116)	(321)	(3,542)	(24,174)	(28,191)
		<u>9,061</u>	<u>(1,552)</u>	<u>7,917</u>	<u>(1,804)</u>	<u>(24,174)</u>	<u>(10,552)</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.

25 Franking account

	2021 000's \$	2020 000's \$
Franking account balance at 1 July	13,480	14,284
Franking account balance at 30 June	<u>13,480</u>	<u>13,480</u>
Net franking credits available	<u>13,480</u>	<u>13,480</u>

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

26 Share-based payments

Share options

There have been no share options brought forward, issued or exercised during the year (2020: nil).

Long term incentive plans

Matrix has established a long term incentive plan designed to provide the opportunity to employees to acquire Matrix shares and thus assist with:

- attracting, motivating and retaining employees;
- delivering rewards to employees for individuals and Group performance;
- giving employees the opportunity to become shareholders; and
- aligning the interests of employees and shareholder.

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

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

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

Employee Performance Rights Plan (EMPRP)

EMPRP will be open to certain professional staff with two or more years' service with Matrix. Eligible participants will be offered a grant of Performance Rights in dollar value terms up to but not exceeding \$1,500. Performance Rights granted under the EMPRP will be subject to a vesting condition of a three year service period from beginning of financial year. Upon vesting, the Performance Rights will convert to Matrix fully paid ordinary shares on a one for one basis or the cash equivalent, at the discretion of the Board. Any shares transferred to EMPRP participants on conversion of Performance Rights may be acquired either on-market, or by way of a new issue of shares.

Management Performance Rights Plan (MPRP)

MPRP will be open to certain professional staff with two or more years' service with Matrix. Eligible participants will be offered a grant of Performance Rights in dollar value terms up to but not exceeding \$3,000. Performance Rights granted under the MPRP will be subject to a vesting condition of a three year service period from beginning of financial year. Upon vesting, the Performance Rights will convert to Matrix fully paid ordinary shares on a one for one basis or the cash equivalent, at the discretion of the Board. Any shares transferred to MPRP participants on conversion of Performance Rights may be acquired either on-market, or by way of a new issue of shares.

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

26 Share-based payments (continued)

Long term incentive plans (continued)

Executive Performance Rights Plan (EPRP)

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

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

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

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

Under the SEPRP and SESARP senior executives will be offered an annual dollar value grant in accordance with the terms of their respective Executive Service Agreements, which they may allocate to participate in the SEPRP or the SEASARP. A participant may elect to allocate up to a maximum of 50 per cent of the grant entitlement to the SEPRP.

Grants under the SEPRP and SESARP are made on an annual basis.

SEPRP

Rights granted under the SEPRP will be subject to the following conditions:

- three year service period; and
- the 28-day VWAP of MCE shares for the period ending 30 June 2023 reaching \$0.32.

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 the Consolidated Financial Statements

For the Year Ended 30 June 2021

26 Share-based payments (continued)

Long term incentive plans (continued)

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

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

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

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

SESOP

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

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

- three year service period; and
- the 14-day VWAP of MCE shares for the period ending 30 June 2023 reaching \$0.32.

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

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

26 Share-based payments (continued)

Share rights in existence in the year

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

Series	Grant date	Share price at issue	Right/option price at grant date	Hurdle growth rate	Hurdle price	Expiry date	Vesting date
		\$	\$		\$		
FY17 MPRP	08 Dec 2017	0.51	0.48	n/a	n/a	09 Dec 2020	31 Aug 2020
FY17 SEPRP	08 Dec 2017	0.51	0.36	n/a	n/a	09 Dec 2020	31 Aug 2020
FY17 SESARP	08 Dec 2017	0.51	0.13	11.42%	0.65	09 Dec 2020	31 Aug 2020
FY18 MPRP	08 Dec 2018	0.42	0.42	n/a	n/a	09 Dec 2021	31 Aug 2021
FY18 SEPRP	08 Dec 2018	0.42	0.23	67%	0.60	09 Dec 2021	31 Aug 2021
FY18 SESARP	08 Dec 2018	0.42	0.11	67%	0.60	09 Dec 2021	31 Aug 2021
FY19 MPRP	16 Dec 2019	0.30	0.30	n/a	n/a	17 Dec 2022	31 Aug 2022
FY19 SEPRP	16 Dec 2019	0.30	0.06	103%	0.60	17 Dec 2022	31 Aug 2022
FY19 SESARP	16 Dec 2019	0.30	0.04	103%	0.60	17 Dec 2022	31 Aug 2022
FY19 EMPRP	16 Dec 2019	0.30	0.30	n/a	n/a	17 Dec 2022	31 Aug 2022
FY20 EPRP	29 Jan 2021	0.15	0.10	113%	0.32	28 Sep 2023	31 Aug 2023
FY20 SESOP	29 Jan 2021	0.15	0.03	113%	0.32	28 Sep 2023	31 Aug 2023

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

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

26 Share-based payments (continued)

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 BDO dated 28 September 2017 and 8 October 2018 and by Stantons International Securities dated 11 September 2019 and 25 September 2020 respectively. The valuations were adopted by the Directors of the Group.

The valuation used a Monte-Carlo simulation as the appropriate methodology to value the rights 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	FY17			FY18			FY19			FY20		
	FY17 MPRP	EPRP/ SEPRP	FY17 SESARP	FY18 MPRP	EPRP/ SEPRP	FY18 SESARP	FY19 MPRP	EPRP/ SEPRP	FY19 SESARP	FY19 EMPRP	FY20 EPRP	FY20 SESOP
Grant date	08 Dec 2017	08 Dec 2017	08 Dec 2017	08 Dec 2018	08 Dec 2018	08 Dec 2018	16 Dec 2019	16 Dec 2019	16 Dec 2019	16 Dec 2019	29 Jan 2021	29 Jan 2021
Vesting date	31 Aug 2020	31 Aug 2020	31 Aug 2020	31 Aug 2021	31 Aug 2021	31 Aug 2021	31 Aug 2022	31 Aug 2022	31 Aug 2022	31 Aug 2022	31 Aug 2023	31 Aug 2023
Share price at grant	\$0.51	\$0.51	\$0.51	\$0.42	\$0.42	\$0.42	\$0.30	\$0.30	\$0.30	\$0.30	\$0.15	\$0.15
Value	\$0.48	\$0.36	\$0.13	\$0.42	\$0.23	\$0.11	\$0.30	\$0.06	\$0.04	\$0.30	\$0.10	\$0.03
Hurdle growth rate	n/a	n/a	11.42%	n/a	67%	67%	n/a	103%	103%	n/a	113%	113%
Hurdle price	n/a	n/a	\$0.65	n/a	\$0.60	\$0.60	n/a	\$0.60	\$0.60	n/a	\$0.32	\$0.32
Expected life	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years	2.6 years	2.6 years
Volatility	55%	55%	55%	55%	55%	55%	47%	47%	47%	47%	66%	66%
Risk free interest rate	2.11%	2.11%	2.11%	2.15%	2.15%	2.15%	0.96%	0.96%	0.96%	0.96%	0.18%	0.18%
Dividend yield	2.0%	2.0%	2.0%	nil	nil	nil	nil	nil	nil	nil	nil	nil

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

26 Share-based payments (continued)

Movements in share plans during the year

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

	Balance at beginning of the year	Granted during the year	Forfeited during the year	Exercised during the year	Lapsed during the year	Balance at end of the year
	No.	No.	No.	No.	No.	No.
MPRP						
FY17 MPRP	81,588	-	-	(69,036)	(12,552)	-
FY18 MPRP	121,142	-	-	-	(21,378)	99,764
FY19 MPRP	90,756	-	-	-	(20,168)	70,588
Total	293,486	-	-	(69,036)	(54,098)	170,352
EMPRP						
FY19 EMPRP	55,462	-	-	-	(5,042)	50,420
Total	55,462	-	-	-	(5,042)	50,420
SESOP						
FY20 SESOP	-	4,852,071	-	-	-	4,852,071
Total	-	4,852,071	-	-	-	4,852,071
EPRP						
FY17 EPRP	192,311	-	-	-	(192,311)	-
FY18 EPRP	600,857	-	-	-	-	600,857
FY19 EPRP	1,714,284	-	-	-	-	1,714,284
FY 20 EPRP	-	1,633,467	-	-	-	1,633,467
Total	2,507,452	1,633,467	-	-	(192,311)	3,948,608
SESARP						
FY17 SESARP	2,532,122	-	-	-	(2,532,122)	-
FY18 SESARP	3,196,028	-	-	-	-	3,196,028
FY19 SESARP	8,937,330	-	-	-	-	8,937,330
Total	14,665,480	-	-	-	(2,532,122)	12,133,358

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

27 Related parties

(a) Key management personnel compensation

	2021	2020
	\$	\$
Short term employment benefits	1,244,598	1,355,978
Share based payments	316,647	351,257
Post-employment benefits	137,753	110,477
	<u>1,698,998</u>	<u>1,817,712</u>

Ian Phillips become a key personnel in FY20.

(b) Parent entity

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

(c) Related party transactions

A local customer Remsense Pty Ltd has a common director Chris Sutherland. All transactions with Remsense Pty Ltd are quoted on arm's length basis. The total invoiced as at 30 June 2021 was \$103,000 (2020: none).

(d) Option holdings of key management personnel

There have been no movements during the reporting period (2020: 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 (2020: nil).
- No options have been issued to key management personnel during the year (2020: 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 (2020: nil).

28 Interests in subsidiaries

The consolidated financial statements include the following subsidiaries:

Name	Incorporation	Shares	Equity holding %	
			2021	2020
Specialist Engineering Services (Aust) Pty Ltd	Australia	Ordinary	100	100
Matrix Henderson Property Pty Ltd	Australia	Ordinary	100	100
Matrix Coating Technologies Pty Ltd	Australia	Ordinary	100	100
Matrix Composites & Engineering (US) Inc.	USA	Ordinary	100	100

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

29 Parent entity

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.

	30 June 2021	30 June 2020	1 July 2019
	000's	Restated*	Restated*
	\$	\$	\$
Statement of financial position			
Assets			
Current assets	18,814	27,640	26,721
Non-current assets	29,253	33,765	97,704
Total assets	<u>48,067</u>	<u>61,405</u>	<u>124,425</u>
Liabilities			
Current liabilities	5,634	4,545	14,408
Non-current liabilities	45,365	33,315	19,451
Total liabilities	<u>50,999</u>	<u>37,860</u>	<u>33,859</u>
Equity			
Issued capital	114,170	114,170	114,170
Accumulated loss	(118,532)	(91,734)	(24,255)
Foreign currency translation reserve	-	81	(25)
Share based payment reserve	1,430	1,028	676
Total (deficit)/equity	<u>(2,932)</u>	<u>23,545</u>	<u>90,566</u>
Statement of profit or loss and other comprehensive income			
Loss for the year	(26,798)	(67,480)	(14,134)
Other comprehensive income	-	106	25
Total comprehensive loss	<u>(26,798)</u>	<u>(67,374)</u>	<u>(14,109)</u>

Guarantees

No guarantees have been entered into by the parent entity as at 30 June 2021 or 30 June 2020.

Contingent liabilities

The parent entity did not have any contingent liabilities as at 30 June 2021 or 30 June 2020.

Capital commitments

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in Note 1, except for the following:

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

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

29 Parent entity (continued)

Correction of errors

	30 June 2020			1 July 2019		
	000's			000's		
	\$			\$		
	As	Recognition		As	Recognition	
	previously	of asset		previously	of asset	
	reported	retirement	As restated	reported	retirement	As
		obligation			obligation	restated
Statement of financial position						
Assets						
Current assets	27,640	-	27,640	26,721	-	26,721
Non-current assets	33,765	-	33,765	94,324	3,380	97,704
Total assets	61,405	-	61,405	121,045	3,380	124,425
Liabilities						
Current liabilities	(4,545)	-	(4,545)	(14,408)	-	(14,408)
Non-current liabilities	(28,513)	(4,802)	(33,315)	(14,656)	(4,795)	(19,451)
Total liabilities	(33,058)	(4,802)	(37,860)	(29,064)	(4,795)	(33,859)
Net assets	28,347	(4,802)	23,545	91,981	(1,415)	90,566
Equity						
Issued capital	(114,170)	-	(114,170)	(114,170)	-	(114,170)
Accumulated loss	86,932	4,802	91,734	22,840	1,415	24,255
Foreign currency translation reserve	(81)	-	(81)	25	-	25
Share based payment reserve	(1,028)	-	(1,028)	(676)	-	(676)
Total equity	(28,347)	4,802	(23,545)	(91,981)	1,415	(90,566)
Statement of profit or loss and other comprehensive income						
Loss for the year	(64,093)	(3,387)	(67,480)			
Other comprehensive income	106	-	106			
Total comprehensive loss	(63,987)	(3,387)	(67,374)			

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

30 Earnings per share

	2021	2020 Restated (note 35)
Loss attributable to members of parent entity (\$)	(27,924)	(67,865)
Weighted average number of shares on issue (number)	102,321,429	102,321,429
Weighted average number of shares adjusted for dilution (number)	102,321,429	102,321,429
Basic loss per share (cents)	(27.3)	(66.3)
Diluted loss per share (cents)	(27.3)	(66.3)

31 Dividends paid and proposed

In respect of the reporting period ended 30 June 2021, no dividend was proposed nor paid (2020: nil)

32 Contingencies

In the opinion of the Directors, the Group did not have any contingencies at 30 June 2021 (30 June 2020: None).

33 Commitments

The Group had no capital commitments as at 30 June 2021 and 30 June 2020.

34 Events occurring after the reporting date

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has been financially negative for the Group up to 30 June 2021, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is frequently changing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Other than the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

35 Correction of errors

During the year, the Company identified that the obligation to restore the leased land (including removal of the premises) had not been provided for. As a consequence, an asset retirement obligation has been recognised. Prior years have been adjusted to reflect this obligation by restating each of the affected financial statement line items for prior periods. The following tables summarise the impacts on the Group's consolidated financial statement.

Consolidated statement of financial position

	Impact of recognition of asset retirement obligation and adoption of lease AASB16		
	As previously reported	Adjustments	As restated
	000's	000's	000's
	\$	\$	\$
1 July 2019			
Property, plant and equipment	65,168	-	65,168
Right-of-use asset*	-	17,313	17,313
Others	43,072	-	43,072
Total assets	108,240	17,313	125,553
Provisions	-	(4,795)	(4,795)
Lease liabilities*	-	(13,933)	(13,933)
Others	(15,175)	-	(15,175)
Total liabilities	(15,175)	(18,728)	(33,903)
Accumulated losses	20,793	1,415	22,208
Others	(113,858)	-	(113,858)
Total equity	(93,065)	1,415	(91,650)

* Right-of-use assets and lease liabilities adjustments were previously recognised in the company's comparative (refer Note 15).

	Impact of recognition of asset retirement obligation		
	As previously reported	Adjustments	As restated
	000's	000's	000's
	\$	\$	\$
30 June 2020			
Total assets	61,949	-	61,949
Provisions	-	(4,802)	(4,802)
Others	(33,061)	-	(33,061)
Total liabilities	(33,061)	(4,802)	(37,863)
Accumulated losses	85,271	4,802	90,073
Others	(114,159)	-	(114,159)
Total equity	(28,888)	4,802	(24,086)

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2021

35 Correction of errors (continued)

Consolidated statement of profit or loss and OCI

	Impact of recognition of asset retirement obligation		
	As previously reported	Adjustments	As restated
	000's	000's	000's
	\$	\$	\$
For the year ended 30 June 2020			
Administration expenses	(3,639)	(187)	(3,826)
Finance costs	(1,469)	(8)	(1,477)
Impairment losses of right-of-use assets	(16,491)	(3,192)	(19,683)
Income tax expense	(12,555)	-	(12,555)
Others	(30,324)	-	(30,324)
Loss for the year	(64,478)	(3,387)	(67,865)
Loss attributable to:			
Owners of the Company	(64,478)	(3,387)	(67,865)
Total comprehensive loss attributable to:			
Owners of the parent entity	(64,529)	(3,387)	(67,916)
Loss per share			
Basic loss per share (cents)	(63.0)	(3.3)	(66.3)
Diluted loss per share (cents)	(63.0)	(3.3)	(66.3)

The comparative 30 June 2020 year end was adjusted to reflect a reduction in the asset retirement obligation (ARO) provision due to remeasurement in the year, and a \$3.192m charge to the profit or loss statement to fully impair the ARO asset as part of the impairment incurred in the year.

There is no material impact on the Group's basic or diluted earnings per share and no impact on the total operating, investing or financing cash flows for the year ended 30 June 2020.

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Notes to the Consolidated Financial Statements For the Year Ended 30 June 2021

36 Reclassification

The following expense accounts in the consolidated statement of profit or loss and other comprehensive income for the financial year ended 30 June 2020 were reclassified to the respective accounts below to properly reflect their appropriate function and as follows:

	Impact of reclassification		
	As previously reported	Adjustments	As restated
	000's	000's	000's
	\$	\$	\$
Consolidated statement of profit or loss and other comprehensive income			
For the year ended 30 June 2020			
Cost of sales	(30,588)	803	(29,785)
Marketing expenses	(1,853)	(230)	(2,083)
Research expenses	(1,820)	230	(1,590)
Engineering expenses	(801)	(803)	(1,604)
	<u>(35,062)</u>	<u>-</u>	<u>(35,062)</u>

37 Statutory information

The registered office and principal place of business of the Company is:

Matrix Composites & Engineering Ltd
150 Quill Way
Henderson WA 6166

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

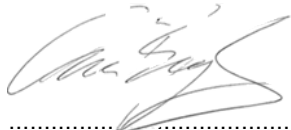
Directors' Declaration

The directors of the Group declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the Group 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 Group; and
- d) the directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

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

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



.....
Aaron P Begley
Managing Director and Chief Executive Officer

Dated 31 August 2021



Independent Auditor's Report

To the shareholders of Matrix Composites & Engineering Ltd

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Matrix Composites & Engineering Ltd (the Company) and its subsidiaries (the Group).

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

- Giving a true and fair view of the **Group's** financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- Complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated Statement of financial position as at 30 June 2021;
- Consolidated Statement of profit or loss and other comprehensive income, Consolidated Statement of changes in equity, and Consolidated Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinion

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

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

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

- Going concern basis of accounting; and
- Valuation of Property, plant and equipment and right-of-use assets.

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

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Going concern basis of accounting	
Refer to Note 1(y) of the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>The Group’s use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required by us in evaluating the Group’s assessment of going concern and the events or conditions that may cast significant doubt on their ability to continue as a going concern. These are outlined in Note 1(y).</p> <p>The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated a number of assumptions and significant judgements, and the Directors have concluded that the range of possible outcomes considered in arriving at this judgement does not give rise to a material uncertainty casting significant doubt on the Group’s ability to continue as a going concern.</p> <p>We critically assessed the levels of uncertainty, as it related to the Group’s ability to continue as a going concern, within these assumptions and judgements, focusing on the following:</p> <ul style="list-style-type: none"> • The Group’s forecast net cash inflows from operations including planned levels of sales volumes and operational expenditures; and • The ability of the Group to manage cash outflows within available funding, particularly in light of continuing loss-making operations and continuing impact of the COVID 19 pandemic to operations. <p>In assessing this key audit matter, we involved senior audit team members who understand the Group’s business, industry and the economic environment it operates in.</p>	<p>Our procedures included:</p> <p>We analysed the cash flow projections by:</p> <ul style="list-style-type: none"> • Evaluating the underlying data used to generate the projections. We specifically looked for consistency of information used by the Directors, and tested by us, as set out in the key audit matter on the valuation of property, plant and equipment and right-of-use assets, their consistency to the Group’s intentions, as outlined in Directors minutes and strategy documents, and their comparability to past practice. We specifically assessed this against our understanding of the Directors’ COVID-19 impact plans, obtained from our additional inquiries with them. Critical elements considered included the potential for further/future impacts to the Group, an estimated rate of recovery, and expectations of full return to business as usual; • Analysing the impact of reasonably possible changes in projected cash flows and their timing, to the projected periodic cash positions. We assessed the resultant impact to the ability of the Group to pay debts as and when they fall due and continue as a going concern. The specific areas we focused on were informed from our test results of the accuracy of previous Group cash flow projections and sensitivity analysis on key cash flow projection assumptions; and • Assessing the planned sales volumes and levels of operating expenditures for consistency of relationships and trends to the Group’s historical results, particularly in light of continuing loss-making operations and continuing impact of the COVID 19 pandemic to operations, results since year end, and our understanding of the business, industry and expected economic conditions due to COVID-19. <p>We evaluated the Group’s going concern disclosures in the financial report by comparing them to our understanding of the matter and COVID-19 implications for the Group, the events or conditions incorporated into the cash flow projection assessment, the Group’s plans to address those events or conditions, and accounting standard requirements.</p>



Valuation of Property, plant and equipment (\$8.902 million) and right-of-use assets (\$8.232 million)

Refer to Note 14,15 and 16 of the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>A key audit matter for us was the Group’s testing of property plant and equipment and right-of-use assets for impairment, given the size of the balance (being 47% of total assets) and the higher estimation uncertainty continuing from the business disruption impact of the COVID-19 global pandemic. Certain conditions impacting the Group increased the judgement applied by us when evaluating the evidence available.</p> <p>Following the identification of an impairment indicator and subsequent impairment testing, the Group recognised an impairment of \$15.049 million in the cash generating unit (CGU), further increasing our focus on this key audit matter.</p> <p>We focussed on the significant forward-looking assumptions the Group applied in their value in use model, including:</p> <ul style="list-style-type: none"> • Forecast oil and gas pricing and foreign exchange rates – global oil and gas pricing is a relevant input for estimating demand for the Group’s products and services, including timing of projects. The sectors in which the Group operates have experienced significant depressed and fluctuating oil and gas prices linked in part from business disruptions here and in overseas markets as governments respond to COVID-19, increasing the risk of future fluctuations and inaccurate forecasting; • Forecast operating cash flows, growth rates and terminal growth rates – the Group has experienced significant business disruption in the current year and has a history of recent operating losses, as a result of COVID-19. This impacted the Group through a reduction in the demand for products and services, project cancellations and deferrals. These conditions and the uncertainty of their continuation increase the possibility of property plant and equipment and right-of-use assets being impaired, plus the risk of inaccurate forecasts or a significantly wider range of possible outcomes for us to consider. We focused on the expected rate of recovery for the Group and what the Group considers as their future business model; 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We assessed the Group’s view of the indicators leading to impairment testing for the CGU based on our understanding of the business and requirements of the accounting standards. We recalculated the impairment charge to the CGU and compared to the impairment expense recognised by the Group; • Working with our valuation specialists, we considered the appropriateness of the value in use method applied by the Group to perform the annual test of property, plant and equipment and right-of-use assets for impairment against the requirements of the accounting standards; • We, along with our valuation specialists, assessed the integrity of the value in use model used, including the accuracy of the underlying calculation formulas; • We met with management to understand the impact of COVID-19 to the Group and impact of government response programs to the FY21 results; • We compared the forecast cash flows contained in the value in use model to Group’s Board approved forecasts; • We assessed the Group’s determination of CGU assets for consistency with the assumptions used in the forecast cash flows and the requirements of the accounting standards; • Working with our valuation specialists, we compared the forecast foreign exchange rates to published views of market commentators on future trends seeking authoritative and credible sources; • We assessed the impact of the volatility of the global oil and gas pricing to the Group’s modelling underlying their decision for commercial continuation of activities. We did this using published views of market commentators on future trends seeking authoritative and credible sources; • We considered the sensitivity of the model by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within a reasonably possible

- Forecast growth rates and terminal growth rates – in addition to the uncertainties described above, the Group’s model is sensitive to small changes in these assumptions, reducing available headroom indicating a possible impairment. This drives additional audit effort specific to their feasibility and consistency of application to the Group’s strategy; and
- Discount rate - these are complicated in nature and vary according to the conditions and environment the specific Cash Generating Unit (CGU) is subject to from time to time and the model approach to incorporating risks into the cash flows or discount rates. The Group’s modelling is sensitive to small changes in the discount rate. We involve our valuations specialists and senior team members with the assessment.

The Group uses a complex model to perform their annual testing of property plant and equipment and right-of-use assets for impairment. The model is largely manually developed, uses adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. The Group have not met prior forecasts, raising our concern for reliability of current forecasts. Complex modelling, using forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.

In addition to the above, the carrying amount of the net assets of the Group exceeded the Group’s market capitalisation at year end, increasing the possibility of property, plant and equipment and right-of-use assets being impaired. This further increased our audit effort in this key audit area.

We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.

range. We considered the interdependencies of key assumptions when performing the sensitivity analysis and what the Group consider to be reasonably possible. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures;

- Working with our valuation specialists, we challenged the Group’s significant forecast cash flow and growth assumptions in light of the Group not meeting prior forecasts, expected continuation of unprecedented uncertainty of business disruption and continuing impacts of the COVID-19 global pandemic. We compared forecast growth rates and terminal growth rates to authoritative published studies of industry trends and expectations and considered differences for the Group’s operations. We assessed key assumptions such as expected rate of recovery for the group, what the Group considers as their future business model and assumptions. We used our knowledge of the Group, business and customers, and our industry experience. We sourced authoritative and credible inputs from our specialists and market advisors. We used the Group’s performance in historical economic downturns and immediate recent history to inform our assessment of the Group’s recovery;
- We checked the consistency of the growth rate to the Group’s plans and our experience regarding the feasibility of these in the industry and COVID-19 economic environment in which they operate;
- Working with our valuation specialists, we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in;
- We assessed the Group’s analysis of the market capitalisation shortfall versus the total recoverable amount of all CGUs. This included consideration of the market capitalisation range implied by recent share price trading ranges to the Group’s latest internal enterprise valuation model EBITDA multiples was also assessed against comparable companies; and
- We assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.



Other Information

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

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

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- To obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- To issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

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



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Matrix Composites & Engineering Ltd for the year ended 30 June 2021, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 11 to 20 of the Directors' Report for the year ended 30 June 2021.

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

KPMG

Graham Hogg

Partner

Perth

31 August 2021