Appendix 4D

Half year report
Period ending on 31 December 2022

Name of entity

Matrix Composites & Engineering Ltd

ABN or equivalent company reference

54 009 235 450

The information contained in this report relates to the following years:

Current half-year ended	31 December 2022
Previous half-year ended	31 December 2021

Results for announcement to the market

				$000s
Revenue	Decreased	13.5%	To	11,848
Profit after tax attributable to members	Increased	357.3%	To	10,006
Profit after tax attributable to owners of the parent	Increased	357.3%	To	10,006

Dividend payments	Amount per security	Franked amount per security
Year ended 30 June 2022 Final dividend (cents per share)	-	-
Half year ended 31 December 2022 Interim dividend (cents per share)	-	-
Record date for determining entitlement to dividend	n/a	
Date the interim 2023 dividend is payable	n/a	

Net tangible assets	Current half year $	Previous half year $
Net tangible assets per ordinary security (include right-of-use assets and lease liabilities)	$0.06	($0.04)

Total interim dividend to be paid on all securities	Current half year $	Previous half year $
Ordinary securities	nil	nil

The above information should be read in conjunction with the attached Half Year Report for the period ending 31 December 2022.

This report is based on accounts that have been reviewed.

BRENDAN COCKS
CHIEF FINANCIAL OFFICER

Date: 28 February 2023

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Interim Consolidated Financial Report

For the Half Year Ended 31 December 2022

Matrix Composites & Engineering Ltd

ABN 54 009 435 250

Contents

Directors' Report

The directors of Matrix Composites & Engineering Ltd ("Matrix" or "the Company") submit herewith the financial report of the Company and its subsidiaries ("Group" or "Consolidated Entity") for the half-year ended 31 December 2022. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Directors

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

Peter J Hood AO	(Independent Non-Executive Chairman)
Aaron P Begley	(Managing Director & Chief Executive Officer)
Steven Cole	(Independent Non-Executive Director)
Craig Duncan	(Independent Non-Executive Director)
Chris Sutherland	(Independent Non-Executive Director)

The above named directors held office since the start of the half-year to the date of this report.

Review of operations

Overview

The Consolidated Entity's principal activities during the course of the period were the supply of manufactured goods and provision of engineering services. The goods manufactured and services provided by Matrix can be summarised as follows:

- Manufacture and supply of capital drilling equipment (primarily comprised of syntactic foam buoyancy) and provision of inspection, maintenance and repair services to the oil and gas sector;
- 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 centralisers and conductors;
- Distribution of epoxy based coating system and related equipment hire and technical support; and
- Consultancy for, and manufacture of, advanced composite materials and products for the defence, energy, resource and transport sectors.

Financial Performance

The Group recorded a net profit after tax of $10.0m (Dec 2021: net loss $3.9m) for the six-month period ended 31 December 2022.
The result included a non-cash impairment reversal of $15.8m, meaning the result excluding this favorable reversal was a loss of $5.8m.

Revenue was slightly down on the prior corresponding period ($13.7m). Two major projects with a total order value of $33m were underway during the first half however production only started on the first project in late November after 4 months of engineering design and tool manufacture, meaning revenue recognition will mostly fall in the next half for these major projects.

EBITDA for the period was a profit of $12.4m. This included the $15.8m positive non-cash adjustment for the reversal of a prior period asset impairment. It also included an unfavorable non-cash fair value adjustment of $1.1m related to a convertible note issued during the period and revalued at period end under the Australian Accounting Standards. Excluding these two non- cash adjustments the company's EBITDA was a loss of $2.2m and is comparable to the prior periods EBITDA loss of $1.0m on slightly higher revenue.

During the period the Company continued to experience increasing quotation activity in the oil and gas sector and this increasing activity was starting to reflect in an increasing order book for execution. It included three major awards. A project to supply a package of Drilling Riser Buoyancy to a customer in Asia worth $15m (June 22 award), and two South American projects with a combined value of $62m which will be manufactured in the coming periods.

Directors' Report

Review of operations (continued)

Financial Performance (continued)

The Company continues to maintain its corrosion technology business with revenue for the period of $4.4m (31 December 2021: $4.1m). Continued momentum was driven from sales to existing customers and increasing customer engagement across new prospective companies.

The company continues to attract work in development of advanced composite products for local major companies. During the period an order was received to jointly develop light weight composite structural conveyor components for Rio Tinto which if successful would replace current steel equivalents (Order value $0.5m). Furthermore, Matrix continued to partner with Fortescue Future Industries to develop composite components for its green hydrogen initiatives.

The Company continued to focus on keeping fixed overheads low through this market recovery, however project personnel costs were increasing as the activity levels in the factory increased late in the period. The Company recorded an operating cash outflow of $1.5m, a further cash outflow of $1.1m for investing activities (mostly project tooling) and this was offset by a cash inflow of $5.6m in financing activities primarily from establishment of a convertible note in December 22.

Cash at the end of the period was $10.5m (Dec 21 $7.6m).

Impact of Covid 19 during the period

The markets in which Matrix operate appear to have recovered to pre Covid levels. Deferral of a number of projects during Covid are now coming back online and being quoted. This should result in conditions continuing to improve. A sharp increase in the Company’s order book is a good indication of this recovery.

Low unemployment in Western Australia, and the resulting strain on recruiting is an issue facing local companies. Fortunately, the company was able to meet modest increases in our production labour force to meet increasing project loads into the next half.

Strategy and outlook

Matrix continues its strategy to grow its position with its core products in the global oil and gas industry, while diversifying its products and services and leveraging manufacturing capabilities and customer relationships. Key to the financial success of the Company is the ability to secure sufficient work to efficiently load its manufacturing capacity.

The Company continues to service quotations and complete work in the offshore oil and gas activity. During the period the Company won major contracts in the international offshore buoyancy market resulting in its largest order bank since 2016.

The Company is observing an improved subsea buoyancy market which appears to be in recovery. Progress is encouraging with growing sales of our anti-corrosion products and equipment whilst the Company is pleased to land a number of product development opportunities which could lead to new material revenue streams in future periods.

Dividend

The directors have determined that no interim dividend will be paid for the period ended 31 December 2022 (31 December 2021: nil).

Directors' Report

Auditor's independence declaration

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

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

ASIC corporations instrument 2016/191 rounding of amounts

The Company is 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 2016/191, unless otherwise indicated.

This report is signed in accordance with a resolution of the Board of Directors.

……………………………………………………………
Aaron P Begley
Managing Director & Chief Executive Officer

28 February 2023

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 review of Matrix Composites & Engineering Ltd for the half-year ended 31 December 2022 there have been:

i. No contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. No contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

G Hogg

Graham Hogg
Partner
Perth
28 February 2023

Interim Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half Year Ended 31 December 2022

	Notes	31 December 2022 $000	31 December 2021 $000
Revenue	3	11,848	13,693
Cost of sales		(11,490)	(13,172)
Gross profit		358	521
Other income	4	163	255
Reversal of property, plant and equipment impairment losses	10	7,603	-
Reversal of right-of-use asset impairment losses	11	8,197	-
Administration expenses		(2,100)	(1,755)
Finance costs	4	(2,287)	(1,053)
Marketing expenses		(850)	(1,133)
Research expenses		(234)	(170)
Engineering expenses		(844)	(554)
Profit / (loss) before tax		10,006	(3,889)
Income tax expense	5	-	-
Profit / (loss) for the period		10,006	(3,889)
Other comprehensive profit / (loss) for the period, net of tax			
Items that will not be reclassified subsequently to profit or loss:			
Net foreign currency translation differences		(131)	(243)
Other comprehensive loss for the period, net of tax		(131)	(243)
Total comprehensive profit / (loss) for the period		9,875	(4,132)
Profit / (loss) attributable to:			
Owners of the Company		10,006	(3,889)
Total comprehensive profit / (loss) attributable to:			
Owners of the parent entity		9,875	(4,132)
Profit / (loss) per share			
Basic profit / (loss) per share (cents)		6.85	(3.72)
Diluted profit / (loss) per share (cents)		5.28	(3.72)

The accompanying notes form part of these financial statements.

Interim Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	31 December 2022 $'000	30 June 2022 $'000
Assets			
Current assets			
Cash and cash equivalents	6	10,541	7,591
Trade and other receivables	7	6,979	3,463
Inventories	8	8,925	6,516
Prepayments	9	1,146	392
Other current assets		138	-
Total current assets		27,729	17,962
Non-current assets			
Prepayments	9	1,179	-
Property, plant and equipment	10	14,360	6,777
Right-of-use assets	11	15,841	7,876
Intangibles		680	605
Total non-current assets		32,060	15,258
Total assets		59,789	33,220
Liabilities			
Current liabilities			
Trade and other payables	12	4,842	2,438
Progress claims and deposits	3	6,383	456
Lease liabilities	11	666	635
Employee benefits		1,612	1,626
Total current liabilities		13,503	5,155
Non-current liabilities			
Lease liabilities	11	26,282	26,625
Employee benefits		71	57
Provisions		2,699	2,687
Convertible note	13	8,392	-
Total non-current liabilities		37,444	29,369
Total liabilities		50,947	34,524
Net assets / (liabilities)		8,842	(1,304)
Equity			
Issued capital	14	120,713	120,713
Reserves		896	756
Accumulated losses		(112,767)	(122,773)
Total surplus / (deficiency) in equity		8,842	(1,304)

The accompanying notes form part of these financial statements

Interim Consolidated Statement of Changes in Equity

For the Half Year Ended 31 December 2022

	Issued capital	Accumulated losses	Foreign currency translation reserve	Share-based payment reserve	Total
	$000's	$000's	$000's	$000's	$000's
Balance at 1 July 2022	120,713	(122,773)	(1,108)	1,864	(1,304)
Profit for the period	-	10,006	-	-	10,006
Other comprehensive loss for the period, net of income tax	-	-	(131)	-	(131)
Total comprehensive profit / (loss) for the period	-	10,006	(131)	-	9,875
Share-based payments	-	-	-	271	271
Balance at 31 December 2022	120,713	(112,767)	(1,239)	2,135	8,842
Balance at 1 July 2021	114,170	(117,997)	(465)	1,430	(2,862)
Loss for the period	-	(3,889)	-	-	(3,889)
Other comprehensive loss for the period, net of income tax	-	-	(243)	-	(243)
Total comprehensive loss for the period	-	(3,889)	(243)	-	(4,132)
Share-based payments	-	-	-	185	185
Issue of shares, net of costs	2,293	-	-	-	2,293
Balance at 31 December 2021	116,463	(121,886)	(708)	1,615	(4,516)

The accompanying notes form part of these financial statements

Interim Consolidated Statement of Cash Flows

For the Half Year Ended 31 December 2022

	31 December 2022 $'000	31 December 2021 $'000
OPERATING ACTIVITIES		
Receipts from customers (inclusive of GST)	15,444	14,499
Payments to suppliers and employees (inclusive of GST)	(15,982)	(14,324)
Interest received	63	2
Finance costs paid	(20)	(13)
Interest expense on lease liabilities	(1,020)	(1,040)
Net cash used in operating activities	(1,515)	(876)
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	25	-
Purchase of property, plant and equipment	(1,061)	(485)
Payments for intangibles	(75)	(95)
Net cash used in investing activities	(1,111)	(580)
FINANCING ACTIVITIES		
Proceeds from issue of shares (net of issue costs)	-	2,293
Proceeds from issue of convertible note (net of issue costs of $354k)	7,131	-
Interest paid on convertible note	(1,243)	-
Repayment of lease liabilities (principal portion)	(312)	(254)
Net cash provided by financing activities	5,576	2,039
Net increase in cash and cash equivalents held	2,950	583
Cash and cash equivalents at 1 July	7,591	7,164
Cash and cash equivalents at 31 December	10,541	7,747

The accompanying notes form part of these financial statements

Notes to the Interim Consolidated Financial Statements

For the Half Year Ended 31 December 2022

1 Statement of significant accounting policies

(a) General information

Matrix Composites & Engineering Ltd ("the Company") is a limited liability company incorporated in Australia.

(b) Statement of compliance

The half-year financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001* and AASB 134 *'Interim Financial Reporting'*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *'Interim Financial Reporting'*. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report for the year ended 30 June 2022 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

The half-year financial report comprises the consolidated half-year financial reports of the Group. For the purpose of preparing the consolidated financial report, the Company is a for profit entity.

The half-year financial report was authorised for issue by the directors on 28 February 2023.

(c) Basis of preparation

The consolidated half-year report has been prepared on the basis of historical cost, except for certain non- current assets and financial instruments that are measured at fair values. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Other than those included below, the accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2022 annual financial report for the financial year ended 30 June 2022.

Derivative financial instruments
Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss.

Embedded derivatives
An embedded derivative is a component of a hybrid contract that also includes a non-derivative host – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate. Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss (FVTPL). An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards.

Notes to the Interim Consolidated Financial Statements

For the Half Year Ended 31 December 2022

1 Statement of significant accounting policies (continued)

(d) Application of new and revised accounting standards

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

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

Standards and Interpretations in issue not yet adopted

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

(e) 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 period ended 31 December 2022, the Group recognised a net profit of $10.006m (including a $15.800m reversal of impairment losses) and operating cash outflows of $1.515m. The Group's net current assets as at 31 December 2022 amounted to $14.226m of which $3.511m is restricted cash.

Management operating forecast for the next 12 months includes:

- Execution and delivery of current contracted work at budgeted margins
- Expected work to convert in-progress (outstanding) and expected upcoming quotations with established customers, into cashflow at forecast levels and margins
- Recurring sales of established products at forecast levels and margins.

In addition, given the forecast revenue growth from known and yet to be awarded work, management will need to increase working capital during the period and will require cash inflow in the near term through equity, debt or a combination of the two. The Company is currently in advanced stages of such funding and will likely execute that option in the period following adoption of the accounts.

Should planned funding initiatives not be available for any reason, then the company has the option to wind down discretionary spending, negotiate commercial terms with existing suppliers and customers and spread project loads over a longer period of time to reduce the impact on working capital and then raise a reduced level of working capital.

The Directors have reviewed the Company's overall financial position, including forecast operating and financing assumptions, 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.

2 Operating segments

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

Performance monitoring and evaluation

The CODM is identified as the Chief Executive Officer (CEO) who monitors the operating results of the consolidated group and organises its business activities and product lines to serve the global oil and gas industry. The performance of the consolidated group is evaluated based on on-IFRS measures including Earnings before Interest, Taxes, Depreciation and Amortisation ("EBITDA") and Earnings before Interest, Taxes, Depreciation, Amortisation, and Foreign Exchange ("EBITDAF").

Notes to the Interim Consolidated Financial Statements
For the Half Year Ended 31 December 2022

2 Operating segments (continued)

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

	MCE Group* 31 December 2022 000's $	MCE Group* 31 December 2021 000's $
Revenue	11,848	13,693
EBITDAF (i)	13,491	(1,295)
Change in fair value of embedded derivative (ii)	(1,129)	-
Foreign exchange gain	53	252
EBITDA	12,415	(1,043)
Depreciation and amortisation	(1,314)	(1,795)
EBIT	11,101	(2,838)
Net interest	(1,095)	(1,051)
Profit / (loss) before tax	10,006	(3,889)

(i) EBITDAF is reconciled to profit / (loss) as above.
(ii) Relates to the change in fair value of the convertible note embedded derivative. Refer to Note 13.

	MCE Group* 31 December 2022 000's $	MCE Group* 30 June 2022 000's $
Total consolidated assets	59,789	33,220
Total consolidated liabilities	50,947	34,524
Geographical Assets		
Australia	59,041	32,689
Others	748	531
	59,789	33,220
Geographical Liabilities		
Australia	50,940	34,512
Others	7	12
	50,947	34,524

Major customers

Matrix supplies goods and services to a broad range of customers in the global oil & gas industry. During the reporting period, five major customers accounted for 72% of total group revenue (31 December 2021: 67%).

*MCE Group consists of Matrix Composites & Engineering Ltd, Matrix Henderson Property Pty Ltd, Specialist Engineering Services (Aust) Pty Ltd and Matrix Composites & Engineering (US) Inc.

Notes to the Interim Consolidated Financial Statements
For the Half Year Ended 31 December 2022

3 Revenue

	31 December 2022 000's $	31 December 2021 000's $
Revenue from contracts with customers	11,848	13,693

Disaggregation of revenue

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

	31 December 2022 000's $	31 December 2021 000's $
Major product lines		
Design, manufacture, and supply of engineered composite products	7,099	8,568
Coatings products, equipment and service	4,365	4,113
Others	384	1,012
	11,848	13,693
Geographical regions		
Australia	10,771	6,411
Others	1,077	7,282
	11,848	13,693
Timing of revenue recognition		
Goods and services transferred at a point in time	6,071	5,868
Goods and services transferred over time	5,777	7,825
	11,848	13,693

Contract balances

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

	31 December 2022 000's $	30 June 2022 000's $
Trade receivables	6,171	3,096
Progress claims and deposits - contract liabilities	(6,383)	(456)
Other receivables - Trade	531	216
	319	2,856

Notes to the Interim Consolidated Financial Statements
For the Half Year Ended 31 December 2022

3 Revenue (continued)

The contract assets comprise trade receivables and other receivables which primarily relate to the Group's rights to consideration for work completed but not yet 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.

4 Other income and finance costs

	31 December 2022 000's $	31 December 2021 000's $
Other income		
Profit on disposal of assets	25	-
Interest received	63	2
Sundry income	22	1
Net foreign exchange gain	53	252
	163	255
Finance costs		
Finance costs	(32)	(13)
Lease interest	(1,020)	(1,040)
Convertible note interest	(106)	-
Change in fair value of embedded derivative (i)	(1,129)	
	(2,287)	(1,053)

(i) Relates to the change in fair value of the convertible note embedded derivative. Refer to Note 13.

Notes to the Interim Consolidated Financial Statements

For the Half Year Ended 31 December 2022

5 Income Tax

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

	31 December 2022 000's $	31 December 2021 000's $
Profit / (loss) before tax	10,006	(3,889)
Income tax expense / (benefit) calculated at 25% (2021: 25%)	2,502	(972)
Effect of expenses that are not deductible in determining tax payable profit	185	93
Effect of change in income tax rates from 26% to 25%	-	1,344
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(2,687)	(465)
Total income tax expenses recognised in the current year	-	-

The tax rate used for December 2022 and December 2021 was 25% payable by Australian corporate entities on taxable profits under Australian tax law.

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

6 Cash and Cash Equivalents

	31 December 2022 000's $	30 June 2022 000's $
Cash and bank balances	7,030	4,080
Short-term deposits (i)	3,511	3,511
	10,541	7,591

(i) The short-term deposit has a term of 37 days and matures on 6 January 2023. A portion of short-term deposit ($3.3m) 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.

Notes to the Interim Consolidated Financial Statements

For the Half Year Ended 31 December 2022

7 Trade and other receivables

	31 December 2022 000's $	30 June 2022 000's $
CURRENT		
Trade receivables (i)	6,171	3,096
Other receivables - Trade (ii)	620	304
GST refundable	188	63
	6,979	3,463

(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 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.

8 Inventories

	31 December 2022 000's $	30 June 2022 000's $
Raw materials	3,938	2,675
Work in progress (i)	2,955	1,850
Finished goods	1,626	1,991
Goods in transit	406	-
	8,925	6,516

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

9 Prepayments

	31 December 2022 000's $	30 June 2022 000's $
CURRENT		
Prepayments	1,146	392
NON-CURRENT		
Prepayments (i)	1,179	-
	2,325	392

(i) Non-current prepayments relate to interest prepayments on the convertible note. Refer to Note 13.

Notes to the Interim Consolidated Financial Statements

For the Half Year Ended 31 December 2022

10 Property, plant and equipment

	Leasehold improvements	Plant and equipment	Office equipment	Computer equipment	Assets under construction	Total
	000's	000's	000's	000's	000's	000's
	$	$	$	$	$	$
Opening carrying amount at 1 July 2022	-	6,560	8	12	197	6,777
Additions / (transfers)	-	1,120	-	24	(83)	1,061
Depreciation/amortisation expenses	-	(1,054)	(1)	(26)	-	(1,081)
Reversal of impairment losses recognised in profit or loss	1	7,584	1	17	-	7,603
Closing carrying amount at 31 December 2022	1	14,210	8	27	114	14,360

Impairment

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

At 31 December 2022, the Group has re-evaluated whether the recoverable amount of the CGU exceeds its carrying amount due to the existence of impairment reversal indicators. The recoverable amount is determined to be the higher if its fair value less costs to sell or its value in use. For impairment reversal testing purposes 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 lead to an impairment reversal for the period of $15.8m comprising of $7.603m for property, plant and equipment and $8.197m for right-of-use assets. Refer to Note 11.

The estimation of future cash flows requires significant estimates and judgements. Details of the key assumptions used in the value in use model at 31 December 2022 and adopted by the Board are included below.

Notes to the Interim Consolidated Financial Statements

For the Half Year Ended 31 December 2022

10 Property, plant and equipment (continued)

Key Assumptions:

Discount Rate

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

Revenue

Revenue forecasts used in the impairment model are based on existing awarded and quoted projects that are likely to be awarded to Matrix for the first 2 years of revenue. For years 3 to 5 it focuses on revenue levels based on a reasonable market share of our core markets at the expected level of spend indicated from medium term industry forecasts. The revenue levels forecast in year 3 to 5 and in our terminal year is 17% lower than our 12 year average revenue in the same markets.

Cost of Goods Sold

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

Terminal Growth Rate

A terminal growth rate of two percent has been applied.

Sensitivity Analysis

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

- Discount rate
- Terminal value growth rate
- Buoyancy margins
- Annual capex cost to maintain facility and order book
- Industry recovery

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:

Notes to the Interim Consolidated Financial Statements

For the Half Year Ended 31 December 2022

10 Property, plant and equipment (continued)

Assumption	Variance	Negative impact $ million	Positive impact $ million
Discount rate	+/- 2%	4.8	6.7
Terminal value growth rate	+/- 1%	1.6	1.9
Buoyancy (i.e. Riser Buoyancy and Surf) margins	+/- 2%	8.5	8.4
Sustaining and project capex	+/- $1M p.a.	11	11
Change in growth timeframe (i.e. Riser Buoyancy and Surf)	+/- $2.5M Yr 3-5	10.1	10

The impairment analysis is based on a number of industry and operational assumptions by management over the 5 year period to 31 December 2027, which have been endorsed by the Board.

Notes to the Interim Consolidated Financial Statements

For the Half Year Ended 31 December 2022

11 Leases

Right-of-use asset

	Right-of-use asset 000's $
Cost:	
At 1 July 2022	38,511
At 31 December 2022	38,511
Accumulated depreciation and impairment:	
At 1 July 2022	(30,635)
Charge for the period	(232)
Reversal of impairment losses recognised in profit or loss (Refer to Note 10)	8,197
At 31 December 2022	(22,670)
Carrying amount	
At 30 June 2022	7,876
At 31 December 2022	15,841

Lease liability

	31 December 2022 000's $	30 June 2022 000's $
Maturity analysis		
Not later than one year	666	635
Later than one year but not later than five years	3,523	3,359
Later than five years	22,759	23,266
	26,948	27,260
Analysed as:		
Current	666	635
Non-current	26,282	26,625
	26,948	27,260

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 $3.32m bank guarantees are in place as a security over the leases.

The bank guarantee is issued by ANZ. Any bank guarantees issued by ANZ are secured by 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 31 December 2022 was $3.32m (31 December 2021: $3.32m).

Notes to the Interim Consolidated Financial Statements

For the Half Year Ended 31 December 2022

11 Leases (continued)

Lease exemptions

At 31 December 2022, Matrix is committed to $142k (31 Dec 2021: $61k) in relation to 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 interim consolidated statement of profit or loss and other comprehensive income are as follows:

	31 December 2022 000's $	31 December 2021 000's $
Multiple copiers	7	6
Multiple IT equipment	21	34
Serviced office	6	21
Equipment	18	-
	52	61

12 Trade and other payables

	31 December 2022 000's $	30 June 2022 000's $
Trade payables	3,130	1,064
Other creditors and accruals	1,647	1,241
GST payable	65	133
	4,842	2,438

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.

13 Convertible note

On 5 December 2022, the Company issued a convertible note (“Note”) to the Collins St Convertible Note Fund (“Fund”), managed by Collins Street Asset Management Pty Ltd, an Australian wholesale investment management company. The Note has a face value of $7.485 million, with a 3-year term to maturity and a 10.5% coupon rate paid monthly in advance.

The Note is secured and convertible in full or part at the election of Collins Street at 35 cents per share, subject to a dilutionary adjustment. The Company has the discretion to redeem the Note, no earlier than 6 months after the issue date but prior to maturity, by repaying the outstanding amount at any time in full and an early redemption fee.

Notes to the Interim Consolidated Financial Statements
For the Half Year Ended 31 December 2022

13 Convertible note (continued)

The net proceeds received from the issue of the convertible notes have been included below.

	$000
Proceeds from issue of convertible notes	7,485
Transaction cost	(354)
Net proceeds from issue of convertible note	**7,131**

From the net proceeds, an interest prepayment of $1.179 million was made. This relates to the 18 month period ending on the repayment date with the total balance being recognised as a non-current prepayment. Refer to Note 9.

The convertible note is a hybrid financial liability consisting of a financial liability and a derivative liability component. The Company has calculated the fair value of the derivative using a Black Scholes Model. Key assumptions are set out below.

- Maturity of 3 years
- Volatily of 77%
- Risk free rate of 3.05%
- Conversion price of 35 cents

The fair value of the derivative liability has been calculated as $1.917 million with the residual value of the convertible note being assigned to the financial liability. The derivative liability represents the value of the dilutionary adjustment and the value of the early redemption option.

The derivate liability is accounted for at fair value through profit or loss with transaction costs of $91k being recognised in the profit or loss for the period. The remaining transaction costs of $264k have been capitalised against the financial liability.

The derivate liability has been revalued at 31 December 2022 with the fair value adjustment being recognised in the profit or loss.

The financial liability has been recognised at amortised cost. The interest expense for the period was calculated by applying an effective interest rate of 24.52% per cent to the financial liability component for the one-month period since the note was issued.

Movements in the derivative liability and financial liability have been included below.

	$000
Derivative liability at date of issue	1,917
Change in fair value	1,129
Derivative liability at 31 December 2022	**3,046**
Financial liability component at date of issue (net of transaction costs)	5,305
Interest paid	(65)
Interest charged (using effective interest rate)	106
Financial liability at 31 December 2022	**5,346**
Total convertible note liability at 31 December 2022	**8,392**

Notes to the Interim Consolidated Financial Statements
For the Half Year Ended 31 December 2022

14 Issued Capital

	31 December 2022 000's $	30 June 2022 000's $
Issued and paid up capital 146,071,429 (2022: 146,071,429) ordinary shares	120,713	120,713

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.

Movements in ordinary share capital

	Number of shares	$000's
Balance 1 July 2021	102,321,429	114,170
Shares issued during the period	43,750,000	6,543
Balance 30 June 2022	146,071,429	120,713
Shares issued during the period	-	-
Balance 31 December 2022	146,071,429	120,713

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.

Share-based payment

On 20 October 2022, the Board approved the issue of Long Term Incentives (LTIs) to Mr Aaron Begley. The incentives constitute the following:

- the issue of 1,334,533 share options with an exercise price of $0.38 and a value of $0.0749 each.
- The issue of 736,388 performance rights with a value of $0.1358 each.

All the above LTIs have a hurdle based on the Company's 14-day VWAP reaching $0.38 at the end of the FY25 year, and continuous tenure with the company during that time.

15 Dividends

In respect of the reporting period ended 31 December 2022, no interim dividend was paid (2021: nil)

16 Contingencies

The Group had no contingent liabilities or assets requiring disclosure at 31 December 2022 (2021: nil).

17 Events occurring after the reporting date

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

Directors' Declaration

The directors of the Company declare that:

1. The interim consolidated financial statements and notes, as set out on pages 5 to 22 are in accordance with the *Corporations Act 2001,* including:

   (a) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting,* the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (b) give a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half year ended on that date.

2. In the directors opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable with the continuing support of creditors.

Signed in accordance with a resolution of the directors made pursuant to section 303(5) of the *Corporations Act 2001.*

On behalf of the directors

……………………………………………………………
Aaron P Begley
Managing Director & Chief Executive Officer

28 February 2023

Independent Auditor's Review Report

To the shareholders of Matrix Composites & Engineering Ltd

Report on the Interim Consolidated Financial Report

Conclusion

We have reviewed the accompanying ***Interim Consolidated Financial Report*** of Matrix Composites & Engineering Ltd.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Consolidated Financial Report of Matrix Composites & Engineering Ltd does not comply with the *Corporations Act 2001*, including:

- Giving a true and fair view of the ***Consolidated Entity's*** financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and
- Complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Consolidated Financial Report*** comprises:

- Interim consolidated statement of financial position as at 31 December 2022;
- Interim consolidated statement of profit or loss and other comprehensive income, Interim consolidated statement of changes in equity and Interim consolidated statement of cash flows for the half-year ended on that date;
- Notes comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Consolidated Entity*** comprises Matrix Composites & Engineering Ltd (the Company) and the entities it controlled at the half-year's end or from time to time during the half-year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of the Directors for the Interim Consolidated Financial Report

The Directors of the Company are responsible for:

- The preparation of the Interim Consolidated Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;* and
- Such internal control as the Directors determine is necessary to enable the preparation of the Interim Consolidated Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the Interim Consolidated Financial Report

Our responsibility is to express a conclusion on the Interim Consolidated Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Consolidated Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Consolidated Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

KPMG

Graham Hogg
Partner
Perth
28 February 2023