# Mastermyne Group Limited and its Controlled Entities

ABN 96 142 490 579

Annual Report

30 June 2017

Mastermyne Group Limited and its Controlled Entities

## Contents

# Mastermyne Group Limited and its Controlled Entities

## Directors' report

**For the year ended 30 June 2017**

The directors present their report together with the financial report of Mastermyne Group Limited ('the Company') and of the Group, being the Company and its subsidiaries, for the financial year ended 30 June 2017 and the auditor's report thereon.



**1 Directors**

The directors of the Company at any time during or since the end of the financial year are:

*Mr C Bloomfield (appointed 6 March 2014, appointed Chairman 26 February 2015) - Bachelor of Engineering (Mining), Graduate Certificate of Management*
*Independent Chairman*

*Experience and other directorships*
Colin brings to the Company over 27 years of mining experience in technical, operations, management and corporate roles. Until recently Mr. Bloomfield led BHP Billiton's Illawarra Coal Group as President Illawarra Coal, a role he was appointed to in 2004. During his time as President Illawarra Coal, Mr Bloomfield oversaw a marked improvement in safety performance, steered Illawarra Coal towards growth and secured, with his team, a number of critically important approvals. He holds a First Class Certificate of Competency in Mine Management and has managed underground coal mines in Australia.

Colin's former roles include Vice President Health, Safety and Environment for BHP Billiton where he had global responsibility for the function. Previously he was Project Director for the BHP Billiton merger integration and a member of the BHP deal team for that transaction. In total he spent over five years working in various roles in BHP Billiton's corporate office.

Colin has previous experience as a Director at the NSW Minerals Council for almost nine years including three as Chairman. He was also Chairman of Port Kembla Coal Terminal for over eight years.

*Special Responsibilities*
Member of the Audit and Risk Management Committee (replaced as Chairman on 16 May 2017)
Member of the Remuneration and Nomination Committee (replaced as Chairman on 16 May 2017)

*Mr A. Watts (appointed 10 March 2010)*
Non - executive Director
*Experience and other directorships*
Andrew has been involved in contracting within the mining industry since 1994 and co-founded Mastermyne in 1996.
Andrew was responsible for all aspects of Mastermyne's operations until the appointment of Tony Caruso as CEO in 2005. Andrew relocated to Sydney in early 2010 to focus on the New South Wales market.

*Special Responsibilities*
Member of the Audit and Risk Management Committee
Chairman of the Remuneration and Nomination Committee (appointed Chairman 16 May 2017)

*Mr G. Meena (appointed 15 September 2015) - Bachelor of Engineering (Mechanical)*
*Non - executive Director*

*Experience and other directorships*
Gabe is an executive with over 30 years experience in the steel, mining and stevedoring industry covering operations, maintenance and engineering. Gabe has held senior operational and management roles with Bluescope Steel as General Manager Mills and Coating, Bluescope Steel China as President China Coated and BHP Collieries as General Manager of a number of coal mines. Gabe's most recent role was General Manager Operations with Patrick Terminals. Gabe has a Bachelor in Mechanical Engineering and is a graduate of the Australian Institute of Company Directors.

*Special Responsibilities*
Chairman of the Audit and Risk Management Committee (appointed Chairman 16 May 2017)
Member of the Remuneration and Nomination Committee

**1 Directors (continued)**

*Mr A. Caruso (appointed 10 March 2010)* - Post Graduate Degree in Business Management
Managing Director

*Experience and other directorships*
Tony was appointed CEO of Mastermyne in 2005 and Managing Director in 2008 and has overall corporate responsibility for Mastermyne. Tony has over 20 years experience in underground mine contracting services. Prior to joining Mastermyne, Tony was the General Manager of Allied Mining in Queensland and a consultant to the underground mining sector. He has a trade background plus a post graduate degree in Business Management and is a Fellow of the Australian Institute of Management.

**2 Company secretary**

Mr W Lyne was appointed to the position of company secretary on 15 November 2016 having previously held the position from March 2010 until February 2015. His qualifications include a Bachelor of Commerce degree, he is a Chartered Accountant and a Fellow of the Governance Institute of Australia. Bill has operated his own business, Australian Company Secretary Service, since 1998, providing professional company secretarial, corporate compliance, governance and administrative services to clients across a wide range of industries. He is currently company secretary of four other ASX listed companies, including Jumbo Interactive Limited of which he is also a director.

Ms L Blockley was appointed Joint Company Secretary on 15 November 2016. Liz has a Bachelor of Commerce, is a Certified Practicing Accountant and has a Certificate in Governance Practice from the Governance Institute of Australia. Liz has been with the Group since December 2014 by way of the DMS acquisition and has over 12 years experience in the mining and construction industries.

**3 Directors' meetings**

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

| Director | Board Meetings | | Audit and Risk Management Committee Meetings | | Remuneration & Nomination Committee Meetings | |
|---|---|---|---|---|---|---|
| | A | B | A | B | A | B |
| Mr C. Bloomfield | 8 | 8 | 4 | 4 | 3 | 3 |
| Mr A. Watts | 8 | 8 | 4 | 4 | 3 | 3 |
| Mr G. Meena | 8 | 7 | 4 | 4 | 3 | 3 |
| Mr A. Caruso | 8 | 8 | 4 | 4 | 3 | 3 |

A – Number of meetings held during the time the director held office during the year
B – Number of meetings attended

**4 Operating and financial review**

**Financial Overview**

**Results**

Mastermyne Group Limited and its controlled subsidiaries recorded a loss after tax of $2.110 million for the full year ended 30 June 2017 (2016: loss after tax of $13.186 million).

The current year result included the negative impact of expenses associated with the Board's decision to exit workshops. Incurred predominantly in the second half of the financial year, the pre-tax impact of these expenses on the current year's result is summarised below, and indicates the improvement in the Group's underlying profit in the second half of the financial year:

| | *In millions* | | |
|---|---|---|---|
| | **1H17** | **2H17** | **FY17** |
| **Loss before income tax** | **(2.001)** | **(0.880)** | **(2.881)** |
| Impairment of workshop plant and equipment | - | 0.664 | 0.664 |
| Loss on sale of plant and equipment | 0.154 | 0.071 | 0.225 |
| Write-down of workshop inventories | - | 0.428 | 0.428 |
| **Underlying profit/(loss) before income tax** | **(1.847)** | **0.283** | **(1.564)** |

**4 Operating and financial review (continued)**

**Results (continued)**

FY17 revenue was $124.162 million, a decrease of 26% on the previous corresponding period. The reduction is primarily attributed to run off of contracts in the mining division, specifically the completion of the Grosvenor Civils project ($7 million) and the run off of the Grosvenor Development & Umbrella contract ($28 million). Also impacting revenue was the closure of the loss making Mastertec workshops ($8 million) and the finalisation of various smaller Mining contracts ($7 million). However, late in the first half of FY17 the Group experienced a significant increase in tender activity on the back of improved coal markets. This has translated into an increase in second half revenue through both increased scope on existing contracts and the award of the Peabody Wambo Roadway Development contract which started in April 2017.

**Balance Sheet and Cash Flows**

The overall cash position at 30 June 2017 resulted in a net decrease in cash and cash equivalents of $2.603 million. The reduction was a result of an increase in capital expenditure to overhaul the Group's Mining Equipment Fleet for new contracts and for placement at existing sites. The cash flow movements were as follows:

• net cash inflows from operating activities for the full-year ended 30 June 2017 of $5.452 million (full-year ended 30 June 2016: inflows of $0.381 million);

• net cash outflows from investing activities for the full-year ended 30 June 2017 of $4.309 million (full-year ended 30 June 2016: outflows of $1.994 million); and

• net cash outflows from financing activities for the full-year ended 30 June 2017 of $3.746 million (full-year ended 30 June 2016: outflows of $5.274 million).

The net assets of the Group decreased by $2.104 million to $42.329 million with the decrease as a result of the loss for the full year ended 30 June 2017.

The Group maintains sufficient headroom in its current bank facilities with a recent restructure of the facility to provide additional working capital to support the growth that Mastermyne is currently experiencing. Under the new Deed, Mastermyne has increased the amount of its existing bank facilities from $15.25 million to $17.75 million as at 30 June 2017.

**Operational Overview**

Operational highlights for the financial year include:
• Return to profitability in the second half of FY17
• Contract Order Book of $280 million with $150 million to be delivered in FY18
• Workforce numbers approaching 800 (mobilisation continuing)
• Equipment utilization at 80%
• Tendering Pipeline of $220+ million (excluding Whole of Mine) and $750+ million in Whole of Mine opportunities.

Mastermyne Group's second half result was highlighted by $16 million in increased revenue from new contracts and scope increases. The increase in revenue underpinned a return to profitability for the Company. In addition to the work secured in the second half, the Company has also secured new projects which will be mobilised over the first half of FY18.

During the FY17 year the Board approved significant restructuring of the Company to reduce overheads, exit non-core and underperforming revenue streams and focus on our high quality contracting services. Taking these decisions early positioned the Group well to maneuver through the continued revenue decline in the first half of the year and to maintain the financial strength of the Company. As a result, the Company has been well positioned to react quickly to the growth opportunities in the second half and to absorb the working capital requirements as labour numbers increased quickly and equipment capex was required to prepare the fleet for a return to hire.

The improved price environment in the Coal sector has driven a significant increase in tendering activity. This, combined with changes in the competitor landscape, has meant that the Company is well positioned for these new opportunities. Owners in the coal sector are relying on contractors to mobilise rapidly to help them supply coal into the stronger market. As a result, the Company has experienced a significant increase in underground roadway development tenders.

The Mining division has seen equipment utilization increase as new projects incorporate the Company's equipment fleet. The company has funded $4.3 million of capex in the second half to prepare the mining equipment for projects and this equipment has now been deployed. Additional capital expenditure (within the Group's finance facilities) is budgeted in the first half of FY18 to prepare further equipment for contracts which will be mobilised during the period.

**4 Operating and financial review (continued)**

**Operational Overview (continued)**

Our strong focus on safety continues to be core to what we do. Our leading indicators of safety performance continue to demonstrate the efforts we make to ensure safe workplaces and the majority of our projects continue to deliver exceptional safety outcomes. Despite this, a small number of our projects experienced higher injury rates meaning our TRIFR has increased from 8.4 at June 2016 to 19.5 at the end of June 2017. Appropriate safety improvement plans have been implemented at all projects with higher incident rates.

With the securing of new projects and the expansion of scope on our existing projects we have increased our workforce numbers significantly from the half year. At the conclusion of FY17 workforce numbers were at 752, slightly short of the 800 forecast in the half year results. The shortfall in workforce numbers was a result of delayed mobilisation on South32's Appin project which experienced some prolonged downtime due to operational gas issues. Once these issues are resolved by the mine owner the remainder of this workforce will be immediately engaged.

The Group's Order Book currently stands at $280 million, of this total order book approximately $150 million will be delivered in FY18. In addition to the contracted works, forecast recurring and purchase order work is expected to be approximately $20 million in FY18. The tendering activity remains strong with the current pipeline exceeding $970 million, of which $750 million relates to multiple whole of mine operations.

*Mastermyne Mining*

The Mining division has delivered a strong financial result maintaining its profitability and exceeding revenue forecasts. The result was underpinned by the strong finish to the year and sets the Company up for an improved year ahead. FY17 was a year of two opposing halves with the first half dominated by a major contract running off at Anglo's Grosvenor Site impacting the first half revenue and profitability significantly. In addition, a number of smaller QLD sites ran off which compounded the reduction in revenue and profitability compared to the prior corresponding period.

Towards the end of 2016 there was a sustained increase in project activity with tender opportunities growing and clients commencing discussions around scope expansion. As the second half commenced tenders were converted and mobilised and scope was increased on existing projects. Importantly, roadway development projects increased which was the catalyst for improved utilization of the Company's fleet.

This strong momentum is demonstrated by new contracts and scope expansion as follows;

- Secured a 2 year contract at South32 Appin Colliery, representing a much larger scope than the superseded contract.
- Contract extension secured at Anglo Moranbah North Mine, along with the addition of a roadway development crew that commenced in March 2017 with a further roadway development crew to commence in August 2017.
- Secured a new Development Contract at Peabody Wambo Mine in NSW.
- Contract extension secured at Rio Tinto's Kestrel Mine.
- Additional parcels of work secured at BMA's Broadmeadow site (approx. 12 months tenure).
- Secured additional development scope at South 32's Appin Mine (approx. 120 personnel).
- Advised preferred tenderer on a roadway development tender in NSW to commence in H1 FY18.

**4 Operating and financial review (continued)**

**Operational Overview (continued)**

*Mastertec*

The performance of the Mastertec operations over FY17 necessitated the consolidation of the division back to its core strengths in scaffolding and protective coating services. The Company exited all underperforming businesses which included the impairment of the remaining workshop assets. The long term strategy for the Mastertec business is to deliver scaffolding and protective coatings services to ports, mines and other industrial infrastructure on a long-term contract basis.

The Mastertec division has also benefited from the increased activity across the resources sector and has delivered a significantly improved financial performance in the second half despite the smaller revenue base. As part of the geographical expansion, Mastertec secured the three year South32 Illawarra Scaffolding Services Contract in NSW and also secured a 12 month contract extension at Dalrymple Bay Coal Terminal in Queensland. Supporting these major long term contracts Mastertec has also seen an increase in shutdown activities across the ports and mine sites and has been successful in securing this type of work leading into the FY18 year.

The restructuring of the Mastertec division has resulted in improved results in the final quarter of FY17 providing the Company with confidence that the business is now structured to deliver better results in FY18.

**Outlook**

The increased activity across the resources sector has resulted in the Company starting the FY18 year with a solid order book. The Company's recent conversion rate on tenders has been very strong and this momentum has continued into the start of FY18 with projects to mobilise in the first half of the year. The Company has also been shortlisted for further roadway development tenders which are now in later stages of negotiations.

Equipment utilization rates are forecast to remain strong throughout the year with demand coming through the order book and tender pipeline but also directly from clients seeking to hire equipment for their own operations. Some additional capital expenditure is budgeted for the early part of FY18 to overhaul and prepare additional equipment for hire.

The Mastertec division will benefit from stronger market activity in both QLD and NSW and, despite the competitive nature of these services, we expect to secure additional work over the year. The geographical footprint provided through the South32 contract may enable the Company to leverage opportunities on the South Coast of NSW for long term scaffolding and protective coatings contracts for major infrastructure in the area. Queensland operations will continue to focus on the major coal ports with a number of long term maintenance contracts due for tender in the coming months. The Mastertec Division now has a focused approach that will enable it to deliver improved full year results.

The prudent steps that the Company has undertaken over the last 12 -18 months to rebase its cost structure and exit non-core operations has set the solid foundation to generate cash in the coming year. The additional working capital provided through the restructure of our facilities leaves the Group well positioned to grow.

On the back of the secured order book and our pipeline of opportunities the Company is very confident in delivering a strong financial performance in FY18. Our workforce numbers are expected to return to 1,000 personnel at the completion of the first half and we expect full year revenue of between $160-180 million.

## 5 Remuneration report

### 5.1 Principles of remuneration - audited

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and executives listed below.

- Mr C. Kneipp, Chief Financial Officer (appointed 20 March 2006, resigned 18 November 2016)
- Ms V. Gayton, Executive General Manager Human Resources (appointed 11 August 2010)
- Mr D. Sykes, Executive General Manager Operations (appointed 24 April 2012)
- Mr P. Mills, Executive General Manager Mastertec (appointed 29 September 2014, resigned 22 October 2016)
- Mr P. Hicks, Interim Chief Financial Officer (appointed 15 November 2016, vacated position 3 May 2017)
- Ms L. Blockley, Chief Financial Officer (appointed 3 May 2017)

Compensation levels for Key Management Personnel (KMP) of the Group are competitively set to attract, retain and motivate appropriately qualified and experienced directors and executives. The remuneration committee obtains independent data on the appropriateness of remuneration packages of the Group given trends in comparative companies and sectors both locally and nationally and the objectives of the Company's compensation strategy.

The remuneration structures of the Group are designed to attract and reward suitably qualified candidates, reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders. The remuneration structures consist of both a fixed and variable component designed around KPI's aligned with the short and long term strategic objectives of the group. Remuneration structures reflect:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the relevant segment/s' performance; and
- the recognition of the key management personnel's contribution to the Group's performance.

In addition to their salaries, the Group also provides non-cash benefits to its KMP and contributes to a post-employment defined contribution superannuation plan on their behalf. The reviews are conducted under the terms of reference set down for the Remuneration and Nomination Committee (RNC).

**Fixed remuneration**

Fixed remuneration consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Remuneration levels of the CEO/Managing Director are reviewed annually by the RNC through a process that considers individual, segment and overall performance of the Group. In addition, external data is provided for analysis of KMP's remuneration to ensure it remains competitive by benchmarking against the market place. The chairman of the RNC sources data independently of management from appropriate independent advisors. For other key executive management, the CEO/Managing Director will submit recommendations to the RNC along with relevant supporting data and externally independent comparative information. A senior executive's compensation may also be reviewed upon promotion or in line with movements in the market place during the period.

**Performance linked remuneration**

Non-executive Directors are not eligible to participate in performance linked remuneration of either a short or long term nature.

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward KMP for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash.

**5.1 Principles of remuneration - audited (continued)**

**Short-term incentive bonus**

The Mastermyne short term incentive plan was introduced as a structured incentive to reward Key Management Personnel's (KMP) performance against predetermined KPIs. The KPIs include measures aligned with the strategic objectives of the Group, with specific measures (normally 5 or 6) for individual performance, group performance and underlying performance of the relevant segment. The measures are chosen to align the individual's reward to the strategic goals of the Group.

The financial performance objectives may vary by individual and are broadly based on profitability compared to budgeted amounts approved by the board each year. The non-financial objectives vary dependent upon position and responsibility and are aligned with the measures and targets set to achieve the strategic objectives of the group on an annual basis. STI payments must be self funding.

At the end of the financial year the RNC assess the actual performance of the Group, the relevant segment and individual against the KPI's set at the beginning of the financial year. Payment of individual bonuses is based on the assessment of the RNC with recommendations from the Managing Director (for employees other than the Managing Director) taking into consideration the overall performance of the individual for the period. The Managing Director's STI bonus is set by the Board based on assessment of his/her performance against agreed KPIs as assessed by the RNC and recommended to the Board. In all cases, the Board retains the discretion not to pay any STI; the Board also has the discretion to modify (down or up) payments based on recommendations from the RNC.

**Long-term incentive**

An employee performance rights plan was adopted by the Board on 15 September 2015 and the plan was activated by resolution of the Board as of 16 November 2015. The purpose of the employee performance rights plan is to attract, motivate and retain executives, encouraging individuals to participate in the company through ownership of shares. The objective is to improve Mastermyne's performance by aligning the interests to those of the shareholders and the Group.

KMP (including the Managing Director) were issued 617,500 (Managing Director 365,850) performance rights during the financial year ended 30 June 2017, which vest in two tranches at 1 October 2019. The grant of these rights was made in accordance with the Company's Employee Rights Plan voted upon by shareholders at the 2015 AGM, with specific details to the issue of these rights voted upon by shareholders at the 2016 AGM. The ability to exercise the rights is conditional on the Group meeting its performance hurdles.

Vesting of the rights will be subject to achievement of the vesting conditions set out below and the eligible participant being employed at the vesting date:

• Vesting Condition 1: The main Vesting Condition is that the eligible participant must be employed within the Group on the Test Date. If employment is ceased with the Group prior to the Test Date, the performance rights will lapse unless the Board at its absolute discretion determines otherwise.

• Vesting Condition 2: Vesting is also conditional on the continuation of good conduct and the execution of duties in the best interests of Mastermyne. If it is deemed the eligible participant has acted fraudulently or dishonestly, or is in breach of obligations to Mastermyne, the Board at its discretion may determine that some or all of the performance rights will lapse.

• Vesting Condition 3: There is an overriding Vesting Condition, requiring a minimum 8% total shareholder return (TSR) during the TSR measurement period (i.e. from the Time of Grant to the Test Date).

• Vesting Condition 4: If Vesting Condition 3 is achieved there are two further Vesting Conditions that will each be applied independently to 50% of the performance rights. Both of these Vesting Conditions depend on Mastermyne's TSR percentile rank during the TSR measurement period:

a. Tranche A: 50% of the performance rights will be conditional on the company's TSR rank relative to companies in the ASX All Ordinaries Accumulation index;

b. Tranche B: 50% of performance rights will be conditional on the company's TSR rank relative to the ASX 200 Resources Accumulation index.

**5.1 Principles of remuneration - audited (continued)**

**Long-term incentive (continued)**

For each tranche, the percentage of performance rights which will vest will be as specified in the table below:

| TSR Rank during TSR measurement period | Percentage of Tranche A or Tranche B performance rights vesting |
|---|---|
| Below 50th percentile of the ASX Peer Group or the Resources Peer Group | 0% |
| 50th percentile to 75th percentile of the ASX Peer Group or the Resources Peer Group | 50% plus 2% for each percentile above 50th percentile |
| Above 75th percentile of the ASX Peer Group or the Resources Peer Group | 100% |

**Short-term and long-term incentive structure**

The RNC considers that the above performance-linked compensation structures will achieve the objectives of attracting, retaining and motivating suitably experienced executives. In the current year the financial linked targets representing a minimum of 50% of each KMP performance criteria were adversely affected by the slow down in the coal sector, resulting in no short term incentives being approved by the Board.

**Consequences of performance on shareholders' wealth**

In considering the Group's performance and benefits for shareholders wealth, the RNC have regard to the following indices in respect of the current financial year and the previous four financial years.

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| (Loss)/Profit attributable to owners of the Company | $ (2,012,000) | $ (13,156,000) | $ (4,376,000) | $ 2,963,000 | $ 11,514,000 |
| Dividends paid | $ - | $ 911,000 | $ 1,968,121 | $ 3,468,406 | $ 6,105,000 |
| Change in share price | 182% | -31% | -65% | -35% | -67% |
| Return on capital employed | -5.53% | -32.23% | -6.28% | 8.08% | 29.66% |

Profit is considered as one of the financial performance targets in setting the STI. Profit amounts for 2013 to 2017 have been calculated in accordance with Australian Accounting Standards (AASBs).

The overall level of KMP compensation takes into account the performance of the Group over a number of years. The Group's profits have declined as a result of the softening coal industry resulting in a loss from ordinary activities over the past three years. As a result of the softening coal industry both KMP and director remuneration was reduced by 10% and 20% respectively during the 2016 financial year and has remained in place over the duration of the 2017 financial year.

**Other benefits**

Key Management Personnel can receive additional benefits as non-cash benefits, as part of the terms and conditions of their appointment. Non-cash benefits typically include motor vehicle benefits, and the Group pays fringe benefits tax on these benefits.

**5.1 Principles of remuneration - audited (continued)**

**Executive Service Agreements**

The RNC recommends Group remuneration policies for Key Management Personnel. The committee focuses mainly on the CEO's remuneration but reviews agreements made with other KMP. In recommending the CEO remuneration package, the RNC takes advice from independent advisors in executive and non-executive remuneration as noted below.

The Group has entered into service agreements with each key management person that are capable of termination on 3 months' notice. The Group retains the right to terminate an agreement immediately by making payment equal to 3 months' pay in lieu of notice. The CEO/Managing Director's contract has no fixed term and is capable of termination on 9 months' notice.

Key Management Personnel are also entitled to receive on termination of employment their statutory entitlements of accrued annual leave, long service leave and sick leave, together with any superannuation benefits. Non-executive Directors are not eligible for annual leave, long service leave nor sick leave although they may be granted leave of absence in specific circumstances.

The service agreements outline the components of remuneration paid to the key management personnel but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year by the RNC and take into consideration any change in the scope of the role performed by the senior executive or with any changes made to the remuneration policy during the period. Remuneration is benchmarked against the external market place with the objective to ensure senior executives are rewarded equitably by reference to their individual performance and the Group's overall performance.

**Services from remuneration consultants**

In the current year the RNC was presented with a report comparing KMP salaries across industry peers. The data was sourced from publicly available sources. No specific recommendations were sought on director or KMP remuneration due to the Board's view that market circumstances were too fluid to allow historical information to provide a useful guide to appropriate remuneration levels.

There was no external fees paid for remuneration research reports during the 2017 financial year.

**Directors' Fees**

As with the Executives, remuneration of Non-Executive Directors (NED) is usually reviewed based on comparative roles in the market place, however this year, based on the continued softening in the coal sector, current levels of remuneration remained at the reduced rates set in the 2016 financial year.

In future years, the aggregate remuneration of NEDs will be an amount determined by the shareholders from time to time in the annual general meeting. The fees will be divided between directors in proportions agreed to from time to time by the Board.

**5.2 Directors' and executive officers' remuneration - audited**

Details of the nature and amount of each major element of remuneration of each director of the company and other key management personnel of the consolidated entity are:

| 2017 | Short Term | | | | Post-Employment | | Share- based payments | | Proportion of remuneration performance related |
|---|---|---|---|---|---|---|---|---|---|
| in AUD | Salary & Fees ($) | STI cash bonus ($) | Non-monetary benefits | Total ($) | Superannuation Benefits ($) | Termination Benefits ($) | Rights ($) | Total ($) | (%) |
| **Non -executive directors** | | | | | | | | | |
| Mr C Bloomfield | 66,050 | - | - | 66,050 | 6,275 | - | - | 72,325 | 0.00% |
| Mr A Watts | 50,268 | - | - | 50,268 | 4,775 | - | - | 55,043 | 0.00% |
| Mr G Meena | 37,068 | - | - | 37,068 | 3,521 | - | - | 40,589 | 0.00% |
| **Executive Directors** | | | | | | | | | |
| Mr A Caruso | 311,051 | - | 19,500 | 330,551 | 28,282 | - | 30,316 | 389,149 | 7.79% |
| **Executives** | | | | | | | | | |
| Mr C Kneipp | 220,024 | - | 7,500 | 227,524 | 7,506 | - | 1,949 | 236,979 | 0.82% |
| Mr D Sykes | 274,469 | - | - | 274,469 | 24,807 | - | 13,462 | 312,738 | 4.30% |
| Mr P Mills | 76,436 | - | - | 76,436 | 4,875 | - | 1,506 | 82,817 | 1.82% |
| Ms V Gayton | 168,287 | - | - | 168,287 | 15,480 | - | 7,037 | 190,804 | 3.69% |
| Mr P Hicks | 41,057 | - | - | 41,057 | - | - | - | 41,057 | 0.00% |
| Ms L Blockley | 26,924 | - | - | 26,924 | 2,558 | - | - | 29,482 | 0.00% |
| **Totals** | **1,271,634** | **-** | **27,000** | **1,298,634** | **98,079** | **-** | **54,270** | **1,450,983** | |

**Notes in relation to the 2017 tables of directors' and executive officers' remuneration**

- Mr A Watts salary included $13,200 of consulting services performed throughout the year
- Mr C Kneipp resigned as Chief Financial Officer on 18 November 2016
- Mr P Mills resigned as Executive General Manager Mastertec on 22 October 2016
- Mr P Hicks was appointed Interim Chief Financial Officer on 15 November 2016 and vacated the position on 3 May 2017
- Ms L Blockley was appointed Chief Financial Officer on 3 May 2017

- No short term incentive bonuses were awarded in the current financial year. The short term incentive bonus is for performance during the respective financial year. The amount was finally determined on 18 July 2017 after performance reviews were completed and approved by the RNC.
- The fair value of the rights is calculated at the date of grant using a Monte Carlo pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights recognised in this reporting period.

| 2016 | Short Term | | | | Post-Employment | | Share- based payments | | Proportion of remuneration performance related |
|---|---|---|---|---|---|---|---|---|---|
| in AUD | Salary & Fees ($) | STI cash bonus ($) | Non-monetary benefits | Total ($) | Superannuation Benefits ($) | Termination Benefits ($) | Rights ($) | Total ($) | (%) |
| **Non -executive directors** | | | | | | | | | |
| Mr C Bloomfield | 82,038 | - | - | 82,038 | 7,793 | - | - | 89,831 | 0.00% |
| Mr D Hamblin | 39,625 | - | - | 39,625 | 3,764 | - | - | 43,389 | 0.00% |
| Mr A Watts | 44,346 | - | - | 44,346 | 4,213 | - | - | 48,559 | 0.00% |
| Mr J Wentworth | 40,351 | - | - | 40,351 | - | - | - | 40,351 | 0.00% |
| Mr G Meena | 34,929 | - | - | 34,929 | 3,318 | - | - | 38,247 | 0.00% |
| **Executive Directors** | | | | | | | | | |
| Mr A Caruso | 341,702 | - | 19,500 | 361,202 | 29,409 | - | 20,910 | 411,521 | 5.08% |
| **Executives** | | | | | | | | | |
| Mr C Kneipp | 218,222 | - | 19,500 | 237,722 | 20,477 | - | 2,051 | 260,250 | 0.79% |
| Mr D Sykes | 300,165 | - | - | 300,165 | 27,248 | - | 2,847 | 330,260 | 0.86% |
| Mrs B Jooste | 75,829 | - | 4,595 | 80,424 | 4,032 | - | - | 84,456 | 0.00% |
| Mr P Mills | 212,293 | - | - | 212,293 | 20,153 | - | 1,972 | 234,418 | 0.84% |
| Ms V Gayton | 168,287 | - | - | 168,287 | 15,480 | - | 1,407 | 185,174 | 0.76% |
| **Totals** | **1,557,787** | **-** | **43,595** | **1,601,382** | **135,887** | **-** | **29,187** | **1,766,456** | |

**Notes in relation to the 2016 tables of directors' and executive officers' remuneration**

- Mr G Meena was appointed Non-executive Director on 15 September 2015
- Mrs B Jooste resigned as Executive General Manager HSEQ on 25 September 2015
- Mr J Wentworth resigned as Non-Executive Director on 15 April 2016
- Mr D Hamblin resigned as Non-Executive Director on 20 April 2016

- No short term incentive bonuses were awarded in the current financial year. The short term incentive bonus is for performance during the respective financial year. The amount was finally determined on 19 July 2016 after performance reviews were completed and approved by the RNC.
- The fair value of the rights is calculated at the date of grant using a Monte Carlo pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights recognised in this reporting period.

### 5.3 Analysis of bonuses included in remuneration - audited

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the Group and other key management personnel are detailed below.

| | Included in remuneration $ (A) | % vested in year | % forfeited in year (B) |
|---|---|---|---|
| **Directors** | | | |
| Mr A Caruso | - | 0.0% | 100.0% |
| **Executives** | | | |
| Mr C Kneipp | - | 0.0% | 100.0% |
| Mr D Sykes | - | 0.0% | 100.0% |
| Mr P Mills | - | 0.0% | 100.0% |
| Ms V Gayton | - | 0.0% | 100.0% |
| Mr P Hicks | - | 0.0% | 100.0% |
| Ms L Blockley | - | 0.0% | 100.0% |

(A) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2017 financial year.

(B) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

### 5.4 Equity Instruments - audited

All rights refer to rights to acquire one ordinary share of Mastermyne Group Limited for no consideration which upon exercise are exchangeable on a one for one basis.

#### 5.4.1 Rights over equity instruments granted as compensation - audited

| | Number of rights granted during 2017 | Grant date | Fair value per right at grant date ($) | Exercise price per right ($) | Expiry date | Number of rights vested during 2017 |
|---|---|---|---|---|---|---|
| **Executives** | | | | | | |
| Mr A Caruso | 182,925 | 15/11/2016 | 0.1993 | - | 1/10/2019 | - |
| Mr D Sykes | 81,225 | 15/11/2016 | 0.1993 | - | 1/10/2019 | - |
| Ms V Gayton | 44,600 | 15/11/2016 | 0.1993 | - | 1/10/2019 | - |
| Mr A Caruso | 182,925 | 15/11/2016 | 0.1997 | - | 1/10/2019 | - |
| Mr D Sykes | 81,225 | 15/11/2016 | 0.1997 | - | 1/10/2019 | - |
| Ms V Gayton | 44,600 | 15/11/2016 | 0.1997 | - | 1/10/2019 | - |

No rights have been granted since the end of the financial year.

#### 5.4.2 Modification of terms of equity-settled share based payments transactions - audited

No terms of equity-settled share-based payment transactions (including rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

#### 5.4.3 Exercise of rights granted as compensation - audited

During the reporting period no shares were issued on the exercise of rights previously granted as compensation.

**5.4.4 Analysis of rights over equity instruments granted as compensation - audited**

Details of vesting profiles of the rights granted as remuneration to each key management person of the Group are detailed below.

| | Number of rights granted | Grant date | % vested in year | % forfeited in year | Financial year in which grant vests | Rights Tranche |
|---|---|---|---|---|---|---|
| **Executives** | | | | | | |
| Mr A Caruso | 173,718 | 21/01/2016 | 0% | 0% | 2018 | FY16 TRANCHE A |
| Mr C Kneipp | 55,555 | 21/01/2016 | 0% | 100% | 2018 | FY16 TRANCHE A |
| Mr D Sykes | 77,137 | 21/01/2016 | 0% | 0% | 2018 | FY16 TRANCHE A |
| Mr P Mills | 53,419 | 21/01/2016 | 0% | 100% | 2018 | FY16 TRANCHE A |
| Ms V Gayton | 38,120 | 21/01/2016 | 0% | 0% | 2018 | FY16 TRANCHE A |
| Mr A Caruso | 173,718 | 21/01/2016 | 0% | 0% | 2018 | FY16 TRANCHE B |
| Mr C Kneipp | 55,556 | 21/01/2016 | 0% | 100% | 2018 | FY16 TRANCHE A |
| Mr D Sykes | 77,137 | 21/01/2016 | 0% | 0% | 2018 | FY16 TRANCHE B |
| Mr P Mills | 53,419 | 21/01/2016 | 0% | 100% | 2018 | FY16 TRANCHE A |
| Ms V Gayton | 38,119 | 21/01/2016 | 0% | 0% | 2018 | FY16 TRANCHE B |
| Mr A Caruso | 182,925 | 15/11/2016 | 0% | 0% | 2019 | FY17 TRANCHE A |
| Mr D Sykes | 81,225 | 15/11/2016 | 0% | 0% | 2019 | FY17 TRANCHE A |
| Ms V Gayton | 44,600 | 15/11/2016 | 0% | 0% | 2019 | FY17 TRANCHE A |
| Mr A Caruso | 182,925 | 15/11/2016 | 0% | 0% | 2019 | FY17 TRANCHE B |
| Mr D Sykes | 81,225 | 15/11/2016 | 0% | 0% | 2019 | FY17 TRANCHE B |
| Ms V Gayton | 44,600 | 15/11/2016 | 0% | 0% | 2019 | FY17 TRANCHE B |

**5.4.5 Analysis of movements in rights - audited**

| | Granted in year $ (A) | Value of rights exercised in year $ (B) | Lapsed in Year $(C) |
|---|---|---|---|
| **Executives** | | | |
| Mr A Caruso | 72,987 | - | - |
| Mr D Sykes | 32,409 | - | - |
| Ms V Gayton | 17,795 | - | - |

(A) The value of rights granted in the year is the fair value of the rights calculated at grant date using the Monte Carlo pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.

(B) The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the right.

(C) The value of the rights that lapsed during the year represents the benefit forgone and is calculated at the date the right lapsed assuming the performance criteria had been achieved.

The movement during the reporting period in the number of rights exchangeable for ordinary shares in Mastermyne Group Limited held directly, indirectly or beneficially by each key management person, including their related parties, is as follows:

| | Rights in Mastermyne Group Limited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Held at 1 July 2016 | Granted as compensation | Exercised | Forfeited or Lapsed During the Year | Held at 30 June 2017 | Vested and exerciseable at 1 July 2016 | Lapsed or Exercised during the year | Vested and exerciseable at 30 June 2017 |
| **Directors** | | | | | | | | |
| Mr A Caruso | 347,436 | 365,850 | - | - | 713,286 | - | - | - |
| **Executives** | | | | | | | | |
| Mr C Kneipp | 111,111 | - | - | (111,111) | - | - | - | - |
| Ms V Gayton | 76,239 | 89,200 | - | - | 165,439 | - | - | - |
| Mr D Sykes | 154,274 | 162,450 | - | - | 316,724 | - | - | - |
| Mr P Mills | 106,838 | - | - | (106,838) | - | - | - | - |

### 5.5.1 Individual directors and executives compensation disclosures - audited

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

### 5.5.2 Loans to key management personnel - audited

No loans were made, guaranteed or secured by the Company to key management personnel for the year.

### 5.5.3 Key management personnel and director transactions - audited

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Group or its subsidiaries in the reporting period. The terms and conditions of the transactions with key management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key managements persons related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

| | | Transaction value year ended 30 June (in AUD) | | Balance outstanding as at 30 June (in AUD) | |
|---|---|---|---|---|---|
| **Transaction** | ***Note*** | **2017** | **2016** | **2017** | **2016** |
| Andrew Watts - Watty Pty Ltd | (i) | 194,775 | 255,536 | - | - |
| Andrew Watts - Watty Pty Ltd | (ii) | 206,940 | 276,096 | - | - |
| Andrew Watts - Watty Pty Ltd | (iii) | - | 56,727 | - | - |
| | | 401,715 | 588,359 | - | - |

(i) The Group rents the premises at 45 River Street, Mackay which is owned by Andrew Watts through his company, Watty Pty Ltd. Amounts paid for rent are at arm's length and are due and payable under normal payment terms.

(ii) The Group is paying for leasehold improvements made by Watty Pty Ltd to the premises at 45 River Street, Mackay which is owned by Andrew Watts through his company, Watty Pty Ltd. The final payment for the leasehold improvements occurred in March 2017.

(iii) The Group rents a duplex at 56 Grosvenor Drive, Moranbah which is owned by Andrew Watts through his company, Watty Pty Ltd. Amounts paid for rent are at arm's length and are due and payable under normal payment terms. This rental agreement was ceased as at 12 March 2016.

From time to time key management personnel and directors of the Group, or their related entities, may purchase goods or services from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

**5.5.4 Movements in shares - audited**

The movement during the reporting period in the number of ordinary shares in Mastermyne Group Limited held directly, indirectly or beneficially by each key management person, including their related parties, is as follows:

| | Shares in Mastermyne Group Limited | | | | |
|---|---|---|---|---|---|
| | Shares held at 30 June 2016 | Purchases | Received on exercise of options | Sales | Shares held at 30 June 2017 |
| **Directors** | | | | | |
| Mr C Bloomfield | 1,100,000 | - | - | - | 1,100,000 |
| Mr G Meena | 100,000 | - | - | - | 100,000 |
| Mr A Watts | 12,262,245 | - | - | - | 12,262,245 |
| Mr A Caruso | 1,419,693 | - | - | - | 1,419,693 |
| **Executives** | | | | | |
| Ms V Gayton | 13,366 | - | - | - | 13,366 |

**6 Principal activities**

The principal activities of the Group during the course of the financial year were to provide contracting services to the underground long wall mining operations and industrial products and services in the coalfields and supporting industries of Queensland and New South Wales.

**Significant changes in the state of affairs**

There have not been any significant changes in the state of affairs of the Group for the financial year ended 30 June 2017.

**7 Environmental regulation**

The Group is subject to various environmental regulations under both Commonwealth and State legislation in relation to its involvement in the operation of mines.

The Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

**8 Dividends**

There were no dividends paid or declared by the Company to members since the end of the previous financial year.

**9 Events subsequent to reporting date**

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

**10 Likely developments**

The outlook moving into FY18 sees current operations continue to grow with the Sector utilising contracting companies for their operational needs in order to maintain flexible operations and cost control within their organisations. There are still a number of the Tier 1 mine owners divesting assets, and recently divested mines, which is likely to create opportunities with new owners around contract mining services.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

**11 Directors' interests**

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the Group, as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the *Corporations Act 2001,* at the date of this report is as follows:

| | Mastermyne Group Limited | |
|---|---|---|
| | **Ordinary shares** | **Options and Rights over ordinary shares** |
| Mr C Bloomfield | 1,100,000 | - |
| Mr G Meena | 100,000 | - |
| Mr A Watts | 12,262,245 | - |
| Mr A Caruso | 1,419,693 | 713,286 |

**12 Share options**

**Unissued shares under options**

At the date of this report there were no unissued ordinary shares of the Company under option.

**13 Indemnification and insurance of officers and auditors**

**Indemnification**

The Company has agreed to indemnify the following current directors of the company Mr C Bloomfield, Mr A Caruso, Mr A Watts and Mr G Meena for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position within the Company and its controlled entities, except where liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities including costs and expenses.

The Company has not made a relevent agreement, or indemnified against a liability, for any person who is or has been an auditor of the Company.

**Insurance premiums**

During the financial year, the entity has paid premiums on behalf of the Company in respect of directors' and officers' liability and legal expenses insurance contracts for the year ended 30 June 2017 and, since the end of the financial year, the entity has paid or agreed to pay on behalf of the Company, premiums in respect of such insurance contracts for the year ending 30 June 2018. Such insurance contracts insure against certain liability (subject to specific exclusions) persons who are or have been directors or executive officers of the Company.

The directors have not included details of the nature of the liabilities covered or the amount of the premiums paid in respect of the directors’ and officers’ liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contracts.

## 14 Non-audit services

During the year, KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit and Risk Management Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the integrity and objectivity of the auditor; and

- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG Australia, and its related practices for audit and non-audit services provided during the year are set out below.

| *In AUD* | **2017** | **2016** |
|---|---|---|
| **Audit services (KPMG Australia):** | | |
| Audit and review of financial reports | 160,000 | 120,000 |
| Other regulatory audit services | 10,000 | - |
| | 170,000 | 120,000 |
| **Services other than statutory audit (KPMG Australia):** | | |
| Taxation compliance services | 25,500 | 91,000 |
| Data analytic services | 11,000 | 12,000 |
| | 36,500 | 103,000 |

## 15 Proceedings on behalf of the Company

No person has applied for leave for Court to bring proceeding on behalf of the Company or to intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a part to any such proceedings during the year.

## 16 Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 18 and forms part of the Directors' report for the financial year ended 30 June 2017.

## 17 Rounding off

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191* and in accordance with that Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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

C. Bloomfield
*Chairman*

Dated at Sydney this 15th day of August 2017.

KPMG

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

## To the Directors of Mastermyne Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Mastermyne Group Limited for the financial year ended 30 June 2017 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

M L Gray
*Partner*

Brisbane
15 August 2017

# Mastermyne Group Limited and its Controlled Entities

## Consolidated statement of financial position

**As at 30 June 2017**

| *In thousands of AUD* | ***Note*** | **2017** | **2016** |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | *19* | 1 | 1,836 |
| Trade and other receivables | *18* | 29,454 | 29,084 |
| Inventories | *17* | 2,684 | 3,408 |
| Current tax assets | *16* | 202 | 226 |
| **Total current assets** | | 32,341 | 34,554 |
| Deferred tax assets | *16* | 9,285 | 8,579 |
| Property, plant and equipment | *14* | 18,745 | 21,540 |
| Intangible assets | *15* | 6,894 | 7,089 |
| **Total non-current assets** | | 34,924 | 37,208 |
| **Total assets** | | 67,265 | 71,762 |
| **Liabilities** | | | |
| Bank overdraft | *19* | 768 | - |
| Trade and other payables | *25* | 11,392 | 11,039 |
| Loans and borrowings | *22* | 6,250 | 3,543 |
| Employee benefits | *23* | 3,388 | 3,237 |
| **Total current liabilities** | | 21,798 | 17,819 |
| Loans and borrowings | *22* | 3,000 | 9,408 |
| Employee benefits | *23* | 138 | 102 |
| **Total non-current liabilities** | | 3,138 | 9,510 |
| **Total liabilities** | | 24,936 | 27,329 |
| **Net assets** | | 42,329 | 44,433 |
| **Equity** | | | |
| Share capital | | 55,234 | 55,234 |
| Reserves | | (21,864) | (21,915) |
| Retained earnings | | 8,704 | 10,716 |
| **Total equity attributable to equity holders of the Company** | | 42,074 | 44,035 |
| **Non-controlling interests** | | 255 | 398 |
| **Total equity** | | 42,329 | 44,433 |

The subsequent notes are an integral part of these consolidated financial statements.

Mastermyne Group Limited and its Controlled Entities

## Consolidated statement of profit or loss and other comprehensive income

**For the year ended 30 June 2017**

| *In thousands of AUD* | ***Note*** | **2017** | **2016** |
|---|---|---|---|
| Revenue | *7* | 124,162 | 168,434 |
| Other income | *8* | 158 | 257 |
| Contract disbursements | | (27,504) | (35,612) |
| Personnel expenses | *11* | (86,527) | (120,866) |
| Office expenses | | (4,159) | (7,672) |
| Depreciation and amortisation expense | *14,15* | (6,433) | (7,562) |
| Impairment loss | *9* | (664) | (7,999) |
| Other expenses | *10* | (1,360) | (3,173) |
| **Results from operating activities** | | (2,327) | (14,193) |
| Finance income | | 22 | 59 |
| Finance expense | | (576) | (907) |
| **Net finance expense** | *12* | (554) | (848) |
| **Loss before income tax** | | (2,881) | (15,041) |
| Income tax benefit | *13* | 771 | 1,855 |
| **Loss for the year** | | (2,110) | (13,186) |
| Other comprehensive income for the year, net of income tax | | - | - |
| **Total comprehensive income for the year** | | (2,110) | (13,186) |
| **Attributable to:** | | | |
| Owners of the Company | | (2,012) | (13,156) |
| Non-controlling interests | | (98) | (30) |
| **Loss for the year** | | (2,110) | (13,186) |
| **Earnings per share** | | | |
| Basic earnings per share (AUD) | *21* | (0.02) | (0.14) |
| Diluted earnings per share (AUD) | *21* | (0.02) | (0.14) |

The subsequent notes are an integral part of these consolidated financial statements.

Mastermyne Group Limited and its Controlled Entities

## Consolidated statement of changes in equity

**For the year ended 30 June 2017**

| *In thousands of AUD* | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital** | **Retained earnings** | **Share-based payment reserve (note 20)** | **Common Control Reserve (note 20)** | **Total** | **Non-Controlling interests** | **Total** |
| **Balance at 1 July 2015** | 55,234 | 24,783 | 2,293 | (24,237) | 58,073 | 428 | 58,501 |
| ***Total comprehensive income for the year*** | | | | | | | |
| Loss for the year | - | (13,156) | - | - | (13,156) | (30) | (13,186) |
| Total comprehensive income for the year | - | (13,156) | - | - | (13,156) | (30) | (13,186) |
| ***Transactions with owners recorded directly in equity*** | | | | | | | |
| Share-based payment transactions | - | - | 29 | - | 29 | - | 29 |
| Dividends to equity holders | - | (911) | - | - | (911) | - | (911) |
| Total contributions by and distributions to owners | - | (911) | 29 | - | (882) | - | (882) |
| **Balance at 30 June 2016** | 55,234 | 10,716 | 2,322 | (24,237) | 44,035 | 398 | 44,433 |
| **Balance at 1 July 2016** | 55,234 | 10,716 | 2,322 | (24,237) | 44,035 | 398 | 44,433 |
| ***Total comprehensive income for the year*** | | | | | | | |
| Loss for the year | - | (2,012) | - | - | (2,012) | (98) | (2,110) |
| Total comprehensive income for the year | - | (2,012) | - | - | (2,012) | (98) | (2,110) |
| ***Transactions with owners recorded directly in equity*** | | | | | | | |
| Share-based payment transactions | - | - | 51 | - | 51 | - | 51 |
| Distribution to non-controlling interest | - | - | - | - | - | (45) | (45) |
| Total contributions by and distributions to owners | - | - | 51 | - | 51 | (45) | 6 |
| **Balance at 30 June 2017** | 55,234 | 8,704 | 2,373 | (24,237) | 42,074 | 255 | 42,329 |

The subsequent notes are an integral part of these consolidated financial statements.

Mastermyne Group Limited and its Controlled Entities

# Consolidated statement of cash flows

**For the year ended 30 June 2017**

| *In thousands of AUD* | ***Note*** | **2017** | **2016** |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 136,299 | 204,277 |
| Cash paid to suppliers and employees | | (130,363) | (203,443) |
| Cash generated from operations | | 5,936 | 834 |
| Interest paid | | (576) | (907) |
| Income tax received | | 92 | 454 |
| **Net cash flows from operating activities** | *28* | 5,452 | 381 |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | 981 | 418 |
| Acquisition of property, plant and equipment | *14* | (5,312) | (2,244) |
| Acquisition of intangibles | | - | (227) |
| Interest received | | 22 | 59 |
| **Net cash flows used in investing activities** | | (4,309) | (1,994) |
| | | | |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | | (3,701) | (4,363) |
| Distribution to non-controlling interest | | (45) | - |
| Dividends paid | *20* | - | (911) |
| **Net cash flows used in financing activities** | | (3,746) | (5,274) |
| | | | |
| Net decrease in cash and cash equivalents | | (2,603) | (6,887) |
| Cash and cash equivalents at beginning of year | | 1,836 | 8,723 |
| **Cash and cash equivalents at end of year** | *19* | (767) | 1,836 |

The subsequent notes are an integral part of these consolidated financial statements.

## 1 Reporting entity

Mastermyne Group Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is Level 1, 45 River Street, Mackay Qld 4740.The consolidated financial statements of the Company as at and for the year ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities').

The Group is a for-profit entity and primarily is involved in providing contracting services to the underground long wall mining operations and industrial products and services in the coalfields and supporting industries of Queensland and New South Wales.

## 2 Basis of preparation

### (a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements of the Group comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 15 August 2017.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

### (c) Functional and presentation currency

These consolidated financial statements are presented in Australian Dollars, which is the Company's functional currency and the functional currency of each entity in the Group.

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191* and, in accordance with that Instrument, all financial information presented in Australian Dollars has been rounded to the nearest thousand unless otherwise stated.

### (d) Use of estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- note 15 – key assumptions used in discounted cash flow projections
- note 16 – recoverability of deferred tax assets
- note 24 – measurement of share-based payments

## 3 Significant accounting policies

Accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

### (a) Basis of consolidation

*(i) Business Combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see note 3(a)(iii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 3(h)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

**3 Significant accounting policies (continued)**

**(a) Basis of consolidation (continued)**

*(ii) 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.

*(iii) Acquisitions from entities under common control*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within the Group. Any cash paid for the acquisition is recognised directly in equity.

*(iv) Loss of Control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related Non-Controlling Interests (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.

*(v) Transactions eliminated on consolidation*

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

*(vi) Non-controlling interests*

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**3 Significant accounting policies (continued)**

**(b) Financial instruments**

*(i) Non-derivative financial instruments*

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Accounting for finance income and expense is discussed in note 3(m).

*Other*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses (see note 3(h)(i)).

*(ii) Share capital*

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

**3 Significant accounting policies (continued)**

**(c) Property, plant and equipment**

*(i) Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised within "other income" or "other expenses" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

*(ii) Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

*(iii) Depreciation*

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and, if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line or diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

**3 Significant accounting policies (continued)**

**(c) Property, plant and equipment (continued)**

*(iii) Depreciation (continued)*

The depreciation rates which reflect the estimated useful lives for the current and comparative period are as follows:

| | 2017 | 2016 |
|---|---|---|
| • Plant and equipment | 7.50 - 50.00% | 7.50 - 50.00% |
| • Motor vehicles | 12.50 - 30.00% | 12.50 - 30.00% |
| • Computer equipment | 37.50 - 50.00% | 37.50 - 50.00% |
| • Office furniture and equipment | 25.00 - 66.66% | 25.00 - 66.66% |
| • Leasehold improvements | 7.50 - 15.00% | 7.50 - 15.00% |

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

*(iv) Leasehold improvements*

The cost of improvements to, or in, leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvements to the Group, whichever is shorter.

**(d) Intangible assets**

*(i) Goodwill*

Goodwill that arises upon the acquisition of the subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3(a)(i).

*Subsequent Measurement*

Goodwill is measured at cost less accumulated impairment losses.

*(ii) Other intangible assets*

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

*(iii) Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

**3 Significant accounting policies (continued)**

**(d) Intangible assets (continued)**

*(iv) Amortisation*

Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative period are as follows:

| | 2017 | 2016 |
|---|---|---|
| • Customer relationships | 3-7 years | 3-7 years |
| • Intellectual property | 8-10 years | 8-10 years |

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

**(e) Leased assets**

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and, as such, the leased assets are not recognised in the Group's statement of financial position.

**(f) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(g) Unbilled Revenue**

Unbilled revenue is the estimated amount recoverable from customers in relation to unbilled services rendered as at balance date.

**3 Significant accounting policies (continued)**

**(h) Impairment**

*(i) Financial assets (including receivables)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

*(ii) Non-financial assets*

The carrying amount of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or Cash-Generating Unit (CGU) is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

**3 Significant accounting policies (continued)**

**(h) Impairment (continued)**

*(ii) Non-financial assets (continued)*

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(i) Employee benefits**

*(i) Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in profit or loss in periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

*(ii) 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.

**3 Significant accounting policies (continued)**

**(i) Employee benefits (continued)**

*(iii) 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 the benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

*(iv) 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. These liabilities are calculated on an undiscounted basis on wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation, insurance and payroll tax.

Non-accumulating non-monetary benefits, such as housing, cars and free or subsidised goods and services are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

*(v) Bonus plans*

A liability and an expense for employee benefits in the form of profit sharing and bonus plans is recognised in "sundry creditors and accruals" when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- There are formal terms in the plan for determining the amount of the benefit;
- The amounts to be paid are determined before the time of completion of the financial report; or
- Past practice gives clear evidence of the amount of the obligation.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

*(vi) Share-based payment transactions*

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

**3 Significant accounting policies (continued)**

**(j) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance expense.

**(k) Revenue**

*(i) Goods sold*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

*(ii) Services*

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date for fixed price work and as services are provided for work completed on a schedule of rates. The stage of completion for fixed price work is assessed by reference to the tasks completed as per the agreed schedule of work provided. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration.

**(l) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**3 Significant accounting policies (continued)**

**(m) Finance income and expense**

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit and loss using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

**(n) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

**3 Significant accounting policies (continued)**

**(n) Income tax (continued)**

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accrual for tax liabilities are adequate based on its assessment of several factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact income tax expense in the period that such a determination is made.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised. The Group does not distribute non-cash assets as dividends to its shareholders.

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group formed with effect from 7 May 2010. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Mastermyne Group Limited.

**(o) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the Group's statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**3 Significant accounting policies (continued)**

**(p) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Group's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets (other than goodwill).

**(q) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

**(r) New standards and interpretations not yet adopted**

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2016 and earlier applications is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

**AASB 9 *Financial Instruments***

In July 2014, the Australian Accounting Standards Board has issued the final version of AASB 9 *Financial Instruments.*

AASB 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply AASB 9 initially for the year ending 30 June 2019.

The actual impact of adopting AASB 9 on the Group's consolidated financial statements in 2019 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Group has performed a preliminary assessment of the potential impact of adoption of AASB 9 on its position at 30 June 2017.

**3 Significant accounting policies (continued)**
**(r) New standards and interpretations not yet adopted (continued)**
**AASB 9 *Financial Instruments* (continued)**

**i. Classification - Financial assets**

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit of loss (FVTPL). The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale.

Under AASB 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at 30 June 2017, would have had a material impact on its accounting for trade receivables.

**ii. Impairment - Financial assets**

AASB 9 replaces the 'incurred loss' model in AASB 139 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probablility-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI.

Under AASB 9, loss allowances will be measured on either of the following bases:
- 12-month ECLs: These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-monthy ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables without a significant financing component; an entity may choose to apply this policy also for trade receivables with a significant financing component.

The Group does not believe that impairment losses are likely to increase and become more volatile for assets in the scope of AASB 9 impairment model. However, the Group has not yet finalised the impairment methodologies that it will apply under AASB 9.

**3 Significant accounting policies (continued)**
**(r) New standards and interpretations not yet adopted (continued)**
**AASB 9 *Financial Instruments* (continued)**

**iii. Classification - Financial liabilities**

AASB 9 largely contains the existing requirements in AASB 139 for the classification of financial liabilities.

However, under AASB 139 all fair value changes of liabilities are designated as at FVTPL are recognised in profit or loss, whereas under AASB 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value if presented in profit or loss.

The Group has not desiginated any financial liabilities at FVTPL and the Group has no current intention to do so. The Group's preliminary assessment did not indicate any material impact if AASB 9's requirements regarding the classification of financial liabilities were applied at 30 June 2017.

**iv. Disclosures**

AASB 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Group's preliminary assessment did not indicate any material impact if AASB 9's requirements were applied at 30 June 2017.

**v. Transition**

The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of AASB 9 will generally be recognised in retained earnings and reserves as at 1 July 2018.

**3 Significant accounting policies (continued)**

**(r) New standards and interpretations not yet adopted (continued)**

**AASB 15 *Revenue from Contracts with Customers***

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue,* AASB 111 *Construction Contacts and* Interpretation 13 *Customer Loyalty Programmes.*

AASB 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has completed an initial assessment of the potential impact of the adoption of AASB 15 on its consolidated financial statements.

**i. Sales of goods**

For the sale of goods, revenue is currently recognised when the goods are delivered to customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing involvement with the goods.

Under AASB 15, revenue will be recognised when a customer obtains control of the goods. TThe Group will perform a comprehensive impact assessment during the year ending 30 June 2018.

**ii. Rendering of services**

For contracting income and machinery hire, revenue is currently recognised in accordance with the schedule of rates specified within the contract for actual quantities supplied in service, or if fixed price in nature in accordance with the stage of completion method as at the reporting date.

The Group will perform a comprehensive impact assessment during the year ending 30 June 2018.

**iii. Transition**

The Group plans to adopt AASB 15 in its consolidated financial statements for the year ending 30 June 2019, using the restrospective approach. As a result, the Group will apply all of the requirements of AASB 15 to each comparative period presented and adjust its consolidated financial statements.

The Group is currently performing a detailed assessment of the impact resulting from the application of AASB 15 and expects to disclose additional quantitative information before it adopts AASB 15.

**AASB 16 *Leases***

AASB 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

AASB 16 replaces existing leases guidance including AASB 117 *Leases,* Interpretation 4 *Determining whether an Arrangement contains a Lease,* Interpretation 115 *Operating Leases-Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply AASB 15 *Revenue from Contracts with Customers* at or before the date of initial application of AASB 16.

**3 Significant accounting policies (continued)**
**(r) New standards and interpretations not yet adopted (continued)**
**AASB 16 *Leases* (continued)**

The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recongise new assets and liabilities for its operating lease of offices and motor vehicles. In addition, the nature of expenses related to those leases will now change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Group has not yet decided whether it will use the optional exemptions. No significant impact is expected for the Group's finance leases.

**i. Transition**
As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group currently plans to apply AASB 16 initially for the year ended 30 June 2019. The Group has not yet determined which transition approach to apply.

The Group has not yet quantified the impact on its reported assets and liabilities of adoption of AASB 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Group uses the practical expedients and recognition exemptions, and any additional leases that the Group enters into. The Group expects to disclose its transition approach and quantitative information before adoption.

**4 Measurement of fair values**
A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values.

The finance team regularly reviews significant, unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the finance team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of AASBs, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group's Audit and Risk Management Committee.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 24 - share based payment arrangements; and
- Note 26 - financial instruments;

## 5 Financial risk management

**Overview**

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- interest rate risk
- liquidity risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout this financial report.

**Risk Management Framework**

The Board, together with management, seeks to identify, monitor and mitigate risk. Internal controls are monitored on a continuous basis and, wherever possible, improved. Risk management is identified in the Group's various corporate governance policies and will continue to be kept under regular review. Review takes place at both the Audit and Risk Management Committee level, with meetings at least four times a year, and at the Board level.

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

*Trade and other receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The majority of the Group's customers are large multinational mining companies with strong payment track records and credit history. There is no formal credit policy in place, however, each customer is assessed individually for creditworthiness before the Group's standard payment and delivery terms and conditions (30 days) are offered. The Group operates under signed contracts, purchase orders and forward purchase agreements which all have agreed payment terms included.

The aged receivables are reviewed on a weekly basis by senior management and overdue amounts followed up with customers for payment. The Group does not require collateral in respect of trade and other receivables.

The Group's exposure to credit risk at 30 June 2017 is disclosed in note 26.

**5 Financial risk management (continued)**

**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 maintain sufficient liquidity levels 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 maintains the following lines of credit:

| Facility | Facility Limit | Amount Drawn |
|---|---|---|
| | *in thousands of AUD* | |
| **Multi Option Facility** | | |
| Overdraft Facility | 11,500 | 768 |
| LC Facility | 500 | 161 |
| Corporate Card Facility | 500 | - |
| **Total Multi Option Facility** | **12,500** | **929** |
| Amortising Cash Advance Facility | 5,250 | 9,250 |
| **Total All Facilities** | **17,750** | **10,179** |

The facility limit was amended on 27 June 2017, however, the transaction to repay $4 million was only effected on 7 July 2017. As such, the amount drawn is greater than the facility limit.

**Interest rate risk**

The Group ensures that interest rates for equipment finance are fixed at the time each individual equipment loan is entered into for the term of the loan; and the interest rates for commercial bills are fixed for the term of the commercial bills.

**Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total capital. The Board also monitors the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 6 Segment information

### Business segments

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different services and products and are managed separately because they require different skill bases and marketing strategies. For each of the strategic business units, the Group's Managing Director reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- Mastermyne - This segment incorporates the provision of project management; labour and equipment hire; underground conveyor installation, extension and maintenance; underground roadway development; underground ventilation device installation; bulk materials handling system installation and relocation and underground mine support services.
- Mastertec - Mastertec provides a range of above-ground contracting services to industry sectors such as Ports, Resources, Industrial and Infrastructure. The divisions core services offerings are access services (scaffolding and rigging) and blast and painting along with the supply of consumbles, primarily to the resources sector.

There are varying levels of integration between the Mastermyne and Mastertec reportable segments. This integration includes transfers of human resources and shared overhead resources. The accounting policies of the reportable segments are the same as described in notes 2 and 3.

Information regarding the results of each reportable segment is included on the following page. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the Group's Managing Director. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

**6 Segment information (continued)**
**Business Segments (continued)**

| | Mastermyne | | Mastertec | | Consolidated | |
|---|---|---|---|---|---|---|
| *In thousands of AUD* | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| External revenues | 92,390 | 130,585 | 31,772 | 37,849 | 124,162 | 168,434 |
| Intersegment revenue | 10 | 73 | 979 | 2,564 | 989 | 2,637 |
| Reportable segment revenue | 92,400 | 130,658 | 32,751 | 40,413 | 125,151 | 171,071 |
| Depreciation and amortisation | (5,414) | (6,086) | (1,058) | (1,485) | (6,472) | (7,571) |
| Net finance costs | (556) | (856) | 2 | 8 | (554) | (848) |
| Impairment loss on goodwill | - | - | - | (7,999) | - | (7,999) |
| Impairment loss on non-financial assets | - | - | (664) | - | (664) | - |
| Inventory write-down | - | - | (428) | - | (428) | - |
| Reportable Segment profit/(loss) before income tax | 888 | 2,040 | (2,939) | (16,335) | (2,051) | (14,295) |
| Segment assets | 45,949 | 45,303 | 22,548 | 27,714 | 68,497 | 73,017 |
| Capital expenditure | 5,197 | 1,113 | 114 | 1,132 | 5,311 | 2,245 |
| Segment liabilities | (25,805) | (22,067) | (8,196) | (12,194) | (34,001) | (34,261) |

**Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items**

| *in thousands of AUD* | **2017** | **2016** |
|---|---|---|
| **Revenues** | | |
| Total revenue for reportable segments | 125,151 | 171,071 |
| Elimination of inter-segment revenue | (989) | (2,637) |
| Consolidated revenue | 124,162 | 168,434 |
| **Profit or loss** | | |
| Total loss for reportable segments | (2,051) | (14,295) |
| Elimination of inter-segment profits | - | - |
| Unallocated amounts: net corporate expenses | (830) | (746) |
| Consolidated loss before income tax | (2,881) | (15,041) |
| **Assets** | | |
| Total assets for reportable segments | 68,497 | 73,017 |
| Other assets | 399 | 719 |
| Representation of segment liabilities | (10,979) | (8,640) |
| Unallocated amounts: corporate tax asset | 9,348 | 6,666 |
| Consolidated total assets | 67,265 | 71,762 |
| **Liabilities** | | |
| Total liabilities for reportable segments | (34,001) | (34,261) |
| Other liabilities | (1,914) | (1,708) |
| Representation of segment liabilities | 10,979 | 8,640 |
| Consolidated total liabilities | (24,936) | (27,329) |

**Geographical information**
The Group has only operated in Australia during the current and comparative period. All assets are held within Australia as at 30 June 2017 and 30 June 2016.

**Major customers**
The Group has four (2016: two) customers that individually represent in excess of 10% of Group revenues. The total revenue from these customers represents $89,976 thousand (2016: $103,838 thousand) of the Group's total revenues, reported in the Mastermyne and the Mastertec segments as follows:
• Mastermyne $80,366 thousand (2016: $96,181 thousand)
• Mastertec $9,610 thousand (2016: $7,657 thousand)

## 7 Revenue

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Contracting revenue | 102,030 | 145,438 |
| Sale of goods | 15,851 | 22,961 |
| Machinery hire | 6,281 | 35 |
| | 124,162 | 168,434 |

## 8 Other income

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Administration income | 158 | 257 |
| | 158 | 257 |

## 9 Impairment loss

| *In thousands of AUD* | ***Note*** | **2017** | **2016** |
|---|---|---|---|
| Impairment of property, plant and equipment | *14* | 664 | - |
| Impairment of intangible assets | *15* | - | 7,999 |
| | | 664 | 7,999 |

## 10 Other expenses

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Bad and doubtful debts | 61 | 104 |
| Write-down of inventories to net realisable value | 428 | 6 |
| Loss on sale of property, plant and equipment | 225 | 2,003 |
| Business acquisition costs | - | 7 |
| Business development costs | 17 | 28 |
| Insurance | 629 | 1,025 |
| | 1,360 | 3,173 |

## 11 Personnel expenses

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Wages and salaries | 75,422 | 106,043 |
| Other associated personnel expenses | 6,165 | 8,186 |
| Contributions to defined contribution superannuation funds | 4,889 | 6,608 |
| Equity-settled share-based payment transactions | 51 | 29 |
| | 86,527 | 120,866 |

## 12 Finance income and expense

**Recognised in profit or loss**

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Interest income | 22 | 59 |
| Finance income | 22 | 59 |
| Bank charges | (55) | (74) |
| Interest expenses | (507) | (592) |
| Finance lease interest | (14) | (241) |
| Finance expense | (576) | (907) |
| Net finance expense recognised in profit or loss | (554) | (848) |

## 13 Income tax expense

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| **Current tax expense** | | |
| Current period | - | - |
| Adjustment for prior periods | - | (334) |
| | - | (334) |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | (706) | (2,035) |
| Adjustment for prior period | (65) | 514 |
| | (771) | (1,521) |
| Total income tax benefit | (771) | (1,855) |

**Numerical reconciliation between tax expense and pre-tax accounting profit**

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Loss excluding income tax | (2,881) | (15,041) |
| Income tax using the Group's statutory income tax rate of 30% (2016: 30%) | (864) | (4,512) |
| Impairment of goodwill | - | 2,399 |
| Other non-deductible expenses | 78 | 78 |
| Under provision of previous year | 15 | 180 |
| | (771) | (1,855) |

## 14 Property, plant and equipment

*In thousands of AUD*

| | Plant and equipment | Motor vehicles | Computer equipment | Office furniture and equipment | Leasehold improvements | Total |
|---|---|---|---|---|---|---|
| **Cost or deemed cost** | | | | | | |
| Balance at 1 July 2015 | 62,664 | 1,704 | 2,151 | 480 | 2,196 | 69,195 |
| Additions | 1,933 | 205 | 106 | - | - | 2,244 |
| Disposals | (7,703) | (140) | (650) | - | (1,804) | (10,297) |
| Transfers | 480 | - | - | (480) | - | - |
| Balance at 30 June 2016 | 57,374 | 1,769 | 1,607 | - | 392 | 61,142 |
| Balance at 1 July 2016 | 57,374 | 1,769 | 1,607 | - | 392 | 61,142 |
| Additions | 5,128 | 15 | 169 | - | - | 5,312 |
| Disposals | (9,980) | (365) | (142) | - | (120) | (10,607) |
| Transfers | 807 | (66) | (675) | - | (66) | - |
| Balance at 30 June 2017 | 53,329 | 1,353 | 959 | - | 206 | 55,847 |
| **Depreciation and impairment losses** | | | | | | |
| Balance at 1 July 2015 | 35,409 | 730 | 1,742 | 438 | 1,806 | 40,125 |
| Depreciation for the year | 6,710 | 176 | 182 | - | 285 | 7,353 |
| Disposals | (5,433) | (38) | (630) | - | (1,775) | (7,876) |
| Transfers | 438 | - | - | (438) | - | - |
| Balance at 30 June 2016 | 37,124 | 868 | 1,294 | - | 316 | 39,602 |
| Balance at 1 July 2016 | 37,124 | 868 | 1,294 | - | 316 | 39,602 |
| Depreciation for the year | 5,928 | 132 | 147 | - | 31 | 6,238 |
| Disposals | (9,004) | (196) | (142) | - | (60) | (9,402) |
| Impairment loss | 641 | - | - | - | 23 | 664 |
| Transfers | 776 | (22) | (647) | - | (107) | - |
| Balance at 30 June 2017 | 35,465 | 782 | 652 | - | 203 | 37,102 |
| **Carrying amounts** | | | | | | |
| At 1 July 2015 | 27,255 | 974 | 409 | 42 | 390 | 29,070 |
| At 30 June 2016 | 20,250 | 901 | 313 | - | 76 | 21,540 |
| At 1 July 2016 | 20,250 | 901 | 313 | - | 76 | 21,540 |
| At 30 June 2017 | 17,864 | 571 | 307 | - | 3 | 18,745 |

The Group held equipment under a number of finance lease agreements. During the year ended 30 June 2017, these finance leases were repaid. The net carrying amount of leased property, plant and equipment as at 30 June 2017 was nil (2016: $4,380 thousand).

## 15 Intangible assets

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| *Goodwill* | | |
| Cost (gross carrying amount) | 6,429 | 6,429 |
| Net carrying amount | 6,429 | 6,429 |
| *Customer relationships* | | |
| Cost (gross carrying amount) | 2,945 | 2,945 |
| Accumulated amortisation and impairment | (2,945) | (2,911) |
| Net carrying amount | - | 34 |
| *Intellectual property* | | |
| Cost (gross carrying amount) | 1,773 | 1,773 |
| Accumulated amortisation and impairment | (1,308) | (1,147) |
| Net carrying amount | 465 | 626 |
| *Total intangible assets* | | |
| Cost (gross carrying amount) | 11,147 | 11,147 |
| Accumulated amortisation and impairment | (4,253) | (4,058) |
| Net carrying amount | 6,894 | 7,089 |

**Reconciliation of carrying amounts**

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| *Goodwill* | | |
| Carrying amount - opening | 6,429 | 14,331 |
| Acquired in business combination | - | 97 |
| Impairment | - | (7,999) |
| Carrying amount - closing | 6,429 | 6,429 |
| *Customer relationships* | | |
| Carrying amount - opening | 34 | 104 |
| Amortisation | (34) | (70) |
| Carrying amount - closing | - | 34 |
| *Intellectual property* | | |
| Carrying amount - opening | 626 | 477 |
| Acquired in business combination | - | 290 |
| Loss on sale | - | (2) |
| Amortisation | (161) | (139) |
| Carrying amount - closing | 465 | 626 |
| *Total intangible assets* | | |
| Carrying amount - opening | 7,089 | 14,912 |
| Acquired in business combination | - | 387 |
| Loss on sale | - | (2) |
| Impairment | - | (7,999) |
| Amortisation | (195) | (209) |
| Carrying amount - closing | 6,894 | 7,089 |

Goodwill relates to the acquisition of Mastermyne Underground Pty Ltd.

**15 Intangible assets (continued)**

**Amortisation and impairment charge**

The accounting policy for the recognition and measurement of intangible assets is set out in note 3(d).

**Impairment testing for cash-generating units containing goodwill**

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in note 6.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

| *In thousands of AUD* | 1 July 2016 | Acquired in Business Combination | Transfer | Impairment | 2017 | 2016 |
|---|---|---|---|---|---|---|
| Mastermyne Mining | 6,429 | - | - | - | 6,429 | 6,429 |
| Mastertec Products & Services | - | - | - | - | - | - |
| Total All Segments | 6,429 | - | - | - | 6,429 | 6,429 |

In 2016, as a result of the ongoing weakness across the mining services sector, the group reviewed its core business and made the decision that workshops were considered non-core activities and therefore exited the Groups workshop activities in Mackay and Rockhampton. As a result of exiting the workshops and continued weakness in the sector, the carrying amount of the Mastertec Products & Services CGU was assessed to be higher than its recoverable amount and the recognised value of goodwill associated with the Mastertec Products and Services CGU of $7,999 thousand was fully impaired.

The recoverable amount of the cash-generating units as at 30 June 2017 was based on their value in use and was determined by reference to the discounted future cash flows expected to be generated from the continuing use of each CGU, based on past experience, actual operating results and the business plans and long-term strategy for the relevant cash generating unit. For the Mastermyne Mining CGU, the value in use was determined to be greater than the relevant carrying amount. The key assumptions for each cash generating unit were as follows:

| | FY 2017 assumptions | | | FY 2016 assumptions | | |
|---|---|---|---|---|---|---|
| | Annual revenue growth rate (FY2018-FY2022) | Terminal growth rate | Pre-tax discount rate | Annual revenue growth rate (FY2017-FY2021) | Terminal growth rate | Pre-tax discount rate |
| Mastermyne Mining | 6.9% | 2.5% | 15.3% | 6.8% | 2.5% | 16.2% |
| Mastertec Products and Services | N/A | N/A | N/A | 6.0% | 2.5% | 17.7% |

The discount rate was calculated based on the Group's weighted average cost of capital, an industry average beta, risk-free rate based on Australian government 10-year treasury bonds with a minimum yield used of 4.5%, a market risk premium of 6% and a calculated cost of debt based on the Group's current debt and interest rates payable on this debt.

## 16 Tax assets and liabilities

### Current tax assets and liabilities

The current tax asset for the Group of $202 thousand (2016: $226 thousand) represents the amount of income taxes refundable, in respect of current and prior periods.

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| *In thousands of AUD* | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Employee benefits | 1,058 | 1,002 | - | - | 1,058 | 1,002 |
| Property, plant and equipment | - | - | (1,350) | (1,656) | (1,350) | (1,656) |
| Receivables | - | - | (102) | - | (102) | - |
| Intangible assets | - | - | (87) | (97) | (87) | (97) |
| Accruals | 251 | 163 | - | - | 251 | 163 |
| Capital raising and business acquisition costs | 15 | 75 | (31) | (31) | (16) | 44 |
| Unbilled revenue | - | - | - | (1,402) | - | (1,402) |
| Provisions | - | - | (4) | (4) | (4) | (4) |
| Other Items | 129 | - | - | - | 129 | - |
| Tax loss carry-forwards | 9,406 | 10,529 | - | - | 9,406 | 10,529 |
| Tax assets/(liabilities) | 10,859 | 11,769 | (1,574) | (3,190) | 9,285 | 8,579 |
| Set off of tax | (1,574) | (3,190) | 1,574 | 3,190 | - | - |
| Net tax assets/(liabilities) | 9,285 | 8,579 | - | - | 9,285 | 8,579 |

At 30 June 2017, the Group has revenue losses totalling $31,352 thousand (2016: $34,818 thousand) which are available to be offset against future taxable income. These losses arose within the Mastermyne Group ($5,103 thousand) and on acquisition by the Group of Diversified Mining Services ($26,249 thousand). Management has performed a five year forecast analysis. The forecasts have been based on contracted work and a conservative estimate of additional of sales pipeline. This analysis sees the Group return to profitable operations in FY18. As such Management considers it is probable that there will be future taxable profits against which tax losses can be recovered and, therefore, the related deferred tax asset can be realised.

### Movement in temporary differences during the year

| *In thousands of AUD* | Balance 1 July 2015 | Recognised in profit or loss | Acquired in business combinations | Balance 30 June 2016 |
|---|---|---|---|---|
| Employee benefits | 1,720 | (718) | - | 1,002 |
| Property, plant and equipment | (2,028) | 372 | - | (1,656) |
| Receivables | 47 | (47) | - | - |
| Intangible assets | (31) | 22 | (88) | (97) |
| Accruals | 456 | (293) | - | 163 |
| Capital raising and business acquisition costs | 142 | (98) | - | 44 |
| Unbilled revenue | (933) | (469) | - | (1,402) |
| Provisions | (3) | (1) | - | (4) |
| Tax loss carry-forwards | 7,776 | 2,753 | - | 10,529 |
| | 7,146 | 1,521 | (88) | 8,579 |

| *In thousands of AUD* | Balance 1 July 2016 | Recognised in profit or loss | Acquired in business combinations | Balance 30 June 2017 |
|---|---|---|---|---|
| Employee benefits | 1,002 | 56 | - | 1,058 |
| Property, plant and equipment | (1,656) | 306 | - | (1,350) |
| Receivables | - | (102) | - | (102) |
| Intangible assets | (97) | 10 | - | (87) |
| Accruals | 163 | 88 | - | 251 |
| Capital raising and business acquisition costs | 44 | (60) | - | (16) |
| Unbilled revenue | (1,402) | 1,402 | - | - |
| Provisions | (4) | - | - | (4) |
| Other Items | - | 129 | - | 129 |
| Tax loss carry-forwards | 10,529 | (1,123) | - | 9,406 |
| | 8,579 | 706 | - | 9,285 |

## 17 Inventories

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Raw materials | 516 | 1,072 |
| Finished goods | 2,596 | 2,336 |
| Provision for obsolete stock | (428) | - |
| | 2,684 | 3,408 |

During the year ended 30 June 2017, raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to $13,144 thousand (2016: $16,245 thousand).

In 2017, the Group tested its slow moving inventory at its Gladstone Workshop for impairment and wrote down the related inventories to their net realisable value. This resulted in a loss of $428 thousand (2016: $nil).

## 18 Trade and other receivables

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Trade receivables | 21,074 | 21,018 |
| Prepayments | 1,639 | 2,516 |
| Unbilled revenue | 6,476 | 5,413 |
| Other receivables | 265 | 137 |
| | 29,454 | 29,084 |

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in note 26.

## 19 Cash and cash equivalents

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Bank balances | - | 1,835 |
| Cash on hand | 1 | 1 |
| Cash and cash equivalents in the statement of financial | 1 | 1,836 |
| Bank overdrafts used for cash management purposes | (768) | - |
| Cash and cash equivalents in the statement of cash flows | (767) | 1,836 |

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 26.

## 20 Capital and reserves

The share capital of Mastermyne Group Limited is as follows:

| | Ordinary class shares | |
|---|---|---|
| | **2017** | **2016** |
| On issue at 1 July | 91,087,536 | 91,087,536 |
| On issue at 30 June – fully paid | 91,087,536 | 91,087,536 |

**Ordinary shares**
The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.
The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The Group has also issued performance rights (see note 24).

**Reserves**
**Share-based payments reserve**
The share-based payments reserve represents the grant date fair value of equity instruments granted to senior managers or key management personnel of the Company (see note 24).

**Common control reserve**
As a result of combinations of entities under common control, an equity account was created called the common control reserve. The balance of this account represents the excess of the fair value of Mastermyne Group Limited securities as at 7 May 2010 over the initial carrying value of Mastermyne Pty Ltd as at the date of Mastermyne Group Limited becoming the new parent entity of the Group.

## 20 Capital and reserves (continued)

### Dividends

There were no dividends recognised in the current year by the Group.

| | Dollars per share | Total amount *( In thousands of AUD)* | Franked / unfranked | Date of payment |
|---|---|---|---|---|
| **2016** | | | | |
| 2015 Ordinary - Ordinary Shares Final Dividend | $ 0.010 | 911 | Franked | 15/10/2015 |
| Total amount | | 911 | | |

Franked dividends declared or paid during the year were franked at the tax rate of 30 per cent.

There were no dividends declared after the balance sheet date.

### Dividend franking account

| *In thousands of AUD* | Company 2017 | Company 2016 |
|---|---|---|
| 30% franking credits available to shareholders of Mastermyne Group Limited for subsequent financial years | 14,784 | 14,669 |

The balance of the dividend franking account represents the total of the individual franking accounts within the companies comprising the consolidated entity.

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:
(i) franking credits/debits that will arise from the payment of the current tax liabilities or refund of current tax assets;
(ii) franking debits that will arise from the payment of dividends recognised as a liability at the year-end;
(iii) franking credits that will arise from the receipt of dividends recognised as receivables by the Group at the year-end; and
(iv) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being available profits to declare dividends.

As no dividends are proposed after balance date that are not recognised as a liability, there is no impact on the dividend franking account.

## 21 Earnings per share

### Basic earnings per share

The calculation of basic earnings per share at 30 June 2017 was based on the loss attributable to ordinary shareholders of $2,012 thousand (2016: $13,156 thousand) and a weighted average number of ordinary shares outstanding of 91,088 thousand (2016: 91,088 thousand), calculated as follows:

**Loss attributable to ordinary shareholders**

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Loss attributable to ordinary shareholders | (2,012) | (13,156) |

**Weighted average number of ordinary shares**

| *In thousands of shares* | **2017** | **2016** |
|---|---|---|
| Issued ordinary shares at 1 July | 91,088 | 91,088 |
| Weighted average number of ordinary shares at 30 June | 91,088 | 91,088 |

### Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2017 was based on the loss attributable to ordinary shareholders of $2,012 thousand (2016: $13,156 thousand) and a weighted average number of ordinary shares outstanding of 91,088 thousand (2016: 91,088 thousand), calculated as follows:

**Loss attributable to ordinary shareholders (diluted)**

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Loss attributable to ordinary shareholders | (2,012) | (13,156) |

**Weighted average number of ordinary shares (diluted)**

| *In thousands of shares* | **2017** | **2016** |
|---|---|---|
| Weighted average number of ordinary shares (basic) | 91,088 | 91,088 |
| Weighted average number of ordinary shares (diluted) at 30 June | 91,088 | 91,088 |

## 22 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings which are measured at amortised cost. For more information about the Group's exposure to interest rate and liquidity risk, see note 26.

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| **Current liabilities** | | |
| Finance lease liabilities (secured) | - | 1,046 |
| Cash advance facility (secured) | 6,250 | 2,497 |
| | 6,250 | 3,543 |
| **Non-current liabilities** | | |
| Contingent consideration (unsecured) | - | 158 |
| Cash advance facility (secured) | 3,000 | 9,250 |
| | 3,000 | 9,408 |

**Security**

*Finance lease*

In 2016, finance lease facilities were drawn with the Westpac Banking Corporation and Vendor Finance Pty Ltd and were secured by a charge over the asset to which the facility relates to and a fixed and floating charge over the assets of the Group. During the year ended 30 June 2017, these finance leases were repaid.

*Westpac cash advance facility*

The Westpac cash advance facility is drawn with the Westpac Banking Corporation for the purpose of the DMS acquisition and equipment funding and is secured by a fixed and floating charge over all assets and uncalled capital of the Group.

**Finance lease liabilities**

Finance lease liabilities of the Group are payable as follows:

| *In thousands of AUD* | Future minimum lease payments 2017 | Interest 2017 | Present value of minimum lease payments 2017 | Future minimum lease payments 2016 | Interest 2016 | Present value of minimum lease payments 2016 |
|---|---|---|---|---|---|---|
| Less than one year | - | - | **-** | 1,082 | (36) | **1,046** |
| Between one and five years | - | - | **-** | - | - | **-** |
| More than five years | - | - | **-** | - | - | **-** |
| | - | - | - | 1,082 | (36) | **1,046** |

## 23 Employee benefits

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| **Current** | | |
| Liability for annual leave | 2,086 | 1,955 |
| Liability for vesting sick leave | 1,163 | 1,121 |
| Liability for long service leave | 139 | 161 |
| | 3,388 | 3,237 |
| **Non-current** | | |
| Liability for long service leave | 138 | 102 |
| | 138 | 102 |

**24 Share-based payment arrangements**

**Description of the share-based payment arrangements**

At 30 June 2017, the Group has the following share-based payment arrangements:

**Performance Rights programme (equity settled)**

An employee performance rights plan was adopted by the Board on 15 September 2015 and the plan was activated by resolution of the Board as of 16 November 2015. This plan entitles personnel to purchase shares in the Company provided performance conditions are met. In accordance with the plan, employees holding vested options are entitled to purchase shares in the Company at a set exercise price based on volume weighted average price in the two months preceding the offer.

The terms and conditions of the performance rights programme are as follows; all options are to be settled by physical delivery of shares.

| Grant date and employees entitled | Number of Instruments | Vesting Conditions | Contractual Life of Rights |
|---|---|---|---|
| Performance rights granted to KMP including CEO/Managing Director on 15 November 2016 (FY 2017 Tranche A) | 308,750 | Vesting Conditions 1, 2, 3 and 4a | 2.9 Years |
| Performance rights granted to KMP including CEO/Managing Director on 15 November 2016 (FY 2017 Tranche B) | 308,750 | Vesting Conditions 1, 2, 3 and 4b | 2.9 Years |
| Performance rights granted to KMP including CEO/Managing Director on 21 January 2016 (FY 2016 Tranche A) | 397,949 | Vesting Conditions 1, 2, 3 and 4a | 2.5 Years |
| Performance rights granted to KMP including CEO/Managing Director on 21 January 2016 (FY 2016 Tranche B) | 397,949 | Vesting Conditions 1, 2, 3 and 4b | 2.5 Years |

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in profit or loss. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

Vesting of the rights will be subject to achievement of the vesting conditions set out below and the eligible participant being employed at the vesting date:

• Vesting Condition 1: The main Vesting Condition is that the eligible participant must be employed within the Group on the Test Date. If employment is ceased with the Group prior to the Test Date, the performance rights will lapse unless the Board, at its absolute discretion, determines otherwise.

• Vesting Condition 2: Vesting is also conditional on the continuation of good conduct and the execution of duties in the best interests of Mastermyne. If it is deemed the eligible participant has acted fraudulently or dishonestly, or is in breach of obligations to Mastermyne, the Board, at its discretion, may determine that some or all of the performance rights will lapse.

• Vesting Condition 3: There is an overriding Vesting Condition requiring a minimum 8% total shareholder return (TSR) during the TSR measurement period (i.e. from the Time of Grant to the Test Date).

• Vesting Condition 4: If Vesting Condition 3 is achieved, there are two further Vesting Conditions that will each be applied independently to 50% of the performance rights. Both of these Vesting Conditions depend on Mastermyne's TSR percentile rank during the TSR measurement period:

a. Tranche A: 50% of the performance rights will be conditional on the company's TSR rank relative to companies in the ASX All Ordinaries Accumulation index;

b. Tranche B: 50% of performance rights will be conditional on the company's TSR rank relative to the ASX 200 Resources Accumulation index.

For each tranche, the percentage of performance rights which will vest will be as specified in the table below:

| TSR Rank during TSR measurement period | Percentage of Tranche A or Tranche B performance rights vesting |
|---|---|
| Below 50th percentile of the ASX Peer Group or the Resources Peer Group | 0% |
| 50th percentile to 75th percentile of the ASX Peer Group or the Resources Peer Group | 50% plus 2% for each percentile above 50th percentile |
| Above 75th percentile of the ASX Peer Group or the Resources Peer Group | 100% |

**Measurement of fair values**

The fair value of the rights granted through the employee performance rights programme was measured based on the Monte Carlo simulation. Expected volatility is estimated by considering historic average share price volatility based on Mastermyne and its peers.

**24 Share-based payment arrangements (continued)**

**Equity-settled share-based payment plans**
The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows:

**Key management personnel & Senior management Rights**

| *Fair value of share options and assumptions* | | **2017** | | **2016** |
|---|---|---|---|---|
| Fair value at grant date Tranche A | $ | 0.1993 | $ | 0.1116 |
| Fair value at grant date Tranche B | $ | 0.1997 | $ | 0.1140 |
| Share price | $ | 0.33 | $ | 0.21 |
| Exercise price | $ | nil | $ | nil |
| Expected volatility (weighted average volatility) | | 78.4% | | 71.1% |
| Option life (expected weighted average life) | | 2.9 years | | 2.5 years |
| Expected dividends | | 9.50% | | 9.50% |
| Risk-free interest rate (based on government bonds) | | 1.84% | | 2.09% |

## 25 Trade and other payables

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Trade payables | 4,537 | 3,818 |
| Sundry creditors and accruals | 6,855 | 7,221 |
| | 11,392 | 11,039 |

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

## 26 Financial instruments

**Credit risk**

**Exposure to credit risk**

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

| *In thousands of AUD* | ***Note*** | **2017** | **2016** |
|---|---|---|---|
| Trade and other receivables | *18* | 29,454 | 29,084 |
| Cash and cash equivalents | *19* | (767) | 1,836 |
| | | 28,687 | 30,920 |

The Group has four (2016: three) significant customers each representing more than 10% of the carrying amount of trade receivables at 30 June 2017. The total of the receivables from these customers is $16,135 thousand (2016: $15,190 thousand).

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

In the current and comparative period, the Group's cash and cash equivalents are held with a AA-Rated Australian bank.

**Impairment losses**

The aging of the Group's trade receivables at the reporting date is as follows:

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Not Past Due | 16,908 | 14,049 |
| Past due 0-30 days | 3,344 | 6,064 |
| Past due 31-60 days | 583 | 603 |
| Past due 61-90 days | 239 | 85 |
| Greater than 90 days | - | 217 |
| | 21,074 | 21,018 |

Impairment losses of $65 thousand were recognised at 30 June 2017 (2016: $16 thousand).

**26 Financial instruments (continued)**
**Impairment losses (continued)**

The movement in the allowance for impairment in respect of trade and other receivables during the year ended 30 June 2017 was as follows:

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Balance at 1 July | - | (108) |
| Impairment loss recognised | (65) | (16) |
| Impairment allowance utilised | 61 | 124 |
| Balance at 30 June | (4) | - |

Impairment allowance utilised during the year relates to a number of customers that were placed into receivership during the year ended 30 June 2017. At the time, the Group raised an allowance for the full amount of the receivable and it is unlikely that that the amount will become recoverable.

Credit risk in trade receivables is managed in the following ways: payment terms being 30 days and credit evaluations performed on all new customers requiring credit over a certain amount. The Group does not require collateral in respect of trade receivables. An analysis of the credit quality of trade receivables not impaired is as follows:

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Four or more years trading history with the Group | 19,547 | 16,627 |
| Less than four years trading history with the Group | 1,523 | 4,391 |
| | 21,070 | 21,018 |

Amounts in the above table include all trade receivables at the reporting date that were not impaired.

**Liquidity risk**
The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

**30 June 2017**

| *In thousands of AUD* | ***Note*** | **Carrying amount** | **Contractual cash flows** | **6 mths or less** | **6-12 mths** | **1-2 years** | **2-5 years** | **More than 5 years** |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | | |
| Finance lease liabilities | *22* | - | - | - | - | - | - | - |
| Cash advance facility | *22* | 9,250 | (9,486) | (5,103) | (1,331) | (3,052) | - | - |
| Trade and other payables | *25* | 11,392 | (11,392) | (11,392) | - | - | - | - |
| Bank Overdraft | *19* | 768 | (768) | (768) | - | - | - | - |
| | | 21,410 | (21,646) | (17,263) | (1,331) | (3,052) | - | - |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

**26 Financial instruments (continued)**
**Liquidity risk (continued)**

**30 June 2016**

| *In thousands of AUD* | ***Note*** | **Carrying amount** | **Contractual cash flows** | **6 mths or less** | **6-12 mths** | **1-2 years** | **2-5 years** | **More than 5 years** |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | | |
| Finance lease liabilities | *22* | 1,046 | (1,082) | (567) | (515) | - | - | - |
| Cash advance Facility | *22* | 11,747 | (12,841) | (2,167) | (825) | (1,612) | (8,237) | - |
| Trade and other payables | *25* | 11,039 | (11,039) | (11,039) | - | - | - | - |
| | | 23,832 | (24,962) | (13,773) | (1,340) | (1,612) | (8,237) | - |

**Interest rate risk**

**Profile**
At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

| | **Carrying amount** | |
|---|---|---|
| *In thousands of AUD* | **2017** | **2016** |
| **Fixed rate instruments** | | |
| Financial liabilities & Insurance premium funding | - | (1,046) |
| | - | (1,046) |
| **Variable rate instruments** | | |
| Financial assets | 1 | 1,836 |
| Financial liabilities | (9,250) | (11,747) |
| Bank Overdraft | (768) | - |
| | (10,017) | (9,911) |

**Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

## 26 Financial instruments (continued)

**Sensitivity analysis for variable rate instruments**

As at 30 June 2017, the effect on profit as a result of changes in the interest rate, with all other variables remaining constant, would be as follows:

*Effect In thousands of AUD*

| | 2017 | 2016 |
|---|---|---|
| **Change in profit** | | |
| Increase in interest rate by 1% | (100) | (99) |
| Decrease in interest rate by 1% | 100 | 99 |

The above interest rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

A change in interest rate on the above variable rate instruments would have had no impact on equity.

No sensitivity analysis has been performed on foreign exchange risk, as the Group is not directly exposed to foreign currency fluctuations.

**Fair values**

**Fair values versus carrying amounts**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

| *In thousands of AUD* | 2017 Carrying amount | 2017 Fair value | 2016 Carrying amount | 2016 Fair value |
|---|---|---|---|---|
| **Assets Carried at Amortised Cost** | | | | |
| Trade and other receivables | 29,454 | 29,454 | 29,084 | 29,084 |
| Cash and cash equivalents | 1 | 1 | 1,836 | 1,836 |
| | 29,455 | 29,455 | 30,920 | 30,920 |
| **Liabilities Carried at Amortised Cost** | | | | |
| Finance lease liabilities | - | - | (1,046) | (1,064) |
| Bank Overdraft | (768) | (768) | - | - |
| Cash advance facility | (9,250) | (9,250) | (11,747) | (11,747) |
| Trade and other payables | (11,392) | (11,392) | (11,039) | (11,039) |
| | (21,410) | (21,410) | (23,832) | (23,850) |

The basis for determining fair values is disclosed in note 4.

**Interest rates used for determining fair value**

The interest rates used to discount estimated cash flows are based on current market rates for similar lease agreements and were as follows:

| | 2017 | 2016 |
|---|---|---|
| Finance Lease Liabilities | N/A | 3.91% |

**Measurement of fair values**

(i) Valuation techniques and significant unobservable inputs

**Financial instruments not measured at fair value:**

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

| Type | Valuation technique | Significant unobservable inputs |
|---|---|---|
| Finance Lease Liabilities | Discounted cash flows. | Not Applicable |

## 27 Operating leases

**Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Less than one year | 1,019 | 1,632 |
| Between one and five years | 530 | 889 |
| | **1,549** | **2,521** |

The Group leases a number of residential premises and office facilities under operating leases. The residential premise leases typically run for a period of 1 year. The office premise leases typically run for a period of between 1 and 5 years, with an option to renew the lease after that date in some cases.

The Group leases a number of motor vehicles under operating leases. The leases typically run for a period of 2-4 years.

The amount recognised in relation to operating lease payments for the year ended 30 June 2017 totalled $1,983 thousand (2016: $3,392 thousand) for the Group.

## 28 Reconciliation of cash flows from operating activities

| *In thousands of AUD* | ***Note*** | **2017** | **2016** |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss for the year | | (2,110) | (13,186) |
| **Adjustments for:** | | | |
| Depreciation | *14* | 6,238 | 7,353 |
| Amortisation of intangible assets | *15* | 195 | 209 |
| Impairment loss | *9* | 664 | 7,999 |
| Loss on sale of property, plant and equipment | *10* | 225 | 2,003 |
| Write-down of inventories to net realisable value | *10* | 428 | - |
| Share based payments | *11* | 51 | 29 |
| Net finance expense | *12* | 554 | 848 |
| Income tax benefit | *13* | (771) | (1,855) |
| **Operating profit before changes in working capital and provisions** | | 5,474 | 3,400 |
| Change in trade and other receivables | | (370) | 9,484 |
| Change in inventories | | 293 | (406) |
| Change in trade and other payables | | 352 | (7,061) |
| Change in provisions and employee benefits | | 187 | (4,583) |
| | | 5,936 | 834 |
| Interest paid | | (576) | (907) |
| Income taxes paid | | 92 | 454 |
| **Net cash flows from operating activities** | | 5,452 | 381 |

## 29 Related parties

### Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see note 11) are as follows:

*In whole AUD*

| | 2017 | 2016 |
|---|---|---|
| Short-term employee benefits | 1,298,634 | 1,601,382 |
| Post-employment benefits | 98,079 | 135,887 |
| Share-based payments | 54,270 | 29,187 |
| | 1,450,983 | 1,766,456 |

### Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures, as required by Corporations Regulations 2M.3.03, is provided in the remuneration report section of the directors' report.
Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

### Loans to key management personnel

No loans were made, guaranteed or secured by the Company to key management personnel for the year.

### Key management personnel and director transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management persons and their related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

| | | Transaction value year ended 30 June | | Balance outstanding as at 30 June | |
|---|---|---|---|---|---|
| **Transaction** | ***Note*** | **2017** | **2016** | **2017** | **2016** |
| Andrew Watts - Watty Pty Ltd | (i) | 194,775 | 255,536 | - | - |
| Andrew Watts - Watty Pty Ltd | (ii) | 206,940 | 276,096 | - | - |
| Andrew Watts - Watty Pty Ltd | (iii) | - | 56,727 | - | - |
| | | 401,715 | 588,359 | - | - |

(i) The Group rents the premises at 45 River Street, Mackay which is owned by Andrew Watts through his company, Watty Pty Ltd. Amounts paid for rent are at arm's length and are due and payable under normal payment terms.

(ii) The Group is paying for leasehold improvements made by Watty Pty Ltd to the premises at 45 River Street, Mackay which is owned by Andrew Watts through his company, Watty Pty Ltd. The final payment for the leasehold improvements occurred in March 2017.

(iii) The Group rents a duplex at 56 Grosvenor Drive, Moranbah which is owned by Andrew Watts through his company, Watty Pty Ltd. Amounts paid for rent are at arm's length and are due and payable under normal payment terms. This rental agreement was ceased as at 12 March 2016.

From time to time, key management personnel and directors of the Group, or their related entities, may purchase goods or services from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

## 30 Group entities

**Parent and ultimate controlling party**

| Parent entity | Country of incorporation | Ownership interest 2017 % | 2016 % |
|---|---|---|---|
| Mastermyne Group Limited | Australia | | |
| **Significant subsidiaries** | | | |
| Mastermyne Pty Ltd | Australia | 100 | 100 |
| Mastermyne Engineering Pty ltd | Australia | 100 | 100 |
| Mastermyne Underground Pty Ltd | Australia | 100 | 100 |
| Mastermyne Services Pty Ltd | Australia | 100 | 100 |
| Mastermyne Underground NNSW Pty Ltd | Australia | 100 | 100 |
| Myne Start Pty Ltd | Australia | 100 | 100 |
| MyneSight Pty Ltd | Australia | 66.67 | 66.67 |
| National Labour Solutions Pty Ltd | Australia | 100 | 100 |
| Mastertec Industrial and Maintenance Pty Ltd | Australia | 100 | 100 |
| Anderson Mine Services Pty Ltd | Australia | 100 | 100 |
| Ausscaffold Pty Ltd | Australia | 100 | 100 |
| Diversified Mining Services Pty Ltd | Australia | 100 | 100 |
| East Coast Engineering (QLD) Pty Ltd | Australia | 100 | 100 |
| Falcon Mining Pty Ltd | Australia | 100 | 100 |
| Machinetek Engineering Pty Ltd | Australia | 100 | 100 |
| Velamont Pty Ltd | Australia | 100 | 100 |
| Anderson Industries (Aust) Pty Ltd | Australia | 100 | 100 |
| DMS Field Maintenance Pty Ltd | Australia | 100 | 100 |

## 31 Deed of Cross Guarantee

Pursuant to *ASIC Corporations (wholly owned companies) Instrument 2016/785*, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports and directors' report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up. The deed took effect on 23 June 2010.

The subsidiaries subject to the deed are:
- Mastermyne Pty Ltd
- Mastermyne Engineering Pty Ltd
- Mastermyne Underground Pty Ltd
- Mastermyne Services Pty Ltd
- Mastermyne Underground NNSW Pty Ltd
- Myne Start Pty Ltd
- National Labour Solutions Pty Ltd
- Mastertec Industrial and Maintenance Pty Ltd
- Anderson Mine Services Pty Ltd
- Ausscaffold Pty Ltd
- Diversified Mining Services Pty Ltd
- East Coast Engineering (QLD) Pty Ltd
- Falcon Mining Pty Ltd
- Machinetek Engineering Pty Ltd
- Velamont Pty Ltd

A consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2017 is set out as follows.

**31 Deed of Cross Guarantee (continued)**

**Statement of financial position**

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | - | 1,635 |
| Trade and other receivables | 28,846 | 28,444 |
| Inventories | 2,684 | 3,408 |
| Current tax assets | 111 | 190 |
| **Total current assets** | 31,641 | 33,677 |
| Investments in subsidiaries | 723 | 723 |
| Deferred tax assets | 9,419 | 8,589 |
| Property, plant and equipment | 18,680 | 21,474 |
| Intangible assets | 6,120 | 6,315 |
| **Total non-current assets** | 34,942 | 37,101 |
| **Total assets** | 66,583 | 70,778 |
| | | |
| **Liabilities** | | |
| Bank overdraft | 1,232 | - |
| Trade and other payables | 11,194 | 11,199 |
| Loans and borrowings | 6,250 | 3,543 |
| Employee benefits | 3,273 | 3,100 |
| **Total current liabilities** | 21,949 | 17,842 |
| Loans and borrowings | 3,000 | 9,408 |
| Employee benefits | 112 | 102 |
| **Total non-current liabilities** | 3,112 | 9,510 |
| **Total liabilities** | 25,061 | 27,352 |
| **Net assets** | 41,522 | 43,426 |
| **Equity** | | |
| Share capital | 55,234 | 55,234 |
| Reserves | (21,864) | (21,915) |
| Retained earnings | 8,152 | 10,107 |
| **Total Equity** | 41,522 | 43,426 |

**Statement of profit or loss and other comprehensive income**

| *In thousands of AUD* | **2017** | **2016** |
|---|---|---|
| Revenue | 120,595 | 165,386 |
| Other income | 158 | 121 |
| Contract disbursements | (27,458) | (35,507) |
| Personnel expenses | (83,670) | (118,230) |
| Office expenses | (3,938) | (7,386) |
| Depreciation and amortisation expense | (6,413) | (7,540) |
| Impairment loss | (664) | (7,999) |
| Other expenses | (1,350) | (3,171) |
| **Results from operating activities** | (2,740) | (14,326) |
| | | |
| Finance income | 19 | 57 |
| Finance expense | (574) | (905) |
| **Net finance expense** | (555) | (848) |
| | | |
| **Loss before income tax** | (3,295) | (15,174) |
| Income tax benefit | 898 | 1,897 |
| | | |
| **Loss for the year** | (2,397) | (13,277) |
| | | |
| Other comprehensive income for the year, net of income tax | - | - |
| **Total comprehensive income for the year** | (2,397) | (13,277) |

## 32 Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## 33 Auditor's remuneration

*In whole AUD*

**Audit services**

Auditors of the Company

| *KPMG Australia:* | **2017** | **2016** |
|---|---|---|
| Audit and review of financial reports | 160,000 | 120,000 |
| Other regulatory audit services | 10,000 | - |
| | 170,000 | 120,000 |

**Other services**

Auditors of the Company

| *KPMG Australia* | | |
|---|---|---|
| Taxation compliance services | 25,500 | 91,000 |
| Data analytic services | 11,000 | 12,000 |
| | 36,500 | 103,000 |

## 34 Parent Entity Disclosures

As at and throughout the financial year ended 30 June 2017, the parent company of the group was Mastermyne Group Limited.

| | Company | |
|---|---|---|
| *In thousands of AUD* | **2017** | **2016** |
| **Results of the parent entity** | | |
| Loss for the year | (255) | (860) |
| Total comprehensive loss for the year | (255) | (860) |
| **Financial position of parent entity at year end** | | |
| Current assets | 861 | - |
| Total assets | 54,568 | 52,860 |
| Current liabilities | 1,834 | - |
| Total liabilities | 1,912 | - |
| **Total equity of the parent entity** | | |
| Share Capital | 55,234 | 55,234 |
| Share-based payments reserve | 2,373 | 2,322 |
| Retained earnings | (4,951) | (4,696) |
| **Total Equity** | 52,656 | 52,860 |

**Parent Entity Contingencies**

There were no parent entity contingencies required for the year ended 30 June 2017 (2016: Nil).

**Parent Entity Capital Commitments**

There were no parent entity capital commitments at 30 June 2017 (2016: Nil).

**Parent Entity Capital Guarantees**

The parent entity has entered into a Deed of Cross guarantee with the effect that the Company guarantees debts in respect of its subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in note 31.

# Mastermyne Group Limited and its Controlled Entities

## Directors' declaration

1 In the opinion of the directors of Mastermyne Group Limited (the "Company"):

(a) the consolidated financial statements and notes that are set out on pages 19 to 67 and the Remuneration report in section 5 of the Directors' report are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 There are reasonable grounds to believe that the Company and the group entities identified in note 31 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to *ASIC Corporations (Wholly owned companies) instrument 2016/785.*

3 The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2017.

4 The directors draw attention to note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors.

C. Bloomfield
*Chairman*

Dated at Sydney this 15th day of August 2017.

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# Independent Auditor's Report

## To the shareholders of Mastermyne Group Limited

### Report on the audit of the Financial Report

#### Opinion

We have audited the ***Financial Report*** of Mastermyne Group Limited (the Company).

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 2017 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 2017
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of 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
- 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.

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## Key Audit Matters

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

- Valuation of goodwill
- Recoverability of deferred tax assets
- Revenue recognition and recoverability of related contract receivables.

***Key Audit Matters*** are those matters that, in our professional judgment, 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.

### Valuation of goodwill ($6.429 million)

Refer to Note 15 to the Financial Report

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| At 30 June 2017 the Group's consolidated statement of financial position included goodwill amounting to $6.429 million, contained within one cash generating unit (CGU). The Group has not recognised any impairment of goodwill during the year ended 30 June 2017.<br><br>The sector in which the Group operated over the period has continued to experience the impacts of cost reduction mandates, project cancellations and deferrals, which have impacted the performance of the CGU and expectations of the timing and strength of market recovery.<br><br>A key audit matter for us was whether the Group's value-in-use models to test for impairment included appropriate consideration of business and market conditions on their significant estimates and judgements, and the selection of key external and internal inputs.<br><br>Our assessment of impairment focused on these factors, in particular:<br>• forecast cash flows of the CGU, including consideration of current contracted revenues and revenue pipeline, levels of capital expenditure to maintain productive capacity, and working capital investment to facilitate forecast growth,<br>• growth rates used by management to determine long term business value, and<br>• discount rate for the CGU.<br><br>We involved our specialists and additional experienced team member time to address the key audit matter. | Our procedures included:<br>• We challenged the Group's significant estimates and judgements, and key external and internal inputs, used in the value-in-use model, including:<br>  • those relating to forecast revenue and related cash flows, through comparison with historical performance, and undertaking a retrospective analysis of actual performance against budget in that period to assess the accuracy of prior forecasting by the Group. We evaluated the forecasts for evidence of consideration of current business and market conditions. We applied increased scepticism to areas where prior forecasts were not achieved, where our analysis showed heightened sensitivity to impairment, and/or where future uncertainty is greater, such as expectations for market recovery. We applied our knowledge from these tests across our procedures, and assessed the sensitivity of the impairment outcome to reductions in the forecast cash flows;<br>  • those relating to capital expenditures required to maintain the productive asset base and capacity within the CGU, through inquiry of management, comparison of forecast capital expenditure against depreciation of the existing asset base, and comparison of resulting value of the productive asset base to historical actuals, particularly in the terminal value year;<br>  • those related to working capital requirements to facilitate forecast growth, through comparison of working capital levels in the forecast period to historical ratios of working capital to revenue; |

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| | |
|---|---|
| | • those relating to growth rates in the forecast period, through comparison of growth rates to comparable businesses within the sector;<br>• those relating to growth rates in the terminal value year, through comparison to published assessments of market long-term growth;<br>• We used our corporate finance specialists to corroborate the selected discount rates and market related assumptions to comparable businesses within the sector and their knowledge of the market;<br>• We agreed relevant data in the forecast cash flows to Board-approved budgets;<br>• We performed sensitivity analysis on the forecast cash flows for the CGU by decreasing cash flows over the forecast period to assess the level at which impairment was evident, and assessing the resulting cash flows against the CGU's historical performance. |

**Recoverability of deferred tax assets ($9.285 million)**

Refer to Note 16 to the Financial Report

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| At 30 June 2017, the Group's consolidated statement of financial position included deferred tax assets of $9.285 million which includes $9.406 million arising from unused tax losses. The recognition of deferred tax assets is dependent upon an assessment that it is probable the Group will generate sufficient future taxable income to utilise them.<br><br>The sector in which the Group operated over the period has continued to experience the impacts of cost reduction mandates, project cancellations and deferrals, which have impacted the profitability of the Group.<br><br>This was a key audit matter for us due to the significant judgement involved in assessing the Group's ability to generate future taxable income.<br><br>We involved our specialists and additional experienced team member time to address this key audit matter. | Our procedures included:<br>• We obtained and tested the Group's calculation of its current and deferred tax balances for the year ended 30 June 2017;<br>• We challenged and evaluated the reasonableness of key assumptions used in the Group's forecast of taxable income including assessing their consistency with the Board-approved budget for the year ending 30 June 2018 and the cash flow assumptions used in the impairment model;<br>• We assessed the historical accuracy of the Group's budgeting and forecasting and considered implications for our assessment of assumptions used in the Group's current forecast of taxable income;<br>• We assessed the availability of tax losses to the Group under current Australian tax legislation including those acquired as part of business combinations; and<br>• We involved our taxation specialists in the completion of these procedures and in making our assessments. |

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| Recognition of revenue ($124.162 million) and recoverability of related contract receivables ($27.55 million) | |
|---|---|
| Refer to Note 7 to the Financial Report | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| The Group's consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2017 included revenues amounting to $124.162 million. The consolidated statement of financial position as at 30 June 2017 included trade receivables of $21.074 million and unbilled revenue of $6.476 million.<br><br>Revenues represent the most significant financial statement caption within the financial statements, and the most significant class of transactions undertaken by the Group. Revenue recognition of certain transactions may involve some element of management estimate in relation to contract outcomes.<br><br>A key audit matter for us was assessing the consistency of the Group's policies for revenue recognition with AASB 118 *Revenue* and the recoverability of the related contract receivables.<br><br>Our audit focused on:<br>• the processes and controls adopted by the Group in relation to the recognition of revenue and related receivables;<br>• the processes and controls adopted by the Group in relation to key drivers of revenue recognition; and<br>• the recoverability of contract receivables including estimates made by management in relation thereto. | Our procedures included:<br>• We assessed revenue recognised during the year against the requirements of AASB 118 *Revenue*;<br>• We assessed the design and implementation, and tested the operating effectiveness, of controls over the revenue recognition and invoicing processes;<br>• We assessed the design and implementation, and tested the operating effectiveness, of controls over the payroll and purchasing processes, being the key expenditure drivers of revenue;<br>• We tested the recognition of revenue transactions before and after 30 June 2017 to assess whether revenue around year-end was recognised in the period to which it properly relates;<br>• We performed analytical procedures over revenues recognised against historical margins on employee expenses and contractor disbursements across the financial year, and on a monthly basis;<br>• We assessed the recoverability of contract receivables through:<br>  • inspection of cash receipts from debtors subsequent to year-end;<br>  • challenge of residual aged debtor balances and management's assessment of recoverability of older receivables; and<br>  • with respect to unbilled revenue at 30 June 2017, testing of invoices issued subsequent to year-end, related to those projects for which revenues were accrued as at 30 June 2017. |

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## Other Information

Other Information is financial and non-financial information in Mastermyne Group Limited'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.

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
- 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 this 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/ar2.pdf. This description forms part of our Auditor's Report.

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## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Mastermyne Group Limited for the year ended 30 June 2017, 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 on pages 7 to 15 of the Directors' report for the year ended 30 June 2017.

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

KPMG
Brisbane

M L Gray
*Partner*

15 August 2017