

For personal use only

**Mastermyne Group Limited
and its Controlled Entities**

ABN 96 142 490 579

Annual Report

30 June 2015

Mastermyne Group Limited and its Controlled Entities

Contents

| | |
|---|----|
| Directors' report | 2 |
| Lead auditor's independence declaration | 18 |
| Consolidated statement of financial position | 19 |
| Consolidated statement of profit or loss and other comprehensive income | 20 |
| Consolidated statement of changes in equity | 21 |
| Consolidated statement of cash flows | 22 |
| Notes to the financial statements | 23 |
| Directors' declaration | 67 |
| Independent auditor's report | 68 |

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

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 2015 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)

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
Member of the Remuneration and Nomination Committee

Mr D. Hamblin (appointed 10 March 2010) - Bachelor of Engineering (Mechanical)

Non - executive Director

Experience and other directorships

Darren has been involved in the mining industry since graduating as a mechanical engineer in 1991. He has worked directly for mine owners as well as contractors in operations, planning and maintenance roles. Darren co-founded Mastermyne in 1996. Following the appointment of Tony Caruso as CEO in 2005, Darren focused on developing Mastermyne's longer term business strategies and systems. Darren became a non-executive Director in 2008.

Special Responsibilities

Member of the Audit and Risk Management Committee
Chair of the Remuneration and Nomination Committee

Mr J. Wentworth (appointed 30 March 2011) - Bachelor of Laws (Hons), Bachelor of Commerce

Non - executive Director (independent)

Experience and other directorships

James has been CFO of ASX listed Finders Resources Ltd since 2010. In that role he has managed the financing of the company's Wetar Copper Project. Prior to that, James had over 15 years experience in financial services, including private equity transactions, acquisitions and integration, management and exit of investments, strategy development, structuring and finance. He has previously worked at Champ Ventures, Goldman Sachs and Macquarie Bank. He has international experience and a background in the legal profession.

Special Responsibilities

Chairman of the Audit and Risk Management Committee
Member of the Remuneration and Nomination Committee

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

1 Directors (continued)

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's current focus is on business development and acquisitions. Andrew relocated to Sydney in early 2010 to focus on the New South Wales market.

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 C Kneipp was appointed Joint Company Secretary of the Company on 24 August 2011 and appointed Sole Company Secretary on 26 February 2015. Chris has a Bachelor in Commerce, is a Certified Practising Accountant and is a graduate of the Australian Institute of Company Directors. Chris has been with the Group since March 2006 and has over 11 years experience in the mining industry.

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 | 15 | 15 | 4 | 4 | 4 | 4 |
| Mr D. Hamblin | 15 | 15 | 4 | 4 | 4 | 4 |
| Mr J. Wentworth | 15 | 15 | 4 | 4 | 4 | 4 |
| Mr A. Watts | 15 | 15 | - | - | - | - |
| Mr A. Caruso | 15 | 15 | - | - | - | - |

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

B – Number of meetings attended

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

4 Operating and financial review

Financial Overview

Profit for the year

Mastermyne Group Limited and its controlled subsidiaries recorded a loss after tax of \$4.354 million for the year ended 30 June 2015, down on the previous corresponding period (net profit after tax for the year ended 30 June 2014 of \$2.992 million). The result included a non-cash goodwill impairment of \$4.538 million (2014:nil), a gain on bargain purchase of \$2.221 million (2014: nil) as a result of the acquisition of Diversified Mining Services Limited (DMS) and transaction costs associated with the acquisition of DMS of \$1.272 million (2014: nil). The impact of these items reduced the profit after tax by \$3.589 million.

The Group's revenues were up by 1.29% to \$174.195 million (2014: \$171.977 million) as a result of the six month's revenue contribution from the DMS acquisition. The remainder of the Group's revenue decreased on the previous corresponding period as a result of lower contracting activity. Profit margins have also decreased resulting from the lower contracting activity, lower equipment utilisation and contraction in margins due to the current market climate.

Balance Sheet and Cash Flows

The overall cash position remained steady during the year ended 30 June 2015 with a net decrease in cash and cash equivalents of \$0.087 million (2014: net decrease of \$1.413 million). Total cash flow movements were as follows:

- net cash inflows from operating activities for the year were \$7.135 million (2014: net cash inflows of \$10.667 million), the reduction on last year is largely driven by decreased operating activity;
- net cash outflows from investing activities for the year of \$11.293 million (2014: net cash outflows of \$1.628 million), primarily as a result of the cash investment in DMS during the period of \$10.581 million (2014: nil); and
- net cash inflows from financing activities for the year of \$4.071 million (2014: net cash outflows of \$10.452 million), resulting from increased borrowings associated with the acquisition of DMS of \$11.500 million (2014:nil), repayment of borrowings of \$5.461 million (2014: \$7.130 million), and paying dividends of \$1.968 million (2014: \$3.468 million).

The balance sheet remains strong with net debt increasing by \$6.200 million to \$8.433 million (2014: \$2.233 million), largely as a result of increasing total bank debt to \$17.156 million (2014: \$11.043 million) due to the DMS acquisition. The Group still maintains headroom in its current bank facilities with Equipment facility limits of \$15.000 million (\$2.965 million drawn) and working capital facilities of \$10.270 million (\$2.040 million drawn in bank guarantees).

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

4 Operating and financial review (continued)

Operational Overview

FY2015 has seen a continuation of market conditions experienced in FY2014. Mine Operators have again focused on reducing costs and increasing productivity. The Mastermyne Group has continued to maintain a positive strategy with counter cyclic investment and a sensible targeted approach to tendering and winning work.

During the period the Company successfully integrated the DMS business into the Mastermyne Group. The integration led to the rebranding of the business into two divisions focused on underground and above ground activities. The underground activities remained badged as Mastermyne with the above ground activities badged as Mastertec. Both divisions continue to target recurring work linked to production activities as opposed to construction and one off projects. The integration was achieved ahead of schedule and seamlessly, with all cost synergies identified at the time of the acquisition implemented and realised.

The Mastermyne division continues to deliver strong results and maintains its strong market share. Over the period Mine Operators have remained focused on reducing cash costs and increasing production. This has resulted in increased short duration contracts and the use of labour hire models, where the mine is less dependent on the outcome, or the scope of the work is less complex to deliver. Mastermyne has focused its efforts on contracts that are more complex in scope or have greater influence and impact if not delivered to a standard and on time. Mastermyne continued to secure new contracts and expand and roll existing contracts.

The most recent new contract win is a roadway development project on a 2 year term, with further one year option which will employ approximately 60 full time staff. Overall employee numbers have increased in the second half to 703 in the Mastermyne division.

The Mastertec division has primarily been focused on executing the existing work and securing shutdown contracts that were expected to roll through in the second half of the year. Much of this forecast shutdown work did not occur until very late in the financial year and this division was mobilising on 2 shutdowns at year end. The rebranding to the Mastertec division has allowed the company to develop a much clearer and focused strategic plan with the three project based income streams being Industrial and Maintenance (includes piping, protective coatings and access solutions); Fabrication and Machining (includes design, drafting and manufacture of high quality machined and fabricated products), and Engineering and Technical (includes project scoping, design and management).

The rebranded division has quickly gained traction in the market place and tendering activity has increased significantly under the new structure. Mastertec has also benefited from the leverage provided through the strong links and customer base in the underground division. This has already opened up several new tendering opportunities as well as new opportunities with new customers. The focus on winning new port infrastructure projects has progressed well evidenced by some initial work undertaken in the Gladstone region, tendering on a port maintenance contract in the Bowen region and a base now created in the Hunter region. Work in the water area has also increased substantially during the period and similar to the underground division the forming of strategic partnerships has opened up several new markets and regions for the Mastertec division.

Both Mastermyne and Mastertec have continued the focus on safety in the second half. The integration of the DMS business saw the injury rates increase slightly but pleasingly lagging these have been trending down since the integration of DMS into the Mastermyne Group. Over the next financial year the Company will continue to focus on control of critical risks and the development of the safety culture across the now expanded group.

At the completion of the FY2015 year the Group order book is \$359 million, with approx. \$124 million to be delivered in the FY2016. Recurring and purchase order work sits over and above this order book number.

The significant operational highlights for the financial year include:

- Group revenue \$174.195 million (2014: \$171.977 million)
- Net loss after tax of \$4.354 million (net profit after tax for the year ended 30 June 2014 of \$2.992 million).
- Net cash inflows from operating activities for the year were \$7.135 million
- Net debt at 30 June of \$8.433 million after DMS acquisition
- Successful integration and rebranding of DMS Business
- Group Order Book at financial year end \$359 million with \$124 million to be delivered in the FY2016 (excludes recurring and purchase order work)
- Tendering Pipeline at \$1.7 billion

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

4 Operating and financial review (continued)

Outlook

The outlook moving into FY2016 remains unchanged with coal prices continuing to drive ongoing focus on reducing costs and increasing production. The project pipelines for the two divisions are distinctly different with the Mastermyne pipeline made up from larger longer term tenders and the Mastertec pipeline made up from a larger quantity of smaller shorter duration projects as well as the jobbing style recurring revenue generated through the workshops. The traditional tendering opportunities in the Mastermyne business have been replaced with shorter term labour supply tenders. The Mastertec pipeline remains active with strong visibility over the short term. This driver in this pipeline is the increased activity in the maintenance area. This is expected to continue through FY2016 as deferred maintenance is carried out over the next 12 to 24 months. The Mastertec pipeline will also benefit from the addition of new services, new sectors and a larger footprint.

The Company has a clear and well articulated strategy which will focus on organic growth in the Mastermyne Division where winning market share through competitive tendering will be the priority but also continuing to build new revenue through partnerships with other companies to deliver a wider range of services to the underground coal sector. The Company will also continue with its strategy to become a coal mine operator. The Mastertec Division will continue to build its brand in the market place and focus on both coal and non coal sectors. The engineering and maintenance services provided by Mastertec position the division well to service a number of sectors adjacent to the coal sector. The Company remains committed to our long term market growth strategy which is based around underground and above ground activities in coal and outside of coal.

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)
- Ms V. Gayton, Executive General Manager Human Resources (appointed 11 August 2010)
- Ms B. Jooste, Executive General Manager HSEQ (appointed 14 June 2011)
- Mr D. Sykes, Executive General Manager Mastermyne (appointed 24 April 2012)
- Mr N. O'Hare, General Manager Engineering (appointed 26 May 2014, resigned 9 November 2014)
- Mr J. Sleeman, General Manager Services (appointed 25 November 2013, resigned 17 October 2014)
- Mr P. Mills, Executive General Manager Mastertec (appointed 29 September 2014)

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).

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

5.1 Principles of remuneration - audited (continued)

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.

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.

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

5.1 Principles of remuneration - audited (continued)

Long-term incentive

An employee performance rights plan was adopted by the board on 22 March 2010 and the plan was activated by resolution of the Board as of 1 July 2010. 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.

The Managing Director was issued 1,050,000 performance rights during the financial period ending 30 June 2013, which vest in three tranches at 30 June 2014, 30 June 2015 and 30 June 2016. The grant of these rights was made in accordance with the Company's Employee Rights Plan voted upon by shareholders at the 2010 AGM, with specific details to the issue of these rights voted upon by shareholders at the 2012 AGM. The ability to exercise the rights is conditional on the Group meeting its performance hurdles.

The performance hurdles for the vesting of the rights are as set out below, and are in both cases, subject to the Managing Director continuing to be employed by the Group on the relevant vesting dates:

- **Total Shareholder Return (TSR) Performance Criteria:** The performance right subject to the TSR relative ranking performance condition will wholly vest if Mastermyne's TSR Ranking over the performance period (i.e. 1 July 2013 to 30 June 2014, 30 June 2015 and 30 June 2016) is at least in the top 20th percentile. If the TSR relative ranking performance condition is between the 20th and 40th percentile of S&P ASX 300, 50% of rights will vest. Below this range no rights will vest. The TSR performance criteria was chosen as it is widely accepted as one of the best indicators of shareholder wealth creation as it includes share price growth, dividends and other capital adjustments. FY2014 and FY2015 rights are subject to non-lapse provisions which dictate that if the respective hurdle is not met at the initial test date, they are eligible for re-tests at the following test dates (30 June 2015 and 30 June 2016 for FY 2014, 30 June 2016 for FY2015). The TSR rights represent 70% of the total performance rights.

- **Earnings Per Share (EPS) Performance Criteria:** The performance right subject to the EPS relative ranking performance condition will wholly vest if Mastermyne's EPS growth ranking relative to the S&P ASX 300 accumulation index over the performance period (i.e. 1 July 2013 to 30 June 2014, 30 June 2015 and 30 June 2016) is at least in the top 20th percentile. If the EPS growth ranking is between the top 20th and 35th percentile of S&P ASX 300, 50% of rights will vest. Below this range no rights will vest. EPS will be calculated on the basis of basic earnings per share in accordance with Accounting Standard AASB 133 Earnings per share. EPS growth compared to other companies was chosen as it is a good indicator of the Company's growth in earnings and is aligned to shareholder wealth objectives. FY2014 and FY2015 rights are subject to non-lapse provisions which dictate that if the respective hurdle is not met at the initial test date, they are eligible for re-tests at the following test dates (30 June 2015 and 30 June 2016 for FY 2014, 30 June 2016 for FY2015). The EPS rights represent 30% of the total performance rights.

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

5.1 Principles of remuneration - audited (continued)

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.

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|--|----------------|--------------|---------------|---------------|---------------|
| Profit attributable to owners of the Company | \$ (4,376,000) | \$ 2,963,000 | \$ 11,514,000 | \$ 14,664,000 | \$ 11,742,000 |
| Dividends paid | \$ 1,968,121 | \$ 3,468,406 | \$ 6,105,000 | \$ 5,050,000 | \$ 2,636,000 |
| Change in share price | -65% | -35% | -67% | 48% | 42% |
| Return on capital employed | -6.28% | 8.08% | 29.66% | 45.60% | 34.99% |

Profit is considered as one of the financial performance targets in setting the STI. Profit amounts for 2011 to 2015 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. Over the past two years the Group's profit margins have declined as a result of reduced equipment utilisation as detailed in section 4 of the Directors Report resulting in profit from ordinary activities after income tax declining at a compound annual rate of -28.95% for the 4 years to June 2014. The declining equipment utilisation coupled with an impairment of Goodwill and acquisition costs as detailed in section 4 of the Directors Report, has resulted in a loss from ordinary activities after income tax in the current year. However, Group revenue over the past four years driven by increased contracting activity has grown at a compound annual growth rate of 1.39%. During the same period compound annual growth of key management personnel compensation was 0.84%.

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 Company pays fringe benefits tax on these benefits.

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 month's notice. The Group retains the right to terminate an agreement immediately by making payment equal to 3 month's pay in lieu of notice. The CEO/Managing Director's contract has no fixed term and is capable of termination on 9 month's 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.

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

5.1 Principles of remuneration - audited (continued) Executive Service Agreements (continued)

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 relied upon data provided by McDonald & Company Australasia (McDonald) with some detailed analysis of remuneration circumstances in Mastermyne. 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.

During the year McDonald's was paid a total of \$0 for analytical data, reports on Mastermyne KMP and director remuneration, and a total of \$7,150 for all other services.

Directors' Fees

As with the Executives, remuneration of non-executive directors (NED) for the current period was reviewed based on comparative roles in the market place, with no changes recommended to the current levels of remuneration previously stated as follows:

- Chairman of the Board and the remuneration and Nomination Committee \$93,468 per annum
- NED and Chair of Audit and Risk Committee \$54,250 per annum
- NED with no chair responsibilities \$52,456 per annum

In future years the aggregate remuneration of non executive directors 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 total Board. Given the diversification of the Group's revenue base following the purchase of Diversified Mining Services Ltd, the Board is actively recruiting for a non executive director with skills aligned to new industries representing new growth opportunities. This may lead to an increase to the current limit based on the remuneration levels set above.

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

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:

| 2015 | Short Term | | | | Post-Employment | Termination Benefits (\$) | Share-based payments | Total (\$) | Proportion of remuneration performance related (%) |
|---------------------------------|--------------------|---------------------|-----------------------|------------------|-------------------------------|---------------------------|----------------------|------------------|--|
| | Salary & Fees (\$) | STI cash bonus (\$) | Non-monetary benefits | Total (\$) | Super-annuation Benefits (\$) | | Rights (\$) | | |
| in AUD | | | | | | | | | |
| Non -executive directors | | | | | | | | | |
| Mr C Bloomfield | 59,924 | - | - | 59,924 | 5,693 | - | - | 65,617 | 0.00% |
| Mr D Hamblin | 50,875 | - | - | 50,875 | 4,833 | - | - | 55,708 | 0.00% |
| Mr A Watts | 44,555 | - | - | 44,555 | 4,233 | - | - | 48,788 | 0.00% |
| Mr J Wentworth | 54,250 | - | - | 54,250 | - | - | - | 54,250 | 0.00% |
| Executive Directors | | | | | | | | | |
| Mr A Caruso | 347,004 | - | 19,500 | 366,504 | 27,697 | - | 35,307 | 429,508 | 8.22% |
| Executives | | | | | | | | | |
| Mr C Kneipp | 221,840 | - | 19,500 | 241,340 | 23,196 | - | - | 264,536 | 0.00% |
| Mr D Sykes | 304,837 | - | - | 304,837 | 30,067 | - | - | 334,904 | 0.00% |
| Mrs B Jooste | 169,749 | - | 19,500 | 189,249 | 18,501 | - | - | 207,750 | 0.00% |
| Mr P Mills | 119,597 | - | - | 119,597 | 10,791 | - | - | 130,388 | 0.00% |
| Ms V Gayton | 168,286 | - | - | 168,286 | 17,855 | - | - | 186,141 | 0.00% |
| Mr N O'Hare | 92,877 | - | - | 92,877 | 7,631 | 8,032 | - | 108,540 | 0.00% |
| Mr J Sleeman | 65,784 | - | - | 65,784 | 7,235 | 20,769 | - | 93,788 | 0.00% |
| Totals | 1,699,578 | - | 58,500 | 1,758,078 | 157,732 | 28,801 | 35,307 | 1,979,918 | |

Notes in relation to the 2015 tables of directors' and executive officers' remuneration

- Mr C Bloomfield was appointed Chairman on 26 February 2015
- Mr P Mills was appointed Executive General Manager Mastertec 29 September 2014
- Mr N O'Hare resigned as General Manager Engineering on 9 November 2014
- Mr J Sleeman resigned as General Manager Services on 17 October 2014
- 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 13 August 2015 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 binomial and 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.

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

5.2 Directors' and executive officers' remuneration - audited (continued)

| 2014 | | | | | Post-Employment | Termination Benefits (\$) | Share-based payments | Total (\$) | Proportion of remuneration performance related (%) |
|--------------------------------|------------------|--------------------|---------------------|-----------------------|-------------------------------|---------------------------|----------------------|------------------|--|
| | in AUD | Salary & Fees (\$) | STI cash bonus (\$) | Non-monetary benefits | Super-annuation Benefits (\$) | | Rights (\$) | | |
| Non-executive directors | | | | | | | | | |
| Mr P Slaughter | 36,957 | - | - | 36,957 | 3,419 | - | - | 40,376 | 0.00% |
| Mr D Hamblin | 49,898 | - | - | 49,898 | 4,616 | - | - | 54,514 | 0.00% |
| Mr C Bloomfield | 13,327 | - | - | 13,327 | 1,233 | - | - | 14,560 | 0.00% |
| Mr J Wentworth | 54,250 | - | - | 54,250 | - | - | - | 54,250 | 0.00% |
| Executive Directors | | | | | | | | | |
| Mr A Watts | 150,182 | - | - | 150,182 | 13,892 | - | - | 164,074 | 0.00% |
| Mr A Caruso | 343,181 | 25,000 | 15,000 | 383,181 | 27,648 | - | 63,428 | 474,257 | 18.65% |
| Executives | | | | | | | | | |
| Mr A Purse | 28,410 | - | 1,932 | 30,342 | 2,462 | 75,213 | - | 108,017 | 0.00% |
| Mr N O'Hare | 21,489 | - | 1,438 | 22,927 | 1,857 | - | - | 24,784 | 0.00% |
| Mr D Fitzpatrick | 123,877 | - | - | 123,877 | 16,074 | 90,425 | - | 230,376 | 0.00% |
| Mr C Kneipp | 221,458 | 25,000 | 15,000 | 261,458 | 22,709 | - | 8,400 | 292,567 | 11.42% |
| Ms V Gayton | 165,051 | 25,000 | - | 190,051 | 17,321 | - | 5,040 | 212,412 | 14.14% |
| Mrs B Jooste | 166,528 | 25,000 | 15,000 | 206,528 | 18,175 | - | 5,616 | 230,319 | 13.29% |
| MR J Stuart-Robertson | 117,452 | - | 15,000 | 132,452 | 1,472 | 40,246 | - | 174,170 | 0.00% |
| Mr D Sykes | 302,082 | 25,000 | - | 327,082 | 29,354 | - | 15,960 | 372,396 | 11.00% |
| Mr K Lonergan | 83,613 | - | - | 83,613 | 7,396 | 13,608 | - | 104,617 | 0.00% |
| Mr J Sleeman | 101,770 | - | - | 101,770 | 9,414 | - | - | 111,184 | 0.00% |
| Totals | 1,979,524 | 125,000 | 63,370 | 2,167,894 | 177,041 | 219,492 | 98,444 | 2,662,873 | |

Notes in relation to the 2014 tables of directors' and executive officers' remuneration - audited

- Mr P Slaughter retired as Chairman on 25 November 2013
- Mr D Hamblin was appointed Chairman on 25 November 2013
- Mr C Bloomfield was appointed Non Executive Director on 6 March 2014
- Mr J Stuart-Robertson terminated as Chief Operating Officer on 17 July 2013
- Mr A Purse terminated as General Manager Technical Services on 16 August 2013
- Mr D Fitzpatrick terminated as General Manager Engineering on 7 February 2014
- Mr N O'Hare was appointed as General Manager Engineering on 26 May 2014
- Mr K Lonergan terminated as General Manager Services on 13 December 2013
- Mr J Sleeman was appointed as General Manager Services on 25 November 2013
- The short term incentive bonus is for performance during the respective financial year. The amount was finally determined on 29 July 2014 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 binomial 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.

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

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% |
| Mrs B Jooste | - | 0.0% | 100.0% |
| Mr P Mills | - | 0.0% | 100.0% |
| Ms V Gayton | - | 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 2015 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 which upon exercise are exchangeable on a one for one basis.

5.4.1 Rights over equity instruments granted as compensation - audited

No rights were granted as compensation to any key management person during the reporting period.

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 | 245,000 | 26/11/2012 | 0% | 0% | 2016 | FY2014 TSR |
| Mr A.Caruso | 245,000 | 26/11/2012 | 0% | 0% | 2016 | FY2015 TSR |
| Mr A.Caruso | 245,000 | 26/11/2012 | 0% | 0% | 2016 | FY2016 TSR |
| Mr A.Caruso | 105,000 | 26/11/2012 | 0% | 0% | 2016 | FY2014 EPS |
| Mr A.Caruso | 105,000 | 26/11/2012 | 0% | 0% | 2016 | FY2015 EPS |
| Mr A.Caruso | 105,000 | 26/11/2012 | 0% | 0% | 2016 | FY2016 EPS |

5.4.5 Analysis of movements in rights - audited

During the period there was no movement in performance rights either granted, exercised or lapsed.

5.4.6 Rights over equity instruments - audited

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 2014 | Granted as compensation | Exercised | Forfeited or Lapsed During the Year | Held at 30 June 2015 | Vested and exercisable at 1 July 2014 | Lapsed or Exercised during the year | Vested and exercisable at 30 June 2015 |
| Directors | | | | | | | | |
| Mr A. Caruso | 1,050,000 | - | - | - | 1,050,000 | - | - | - |

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

5.5 Key Management Personnel Transactions - audited

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 | Note | Transaction value year ended 30 June (in AUD) | | Balance outstanding as at 30 June (in AUD) | |
|------------------------------|-------|--|----------------|---|----------|
| | | 2015 | 2014 | 2015 | 2014 |
| Andrew Watts - Watty Pty Ltd | (i) | 255,536 | 255,536 | - | - |
| Andrew Watts - Watty Pty Ltd | (ii) | 276,096 | 276,096 | - | - |
| Andrew Watts - Watty Pty Ltd | (iii) | 93,600 | 93,600 | - | - |
| Andrew Watts - Two Dots Ltd | (iv) | - | 39,850 | - | - |
| | | <u>625,232</u> | <u>665,082</u> | <u>-</u> | <u>-</u> |

- (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 Non - executive Director, Andrew Watts through his company Watty Pty Ltd.
- (iii) The Group rents a duplex at 56 Grosvenor Drive, Moranbah which is owned by Non - executive Director, 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.
- (iv) The Group rented machinery storage and laydown area at Christensen's Road, Sandy Creek which is owned by Andrew Watts through his company Two Dots Pty Ltd. Amounts paid for rent were at arm's length and were due and payable under normal payment terms. This rental agreement was ceased as at 31 May 2014.

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.

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

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 2015 |
|-------------------|------------------------------------|-----------|---------------------------------------|-------|--------------------------------|
| | Shares held at 30 June 2014 | Purchases | Received on exercise of options | Sales | |
| Directors | | | | | |
| Mr C. Bloomfield | - | 100,000 | - | - | 100,000 |
| Mr D. Hamblin | 9,702,658 | - | - | - | 9,702,658 |
| Mr A. Watts | 11,262,245 | - | - | - | 11,262,245 |
| Mr A. Caruso | 1,419,693 | - | - | - | 1,419,693 |
| Executives | | | | | |
| Ms V. Gayton | 13,366 | - | - | - | 13,366 |
| Ms B. Jooste | 30,000 | - | - | - | 30,000 |

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's Bowen Basin 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 2015.

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

Dividends paid or declared by the Company to members since the end of the previous financial year were:

| | \$ per share | Total amount \$'000s | Franked/ unfranked | Date of payment |
|--|--------------|-------------------------|-----------------------|-----------------|
| Declared and paid during the year 2015 | | | | |
| 2014 Ordinary - Ordinary Shares Final Dividend | 0.014 | 1,057 | Franked | 16/10/2014 |
| 2015 Ordinary - Ordinary Shares Interim Dividend | 0.010 | 911 | Franked | 2/04/2015 |
| Total amount | | <u>1,968</u> | | |

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

After Balance sheet date a dividend of 1.0 cents per share was declared with a record date of 25 September 2015, and payment date of 15 October 2015.

9 Events subsequent to reporting date

Subsequent to year-end the directors declared a dividend of 1.0 cents per share as per the details set out in note 20 of the annual financial report.

Other than the matter discussed above, 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.

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

10 Likely developments

The outlook moving into FY2016 remains unchanged with coal prices continuing to drive ongoing focus on reducing costs and increasing production. The project pipelines for the two divisions are distinctly different with the Mastermyne pipeline made up from larger longer term tenders and the Mastertec pipeline made up from a larger quantity of smaller shorter duration projects as well as the jobbing style recurring revenue generated through the workshops. The pipeline for the Mastermyne business is headlined by a small number of very large projects which have a high degree of uncertainty. The traditional tendering opportunities in the Mastermyne business have been replaced with shorter term labour supply tenders. The Mastertec pipeline remains active with strong visibility over the short term. This driver in this pipeline is the increased activity in the maintenance area. This is expected to continue through FY2016 as deferred maintenance is carried out over the next 12 to 24 months. The Mastertec pipeline will also benefit from the addition of new services, new sectors and a larger footprint.

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 | 100,000 | - |
| Mr J. Wentworth | - | - |
| Mr D. Hamblin | 9,702,658 | - |
| Mr A. Watts | 11,262,245 | - |
| Mr A. Caruso | 1,419,693 | 1,050,000 |

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 P Slaughter, Mr C Bloomfield, Mr A Caruso, Mr D Hamblin, Mr A Watts and Mr J Wentworth 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 relevant agreement, or indemnified against a liability, for any person who is or has been an auditor of the company.

Insurance premiums

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.

The company has agreed to indemnify the current directors and all officers of the parent entity and its controlled entities against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where liability arises out of conduct involving a lack of good faith.

Mastermyne Group Limited and its Controlled Entities

Directors' report

For the year ended 30 June 2015

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, and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

| <i>In AUD</i> | Consolidated | |
|--|---------------------|----------------|
| | 2015 | 2014 |
| Audit services: | | |
| Auditors of the Company | | |
| Audit and review of financial reports (KPMG Australia) | 180,000 | 171,750 |
| | <u>180,000</u> | <u>171,750</u> |
| Services other than statutory audit: | | |
| Other services (KPMG Australia) | 11,000 | - |
| Taxation compliance services (KPMG Australia) | 75,000 | 30,000 |
| | <u>86,000</u> | <u>30,000</u> |

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 financial year ended 30 June 2015.

17 Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, 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 Brisbane this 18th day of August 2015.



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 for the financial year ended 30 June 2015 there have been:

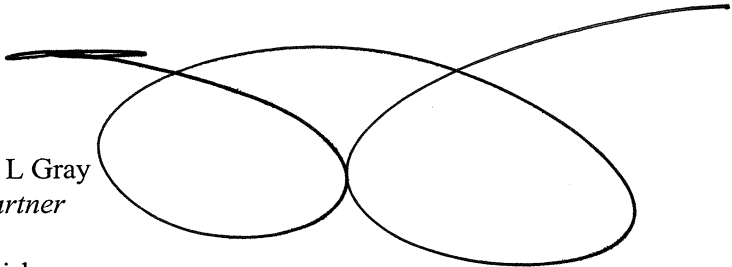
- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



KPMG

M L Gray
Partner

Brisbane
18 August 2015



For personal use only

Mastermyne Group Limited and its Controlled Entities

Consolidated statement of financial position

As at 30 June 2015

| <i>In thousands of AUD</i> | Note | Consolidated | |
|---|-------------|---------------------|---------------|
| | | 2015 | 2014 |
| Assets | | | |
| Cash and cash equivalents | 19 | 8,723 | 8,810 |
| Trade and other receivables | 18 | 38,568 | 37,917 |
| Inventories | 17 | 3,002 | 2,742 |
| Current tax assets | 16 | 259 | - |
| Total current assets | | 50,552 | 49,469 |
| Deferred tax assets | 16 | 7,146 | - |
| Property, plant and equipment | 14 | 29,070 | 27,732 |
| Intangible assets | 15 | 14,912 | 19,642 |
| Total non-current assets | | 51,128 | 47,374 |
| Total assets | | 101,680 | 96,843 |
| Liabilities | | | |
| Trade and other payables | 25 | 18,101 | 16,265 |
| Loans and borrowings | 22 | 4,363 | 5,102 |
| Employee benefits | 23 | 7,725 | 6,655 |
| Current tax payable | 16 | - | 10 |
| Total current liabilities | | 30,189 | 28,032 |
| Loans and borrowings | 22 | 12,793 | 5,941 |
| Employee benefits | 23 | 197 | 145 |
| Deferred tax liabilities | 16 | - | 2,063 |
| Total non-current liabilities | | 12,990 | 8,149 |
| Total liabilities | | 43,179 | 36,181 |
| Net assets | | 58,501 | 60,662 |
| Equity | | | |
| Share capital | | 55,234 | 51,108 |
| Reserves | | (21,944) | (21,979) |
| Retained earnings | | 24,783 | 31,127 |
| Total equity attributable to equity holders of the Company | | 58,073 | 60,256 |
| Non-controlling interests | | 428 | 406 |
| Total equity | | 58,501 | 60,662 |

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 2015

| <i>In thousands of AUD</i> | <i>Note</i> | Consolidated | |
|--|-------------|---------------------|--------------|
| | | 2015 | 2014 |
| Revenue | 8 | 174,195 | 171,977 |
| Other income | 9 | 35 | 257 |
| Contract disbursements | | (31,929) | (30,090) |
| Personnel expenses | 11 | (126,061) | (123,188) |
| Office expenses | | (7,790) | (5,698) |
| Depreciation and amortisation expense | 14, 15 | (7,515) | (7,353) |
| Gain on bargain purchase | 7 | 2,221 | - |
| Impairment loss | 15 | (4,538) | - |
| Other expenses | 10 | (2,268) | (1,034) |
| Results from operating activities | | (3,650) | 4,871 |
| Finance income | | 202 | 263 |
| Finance expense | | (1,101) | (1,199) |
| Net finance expense | 12 | (899) | (936) |
| Profit / (loss) before income tax | | (4,549) | 3,935 |
| Income tax (expense) / benefit | 13 | 195 | (943) |
| Profit / (loss) for the period | | (4,354) | 2,992 |
| Other comprehensive income for the period, net of income tax | | - | - |
| Total comprehensive income for the period | | (4,354) | 2,992 |
| Attributable to: | | | |
| Owners of the Company | | (4,376) | 2,963 |
| Non-controlling interests | | 22 | 29 |
| Profit / (loss) for the period | | (4,354) | 2,992 |
| Earnings per share | | | |
| Basic earnings per share (AUD) | 21 | (0.05) | 0.04 |
| Diluted earnings per share (AUD) | 21 | (0.05) | 0.04 |

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 2015

In thousands of AUD

| | Attributable to owners of the Company | | | | Total | Non-Controlling interests | Total |
|---|---------------------------------------|-------------------|---------------------------------------|----------------------------------|---------|---------------------------|---------|
| | Share capital | Retained earnings | Share-based payment reserve (note 20) | Common Control Reserve (note 20) | | | |
| Consolidated | | | | | | | |
| Balance at 1 July 2013 | 50,964 | 31,632 | 2,160 | (24,237) | 60,519 | 377 | 60,896 |
| Total comprehensive income for the period | | | | | | | |
| Profit / (loss) for the period | - | 2,963 | - | - | 2,963 | 29 | 2,992 |
| Total comprehensive income for the period | - | 2,963 | - | - | 2,963 | 29 | 2,992 |
| Transactions with owners recorded directly in equity | | | | | | | |
| Share options exercised | 144 | - | - | - | 144 | - | 144 |
| Share-based payment transactions | - | - | 98 | - | 98 | - | 98 |
| Dividends to equity holders | - | (3,468) | - | - | (3,468) | - | (3,468) |
| Total contributions by and distributions to owners | 144 | (3,468) | 98 | - | (3,226) | - | (3,226) |
| Balance at 30 June 2014 | 51,108 | 31,127 | 2,258 | (24,237) | 60,256 | 406 | 60,662 |
| Balance at 1 July 2014 | 51,108 | 31,127 | 2,258 | (24,237) | 60,256 | 406 | 60,662 |
| Total comprehensive income for the period | | | | | | | |
| Profit / (loss) for the period | - | (4,376) | - | - | (4,376) | 22 | (4,354) |
| Total comprehensive income for the period | - | (4,376) | - | - | (4,376) | 22 | (4,354) |
| Transactions with owners recorded directly in equity | | | | | | | |
| Issue of ordinary shares in relation to business combinations | 4,126 | - | - | - | 4,126 | - | 4,126 |
| Share-based payment transactions | - | - | 35 | - | 35 | - | 35 |
| Dividends to equity holders | - | (1,968) | - | - | (1,968) | - | (1,968) |
| Total contributions by and distributions to owners | 4,126 | (1,968) | 35 | - | 2,193 | - | 2,193 |
| Balance at 30 June 2015 | 55,234 | 24,783 | 2,293 | (24,237) | 58,073 | 428 | 58,501 |

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 2015

| <i>In thousands of AUD</i> | Note | Consolidated | |
|---|-------------|------------------------|------------------------|
| | | 2015 | 2014 |
| Cash flows from operating activities | | | |
| Cash receipts from customers | | 199,535 | 196,116 |
| Cash paid to suppliers and employees | | (190,741) | (182,343) |
| Cash generated from operations | | <u>8,794</u> | <u>13,773</u> |
| Interest paid | | (1,101) | (1,199) |
| Income tax paid | | (558) | (1,907) |
| Net cash flows from operating activities | 29 | <u><u>7,135</u></u> | <u><u>10,667</u></u> |
| Cash flows from investing activities | | | |
| Proceeds from sale of property, plant and equipment | | 104 | 1,464 |
| Acquisition of property, plant and equipment | | (1,018) | (3,355) |
| Interest received | | 202 | 263 |
| Acquisition of subsidiary, net of cash acquired | | (10,581) | - |
| Net cash flows used in investing activities | | <u><u>(11,293)</u></u> | <u><u>(1,628)</u></u> |
| Cash flows from financing activities | | | |
| Proceeds from exercise of share options | | - | 146 |
| Proceeds from borrowings | | 11,500 | - |
| Repayment of borrowings | | (5,461) | (7,130) |
| Dividends paid | 20 | (1,968) | (3,468) |
| Net cash flows from / (used in) financing activities | | <u><u>4,071</u></u> | <u><u>(10,452)</u></u> |
| Net decrease in cash and cash equivalents | | (87) | (1,413) |
| Cash and cash equivalents at beginning of period | | 8,810 | 10,223 |
| Cash and cash equivalents at end of period | 19 | <u><u>8,723</u></u> | <u><u>8,810</u></u> |

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

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements

For the year ended 30 June 2015

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 2015 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's Bowen Basin and New South Wales.

2 Basis of preparation

(a) Statement of compliance

The consolidated financial report is a general purpose financial report which has 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 report of the Group complies 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 18 August 2015.

(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 Class Order 98/100 dated 10 July 1998 and, in accordance with that Class Order, 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

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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 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.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity, net of any tax effects.

Repurchased shares are classified as treasury shares and are presented in the reserve for own shares.

When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in retained earnings.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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 periods are as follows:

| | 2015 | 2014 |
|----------------------------------|----------------|----------------|
| • 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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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 periods are as follows:

| | 2015 | 2014 |
|--------------------------------|------------|------------|
| • Customer related intangibles | 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 in terms of which 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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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 amounts 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 generates 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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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 remuneration 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 medical care, 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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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 exiting 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 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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

(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 (other than investment property) 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 and interpretations are effective for annual periods beginning after 1 July 2014, however, the Group has not applied the following new or amended standards in preparing these consolidated statements.

AASB 9 *Financial Instruments*

Summary of the requirements

AASB 9, published in July 2014, replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Possible impact on consolidated financial statements

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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

AASB 15 Revenue from Contracts with Customers

Summary of the requirements

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 Contracts*, and Interpretation 13 *Customer Loyalty Programmes*.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

Possible impact on consolidated financial statements

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15

Standards not expected to have a significant impact on consolidated financial statements

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

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to AASB 11).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138).

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 7 - acquisition of subsidiary;
- Note 24 - share based payment arrangements; and
- Note 26 - financial instruments;

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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.

Typically the Group ensures that it has sufficient cash on demand and undrawn facilities to meet expected operational cash flows for a period of 70 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. The Group maintains the following lines of credit:

| Facility | Facility Limit | Amount Drawn |
|--|----------------------------|---------------|
| Flexible Options Facility | <i>in thousands of AUD</i> | |
| Overdraft Facility | 3,000 | nil |
| LC Facility | 3,270 | 2,040 |
| Cash Advance Facility | 4,000 | nil |
| Total Flexible Options Facility | 10,270 | 2,040 |
| Revolving Equipment Finance Facility | 15,000 | 2,965 |
| Amortising Cash Advance Facility | 11,150 | 11,150 |
| Amortising Cash Advance Facility | 2,229 | 2,229 |
| Amortising Equipment Finance Facility | 812 | 812 |
| Total All Facilities | 39,461 | 19,196 |

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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

6 Segment information

Business segments

Following the acquisition of Diversified Mining Services Ltd (DMS) (see note 7), the Group has changed its internal organisation and the composition of its reportable segments. Accordingly, the Group has restated its operating segments information for the year ended 30 June 2015 as follows:

- 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 integrates the services recently acquired through Diversified Mining Services (DMS) and incorporates the previous capabilities of Mastermyne Services and Engineering divisions. Mastertec provides a wide range of above-ground contracting services to industry sectors such as Ports, Resources, Industrial and Infrastructure. The divisions offerings include scaffolding and rigging, blast and paint, pipeline services, sustainable capital works, fabrication and machining, training and engineering and technical services.

Prior to the Acquisition of DMS, the Group had 3 segments; Underground, Electrical and Mechanical Services and Engineering. During the period the Group changed its internal organisation, re-structuring management and the way in which it markets itself to clients under two distinct segments; Mastermyne and Mastertec. This has resulted in a restatement of the 30 June 2014 segment information, with a small portion of the Underground segment revenues, all of the Engineering segment revenues and all of the Electrical and Mechanical Services segment revenues being restated and included in the Mastertec segment.

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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

6 Segment information (continued)

Business Segments (continued)

| <i>In thousands of AUD</i> | Mastermyne | | Mastertec | | Consolidated | |
|----------------------------------|------------|---------------|-----------|---------------|--------------|---------------|
| | 2015 | 2014 Restated | 2015 | 2014 Restated | 2015 | 2014 Restated |
| External revenues | 140,863 | 148,029 | 33,332 | 23,948 | 174,195 | 171,977 |
| Intersegment revenue | 5,600 | 6,338 | 1,801 | 1,200 | 7,401 | 7,538 |
| Reportable segment revenue | 146,463 | 154,367 | 35,133 | 25,148 | 181,596 | 179,515 |
| Depreciation and amortisation | (6,082) | (6,299) | (1,463) | (863) | (7,515) | (7,353) |
| Net finance costs | (827) | (932) | (72) | (3) | (899) | (935) |
| Goodwill Impairment | - | - | (4,538) | - | (4,538) | - |
| Reportable Segment profit/(loss) | 3,256 | 4,649 | (5,137) | (435) | (1,881) | 4,214 |
| Segment assets | 60,400 | 74,150 | 35,441 | 22,691 | 95,841 | 96,841 |
| Capital expenditure | 752 | 2,945 | 347 | 410 | 1,018 | 3,355 |
| Segment liabilities | (26,368) | (26,509) | (14,469) | (8,849) | (40,837) | (35,358) |

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

| <i>in thousands of AUD</i> | 2015 | 2014 |
|--|---------|---------|
| Revenues | | |
| Total revenue for reportable segments | 181,596 | 179,515 |
| Elimination of inter-segment revenue | (7,401) | (7,538) |
| Consolidated revenue | 174,195 | 171,977 |
| Profit or loss | | |
| Total profit or loss for reportable segments | (1,881) | 4,214 |
| Elimination of inter-segment profits | (159) | (191) |
| Unallocated amounts: net corporate expenses | (2,509) | (88) |
| Consolidated profit before income tax | (4,549) | 3,935 |
| Assets | | |
| Total assets for reportable segments | 95,841 | 96,841 |
| Other assets | 3,014 | - |
| Unallocated amounts: corporate tax asset | 2,825 | - |
| Consolidated total assets | 101,680 | 96,841 |
| Liabilities | | |
| Total liabilities for reportable segments | 40,837 | 35,358 |
| Unallocated amounts: corporate tax liability | - | 823 |
| Other liabilities | 2,342 | - |
| Consolidated total liabilities | 43,179 | 36,181 |

Geographical information

The Group has only operated in Australia during the current and comparative periods. All assets are held within Australia as at 30 June 2015 and 30 June 2014.

Major customers

The Group has two (2014: three) customers that individually represent in excess of 10% of Group revenues. The total revenue from these customers represents \$134,364 thousand (2014: \$86,440 thousand) of the Group's total revenues, reported in the Mastermyne and the Mastertec segments as follows:

- Mastermyne \$117,875 thousand (2014: \$85,183 thousand)
- Mastertec \$16,489 thousand (2014: \$1,257 thousand)

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

7 Business combinations

Acquisitions

On 23 December 2014 the Group obtained control of Diversified Mining Services Ltd (DMS), a provider of services to a range of industries, primarily focused on maintenance and mining services in Queensland and New South Wales, by acquiring 100% of the shares and voting interests in the company.

The acquisition of DMS is in keeping with the Group's strategy of expanding its service offering, and to compliment and leverage from the position that the Company has in the underground coal sector. The acquisition will also provide some diversification from coal and will leverage off the synergies of combining with the Mastermyne Group.

DMS operates throughout the Bowen Basin, Gladstone, Mackay and the Hunter Valley for a range of blue chip clients in the mining, downstream metalliferous processing, prime contracting and mining infrastructure industries. In addition, DMS is a specialist in overwater scaffolding. DMS operates through three business units:

- Maintenance – Scaffolding and rigging, protective coatings, poly welding, scheduled maintenance and on-site repairs;
- Engineering – Specialist fabrication, machining and line boring, design and consulting; and
- Mining Operations – Ventilation services, outbye services, gas drainage and secondary support.

(a) Consideration transferred

The following table summarises the acquisition-date fair value of each major class of consideration transferred.

| <i>in thousands of AUD</i> | <i>Note</i> | |
|---|-------------|---------------|
| Cash | | 10,337 |
| Equity Instruments (15,570,022 ordinary shares) | 20 | 4,126 |
| Total Consideration | | 14,463 |

i. Equity instruments issued

The fair value of the ordinary shares issued was based on the listed share price of the Company at 23 December 2014 of \$0.265 per share.

(b) Acquisition-related costs

The Group incurred acquisition-related costs of \$1,272 thousand relating to external legal fees and due diligence costs. These amounts have been included in other expenses in profit or loss.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

7 Business combinations (continued)

Acquisitions (continued)

(c) Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

| <i>in thousands of AUD</i> | Note | Total |
|--------------------------------------|-------------|---------------|
| Property, plant and equipment | 14 | 7,752 |
| Inventories | | 1,808 |
| Trade and other receivables | | 5,166 |
| Bank overdraft | | (244) |
| Loans and borrowings | | (73) |
| Deferred tax assets | 16 | 9,258 |
| Employee benefits | | (987) |
| Trade and other payables | | (5,465) |
| Deferred tax liabilities | 16 | (531) |
| Total net identifiable assets | | 16,684 |

The trade and other receivables comprise gross contractual amounts due of \$5,323 thousand, of which \$157 thousand was expected to be uncollectible at the date of acquisition.

(d) Gain on bargain purchase

Gain on bargain purchase was recognised as a result of the acquisition as follows. The gain has been directly recognised in the profit or loss.

| <i>in thousands of AUD</i> | Note | Total |
|---------------------------------------|-------------|--------------|
| Total consideration transferred | | 14,463 |
| Fair value of identifiable net assets | | 16,684 |
| Gain on bargain purchase | | 2,221 |

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

8 Revenue

In thousands of AUD

| | Consolidated | |
|---------------------|----------------|----------------|
| | 2015 | 2014 |
| Contracting revenue | 135,354 | 150,009 |
| Sale of goods | 33,332 | 18,468 |
| Machinery hire | 5,509 | 3,500 |
| | <u>174,195</u> | <u>171,977</u> |

9 Other income

In thousands of AUD

| | Consolidated | |
|---|--------------|------------|
| | 2015 | 2014 |
| Administration income | 35 | 222 |
| Gain on sale of property, plant and equipment | - | 35 |
| | <u>35</u> | <u>257</u> |

10 Other expenses

In thousands of AUD

| | Consolidated | |
|---|--------------|--------------|
| | 2015 | 2014 |
| Bad and doubtful debts | 5 | 12 |
| Loss on sale of property, plant and equipment | 6 | - |
| Business acquisition costs | 1,272 | - |
| Business Development Costs | 28 | 22 |
| Insurance | 957 | 999 |
| Shared Services fees | - | 1 |
| | <u>2,268</u> | <u>1,034</u> |

11 Personnel expenses

In thousands of AUD

| | Consolidated | |
|--|----------------|----------------|
| | 2015 | 2014 |
| Wages and salaries | 110,429 | 108,647 |
| Other associated personnel expenses | 8,544 | 7,808 |
| Contributions to defined contribution superannuation funds | 7,053 | 6,635 |
| Equity-settled share-based payment transactions | 35 | 98 |
| | <u>126,061</u> | <u>123,188</u> |

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

12 Finance income and expense

Recognised in profit or loss

In thousands of AUD

| | Consolidated | |
|--|----------------|----------------|
| | 2015 | 2014 |
| Interest income | 202 | 263 |
| Finance income | <u>202</u> | <u>263</u> |
| Bank charges | (255) | (183) |
| Interest expenses | (234) | (21) |
| Finance lease interest | (612) | (995) |
| Finance expense | <u>(1,101)</u> | <u>(1,199)</u> |
| Net finance expense recognised in profit or loss | <u>(899)</u> | <u>(936)</u> |

13 Income tax expense

In thousands of AUD

| | Consolidated | |
|---|--------------|------------|
| | 2015 | 2014 |
| Current tax expense | | |
| Current period | 314 | 874 |
| Adjustment for prior periods | (27) | (357) |
| | <u>287</u> | <u>517</u> |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (509) | 422 |
| Adjustment for prior period | 27 | 4 |
| | <u>(482)</u> | <u>426</u> |
| Total income tax expense / (benefit) | <u>(195)</u> | <u>943</u> |

Numerical reconciliation between tax expense and pre-tax accounting profit

In thousands of AUD

| | Consolidated | |
|---|----------------|--------------|
| | 2015 | 2014 |
| Profit/(loss) excluding income tax | <u>(4,549)</u> | <u>3,935</u> |
| Income tax using the Group's statutory income tax rate of 30% (2014: 30%) | (1,365) | 1,181 |
| Impairment of goodwill | 1,361 | - |
| Other non-deductible expenses | 475 | 108 |
| Non-assessable income | (666) | - |
| Tax incentives | - | (91) |
| Change in recognised temporary differences | - | 98 |
| Under/(over) provision of previous year | - | (353) |
| | <u>(195)</u> | <u>943</u> |

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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 2013 | 53,936 | 1,605 | 1,977 | 493 | 2,000 | 60,011 |
| Additions | 3,175 | 75 | 82 | 2 | 21 | 3,355 |
| Disposals | (1,995) | (631) | - | (35) | - | (2,661) |
| Transfers | (23) | - | 23 | - | - | - |
| Balance at 30 June 2014 | 55,093 | 1,049 | 2,082 | 460 | 2,021 | 60,705 |
| Balance at 1 July 2014 | 55,093 | 1,049 | 2,082 | 460 | 2,021 | 60,705 |
| Additions | 869 | - | 69 | 20 | 60 | 1,018 |
| Disposals | (59) | (221) | - | - | - | (280) |
| Acquired through business combination | 6,761 | 876 | - | - | 115 | 7,752 |
| Balance at 30 June 2015 | 62,664 | 1,704 | 2,151 | 480 | 2,196 | 69,195 |
| Depreciation and impairment losses | | | | | | |
| Balance at 1 July 2013 | 23,722 | 1,017 | 1,378 | 411 | 723 | 27,251 |
| Depreciation for the year | 6,081 | 144 | 169 | 32 | 527 | 6,953 |
| Disposals | (751) | (447) | - | (33) | - | (1,231) |
| Balance at 30 June 2014 | 29,052 | 714 | 1,547 | 410 | 1,250 | 32,973 |
| Balance at 1 July 2014 | 29,052 | 714 | 1,547 | 410 | 1,250 | 32,973 |
| Depreciation for the year | 6,357 | 187 | 195 | 28 | 556 | 7,323 |
| Disposals | - | (171) | - | - | - | (171) |
| Balance at 30 June 2015 | 35,409 | 730 | 1,742 | 438 | 1,806 | 40,125 |
| Carrying amounts | | | | | | |
| At 1 July 2013 | 30,214 | 588 | 599 | 82 | 1,277 | 32,760 |
| At 30 June 2014 | 26,041 | 335 | 535 | 50 | 771 | 27,732 |
| At 1 July 2014 | 26,041 | 335 | 535 | 50 | 771 | 27,732 |
| At 30 June 2015 | 27,255 | 974 | 409 | 42 | 390 | 29,070 |

The Group leases equipment under a number of finance lease agreements. At 30 June 2015, the net carrying amount of leased property, plant and equipment was \$10,837 thousand (2014: \$18,784 thousand).

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

15 Intangible assets

| <i>In thousands of AUD</i> | Consolidated | |
|---|---------------------|---------------|
| | 2015 | 2014 |
| <i>Goodwill</i> | | |
| Cost (gross carrying amount) | 14,331 | 18,869 |
| Net carrying amount | <u>14,331</u> | <u>18,869</u> |
| <i>Customer relationships</i> | | |
| Cost (gross carrying amount) | 2,945 | 2,945 |
| Accumulated amortisation and impairment | (2,841) | (2,772) |
| Net carrying amount | <u>104</u> | <u>173</u> |
| <i>Intellectual property</i> | | |
| Cost (gross carrying amount) | 1,522 | 1,522 |
| Accumulated amortisation and impairment | (1,045) | (922) |
| Net carrying amount | <u>477</u> | <u>600</u> |
| <i>Total intangible assets</i> | | |
| Cost (gross carrying amount) | 18,798 | 23,336 |
| Accumulated amortisation and impairment | (3,886) | (3,694) |
| Net carrying amount | <u>14,912</u> | <u>19,642</u> |

Reconciliation of carrying amount at beginning and end of the period

| <i>In thousands of AUD</i> | Consolidated | |
|--------------------------------|---------------------|---------------|
| | 2015 | 2014 |
| <i>Goodwill</i> | | |
| Carrying amount - opening | 18,869 | 18,869 |
| Impairment | (4,538) | - |
| Carrying amount - closing | <u>14,331</u> | <u>18,869</u> |
| <i>Customer relationships</i> | | |
| Carrying amount - opening | 173 | 444 |
| Amortisation | (69) | (271) |
| Carrying amount - closing | <u>104</u> | <u>173</u> |
| <i>Intellectual property</i> | | |
| Carrying amount - opening | 600 | 727 |
| Amortisation | (123) | (127) |
| Carrying amount - closing | <u>477</u> | <u>600</u> |
| <i>Total intangible assets</i> | | |
| Carrying amount - opening | 19,642 | 20,040 |
| Impairment | (4,538) | - |
| Amortisation | (192) | (398) |
| Carrying amount - closing | <u>14,912</u> | <u>19,642</u> |

Goodwill relates to the acquisitions of Mastermyne Engineering Pty Ltd, Mastermyne Underground Pty Ltd, Mastermyne Services Pty Ltd and MyneSight Pty Ltd.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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.

Following the acquisition of Diversified Mining Services Ltd (DMS) (see note 7) the Group has changed its internal organisation and the composition of its operating segments (see note 6), which reflects how the Group now faces the market, is managed and monitored.

Post-acquisition of DMS, the segments formerly reported by the Group, being "Engineering and Fabrication" and "Electrical and Mechanical Services" are now increasingly marketed as a combined product and service offering, utilising a largely common customer and asset base. As a result of this increasing interdependence, these historical segments have been combined into the "Mastertec Products and Services" segment for the purposes of impairment testing.

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

| <i>In thousands of AUD</i> | Consolidated | | | |
|---|--------------|------------|--------|--------|
| | 1 July 2014 | Impairment | 2015 | 2014 |
| Underground mining services ¹ | 7,030 | - | 7,030 | 7,030 |
| Total Mastermyne Mining ² | 7,030 | - | 7,030 | 7,030 |
| Engineering and Fabrication ¹ | 7,301 | - | 7,301 | 7,301 |
| Electrical and Mechanical Services ^{1,3} | 4,538 | (4,538) | - | 4,538 |
| Total Mastertec Products & Services ² | 11,839 | (4,538) | 7,301 | 11,839 |
| Total All Segments | 18,869 | (4,538) | 14,331 | 18,869 |

(1) Segments prior to the acquisition of DMS as detailed above

(2) Segments post acquisition of DMS as detailed above

(3) The goodwill within the Electrical and Mechanical Services segment was impaired in full during the half-year to 31 December 2014, reflecting the limited revenue pipeline (excluding the impact of synergies expected from the acquisition of DMS, which now forms part of the Mastertec CGU). This resulted in the carrying amount of the Electrical and Mechanical Services CGU (prior to the change in CGUs) being higher than its recoverable amount of \$725 thousand (the value in use was determined using a pre-tax discount rate of 17.7% and a terminal growth rate of 2.5%), and the recognised value of goodwill associated with the Electrical and Mechanical Services division of \$4,538 thousand was fully impaired. The related impairment loss is included in profit or loss.

The recoverable amount of the cash-generating units as at 30 June 2015 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 all CGUs, 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 2015 assumptions | | | FY 2014 assumptions | | |
|------------------------------------|------------------------------------|----------------------|-----------------------|------------------------------------|----------------------|-----------------------|
| | Annual growth rate (FY2016-FY2020) | Terminal growth rate | Pre-tax discount rate | Annual growth rate (FY2015-FY2019) | Terminal growth rate | Pre-tax discount rate |
| Underground mining services | n/a | n/a | n/a | 5.0% | 2.5% | 16.0% |
| Mastermyne Mining | 4.3% | 2.5% | 16.0% | n/a | n/a | n/a |
| Engineering and fabrication | n/a | n/a | n/a | 3.0% | 2.5% | 16.9% |
| Electrical and mechanical services | n/a | n/a | n/a | 2.0% | 2.5% | 17.7% |
| Mastertec Products and Services | 5.0% | 2.5% | 16.4% | n/a | n/a | n/a |

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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

16 Tax assets and liabilities

Current tax assets and liabilities

The current tax asset for the Group of \$259 thousand (2014: liability of \$10 thousand) represents the amount of income taxes refundable (2014: payable), in respect of current and prior periods.

The consolidated liability includes the income tax payable by the Company and its subsidiaries.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| Consolidated | Assets | | Liabilities | | Net | |
|--|---------|---------|-------------|---------|---------|---------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| <i>In thousands of AUD</i> | | | | | | |
| Employee benefits | 1,720 | 1,626 | - | - | 1,720 | 1,626 |
| Property, plant and equipment | 26 | 32 | (2,054) | (1,845) | (2,028) | (1,813) |
| Receivables | 47 | - | - | - | 47 | - |
| Intangible assets | - | - | (31) | (52) | (31) | (52) |
| Accruals | 456 | 345 | - | - | 456 | 345 |
| Capital raising and business acquisition costs | 173 | 5 | (31) | (31) | 142 | (26) |
| Unbilled revenue | - | - | (933) | (2,140) | (933) | (2,140) |
| Provisions | - | - | (3) | (3) | (3) | (3) |
| Tax loss carry-forwards | 7,776 | - | - | - | 7,776 | - |
| Tax assets/(liabilities) | 10,198 | 2,008 | (3,052) | (4,071) | 7,146 | (2,063) |
| Set off of tax | (3,052) | (2,008) | 3,052 | 2,008 | - | - |
| Net tax assets/(liabilities) | 7,146 | - | - | (2,063) | 7,146 | (2,063) |

At 30 June 2015 the Group has revenue losses totalling \$25,920 thousand (2014: nil) which are available to be offset against future taxable income. These losses arose within Diversified Mining Services prior to acquisition by the Group.

Movement in temporary differences during the year

Consolidated

| <i>In thousands of AUD</i> | Balance 1 July 2013 | Recognised in profit or loss | Acquired in business combinations | Balance 30 June 2014 |
|--|------------------------|---------------------------------|---|-------------------------|
| Employee benefits | 2,254 | (628) | - | 1,626 |
| Property, plant and equipment | (1,459) | (354) | - | (1,813) |
| Intangible assets | (35) | (17) | - | (52) |
| Accruals | 356 | (11) | - | 345 |
| Capital raising and business acquisition costs | 143 | (169) | - | (26) |
| Unbilled revenue | (2,898) | 758 | - | (2,140) |
| Provisions | 2 | (5) | - | (3) |
| | (1,637) | (426) | - | (2,063) |

Consolidated

| <i>In thousands of AUD</i> | Balance 1 July 2014 | Recognised in profit or loss | Acquired in business combinations | Balance 30 June 2015 |
|--|------------------------|---------------------------------|---|-------------------------|
| Employee benefits | 1,626 | (434) | 528 | 1,720 |
| Property, plant and equipment | (1,813) | 216 | (431) | (2,028) |
| Receivables | - | 101 | (54) | 47 |
| Intangible assets | (52) | 21 | - | (31) |
| Accruals | 345 | (210) | 321 | 456 |
| Capital raising and business acquisition costs | (26) | (52) | 220 | 142 |
| Unbilled revenue | (2,140) | 1,207 | - | (933) |
| Provisions | (3) | (19) | 19 | (3) |
| Research and development tax offset | - | (234) | 234 | - |
| Tax loss carry-forwards | - | (114) | 7,890 | 7,776 |
| | (2,063) | 482 | 8,727 | 7,146 |

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

17 Inventories

In thousands of AUD

Inventory on hand
Finished goods

| Consolidated | |
|--------------|--------------|
| 2015 | 2014 |
| 978 | 1,060 |
| 2,024 | 1,682 |
| <u>3,002</u> | <u>2,742</u> |

During the year ended 30 June 2015, raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to \$8,019 thousand (2014: \$5,343 thousand).

18 Trade and other receivables

In thousands of AUD

Trade receivables
Prepayments
Unbilled revenue
Other receivables

| Consolidated | |
|---------------|---------------|
| 2015 | 2014 |
| 30,691 | 26,550 |
| 1,199 | 2,650 |
| 6,081 | 8,608 |
| 597 | 109 |
| <u>38,568</u> | <u>37,917</u> |

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

Bank balances
Cash on hand
Cash and cash equivalents in the statement of cash flows

| Consolidated | |
|--------------|--------------|
| 2015 | 2014 |
| 8,718 | 8,808 |
| 5 | 2 |
| <u>8,723</u> | <u>8,810</u> |

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

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

20 Capital and reserves

The share capital of Mastermyne Group Limited is as follows:

| | Ordinary class shares | |
|---|-----------------------|-------------------|
| | 2015 | 2014 |
| On issue at 1 July | 75,517,514 | 75,367,514 |
| Shares issued in relation to business combination | 15,570,022 | - |
| Exercise of share options | - | 150,000 |
| On issue at 30 June – fully paid | <u>91,087,536</u> | <u>75,517,514</u> |

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 share options (see note 24).

Reserves

Share-based payments reserve

The share-based payments reserve represents the grant date fair value of options 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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

20 Capital and reserves (continued)

Dividends

Dividends recognised in the current year by the Group are:

| | Dollars per share | Total amount (In thousands of AUD) | Franked / unfranked | Date of payment |
|--|-------------------|---------------------------------------|------------------------|--------------------|
| 2015 | | | | |
| 2014 Ordinary - Ordinary Shares Final Dividend | \$ 0.014 | 1,057 | Franked | 16/10/2014 |
| 2015 Ordinary - Ordinary Shares Interim Dividend | \$ 0.010 | 911 | Franked | 02/04/2015 |
| Total amount | | <u>1,968</u> | | |
| 2014 | | | | |
| 2013 Ordinary - Ordinary Shares Final Dividend | \$ 0.036 | 2,713 | Franked | 16/10/2013 |
| 2014 Ordinary - Ordinary Shares Interim Dividend | \$ 0.010 | 755 | Franked | 3/04/2014 |
| Total amount | | <u>3,468</u> | | |

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

After the balance sheet date the following dividends were declared by the Directors, fully franked at the rate of 30%. The record date for entitlement to this dividend will be 25 September 2015 and the payment date will be 15 October 2015.

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

Dividend franking account

In thousands of AUD

| | Company | |
|---|---------|--------|
| | 2015 | 2014 |
| 30% franking credits available to shareholders of Mastermyne Group Limited for subsequent financial years | 15,396 | 16,043 |

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.

The impact on the dividend franking account of dividends proposed after balance date but not recognised as a liability is to reduce it by \$390 thousand (2014: \$452 thousand).

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

21 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2015 was based on the loss attributable to ordinary shareholders of \$4,376 thousand (2014: \$2,963 thousand profit) and a weighted average number of ordinary shares outstanding of 83,580 thousand (2014: 75,471 thousand), calculated as follows:

Profit attributable to ordinary shareholders

In thousands of AUD

Profit / (loss) attributable to ordinary shareholders

| Consolidated | |
|--------------|-------|
| 2015 | 2014 |
| (4,376) | 2,963 |

Weighted average number of ordinary shares

In thousands of shares

Issued ordinary shares at 1 July

Effect of share options exercised

Effect of shares issued in relation to business combination

Weighted average number of ordinary shares at 30 June

| Consolidated | |
|---------------|---------------|
| 2015 | 2014 |
| 75,518 | 75,368 |
| - | 103 |
| 8,062 | - |
| <u>83,580</u> | <u>75,471</u> |

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2015 was based on the loss attributable to ordinary shareholders of \$4,376 thousand (2014: \$2,963 thousand profit) and a weighted average number of ordinary shares outstanding of 83,580 thousand (2014: 75,471 thousand), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

In thousands of AUD

Profit attributable to ordinary shareholders

| Consolidated | |
|--------------|-------|
| 2015 | 2014 |
| (4,376) | 2,963 |

Weighted average number of ordinary shares (diluted)

In thousands of shares

Weighted average number of ordinary shares (basic)

Weighted average number of ordinary shares (diluted) at 30 June

| Consolidated | |
|---------------|---------------|
| 2015 | 2014 |
| 83,580 | 75,471 |
| <u>83,580</u> | <u>75,471</u> |

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

The prior period figures for basic and diluted earnings per share have been adjusted for transactions that adjusted the number of shares without a corresponding change in resources. The number of ordinary shares has been adjusted as if the event occurred at the beginning of the earliest period presented.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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

| | Consolidated | |
|-------------------------------------|---------------|--------------|
| | 2015 | 2014 |
| Current liabilities | | |
| Finance lease liabilities (secured) | 2,731 | 4,170 |
| Cash advance facility (secured) | 1,632 | 932 |
| | <u>4,363</u> | <u>5,102</u> |
| Non-current liabilities | | |
| Finance lease liabilities (secured) | 1,046 | 3,646 |
| Cash advance facility (secured) | 11,747 | 2,295 |
| | <u>12,793</u> | <u>5,941</u> |

Security

Finance lease

Finance lease facilities are drawn with the Westpac Banking Corporation and Vendor Finance Pty Ltd, and are 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.

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:

| | Consolidated | | | | | |
|----------------------------|-------------------------------|--------------|---|-------------------------------|----------------|---|
| | Future minimum lease payments | Interest | Present value of minimum lease payments | Future minimum lease payments | Interest | Present value of minimum lease payments |
| | 2015 | 2015 | 2015 | 2014 | 2014 | 2014 |
| <i>In thousands of AUD</i> | | | | | | |
| Less than one year | 2,891 | (160) | 2,731 | 4,617 | (447) | 4,170 |
| Between one and five years | 1,082 | (36) | 1,046 | 4,255 | (609) | 3,646 |
| More than five years | - | - | - | - | - | - |
| | <u>3,973</u> | <u>(196)</u> | <u>3,777</u> | <u>8,872</u> | <u>(1,056)</u> | <u>7,816</u> |

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

23 Employee benefits

In thousands of AUD

| | Consolidated | |
|----------------------------------|--------------|--------------|
| | 2015 | 2014 |
| Current | | |
| Wages payable | 2,188 | 1,382 |
| Liability for annual leave | 3,212 | 3,102 |
| Liability for vesting sick leave | 1,937 | 2,161 |
| Liability for long service leave | 388 | 10 |
| | <u>7,725</u> | <u>6,655</u> |
| Non-current | | |
| Liability for long service leave | 197 | 145 |
| | <u>197</u> | <u>145</u> |

24 Share-based payment arrangements

Description of the share-based payment arrangements

At 30 June 2015, 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 22 March 2010 and the plan was activated by resolution of the Board as of 1 July 2010. 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 in thousands | Vesting Conditions | Contractual Life of Rights |
|---|------------------------------------|---|----------------------------|
| Performance rights granted to CEO/Managing Director on 26 November 2012 | 735 | 3 years' service and total shareholder return over 3 years is in the 20th percentile relative to the ASX 300 index. | 4 Years |
| Performance rights granted to CEO/Managing Director on 26 November 2012 | 315 | 3 years' service and growth in earnings per share over 3 years is in the 20th percentile relative to the ASX 300 index. | 4 Years |

Measurement of fair values

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

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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 Total Shareholder Return Rights

| <i>Fair value of share options and assumptions</i> | | 2013 (1) |
|---|----|-----------|
| Fair value at grant date Tranche 1 | \$ | 0.19 |
| Fair value at grant date Tranche 2 | \$ | 0.17 |
| Fair value at grant date Tranche 3 | \$ | 0.16 |
| Share price | \$ | 1.59 |
| Exercise price | \$ | 1.65 |
| Expected volatility (weighted average volatility) | | 35% |
| Option life (expected weighted average life) | | 3.6 years |
| Expected dividends | | 5.00% |
| Risk-free interest rate Tranche 1 (based on government bonds) | | 2.74% |
| Risk-free interest rate Tranche 2 (based on government bonds) | | 2.74% |
| Risk-free interest rate Tranche 3 (based on government bonds) | | 2.74% |

Key management personnel & Senior management Earnings Per Share Rights

| <i>Fair value of share options and assumptions</i> | | 2013 (1) |
|---|----|-----------|
| Fair value at grant date Tranche 1 | \$ | 0.48 |
| Fair value at grant date Tranche 2 | \$ | 0.46 |
| Fair value at grant date Tranche 3 | \$ | 0.46 |
| Share price | \$ | 1.59 |
| Exercise price | \$ | 1.23 |
| Expected volatility (weighted average volatility) | | 35% |
| Option life (expected weighted average life) | | 3.6 years |
| Expected dividends | | 5.00% |
| Risk-free interest rate Tranche 1 (based on government bonds) | | 2.74% |
| Risk-free interest rate Tranche 2 (based on government bonds) | | 2.74% |
| Risk-free interest rate Tranche 3 (based on government bonds) | | 2.74% |

(1) Grant date on 26 November 2012

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

25 Trade and other payables

| <i>In thousands of AUD</i> | Consolidated | |
|-------------------------------|---------------------|---------------|
| | 2015 | 2014 |
| Trade payables | 6,340 | 3,732 |
| Sundry creditors and accruals | 11,761 | 12,533 |
| | <u>18,101</u> | <u>16,265</u> |

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:

| <i>In thousands of AUD</i> | Note | Consolidated | |
|-----------------------------|-------------|---------------------|---------------|
| | | 2015 | 2014 |
| Trade and other receivables | 18 | 38,568 | 37,917 |
| Cash and cash equivalents | 19 | 8,723 | 8,810 |
| | | <u>47,291</u> | <u>46,727</u> |

The Group has two (2014: three) significant customers each representing more than 10% of the carrying amount of trade receivables at 30 June 2015. The total of the receivables from these customers is \$12,005 thousand (2014: \$13,538 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 periods, the Group's cash and cash equivalents are held with an AA-Rated Australian bank.

Impairment losses

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

| <i>In thousands of AUD</i> | Consolidated | |
|----------------------------|---------------------|---------------|
| | 2015 | 2014 |
| Not Past Due | 21,694 | 25,017 |
| Past due 0-30 days | 7,881 | 1,825 |
| Past due 31-60 days | 208 | 91 |
| Past due 61-90 days | 517 | 399 |
| Greater than 90 days | 499 | 251 |
| | <u>30,799</u> | <u>27,583</u> |

Impairment losses of \$108 thousand were recognised at 30 June 2015 (2014: \$1,033 thousand).

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

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 2015 was as follows:

| <i>In thousands of AUD</i> | Consolidated | |
|-------------------------------|--------------|----------------|
| | 2015 | 2014 |
| Balance at 1 July | (1,033) | (1,021) |
| Impairment loss recognised | (5) | (12) |
| Impairment allowance utilised | 930 | - |
| Balance at 30 June | <u>(108)</u> | <u>(1,033)</u> |

Impairment allowance utilised during the year relates to a customer that was placed into receivership during the year ended 30 June 2011 in relation to the Pike River Mine explosion in New Zealand. 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:

| <i>In thousands of AUD</i> | 2015 | 2014 |
|---|---------------|---------------|
| Four or more years trading history with the Group | 13,253 | 21,042 |
| Less than four years trading history with the Group | 17,438 | 5,508 |
| | <u>30,691</u> | <u>26,550</u> |

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:

Consolidated

30 June 2015

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 | 3,777 | (3,973) | (1,815) | (1,076) | (1,082) | - | - |
| Cash advance facility | 22 | 13,379 | (14,961) | (1,092) | (1,072) | (2,095) | (10,702) | - |
| Trade and other payables | 25 | 18,101 | (18,101) | (18,101) | - | - | - | - |
| | | <u>35,257</u> | <u>(37,035)</u> | <u>(21,008)</u> | <u>(2,148)</u> | <u>(3,177)</u> | <u>(10,702)</u> | <u>-</u> |

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

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

26 Financial instruments (continued)

Liquidity risk (continued)

Consolidated

30 June 2014

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 | 7,816 | (8,872) | (2,644) | (1,973) | (3,004) | (1,251) | - |
| Cash advance Facility | 22 | 3,227 | (3,546) | (610) | (583) | (1,011) | (1,342) | - |
| Trade and other payables | 25 | 16,265 | (16,265) | (16,265) | - | - | - | - |
| | | <u>27,308</u> | <u>(28,683)</u> | <u>(19,519)</u> | <u>(2,556)</u> | <u>(4,015)</u> | <u>(2,593)</u> | <u>-</u> |

Interest rate risk

Profile

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

| | Consolidated | |
|---|-----------------|----------------|
| | Carrying amount | |
| <i>In thousands of AUD</i> | 2015 | 2014 |
| Fixed rate instruments | | |
| Financial liabilities & Insurance premium funding | (3,777) | (7,816) |
| | <u>(3,777)</u> | <u>(7,816)</u> |
| Variable rate instruments | | |
| Financial assets | 8,723 | 8,810 |
| Financial liabilities | (13,379) | (3,227) |
| | <u>(4,656)</u> | <u>5,583</u> |

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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

26 Financial instruments (continued)

Sensitivity analysis for variable rate instruments

As at 30 June 2015, 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

| | Consolidated | |
|---------------------------------|--------------|-------|
| | 2015 | 2014 |
| Change in profit | | |
| Increase in interest rate by 1% | (47) | 56 |
| Decrease in interest rate by 2% | 93 | (112) |

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 statement of financial position, are as follows:

Consolidated

In thousands of AUD

| | 30 June 2015 | | 30 June 2014 | |
|--|-----------------|-----------------|-----------------|-----------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Assets Carried at Amortised Cost | | | | |
| Trade and other receivables | 38,568 | 38,568 | 37,917 | 37,917 |
| Cash and cash equivalents | 8,723 | 8,723 | 8,810 | 8,810 |
| | <u>47,291</u> | <u>47,291</u> | <u>46,727</u> | <u>46,727</u> |
| Liabilities Carried at Amortised Cost | | | | |
| Finance lease liabilities | (3,777) | (3,892) | (7,816) | (8,087) |
| Cash advance facility | (13,379) | (13,379) | (3,227) | (3,227) |
| Trade and other payables | (18,101) | (18,101) | (16,265) | (16,265) |
| | <u>(35,257)</u> | <u>(35,372)</u> | <u>(27,308)</u> | <u>(27,579)</u> |

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:

| | 2015 | 2014 |
|---------------------------|-------|-------|
| Finance Lease Liabilities | 4.09% | 5.40% |

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 |

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

27 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD

Less than one year

Between one and five years

| Consolidated | |
|--------------|--------------|
| 2015 | 2014 |
| 2,220 | 1,408 |
| 1,415 | 487 |
| 3,635 | 1,895 |

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 2015 totalled \$3,046 thousand (2014: \$1,608 thousand) for the Group.

Capital expenditure commitments

The Group did not have any capital expenditure commitments as at 30 June 2015 (2014: Nil).

29 Reconciliation of cash flows from operating activities

In thousands of AUD

Cash flows from operating activities

Profit / (loss) for the period

Adjustments for:

Depreciation

Amortisation of intangible assets

Impairment loss

(Gain)/loss on sale of property, plant and equipment

Share based payments

Bargain on acquisition

Net finance expense

Income tax expense / (benefit)

Operating profit before changes in working capital and provisions

Change in trade and other receivables*

Change in inventories

Change in trade and other payables*

Change in provisions and employee benefits*

Interest paid

Income taxes paid

Net cash from operating activities

*After adjusting for changes due to business combinations

| Note | Consolidated | |
|------|--------------|---------------|
| | 2015 | 2014 |
| | (4,354) | 2,992 |
| 14 | 7,323 | 6,953 |
| 15 | 192 | 398 |
| 15 | 4,538 | - |
| 9,10 | 6 | (35) |
| 11 | 35 | 98 |
| 7 | (2,221) | - |
| 12 | 899 | 936 |
| 13 | (195) | 943 |
| | 6,223 | 12,285 |
| | 4,515 | 2,989 |
| | 1,549 | (410) |
| | (3,629) | 991 |
| | 136 | (2,082) |
| | 8,794 | 13,773 |
| | (1,101) | (1,199) |
| | (558) | (1,907) |
| | 7,135 | 10,667 |

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

30 Related parties

Key management personnel compensation

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

| | Consolidated | |
|------------------------------|------------------|------------------|
| | 2015 | 2014 |
| Short-term employee benefits | 1,758,078 | 2,167,895 |
| Post-employment benefits | 157,732 | 177,042 |
| Termination benefits | 28,801 | 219,492 |
| Share-based payments | 35,307 | 98,444 |
| | <u>1,979,918</u> | <u>2,662,873</u> |

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 | Note | Transaction value year ended 30 June | | Balance outstanding as at 30 June | |
|------------------------------|-------|---|----------------|--------------------------------------|----------|
| | | 2015 | 2014 | 2015 | 2014 |
| Andrew Watts - Watty Pty Ltd | (i) | 255,536 | 255,536 | - | - |
| Andrew Watts - Watty Pty Ltd | (ii) | 276,096 | 276,096 | - | - |
| Andrew Watts - Watty Pty Ltd | (iii) | 93,600 | 93,600 | - | - |
| Andrew Watts - Two Dots Ltd | (iv) | - | 39,850 | - | - |
| | | <u>625,232</u> | <u>665,082</u> | <u>-</u> | <u>-</u> |

- (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.
- (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.
- (iv) The Group rented machinery storage and laydown area at Christensen's Road, Sandy Creek which is owned by Andrew Watts through his company Two Dots Pty Ltd. Amounts paid for rent were at arm's length and were due and payable under normal payment terms. This rental agreement was ceased as at 31 May 2014.

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.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

31 Group entities

Parent and ultimate controlling party

Parent entity

Mastermyne Group Limited

Country of incorporation

Australia

Ownership interest

| 2015 | 2014 |
|------|------|
| % | % |

Significant subsidiaries

| Entity | Country of incorporation | 2015 Ownership interest (%) | 2014 Ownership interest (%) |
|--|--------------------------|-----------------------------|-----------------------------|
| 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 | - |
| Anderson Mine Services Pty Ltd | Australia | 100 | - |
| Ausscaffold Pty Ltd | Australia | 100 | - |
| Diversified Mining Services Ltd | Australia | 100 | - |
| East Coast Engineering (QLD) Pty Ltd | Australia | 100 | - |
| Falcon Mining Pty Ltd | Australia | 100 | - |
| Machinetek Engineering Pty Ltd | Australia | 100 | - |
| Velamont Pty Ltd | Australia | 100 | - |
| Anderson Industries (Aust) Pty Ltd | Australia | 100 | - |

32 Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, 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 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 2015 is set out as follows.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

32 Deed of Cross Guarantee (continued)

Statement of financial position

As at 30 June 2015

In thousands of AUD

Assets

Cash and cash equivalents
Trade and other receivables
Inventories
Current tax assets

Total current assets

Investments in subsidiaries
Deferred tax assets
Property, plant and equipment
Intangible assets

Total non-current assets

Total assets

Liabilities

Trade and other payables
Loans and borrowings
Employee benefits

Total current liabilities

Loans and borrowings

Employee benefits

Deferred tax liabilities

Total non-current liabilities

Total liabilities

Net assets

Equity

Share capital
Reserves
Retained earnings

Total Equity

Statement of profit or loss and other comprehensive income

In thousands of AUD

Revenue
Other income
Contract disbursements
Personnel expenses
Office expenses
Depreciation and amortisation expense
Gain on bargain purchase

Impairment loss

Other expenses

Results from operating activities

Finance income

Finance expense

Net finance expense

Profit / (loss) before income tax

Income tax (expense) / benefit

Profit / (loss) for the period

Other comprehensive income for the period, net of income tax

Total comprehensive income for the period

| | 2015 | 2014 |
|--------------------------------------|----------------|---------------|
| Assets | | |
| Cash and cash equivalents | 8,320 | 8,457 |
| Trade and other receivables | 37,735 | 37,256 |
| Inventories | 3,002 | 2,742 |
| Current tax assets | 295 | 48 |
| Total current assets | 49,352 | 48,503 |
| Investments in subsidiaries | 723 | 723 |
| Deferred tax assets | 7,146 | - |
| Property, plant and equipment | 28,997 | 27,636 |
| Intangible assets | 14,138 | 18,868 |
| Total non-current assets | 51,004 | 47,227 |
| Total assets | 100,356 | 95,730 |
| Liabilities | | |
| Trade and other payables | 17,765 | 16,022 |
| Loans and borrowings | 4,363 | 5,102 |
| Employee benefits | 7,616 | 6,615 |
| Total current liabilities | 29,744 | 27,739 |
| Loans and borrowings | 12,793 | 5,941 |
| Employee benefits | 197 | 145 |
| Deferred tax liabilities | - | 2,071 |
| Total non-current liabilities | 12,990 | 8,157 |
| Total liabilities | 42,734 | 35,896 |
| Net assets | 57,622 | 59,834 |
| Equity | | |
| Share capital | 55,234 | 51,108 |
| Reserves | (21,944) | (21,979) |
| Retained earnings | 24,332 | 30,705 |
| Total Equity | 57,622 | 59,834 |

| | 2015 | 2014 |
|--|----------------|--------------|
| Revenue | 170,192 | 169,303 |
| Other income | 35 | 261 |
| Contract disbursements | (31,315) | (29,921) |
| Personnel expenses | (123,107) | (121,152) |
| Office expenses | (7,548) | (5,420) |
| Depreciation and amortisation expense | (7,487) | (7,239) |
| Gain on bargain purchase | 2,221 | - |
| Impairment loss | (4,538) | - |
| Other expenses | (2,197) | (1,025) |
| Results from operating activities | (3,744) | 4,807 |
| Finance income | 200 | 263 |
| Finance expense | (1,099) | (1,197) |
| Net finance expense | (899) | (934) |
| Profit / (loss) before income tax | (4,643) | 3,873 |
| Income tax (expense) / benefit | 224 | (924) |
| Profit / (loss) for the period | (4,419) | 2,949 |
| Other comprehensive income for the period, net of income tax | - | - |
| Total comprehensive income for the period | (4,419) | 2,949 |

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

33 Subsequent events

Subsequent to year-end the Directors declared a dividend of 1.0 cents per share as per the details set out in note 20.

Other than the matter discussed above, 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.

34 Auditors' remuneration

Audit services

Auditors of the Company

KPMG Australia:

Audit and review of financial reports

Other services

Auditors of the Company

KPMG Australia

Other Services

Taxation services

| Consolidated | |
|----------------|----------------|
| 2015 | 2014 |
| 180,000 | 171,750 |
| <u>180,000</u> | <u>171,750</u> |
| 11,000 | - |
| 75,000 | 30,000 |
| <u>86,000</u> | <u>30,000</u> |

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2015

35 Parent Entity Disclosures

As at and throughout the financial year ending 30 June 2015 the parent company of the group was Mastermyne Group Limited.

| <i>In thousands of AUD</i> | Company | |
|--|---------------|---------------|
| | 2015 | 2014 |
| Results of the parent entity | | |
| Loss for the period | (2,835) | (61) |
| Total comprehensive income for the period | (2,835) | (61) |
| Financial position of parent entity at year end | | |
| Current assets | - | - |
| Total assets | 54,692 | 55,244 |
| Current liabilities | - | - |
| Total liabilities | - | - |
| Total equity of the parent entity | | |
| Share Capital | 55,234 | 51,108 |
| Share-based payments reserve | 2,293 | 2,258 |
| Retained earnings | (2,835) | 1,878 |
| Total Equity | 54,692 | 55,244 |

Parent Entity Contingencies

There were no parent entity contingencies required for the year ending 30 June 2015 (2014: Nil).

Parent Entity Capital Commitments

There were no parent entity capital commitments at 30 June 2015 (2014: 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 32.

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 66 and the Remuneration report in section 5 of the Directors' report, set out on pages 2 to 17, 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 2015 and of its performance for the financial year ended on that date; and

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

(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 32 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 Class Order 98/1418.

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 2015.

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 directors.



C. Bloomfield
Chairman

Dated at Brisbane this 18th day of August 2015.



Independent auditor's report to the members of Mastermyne Group Limited

Report on the financial report

We have audited the accompanying financial report of Mastermyne Group Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2015, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 35 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

For personal use only



Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in section 5 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Mastermyne Group Limited for the year ended 30 June 2015, complies with Section 300A of the *Corporations Act 2001*.

KPMG



M L Gray
Partner

Brisbane
18 August 2015