

**Mastermyne Group Limited  
and its Controlled Entities**

ABN 96 142 490 579

Annual Report

30 June 2014

Mastermyne Group Limited and its Controlled Entities

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# Mastermyne Group Limited and its Controlled Entities

## Directors' report

For the year ended 30 June 2014

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 2014 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 P. Slaughter (appointed 22 March 2010, resigned 25 November 2013)* - Bachelor of Engineering (Metallurgical) (Hons), Graduate Diploma Company Director Course.  
Chairman (independent)

#### *Experience and other directorships*

Peter has significant Australian and international experience in the non-ferrous, iron ore, nickel, coal and precious metals sectors, spanning over 40 years, initially with M.I.M. Holdings Limited and more recently as a director and consultant. Peter has served on various public company boards in Australia, Europe and Canada. He has also been involved in waste recycling, manufacturing, service sector and research and development companies at a senior level in Australia and internationally. He is a Fellow of the Australasian Institute of Mining & Metallurgy, the Australian Institute of Company Directors and the Institute of Directors in the United Kingdom. He is also a Fellow and Honorable Life member of Australian Institute of Management.

Peter's former ASX listed directorships include serving as a non-executive director of Nomad Building Solutions Limited August 2006 to December 2010, Sunshine Gas Limited June 2007 - December 2010.

#### *Special Responsibilities*

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

*Mr D. Hamblin (appointed Non - executive Director 10 March 2010, appointed Chairman 25 November 2013)* - Bachelor of Engineering (Mechanical)  
Chairman

#### *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 with Andrew Watts 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 is a highly regarded financial services executive with over 20 years experience in private equity transactions, acquisitions and integration, management and exit of investments, strategy development, structuring and finance. He has international experience and a background in the legal profession. He is currently CFO of ASX listed Finders Resources Ltd, appointed March 2011 and has previously worked at Champ Ventures, Goldman Sachs and Macquarie Bank.

#### *Special Responsibilities*

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

*Mr C Bloomfield (appointed 6 March 2014)*  
Non - executive Director (independent)

#### *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. He holds a First and Second Class Certificates of Competency in Mine Management and has managed underground coal mines in Australia. His former roles at BHP Billiton include Vice President Health, Safety and Environment and Project Director for the BHP Billiton merger integration.

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. He is also a non-executive director with The Flagstaff Group.

#### *Special Responsibilities*

Member 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 2014

#### 1 Directors (continued)

*Mr A. Watts (appointed 10 March 2010)*

Executive Director

*Experience and other directorships*

Andrew has been involved in contracting within the mining industry since 1994 and co-founded Mastermyne with Darren Hamblin 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. In early 2010 Andrew relocated to Sydney 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 W Lyne was appointed to the position of Company Secretary on 22 March 2010. Bill has a wealth of experience in the role of Company Secretary of public companies ranging from stock exchange listed to small private companies and 'not for profit' charities. He also holds appropriate qualifications including a Bachelor of Commerce degree and he is a Chartered Accountant and a Fellow of Chartered Secretaries Australia.

Bill has operated his own business, Australian Company Secretary Service, since 1998, providing professional company secretarial, corporate compliance, governance and administrative services to clients across a wide range of industries. Bill is currently company secretary of ASX listed Galilee Energy Limited, Orion Metals Limited and Jumbo Interactive Limited of which he is also a director.

Mr C Kneipp was appointed Joint Company Secretary of the Company on 24 August 2011. Chris has a Bachelor of Commerce degree, 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 10 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 P. Slaughter	6	5	3	3	4	4
Mr D. Hamblin	14	14	4	4	5	5
Mr J. Wentworth	14	14	4	4	5	5
Mr A. Watts	14	13				
Mr A. Caruso	14	14				
Mr C. Bloomfield	4	4	-	-	1	1

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 2014

#### 4 Operating and financial review Financial Overview

##### Profit for the year

The Group achieved revenues for the full year of \$171.977 million in FY2014 (2013: \$248.836 million). The decrease from last years result is explained by the full year impact of contracts running off at both Kestrel Mine Extension and Newstan which primarily impacted the Underground Division and the Services Division with revenues down 24% and 92% respectively. The Engineering Division revenues remained steady through 2014 supported by an underlying contract for fabrication works and the continued sale of consumables supporting mine production. The Group's profit margins were down as a result of the decreased contracting activity, and in particular equipment utilisation remaining low whilst still recognising depreciation for the under utilised assets. The under utilisation of the training centres in the Underground Division also had a negative impact on margins with the slow down in the sector seeing minimal use of the facilities over the past 18 months. This resulted in a net profit after tax for FY2014 of \$2.992 million (2013: \$11.529 million).

The reported net profit after tax of \$2.992 million was at the upper end of the guidance range given at the time of the interim results release being \$2 million to \$3 million. This result includes a prior year tax adjustment with a positive impact of \$0.353 million.

##### Balance Sheet and Cash Flows

The cash position as at 30 June 2014 was \$8.810 million (2013: \$10.223 million). The \$1.413 million decrease in cash was largely driven by debt repayments and the payment of dividends, notably increasing the dividend payout ratio in the first half of FY2014 above our policy range of 40%-60% to 100%. Total cash flow movements were as follows:

- net cash inflows from operating activities for the year were \$10.669 million (2013: \$10.584 million). Guidance given at the time of interim results release suggested that this may have been slightly higher for the full year however, with the delayed ramp up of two contracts in Queensland during the last quarter drawing on working capital and increasing debtor days, cash flows from operating were lower than anticipated;
- net cash outflows from investing activities for the year of \$1.629 million (2013: \$1.320 million), remained steady during FY2014 with capital expenditure remaining low;
- net cash outflows from financing activities for the year of \$10.453 million (2013: \$12.369 million), with the \$1.916 million reduction primarily explained as a result of the Group maintaining debt repayments and payment of dividends to shareholders.

The balance sheet remains strong with net debt decreasing by \$5.718 million to \$2.233 million (2013: \$7.951 million), largely as a result of reducing total bank debt to \$11.043 million (2013: \$18.174 million) whilst still generating good cash flows from operating activities during the period. The Group expected to be in a net cash position at 30 June 2014 as per guidance given in the release of interim results however, as outlined above, with the delayed ramp up of two contracts in Queensland during the last quarter, operating cash flows were lower than expected. The group has \$41.69 million in available banking facilities, with \$28.61million undrawn at 30 June 2014.

## Mastermyne Group Limited and its Controlled Entities

### Directors' report

For the year ended 30 June 2014

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

##### Operational Overview

Whilst the FY2014 Full Year results reflect the cyclic low point in the current resources cycle the Company is pleased with performance and to have met guidance given at the time of the interim results release. The Mastermyne Group has again benefited from its strong link to production versus greenfield construction and project development capital expenditure and which is evidenced by the performance delivered this year relative to peers and our strong order book moving into FY2015. It has been well documented that mining operators have moved through an aggressive phase of reversing cost creep in their operations and are now focusing on prudent cost management and increased production output to reduce unit cost rates. The reliance on underground contractors for critical activities to support ongoing and increased production continues to drive contract renewals for Mastermyne and underpins the order book for the FY2015 year. Our Engineering Division is also experiencing a similar shift from capital spending to refurbishment of existing products. This focus on increased production and value for money services continues to drive demand for the services provided by the Mastermyne Group.

With operating costs being largely incremental in the business we have successfully managed the major cost inputs including our overhead costs without reducing capability. With this right sized overhead structure the focus throughout the year has been on securing new projects and renewing contracts that were due to roll off. We have successfully renegotiated both the Moranbah Umbrella Contract for a further three years with two one year options and the Westcliff Outbye contract for two years and we continue to work with our client on renewing the Moranbah Roadway Development Services contract. During the year we have also secured new contracts at Anglo's Grasstree mine and BMA's Broadmeadows mine. Whilst these contracts are shorter in duration than typically experienced it has provided the Company with the opportunity to expand its market penetration into these new sites and sets up opportunities for future work. With the addition of these new sites the Company is now delivering services to 8 of the 13 underground coal mines in the Bowen Basin and 13 of the 16 Metallurgical coal mines across Australia. We have again seen a strong contribution from the Engineering Division in the second half of the financial year and as the focus shifts to refurbishment of equipment the Engineering Division is well placed to continue its strong revenue contribution. The Services Division has seen limited revenue due to the lack of construction activity and costs in this division have been minimal throughout the financial year. We continue to see tender opportunities through this division and will continue to pursue these opportunities.

Equipment utilisation continued to play a material factor in reduced profitability in the second half and overall for the full year. Whilst utilisation rates did recover over the second half they were offset by reduced hire rates. We expect to see continued improvement in equipment margins throughout FY2015 as a result of the increase in roadway development projects. This increase in roadway development activity is evidenced through the increase in tenders submitted which incorporate contractor supplied equipment. Over the coming year we will also benefit from the run off of unutilised externally hired equipment that was hired on the Newstan project which ceased in FY2013. Overheads remained static throughout the second half as a result of prudent and responsive action taken early in the First Half of FY2014. Overheads are not expected to change significantly in the first half of FY2015 and any increase would be commensurate with an increase in new projects.

Safe and productive operations continue to be a focus for the Company and we have seen a continued reduction in trailing statistics and equally important an increase in proactive statistics. Over the full year we have seen decrease in our Total Recordable Injury Frequency Rate (TRIFR) from the previous year with the rate falling from 3.28 to 3.13. The increase in proactive statistics is aligned with our strategy of proactive safety management and is the driver for the reduction in lagging statistics. During the financial year there were surveillance audits undertaken by external auditors to ensure compliance with the AS3801 and ISO14001 certification. All audits were passed with very minor improvement notices.

Margins in FY2014 were consistent with the guidance provided with equipment utilisation being the primary driver for the reduction relative to previous years. As noted above we have opportunities for increased equipment utilisation which will in turn improve future margin performance. Margins in the contracting business have remained consistent with no material change from previous levels. Cost reductions have been achieved by reducing our cost base for labour, with these reductions passed through to our clients. The Company expects FY2015 margins to be consistent with the run rate of the second half of FY2014 with some improvement possible in the first half FY2015 as equipment utilisation recovers.

The significant operational highlights for the financial year include:

- Revenue of \$171.9 million (above guidance of \$160m to \$165m provided in February 2014)
- Net Profit After Tax of \$3.0 million (at the upper end of guidance of \$2 million to \$3 million provided in February 2014)
- Continued decline TRIFR rate for FY2014. Group TRIFR 3.13 (FY2013: 3.28)
- Rollover of Moranbah Umbrella and Westcliff Outbye Services Contracts
- Secured new contracts at Broadmeadows and Grasstree Mines
- Total Order Book \$257 million at 30 June 2014
- Workforce numbers peaked at 903 in March before finishing the year at 733 (735 at Half Year)
- Tendering Pipeline currently at \$1.06 billion with \$564 million in active tenders

## Mastermyne Group Limited and its Controlled Entities

### Directors' report

For the year ended 30 June 2014

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

##### Outlook

The short term outlook for the Company will benefit from the focus by operators on maintaining increased production to lower unit rate costs. The short term outlook appears to remain unchanged for commodity prices which will continue to see operators using the services of contractors to keep cost and workforce structures flexible, substitute permanent employment and to continue to drive cost efficiencies. The company has experienced an increase in roadway development tenders as driveage which had previously been deferred has reached a point where it cannot be deferred any further without impacting longwall continuity for some operations. These opportunities are what will also drive an increase in fleet utilisation as the contractors' equipment will be required to deliver these projects. Also benefiting equipment utilisation will be dry hire opportunities as we see the regulatory requirement for maintenance and compliance require replacement equipment to minimise production disruption while these activities take place. Mastermyne remains well positioned with its strong link to tier 1 mining companies who operate high volume metallurgical coal mines. The Company's current order book is 100% linked to metallurgical coal producers who, whilst still under pressure, are better positioned for a recovery in coal prices than thermal operators. The longer term outlook for coal is gaining momentum however the immediate focus will remain on operating cost effective mines. The Company has also experienced more enquiries for Contract Operator projects and is currently exploring some opportunities in this area. Over the next 12 months the Company's focus will be to renegotiate the remaining outstanding Roadway Development contract, secure new roadway development projects of which there are 3 major tenders in circulation and to continue to explore opportunities for an acquisition that will add scale and stability of revenue in the Services Division. The Company is confident with its position in the market and the order book for FY2015 and beyond however we expect that operators will maintain an aggressive focus on costs. Having said this we believe that there will be a strong case for our customers to continue to require our services to support increased production and maintain sustainable and profitable operations.

#### 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 A. Purse, General Manager Technical Services (appointed 3 March 2008, terminated 16 August 2013)
- Mr C. Kneipp, Financial Controller (appointed 20 March 2006)
- Mr D. Fitzpatrick, General Manager Engineering (appointed 10 August 2009, terminated 7 February 2014)
- Ms V. Gayton, Human Resources Manager (appointed 11 August 2010)
- Ms B. Jooste, Group Executive Safety Manager (appointed 14 June 2011)
- Mr J. Stuart-Robertson, Chief Operating Officer (appointed 9 January 2012, terminated 17 July 2013)
- Mr D. Sykes, General Manager Underground (appointed 24 April 2012)
- Mr K. Lonergan, General Manager Services (appointed 20 February 2012, terminated 13 December 2013)
- Mr N. O'Hare General Manager Engineering (appointed 26 May 2014)
- Mr J. Sleeman General Manager Services (appointed 25 November 2013)

Compensation levels for Key Management Personnel (KMP) of the Group are 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 2014

#### 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 and cashflow. The typical financial performance objectives are "Profit After Tax", "EBITA margins" and "Debtor Days" compared to budgeted amounts. The non-financial objectives vary dependent upon position and responsibility and include measures such as achieving strategic outcomes, safety and environmental performance that 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 RNC 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 2014

#### 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 KMP and senior management were issued 1,800,000 performance rights during the financial period ending 30 June 2012, which vest in three tranches at 30 June 2012, 30 June 2013 and 30 June 2014. The grant of these rights were made in accordance with the Company's Employee Rights Plan voted upon by shareholders at the 2010 AGM. The ability to exercise the rights is conditional on the Group meeting its performance hurdles.

These performance hurdles comprise of three components and vesting of these rights is subject to meeting the criteria of these three components as follows:

- The first relates to relative total shareholder return (TSR 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 2011 to 30 June 2012, 30 June 2013 and 30 June 2014) is at least in the top 20th percentile of S&P ASX 300. If the TSR relative ranking performance condition is between the 20th and 40th percentiles, 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.
- The second criteria relates to growth in earnings per share (EPS 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 2011 to 30 June 2012, 30 June 2013 and 30 June 2014) is at least in the top 15th percentile. If the EPS growth ranking is between the top 15th and 20th 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.
- The third criteria is that the Key Management Personnel must be employed by the Group on the relevant vesting dates.

In addition to the above 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 were 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.

These performance hurdles comprise of three components and vesting of these rights is subject to meeting the criteria of these three components as follows:

- The first relates to relative total shareholder return (TSR 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 second criteria relates to growth in earnings per share (EPS 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 third criteria is that the Managing Director must be employed by the Group on the relevant vesting dates.

## Mastermyne Group Limited and its Controlled Entities

### Directors' report

For the year ended 30 June 2014

#### 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 participants exceeded the majority of the non financial linked targets. The financial linked targets were adversely affected by the slow down in the coal sector and early completion of one contract, resulting in the maximum short term incentives not being achieved.

##### 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.

	2014	2013	2012	2011	2010
Profit attributable to owners of the Company	\$ 2,963,000	\$ 11,514,000	\$ 14,664,000	\$11,742,000	\$4,775,000
Dividends paid	\$ 3,468,406	\$ 6,105,000	\$ 5,050,000	\$ 2,636,000	\$359,000
Change in share price	-35%	-67%	48%	42%	N/A
Return on capital employed	8.08%	29.66%	45.60%	34.99%	24.69%

Profit is considered as one of the financial performance targets in setting the STI. Profit amounts for 2010 to 2014 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 -11.03%. However, Group revenue over the past four years driven by increased contracting activity has grown at a compound annual growth rate of 15.06%. During the same period compound annual growth of key management personnel compensation was 16.21%. This is driven largely by an increase in the number of KMP from nine to twelve.

##### 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 policy 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.

It is the Group's policy that service agreements for KMP are unlimited in term but capable of termination on 3 months' notice and that the Group retains the right to terminate the contract immediately, by making payment equal to 3 months' pay in lieu of notice.

The Group has entered into service agreements with each key management person that are capable of termination on three month's notice. The Group retains the right to terminate an agreement immediately by making payment equal to three 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, long service leave and sick leave, together with any superannuation benefits. Non-executive Directors are not eligible for annual leave, long service leave nor sick leave although they may be granted leave of absence in specific circumstances.

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

## Mastermyne Group Limited and its Controlled Entities

### Directors' report

For the year ended 30 June 2014

#### 5.1 Principles of remuneration - audited (continued) 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 and reports on Mastermyne KMP and director remuneration and a total of \$7,425 for all other services.

#### Directors' Fees

Remuneration of non-executive directors (NED) for the current period was based on comparative roles in the market place as at May 2012. NED fees were reviewed in May 2012 as noted in last year's report and changes were made by the Board effective July 1, 2012 based on recommendations by the RNC. Rapid changes in market conditions in the industry and sector in which Mastermyne operates saw the Board take a decision in June 2013 to reduce fees by 12.5% from the increase made such that the following NED fees now apply:

- 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

The changes made to director remuneration reflected a general changes in KMP and other senior staff remuneration which occurred over the last three months of the year. The Board appreciated the supportive response from staff at all levels to the changing industry circumstances.

Reductions in remuneration will substantially reduced overheads in the coming year and allow Mastermyne to provide its clients with a continuing competitive high quality service offering.

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. The amount originally approved by shareholders on listing the Company was \$300,000 in aggregate. There is no immediate requirement to alter this level of approval.

# Mastermyne Group Limited and its Controlled Entities

## Directors' report

For the year ended 30 June 2014

### 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:

2014	Short Term				Post-Employment	Termination Benefits (\$)	Share-based payments	Total (\$)	Proportion of remuneration performance related (%)	Value of rights as a proportion of remuneration (%)
in AUD	Salary & Fees (\$)	STI cash bonus (\$)	Non-monetary benefits	Total (\$)	Super-annuation Benefits (\$)		Rights (\$)			
Non-executive directors										
Mr P Slaughter	36,957	-	-	36,957	3,419	-	-	40,376	0.00%	0.00%
Mr D Hamblin	49,898	-	-	49,898	4,616	-	-	54,514	0.00%	0.00%
Mr C Bloomfield	13,327	-	-	13,327	1,233	-	-	14,560	0.00%	0.00%
Mr J Wentworth	54,250	-	-	54,250	-	-	-	54,250	0.00%	0.00%
Executive Directors										
Mr A Watts	150,182	-	-	150,182	13,892	-	-	164,074	0.00%	0.00%
Mr A Caruso	343,181	25,000	15,000	383,181	27,648	-	63,428	474,256	18.65%	13.37%
Executives										
Mr A Purse	28,410	-	1,932	30,342	2,462	75,213	-	108,017	0.00%	0.00%
Mr N O'Hare	21,489	-	1,438	22,927	1,857	-	-	24,785	0.00%	0.00%
Mr D Fitzpatrick	123,877	-	-	123,877	16,074	90,425	-	230,376	0.00%	0.00%
Mr C Kneipp	221,458	25,000	15,000	261,458	22,709	-	8,400	292,567	11.42%	2.87%
Ms V Gayton	165,051	25,000	-	190,051	17,321	-	5,040	212,412	14.14%	2.37%
Mrs B Jooste	166,528	25,000	15,000	206,528	18,175	-	5,616	230,320	13.29%	2.44%
MR J Stuart-Robertson	117,452	-	15,000	132,452	1,472	40,246	-	174,170	0.00%	0.00%
Mr D Sykes	302,082	25,000	-	327,082	29,354	-	15,960	372,396	11.00%	4.29%
Mr K Lonergan	83,613	-	-	83,613	7,396	13,608	-	104,617	0.00%	0.00%
Mr J Sleeman	101,770	-	-	101,770	9,414	-	-	111,184	0.00%	0.00%
Totals	1,979,525	125,000	63,370	2,167,895	177,042	219,492	98,444	2,662,873		

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

- 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 review were completed and approved by the RNC.
- The fair value of the rights is calculated at the date of grant using a binomial 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 2014

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

Notes in relation to the 2012 tables of directors' and executive officers' remuneration (continued)

2013					Post-Employment	Termination Benefits (\$)	Share-based payments	Total (\$)	Proportion of remuneration performance related (%)	Value of rights as a proportion of remuneration (%)
		STI cash bonus (\$)	Non-monetary benefits		Super-annuation Benefits (\$)		Rights (\$)			
in AUD	Salary & Fees (\$)			Total						
Non-executive directors										
Mr P Slaughter	96,445	-	-	96,445	8,685	-	-	105,130	0.00%	0.00%
Mr D Hamblin	51,985	-	-	51,985	3,886	-	-	55,871	0.00%	0.00%
Mr J Wentworth	60,566	-	-	60,566	-	-	-	60,566	0.00%	0.00%
Executive Directors										
Mr A Watts	174,579	-	-	174,579	15,719	-	-	190,298	0.00%	0.00%
Mr A Caruso	372,931	29,402	15,000	417,333	41,782	-	215,877	674,992	36.34%	31.98%
Executives										
Mr A Purse	233,428	-	15,000	248,428	24,579	-	15,082	288,089	5.24%	5.24%
Mr D Fitzpatrick	209,368	51,966	-	261,334	40,494	-	6,033	307,861	18.84%	1.96%
Mr C Kneipp	243,591	28,864	15,000	287,455	23,963	-	15,082	326,500	13.46%	4.62%
Ms V Gayton	187,327	27,443	-	214,770	22,999	-	9,049	246,818	14.78%	3.67%
Mrs B Jooste	181,779	30,004	15,000	226,783	23,187	-	9,857	259,827	15.34%	3.79%
MR J Stuart-Robertson	289,493	-	15,000	304,493	30,154	-	30,856	365,503	8.44%	8.44%
Mr D Sykes	334,264	31,452	-	365,716	30,327	-	31,430	427,473	14.71%	7.35%
Mr K Lonergan	201,910	29,127	-	231,037	17,216	-	35,422	283,675	22.75%	12.49%
Mr L duPreez	214,685	-	15,000	229,685	22,482	61,655	15,598	329,420	4.73%	4.73%
Totals	2,852,351	228,258	90,000	3,170,609	305,473	61,655	384,286	3,922,024		

#### Notes in relation to the 2013 tables of directors' and executive officers' remuneration - audited

- Mr L duPreez terminated as Business Development Manager on 27 June 2013.
- 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.
- The short term incentive bonus is for performance during the respective financial year. The amount was finally determined on 31 July 2013 after performance reviews were completed and approved by the remuneration committee.
- The fair value of the rights is calculated at the date of grant using a binomial 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 2014

#### 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)
<b>Directors</b>			
Mr A Caruso	25,000	12.7%	87.3%
<b>Executives</b>			
Mr C Kneipp	25,000	38.9%	61.1%
Ms V Gayton	25,000	27.3%	72.7%
Mrs B Jooste	25,000	24.9%	75.1%
Mr D Sykes	25,000	15.1%	84.9%

(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 2014 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 the following shares were issued on the exercise of rights previously granted as compensation:

	Number of ordinary shares	Amount paid \$/share
<b>Executives</b>		
Mr A. Caruso	105,000	1.0542
Mr A. Caruso	45,000	0.7906

There are no amounts unpaid on the shares issued as a result of the exercise of rights in the 2014 financial year.

## Mastermyne Group Limited and its Controlled Entities

### Directors' report

For the year ended 30 June 2014

#### 5.4 Equity Instruments - audited (continued)

##### 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
<b>Executives</b>						
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
Mr A. Purse	87,500	08/08/2011	0%	100%	2014	FY2014 TSR
Mr A. Purse	87,500	08/08/2011	0%	100%	2014	FY2014 EPS
Mr D. Fitzpatrick	35,000	08/08/2011	0%	100%	2014	FY2014 TSR
Mr D. Fitzpatrick	35,000	08/08/2011	0%	100%	2014	FY2014 EPS
Mr C. Kneipp	87,500	08/08/2011	0%	100%	2014	FY2014 TSR
Mr C. Kneipp	87,500	08/08/2011	0%	100%	2014	FY2014 EPS
Ms V. Gayton	52,500	08/08/2011	0%	100%	2014	FY2014 TSR
Ms V. Gayton	52,500	08/08/2011	0%	100%	2014	FY2014 EPS
Mrs B. Jooste	58,500	08/08/2011	0%	100%	2014	FY2014 TSR
Mrs B. Jooste	58,500	08/08/2011	0%	100%	2014	FY2014 EPS
MR J. Stuart-Robertson	87,500	31/01/2012	0%	100%	2014	FY2014 TSR
MR J. Stuart-Robertson	87,500	31/01/2012	0%	100%	2014	FY2014 EPS
Mr D. Sykes	87,500	01/06/2012	0%	100%	2014	FY2014 TSR
Mr D. Sykes	87,500	01/06/2012	0%	100%	2014	FY2014 EPS
Mr K. Lonergan	56,250	28/03/2012	0%	100%	2014	FY2014 TSR
Mr K. Lonergan	56,250	28/03/2012	0%	100%	2014	FY2014 EPS

## Mastermyne Group Limited and its Controlled Entities

### Directors' report

For the year ended 30 June 2014

#### 5.4 Equity Instruments - audited (continued)

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

The movement during the reporting period, by value, of rights exchangeable for ordinary shares in the Company held by each key management person is detailed below.

	Granted in year \$ (A)	Value of rights exercised in year \$ (B)	Lapsed in Year \$(C)
<b>Executives</b>			
Mr A. Caruso	-	146,268	-

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

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

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

The fair value of rights that lapsed during the current period all had a nil value, as a result of the exercise price being substantially higher than the share price at the measurement dates.

##### 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 2013	Granted as compensation	Exercised	Forfeited or Lapsed During the Year	Held at 30 June 2014	Vested and exercisable at 1 July 2013	Lapsed or Exercised during the year	Vested and exercisable at 30 June 2014
<b>Directors</b>								
Mr A. Caruso	1,470,000	-	(150,000)	(270,000)	1,050,000	420,000	(420,000)	-
<b>Executives</b>								
Mr C. Kneipp	250,000	-	-	(250,000)	-	56,250	(56,250)	-
Ms V. Gayton	150,000	-	-	(150,000)	-	33,750	(33,750)	-
Ms B. Jooste	150,000	-	-	(150,000)	-	21,750	(21,750)	-
Mr D. Fitzpatrick	100,000	-	-	(100,000)	-	22,500	(22,500)	-
Mr A. Purse	250,000	-	-	(250,000)	-	56,250	(56,250)	-
MR J. Stuart-Robertson	250,000	-	-	(250,000)	-	56,250	(56,250)	-
Mr D. Sykes	250,000	-	-	(250,000)	-	56,250	(56,250)	-
Mr K. Loneragan	150,000	-	-	(150,000)	-	18,750	(18,750)	-
Mr L. DuPreez	68,750	-	-	(68,750)	-	68,750	(68,750)	-



## Mastermyne Group Limited and its Controlled Entities

### Directors' report

#### 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)	
		2014	2013	2014	2013
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	92,488	-	-
Andrew Watts - Two Dots Ltd	(iv)	39,850	46,545	-	3,985
		<u>665,082</u>	<u>670,665</u>	<u>-</u>	<u>3,985</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 rents 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 are at arm's length and are 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.

##### 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 2013	Purchases	Received on exercise of options	Sales	Shares held at 30 June 2014
<b>Directors</b>					
Mr P. Slaughter	102,000	-	-	-	102,000
Mr D. Hamblin	9,702,658	-	-	-	9,702,658
Mr A. Watts	10,552,428	709,817	-	-	11,262,245
Mr A. Caruso	1,221,693	48,000	150,000	-	1,419,693
<b>Executives</b>					
Ms V. Gayton	13,366	-	-	-	13,366
Ms B. Jooste	10,000	20,000	-	-	30,000
Mr A. Purse	11,000	-	-	-	11,000
Mr D. Fitzpatrick	100,000	-	-	-	100,000

## Mastermyne Group Limited and its Controlled Entities

### Directors' report

For the year ended 30 June 2014

#### 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 surface maintenance and electrical services in the coalfields 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 2014.

#### 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
<b>Declared and paid during the year 2014</b>				
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 as paid during the year were franked at the rate of 30 per cent.

After Balance sheet date a dividend of 1.4 cents per share was declared with a record date of 26 September 2014, and payment date of 16 October 2014.

#### 9 Events subsequent to reporting date

Subsequent to year-end the directors declared a dividend of 1.4 cents per share as per the details set out in note 19 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 2014

#### 10 Likely developments

It has been well documented that mining operators have moved through an aggressive phase of reversing cost creep in their operations and are now focusing on prudent cost management and increased production output to reduce unit cost rates. The reliance on underground contractors for critical activities to support ongoing and increased production continues to drive contract renewals for Mastermyne and underpins the order book for the FY2015 year.

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 P. Slaughter	102,000	-
Mr J. Wentworth	-	-
Mr D. Hamblin	9,702,658	-
Mr A. Watts	11,262,245	-
Mr C. Bloomfield	-	-
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 2014

#### 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>	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
<b>Audit services:</b>		
Auditors of the Company		
Audit and review of financial reports (KPMG Australia)	171,750	182,003
	<u>171,750</u>	<u>182,003</u>
<b>Services other than statutory audit:</b>		
Other services		
Taxation compliance services (KPMG Australia)	30,000	48,654
Risk Management Services	-	-
	<u>30,000</u>	<u>48,654</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 20 and forms part of the Directors' report for financial year ended 30 June 2014.

#### 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 with a resolution of the Directors:



D. Hamblin  
Chairman

Dated at Mackay this 22nd day of August 2014.



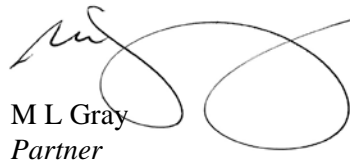
***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

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 2014 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

22 August 2014

# Mastermyne Group Limited and its Controlled Entities

## Consolidated statement of financial position

As at 30 June 2014

<i>In thousands of AUD</i>	<i>Note</i>	<b>Consolidated 2014</b>	<b>2013</b>
<b>Assets</b>			
Cash and cash equivalents	18	8,810	10,223
Trade and other receivables	17	37,917	40,906
Inventories	16	2,742	2,332
<b>Total current assets</b>		<b>49,469</b>	<b>53,461</b>
Property, plant and equipment	13	27,732	32,760
Intangible assets	14	19,642	20,040
<b>Total non-current assets</b>		<b>47,374</b>	<b>52,800</b>
<b>Total assets</b>		<b>96,843</b>	<b>106,261</b>
<b>Liabilities</b>			
Trade and other payables	24	16,265	15,274
Loans and borrowings	21	5,102	6,732
Employee benefits	22	6,655	8,762
Current tax payable	15	10	1,398
<b>Total current liabilities</b>		<b>28,032</b>	<b>32,166</b>
Loans and borrowings	21	5,941	11,442
Employee benefits	22	145	120
Deferred tax liabilities	15	2,063	1,637
<b>Total non-current liabilities</b>		<b>8,149</b>	<b>13,199</b>
<b>Total liabilities</b>		<b>36,181</b>	<b>45,365</b>
<b>Net assets</b>		<b>60,662</b>	<b>60,896</b>
<b>Equity</b>			
Share capital		51,108	50,964
Reserves		(21,979)	(22,077)
Retained earnings		31,127	31,632
<b>Total equity attributable to equity holders of the Company</b>		<b>60,256</b>	<b>60,519</b>
<b>Non-controlling interests</b>		<b>406</b>	<b>377</b>
<b>Total equity</b>		<b>60,662</b>	<b>60,896</b>

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

# Mastermyne Group Limited and its Controlled Entities

## Statement of profit or loss and other comprehensive income

For the year ended 30 June 2014

<i>In thousands of AUD</i>	<i>Note</i>	<b>Consolidated</b>	
		<b>2014</b>	<b>2013</b>
Revenue	7	171,977	248,836
Other income	8	257	745
Contract disbursements		(30,090)	(48,998)
Personnel expenses	10	(123,188)	(165,739)
Office expenses		(5,698)	(6,749)
Depreciation and amortisation expense	13,14	(7,353)	(7,930)
Other expenses	9	(1,034)	(2,217)
<b>Results from operating activities</b>		<b>4,871</b>	<b>17,948</b>
Finance income		263	361
Finance expense		(1,199)	(1,801)
<b>Net finance expense</b>	11	<b>(936)</b>	<b>(1,440)</b>
<b>Profit before income tax</b>		<b>3,935</b>	<b>16,508</b>
Income tax expense	12	(943)	(4,979)
<b>Profit for the period</b>		<b>2,992</b>	<b>11,529</b>
Other comprehensive income for the period, net of income tax		-	-
<b>Total comprehensive income for the period</b>		<b>2,992</b>	<b>11,529</b>
<b>Attributable to:</b>			
Owners of the Company		2,963	11,514
Non-controlling interests		29	15
<b>Profit for the period</b>		<b>2,992</b>	<b>11,529</b>
<b>Earnings per share</b>			
Basic earnings per share (AUD)	20	0.04	0.15
Diluted earnings per share (AUD)	20	0.04	0.15

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

# Mastermyne Group Limited and its Controlled Entities

## Statement of changes in equity For the year ended 30 June 2014

In thousands of AUD

	Attributable to owners of the Company				Non-Controlling interests	Total
	Share capital	Retained earnings	Share-based payment reserve (note 19)	Common Control Reserve (note 20)		
<b>Consolidated</b>						
<b>Balance at 1 July 2012</b>	50,964	26,223	1,781	(24,237)	-	54,731
<b>Total comprehensive income for the period</b>						
Profit for the period	-	11,514	-	-	15	11,529
Total comprehensive income for the period	-	11,514	-	-	15	11,529
<b>Transactions with owners recorded directly in equity</b>						
Share-based payment transactions	-	-	379	-	-	379
Dividends to equity holders	-	(6,105)	-	-	-	(6,105)
Acquisition of subsidiary with non-controlling interests	-	-	-	-	362	362
Total contributions by and distributions to owners	-	(6,105)	379	-	362	(5,364)
<b>Balance at 30 June 2013</b>	50,964	31,632	2,160	(24,237)	377	60,896
<b>Balance at 1 July 2013</b>	50,964	31,632	2,160	(24,237)	377	60,896
<b>Total comprehensive income for the period</b>						
Profit for the period	-	2,963	-	-	29	2,992
Total comprehensive income for the period	-	2,963	-	-	29	2,992
<b>Transactions with owners recorded directly in equity</b>						
Share options exercised	144	-	-	-	-	144
Share-based payment transactions	-	-	98	-	-	98
Dividends to equity holders	-	(3,468)	-	-	-	(3,468)
Total contributions by and distributions to owners	144	(3,468)	98	-	-	(3,226)
<b>Balance at 30 June 2014</b>	51,108	31,127	2,258	(24,237)	406	60,662

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



# Mastermyne Group Limited and its Controlled Entities

## Statement of cash flows

For the year ended 30 June 2014

<i>In thousands of AUD</i>	<i>Note</i>	<b>Consolidated</b>	
		<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>			
Cash receipts from customers		196,115	285,945
Cash paid to suppliers and employees		(182,343)	(262,904)
Cash generated from operations		13,773	23,041
Interest paid		(1,199)	(1,801)
Income tax paid		(1,907)	(10,656)
<b>Net cash flows from operating activities</b>	<b>28</b>	<b>10,667</b>	<b>10,584</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		1,464	958
Acquisition of property, plant and equipment		(3,355)	(1,989)
Interest received		263	361
Acquisition of subsidiary, net of cash acquired		-	(650)
<b>Net cash flows used in investing activities</b>		<b>(1,628)</b>	<b>(1,320)</b>
<b>Cash flows from financing activities</b>			
Proceeds from exercise of share options		146	-
Proceeds from borrowings		-	5,331
Repayment of borrowings		(7,130)	(11,595)
Dividends paid	<b>19</b>	<b>(3,468)</b>	<b>(6,105)</b>
<b>Net cash flows used in financing activities</b>		<b>(10,452)</b>	<b>(12,369)</b>
Net decrease in cash and cash equivalents		(1,413)	(3,105)
Cash and cash equivalents at beginning of period		10,223	13,328
<b>Cash and cash equivalents at end of period</b>	<b>18</b>	<b>8,810</b>	<b>10,223</b>

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 2014

### 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 2014 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 the provision of contracting services to underground long wall mining operations and open cut electrical services in the coalfields of Queensland's Bowen Basin and New South Wales.

### 2 Basis of preparation

#### (a) Statement of compliance

The 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 22 August 2014.

#### (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 14 – impairment; key assumptions used in discounted cash flow projections
- note 23 – measurement of share-based payments

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements

### 2 Basis of preparation (continued)

#### (e) Changes in accounting policies

Except for changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidated financial statements

The Group has adopted the following new standards and amendments to standards including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

- (i) AASB 10 Consolidated Financial Statements (2011)
- (ii) AASB 12 Disclosure of Interests in Other Entities
- (iii) AASB 13 Fair Value Measurement
- (iv) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to AASB 136)
- (v) AASB 119 Employee Benefits

The nature and effects of such changes are explained below.

#### (i) Subsidiaries

As a result of AASB 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provision of AASB 10 (2011), the Group reassessed the control conclusion for its investees at 1 July 2013. There were no changes to the assessment of control.

#### (ii) Disclosure of interests in other entities

As a result of AASB 12, the Group has expanded its disclosures about its interests in subsidiaries (see Notes 29 and 30).

#### (iii) Fair value measurement

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other AASB's. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurement in other including AASB including AASB 7. As a result, the Group has included additional disclosures in this regard (see notes 25).

In accordance with the transitional provision of AASB 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change has had no significant impact on the measurements of the Group's assets and liabilities.

#### (iv) Disclosures of recoverable amount for non-financial assets

The Group has early adopted the amendments to AASB 36 (2013) regarding impairment related disclosures. There were no changes as a result of early adoption of AASB 136 (2013).

#### (v) AASB 119 Employee benefits

In the current year, the Group adopted AASB 119 Employee Benefits (2011), which revised the definition of short-term employee benefits to benefits that are expected to be settled wholly within 12 months after the end of the annual reporting period in which employees render the related service.

As a result of the change, the annual leave liability for certain of the Group's employees is now considered to be an other long-term employee benefit, when previously it was a short-term benefit. The Group's obligation is determined as the amount of future benefit that employees have earned in return for their service in the current and prior periods, applying actuarial assumptions, discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

The Group has applied the new policy retrospectively in accordance with the transitional provision of the standard. The impact of this change is not material to the disclosure and therefore, comparatives have not been restated.

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 3 Significant accounting policies

Except as described in Note 2(e), accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by 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 2(e)). 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 3(h)). Any gain on a bargain purchase is recognised in profit or immediately. Transaction costs are expensed as incurred, except if related to 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.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 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 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 2014

### 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 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 2014

### 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, and 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" and "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 both a straight-line and diminishing 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 2014

### 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:

	2014	2013
• Low value pool	18.75 - 37.50%	18.75 - 37.50%
• 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	66.66%	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 2014

### 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:

	2014	2013
• Customer related intangibles	3-7 years	3-7 years
• Intellectual Property (Registered Designs)	8-10 years	8-10 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end, 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 operating leases and the leased assets are not recognised in the Group's balance sheet.

#### (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 2014

### 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, 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, then 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 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 "cash-generating unit"). 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 2014

### 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, then 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 plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations.

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 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 benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

##### (iv) Short-term employee benefits

Short-term employee benefit obligations including liabilities for wages, salaries and sick leave represent present obligations resulting from employee's services provided to reporting date and 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 other creditors 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 2014

### 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 finance cost.

#### (k) Revenue

##### (i) 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 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.

##### (m) Finance income and expense

Finance income comprises interest income on funds invested and dividend income. Interest income is recognised as it accrues in profit and loss using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

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.

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 3 Significant accounting policies (continued)

#### (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.

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 accruals for tax liabilities are adequate based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact 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.

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 3 Significant accounting policies (continued)

#### (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 ATO is included as a current asset or liability in the balance sheet.

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.

#### (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 that are reported to the Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

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, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

#### AASB 9 Financial Instruments (2010), AASB 9 Financial Instruments (2009)

AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model which they held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additional changes relating to financial liabilities. The AASB currently has an active project to make limited amendments to the classification and measurement requirement of AASB and add new requirements to address the impairment of financial assets and hedge accounting.

AASB (2010) and (2009) are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The adoption of these standards is expected to have an impact on the Group's financial assets, but no impact on the Group's financial liabilities.

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### **4 Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset, liability or transaction.

#### **(i) Share-based payment transactions**

The fair value of employee stock options is measured using the Monte Carlo and Binomial option pricing models. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

#### **(ii) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.



# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 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. The whole issue of 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 Audit and Risk Management Committee level, with meetings at least four times a year, and at 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 vast majority of the Group's customers are the large multinational mining companies whose track record of payment has resulted in a very good credit history. There is no formal credit policy but each customer is analysed 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 2014

### 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 always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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
<b>Flexible Options Facility (FOF)</b>	<i>in thousands of AUD</i>	
Overdraft Facility (part of FOF)	\$3,000	nil
LC Facility (part of FOF)	\$3,270	\$2,040
Cash Advance Facility (part of FOF)	\$4,000	nil
<b>Total FOF</b>	<b>\$10,270</b>	<b>\$2,040</b>
Revolving Equipment Finance Facility	\$26,500	\$6,120
Amortising Cash Advance Facility	\$3,220	\$3,220
Amortising Equipment Finance Facility	\$1,700	\$1,700
<b>Total All Facilities</b>	<b>\$41,690</b>	<b>\$13,080</b>

#### 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 2014

### 6 Segment information

#### Business segments

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

- **Underground Mining Services:** The provision of project management and engineering services; 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.
- **Electrical and Mechanical Services:** The Services division specialises in all facets of above ground electrical and mechanical services, including construction, maintenance and overhaul of draglines, wash plants, materials handling systems and other surface infrastructure.
- **Engineering and Fabrication:** The design and fabrication of attachments for underground equipment; general engineering and fabrication; supply of consumables for underground coal mines.

There are varying levels of integration between the Underground and Services 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 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 2014

### 6 Segment information (continued)

#### Business Segments (continued)

<i>In thousands of AUD</i>	Underground mining services		Engineering and fabrication		Electrical and Mechanical Services		Total for Reportable Segments	
	2014	2013	2014	2013	2014	2013	2014	2013
External revenues	150,702	194,251	18,468	17,819	2,807	36,766	171,977	248,836
Intersegment revenue	6,367	12,129	1,109	1,471	62	6	7,538	13,606
Reportable segment revenue	157,069	206,380	19,577	19,290	2,869	36,772	179,515	262,442
Depreciation and amortisation	(6,950)	(7,336)	(194)	(270)	(18)	(33)	(7,353)	(7,930)
Net finance costs	(934)	(1,425)	1	(2)	(2)	(13)	(935)	(1,440)
Reportable Segment profit/(loss) before income tax	3,243	9,864	829	1,705	142	5,212	4,214	16,781
Other material non cash items:								
Impairment on property, plant and equipment and intangible assets	-	-	-	-	-	-	-	-
Segment assets	77,325	80,661	14,781	13,797	4,735	11,803	96,841	106,261
Capital expenditure	3,197	2,310	158	62	-	-	3,355	2,364
Segment liabilities	(31,765)	(39,508)	(1,100)	(1,557)	(2,493)	(6,350)	(35,358)	(47,415)

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

<i>in thousands of AUD</i>	2014	2013
<b>Revenues</b>		
Total revenue for reportable segments	179,515	262,442
Elimination of inter-segment revenue	(7,538)	(13,606)
Consolidated revenue	171,977	248,836
<b>Profit or loss</b>		
Total profit or loss for reportable segments	4,214	16,781
Elimination of inter-segment profits	(191)	(14,063)
Unallocated amounts: other corporate expenses	(88)	13,790
Consolidated profit before income tax	3,935	16,508
<b>Assets</b>		
Total assets for reportable segments	96,841	106,261
Consolidated total assets	96,841	106,261
<b>Liabilities</b>		
Total liabilities for reportable segments	35,358	47,415
Unallocated amounts: corporate tax liability	823	(2,050)
Consolidated total liabilities	36,181	45,365

#### 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 2014 and 30 June 2013.

#### Major customers

The Group has three (2013: four) customers that individually represent in excess of 10% of Group revenues. The total revenue from these customers represents \$86,440 thousand (2013: \$172,154 thousand) of the Group's total revenues and is reported from the Underground Mining Services and the Electrical and Mechanical Services segments, contributing \$85,183 thousand (2013: \$141,119 thousand) and \$1,257 thousand (2013: \$31,035 thousand) respectively.

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 7 Revenue

<i>In thousands of AUD</i>	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
Contracting revenue	150,009	221,677
Sale of goods	18,468	17,819
Machinery hire	3,500	9,340
	<u>171,977</u>	<u>248,836</u>

### 8 Other income

<i>In thousands of AUD</i>	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
Administration income	222	731
Gain on sale of property, plant and equipment	35	14
	<u>257</u>	<u>745</u>

### 9 Other expenses

<i>In thousands of AUD</i>	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
Bad and doubtful debts	12	-
Loss on sale of property, plant and equipment	-	487
Business acquisition costs	-	51
Business Development Costs	22	45
Insurance	999	1,527
Shared Services fees	1	-
Impairment (gain)/loss on trade	-	107
	<u>1,034</u>	<u>2,217</u>

### 10 Personnel expenses

<i>In thousands of AUD</i>	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
Wages and salaries	108,647	146,825
Other associated personnel expenses	7,808	10,574
Contributions to defined contribution superannuation funds	6,635	7,961
Equity-settled share-based payment transactions	98	379
	<u>123,188</u>	<u>165,739</u>

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 11 Finance income and expense

#### Recognised in profit or loss

*In thousands of AUD*

#### Consolidated

2014 2013

Interest income	263	361
Finance income	263	361
Bank charges	(183)	(176)
Interest expenses	(21)	(220)
Finance lease interest	(995)	(1,405)
Finance expense	(1,199)	(1,801)
Net finance expense recognised in profit or loss	(936)	(1,440)

### 12 Income tax expense

*In thousands of AUD*

#### Consolidated

2014 2013

#### Current tax expense

Current period	874	3,125
Adjustment for prior periods	(357)	(171)
	517	2,954

#### Deferred tax expense

Origination and reversal of temporary differences	422	2,025
Adjustment for prior period	4	-
	426	2,025
Total income tax expense	943	4,979

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

*In thousands of AUD*

#### Consolidated

2014 2013

Profit excluding income tax	3,935	16,508
Income tax using the Group's statutory income tax rate of 30% (2013: 30%)	1,181	4,952
Non-deductible expenses difference	108	198
Tax incentives	(91)	-
Change in recognised temporary differences	98	-
Under/(over) provision of previous year	(353)	(171)
	943	4,979

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2014

**13 Property, plant and equipment**

*In thousands of AUD*

	Low value pool	Plant and equipment	Motor vehicles	Computer equipment	Capital WIP	Office furniture and equipment	Leasehold improvements	Total
<b>Cost or deemed cost</b>								
Balance at 1 July 2012	974	52,732	1,985	1,589	2,819	498	1,819	62,416
Additions	-	1,887	71	225	-	-	181	2,364
Disposals	-	(4,361)	(522)	-	-	(11)	-	(4,894)
Acquired through business combination	-	54	71	-	-	-	-	125
Transfers	(974)	3,624	-	163	(2,819)	6	-	-
Balance at 30 June 2013	-	53,936	1,605	1,977	-	493	2,000	60,011
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
<b>Depreciation and impairment losses</b>								
Balance at 1 July 2012	823	19,613	1,202	1,110	-	357	212	23,317
Depreciation for the year	-	6,354	200	268	-	64	511	7,397
Disposals	-	(3,068)	(385)	-	-	(10)	-	(3,463)
Transfers	(823)	823	-	-	-	-	-	-
Balance at 30 June 2013	-	23,722	1,017	1,378	-	411	723	27,251
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
<b>Carrying amounts</b>								
At 1 July 2012	151	33,119	783	479	2,819	141	1,607	39,099
At 30 June 2013	-	30,214	588	599	-	82	1,277	32,760
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

The Group leases equipment under a number of finance lease agreements. At 30 June 2014 the net carrying amount of leased property, plant and equipment was \$18,784 thousand (2013: \$21,960 thousand).

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 14 Intangible assets

*In thousands of AUD*

#### *Goodwill*

Cost (gross carrying amount)

Net carrying amount

**Consolidated**  
**2014**      **2013**

18,869      18,869

18,869      18,869

#### *Customer relationships*

Cost (gross carrying amount)

Accumulated amortisation and impairment

Net carrying amount

2,945      2,945

(2,772)      (2,501)

173      444

#### *Intellectual property (Registered Designs)*

Cost (gross carrying amount)

Accumulated amortisation and impairment

Net carrying amount

1,522      1,522

(922)      (795)

600      727

#### *Total intangible assets*

Cost (gross carrying amount)

Accumulated amortisation and impairment

Net carrying amount

23,336      23,336

(3,694)      (3,296)

19,642      20,040

### Reconciliation of carrying amount at beginning and end of the period

*In thousands of AUD*

#### *Goodwill*

Carrying amount - opening

Acquired in business combination

Carrying amount - closing

**Consolidated**  
**2014**      **2013**

18,869      18,268

-      601

18,869      18,869

#### *Customer relationships*

Carrying amount - opening

Acquired in business combination

Amortisation

Carrying amount - closing

444      567

-      276

(271)      (399)

173      444

#### *Intellectual property (Registered Designs)*

Carrying amount - opening

Amortisation

Carrying amount - closing

727      861

(127)      (134)

600      727

#### *Total intangible assets*

Carrying amount - opening

Acquired in business combination

Amortisation

Carrying amount - closing

20,040      19,696

-      877

(398)      (533)

19,642      20,040

Goodwill relates to the acquisitions of Mastermyne Engineering Pty Ltd, Mastermyne Services Pty Ltd, Mastermyne Underground 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 2014

### 14 Intangible assets (continued)

#### Amortisation and impairment charge

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

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

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

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

<i>In thousands of AUD</i>	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
Underground mining services	7,030	7,030
Engineering and fabrication	7,301	7,301
Electrical and mechanical services	4,538	4,538
	<b>18,869</b>	<b>18,869</b>

The recoverable amount of the cash-generating units was based on their value in use and was determined by reference to the discounted future cash flows generated from the continuing use of each unit for a period of 5 years with a terminal value calculated at the end of year five. For all cash generating units the value in use was determined to be greater than the carrying amount.

Value in use was determined by discounting the future cash flows generated from continuing use of the unit, based on past experience, actual operating results and the business plans and long-term strategy for the the relevant cash generating unit. The key assumptions for each cash generating unit were as follows:

	<b>FY2014 Assumptions</b>			<b>FY2013 Assumptions</b>		
	<b>Annual growth rate (FY2015-FY2019)</b>	<b>Terminal growth rate</b>	<b>Pre-tax discount rate</b>	<b>Annual growth rate (FY2014-FY2018)</b>	<b>Terminal growth rate</b>	<b>Pre-tax discount rate</b>
Underground mining services	5.0%	2.5%	16.0%	5.0%	2.5%	15.5%
Engineering and fabrication	3.0%	2.5%	16.9%	5.0%	2.5%	18.0%
Electrical and mechanical services	2.0%	2.5%	17.7%	20.0%	2.5%	18.6%

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 2014

### 15 Tax assets and liabilities

#### Current tax assets and liabilities

The current tax liability for the Group of \$10 thousand (2013: \$1,398 thousand) represents the amount of income taxes 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	
	2014	2013	2014	2013	2014	2013
<i>In thousands of AUD</i>						
Employee benefits	1,626	2,254	-	-	1,626	2,254
Property, plant and equipment	32	55	(1,845)	(1,514)	(1,813)	(1,459)
Intangible assets	-	98	(52)	(133)	(52)	(35)
Accruals	345	356	-	-	345	356
Capital raising and business acquisition costs	5	172	(31)	(29)	(26)	143
Unbilled revenue	-	-	(2,140)	(2,898)	(2,140)	(2,898)
Provisions	-	2	(3)	-	(3)	2
Tax assets/(liabilities)	2,008	2,937	(4,071)	(4,574)	(2,063)	(1,637)
Set off of tax	(2,008)	(2,937)	2,008	2,937	-	-
Net tax assets/(liabilities)	-	-	(2,063)	(1,637)	(2,063)	(1,637)

#### Movement in temporary differences during the year

#### Consolidated

	Balance 1 July 2012	Recognised in profit or loss	Acquired in business combinations	Balance 30 June 2013
<i>In thousands of AUD</i>				
Employee benefits	2,119	135	-	2,254
Property, plant and equipment	(799)	(660)	-	(1,459)
Intangible assets	(63)	111	(83)	(35)
Accruals	620	(264)	-	356
Capital raising and business acquisition costs	300	(157)	-	143
Unbilled revenue	(1,712)	(1,186)	-	(2,898)
Provisions	4	(2)	-	2
	469	(2,023)	(83)	(1,637)

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 15 Tax assets and liabilities (continued)

#### Movement in temporary differences during the year (continued)

##### Consolidated

	Balance 1 July 2013	Recognised in profit or loss	Acquired in business combinations	Balance 30 June 2014
<i>In thousands of AUD</i>				
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)
	<u>(1,637)</u>	<u>(426)</u>	<u>-</u>	<u>(2,063)</u>

### 16 Inventories

	Consolidated	
	2014	2013
<i>In thousands of AUD</i>		
Raw materials and consumables	1,060	1,281
Finished goods	<u>1,682</u>	<u>1,051</u>
	<u>2,742</u>	<u>2,332</u>

During the year ended 30 June 2014 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales within contract disbursements amounted to \$5,343 thousand (2013: \$8,032 thousand).

### 17 Trade and other receivables

	Consolidated	
	2014	2013
<i>In thousands of AUD</i>		
Trade receivables	26,550	28,856
Prepayments	2,650	1,344
Unbilled revenue	8,608	10,163
Other receivables	<u>109</u>	<u>543</u>
	<u>37,917</u>	<u>40,906</u>

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in note 25.

### 18 Cash and cash equivalents

	Consolidated	
	2014	2013
<i>In thousands of AUD</i>		
Bank balances	8,808	10,213
Cash on hand	<u>2</u>	<u>10</u>
Cash and cash equivalents in the statement of cash flows	<u>8,810</u>	<u>10,223</u>

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 25.

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 19 Capital and reserves

The share capital of Mastermyne Group Limited is as follows:

	Ordinary class shares	
	2014	2013
On issue at 1 July	75,367,514	75,367,514
Exercise of share options	150,000	-
On issue at 30 June – fully paid	<u>75,517,514</u>	<u>75,367,514</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 23).

#### 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 23).

##### 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 2014

### 19 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
<b>2014</b>				
2013 Ordinary - Ordinary Shares Final Dividend	\$ 0.036	2,713	Franked	16/10/2013
2014 Ordinary - Ordinary Shares Interim Dividend	\$ 0.010	755	Franked	03/04/2014
Total amount		<u>3,468</u>		
<b>2013</b>				
2012 Ordinary - Ordinary Shares Final Dividend	\$ 0.048	3,618	Franked	16/10/2012
2013 Ordinary - Ordinary Shares Interim Dividend	\$ 0.033	2,487	Franked	5/04/2013
Total amount		<u>6,105</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 26 September 2014 and the payment date will be 16 October 2014.

	Dollars per share	Total amount (In thousands of AUD)	Franked / unfranked	Date of payment
2014 Ordinary - Ordinary Shares Final Dividend	\$ 0.014	1,057	Franked	16/10/2014

#### Dividend franking account

In thousands of AUD

	Company	
	2014	2013
Thirty per cent franking credits available to shareholders of Mastermyne Group Limited for subsequent financial years	16,043	17,443

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 that will arise from the payment of the current tax liabilities;
- (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 \$452 thousand (2013: \$1,162 thousand)

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 20 Earnings per share

#### Basic earnings per share

The calculation of basic earnings per share at 30 June 2014 was based on the profit attributable to ordinary shareholders of \$2,963 thousand (2013: \$11,514 thousand) and a weighted average number of ordinary shares outstanding of 75,471 thousand (2013: 75,368 thousand), calculated as follows:

#### Profit attributable to ordinary shareholders

*In thousands of AUD*

Profit attributable to ordinary shareholders

Consolidated	
2014	2013
2,963	11,514

#### Weighted average number of ordinary shares

*In thousands of shares*

Issued ordinary shares at 1 July

Effect of share options exercised

Weighted average number of ordinary shares at 30 June

Consolidated	
2014	2013
75,368	75,368
103	-
<u>75,471</u>	<u>75,368</u>

#### Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2014 was based on the profit attributable to ordinary shareholders of \$2,963 thousand (2013: \$11,514 thousand) and a weighted average number of ordinary shares outstanding of 75,471 thousand (2013: 76,958 thousand), calculated as follows:

#### Profit attributable to ordinary shareholders (diluted)

*In thousands of AUD*

Profit attributable to ordinary shareholders

Consolidated	
2014	2013
2,963	11,514

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

*In thousands of shares*

Weighted average number of ordinary shares (basic)

Effect of share options on issue

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

Consolidated	
2014	2013
75,471	75,368
-	1,590
<u>75,471</u>	<u>76,958</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 2014

### 21 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 25.

*In thousands of AUD*

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
<b>Current liabilities</b>		
Insurance premium funding (unsecured)	-	146
Finance lease liabilities (secured)	5,102	6,586
	<u>5,102</u>	<u>6,732</u>
<b>Non-current liabilities</b>		
Finance lease liabilities (secured)	5,941	11,442
	<u>5,941</u>	<u>11,442</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.

#### Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

	<b>Consolidated</b>					
	<b>Future minimum lease payments 2014</b>	<b>Interest 2014</b>	<b>Present value of minimum lease payments 2014</b>	<b>Future minimum lease payments 2013</b>	<b>Interest 2013</b>	<b>Present value of minimum lease payments 2013</b>
<i>In thousands of AUD</i>						
Less than one year	5,549	(447)	5,102	7,660	(1,074)	6,586
Between one and five years	6,550	(610)	5,940	12,413	(971)	11,442
More than five years	-	-	-	-	-	-
	<u>12,099</u>	<u>(1,057)</u>	<u>11,042</u>	<u>20,073</u>	<u>(2,045)</u>	<u>18,028</u>

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 22 Employee benefits

*In thousands of AUD*

	Consolidated	
	2014	2013
<b>Current</b>		
Wages payable	1,382	1,343
Liability for annual leave	3,102	3,730
Liability for vesting sick leave	2,161	3,622
Liability for long service leave	10	67
	<u>6,655</u>	<u>8,762</u>
<b>Non-current</b>		
Liability for long service leave	145	120
	<u>145</u>	<u>120</u>

### 23 Share-based payment arrangements

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

At 30 June 2014 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	1,050	3 years' service and total shareholder return and growth in earnings per share over 3 years is in the 15th 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 2014

### 23 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

*Fair value of share options and assumptions*

	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

*Fair value of share options and assumptions*

	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 2014

### 24 Trade and other payables

*In thousands of AUD*

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
Trade payables	3,732	5,096
Sundry creditors and accruals	12,533	10,178
	<u>16,265</u>	<u>15,274</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

### 25 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:

		<b>Consolidated</b>	
	<b>Note</b>	<b>2014</b>	<b>2013</b>
Trade and other receivables	17	37,917	40,906
Cash and cash equivalents	18	8,810	10,223
		<u>46,727</u>	<u>51,129</u>

The Group has three (2013: three) significant customers each representing more than 10% of the carrying amount of trade receivables at 30 June 2014. The total of the receivables from these customers is \$13,538 thousand (2013: \$17,114 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 a AA-Rated Australian bank.

#### Impairment losses

The aging of the Group's trade receivables at the reporting date was:

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
Not Past Due	25,017	25,796
Past due 0-30 days	1,825	1,789
Past due 31-60 days	91	108
Past due 61-90 days	399	412
Greater than 90 days	251	1,772
	<u>27,583</u>	<u>29,877</u>

Impairment losses of \$1,033 thousand recognised at 30 June 2014 (2013: \$1,021 thousand).

Of the total impairment loss as at 30 June 2014, \$930 thousand relates to a customer that was placed into receivership during the year ended 30 June 2011.

Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables.

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 25 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 2014 was as follows:

<i>In thousands of AUD</i>	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
Balance at 1 July	(1,021)	(930)
Impairment loss recognised	(12)	(107)
Impairment allowance utilised	-	16
Balance at 30 June	<u>(1,033)</u>	<u>(1,021)</u>

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>	<b>2014</b>	<b>2013</b>
Four or more years trading history with the Group	21,042	26,747
Less than four years trading history with the Group	5,508	2,109
	<u>26,550</u>	<u>28,856</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 2014

<i>In thousands of AUD</i>	<b>Note</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 mths or less</b>	<b>6-12 mths</b>	<b>1-2 years</b>	<b>2-4 years</b>	<b>More than 4 years</b>
<b>Non-derivative financial liabilities</b>								
Finance lease liabilities	21	11,043	(12,099)	(3,110)	(2,439)	(3,936)	(2,614)	-
Trade and other payables	24	16,265	(16,265)	(16,265)	-	-	-	-
		<u>27,308</u>	<u>(28,364)</u>	<u>(19,375)</u>	<u>(2,439)</u>	<u>(3,936)</u>	<u>(2,614)</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 2014

### 25 Financial instruments (continued) Liquidity risk (continued)

**Consolidated**  
**30 June 2013**

*In thousands of AUD*

	<i>Note</i>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 mths or less</b>	<b>6-12 mths</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
<b>Non-derivative financial liabilities</b>								
Finance lease liabilities	21	18,028	(20,073)	(3,941)	(3,719)	(5,862)	(6,551)	-
Insurance premium funding	21	146	(146)	(146)	-	-	-	-
Trade and other payables	24	15,274	(15,274)	(15,274)	-	-	-	-
		<u>33,448</u>	<u>(35,493)</u>	<u>(19,361)</u>	<u>(3,719)</u>	<u>(5,862)</u>	<u>(6,551)</u>	<u>-</u>

### Interest rate risk

#### Profile

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

	<b>Consolidated Carrying amount</b>	
<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
<b>Fixed rate instruments</b>		
Financial liabilities & Insurance premium funding	<u>(11,043)</u>	<u>(18,174)</u>
	<u>(11,043)</u>	<u>(18,174)</u>
<b>Variable rate instruments</b>		
Financial assets	<u>8,810</u>	<u>10,223</u>
	<u>8,810</u>	<u>10,223</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 2014

### 25 Financial instruments (continued)

#### Sensitivity analysis for variable rate instruments

At 30 June 2014 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	
	2014	2013
<b>Change in profit</b>		
Increase in interest rate by 1%	88	102
Decrease in interest rate by 0.5%	(44)	(51)

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 balance sheet, are as follows:

Consolidated  
In thousands of AUD

	30 June 2014		30 June 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets Carried at Amortised Cost</b>				
Trade and other receivables	37,917	37,917	40,906	40,906
Cash and cash equivalents	8,810	8,810	10,223	10,223
	<u>46,727</u>	<u>46,727</u>	<u>51,129</u>	<u>51,129</u>
<b>Liabilities Carried at Amortised Cost</b>				
Finance lease liabilities	(11,043)	(11,351)	(18,028)	(18,370)
Commercial bill facility	-	-	-	-
Insurance premium funding	-	-	(146)	(146)
Trade and other payables	(16,265)	(16,265)	(15,274)	(15,274)
	<u>(27,308)</u>	<u>(27,616)</u>	<u>(33,448)</u>	<u>(33,790)</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:

	2014	2013
Finance Lease Liabilities	5.40%	5.96%

#### 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 2014

### 26 Operating leases

#### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

*In thousands of AUD*

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
Less than one year	1,408	1,597
Between one and five years	487	1,668
More than five years	-	-
	<b>1,895</b>	<b>3,265</b>

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 4 years.

The amount recognised in relation to operating lease payments for the year ended 30 June 2014 totalled \$1,608 thousand (2013: \$2,264 thousand) for the Group.

### 27 Capital and other commitments

#### Capital expenditure commitments

The Group did not have any capital expenditure commitments as at 30 June 2014 (2013: Nil).

### 28 Reconciliation of cash flows from operating activities

*In thousands of AUD*

	<b>Note</b>	<b>Consolidated</b>	
		<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>			
Profit for the period		2,992	11,529
<b>Adjustments for:</b>			
Depreciation	13	6,953	7,397
Amortisation of intangible assets	14	398	533
(Gain)/loss on sale of property, plant and equipment	8	(35)	473
Donations received of property, plant and equipment		-	(375)
Share based payments	10	98	379
Net finance expense	11	936	1,440
Income tax expense	12	943	4,979
<b>Operating profit before changes in working capital and provisions</b>		<b>12,285</b>	<b>26,355</b>
Change in trade and other receivables*	17	2,989	9,377
Change in inventories	16	(410)	(399)
Change in trade and other payables*	24	991	(12,691)
Change in provisions and employee benefits*	22	(2,082)	399
		<b>13,773</b>	<b>23,041</b>
Interest paid		(1,199)	(1,801)
Income taxes paid		(1,907)	(10,656)
<b>Net cash from operating activities</b>		<b>10,667</b>	<b>10,584</b>

\*After adjusting for changes due to business combinations

## Mastermyne Group Limited and its Controlled Entities

### Notes to the financial statements (continued) For the year ended 30 June 2014

#### 29 Related Parties

##### Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see note 10) are as follows:

	2014	2013
Short-term employee benefits	2,167,895	3,170,609
Other long term benefits	-	-
Post-employment benefits	177,042	305,473
Termination benefits	219,492	61,655
Share-based payments	98,444	384,286
	<u>2,662,873</u>	<u>3,922,023</u>

##### Individual directors and executives

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 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)	
		2014	2013	2014	2013
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	92,488	-	-
Andrew Watts - Two Dots Ltd	(iv)	39,850	46,545	-	3,985
		<u>665,082</u>	<u>670,665</u>	<u>-</u>	<u>3,985</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 rents 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 are at arm's length and are 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 2014

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#### Group entities

##### Parent and ultimate controlling party

Parent entity	Country of incorporation	Ownership interest	
		2014	2013
Mastermyne Group Limited	Australia	%	%
<b>Significant subsidiaries</b>			
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

31

#### 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

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 2014 is set out as follows.

#### Statement of financial position

As at 30 June 2014

In thousands of AUD

	2014	2013
<b>Assets</b>		
Cash and cash equivalents	8,457	10,110
Trade and other receivables	37,256	40,546
Inventories	2,742	2,332
Current tax assets	48	-
<b>Total current assets</b>	<b>48,503</b>	<b>52,988</b>
Investments in subsidiaries	723	723
Property, plant and equipment	27,636	32,629
Intangible assets	18,868	19,200
<b>Total non-current assets</b>	<b>47,227</b>	<b>52,552</b>
<b>Total assets</b>	<b>95,730</b>	<b>105,540</b>
<b>Liabilities</b>		
Trade and other payables	16,022	15,298
Loans and borrowings	5,102	6,732
Employee benefits	6,615	8,737
Current tax payable	-	1,390
<b>Total current liabilities</b>	<b>27,739</b>	<b>32,157</b>
Loans and borrowings	5,941	11,442
Employee benefits	145	120
Deferred tax liabilities	2,071	1,637
<b>Total non-current liabilities</b>	<b>8,157</b>	<b>13,199</b>
<b>Total liabilities</b>	<b>35,896</b>	<b>45,356</b>
<b>Net assets</b>	<b>59,834</b>	<b>60,184</b>
<b>Equity</b>		
Share capital	51,108	50,964
Reserves	(21,979)	(22,077)
Retained earnings	30,705	31,297
<b>Total Equity</b>	<b>59,834</b>	<b>60,184</b>



# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 31 Deed of Cross Guarantee (Continued)

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

*In thousands of AUD*

	2014	2013
Revenue	169,303	247,860
Other income	261	731
Contract disbursements	(29,921)	(48,990)
Personnel expenses	(121,152)	(165,170)
Office expenses	(5,420)	(6,405)
Depreciation and amortisation expense	(7,239)	(7,893)
Other expenses	(1,025)	(2,204)
<b>Results from operating activities</b>	<b>4,807</b>	<b>17,929</b>
Finance income	263	361
Finance expense	(1,197)	(1,798)
<b>Net finance expense</b>	<b>(934)</b>	<b>(1,437)</b>
<b>Profit before income tax</b>	<b>3,873</b>	<b>16,492</b>
Income tax expense	(924)	(4,974)
<b>Profit for the period</b>	<b>2,949</b>	<b>11,518</b>
Other comprehensive income for the period, net	-	-
<b>Total comprehensive income for the period</b>	<b>2,949</b>	<b>11,518</b>

### 32 Subsequent events

Subsequent to year-end the Directors declared a dividend of 1.4 cents per share as per the details set out in note 19.

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.

### 33 Auditors' remuneration

#### Audit services

Auditors of the Company

*KPMG Australia:*

Audit and review of financial reports

Consolidated (in AUD)	
2014	2013
171,750	182,003
171,750	182,003

#### Other services

Auditors of the Company

*KPMG Australia*

Taxation services

30,000	48,654
30,000	48,654

# Mastermyne Group Limited and its Controlled Entities

## Notes to the financial statements (continued)

For the year ended 30 June 2014

### 34 Parent Entity Disclosures

As at and throughout the financial year ending 30 June 2014 the parent company of the group was Mastermyne Group Limited.

<i>In thousands of AUD</i>	<b>Company</b>	
	<b>2014</b>	<b>2013</b>
<b>Results of the parent entity</b>		
Profit for the period	(61)	13,789
Other comprehensive income	-	-
Total comprehensive income for the period	(61)	13,789
Current assets	-	-
Total assets	55,244	58,531
Current liabilities	-	-
Total liabilities	-	-
<b>Total equity of the parent entity</b>		
Share Capital	51,108	50,964
Share-based payments reserve	2,258	2,160
Retained earnings	1,878	5,407
<b>Total Equity</b>	<b>55,244</b>	<b>58,531</b>

#### Parent Entity Contingencies

There were no parent entity contingencies required for the year ending 30 June 2014 (2013: Nil).

#### Parent Entity Capital Commitments

There were no parent entity capital commitments at 30 June 2014 (2013: Nil).

#### Parent Entity Capital Guarantees

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

## Mastermyne Group Limited and its Controlled Entities

### Directors' declaration

- 1 In the opinion of the directors of Mastermyne Group Limited (the "Company"):
  - (a) the consolidated financial statements and notes that are set out on pages 20 to 64 and the Remuneration report in section 5 in the Directors' report, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the group entities identified in Note 31 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC 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 2014.
- 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.



D. Hamblin  
Chairman

Dated at Mackay this 22nd day of August 2014.



## **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 2014, 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 34 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*.

### *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 2014 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**

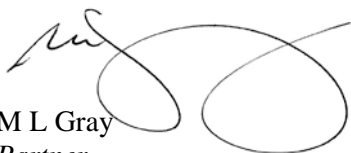
We have audited the Remuneration Report included in section 5 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility 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 2014, complies with Section 300A of the *Corporations Act 2001*.



KPMG



M L Gray  
*Partner*

Brisbane  
22 August 2014