Mastermyne Group Limited
and its Controlled Entities

ABN 96 142 490 579

Annual Report

30 June 2012

Mastermyne Group Limited and its Controlled Entities

Contents

Directors' report

For the year ended 30 June 2012

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 2012 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) - 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 boards in Australia, Europe and Canada. He has also been involved in waste recycling, manufacturing, the 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 Hon Life member Australian Institute of Management.

Peter was previously a non-executive director of Nomad Building Solutions Limited August 2006 to December 2010, Sunshine Gas Limited June 2007 - Dec 2010.

Special Responsibilities
Member of the Audit and Risk Management Committee
Chairman 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 17 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 Finance Director with 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 D. Hamblin (appointed 10 March 2010) - Bachelor of Engineering (Mechanical)
Non - executive Director

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

Special Responsibilities
Member of the Audit and Risk Management Committee
Member of the Remuneration and Nomination Committee

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 in 1996. Andrew was responsible for all aspects of Mastermyne's operations until the appointment of Tony Caruso as CEO in 2005. Andrew's current focus is on business development and acquisitions. Andrew relocated to Sydney in early 2010 to focus on the New South Wales market.

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

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

2 Company secretary

Mr 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 in Commerce, is a Certified Practicing Accountant and is a graduate of the Australian institute of Company Directors. Chris has been with the Group since March 2006 and has over 9 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	16	16	6	6	3	3
Mr D. Hamblin	16	16	6	6	3	3
Mr J. Wentworth	16	16	6	6	3	3
Mr A. Watts	16	15				
Mr A. Caruso	16	16				

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

4 Operating and financial review

Financial Overview

Profit for the year

The Group revenue increased 65% to $271.955 million in FY2012 (2011: $164.830 million), each division of the business increased revenues by more than 60%, with the most significant increase being $92.9 million from the Underground division. This is a direct result of increased work scopes on existing projects and the full year affect of the three new projects won in the previous period.

Net profit after tax for the year was $14.664 million (2011: $11.742 million), this includes additional tax expense of $1.124 million as a result of tax legislation enacted during the period reversing benefits recognised in prior periods. The increased profits are a direct result of the increased operating activity across all divisions in the Group.

Balance Sheet and Cash Flows

The cash position as at 30 June 2012 was $13.328 million (2011: $6.020 million). The $7.3 million increase in cash is a direct result of the increase in operating cash flows with total cash flow movements as follows:

- net cash inflows from operating activities for the year of $23.439 million (2011: net cash inflows of $9.393 million), this is a significant improvement on FY11 resulting from an improvement in debtor days;
- net cash outflows from investing activities for the year of $5.815 million (2011: net cash outflows of $2.725 million), primarily as a result of the capital expenditure during the period; and
- net cash outflows from financing activities for the year of $10.316 million (2011: net cash outflows of $9.366 million), primarily as a result of the Group repaying debt and paying dividends to shareholders.

The Group had $14.608 million of capital expenditure to the year ended 30 June 2012 (2011: $19.180 million). Total debt has increased by $1.349 million to $24.439 million at 30 June 2012 (2011: $23.090 million).

Operational Overview

2012 was nominated as a year to consolidate and strengthen the business in areas of key management, operating systems and safety performance. This was successfully achieved whilst at the same time the company was able to achieve significant top line organic growth. The FY2012 full year result follows the company's exceptionally strong performance in its first full year as a public company. The FY2012 result was led by Mastermyne's Underground Division but was well supported by a very strong performance from the Engineering Division. The Services Division delivered a turnaround to be profitable in the second half of the year and is well placed with a solid pipeline of contracted work for FY2013. Myne Start has seen the continued success of its training facilities with a second centre opened in Brisbane late in the financial year to service the ongoing demand for skills training.

The Company was very pleased with the safety performance for the 2012 financial year. The safety team has been instrumental in designing and implementing safety compliance systems commensurate with the growth in the organisation. Complementing the compliance requirement of safety management the group has focused on safety behaviour and development of a proactive and innovative safety culture with a high degree of ownership and accountability. During the year the business has significantly increased its exposure hours but at the same time improved the safety performance resulting in a 20% decrease in the Total Recordable Injury frequency Rate (TRIFR) from the previous corresponding period. This performance has again seen the company exceed industry benchmarks for underground coal safety performance.

Margins delivered in FY2012 were consistent with FY2011 and reflect continuing growth in contracting work as a percentage of overall revenues. The Company expects margins to be maintained at current levels for FY2013. The contract order book for the financial year was maintained with no erosion or runoff of the existing contracted work and 3 major projects were extended or renegotiated.

4 Operating and financial review (continued)

Operational Overview (continued)

The significant operational highlights for the financial year included:

- Top line organic growth was up by 65% from previous corresponding period
- Underlying profitability exceeded guidance.
- Employee numbers at 1088 for the full year up 32% from previous corresponding period
- All three operating divisions in the business performed above expectation
- Contract order book was maintained for the year with one contract extended and one renegotiated for a further 3 years
- $250 million Contracted Order book for FY2013.
- Highest rate of utilisation ever for the equipment fleet
- Second training facility opened in Brisbane

Financial Overview

Outlook

It is well documented that the coal sector has entered a sharp decline as a result of rising costs and declining coal prices. The FY2013 is expected to be a low growth environment with many coal mine operators focusing on cost efficiency across their operations. FY2013 will present Mastermyne the opportunity to improve its business particularly in the area of costs and skills as it focuses on executing the order book in hand during the year. The upcoming year is expected to be a breaking point for small to medium contractors which will present more opportunities for the Group when the market recovers. Mastermyne's current contracted order book is entirely linked to production at coking coal 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)
- Mr C. Kneipp, Financial Controller (appointed 20 March 2006)
- Mr D. Fitzpatrick, General Manager Engineering (appointed 10 August 2009)
- 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)
- Mr D. Sykes, General Manger Underground (appointed 24 April 2012)
- Mr K. Lonergan, General Manager Services (appointed 20 February 2012)
- Mr L. du Preez Business Development Manager (appointed 4 July 2011)

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

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

- the capability and experience of the key management personnel
- the key management personnel's ability to control the relevant segment/s' performance
- 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).

5.1 Principles of remuneration - audited (continued)

Fixed remuneration

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

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

Performance linked remuneration

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

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

Short-term incentive bonus

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

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

At the end of the financial year the RNC assess the actual performance of the Group, the relevant segment and individual against the KPI's set at the beginning of the financial year. Payment of individual bonuses is based on the assessment of the RNC with recommendations from the Managing Director (for employees other than the Managing Director) taking into consideration the overall performance of the individual for the period. The Managing Director's STI bonus is set by the 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.

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 period, 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 it's 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:

5.1 Principles of remuneration - audited (continued)

Long-term incentive (continued)

- 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. 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, 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.

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 Group exceeded its targets, with most segments meeting or exceeding budgeted results.

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.

	2012	2011	2010	2009	2008
Profit attributable to owners of the Company	$ 14,664,000	$ 11,742,000	$ 4,775,000	$ 6,149,000	$ 3,278,000
Dividends paid	$ 5,050,000	$ 2,636,000	$ 359,000	$ 474,380	$ 468,000
Change in share price	48%	42%	N/A	N/A	N/A
Return on capital employed	45.60%	34.99%	24.69%	41.37%	42.44%

Profit is considered as one of the financial performance targets in setting the STI. Profit amounts for 2008 to 2012 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 four years the Group's profit from ordinary activity after income tax has grown at a compound annual growth rate of 45.4% per cent. During the same period compound annual growth of key management personnel compensation was 39.89%. This is driven largely by an increase in the number of KMP from five to fourteen.

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.

5.1 Principles of remuneration - audited (continued)

Executive Service Agreements (continued)

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 was reviewed during the period and the termination provisions of that contract were extended to 9 months. The CEO/Managing Director’s contract has no fixed term.

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.

Services from remuneration consultants

The Remuneration and Nomination Committee engaged McDonald & Company Australasia (McDonald) as Remuneration consultant to the Board to review the amount and elements of the KMP remuneration and provide recommendations in relation thereto. In addition to the remuneration recommendations, McDonald provided the following other services to the company throughout the year:

- summarised the key terms and conditions of each KMP contract for services to enable the remuneration committee to assess whether terms and conditions are consistent across the different parts of the business; and
- advice in relation to the embodiment of risk in the assessment of performance for the vesting of remuneration awards

McDonald was paid $9,350 for the remuneration recommendations in respect of reviewing the amount and elements of the KMP remuneration.

McDonald was paid a total of $7,425 for all other services.

The engagement of McDonald by the Remuneration and Nomination Committee was based on a documented set of protocols that would be followed by McDonald, members of the Remuneration and Nomination Committee and members of the KMP for the way in which remuneration recommendations would be developed by McDonald and provided to the Board.

Protocols included the prohibition of McDonald providing advice or recommendations to KMP before the advice or recommendations was given to members of the Remuneration and Nomination Committee unless McDonald had approval to do so from the members of the Remuneration and Nomination Committee.

These arrangements were implemented to ensure that McDonald would be able to carry out its work, including information capture and the formation of its recommendations, free from undue influence by members of the KMP about whom the recommendations may relate.

The Board is satisfied that that the remuneration recommendations were made by McDonald free from undue influence by the members of the KMP about whom the recommendations may relate.

5.1 Principles of remuneration - audited (continued)

Services from remuneration consultants (continued)

The Board undertook its own inquiries and review of the processes and procedures followed by McDonald during the course of its assignment and it is satisfied that its remuneration recommendations were made free from undue influence.

These inquiries included arrangements under which McDonald was required to provide the board with a summary of the way in which it carried out its work, details of its interaction with KMP in relation the assignment and other services, and respond to questioning by members of the board after the completion of the assignment.

Directors' Fees

Remuneration of non-executive directors (NED) for the current period was based on comparative roles in the market place as at May 2011. A review of NED fees in May 2012 confirmed that the discrepancies noted in 2011 remained or had increased over the past year. On this basis the RNC made a recommendation to the Board to increase directors fees effective July 1, 2012. The Chairman's fee was increased from $90,000 per annum to $98,000 per annum inclusive of superannuation and any committee fees (The Chairman is chair of the RNC and a member of the Audit and Risk management Committee); the NED who is Chairman of the Audit and Risk Management committee received an increase of $7,000 per annum to $62,000 inclusive of Superannuation and any committee fees; the NED who serves on both committees received an increase of $2,000 to $55,000 per annum inclusive of superannuation and any committee fees.

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.

Remuneration of non-executive directors is a direct reflection of the demands and responsibilities of such a role and is benchmarked against similar roles in other publicly listed companies.

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:

2012	Short Term				Post-Employment		Share-based payments			
in AUD	Salary & Fees ($)	STI cash bonus ($)	Non-monetary benefits	Total ($)	Super-annuation Benefits ($)	Termination Benefits ($)	Rights ($)	Total ($)	Proportion of remuneration performance related (%)	Value of rights as a proportion of remuneration (%)
Non -executive directors										
Mr P Slaughter	84,157	-	-	84,157	7,574	-	-	91,731	0.00%	0.00%
Mr D Hamblin	48,624	-	-	48,624	4,376	-	-	53,000	0.00%	0.00%
Mr J Wentworth	56,352	-	-	56,352	-	-	-	56,352	0.00%	0.00%
Executive Directors										
Mr A Watts	178,394	-	-	178,394	16,053	-	-	194,447	0.00%	0.00%
Mr A Caruso	343,670	107,100	15,000	465,770	40,396	-	212,665	718,831	44.48%	29.58%
Executives										
Mr A Purse	231,565	52,910	15,000	299,475	19,640	-	34,847	353,962	24.79%	9.84%
Mr D Fitzpatrick	204,248	240,562	-	444,810	14,043	-	13,939	472,792	53.83%	2.95%
Mr C Kneipp	190,151	27,281	15,000	232,432	19,797	-	34,847	287,076	21.64%	12.14%
Ms V Gayton	187,425	78,905	-	266,330	18,470	-	20,908	305,708	0.00%	0.00%
Mrs B Jooste	175,486	75,860	15,000	266,346	15,794	-	18,910	301,050	0.00%	0.00%
MR J Stuart-Robertson	147,273	50,751	7,110	205,134	13,024	-	42,183	260,341	35.70%	16.20%
Mr D Sykes	65,709	20,482	-	86,191	5,683	-	17,138	109,012	34.51%	15.72%
Mr K Lonergan	74,026	26,912	-	100,938	6,536	-	20,444	127,918	37.02%	15.98%
Mr L duPreez	226,954	48,418	15,000	290,372	19,225	-	35,843	345,440	24.39%	10.38%
Totals	**2,214,034**	**729,181**	**82,110**	**3,025,325**	**200,611**	**-**	**451,724**	**3,677,660**		

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

- Mr L duPreez was appointed as Business Development Manager on 4 July 2011
- Mr D Sykes was appointed as General Manager Underground on 24 April 2012
- Mr K Lonergan was appointed as General Manager Services on 20 February 2012
- Mr J Stuart-Robertson was appointed as Chief Operating Officer on 9 January 2012

- The short term incentive bonus is for performance during the respective financial year. The amount was finally determined on 31 July 2012 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.

5.2 Directors' and executive officers' remuneration - audited (continued)
Notes in relation to the 2011 tables of directors' and executive officers' remuneration (continued)

2011					Post-Employment		Share-based payments			
in AUD	Salary & Fees ($)	STI cash bonus ($)	Non-monetary benefits	Total	Super-annuation Benefits ($)	Termination Benefits ($)	Rights ($)	Total ($)	Proportion of remuneration performance related (%)	Value of rights as a proportion of remuneration (%)
Non -executive directors										
Mr P Slaughter	82,428	-	-	82,428	7,418	-	-	89,846	0.00%	0.00%
Mr D Hamblin	48,624	-	-	48,624	4,376	-	-	53,000	0.00%	0.00%
Mr I Hall	42,437	-	-	42,437	3,819	-	-	46,256	0.00%	0.00%
Mr J Wentworth	13,749	-	-	13,749	-	-	-	13,749	0.00%	0.00%
Executive Directors										
Mr A Watts	175,271	-	-	175,271	15,750	-	-	191,021	0.00%	0.00%
Mr A Caruso	319,680	121,439	15,000	456,119	27,395	-	127,250	610,764	40.72%	20.83%
Executives										
Mr A Purse	231,565	85,353	15,000	331,918	19,640	-	-	351,558	24.28%	0.00%
Mr D Fitzpatrick	206,123	-	15,000	221,123	14,043	-	-	235,166	0.00%	0.00%
Mr C Kneipp	163,813	32,932	15,000	211,745	14,503	-	-	226,248	14.56%	0.00%
Ms V Gayton	128,517	-	-	128,517	11,482	-	-	139,999	0.00%	0.00%
Mrs B Jooste	6,169	-	658	6,827	555	-	-	7,382	0.00%	0.00%
Mr T Zahra *	411,745	-	15,000	426,745	20,369	-	-	447,114	0.00%	0.00%
Mr G Pilkington *	204,303	-	-	204,303	11,864	-	-	216,167	0.00%	0.00%
Mr J Hayward	71,328	-	-	71,328	5,959	-	-	77,287	0.00%	0.00%
Totals	**2,105,752**	**239,724**	**75,658**	**2,421,134**	**157,173**	**-**	**127,250**	**2,705,557**		

* Included in the top five remunerated employees for the year but not included in Key Management Personnel disclosures

Notes in relation to the 2011 tables of directors' and executive officers' remuneration - audited

• Mr I Hall resigned as a director on 30 March 2011
• Mr J Wentworth was appointed as a director on 30 March 2011
• Mr J Hayward resigned as Business Development Manager on 23 October 2010
• Ms V Gayton was appointed as Group Human Resources Manager on 11 August 2010
• Mrs B Jooste was appointed as Group Executive Safety Manager on 14 June 2011

• The short term incentive bonus is for performance during the respective financial year. The amount was finally determined on 3 August 2011 after performance review 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.

5.3 Analysis of bonuses included in remuneration - audited

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

	Included in remuneration $ (A)	% vested in year	% forfeited in year (B)
Directors			
Mr A. Caruso	107,100	59.5%	40.5%
Executives			
Mr A. Purse	52,910	37.0%	63.0%
Mr D. Fitzpatrick	240,562	100.0%	0.0%
Mr C. Kneipp	27,281	62.0%	38.0%
Ms V. Gayton	78,905	75.0%	25.0%
Mrs B. Jooste	75,860	72.5%	27.5%
Mr J. Stuart-Robertson	50,751	45.0%	55.0%
Mr D. Sykes	20,482	42.0%	58.0%
Mr K. Lonergan	26,912	57.0%	43.0%
Mr L. duPreeez	48,418	35.5%	64.5%

(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 2012 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

Details of rights exchangeable for ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on rights that vested during the reporting period are as follows:

	Number of rights granted during 2012	Grant date	Fair value per right at grant date ($)	Exercise price per right ($)	Expiry date	Number of rights vested during 2012
Executives						
Mr A. Purse	18,750	08/08/2011	0.19	1.49	30 June 2013	18,750
Mr A. Purse	18,750	08/08/2011	0.23	1.49	30 June 2014	
Mr A. Purse	87,500	08/08/2011	0.28	1.49	30 June 2015	
Mr A. Purse	18,750	08/08/2011	0.36	1.12	30 June 2013	18,750
Mr A. Purse	18,750	08/08/2011	0.39	1.12	30 June 2014	
Mr A. Purse	87,500	08/08/2011	0.41	1.12	30 June 2015	
Mr D. Fitzpatrick	7,500	08/08/2011	0.19	1.49	30 June 2013	7,500
Mr D. Fitzpatrick	7,500	08/08/2011	0.23	1.49	30 June 2014	
Mr D. Fitzpatrick	35,000	08/08/2011	0.28	1.49	30 June 2015	
Mr D. Fitzpatrick	7,500	08/08/2011	0.36	1.12	30 June 2013	7,500
Mr D. Fitzpatrick	7,500	08/08/2011	0.39	1.12	30 June 2014	
Mr D. Fitzpatrick	35,000	08/08/2011	0.41	1.12	30 June 2015	
Mr C. Kneipp	18,750	08/08/2011	0.19	1.49	30 June 2013	18,750
Mr	18,750	08/08/2011	0.23	1.49	30 June 2014	
Mr	87,500	08/08/2011	0.28	1.49	30 June 2015	
Mr	18,750	08/08/2011	0.36	1.12	30 June 2013	18,750
Mr	18,750	08/08/2011	0.39	1.12	30 June 2014	
Mr	87,500	08/08/2011	0.41	1.12	30 June 2015	
Ms V. Gayton	11,250	08/08/2011	0.19	1.49	30 June 2013	11,250
Ms V. Gayton	11,250	08/08/2011	0.23	1.49	30 June 2014	
Ms V. Gayton	52,500	08/08/2011	0.28	1.49	30 June 2015	
Ms V. Gayton	11,250	08/08/2011	0.36	1.12	30 June 2013	11,250
Ms V. Gayton	11,250	08/08/2011	0.39	1.12	30 June 2014	
Ms V. Gayton	52,500	08/08/2011	0.41	1.12	30 June 2015	
Mrs B. Jooste	5,250	08/08/2011	0.19	1.49	30 June 2013	5,250
Mrs B. Jooste	11,250	08/08/2011	0.23	1.49	30 June 2014	
Mrs B. Jooste	58,500	08/08/2011	0.28	1.49	30 June 2015	
Mrs B. Jooste	5,250	08/08/2011	0.36	1.12	30 June 2013	5,250
Mrs B. Jooste	11,250	08/08/2011	0.39	1.12	30 June 2014	
Mrs B. Jooste	58,500	08/08/2011	0.41	1.12	30 June 2015	
MR J. Stuart-Robertson	18,750	31/01/2012	0.38	1.49	30 June 2013	18,750
MR J. Stuart-Robertson	18,750	31/01/2012	0.41	1.49	30 June 2014	
MR J. Stuart-Robertson	87,500	31/01/2012	0.46	1.49	30 June 2015	
MR J. Stuart-Robertson	18,750	31/01/2012	0.67	1.12	30 June 2013	18,750
MR J. Stuart-Robertson	18,750	31/01/2012	0.66	1.12	30 June 2014	
MR J. Stuart-Robertson	87,500	31/01/2012	0.64	1.12	30 June 2015	
Mr D. Sykes	18,750	01/06/2012	0.18	1.49	30 June 2013	18,750
Mr D. Sykes	18,750	01/06/2012	0.33	1.49	30 June 2014	
Mr D. Sykes	87,500	01/06/2012	0.38	1.49	30 June 2015	

5.4.1 Rights over equity instruments granted as compensation - audited (continued)

	Number of rights granted during 2012	Grant date	Fair value per right at grant date ($)	Exercise price per right ($)	Expiry date	Number of rights vested during 2012
Mr D. Sykes	18,750	01/06/2012	0.48	1.12	30 June 2013	18,750
Mr D. Sykes	18,750	01/06/2012	0.57	1.12	30 June 2014	
Mr D. Sykes	87,500	01/06/2012	0.61	1.12	30 June 2015	
Mr K. Lonergan	18,750	28/03/2012	0.62	1.49	30 June 2014	
Mr K. Lonergan	56,250	28/03/2012	0.70	1.49	30 June 2015	
Mr K. Lonergan	18,750	28/03/2012	0.93	1.12	30 June 2014	
Mr K. Lonergan	56,250	28/03/2012	0.94	1.12	30 June 2015	
Mr L. duPreez	18,750	08/08/2011	0.19	1.49	30 June 2013	18,750
Mr L. duPreez	31,250	08/08/2011	0.23	1.49	30 June 2014	
Mr L. duPreez	75,000	08/08/2011	0.28	1.49	30 June 2015	
Mr L. duPreez	18,750	08/08/2011	0.36	1.12	30 June 2013	18,750
Mr L. duPreez	31,250	08/08/2011	0.39	1.12	30 June 2014	
Mr L. duPreez	75,000	08/08/2011	0.41	1.12	30 June 2015	

No rights have been granted since the end of the financial year. The rights were provided at no cost to the recipients.

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 there were no shares issued on the exercise of rights previously granted as compensation:

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

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

	Number of rights granted during 2012	Grant date	% vested in year	% forfeited in year	Financial year in which grant vests
Executives					
Mr A. Caruso	105,000	23/11/2010	100%	0%	2012
Mr	630,000	23/11/2010	0%	0%	2013
Mr	45,000	23/11/2010	100%	0%	2012
Mr	270,000	23/11/2010	0%	0%	2013
Mr A. Purse	18,750	08/08/2011	100%	0%	2012
Mr A. Purse	18,750	08/08/2011	0%	0%	2013
Mr A. Purse	87,500	08/08/2011	0%	0%	2014
Mr A. Purse	18,750	08/08/2011	100%	0%	2012
Mr A. Purse	18,750	08/08/2011	0%	0%	2013
Mr A. Purse	87,500	08/08/2011	0%	0%	2014
Mr D. Fitzpatrick	7,500	08/08/2011	100%	0%	2012
Mr D. Fitzpatrick	7,500	08/08/2011	0%	0%	2013
Mr D. Fitzpatrick	35,000	08/08/2011	0%	0%	2014
Mr D. Fitzpatrick	7,500	08/08/2011	100%	0%	2012
Mr D. Fitzpatrick	7,500	08/08/2011	0%	0%	2013
Mr D. Fitzpatrick	35,000	08/08/2011	0%	0%	2014
Mr C. Kneipp	18,750	08/08/2011	100%	0%	2012
Mr	18,750	08/08/2011	0%	0%	2013
Mr	87,500	08/08/2011	0%	0%	2014
Mr	18,750	08/08/2011	100%	0%	2012
Mr	18,750	08/08/2011	0%	0%	2013
Mr	87,500	08/08/2011	0%	0%	2014
Ms V. Gayton	11,250	08/08/2011	100%	0%	2012
Ms V. Gayton	11,250	08/08/2011	0%	0%	2013
Ms V. Gayton	52,500	08/08/2011	0%	0%	2014
Ms V. Gayton	11,250	08/08/2011	100%	0%	2012
Ms V. Gayton	11,250	08/08/2011	0%	0%	2013
Ms V. Gayton	52,500	08/08/2011	0%	0%	2014
Mrs B. Jooste	5,250	08/08/2011	100%	0%	2012
Mrs B. Jooste	11,250	08/08/2011	0%	0%	2013
Mrs B. Jooste	58,500	08/08/2011	0%	0%	2014
Mrs B. Jooste	5,250	08/08/2011	100%	0%	2012
Mrs B. Jooste	11,250	08/08/2011	0%	0%	2013
Mrs B. Jooste	58,500	08/08/2011	0%	0%	2014
MR J. Stuart-Robertson	18,750	31/01/2012	100%	0%	2012
MR J. Stuart-Robertson	18,750	31/01/2012	0%	0%	2013
MR J. Stuart-Robertson	87,500	31/01/2012	0%	0%	2014
MR J. Stuart-Robertson	18,750	31/01/2012	100%	0%	2012
MR J. Stuart-Robertson	18,750	31/01/2012	0%	0%	2013
MR J. Stuart-Robertson	87,500	31/01/2012	0%	0%	2014

5.4.4 Analysis of rights over equity instruments granted as compensation - audited (continued)

	Number of rights granted during 2012	Grant date	% vested in year	% forfeited in year	Financial year in which grant vests
Mr D. Sykes	18,750	01/06/2012	100%	0%	2012
Mr D. Sykes	18,750	01/06/2012	0%	0%	2013
Mr D. Sykes	87,500	01/06/2012	0%	0%	2014
Mr D. Sykes	18,750	01/06/2012	100%	0%	2012
Mr D. Sykes	18,750	01/06/2012	0%	0%	2013
Mr D. Sykes	87,500	01/06/2012	0%	0%	2014
Mr K. Lonergan	18,750	28/03/2012	0%	0%	2013
Mr K. Lonergan	56,250	28/03/2012	0%	0%	2014
Mr K. Lonergan	18,750	28/03/2012	0%	0%	2013
Mr K. Lonergan	56,250	28/03/2012	0%	0%	2014
Mr L. duPreez	18,750	08/08/2011	100%	0%	2012
Mr L. duPreez	31,250	08/08/2011	0%	0%	2013
Mr L. duPreez	75,000	08/08/2011	0%	0%	2014
Mr L. duPreez	18,750	08/08/2011	100%	0%	2012
Mr L. duPreez	31,250	08/08/2011	0%	0%	2013
Mr L. duPreez	75,000	08/08/2011	0%	0%	2014

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 and each of the five named Group executives is detailed below.

	Granted in year $ (A)	Value of rights exercised in year $ (B)	Lapsed in Year $(C)
Executives			
Mr A. Purse	82,313	-	-
Mr D. Fitzpatrick	32,925	-	-
Mr C. Kneipp	82,313	-	-
Ms V. Gayton	49,388	-	-
Mrs B. Jooste	50,228	-	-
MR J. Stuart-Robertson	136,000	-	-
Mr D. Sykes	115,875	-	-
Mr K. Lonergan	121,313	-	-
Mr L. duPreez	81,438	-	-

(A) The value of rights granted in the year is the fair value of the rights calculated at grant date using a binomial option 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.

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 2012.

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 ($)	Franked/ unfranked	Date of payment
Declared and paid during the year 2012				
2011 Ordinary - Ordinary Shares Final Dividend	0.04	2,789	Franked	13/10/2011
2012 Ordinary - Ordinary Shares Interim Dividend	0.03	2,261	Franked	19/04/2012
Total amount		**5,050**		

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

After Balance sheet date a dividend of 4.8 cents per share was declared with a record date of 28 September 2012, and payment date of 16 October 2012.

9 Events subsequent to reporting date

Subsequent to year-end the directors declared a dividend of 4.8 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.

10 Likely developments

It is well documented that the coal sector has entered a sharp decline as a result of rising costs and declining coal prices. The FY2013 is expected to be a low growth environment with many coal mine operators focusing on cost efficiency across their operations. FY2013 will present Mastermyne the opportunity to improve its business particularly in the area of costs and skills as it focuses on executing the order book in hand during the year. The upcoming year is expected to be a breaking point for small to medium contractors which will present more opportunities for the Group when the market recovers. Mastermyne's current contracted order book is entirely linked to production at coking coal operations.

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 over ordinary shares**
Mr P. Slaughter	85,000	-
Mr J. Wentworth	-	-
Mr D. Hamblin	9,655,658	-
Mr A. Watts	14,005,428	-
Mr A. Caruso	1,173,001	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 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.

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:

	Consolidated	
In AUD	**2012**	**2011**
Audit services:		
Auditors of the Company		
Audit and review of financial reports (KPMG Australia)	203,367	181,624
	203,367	181,624
Services other than statutory audit:		
Other services		
Taxation compliance services (KPMG Australia)	48,624	40,997
Risk Management Services	22,000	56,000
	70,624	96,997

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 28 and forms part of the Directors' report for financial year ended 30 June 2012.

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:

P. Slaughter
Chairman

Dated at Mackay this 23rd day of August 2012.

Corporate Governance Statement

For the year ended 30 June 2012

The Company and its Board of Directors are committed to fulfilling their corporate governance obligations and responsibilities in the best interests of the Company and its various stakeholders.

The ASX Listing Rules require listed companies to provide a statement in their Annual Report disclosing the extent to which they have followed the ASX Corporate Governance Principles and Recommendations adopted by the ASX Corporate Governance Council ("Recommendations") in the reporting period. These Recommendations are guidelines, designed to improve the efficiency, quality and integrity of the Company. The Recommendations are not prescriptive, but if a company considers that a recommendation should not be followed having regard to its own circumstances, the company has the flexibility not to follow it but in its Annual Report it must identify which Recommendations have not been followed and give reasons for not following them.

This Corporate Governance Statement ("Statement") and the Company's suite of corporate governance documents referred to in the Statement, and other relevant information for stakeholders, are displayed on the Company's website www.mastermyne.com.au. The Company has complied with the Recommendations, to the extent outlined in this Statement, throughout the year or as otherwise noted.

1.1 Scope of Responsibility of Board

Responsibility for the Company's proper corporate governance rests with the Board. The Board's guiding principle in meeting this responsibility is to act honestly, conscientiously and fairly, in accordance with the law, in the interests of Mastermyne Group's Shareholders (with a view to building sustainable value for the Shareholders) and those of employees and other stakeholders.

The Board's broad function is to:

- chart strategy and set financial targets for the Company;
- monitor the implementation and execution of strategy and performance against financial and non-financial targets; and
- appoint and oversee the performance of executive management and generally to take and fulfil an effective leadership role.

Power and authority in certain areas is specifically reserved to the Board – consistent with its function as outlined above. These areas include:

- composition of the Board itself including the appointment and removal of Directors;
- oversight of the Company including its control and accountability system;
- appointment and removal of senior management including the Managing Director, Chief Financial Officer and Company Secretary;
- reviewing and overseeing systems of risk management and internal compliance and control, codes of ethics and conduct, and legal and statutory compliances;
- monitoring senior management's performance and implementation of strategy; and
- approving and monitoring financial and other reporting and the operation of committees.

The Board has delegated functions, responsibilities and authorities to the Managing Director and senior executives to enable them to effectively manage the Company's day-to-day activities.

1.2 Composition of Board

The Board performs its roles and function, consistent with the above statement of its overall corporate governance responsibility, in accordance with the following principles:

- the Board should comprise at least three Directors with a maximum of ten Directors;
- a majority of the Directors must be non-executive Directors;
- at least two of the Board must be independent; and
- the Chairman of the Board must be independent and a non-executive Director.

1.2 Composition of Board (continued)

In line with these principles the Board currently comprises five Directors as follows

- Peter Slaughter – Independent non-executive Chairman
- James Wentworth – Independent non-executive Director
- Darren Hamblin – Non-executive Director
- Tony Caruso – Managing Director
- Andrew Watts – Executive Director

Details of each Director's qualifications, experience and expertise, their involvement in Board and committee meetings, and the period for which they have been in office, are set out in the Directors' Report.

1.3 Board Charter

The Board has adopted a Board Charter to give formal recognition to the matters outlined above. This Charter sets out various other matters that are important for effective corporate governance including the following:

- a detailed definition of "independence" for the purposes of appointment of Directors;
- a framework for annual performance review and evaluation;
- approval of criteria for monitoring and evaluating the performance of senior executives;
- approving and monitoring capital management and major capital expenditure;
- frequency of Board meetings;
- ethical standards and values – ensuring compliance with the Company's governing documents and Codes of Conduct;
- risk management – identifying risks, reviewing and ratifying the Company's systems of internal compliance and control;
- establishment of Board committees: Audit & Risk Management Committee, Remuneration & Nomination Committee; and
- communications with Shareholders and the market.

These initiatives, together with other matters provided for in the Board Charter, are designed to promote good corporate governance and generally build a culture of best practice in Mastermyne Group's own internal practices and in its dealings with others.

1.4 Audit & Risk Management Committee

The Company has established this committee to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. The committee comprises the following members:

- James Wentworth (Chair)
- Peter Slaughter
- Darren Hamblin

The committee performs a variety of functions relevant to risk management and internal and external reporting and reports to the Board following each meeting. Among other matters for which the committee is responsible are the following:

- qualifications of committee members;
- review and approve and update internal audit and external audit plans;
- review and approve financial reports or financial information, including such information as is to be distributed externally;
- review the effectiveness of the compliance function;
- investigate any matter brought to its attention;

1.4 Audit & Risk Management Committee (continued)

- obtain outside accounting, legal, compliance, risk management or other professional advice as it determines necessary to carry out its duties;
- review and approve accounting policies;
- report to the Board and make recommendations to the Board;
- periodically meet separately with management, internal auditors and external auditors to discuss:
    - the adequacy and effectiveness of the accounting and financial controls, including the Company's policies and procedures to assess, monitor, and manage business risk, and legal and ethical compliance programs;
    - issues and concerns warranting audit and risk management committee attention, including but not limited to their assessments of the effectiveness of internal controls and the process for improvement;
- corporate risk assessment and compliance with internal controls;
- assessment of the internal audit function and financial management processes supporting external reporting;
- review of the effectiveness of the external audit function;
- review of the performance and independence of the external auditors and make suggestions to the Board;
- review any significant legal matters and corporate legal reports;
- review areas of greatest compliance risk;
- review and discuss media releases, ASX announcements and any other information provided to analysts;
- assess the adequacy of external reporting for the needs of Shareholders; and
- monitor compliance with the Company's Codes of Conduct, risk management policies and compliance function.

Meetings are held often enough to undertake the Audit & Risk Management Committee's role effectively, being at least four times each year. The committee may invite such other persons to its meetings as it deems necessary.

1.5 Remuneration & Nomination Committee

The purpose of this committee is to assist the Board and make recommendations to it in relation to the appointment of new Directors (both executive and non-executive) and senior executives and to oversee the remuneration framework for Directors and senior executives. The Board does not consider separate committees to cover these matters are warranted at this stage of the Company's evolution. The committee comprises the following members:

- Peter Slaughter (Chair)
- James Wentworth
- Darren Hamblin

Functions performed by the committee include the following:

- obtaining independent advice and making recommendations in relation to remuneration packages of senior executives, non-executive Directors and executive Directors, equity-based incentive plans and other employee benefit programs;
- reviewing the Company's recruitment, retention and termination policies;
- reviewing the Company's superannuation arrangements;
- reviewing succession plans of senior executives and executive Directors;
- recommending individuals for nomination as members of the Board and its committees;
- ensuring the performance of senior executives and members of the Board are reviewed at least annually;
- considering those aspects of the Company's remuneration policies and packages, including equity-based incentives, which should be subject to shareholder approval;
- monitoring the size and composition of the Board;

1.5 Remuneration & Nomination Committee (continued)

- development of suitable criteria (with regard to skills, qualifications and experience) for Board candidates, whose personal attributes should encompass relevant industry experience and/or sound commercial or financial background;
- identification and consideration of possible candidates, and recommendation to the Board accordingly;
- establishment of procedures, and recommendations to the Chairman, for the proper oversight of the Board and management; and
- ensuring the performance of each Director and of senior management, is reviewed and assessed each year in accordance with procedures adopted by the Board.

The Remuneration & Nomination Committee will meet as often as necessary, but must meet at least twice a year.

1.6 Good Corporate Governance Commitment

The Company is committed to achieving and maintaining the highest standards of conduct and has undertaken various initiatives, as outlined in this Statement that are designed to achieve this objective. Mastermyne Group's suite of corporate governance documents is intended to develop good corporate governance and, generally, to build a culture of best practice both in Mastermyne Group's own internal practices and in its dealings with others.

The following are a tangible demonstration of Mastermyne Group's corporate governance commitment.

Independent Professional Advice

With the prior approval of the Chairman, which may not be unreasonably withheld or delayed, each Director has the right to seek independent legal and other professional advice concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors. Any costs incurred are borne by Mastermyne Group.

Code of Conduct

Mastermyne Group has developed and adopted detailed Codes of Conduct to guide Directors, Senior Executives and employees in the performance of their duties.

Securities Trading Policy

Mastermyne Group has developed and adopted a formal Securities Trading Policy to regulate dealings in securities by Directors, key management personnel and other employees, and their associates. This is designed to ensure fair and transparent trading in accordance with both the law and best practice.

The policy includes restrictions and clearance procedures in relation to when trading can and cannot occur during stated 'closed' and 'prohibited' periods and whilst in possession of price sensitive information. Otherwise, those persons may generally deal in securities during stated 'trading windows'.

The Board will ensure that restrictions on dealings in securities are strictly enforced.

1.7 Compliance with the ASX Corporate Governance Council Recommendations

The Board has assessed the Company's current practices against the Recommendations and outlines its assessment below:

1.7 Compliance with the ASX Corporate Governance Council Recommendations (continued)

Principle 1 – Lay solid foundations for management and oversight

The role of the Board and delegation to management have been formalised as described in this Statement and the Board Charter, and will continue to be refined, in accordance with the Recommendations, in light of practical experience gained in operating as a listed company.

Directors are provided with a letter on appointment which details the terms and conditions of their appointment, provides clear guidance on what input is required by them, and includes materials to assist with induction into the Company.

The process for evaluating the performance of senior executives is covered in the Remuneration & Nomination Committee Charter and has taken place in accordance with that process. Mastermyne Group complies with the Recommendations in this area.

Principle 2 – Structure the board to add value

The Board currently consists of five directors, including two executive Directors. Profiles of each Director, outlining their appointment dates, qualifications, directorships of other listed companies (including those held at any time in the 3 years immediately before the end of the financial year), experience and expertise, are set out in the Directors' Report.

Two Directors, being the Chairman, Mr Peter Slaughter, and Mr James Wentworth, are independent (in terms of the criteria detailed in the Recommendations), giving the Board the benefit of independent and unfettered judgment. The other three Directors, comprising the two founders and the Managing Director, are not independent; one of the founders is a non-executive Director.

The Board considers that a five person board is appropriate for a company with the size and growth profile of Mastermyne Group. It believes the skills and industry knowledge of the three non-independent Directors is beneficial in growing the Company and to assist with maintaining its current culture and focus. The Board further considers that to add additional independent directors at this time would increase the Board's size beyond an efficient working level. However, the Board may seek to add additional independent directors in the future and/or replace an existing non-independent Director.

There are procedures in place to allow Directors to seek, at Mastermyne Group's expense, independent advice concerning any aspect of Mastermyne Group's operations.

A Remuneration & Nomination Committee has been established with its own charter, as detailed above.

The Board is committed to a performance evaluation process, and its inaugural self-assessment evaluation was undertaken during this year.

Principle 3 – Promote ethical and responsible decision making

The Board has adopted detailed Codes of Conduct to guide Directors, executives and employees in the performance of their duties

The codes have been designed with a view to ensuring the highest ethical and professional standards, as well as compliance with legal obligations, and therefore compliance with the Recommendations.

The Company recognises the benefits that can arise to the organisation from diversity in the workplace covering gender, age, ethnicity and cultural background and in various other areas. So, the Board has approved a Diversity Policy which details the Company's approach to promoting a corporate culture that embraces diversity when selecting and appointing its employees and Directors.

This policy outlines measurable objectives for achieving gender diversity throughout the Company over the longer term, and progress towards achieving them has been assessed as follows:

- 6% of the organisation's employees are women
- 29% of senior executives are women
- 8 women are working in non-traditional roles

1.7 Compliance with the ASX Corporate Governance Council Recommendations (continued)

Principle 3 – Promote ethical and responsible decision making (continued)

- equal pay has been achieved in all positions regardless of gender
- flexible working arrangements to facilitate family needs are available to all employees
- women's networking business functions are attended across all employee levels.

However, at this stage there are no women on the Board as no suitable candidates have been identified. The Board considers the present number of Directors as appropriate for current and immediately foreseeable requirements.

Principle 4 – Safeguard integrity in financial reporting

The Audit & Risk Management Committee, with its own charter, complies with the Recommendations. All the members of this committee are required to be financially literate.

Principle 5 – Make timely and balanced disclosure

Mastermyne Group's current practice on disclosure is consistent with the Recommendations. Policies for compliance with ASX Listing Rule disclosure requirements are included in the Company's Board Charter and Continuous Disclosure Policy.

Principle 6 – Respect the rights of shareholders

The Board recognises the importance of this principle and strives to communicate with Shareholders regularly and clearly, both by electronic means and using more traditional communication methods. Shareholders are encouraged to attend and participate at general meetings. The Company's auditors are required to attend the annual general meeting and are available to answer Shareholder's questions relevant to the audit.

The Company has not published a formal communications policy because it sees no need as its stated practices generally comply with the Recommendations, and it has covered a number of aspects of this principle it its Continuous Disclosure Policy, including in relation to briefings with investors and analysts.

Principle 7 – Recognise and manage risks

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 Company's various corporate governance policies and is kept under regular review. Review takes place at both Audit & Risk Management Committee level, with meetings at least four times a year, and at Board level.

With regard to compliance with the Recommendations, the Board has:

- identified the Company's material business risks, which are detailed in the Risk Factors statement on the Company's website;
- designed and implemented an integrated risk management and internal control system to manage the Company's material business risks and report to it on whether the risks are being managed effectively.

The Board has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

1.7 Compliance with the ASX Corporate Governance Council Recommendations (continued)

Principle 8 – Remunerate fairly and responsibly

Remuneration of Directors and executives is fully disclosed in the Remuneration Report (contained in the Directors' Report) and any material changes with respect to key executives will be announced in accordance with continuous disclosure principles.

In accordance with the Recommendations, the Remuneration & Nomination Committee has three non-executive Director members of which two are independent including its Chair, and the committee oversees the ambit of this principle.

The aggregate level of non-executive Directors' remuneration is currently set at $300,000 approved on 22 March 2010 and any increase must be approved by shareholders. Non-executive Directors are not provided with any retirement benefits, other than statutory superannuation.

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 2012 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

M J Jeffery
Partner

Brisbane

23 August 2012

Mastermyne Group Limited and its Controlled Entities

Consolidated statement of financial position

As at 30 June 2012

In thousands of AUD	***Note***	**Consolidated 2012**	**Consolidated 2011**
Assets			
Cash and cash equivalents	*18*	13,328	6,020
Trade and other receivables	*17*	49,859	31,929
Inventories	*16*	1,933	1,654
Total current assets		65,120	39,603
Deferred tax assets	*15*	469	-
Property, plant and equipment	*13*	39,099	30,680
Intangible assets	*14*	19,696	20,253
Total non-current assets		59,264	50,933
Total assets		124,384	90,536
Liabilities			
Trade and other payables	*24*	27,660	18,808
Loans and borrowings	*21*	5,371	5,955
Employee benefits	*22*	8,350	3,846
Current tax payable	*15*	9,100	1,195
Total current liabilities		50,481	29,804
Loans and borrowings	*21*	19,068	17,135
Employee benefits	*22*	104	87
Deferred tax liabilities	*15*	-	684
Total non-current liabilities		19,172	17,906
Total liabilities		69,653	47,710
Net assets		54,731	42,826
Equity			
Share capital		50,964	49,124
Reserves		(22,456)	(22,907)
Retained earnings		26,223	16,609
Total equity		54,731	42,826

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

Mastermyne Group Limited and its Controlled Entities

Statement of comprehensive income

For the year ended 30 June 2012

In thousands of AUD	***Note***	**Consolidated 2012**	**2011**
Revenue	*7*	271,955	164,830
Other income	*8*	451	3,833
Contract disbursements		(52,100)	(26,604)
Personnel expenses	*10*	(181,610)	(111,581)
Office expenses		(6,007)	(5,049)
Depreciation and amortisation expense	*13,14*	(6,606)	(5,374)
Impairment loss	*13*	-	(3,034)
Other expenses	*9*	(1,125)	(2,037)
Results from operating activities		24,958	14,984
Finance income		237	63
Finance expense		(1,445)	(1,652)
Net finance expense	*11*	(1,208)	(1,589)
Profit before income tax		23,750	13,395
Income tax expense	*12*	(9,086)	(1,653)
Profit for the period		14,664	11,742
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive income for the period		14,664	11,742
Earnings per share			
Basic earnings per share (AUD)	*20*	0.20	0.16
Diluted earnings per share (AUD)	*20*	0.20	0.16

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 2012

In thousands of AUD	Share capital	Retained earnings	Share-based payment reserve (note 19)	Common Control Reserve (note 19)	Total
Consolidated					
Balance at 1 July 2010	48,610	7,503	1,203	(24,237)	33,079
Total comprehensive income for the period					
Profit for the period	-	11,742	-	-	11,742
Total comprehensive income for the period	-	11,742	-	-	11,742
Transactions with owners recorded directly in equity					
Issue of ordinary shares to settle contingent consideration	514	-	-	-	514
Share-based payment transactions	-	-	127	-	127
Dividends to equity holders	-	(2,636)	-	-	(2,636)
Total contributions by and distributions to owners	514	(2,636)	127	-	(1,995)
Balance at 30 June 2011	49,124	16,609	1,330	(24,237)	42,826
Balance at 1 July 2011	49,124	16,609	1,330	(24,237)	42,826
Total comprehensive income for the period					
Profit for the period	-	14,664	-	-	14,664
Total comprehensive income for the period	-	14,664	-	-	14,664
Transactions with owners recorded directly in equity					
Share options exercised	1,840	-	-	-	1,840
Share-based payment transactions	-	-	451	-	451
Dividends to equity holders	-	(5,050)	-	-	(5,050)
Total contributions by and distributions to owners	1,840	(5,050)	451	-	(2,759)
Balance at 30 June 2012	50,964	26,223	1,781	(24,237)	54,731

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 2012

		Consolidated	
In thousands of AUD	***Note***	**2012**	**2011**
Cash flows from operating activities			
Cash receipts from customers		290,802	165,189
Cash paid to suppliers and employees		(263,585)	(152,098)
Cash generated from operations		27,217	13,091
Interest paid		(1,445)	(1,726)
Income tax paid		(2,333)	(1,972)
Net cash flows from operating activities	*28*	23,439	9,393
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		128	343
Acquisition of property, plant and equipment		(6,154)	(3,131)
Acquisition of intangibles		(26)	-
Interest received		237	63
Net cash flows used in investing activities		(5,815)	(2,725)
Cash flows from financing activities			
Proceeds from exercise of share options		1,840	-
Proceeds from borrowings		1,388	532
Repayment of borrowings		(8,494)	(7,262)
Dividends paid	*19*	(5,050)	(2,636)
Net cash flows used in financing activities		(10,316)	(9,366)
Net increase/(decrease) in cash and cash equivalents		7,308	(2,698)
Cash and cash equivalents at beginning of period		6,020	8,718
Cash and cash equivalents at end of period	*18*	13,328	6,020

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

1 Reporting entity

Mastermyne Group Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is Level 1, 45 River Street, Mackay Qld 4740.The consolidated financial statements of the Company as at and for the year ended 30 June 2012 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 23 August 2012.

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

3 Significant accounting policies

The 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

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after 1 July 2009

For acquisitions on or after 1 July 2009, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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.

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(i) Business Combinations (continued)

Acquisitions on non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that 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

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(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.

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.

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.

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:

	2012	2011
• Low value pool	18.75 - 37.5%	18.75 - 37.5%
• Plant and equipment	7.50 - 50%	7.50 - 50%
• Motor vehicles	12.50 - 30%	12.50 - 30%
• Computer equipment	37.50 - 50%	37.50 - 50%
• Office furniture and equipment	66.66%	66.66%
• Leasehold improvements	7.50 - 15%	7.50 - 15%

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

(iv) Leasehold improvements

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

(d) Intangible assets

(i) Goodwill

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

Subsequent Measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

3 Significant accounting policies (continued)

(d) Intangible assets (continued)

(iv) Amortisation

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

	2012	2011
• Customer related intangibles	3-7 years	3-7 years
• Intellectual Property	8-10 years	8-10 years

Amortisation methods, useful lives and residual values are reviewed at each 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.

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.

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.

3 Significant accounting policies (continued)

(i) Employee benefits (continued)

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(iv) Short-term employee benefits

Short-term employee benefit obligations including liabilities for wages, salaries, annual leave 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.

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) Goods sold

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

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date for fixed price work and as services are provided for work completed on 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.

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 for all open tax years 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 exiting 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.

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 2011, and have not been applied in preparing these consolidated financial statements of the Group. None of these are expected to have a significant effect on the consolidated financial statements of the Group except for AASB 9 *Financial Instruments* , which becomes mandatory for the Group's 2016 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not yet been determined.

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) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on management's estimate of market value at the date of acquisition.

(ii) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(iii) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, but including service concession receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value is determined for disclosure purposes or when acquired in a business combination.

(iv) Share-based payment transactions

The fair value of employee stock options is measured using a Monte Carlo option pricing model. 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.

(v) 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.

(vi) Contingent considerations

The fair value of contingent consideration is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). Since the contingent consideration is long-term in nature, it is discounted to present value.

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.

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:

- A $14 million Flexible Options Facility that can be split into Commercial Bills, overdraft and bank guarantees as required. Currently the facilities are split in the following proportions.
    - $5.5 million overdraft facility that is unsecured.
    - $4.5 million Commercial bill facility that can be drawn down to meet short-term financing needs.
    - $4.0 million Revolving bank guarantee facility
- $20.0 million Equipment finance facility.
- $3.0 million Equipment finance facility.

Interest rate risk

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

Capital management

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

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

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

6 Segment information

Business segments

The group has 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.

6 Segment information (continued)

Business Segments (continued)

In thousands of AUD	Underground mining services 2012	Underground mining services 2011	Engineering and fabrication 2012	Engineering and fabrication 2011	Electrical and Mechanical Services 2012	Electrical and Mechanical Services 2011	Consolidated 2012	Consolidated 2011
External revenues	242,980	150,088	22,618	13,469	6,357	1,273	271,955	164,830
Intersegment revenue	6,992	396	1,756	1,975	69	4,312	8,817	6,683
Depreciation and amortisation	(5,937)	(4,666)	(329)	(394)	(49)	(49)	(6,315)	(5,109)
Net finance costs	(1,206)	(1,586)	(2)	(3)	-	-	(1,208)	(1,589)
Reportable Segment profit/(loss) before income tax	21,979	13,518	3,041	1,099	(921)	(790)	24,099	13,827
Other material non cash items:								
Impairment on property, plant and equipment and intangible assets	-	(3,047)	-	-	-	-	-	(3,047)
Segment assets	97,833	71,438	17,436	14,118	8,812	4,980	124,081	90,536
Capital expenditure	14,151	18,758	388	210	69	212	14,608	19,180
Segment liabilities	(67,107)	(47,460)	(2,787)	(2,021)	(828)	163	(70,722)	(49,318)

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

in thousands of AUD	2012	2011
Revenues		
Total revenue for reportable segments	280,772	171,513
Elimination of inter-segment revenue	(8,817)	(6,683)
Consolidated revenue	271,955	164,830
Profit or loss		
Total profit or loss for reportable segments	24,099	13,827
Elimination of inter-segment profits	(350)	(437)
Unallocated amounts: other corporate expenses	1	5
Consolidated profit before income tax	23,750	13,395
Assets		
Total assets for reportable segments	124,081	90,536
Other assets	303	-
Consolidated total assets	124,384	90,536
Liabilities		
Total liabilities for reportable segments	70,722	49,318
Unallocated amounts: corporate tax liability	(1,069)	(1,608)
Consolidated total liabilities	69,653	47,710

Geographical information

The Group has only operated in Australia during the current period. The Group only operated in Australia and New Zealand during the 2011 period with total revenue from New Zealand operations representing $1,594 thousand of the Group's total revenue. All assets are held within Australia as at 30 June 2012 and 30 June 2011.

Major customers

The Group has four customers (2011: three customers), all in the underground mining services segment, which individually represent in excess of 10% of Group revenues. The total revenue from these customers represents $177,277 thousand (2011: $79,933 thousand) of the Group’s total revenues.

Notes to the financial statements (continued)

For the year ended 30 June 2012

7 Revenue

In thousands of AUD	Consolidated 2012	2011
Contracting revenue	241,195	146,518
Sale of goods	22,618	13,469
Machinery hire	8,142	4,843
	271,955	164,830

8 Other income

In thousands of AUD	Consolidated 2012	2011
Administration income	426	228
Insurance income from third parties for items of property, plant and equipment that were impaired, lost or given up	-	3,600
Gain on sale of property, plant and equipment	25	5
	451	3,833

9 Other expenses

In thousands of AUD	Consolidated 2012	2011
Loss on sale of property, plant and equipment	63	10
IPO expense	-	(4)
Business acquisition costs	-	11
Business Development Costs	22	51
Insurance	1,256	796
Impairment (gain)/loss on trade receivables	(216)	1,173
	1,125	2,037

10 Personnel expenses

In thousands of AUD	Consolidated 2012	2011
Wages and salaries	161,364	100,069
Other associated personnel expenses	11,923	6,500
Contributions to defined contribution superannuation funds	7,872	4,885
Equity-settled share-based payment transactions	451	127
	181,610	111,581

11 Finance income and expense

Recognised in profit or loss

In thousands of AUD	Consolidated 2012	2011
Interest income	237	63
Finance income	237	63
Bank charges	(132)	(116)
Bank interest	(306)	(440)
Finance lease interest	(1,007)	(1,096)
Finance expense	(1,445)	(1,652)
Net finance expense recognised in profit or loss	(1,208)	(1,589)

12 Income tax expense

In thousands of AUD	Consolidated 2012	2011
Current tax expense		
Current period	9,414	1,588
Changes to consolidation legislation	845	-
Adjustment for prior periods	(97)	(425)
	10,162	1,163
Deferred tax expense		
Origination and reversal of temporary differences	(1,433)	513
Adjustment for prior period	78	(23)
Changes to consolidation legislation	279	-
	(1,076)	490
Total income tax expense	9,086	1,653

Numerical reconciliation between tax expense and pre-tax accounting profit

In thousands of AUD	Consolidated 2012	2011
Profit excluding income tax	23,750	13,395
Income tax using the Group's statutory income tax rate of 30% (2011: 30%)	7,125	4,019
Non-deductible expenses	856	421
Effects of entering into tax consolidation	-	(2,362)
Derecognition of rights to future income	1,124	-
Under/(over) provision of previous year	(19)	(425)
	9,086	1,653

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
Cost or deemed cost								
Balance at 1 July 2010	833	26,833	2,211	896	2,021	565	172	33,531
Additions	78	13,940	468	268	4,104	86	236	19,180
Disposals	(30)	(108)	(294)	(54)	-	(62)	-	(548)
Impairment Loss	-	(3,469)	-	-	-	-	-	(3,469)
Transfers	47	1,959	(72)	56	(1,901)	(89)	-	-
Balance at 30 June 2011	928	39,155	2,313	1,166	4,224	500	408	48,694
Balance at 1 July 2011	928	39,155	2,313	1,166	4,224	500	408	48,694
Additions	47	3,340	112	424	9,200	26	1,459	14,608
Disposals	(2)	(354)	(440)	(1)	(13)	(28)	(48)	(886)
Impairment Loss	-	-	-	-	-	-	-	-
Transfers	1	10,591	-	-	(10,592)	-	-	-
Balance at 30 June 2012	974	52,732	1,985	1,589	2,819	498	1,819	62,416
Depreciation and impairment losses								
Balance at 1 July 2010	704	11,210	1,057	629	-	151	110	13,861
Depreciation for the year	61	3,941	354	184	-	176	72	4,788
Disposals	(15)	(24)	(121)	(18)	-	(22)	-	(200)
Impairment loss	-	(435)	-	-	-	-	-	(435)
Transfers	18	28	(39)	36	-	(43)	-	-
Balance at 30 June 2011	768	14,720	1,251	831	-	262	182	18,014
Balance at 1 July 2011	768	14,720	1,251	831	-	262	182	18,014
Depreciation for the year	56	5,208	279	280	-	121	66	6,010
Disposals	(1)	(315)	(328)	(1)	-	(26)	(36)	(707)
Impairment loss	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Balance at 30 June 2012	823	19,613	1,202	1,110	-	357	212	23,317
Carrying amounts								
At 1 July 2010	129	15,623	1,154	267	2,021	414	62	19,670
At 30 June 2011	160	24,435	1,062	335	4,224	238	226	30,680
At 1 July 2011	160	24,435	1,062	335	4,224	238	226	30,680
At 30 June 2012	151	33,119	783	479	2,819	141	1,607	39,099

The Group leases equipment under a number of finance lease agreements. At 30 June 2012 the net carrying amount of leased property, plant and equipment was $15,969 thousand (2011: $17,977 thousand).

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)

For the year ended 30 June 2012

14 Intangible assets

In thousands of AUD	Consolidated 2012	2011
Goodwill		
Cost (gross carrying amount)	18,268	18,268
Net carrying amount	18,268	18,268
Customer relationships		
Cost (gross carrying amount)	2,669	2,669
Accumulated amortisation and impairment	(2,102)	(1,636)
Net carrying amount	567	1,033
Intellectual property		
Cost (gross carrying amount)	1,522	1,483
Accumulated amortisation and impairment	(661)	(531)
Net carrying amount	861	952
Total intangible assets		
Cost (gross carrying amount)	22,459	22,420
Accumulated amortisation and impairment	(2,763)	(2,167)
Net carrying amount	19,696	20,253

Reconciliation of carrying amount at beginning and end of the period

In thousands of AUD	Consolidated 2012	2011
Goodwill		
Carrying amount - opening	18,268	18,013
Increase in contingent consideration	-	255
Carrying amount - closing	18,268	18,268
Customer relationships		
Carrying amount - opening	1,033	1,500
Amortisation	(466)	(467)
Carrying amount - closing	567	1,033
Intellectual property		
Carrying amount - opening	952	1,071
Other acquisitions - internally developed	39	-
Amortisation	(130)	(119)
Carrying amount - closing	861	952
Total intangible assets		
Carrying amount - opening	20,253	20,584
Increase in contingent consideration	-	255
Other acquisitions - internally developed	39	-
Amortisation	(596)	(586)
Carrying amount - closing	19,696	20,253

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

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:

	Consolidated	
In thousands of AUD	**2012**	**2011**
Underground mining services	6,429	6,429
Engineering and fabrication	7,301	7,301
Electrical services	4,538	4,538
	18,268	18,268

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 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 the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and the business plans for the year ended 30 June 2012 and 2013. Cash flows for a further 3-year period were extrapolated using a constant growth rate of 5 per cent with cash flows from individual units. Management believes that this forecast was justified due to the long-term nature of the underground mining services business from which each cash generating unit derives its cash flows.
- A pre-tax discount rate of 11.38% was applied in determining the recoverable amount of the units. 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, 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.

15 Tax assets and liabilities

Current tax assets and liabilities

The current tax liability for the Group of $9,100 thousand (2011: $1,195 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**	
In thousands of AUD	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Employee benefits	2,119	938	-	-	2,119	938
Property, plant and equipment	80	22	(879)	(519)	(799)	(497)
Receivables	-	-	-	(1,080)	-	(1,080)
Intangible assets	98	98	(161)	(276)	(63)	(178)
Accruals	620	243	-	-	620	243
Capital raising and business acquisition costs	331	515	(31)	(31)	300	484
Unbilled revenue	-	-	(1,712)	(1,070)	(1,712)	(1,070)
Provisions	4	-	-	-	4	-
Other items	-	278	-	-	-	278
Tax loss carry-forwards	-	198	-	-	-	198
Tax assets/(liabilities)	3,252	2,292	(2,783)	(2,976)	469	(684)
Set off of tax	(2,783)	(2,292)	2,783	2,292	-	-
Net tax assets/(liabilities)	469	-	-	(684)	469	(684)

Movement in temporary differences during the year

Consolidated	**Balance 1 July 2010**	**Recognised in profit or loss**	**Acquired in business combinations**	**Balance 30 June 2011**
In thousands of AUD				
Employee benefits	645	293	-	938
Property, plant and equipment	(947)	450	-	(497)
Receivables	-	(1,080)	-	(1,080)
Intangible assets	(291)	113	-	(178)
Accruals	71	172	-	243
Capital raising and business acquisition costs	773	(289)	-	484
Unbilled revenue	(422)	(648)	-	(1,070)
Other items	-	278	-	278
Tax loss carry-forwards	-	198	-	198
	(171)	(513)	-	(684)

15 Tax assets and liabilities (continued)
Movement in temporary differences during the year (continued)

Consolidated	Balance 1 July 2011	Recognised in profit or loss	Acquired in business combinations	Balance 30 June 2012
In thousands of AUD				
Employee benefits	938	1,181	-	2,119
Property, plant and equipment	(497)	(302)	-	(799)
Receivables	(1,080)	1,080	-	-
Intangible assets	(178)	115	-	(63)
Accruals	243	377	-	620
Capital raising and business acquisition costs	484	(184)	-	300
Unbilled revenue	(1,070)	(642)	-	(1,712)
Provisions	-	4	-	4
Other items	278	(278)	-	-
Tax loss carry-forwards	198	(198)	-	-
	(684)	1,154	-	469

16 Inventories

In thousands of AUD	Consolidated 2012	2011
Inventory on hand	1,933	1,654
	1,933	1,654

During the year ended 30 June 2012 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to $5,490 thousand (2011: $3,339 thousand).

17 Trade and other receivables

In thousands of AUD	Consolidated 2012	2011
Trade receivables	41,578	23,280
Prepayments	852	937
Unbilled revenue	7,173	4,027
Other receivables	256	3,685
	49,859	31,929

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

In thousands of AUD	Consolidated 2012	2011
Bank balances	13,325	6,017
Cash on hand	3	3
Cash and cash equivalents in the statement of cash flows	13,328	6,020

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

19 Capital and reserves

The share capital of Mastermyne Group Limited is as follows:

	Ordinary class shares	
	2012	**2011**
On issue at 1 July	73,367,514	72,897,598
Shares issued to settle contingent consideration	-	469,916
Exercise of share options	2,000,000	-
On issue at 30 June – fully paid	75,367,514	73,367,514

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.

19 Capital and reserves (continued)

Dividends

Dividends recognised in the current year by the Group are:

In thousands of AUD		Dollars per share	Total amount	Franked / unfranked	Date of payment
2012					
2011 Ordinary - Ordinary Shares Final Dividend	$	0.037	2,789	Franked	13/10/2011
2012 Ordinary - Ordinary Shares Interim Dividend	$	0.030	2,261	Franked	19/04/2012
Total amount			5,050		
2011					
2010 Ordinary - Ordinary Shares Final Dividend	$	0.012	875	Franked	5/10/2010
2011 Ordinary - Ordinary Shares Interim Dividend	$	0.024	1,761	Franked	15/04/2011
Total amount			2,636		

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 28 September 2012 and the payment date will be 16 October 2012.

In thousands of AUD		Dollars per share	Total amount	Franked / unfranked	Date of payment
2012 Ordinary - Ordinary Shares Final Dividend	$	0.048	3,605	Franked	16/10/2012

Dividend franking account

	Company	
In thousands of AUD	**2012**	**2011**
30 per cent franking credits available to shareholders of Mastermyne Group Limited for subsequent financial years	15,775	8,559

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 $1,546 thousand (2011:$1,163 thousand)

20 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2012 was based on the profit attributable to ordinary shareholders of $14,664 thousand (2011: $11,742 thousand) and a weighted average number of ordinary shares outstanding of 74,918,199 (2011: 73,202,722), calculated as follows:

Profit attributable to ordinary shareholders

	Consolidated	
In thousands of AUD	**2012**	**2011**
Profit for the period	14,664	11,742
Profit attributable to ordinary shareholders	14,664	11,742

Weighted average number of ordinary shares

	Consolidated	
Number of shares	**2012**	**2011**
Issued ordinary shares at 1 July	73,367,514	72,897,598
Effect of share options exercised	1,550,685	-
Effect of shares issued	-	305,124
Weighted average number of ordinary shares at 30 June	74,918,199	73,202,722

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2012 was based on the profit attributable to ordinary shareholders of $14,664 thousand (2011: $11,742 thousand) and a weighted average number of ordinary shares outstanding of 74,918,199 (2011: 73,202,722), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

	Consolidated	
In thousands of AUD	**2012**	**2011**
Profit for the period	14,664	11,742
Profit attributable to ordinary shareholders	14,664	11,742

Weighted average number of ordinary shares (diluted)

	Consolidated	
Number of shares	**2012**	**2011**
Weighted average number of ordinary shares (basic)	74,918,199	73,202,722
Weighted average number of ordinary shares (diluted) at 30 June	74,918,199	73,202,722

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.

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 Company's and Group's exposure to interest rate and liquidity risk, see note 25.

In thousands of AUD	Consolidated	
	2012	**2011**
Current liabilities		
Insurance premium funding (unsecured)	(3)	176
Finance lease liabilities (secured)	5,374	4,779
Commercial bill facility (secured)	-	1,000
	5,371	5,955
Non-current liabilities		
Finance lease liabilities (secured)	14,568	12,635
Commercial bill facility (secured)	4,500	4,500
	19,068	17,135

Security

Finance lease

Finance lease facilities are drawn with the Westpac Banking Corporation and Vendor Finance Pty Ltd, and are secured by a charge over the asset to which the facility relates to and a fixed and floating charge over the assets of the Group.

Westpac commercial bill facility

The Westpac commercial bill is drawn with the Westpac Banking Corporation for the purpose of working capital and is secured by a fixed and floating charge over all assets and uncalled capital of the Group.

Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

	Consolidated					
In thousands of AUD	**Future minimum lease payments 2012**	**Interest 2012**	**Present value of minimum lease payments 2012**	**Future minimum lease payments 2011**	**Interest 2011**	**Present value of minimum lease payments 2011**
Less than one year	6,642	(1,268)	**5,374**	6,312	(1,533)	**4,779**
Between one and five years	16,184	(1,616)	**14,568**	14,353	(1,924)	**12,429**
More than five years	-	-	**-**	210	(4)	**206**
	22,826	(2,884)	**19,942**	20,875	(3,461)	**17,414**

22 Employee benefits

In thousands of AUD	Consolidated 2012	2011
Current		
Wages payable	1,390	808
Liability for annual leave	3,661	1,506
Liability for vesting sick leave	3,185	1,444
Liability for long service leave	114	88
	8,350	3,846
Non-current		
Liability for long service leave	104	87
	104	87

23 Share-based payment arrangements

Description of the share-based payment arrangements

At 30 June 2012 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 23 November 2010	1050	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
Performance rights granted to Key Management Personnel and Senior Management with grant dates between 8 August 2011 and 1 June 2012	1800	3 years' service and total shareholder return and growth in earnings per share over 3 years is in the 20th percentile relative to the ASX 300 index.	4 Years

Measurement of fair values

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

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				Key Management Personnel
Fair value of share options and assumptions	**2012** (1)	**2012** (2)	**2012** (3)	**2012** (4)	**2011**
Fair value at grant date Tranche 1	$ 0.19	$ 0.38	$ 0.62	$ 0.18	$ 0.40
Fair value at grant date Tranche 2	$ 0.23	$ 0.41	$ 0.70	$ 0.33	$ 0.44
Fair value at grant date Tranche 3	$ 0.28	$ 0.46	n/a	$ 0.38	n/a
Share price	$ 1.39	$ 1.80	$ 2.40	$ 2.29	$ 1.35
Exercise price	$ 1.49	$ 1.49	$ 1.49	$ 1.49	$ 1.05
Expected volatility (weighted average volatility)	40%	40%	40%	40%	50%
Option life (expected weighted average life)	3.4 years	3 years	3 years	2.6 years	3.5 years
Expected dividends	5.76%	6.67%	5.00%	5.24%	5.50%
Risk-free interest rate Tranche 1 (based on government bonds)	3.85%	3.49%	3.57%	2.40%	4.98%
Risk-free interest rate Tranche 2 (based on government bonds)	3.89%	3.17%	3.60%	2.07%	5.10%
Risk-free interest rate Tranche 3 (based on government bonds)	3.96%	3.20%	n/a	2.07%	n/a

	Key management personnel & Senior management Earnings Per Share Rights				Key Management Personnel
Fair value of share options and assumptions	**2012** (1)	**2012** (2)	**2012** (3)	**2012** (4)	**2011**
Fair value at grant date Tranche 1	$ 0.36	$ 0.67	$ 0.93	$ 0.48	$ 0.60
Fair value at grant date Tranche 2	$ 0.39	$ 0.66	$ 0.94	$ 0.57	$ 0.60
Fair value at grant date Tranche 3	$ 0.41	$ 0.64	n/a	$ 0.61	n/a
Share price	$ 1.39	$ 1.80	$ 2.40	$ 2.29	$ 1.35
Exercise price	$ 1.12	$ 1.12	$ 1.12	$ 1.12	$ 0.79
Expected volatility (weighted average volatility)	40%	40%	40%	40%	50%
Option life (expected weighted average life)	3.4 years	3 years	3 years	2.6 years	3.5 years
Expected dividends	5.76%	6.67%	5.00%	5.24%	5.50%
Risk-free interest rate Tranche 1 (based on government bonds)	3.85%	3.49%	3.57%	2.40%	4.98%
Risk-free interest rate Tranche 2 (based on government bonds)	3.89%	3.17%	3.60%	2.07%	5.10%
Risk-free interest rate Tranche 3 (based on government bonds)	3.96%	3.20%	n/a	2.07%	n/a

(1) Grant date on 8 August 2011
(2) Grant date on 31 January 2012
(3) Grant date on 28 March 2012
(4) Grant date on 1 June 2012

24 Trade and other payables

In thousands of AUD	Consolidated 2012	2011
Trade payables	9,429	8,878
Sundry creditors and accruals	18,231	9,930
	27,660	18,808

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:

In thousands of AUD	*Note*	Consolidated 2012	2011
Trade and other receivables	*17*	49,859	31,929
Cash and cash equivalents	*18*	13,328	6,020
		63,187	37,949

The Group has four (2011: three) significant customers each representing more than 10% of the carrying amount of trade receivables at 30 June 2012. The total of the receivables from these customers is $29,561 thousand (2011: $5,801 thousand).

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

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:

In thousands of AUD	Consolidated 2012	2011
Not Past Due	29,521	16,148
Past due 0-30 days	10,064	5,398
Past due 31-60 days	752	1,047
Past due 61-90 days	815	315
Greater than 90 days	1,356	1,518
	42,508	24,426

Impairment losses of $930 thousand recognised at 30 June 2012 (2011: $1,146 thousand).

At 30 June 2012 an impairment loss of $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.

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 2012 was as follows:

	Consolidated	
In thousands of AUD	**2012**	**2011**
Balance at 1 July	(1,146)	-
Impairment loss recognised	216	(1,173)
Impairment allowance utilised	-	27
Balance at 30 June	(930)	(1,146)

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

In thousands of AUD	**2012**	**2011**
Four or more years trading history with the Group	29,875	19,921
Less than four years trading history with the Group	11,703	3,359
	41,578	23,280

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 2012

In thousands of AUD	*Note*	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities								
Finance lease liabilities	*21*	19,942	(22,826)	(3,444)	(3,356)	(6,559)	(9,467)	-
Commercial bill facility	*21*	4,500	(5,530)	(129)	(129)	(257)	(5,015)	-
Insurance premium funding	*21*	(3)	3	3	-	-	-	-
Trade and other payables	*24*	27,660	(27,660)	(27,660)	-	-	-	-
		52,099	(56,013)	(31,230)	(3,485)	(6,816)	(14,482)	-

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

25 Financial instruments (continued)
Liquidity risk (continued)

Consolidated
30 June 2011

In thousands of AUD	*Note*	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities								
Finance lease liabilities	*21*	17,414	(20,876)	(3,283)	(3,030)	(5,520)	(8,833)	(210)
Commercial bill facility	*21*	5,500	(7,035)	(674)	(657)	(301)	(5,403)	-
Insurance premium funding	*21*	176	(176)	(176)	-	-	-	-
Trade and other payables	*24*	18,808	(18,808)	(18,808)	-	-	-	-
		41,898	(46,895)	(22,941)	(3,687)	(5,821)	(14,236)	(210)

Interest rate risk

Profile

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

	Consolidated Carrying amount	
In thousands of AUD	**2012**	**2011**
Fixed rate instruments		
Financial liabilities & Insurance premium funding	(19,939)	(17,590)
	(19,939)	(17,590)
Variable rate instruments		
Financial assets	13,328	6,020
Financial liabilities	(4,500)	(5,500)
	8,828	520

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.

25 Financial instruments (continued)

Sensitivity analysis for variable rate instruments

At 30 June 2012 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**	
	2012	**2011**
Change in profit		
Increase in interest rate by 1%	88	59
Decrease in interest rate by 2%	(177)	(118)

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	**30 June 2012**		**30 June 2011**	
In thousands of AUD	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Assets Carried at Amortised Cost				
Trade and other receivables	49,859	49,859	31,929	31,929
Cash and cash equivalents	13,328	13,328	6,020	6,020
	63,187	63,187	37,949	37,949
Liabilities Carried at Amortised Cost				
Finance lease liabilities	(19,942)	(20,324)	(17,414)	(17,768)
Commercial bill facility	(4,500)	(4,500)	(5,500)	(5,500)
Insurance premium funding	3	3	(176)	(176)
Trade and other payables	(27,660)	(27,660)	(18,808)	(18,808)
	(52,099)	(52,481)	(41,898)	(42,252)

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:

	2012	**2011**
Finance Lease Liabilities	6.62%	9.04%

26 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	Consolidated 2012	2011
Less than one year	2,853	1,164
Between one and five years	1,852	2,159
More than five years	-	-
	4,705	**3,323**

The amount recognised in relation to operating lease payments for the year ended 30 June 2012 totalled $2,643 thousand (2011: $859 thousand) for the Group.

27 Capital and other commitments

Capital expenditure commitments

During the year ended 30 June 2012 the Group entered into a contract to purchase plant and equipment for $1,125 thousand (2011: $16,049 thousand).

28 Reconciliation of cash flows from operating activities

In thousands of AUD	*Note*	Consolidated 2012	2011
Cash flows from operating activities			
Profit for the period		14,664	11,742
Adjustments for:			
Depreciation	*13*	6,010	4,788
Amortisation of intangible assets	*14*	596	586
Impairment loss	*13*	-	3,034
(Gain)/loss on sale of property, plant and equipment	*8,9*	38	5
Share based payments	*10*	451	127
Net finance expense	*11*	1,208	1,589
Financing Transaction Costs		-	-
Income tax expense	*12*	9,086	1,653
Operating profit before changes in working capital and provisions		32,053	23,523
Change in trade and other receivables*	*17*	(17,930)	(20,001)
Change in inventories	*16*	(279)	(297)
Change in trade and other payables*	*24*	8,852	8,463
Change in provisions and employee benefits*	*22*	4,521	1,402
		27,217	13,090
Interest paid		(1,445)	(1,725)
Income taxes paid		(2,333)	(1,972)
Net cash from operating activities		23,439	9,393

*Excluding changes due to business combinations

(i) Non-cash transactions

During the year the Group acquired plant and equipment totalling $8,456 thousand (2011: $16,049 thousand) by way of finance lease. The related acquisition and financing has been excluded from the statement of cash flows as non-cash transactions.

29 Related parties

Key management personnel compensation

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

	Consolidated	
In AUD	**2012**	**2011**
Short-term employee benefits	3,025,325	1,790,086
Post-employment benefits	200,611	124,940
Termination benefits	-	-
	3,225,936	1,915,026

Individual directors and executives compensation

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

Loans to key management personnel

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

Key management personnel and director transactions

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

A number of these entities transacted with the Group 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:

In AUD		Transaction value year ended 30 June		Balance outstanding as at 30 June	
Transaction	***Note***	**2012**	**2011**	**2012**	**2011**
Andrew Watts - Watty Pty Ltd	(i)	265,521	168,300	23,008	14,025
Andrew Watts - Watty Pty Ltd	(ii)	110,414	98,928	8,636	8,430
Andrew Watts - Two Dots Ltd	(iii)	46,212	44,616	-	-
		422,147	311,844	31,644	22,455

(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 also rents a duplex situated 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.

(iii) The Group also 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.

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.

29 Related parties (continued)

Movements in shares

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 2011	**Purchases**	**Received on exercise of options**	**Sales**	**Shares held at 30 June 2012**
Directors					
Mr P. Slaughter	110,000	-	-	(25,000)	85,000
Mr D. Hamblin	10,155,658	-	-	(500,000)	9,655,658
Mr A. Watts	15,105,428	-	-	(1,100,000)	14,005,428
Mr A. Caruso	1,798,001	-	-	(625,000)	1,173,001
Executives					-
Mr C. Kneipp	20,000	-	-	(20,000)	-
Mr A. Purse	32,000	-	-	-	32,000
Mr D. Fitzpatrick	100,000	-	-	-	100,000

	Shares in Mastermyne Group Limited				
	Shares held at 30 June 2010	**Purchases**	**Received on exercise of options**	**Sales**	**Shares held at 30 June 2011**
Directors					
Mr P. Slaughter	100,000	10,000	-	-	110,000
Mr D. Hamblin	10,155,658	-	-	-	10,155,658
Mr A. Watts	15,105,428	-	-	-	15,105,428
Mr A. Caruso	1,798,000	-	-	-	1,798,000
Executives					
Mr C. Kneipp	20,000	-	-	-	20,000
Mr A. Purse	32,000	-	-	-	32,000
Mr D. Fitzpatrick	100,000	-	-	-	100,000

Rights over equity instruments

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 30 June 2011	**Granted as compensation**	**Exercised**	**Held at 30 June 2012**	**Vested during the year**	**Vested and exerciseable at 30 June 2012**
Directors						
Mr A. Caruso	1,050,000	-	-	1,050,000	-	150,000
Executives						
Mr C. Kneipp	-	250,000	-	250,000	-	37,500
Ms V. Gayton	-	150,000	-	150,000	-	22,500
Ms B. Jooste	-	150,000	-	150,000	-	10,500
Mr D. Fitzpatrick	-	100,000	-	100,000	-	15,000
Mr A. Purse	-	250,000	-	250,000	-	37,500
MR J. Stuart-Robertson	-	250,000	-	250,000	-	37,500
Mr D. Sykes	-	250,000	-	250,000	-	37,500
Mr K. Lonergan	-	150,000	-	150,000	-	-
Mr L. duPreez	-	250,000	-	250,000	-	37,500

	Rights in Mastermyne Group Limited					
	Held at 30 June 2010	**Granted as compensation**	**Exercised**	**Held at 30 June 2011**	**Vested during the year**	**Vested and exerciseable at 30 June 2011**
Directors						
Mr A. Caruso	1,050,000	-	-	1,050,000	-	-

Notes to the financial statements (continued)
For the year ended 30 June 2012

30 Group entities
Parent and ultimate controlling party

Parent entity	**Country of incorporation**	**Ownership interest**	
Mastermyne Group Limited	Australia	**2012**	**2011**
		%	**%**
Significant subsidiaries			
Mastermyne Pty Ltd	Australia	100	100
Mastermyne Engineering Pty ltd	Australia	100	100
Mastermyne Underground Pty Ltd	Australia	100	100
Mastermyne Services Pty Ltd	Australia	100	100
Mastermyne Underground NNSW Pty Ltd	Australia	100	100
Myne Start Pty Ltd	Australia	100	100

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

As all subsidiaries in the wholly owned group are a party to the deed, the consolidated statement of comprehensive income and consolidated balance sheet disclosed in these financial statements represent the consolidated financial position and performance of the parties to the deed.

32 Subsequent events

Subsequent to year-end the Directors declared a dividend of 4.8 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

In AUD

Audit services
Auditors of the Company

	Consolidated	
KPMG Australia:	**2012**	**2011**
Audit and review of financial reports	203,367	181,624
	203,367	181,624

Other services
Auditors of the Company

	2012	2011
KPMG Australia		
Taxation services	48,624	40,997
Risk Management Services	22,000	56,000
	70,624	96,997

34 Parent Entity Disclosures

As at and throughout the financial year ending 30 June 2012 the parent company of the group was Mastermyne Group Limited.

	Company	
In thousands of AUD	**2012**	**2011**
Results of the parent entity		
Profit for the period	(1,252)	1,426
Other comprehensive income	-	-
Total comprehensive income for the period	(1,252)	1,426
Financial position of parent entity at year end		
Current assets	-	-
Total assets	50,468	54,479
Current liabilities	-	-
Total liabilities	-	-
Total equity of the parent entity		
Share Capital	50,964	49,124
Share-based payments reserve	1,781	1,330
Retained earnings	(2,277)	4,025
Total Equity	50,468	54,479

Parent Entity Contingencies

There were no parent entity contingencies required for the year ending 30 June 2012 (2011: Nil).

Parent Entity Capital Commitments

There were no parent entity capital commitments at 30 June 2012 (2011: 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 29 to 72 and the Remuneration report in the Directors' report, set out on pages 5 to 16, 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 2012 and of its performance for the financial year ended on that date; and

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

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

2 There are reasonable grounds to believe that the Company and the group entities identified in Note 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 2012.

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.

P. Slaughter
Chairman

Dated at Mackay this 23rd day of August 2012.

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 2012, and consolidated statement of 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.

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

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 2012 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 2012. 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 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

M J Jeffery
Partner

Brisbane

23 August 2012