Mastermyne Group Limited and its Controlled Entities

ABN 96 142 490 579

Interim Financial Report

31 December 2011

Mastermyne Group Limited and its Controlled Entities

Contents

Directors' report

For the half year ended 31 December 2011

The directors present their report together with the consolidated report of Mastermyne Group Limited, for the 6 month period ended 31 December 2011 and the review report thereon.

Directors

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

Mr P. Slaughter - Chairman (independent)

Mr J. Wentworth - Non - executive Director (independent)

Mr D. Hamblin - Non - executive Director

Mr A. Watts - Executive Director

Mr A. Caruso - Managing Director

Operating and financial review
Financial Overview

Profit for the Period

Mastermyne Group Limited and it's controlled subsidiaries recorded a profit after tax of $7.840 million for the half year ended 31 December 2011, up 77% on the previous corresponding period. NPAT for the half year ended 31 December 2011 includes a bad debt recovery of $0.216 million in relation to Pike River($0.151 million after tax) (2010: bad debt expense of $0.525 in relation to Pike River($0.368 after tax)).

Revenue was up 68.8% to $124.299 million on the previous corresponding period, as a result of the full period effect of the 3 new contracts won in the first half of the 2011 financial year and increased scope of works on existing projects. Profit margins have been maintained through this period of significant growth with less reliance on subcontractors to ramp up the increased scope of works.

Balance Sheet and Cash Flow

Net Assets of the Group increased $7 million to $49.9 million the increase resulting from profits to the half year ended 31 December of $7.84 million and share options exercised of $1.84 million less dividends of $2.8 million. Working capital requirements increased during the period due the significant growth. Although working capital was required to fund the growth, the new contracts from the prior corresponding period have moved past their ramp-up phase and contributed to cash flow during the period. Cash flows from all activities are summarised as follows:

• net cash inflows from operating activities for the half year ended 31 December 2011 of $9.456 million
• net cash outflows from investing activities for the half year ended 31 December 2011 of $3.420 million
• net cash outflows from financing activities for the half year ended 31 December 2011 of $4.653 million

Operational Overview

The first half of FY2012 has seen the Group exceed budget and profit guidance. The top line growth was a result of expanded scopes of work on several of the Group's larger more established projects. This increase in scope required additional labour and equipment which was mobilised in the early part of the financial year. This organic growth has allowed Mastermyne to grow without winning any new contracts, which is consistent with the plan to consolidate the business during FY2012.

The Group's revenue increased by 77% and margins were maintained in line with budget. This organic growth has afforded the company the opportunity to consolidate the business in preparation for the growth expected in FY2013 on the back of the significant pipeline of projects expected to come on line in the next 3 to 5 years.

Operational Overview (continued)

The safety performance of the Group has continued to improve and the Group is well underway in transforming its safety management towards zero harm. Whilst lagging statistics have not decreased significantly in the first half of the year, based on the current performance, there will be a visible decrease in this lagging metric for the full year. This safety improvement has been delivered whilst transitioning to the much more stringent OSHA reporting regime and with a significant increase in exposure hours.

Recruitment and retention strategies are continuing to work well and ensure we have the personnel required to meet the increased demands from clients who are increasing their production volumes. The Training Centre has been integral in the increase to 1012 full time Mastermyne employees, a 23% net growth since June 2011 and the facilities are well recognised by industry as a reliable solution to introducing domestic labour into underground mines. Since its inception the Myne Start facility has trained in excess of 200 people who are now working in roles underground.

Mastermyne Underground has been the driver behind the substantial growth from the previous corresponding period. The underground operations continue to experience strong demand for customary contract services and there is a large pipeline of projects, the first of which are expected to commence in FY2013 that will see this demand for Mastermynes services increase further. The Division is well placed to capitalise on these opportunities after using FY2012 to recruit and further develop the operating systems to successfully undertake new projects.

The remainder of the current financial year will see this division focus on delivering further growth from the existing projects and to commission the last of the capital equipment purchased in FY2011. Substantial effort will be placed on recruitment and retention to ensure the business can meet the increasing demand of existing and new projects. Tendering activity is expected to increase in the second half of the year and will be focused on a mixture of brownfields and greenfields opportunities. The underground division will continue to source brownfields projects in existing underground operating mines that are low on the cost curve and complement these projects with new greenfields opportunities.

Mastermyne Engineering has continued to expand its footprint in Queensland and New South Wales and the division has increased its top line revenue while maintaining historical margins. The recent relocation to new workshops in Qld and NSW has allowed the division to expand and take up the additional capacity afforded in the larger workshops. This division continues to service the existing underground market well and is well placed to capitalise on the pipeline of new projects which will all require a substantial investment in the products manufactured by Engineering .

Mastermyne Services has continued to rebuild its operation and successfully tendered a large project on the development of the new Kestrel Mine Extension (KME). The project commenced mobilising in October and the losses incurred in this division year to date are as a result of the up front mobilisation costs of this large project and the continuing overhead costs whilst carrying the rent for a workshop for the first half of the year.

Mastermyne Services will return a profit on the KME contract and the remaining overhead of the workshop has been removed with the lease terminating as of January 2012. Access to the work areas on the KME project has been delayed for reasons beyond the control of Mastermyne and as a result the early stages of the project has been disrupted. This delay will also mean that the bulk of the revenue from this project won't be delivered until FY2013. Tendering in the Services division is continuing and the division will benefit from the increased construction activity in the Bowen Basin.

Outlook

The outlook for Mastermnye continues to be very positive. Demand for domestic coal remains strong and the investment in infrastructure by major mining houses suggests that this cycle will continue for some time and so will the demand for contract services. Also complementing this demand for Mastermyne's services is the ongoing expansion of underground coal mines over open cut mines. This places MGL in a very strategic position as one of the premier underground coal contractors.

There is a substantial pipeline of greenfield underground projects which are scheduled to be developed over the next 3 to 5 years which will support the long term growth of Mastermyne and the company's contracted order book for FY2013 has swelled to $212 million excluding recurring revenue of approximately $30 million. The Group will ramp up its tendering activity in the second half of this financial year to secure new projects and contracts for FY2013 and beyond. As always the focus on zero harm will dominate efforts as will our focus on new initiatives to recruit and retain our workforce.

Directors' report

For the half year ended 31 December 2011

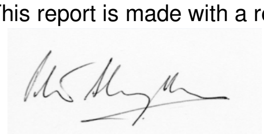
Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 5 and forms part of the Directors' report for 6 months ended 31 December 2011.

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:



Peter Slaughter
Chairman

Dated at Brisbane this 27th day of February 2012.

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 review for the half-year ended 31 December 2011 there have been:

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

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

KPMG

KPMG

M J Jeffery
Partner

Brisbane

27 February 2012

Mastermyne Group Limited and its Controlled Entities

Condensed consolidated interim statement of financial position

As at 31 December 2011

In thousands of AUD	***Note***	**Consolidated**	
		31 December 2011	**30 June 2011**
Assets			
Cash and cash equivalents	*17*	7,403	6,020
Trade and other receivables	*16*	40,851	31,929
Inventories	*15*	1,858	1,654
Total current assets		50,112	39,603
Deferred tax assets		665	-
Property, plant and equipment	*13*	34,599	30,680
Intangible assets	*14*	19,992	20,253
Total non-current assets		55,256	50,933
Total assets		105,368	90,536
Liabilities			
Trade and other payables	*21*	21,598	18,808
Loans and borrowings	*19*	5,289	5,955
Employee benefits	*20*	6,158	3,846
Current tax payable		4,973	1,195
Total current liabilities		38,018	29,804
Loans and borrowings	*19*	17,363	17,135
Employee benefits	*20*	91	87
Deferred tax liabilities		-	684
Total non-current liabilities		17,454	17,906
Total liabilities		55,472	47,710
Net assets		49,896	42,826
Equity			
Share capital		50,964	49,124
Reserves		(22,728)	(22,907)
Retained earnings		21,660	16,609
Total equity		49,896	42,826

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

Mastermyne Group Limited and its Controlled Entities

Condensed consolidated interim statement of comprehensive income

For the six months ended 31 December 2011

In thousands of AUD	***Note***	**Consolidated**	
		31 December 2011	**31 December 2010**
Continuing operations			
Revenue	*7*	124,299	73,626
Other income	*8*	330	54
Contract disbursements		(22,830)	(13,092)
Personnel expenses	*10*	(83,280)	(48,012)
Office expenses		(2,673)	(2,600)
Depreciation and amortisation expense	*13,14*	(3,135)	(2,537)
Impairment loss	*13*	-	(3,034)
Other expenses	*9*	(374)	(978)
Results from operating activities		12,337	3,427
Finance income		91	43
Finance expense		(720)	(661)
Net finance expense	*11*	(629)	(618)
Profit before income tax		11,708	2,809
Income tax (expense)/benefit	*12*	(3,868)	1,616
Profit for the period		7,840	4,425
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive income for the period		7,840	4,425
Attributable to:			
Equity holders of the Company		7,840	4,425
Profit for the period		7,840	4,425
Earnings per share			
Basic earnings per share (AUD)		0.11	0.06
Diluted earnings per share (AUD)		0.11	0.06

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

Mastermyne Group Limited and its Controlled Entities

Condensed consolidated statement of changes in equity
For the six months ended 31 December 2011

In thousands of AUD	Share capital	Retained earnings	Share-based payment reserve (note 18)	Common Control Reserve	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	-	4,425	-	-	4,425
Total recognised income and expense	-		-		-
Total comprehensive income for the period	-	4,425	-	-	4,425
Transactions with owners recorded directly in equity					
Issue of ordinary shares to settle contingent consideration	514				514
Share-based payment transactions			22		22
Dividends to equity holders		(875)			(875)
Total contributions by and distributions to owners	514	(875)	22	-	(339)
Balance at 31 December 2010	49,124	11,053	1,225	(24,237)	37,165
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	-	7,840	-	-	7,840
Total comprehensive income for the period	-	7,840	-	-	7,840
Transactions with owners recorded directly in equity					
Issue of ordinary shares for cash					-
Issue of ordinary shares to settle contingent consideration					-
Share options exercised	1,840				1,840
Capital Paid up					-
Share-buy back					-
Share-based payment transactions			179		179
Dividends to equity holders		(2,789)			(2,789)
Total contributions by and distributions to owners	1,840	(2,789)	179	-	(770)
Balance at 31 December 2011	50,964	21,660	1,509	(24,237)	49,896

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

Mastermyne Group Limited and its Controlled Entities

Condensed consolidated interim statement of cash flows

For the six months ended 31 December 2011

		Consolidated	
In thousands of AUD	***Note***	**31 December 2011**	**31 December 2010**
Cash flows from operating activities			
Cash receipts from customers		132,506	68,298
Cash paid to suppliers and employees		(120,892)	(66,854)
Cash generated from operations		11,614	1,444
Interest paid		(720)	(615)
Income tax paid		(1,438)	(1,374)
Net cash flows from/(used in) operating activities	*22*	9,456	(545)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		23	104
Acquisition of property, plant and equipment		(3,515)	(1,671)
Acquisition of intangible assets		(19)	-
Interest received		91	43
Net cash flows used in investing activities		(3,420)	(1,524)
Cash flows from financing activities			
Proceeds from exercise of share options		1,840	-
Proceeds from borrowings		1,388	532
Repayment of borrowings		(1,195)	(1,265)
Payment of finance lease liabilities		(3,897)	(2,789)
Dividends paid		(2,789)	(875)
Net cash flows used in financing activities		(4,653)	(4,397)
Net increase decrease in cash and cash equivalents		1,383	(6,466)
Cash and cash equivalents at beginning of period		6,020	8,718
Cash and cash equivalents at end of period	*17*	7,403	2,252

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

Notes to the financial statements
For the six months ended 31 December 2011

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 interim financial statements of the Company as at 31 December 2011 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities').

The Group is primarily involved in providing contracting services to the underground long wall mining operations and open cut electrical and mechanical services in the coalfields of Queensland's Bowen Basin and New South Wales.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2011 is available upon request from the Company's registered office at Level 1, 45 River Street Mackay or at www.mastermyne.com.au.

2 Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2011.

The condensed consolidated interim report was authorised for issue by the Board of Directors on 27 February 2012

(b) Use of estimates and judgements

The preparation of interim 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.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 30 June 2011.

3 Significant Accounting Policies

The accounting policies applied by the Group in the condensed consolidated interim financial report are the same as those applied by the group in its consolidated financial report as at and for the year ended 30 June 2011.

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 or liability.

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 Share-based payment transactions

The fair value of employee stock options is measured using the Black-Scholes formula and Monte-Carlo Sampling. 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.

iv 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.

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

These and other aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2011.

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, engineering services and training; 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 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.

Comparative segment information has been represented in conformity with the requirement of AASB 8 Operating Segments.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)
For the six months ended 31 December 2011

6 Segment information (continued)

Business Segments

	Underground mining services		Engineering and fabrication		Electrical and Mechanical Services		Consolidated	
In thousands of AUD	**31 December 2011**	**31 December 2010**	**31 December 2011**	**31 December 2010**	**31 December 2011**	**31 December 2010**	**31 December 2011**	**31 December 2010**
External revenues	112,821	66,452	9,628	6,243	1,850	931	124,299	73,626
Intersegment revenue	1,858	49	1,038	1,141	21	3,021	-	-
Reportable Segment profit/(loss) before income tax	11,314	2,926	1,165	319	(633)	(146)	11,708	2,809

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

in thousands of AUD	**31 December 2011**	**31 December 2010**
Revenues		
Total revenue for reportable segments	127,216	77,837
Elimination of inter-segment revenue	(2,917)	(4,211)
Consolidated revenue	124,299	73,626
Profit or loss		
Total profit or loss for reportable segments	11,846	3,099
Elimination of inter-segment profits	(138)	(77)
Unallocated amounts: other corporate expenses	-	(213)
Consolidated profit before income tax	11,708	2,809

7 Revenue

In thousands of AUD	Consolidated 31 December 2011	31 December 2010
Contracting revenue	111,871	65,103
Sale of goods	9,628	6,243
Machinery hire	2,800	2,280
	124,299	73,626

8 Other income

In thousands of AUD	Consolidated 31 December 2011	31 December 2010
Administration revenue	313	52
Gain on sale of property, plant and equipment	17	2
	330	54

9 Other expenses

In thousands of AUD	Consolidated 31 December 2011	31 December 2010
Loss on sale of property, plant and equipment	-	45
IPO expense	-	(4)
Business Development Costs	-	29
Insurance	590	383
Provision for Bad Debt	(216)	525
	374	978

Write back of provision for doubtful debts relates to the settlement of an insurance claim which resulted in receipt of trade receivables previously provided for.

10 Personnel expenses

In thousands of AUD	Consolidated 31 December 2011	31 December 2010
Wages and salaries	73,947	43,088
Other associated personnel expenses	5,596	2,798
Contributions to defined contribution superannuation funds	3,558	2,104
Equity-settled share-based payment transactions	179	22
	83,280	48,012

Notes to the financial statements (continued)

For the six months ended 31 December 2011

11 Finance income and expense

Recognised in profit or loss

In thousands of AUD	Consolidated 31 December 2011	31 December 2010
Interest income	91	43
Finance income	91	43
Bank Charges	-	-
Interest expense	(720)	(661)
Finance expense	(720)	(661)
Net finance expense recognised in profit or loss	(629)	(618)

12 Income tax expense

Numerical reconciliation between tax expense and pre-tax accounting profit

In thousands of AUD	Consolidated 31 December 2011	31 December 2010
Profit for the period	7,840	4,425
Total income tax expense/(benefit)	3,868	(1,616)
Profit excluding income tax	11,708	2,809
Income tax using the Group's statutory income tax rate of 30% (2009: 30%)	3,512	843
Non-deductible expenses	361	234
Effects of entering into tax consolidation	-	(2,362)
Under/(over) provision of previous year	(5)	(331)
	3,868	(1,616)

Rights to future income

On 25 November 2011, the Federal Government announced proposals to amend the existing tax consolidation legislation. This announcement proposes both retrospective and prospective changes to the tax consolidation legislation. The proposed changes in the legislation are yet to pass through the Parliamentary processes before being substantively enacted as legislation.

The Group recognised its right to additional tax deductions following the enactment of tax consolidation amendments in May 2010 related to rights to future income and customer relationships. Should the November 2011 proposals be enacted as legislation, all of the deductions claimed to date for customer relationship intangibles, and a portion of deductions claimed to date for customer contracts, would no longer be available to the Group.

If enacted in accordance with the Government announcement, the Group may have an additional current tax liability of $1.24 million, a decrease in deferred tax assets of $137,000 and an increase in income tax expense of up to $1.38 million as at 31 December 2011. The eventual financial statement impacts are dependent on the final legislation as enacted by Parliament.

Until this legislation is substantively enacted, no financial consequences of these proposed amendments will be recognised in the financial statements.

Mastermyne Group Limited and its Controlled Entities

Notes to the financial statements (continued)
For the six months ended 31 December 2011

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
				Consolidated				
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)
Acquired through business combination								-
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	29	807		225	5,704	10	6	6,781
Disposals			(20)		(14)			(34)
Transfers	1	898			(899)			-
Balance at 31 December 2011	958	40,860	2,293	1,391	9,015	510	414	55,441
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	26	2,491	140	96		58	31	2,842
Disposals			(14)					(14)
Balance at 31 December 2011	794	17,211	1,377	927	-	320	213	20,842
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 31 December 2011	164	23,649	916	464	9,015	190	201	34,599

Impairment

During the period to the half year ending 31 December 2010, Mastermyne Pty Ltd a legal entity in the Underground division of the Group, entered into a dry hire arrangement for an underground continuous miner (ABM20) with Pike River Coal in New Zealand.

On 19 November 2010 there was an explosion underground ceasing mining operations and subsequently commencing a recovery effort at the mine. By 31 December 2010 the mine experienced 3 more explosions, increasing gas levels and temperatures and significantly hampering efforts to re-enter the mine. Initially, Directors were of the view that it was probable that the asset could be recovered. Following a thorough investigation, conducted since early January to determine the probability of recovery of the asset, the main conclusions are that:-

1. There has been insufficient physical evidence as to the condition of the machine and;
2. There has been no indication that the likelihood of re- entry to the mine has substantially improved.

As a result of this investigation it was determined that recovery of the machine was not probable, the Directors came to the view that the full carrying value of the asset $3,034 thousand should be impaired as at the 31 December 2010.

Mastermyne lodged an insurance claim for this loss event and the insurers have settled the claim under the Industrial Special Risks insurance policy issued by the insurers in favour of Pike River Coal Ltd.

During the period Mastermyne acquired $3,265 thousand (2010: $6,559 thousand) of property, plant and equipment through finance leases.

14 Intangible assets

In thousands of AUD	Consolidated 31 December 2011	30 June 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	(1,869)	(1,636)
Net carrying amount	800	1,033
Intellectual property		
Cost (gross carrying amount)	1,515	1,483
Accumulated amortisation and impairment	(591)	(531)
Net carrying amount	924	952
Total intangible assets		
Cost (gross carrying amount)	22,452	22,420
Accumulated amortisation and impairment	(2,460)	(2,167)
Net carrying amount	19,992	20,253

Reconciliation of carrying amount at beginning and end of the period

In thousands of AUD	Consolidated 6 months ended 31 December 2011	12 months ended 30 June 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	(233)	(467)
Carrying amount - closing	800	1,033
Intellectual property		
Carrying amount - opening	952	1,071
Other acquisitions - internally developed	32	-
Amortisation	(60)	(119)
Carrying amount - closing	924	952
Total intangible assets		
Carrying amount - opening	20,253	20,584
Other acquisitions - internally developed	32	-
Increase in contingent consideration	-	255
Amortisation	(293)	(586)
Carrying amount - closing	19,992	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)

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	**31 December 2011**	**30 June 2011**
Underground mining services	6,429	6,429
Engineering and fabrication	7,301	7,301
Electrical and mechanical services	4,538	4,538
	18,268	18,268

15 Inventories

	Consolidated	
In thousands of AUD	**31 December 2011**	**30 June 2011**
Inventory on hand	1,858	1,654
	1,858	1,654

16 Trade and other receivables

	Consolidated	
In thousands of AUD	**31 December 2011**	**30 June 2011**
Trade receivables	34,150	23,280
Prepayments	1,571	937
Unbilled revenue	4,857	4,027
Other receivables	273	3,685
	40,851	31,929

17 Cash and cash equivalents

	Consolidated	
In thousands of AUD	**31 December 2011**	**30 June 2011**
Bank balances	7,395	6,017
Cash on hand	8	3
Cash and cash equivalents in the statement of cash flows	7,403	6,020

18 Capital and reserves

The share capital of Mastermyne Group Limited is as follows:

	Ordinary Class shares	
	31 December 2011	**30 June 2011**
On issue at 1 July	73,367,514	72,897,598
Exercise of share options	2,000,000	
Shares issued to settle contingent consideration	-	469,916
On issue at 31 December – 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.

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.

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
Total amount			**2,789**		
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.

19 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.

In thousands of AUD	Consolidated	
	31 December 2011	**30 June 2011**
Current liabilities		
Insurance premium funding (unsecured)	877	176
Finance lease liabilities (secured)	3,920	4,779
Commercial bill facility (secured)	492	1,000
	5,289	5,955
Non-current liabilities		
Finance lease liabilities (secured)	12,863	12,635
Commercial bill facility (secured)	4,500	4,500
	17,363	17,135

Security

Finance lease

Finance lease facilities are drawn with the Westpac Banking Corporation, 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.

Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

In thousands of AUD	Consolidated					
	Future minimum lease payments 31 December 2011	**Interest 31 December 2011**	**Present value of minimum lease payments 31 December 2011**	**Future minimum lease payments 30 June 2011**	**Interest 30 June 2011**	**Present value of minimum lease payments 30 June 2011**
Less than one year	4,745	(824)	**3,921**	6,312	(1,533)	**4,779**
Between one and five years	13,665	(802)	**12,863**	14,353	(1,924)	**12,429**
More than five years	-	-	**-**	210	(4)	**206**
	18,410	(1,626)	**16,784**	20,875	(3,461)	**17,414**

20 Employee benefits

In thousands of AUD	Consolidated	
	31 December 2011	**30 June 2011**
Current		
Wages payable	1,248	808
Liability for annual leave	2,475	1,506
Liability for vesting sick leave	2,355	1,444
Liability for long service leave	80	88
	6,158	3,846
Non-current		
Liability for long service leave	91	87
	91	87

21 Trade and other payables

In thousands of AUD	Consolidated	
	31 December 2011	**30 June 2011**
Trade payables	8,037	8,878
Sundry creditors and accruals	13,561	9,930
	21,598	18,808

22 Reconciliation of cash flows from operating activities

In thousands of AUD	*Note*	Consolidated 31 December 2011	 31 December 2010
Cash flows from operating activities			
Profit for the period		7,840	4,424
Adjustments for:			
Depreciation	*13*	2,842	2,244
Amortisation of intangible assets	*14*	293	293
Impairment loss	*13*	-	3,034
(Gain)/loss on sale of property, plant and equipment	*8,9*	(17)	43
Share based payments		179	
Net finance expense	*11*	629	618
Income tax expense/(benefit)		3,868	(1,616)
Operating profit before changes in working capital and provisions		15,634	9,040
Change in trade and other receivables	*16*	(8,922)	(12,046)
Change in inventories	*15*	(204)	174
Change in trade and other payables	*21*	2,790	3,605
Change in provisions and employee benefits	*20*	2,316	671
		11,614	1,444
Interest paid		(720)	(615)
Income taxes paid		(1,438)	(1,374)
Net cash from operating activities		9,456	(545)

23 Share-based payments

During the period 1,150,000 performance rights were granted to Key Management Personnel on 8 August 2011. These options vest in 2012, 2013 and 2014 expiring in 2013, 2014 and 2015 respectively. These rights are subject to performance and are rights to shares in Mastermyne Group Limited.

Mastermyne Group Limited and its Controlled Entities

Directors' declaration

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

1. the financial statements and notes set out on pages 5 to 21, are in accordance with the Corporations Act 2001 including:

   (a) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the six months ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

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

Signed in accordance with a resolution of directors.

____

Peter Slaughter
Chairman

Dated at Brisbane this 27th day of February

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

We have reviewed the accompanying interim financial report of Mastermyne Group Limited, which comprises the consolidated statement of financial position as at 31 December 2011, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 23 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 half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation of the interim 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 interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2011 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Mastermyne Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Mastermyne Group Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the half-year period ended on that date; and

b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

M J Jeffery
Partner

Brisbane

27 February 2012