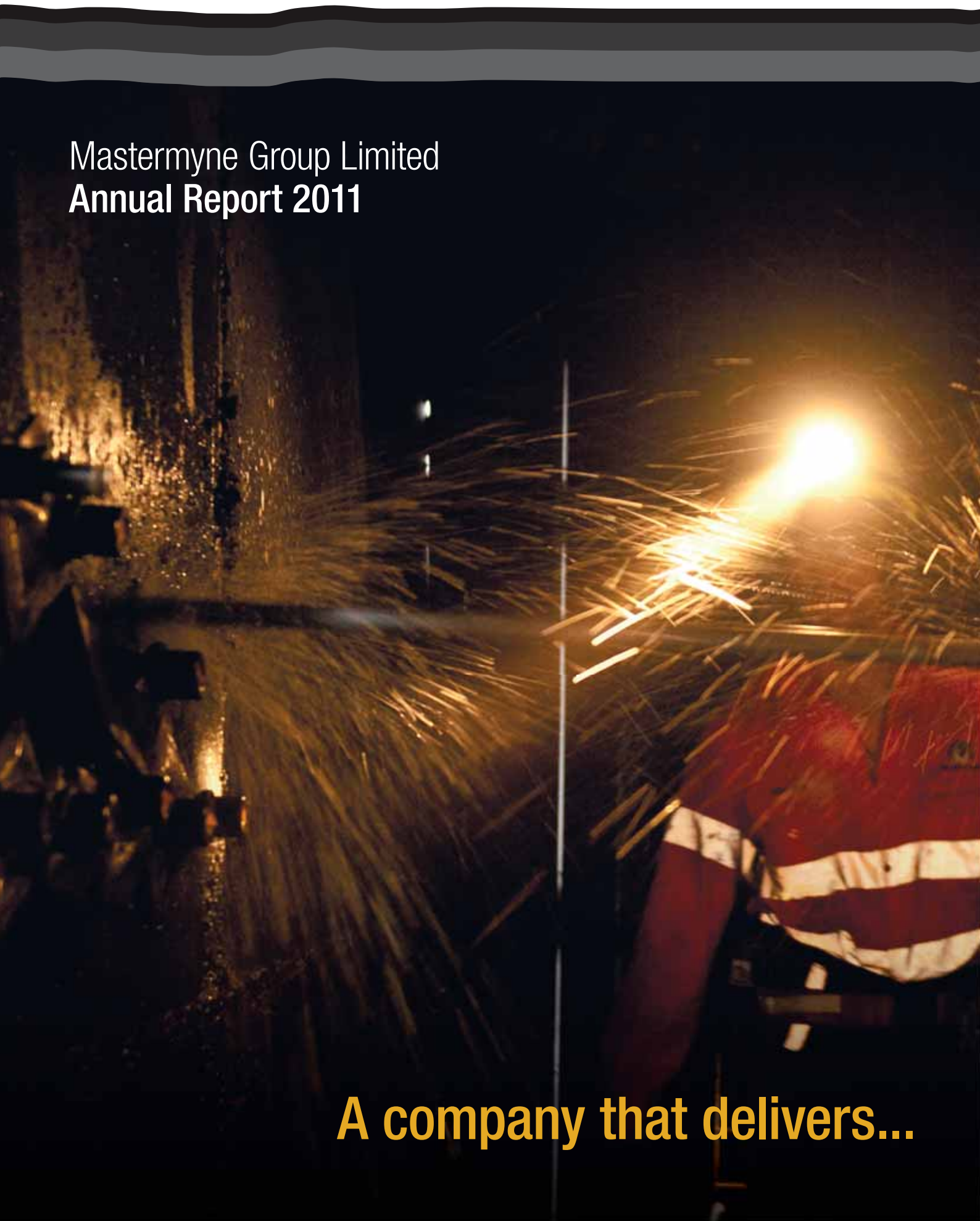




Mastermyne

Mastermyne Group Limited
Annual Report 2011

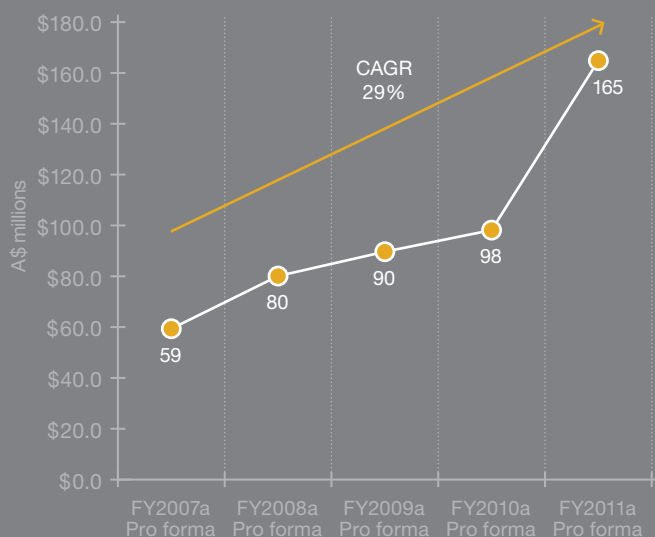


A company that delivers...

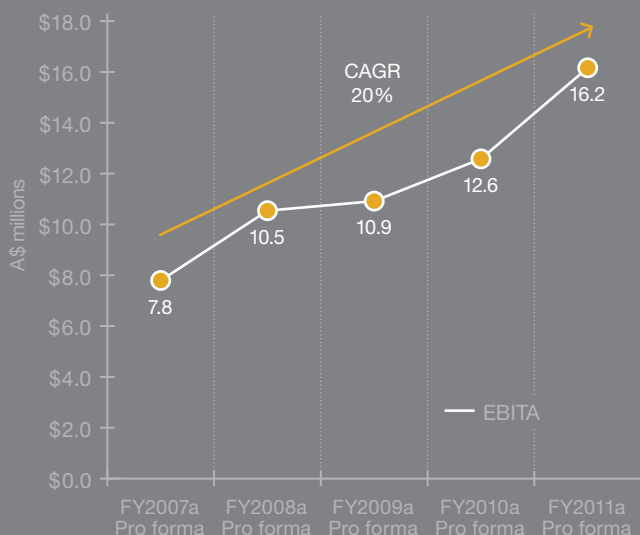
A company that delivers...

FINANCIAL PERFORMANCE

Revenue



Pro forma EBITA



Pro forma Actual vs Pro forma Forecast

(\$'000)	FY2010 Pro forma Actual	FY2011 Pro forma Forecast	FY2011 Pro forma Actual
Total Revenue	98,163	133,403	164,830
Statutory EBITA	12,808	19,628	20,358
Adjustments:	3,896	—	593
EBITDA	16,703	19,628	20,951
EBITA	12,580	14,676	16,163
Profit before tax	11,004	12,855	13,987
Tax adjustments			-2,540
Tax expenses	-3,173	-3,960	-1,653
Profit after tax	7,831	8,895	9,794
EBITA Margins	12.82%	11.00%	9.81%
EPS	10.7	12.1	13.3
DPS	1.2	6.1	6.1

2011 Pro forma Actual vs

FY2010 Pro forma Actual	FY2011 Pro forma Forecast
67.90%	23.60%
58.90%	3.70%
25.40%	6.70%
28.50%	10.10%
27.10%	8.80%
-47.90%	-58.30%
25.10%	10.10%

- ▶ Combined Group Revenue was up 26% on IPO prospectus forecast to \$164.83 million a 68% increase on FY2010 as a result of winning three major contracts in the underground division including Moranbah North Development, Oaky Creek Conveyors and Newstan Conveyors / Drivage.
- ▶ Adjusted Net Profit was up 10% on prospectus forecast to \$9.79 million.
- ▶ Full year dividend of 6.1 cents per share fully franked in line with the IPO prospectus forecast.

Contents: Chairman's Report **1/** Business Performance **2/** Managing Director and Chief Executive Officer's Report **3/** Market Leading Training **6/** Operational Performance **8/** Financial Report **11/**

CHAIRMAN'S REPORT

It is pleasing to be able to write to you and report a very good outcome for our first full year of trading as a public company. The seeds that were sown by Andrew Watts and Darren Hamblin in the mid 90's have matured into a Company wherein all involved in its growth can be immensely proud.

The underlying Net Profit after tax of \$9.79 million was some 10% above projected IPO estimate. Your Company announced a dividend of 3.7 cents per share bringing the total payments for the calendar year to 6.1 cents per share as per the IPO forecast.

Occupational Health and Safety is viewed by your Board as a key factor in the operation of the Company and we see it as important to target industry leading performance in this area across all our projects. The recent appointment of a senior manager with group responsibilities for standards and policy in this area is a reflection of our commitment to this. There were excellent OH&S outcomes at some of our projects tempered by a few less than desired results on others. Some of the performance issues may reflect factors associated with rapid growth but by the time this report was being prepared improvements in areas of reporting and performance were being observed in those projects with lower performance. OH&S is and will continue to be a key performance measure in the MD's and other key management personnel's short-term incentive arrangements.

While our year had some significant challenges arising from a major growth in revenue, our dedicated management team led by Tony Caruso dealt with these by executing timely responses to cope with the demands imposed by labour shortages and seizing opportunities to acquire equipment resources to underpin our capacity to bid new projects.

To an extent, the immediate future will mean some more of the same to build our people resources and enable further growth. Your Company's strategy to focus on underground coal mining services and expand geographically has borne fruit in the past year and will continue to be our core strategy. In addition to expanding into The Hunter Valley of New South Wales, we added additional services such as underground directional drilling and our Mackay Training Centre (Myne Start).



Myne Start captured industry wide interest and recently has won two significant industry awards recognising the innovative approach used. This centre played a key part in enabling us to train people new to the coal industry and added over 100 valuable employees to our team. It is also being used to train people for our key clients.

The significant growth of the business put pressure on the management team and it is appropriate to thank them for the pleasing way in which they responded in 2010/2011. As mentioned by Tony in his presentation of the annual results in August, we are continuing to build the number of key people in our management team. Tony will have more to say on this at the Annual General Meeting in November.

Your Board is supportive of the actions taken and planned by your CEO in his efforts to build a stronger and more broadly based set of skills in the key management group.

Although the global outlook generally has been clouded by debt related issues in the USA and Europe, your Company's growth prospects are currently limited not so much by global circumstances as the ability to source labour to allow us to effectively and competitively bid projects. This is not to infer that the coal sector is immune from global economic forces but we do not currently see demand for our services decreasing in the short to medium term. Rather, demand for our services continues to be strong which is a reflection of the market situation and the confidence that our clients have in our performance.

The successful multi-pronged strategy of combining Myne Start training, domestic recruitment from other sources (hard rock, coal mines and service providers) and international recruitment will continue to be used to provide us with the people we need.

This brings me to an important related issue which is what we pay to acquire the key people we need to operate your Company. Recent changes to the Corporations Act strengthen the requirement for shareholders to approve the remuneration of key personnel so it is important that you take time to understand our remuneration policies before voting on this issue. The current report provides details of current remuneration and a summary of the CEO's Long Term Incentive Plan was included in last year's Annual Report and is repeated in this year's report.

Finally, I want to record my thanks to my fellow directors for their support and commitment during the past year.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. Slaughter'.

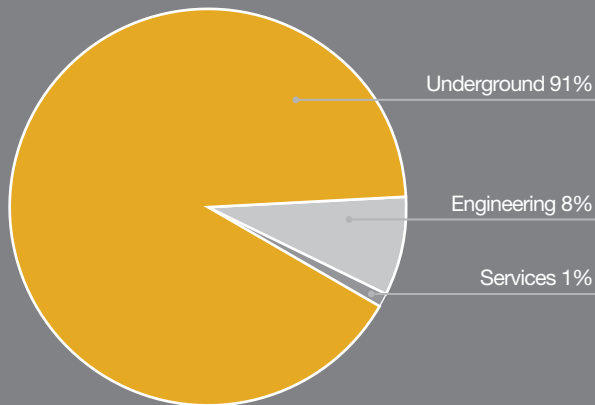
Peter Slaughter

**Non Executive Chairman
Mastermyne Group Limited**

A company that delivers...

BUSINESS PERFORMANCE

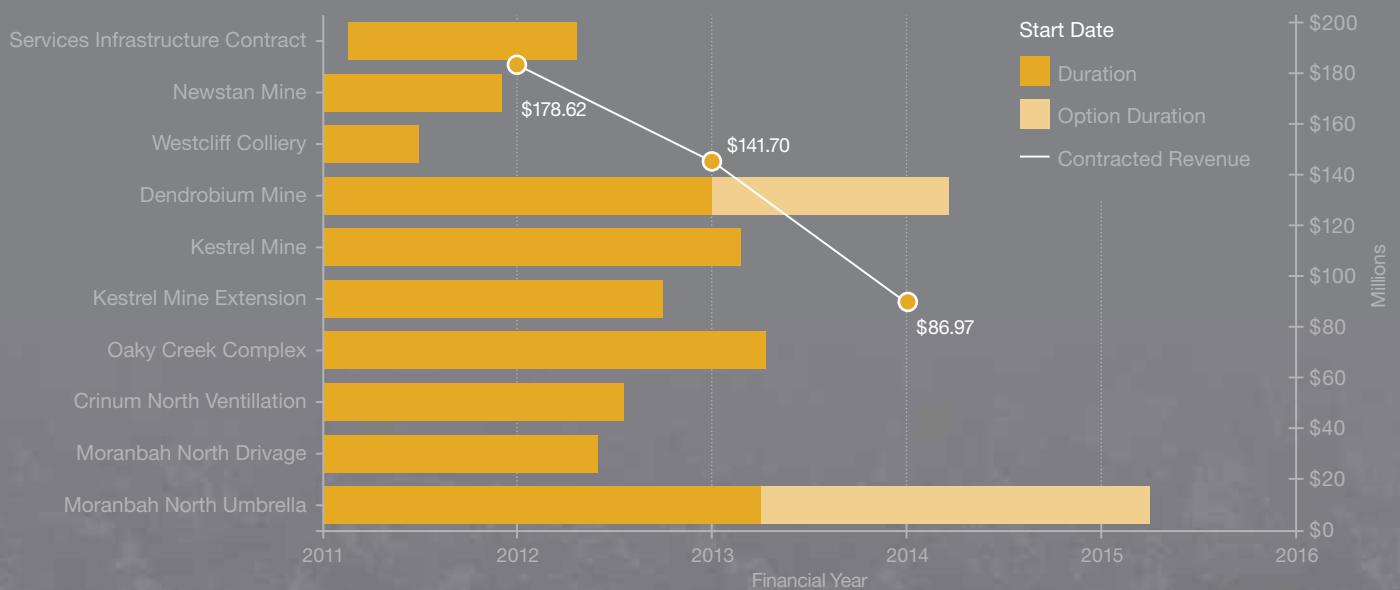
Revenue by division



Major contracts

Project	
Moranbah North Umbrella	Renewed contract for another 2 years with a 2 year extension option.
Moranbah North Drivage	Roadway development contract was signed October 2010.
Kestrel Mine Extension	Have mobilised to work in portion 2 of the project.
Kestrel	2 year contract signed in September 2011.
Oaky Creek	Contract was signed October 2010.
Dendrobium	Continues to perform well.
Westcliff	Continues to perform well.
Crinum East	Renewed contract for another 2 years.
Newstan Drivage and Conveyors	12 Month Contract signed in May 2010.

Contract Order Book



- ▶ Contract order book excludes recurring and purchase order work.
- ▶ Workforce will increase between 50 to 60 people to meet the contract order book FY2012. (Kestrel Mine Extension workforce transfers over from Joint Venture partner).

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S REPORT

**After completing our first full year as a public company
I am pleased to report that it has been a year of significant
and successful organic growth for the Mastermyne Group.**

We delivered 68% top line growth from the previous financial year thanks largely to a well-defined and executed strategy of expanding the range of services and geographical expansion combined with securing 3 new long term projects. Not only have we delivered revenue growth but the business exceeded the prospectus forecast in all key financial metrics which is a satisfying result in our first full year as a public company.

Underground has continued to be the back bone of the Mastermyne Group and this is where the significant growth occurred in FY2011. We secured three new projects during the year with Xstrata Coal, Centennial Coal and Anglo Coal. The new service offerings of Directional Drilling and Ventilation Services have enhanced our value adding capabilities to our key customers and both areas have been well received in the sector and been profitable. The acquisition of the small Hunter Valley based contracting operation in late FY2010 has underpinned our expansion into the Hunter Valley with the Underground Division signing its first contract in this region during the year.

The Engineering Division has bounced back from the effects of the global slowdown in the previous financial year to deliver a strong result and good growth over the year. This Division is continuing to experience strong demand for its products and has now relocated into a larger workshop in Rockhampton as well as expanding the Hunter Valley workshop. The order book for both Queensland and NSW is at record highs and sets this year up for another strong performance.

The Services Division posted a loss in FY2011 and has undergone some restructuring in preparation for the 2012 financial year. The workshop work has been centralised with the Engineering Division clearing the way for the Services Division to focus on our core discipline of Site Project work. We are pleased to report that we have already secured a major contract under this restructure which will see this Division return a profit in this financial year.

Operational Highlights

The significant operational highlights for the financial year included:

- ▶ Top line organic growth was up by 68% from previous corresponding period.
- ▶ Profitability exceeded prospectus forecasts on both a statutory and underlying basis.
- ▶ Margins were impacted due to three main factors, being the effects of using sub contract labour in the first half of the year, a mine access interruption at one of the major projects in January and a full year loss in the Services Division.
- ▶ Lagging Safety statistics were over budget for the full year.
- ▶ Employee numbers at 823 for the full year up 46% from previous corresponding period.
- ▶ Operations have continued to deliver strong performance which underpins long term relationships with major coal producers.

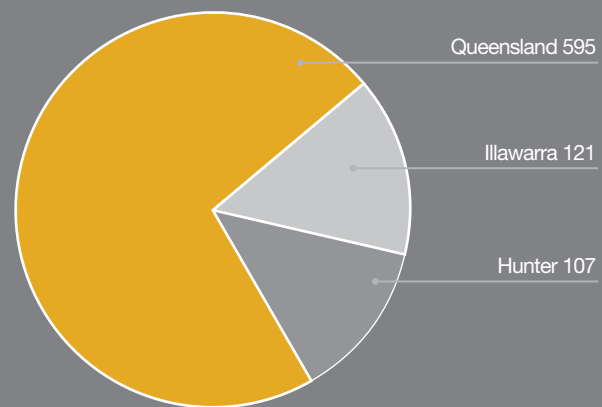


A company that delivers...

WITH ITS WORKFORCE



Workforce Numbers



People

- ▶ Workforce for the full year has increased 46% to 823.
- ▶ The training centre has successfully delivered over 100 people into the Mastermyne workforce.
- ▶ Recruitment teams have visited Poland, South Africa, New Zealand and UK and have interviewed over 114 experienced underground miners.
- ▶ Randstad contract continues to deliver good numbers of experienced candidates.
- ▶ Numbers plateaued in the last 2 months of the FY due to Kestrel Mine Extension project (KME) pushing back to an August ramp up for Mastermyne portion of the project.
- ▶ Continuing investment in workforce training and development.
- ▶ Labour market is tight but we continue to meet demands of our projects.

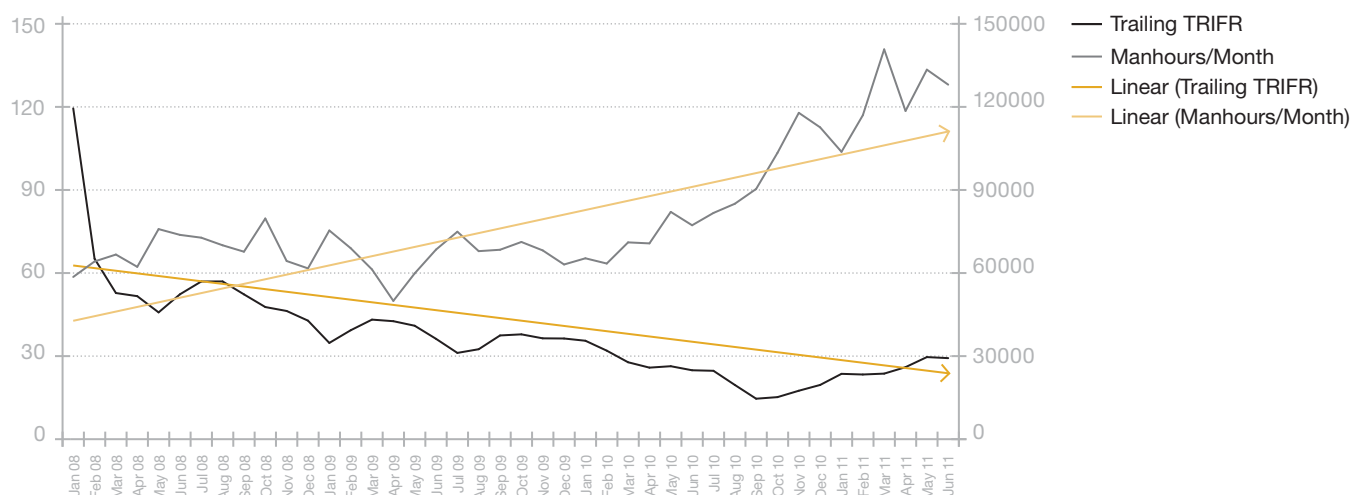
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

Business Highlights

As noted above 2011 has been a year of growth for the Mastermyne Group with 68% top line growth from the previous financial year. The strategy as defined in the IPO prospectus of expanding the range of services and geographical expansion are now well embedded and led to several new opportunities and contracts which will underpin the business well into the future. We have continued to grow our workforce in a tough labour market through a balanced Human Resources strategy that incorporates recruitment and retention. Our equipment fleet remains in high demand and the reputation of the Group continues to be improved through the successful execution of projects.

With this exceptional growth we have undoubtedly experienced some stresses on the business and our people during the year. Our safety performance, whilst good overall, did suffer on some sites and regardless that the injuries were minor in nature, the safety performance received the immediate attention of the company including from myself. We have significantly strengthened the safety team via the appointment of several key positions, resulting in an improved safety performance in the later stages of the financial year which is continuing into this year.

Hours Worked vs 12 Month Rolling Average TRIFR



Safety

- ▶ Focus has been on leading safety initiatives and measures.
- ▶ Lagging statistics have increased by 4.3 from previous year.
- ▶ Significant restructuring of the safety department.
- ▶ Right people in the right job.
- ▶ Focus on incident investigation and implementing hard controls.
- ▶ Moved to more stringent OSHA reporting standard for FY2012.

Engineering Division has worked for 597 LTI free days

Kestrel Mine Extension Project has worked for 921 LTI free days

Dendrobium Project has worked for 365 LTI free days

A company that delivers...

MARKET LEADING TRAINING

Highlights

Our Training Centre opened in September 2010 and has quickly become a key strategic driver for the business.

- ▶ Have completed 14 courses and placed 122 people into Mastermyne operations.
- ▶ Have developed a Hard Rock bridging course and placed 28 miners into Mastermyne operations.
- ▶ Has gained acceptance and is being well supported by the major mining houses (BMA, RIO Tinto, Xstrata and Anglo).
- ▶ Centre is now self funding as planned.





- ▶ Courses for NSW being developed with a view to building a replica facility in NSW.
- ▶ The facility has gained recognition within the Underground Coal Mining Industry and has recently won two awards for the facility and pathways program it offers to the underground coal mining industry (1) Prospect Mining Employer of Choice Award and (2) Mining Industry Skills Centre Innovation Training Award.



A company that delivers...

OPERATIONAL PERFORMANCE

FY2011 FINANCIAL REVIEW

SAUD (000's)	2011	2010
Assets		
Cash and cash equivalents	6,020	8,718
Trade and other receivables	31,929	11,928
Inventories	1,654	1,357
Total current assets	39,603	22,003
Deferred tax assets	–	652
Property, plant and equipment	30,680	19,670
Intangible assets	20,253	20,584
Total non-current assets	50,933	40,906
Total assets	90,536	62,909
Liabilities		
Trade and other payables	18,808	10,419
Loans and borrowings	5,955	6,184
Employee benefits	3,846	2,503
Current tax payable	1,195	2,026
Total current liabilities	29,804	21,132
Loans and borrowings	17,135	7,847
Employee benefits	87	28
Deferred tax liabilities	684	823
Total non-current liabilities	17,906	8,698
Total liabilities	47,710	29,830
Net assets	42,826	33,079

- ▶ Trade and other receivables increased as a result of the following:
 - ▶ Growth in revenues contributed \$9 million
 - ▶ Increase in debtor days resulted in a \$7.4 million increase
 - ▶ Insurance receivable of \$3.6 million
- ▶ Trade Payables increased as a result of increased operating activities and includes amounts owing on capital expenditure from June.
- ▶ Property Plant and Equipment is up \$11 million as a result of the \$19.18 million in capital expenditure during the year.
- ▶ Net Debt totalling \$17 million up \$11.7 million from FY2010 due to debt funding the increased capital expenditure.
- ▶ Interest cover reduced to 9.3 times as a result of increased interest on debt and returns not fully recognised until equipment goes into service in FY2012.

Capex

- ▶ Mining fleet currently all utilised on Mastermyne Projects or externally hired.
- ▶ Significant investment in mobile underground equipment during FY2011 with \$19.2 million in capital expenditure.
- ▶ Demand for equipment is increasing and lead times on new equipment extending.
- ▶ Return on funds from mining fleet remain strong.

Description	Qty	Total Value	Delivered	Revenue From
Loaders – Sandvik	2	\$2,000	Jan 2011	Late Jan / Early Feb
Loaders – Coal Tram	2	\$2,000	Nov 2010	Jan 2011
Shuttlecar – Warracar	1	\$1,200	Dec 2010	Feb 2011
Continuous Miner – ABM20	1	\$3,950	March 2011	March 2011
Continuous Miner – Jeffrey 1038 cut / flit machine	1	\$1,050	Nov 2011	March 2011
Man Transporters – Drift Runner	3	\$1,200	Sept 2010	Sept 2010

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

We also experienced some pressure on cash flow this year which is consistent with rapid growth. The working capital position was addressed and we finished the year with a strong turn around. Margins were down by 1.8% for the year due to 3 issues being:

- ▶ the use of sub contract labour on the ramp up of a project;
- ▶ the effect of a roof fall at another project; and
- ▶ the losses in the Services division.

Whilst the margins were down for the year they were as a result of decisions we made for the long term benefit of the Group. We remain confident with our margins and most pleasing is we are not being impacted by margin pressures outside of our control.

This year we have spent more on capital equipment than in previous years and this was a conscious opportunistic decision by the company to take advantage of equipment prices and delivery times. We are seeing equipment increasingly more difficult to procure with lead times and costs escalating as demand from mining companies and contractors increases. With the equipment we have purchased during the year we are now in a prime position to capitalise on the sector demand and we are seeing excellent utilisation rates and a high return on investment. We have budgeted to return to historical capex spend levels in this current year.

Focus for FY2012

Summary

- ▶ Safety remains a core value but performance has been impacted by growth.
- ▶ Strong revenue and profit performance in FY2011 despite the sector interruptions experienced during the FY.
- ▶ Similar to the GFC Mastermyne has shown resilience to the impacts of extreme external factors.
- ▶ Dividend will be paid in line with prospectus forecast.
- ▶ Our success in recruiting and retaining our workforce has facilitated growth of the business.
- ▶ Geographical expansion and expanded services strategy has been delivered in FY2011.
- ▶ Operational performance in FY2011 has enhanced the reputation of the business.

Outlook

- ▶ Focus on our safety performance through risk management and proactive safety initiatives and measures.
- ▶ Strengthening of our management team by training or recruiting to deliver further growth.
- ▶ Bringing additional underground equipment online in FY2012.
- ▶ No foreseeable material impact from MRRT and Carbon Tax on Mastermyne operations.
- ▶ Focus on growth from existing projects.
- ▶ Opportunities to increase scope on existing contracts.
- ▶ Supported by a positive outlook for domestic coal production.
- ▶ Mastermyne outlook remains positive supported by a strong order book.

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S REPORT **CONTINUED**

Recruitment & Retention

Recruitment and retention remains at the forefront of our planning and we continue to see a tightening in the market for human resources. This year we have successfully recruited for our projects and have increased our workforce by 46% to 823 at the end of FY2011. This was achieved through a well-developed strategy which included domestic and international recruitment as well as the very successful training centre based in Mackay. We will continue to focus on the recruitment and retention strategy and this year expect that international recruitment and the training centre will dominate the HR strategy. I am confident in saying that the group is industry leader in this area and we were recently recognised with two prestigious HR awards to support this. You can be assured that we won't rest on our laurels.

Order Book & Pipeline

The sales pipeline beyond 2012 continues to build with tier 1 and 2 coal companies well advanced on several large scale underground projects and further projects in the approval stage. The combination of these projects combined with the customary production contracts builds a very solid long term pipeline of opportunities for the Group well beyond the current financial year.

Despite all the attention being generated by the Mineral Resources Rent Tax (MRRT) and Carbon Tax we have not experienced any slowdown in demand or shift in confidence by our major customers. Whilst these are seen as further imposts in undertaking business in Australia, the global demand for the product is driving continued demand and expansion. This is supported by ongoing expansion of major infrastructure such as coal loading ports and rail infrastructure, much of which won't come on line for another 2 to 3 years.

FY2012 Focus

Our focus this year will be one of consolidating with our current customer base. We have a very strong order book for FY2012 that will deliver growth from FY2011's results and there is an opportunity for further organic growth on these existing projects. We will use this year to strengthen our management team and improve our systems in preparation for the expected growth in FY2013 and beyond. We have identified several new management roles necessary for sustainable growth and have already successfully recruited some of these positions.

Summing Up

In summing up we have seen that the he underground mining sector was largely unaffected by the events of FY2011, in particular the weather events of 2010 /11, and the sector continues to grow strongly in both QLD and NSW. With continued global demand resulting in ongoing expansion Underground contracting services remain in very high demand. We are very well placed to capitalise on this with our strong management team, our ability to recruit the right people to execute these contracts and a modern well maintained fleet of equipment to support the projects. For the first time in the organisation's existence we are in very sound position of having an order book fully contracted for 2012 that will deliver growth on the 2011 results. We will use this strong position to consolidate and focus on organic growth in 2012 and prepare the Group for the new projects and opportunities that will come on line over the next 12 to 18 months. I would like to take this opportunity to publicly thank the executive management team and all project teams that have worked tirelessly throughout the year to deliver this exceptional result. I have every confidence in the team we have at Mastermyne and it is this team that will continue to deliver strong results safely, sustainably and profitably for our shareholders.

Yours sincerely,



Tony Caruso

**Managing Director & CEO
Mastermyne Group Limited**

FINANCIAL REPORT

Contents: Directors' report **12**/ Corporate Governance Statement **25**/ Auditor's Independence Declaration **30**/ Balance Sheet **31**/ Statement of Comprehensive Income **32**/ Statement of Changes in Equity **33**/ Statement of Cash Flows **34**/ Notes to the Financial Statements **35**/ Directors' Declaration **69**/ Independent Audit Report **70**/ ASX Additional Information **72**/ Corporate Directory **75**/

DIRECTORS' REPORT

For the year ended 30 June 2011

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 2011 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.*
Non-Executive 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 and Non-Executive Chairman of Monto Minerals Limited May 2002 to September 2008 and Childcare Centres of Australia Limited.

Special Responsibilities

Member of the Audit and Risk Management Committee

Chairman of the Remuneration and Nomination Committee

MR I. HALL (APPOINTED 22 MARCH 2010 – RESIGNED 30 MARCH 2011)

*Bachelor of Business (Accountancy), Graduate Certificate
in Management, Diploma of Financial Services.*
Non-Executive Director (Independent)

Experience and other directorships

In his former career, Ian Hall was one of Brisbane's and Australia's leading insolvency practitioners. He brings 25 years experience in the insolvency industry with the last 17 years as a Partner at PricewaterhouseCoopers ("PwC").

Special Responsibilities

Chairman of the Audit and Risk Management Committee

Member 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 implemented Pronto throughout the business during 2007. 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

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.

1 DIRECTORS CONTINUED

MR A. CARUSO (APPOINTED 10 MARCH 2010)

Post Graduate Degree in Business Management
Managing Director

Experience and other directorships

Tony was appointed CEO of Mastermyne in 2005 and Managing Director in 2008 and has overall corporate responsibility for Mastermyne.

Tony has over 20 years experience in underground mine contracting services. Prior to joining Mastermyne, Tony was the General Manager of Allied Mining in Queensland and a consultant to the underground mining sector. He has a trade background plus a post graduate degree in Business Management and is a Fellow of the Australian Institute of Management.

2 COMPANY SECRETARY

Mr W. Lyne was appointed to the position of company secretary on 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 Practising Accountant and is a graduate of the Australian institute of Company Directors. Chris has been with the Group since March 2006 and has over 8 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	10	10	6	6	2	2
Mr I. Hall	8	8	5	5	1	1
Mr D. Hamblin	10	10	6	6	2	2
Mr J. Wentworth	2	2	1	1	1	1
Mr A. Watts	10	10				
Mr A. Caruso	10	10				

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 68% to \$164.830 million in FY2011 (2010: \$98.122 million), increases were across all divisions of the business, with the most significant increase being \$62.9 million from the Underground division. This is a direct result of securing three new contracts across Queensland and New South Wales.

Net profit after tax for the year was \$11.742 million (2010: \$4.775 million). Increased profits are a result of growth in revenues, prior year one off expenses associated with the IPO and business acquisitions totalling \$3.618 million (pre-tax) and a one off tax benefit of \$2.362 million in the year ending 30 June 2011 as a result of forming a tax consolidated group. These were partly offset by a net expense of \$0.593 million (pre-tax) as a result of an explosion at Pike River Coal Mine consisting of an asset impairment, receivable impairment and an insurance receivable.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2011

4 OPERATING AND FINANCIAL REVIEW CONTINUED

CASH FLOWS

The cash position as at 30 June 2011 was \$6.020 million (2010: \$8.718 million). The decreased cash is impacted by the following significant items:

- ▶ net cash inflows from operating activities for the year of \$9.393 million (2010: net cash inflows of \$15.099 million), this result is below prior year largely due to changes in working capital as a result of this year's growth;
- ▶ net cash outflows from investing activities for the year of \$2.725 million (2010: net cash outflows of \$2.570 million), primarily as a result of the capital expenditure during the period; and
- ▶ net cash outflows from financing activities for the year of \$9.366 million (2010: net cash outflows of \$9.411 million), primarily as a result of the Group repaying debt and paying dividends to shareholders.

BALANCE SHEET

The Group had \$19.180 million of capital expenditure to the year ended 30 June 2011 (2010: \$6.031 million). Of the total, \$5.1 million is yet to produce any revenue, and another \$7.7 million only started producing revenue in the final quarter of the year. The Group invested in the capital during this period to take advantage of the short lead times which have now seen grow on the back of increased demand. Returns for this equipment will be realised in future periods as the equipment is put into service.

As a result of the capital expenditure total debt has increased by \$9.058 million to \$23.09 million at 30 June 2011 (2010: \$14.032 million).

OPERATIONAL OVERVIEW

2011 has been a year of significant and successful organic growth for the Mastermyne Group with 68% top line growth from the previous financial year. The strategy as defined in the IPO prospectus of expanding the range of services and geographical expansion are now well embedded and have led to several new opportunities and contracts which will underpin the business well into the future.

Safety management has continued to be at the core of the companies operating principals and we have seen ongoing improvement in our leading and proactive safety measures. Our lagging statistics have increased in the earlier stages of this year under the strain of growth and regardless that the injuries were minor in nature, the safety performance received the immediate attention of the company including the Managing Director. Furthermore the company strengthened the safety

team via the appointment of several key positions, resulting in an improved safety performance from the later stages of the financial year. We have seen a tightening in the market for human resources but the company has successfully recruited in the 2011 financial year. This was achieved through a well-developed strategy which included domestic and international recruitment as well as the very successful training centre based in Mackay.

The business exceeded the prospectus forecast in all key financial metrics in its first full year as a public company. The significant revenue growth was driven by securing three new long term contracts across Queensland and NSW. Margins were down from IPO prospectus forecast for the full year due to three main factors but commenced recovering in the second half of the year. The Group continues to perform well on all contracted work and the order book and sales pipeline are strong.

The significant operational highlights for the financial year included:

- ▶ top line organic growth was up by 68% from previous corresponding period;
- ▶ profitability exceeded prospectus forecasts on both a statutory and underlying basis;
- ▶ margins were impacted due to three main factors, being the effects of using sub contract labour in the first half of the year, a mine access interruption at one of the major projects in January and a full year loss in the Services Division;
- ▶ employee numbers at 823 for the full year up 46% from previous corresponding period; and
- ▶ operations have continued to deliver strong performance which underpins long term relationships with major coal producers.

OUTLOOK

The underground mining sector was largely unaffected by the weather events of 2010/11 and as a result has continued to grow strongly in both QLD and NSW. Underground contract services remain in very high demand and Mastermyne is well placed to capitalise on this. Mastermyne is in the very sound position of having an order book contracted for 2012 that will deliver growth on the 2011 results. The company will use this strong position to consolidate and focus on organic growth over 2012.

The sales pipeline beyond 2012 continues to build with tier 1 and 2 coal companies well advanced on several large scale underground projects and further projects in the approval stage. The combination of these builds a very solid long term pipeline of opportunities.

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 Underground (appointed 3 March 2008)
- ▶ Mr C. Kneipp, Financial Controller (appointed 20 March 2006)
- ▶ Mr D. Fitzpatrick, General Manager Engineering (appointed 10 August 2009)
- ▶ Mr J. Hayward, Business Development Manager (appointed 22 March 2010, resigned 23 October 2010)
- ▶ Ms V. Gayton, Human Resources Manager (appointed 11 August 2010)
- ▶ Ms B. Jooste, Group Executive Safety Manager (appointed 14 June 2011)

Compensation levels for key management personnel of the Group are competitively set to attract and 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, rewarding 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 KPIs aligned with the short and long term strategic objectives of the group. Remuneration structures reflect:

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

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

FIXED REMUNERATION

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

Remuneration levels of the CEO/Managing Director are reviewed annually by the RNC through a process that considers individual, segment and overall performance of the Group. In addition external data is provided for analysis of key management personnel'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 key management personnel 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 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 remuneration committee assess the actual performance of the Group, the relevant segment and individual against the KPIs set at the beginning of the financial year. Payment of individual bonuses is based on the assessment of the remuneration committee with recommendations from the Managing Director (for employees

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2011

5 REMUNERATION REPORT CONTINUED

5.1 Principles of remuneration – audited CONTINUED

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 remuneration committee 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 CEO/Managing Director was issued 1,050,000 performance rights during the period, which vest in two tranches at 30 June 2012 and 30 June 2013. 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 options is conditional on the Group meeting its performance hurdles.

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

- The first relates to relative total shareholder return (TSR criteria). The performance right subject to the TSR relative ranking performance condition will wholly vest if Mastermyne's TSR Ranking over the performance period (i.e. 1 July 2010 to 30 June 2012 and 30 June 2013) is in the 80th percentile. If the TSR relative ranking performance condition is between the 60th and 80th percentiles, 50% of shares will vest. Below this range no shares 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 2010 to 30 June 2012 and 30 June 2013) is at least 15%. If the EPS growth ranking is between 15% and 20%, 50% of shares will vest. Below this range no shares 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 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 are the key management personnel must be employed by the Group at on the relevant vesting dates.

There were no performance rights granted to Key Management Personnel other than the CEO/Managing Director during the period. Rights will be granted in accordance with the employee performance rights plan in the 2012 Financial Year for Key Management Personnel participating in the Long Term Incentive plan.

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 Group has no policy in place regarding hedging of options or rights by key management personnel.

SHORT-TERM AND LONG-TERM INCENTIVE STRUCTURE

The remuneration committee 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 remuneration committee have regard to the following indices in respect of the current financial year and the previous four financial years.

	2011	2010	2009	2008	2007
Profit attributable to owners of the Company	\$11,742,000	\$4,775,000	\$6,149,000	\$3,278,000	\$3,395,000
Dividends paid	\$2,636,000	\$359,000	\$474,380	\$468,000	\$459,000
Change in share price	42%	N/A	N/A	N/A	N/A
Return on capital employed	34.99%	24.69%	41.37%	42.44%	51.02%

Profit is considered as one of the financial performance targets in setting the STI. Profit amounts for 2007 to 2011 have been calculated in accordance with Australian Accounting Standards (AASBs).

The overall level of key management personnel 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 37.6% percent. During the same period compound annual growth of key management personnel compensation was 22.88%. This is driven largely by an increase in the number of key management personnel increasing from five to twelve.

OTHER BENEFITS

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

EXECUTIVE SERVICE AGREEMENTS

It is the Group's policy that service agreements for key management personnel 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.

DIRECTORS FEES

Remuneration of Non-Executive Directors for the current period was based on comparative roles in the market place as at March 2010. A review of Non-Executive Director fees in May 2011, indicated that there was some discrepancy in comparison to similar sized entities in the mining services sector but the RNC decided to make no recommendation for a change in 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 inclusive of all committee fees and superannuation guarantee levy.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2011

5 REMUNERATION REPORT CONTINUED

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, each of the five named company executives and relevant group executives who receive the highest remuneration and other key management personnel of the consolidated entity are:

2011	Short Term			Post-Employment		Share-based payments				
in AUD	Salary & Fees (\$)	STI cash bonus (\$)	Non-monetary benefits	Total (\$)	Super-annuation Benefits (\$)	Termination Benefits (\$)	Options and rights (\$)	Total (\$)	Proportion of remuneration performance related (%)	Value of options 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

- ▶ 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 options 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 options recognised in this reporting period.

2010	Short Term			Post-Employment		Share-based payments				
in AUD	Salary & Fees (\$)	STI cash bonus (\$)	Non-monetary benefits	Total (\$)	Super-annuation Benefits (\$)	Termination Benefits (\$)	Options and rights (\$)	Total (\$)	Proportion of remuneration performance related (%)	Value of options as a proportion of remuneration (%)
Non-Executive Directors										
Mr P. Slaughter	22,500	–	–	22,500	2,025	–	–	24,525	0.00%	0.00%
Mr D. Hamblin	41,284	–	–	41,284	3,715	–	–	44,999	0.00%	0.00%
Mr I. Hall	13,750	–	–	13,750	1,237	–	–	14,987	0.00%	0.00%
Executive Directors										
Mr A. Watts	145,385	–	15,000	160,385	13,085	–	–	173,470	0.00%	0.00%
Mr A. Caruso	285,189	137,367	15,000	437,556	26,266	–	–	463,822	29.62%	0.00%
Executives										
Mr A. Purse	200,715	38,447	15,000	254,162	19,499	–	–	273,661	14.05%	0.00%
Mr D. Fitzpatrick	120,875	–	15,000	135,875	10,879	–	–	146,754	0.00%	0.00%
Mr C. Kneipp	166,208	45,107	15,000	226,315	11,342	–	–	237,657	18.98%	0.00%
Mr T. Zahra*	356,704	–	15,000	371,704	18,351	–	–	390,055	0.00%	0.00%
Mr P. Cosgrove*	66,952	–	5,000	71,952	5,584	–	376,500	454,037	0.00%	82.92%
Mr T. Rae*	66,219	–	5,000	71,219	5,519	–	376,500	453,237	0.00%	83.07%
Mr J. Hayward	64,573	10,000	–	74,573	5,488	–	–	80,062	12.49%	0.00%
Totals	1,550,355	230,921	100,000	1,881,276	122,990	–	753,000	2,757,266		

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

NOTES IN RELATION TO THE 2010 TABLES OF DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION – AUDITED

- ▶ In 2010 directors fees for Mr P. Slaughter and Mr I. Hall are from 10 March 2010 to 30 June 2010 as directors of Mastermyne Group Limited. The remaining directors remuneration is for the full year as directors of Mastermyne Pty Ltd before the IPO, and also as directors of Mastermyne Group Limited after the company was formed this financial year.
- ▶ Mr D. Fitzpatrick was appointed as General Manager of Mastermyne Engineering on 10 August 2009.
- ▶ Mr J. Hayward was appointed as Business Development Manager on 22 March 2010.
- ▶ The short term incentive bonus is for performance during the respective financial year. The amount was finally determined on 9 August 2010 after performance review were completed and approved by the remuneration committee.
- ▶ The fair value of the options were calculated at the date of grant using a Black Scholes 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 options recognised in this reporting period.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2011

5 REMUNERATION REPORT CONTINUED

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, each of the five named Group executives and other key management personnel are detailed below.

	Included in remuneration \$ (A)	% vested in year	% forfeited in year (B)
Directors			
Mr A. Caruso	121,439	73%	27%
Executives			
Mr A. Purse	85,353	69%	31%
Mr C. Kneipp	32,932	92%	8%

(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 2011 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 options refer to options over ordinary shares of Mastermyne Group Limited which are exercisable on a one for one basis.

5.4.1 OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION – AUDITED

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

	Number of options granted during 2011	Grant date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of Options vested during 2011
Executives						
Mr A. Caruso	105,000	23/11/2010	0.40	1.054	30 June 2013	–
Mr A. Caruso	630,000	23/11/2010	0.44	0.79	30 June 2014	–
Mr A. Caruso	45,000	23/11/2010	0.60	1.054	30 June 2013	–
Mr A. Caruso	270,000	23/11/2010	0.60	0.79	30 June 2014	–

No options have been granted since the end of the financial year. The options 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 options and 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 OPTIONS GRANTED AS COMPENSATION – AUDITED

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

5.4.4 ANALYSIS OF OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION – AUDITED

Details of vesting profiles of the options granted as remuneration to each key management person of the Group and each of the five named Group executives are detailed below:

	Number of options granted during 2011	Grant date	% vested in year	% forfeited in year	Financial year in which grant vests
Executives					
Mr A. Caruso	105,000	23 November	0%	0%	2012
Mr A. Caruso	630,000	23 November	0%	0%	2013
Mr A. Caruso	45,000	23 November	0%	0%	2012
Mr A. Caruso	270,000	23 November	0%	0%	2013

5.4.5 ANALYSIS OF MOVEMENTS IN OPTIONS – AUDITED

The movement during the reporting period, by value, of options over 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 options exercised in year \$ (B)	Lapsed in Year \$(C)
Executives			
Mr A. Caruso	42,000	–	–
Mr A. Caruso	277,200	–	–
Mr A. Caruso	27,000	–	–
Mr A. Caruso	162,000	–	–

- (A) The value of options granted in the year is the fair value of the options 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 option.
- (C) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option 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 2011.

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.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2011

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 2011				
2010 Ordinary – Ordinary Shares Final Dividend	0.01	875	Franked	5/10/10
2011 Ordinary – Ordinary Shares Interim Dividend	0.02	1,761	Franked	15/04/11
Total amount		2,636		

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

After the balance sheet date, a dividend of 3.7 cents per share was declared by the Directors, fully franked at the rate of 30%. The record date for entitlement to this dividend will be 28 September 2011 and the payment date will be 13 October 2011.

9 EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to year-end the directors declared a dividend of 3.7 cents per share as per the details set out in note 20 of the annual financial report.

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

10 LIKELY DEVELOPMENTS

The underground mining sector was largely unaffected by the weather events of 2010/11 and as a result has continued to grow strongly in both QLD and NSW. Underground contract services remain in very high demand and Mastermyne is well placed to capitalise on this. Mastermyne is in the very sound position of having an order book contracted for 2012 that will deliver growth on the 2011 results. The company will use this strong position to consolidate and focus on organic growth over 2012.

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	110,000	–
Mr J. Wentworth	–	–
Mr D. Hamblin	10,155,658	–
Mr A. Watts	15,105,428	–
Mr A. Caruso	1,798,000	1,050,000

12 SHARE OPTIONS

Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price	Number of shares
28 February 2012	\$0.92	2,000,000

All options vested on 1 March 2010, and are able to be exercised provided that the relevant individual remains in the employment of the Group. These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

13 INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

The Company has agreed to indemnify all Directors who served on the board during the year, 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 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.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2011

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:

In AUD	Consolidated	
	2011	2010
Audit services:		
Auditors of the Company audit and review of financial reports (KPMG Australia)	181,624	160,669
	181,624	160,669
Services other than statutory audit:		
Other assurance services Investigating Accountants Report (KPMG Australia)	–	555,000
Other services		
Taxation compliance services (KPMG Australia)	40,997	26,144
Risk Management Services	56,000	–
	96,997	581,144

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 30 and forms part of the Directors' report for financial year ended 30 June 2011.

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

Non-Executive Chairman

Dated at Mackay this 24th day of August 2011.

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2011

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.

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.

CORPORATE GOVERNANCE STATEMENT CONTINUED

For the year ended 30 June 2011

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 and Risk Management Committee, Remuneration and 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 AND 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;
- ▶ the committee may investigate any matter brought to its attention;
- ▶ 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;
- ▶ assessing the adequacy of external reporting for the needs of Shareholders; and
- ▶ monitoring compliance with the Company’s Codes of Conduct, risk management policies and compliance function.

Meetings are held often enough to undertake the Audit and 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 AND 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:

- ▶ providing advice 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;
- ▶ development of suitable criteria (with regard to skills, qualifications and experience) for Board candidates;
- ▶ 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 and 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 was revised in December 2010 and released on the ASX. It 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.

CORPORATE GOVERNANCE STATEMENT CONTINUED

For the year ended 30 June 2011

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:

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 and Nomination Committee Charter and has recently 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 will be beneficial in transitioning the Company during its early years as a listed entity and 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 and Nomination Committee has been established with its own charter, as detailed above.

The Board is committed to a performance evaluation process, but as the Company was formed just over a year ago the Board has deferred its inaugural evaluation for the time being.

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, in December 2010 the Board 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 will be assessed annually by the Board and will be disclosed in future Annual Reports.

Principle 4 – Safeguard integrity in financial reporting

The Audit and 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's practices generally comply with the Recommendations in relation to the rights of Shareholders, however as yet the Company has not formulated policy into a published document due to the focus of management time on operational matters since the Company listed on ASX.

The Company has, however, covered a number of aspects of this principle in 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 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.

With regard to improving adherence to 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; and
- ▶ asked management to design and implement an integrated risk management and internal control system to manage the Company's material business risks, with the assistance of appropriately qualified and experienced professionals, 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.

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 changes with respect to key executives will be announced in accordance with continuous disclosure principles.

In accordance with the Recommendations, the Remuneration and 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.

AUDITOR'S INDEPENDENCE DECLARATION



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 2011 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

A handwritten signature in dark ink, appearing to read 'M J Jeffery'.

M J Jeffery
Partner

Brisbane

24 August 2011

BALANCE SHEET

As at 30 June 2011

		Consolidated	
In thousands of AUD	Note	2011	2010
Assets			
Cash and cash equivalents	18	6,020	8,718
Trade and other receivables	17	31,929	11,928
Inventories	16	1,654	1,357
Total current assets		39,603	22,003
Deferred tax assets	15	–	652
Property, plant and equipment	13	30,680	19,670
Intangible assets	14	20,253	20,584
Total non-current assets		50,933	40,906
Total assets		90,536	62,909
Liabilities			
Trade and other payables	24	18,808	10,419
Loans and borrowings	21	5,955	6,184
Employee benefits	22	3,846	2,503
Current tax payable	15	1,195	2,026
Total current liabilities		29,804	21,132
Loans and borrowings	21	17,135	7,847
Employee benefits	22	87	28
Deferred tax liabilities	15	684	823
Total non-current liabilities		17,906	8,698
Total liabilities		47,710	29,830
Net assets		42,826	33,079
Equity			
Share capital		49,124	48,610
Reserves		(22,907)	(23,034)
Retained earnings		16,609	7,503
Total equity		42,826	33,079

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

In thousands of AUD	Note	Consolidated	
		2011	2010
Revenue	7	164,830	98,122
Other income	8	3,833	41
Contract disbursements		(26,604)	(15,406)
Personnel expenses	10	(111,581)	(62,742)
Office expenses		(5,049)	(3,484)
Depreciation and amortisation expense	13, 14	(5,374)	(4,642)
Impairment loss	13	(3,034)	–
Other expenses	9	(2,037)	(3,723)
Results from operating activities		14,984	8,166
Finance income		63	155
Finance expense		(1,652)	(1,213)
Net finance expense	11	(1,589)	(1,058)
Profit before income tax		13,395	7,108
Income tax expense	12	(1,653)	(2,333)
Profit for the period		11,742	4,775
Other comprehensive income for the period, net of income tax		–	–
Total comprehensive income for the period		11,742	4,775
Earnings per share			
Basic earnings per share (AUD)	20	0.16	0.09
Diluted earnings per share (AUD)	20	0.16	0.09

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

In thousands of AUD	Share capital	Retained earnings	Share-based payment reserve (note 19)	Other contributed equity (note 19)	Common Control Reserve (note 19)	Total
Consolidated						
Balance at 1 July 2009	9,686	6,446	450	8,083	–	24,665
Total comprehensive income for the period						
Profit for the period	–	4,775	–	–	–	4,775
Total comprehensive income for the period	–	4,775	–	–	–	4,775
Transactions with owners recorded directly in equity						
Issue of ordinary shares for cash	40,000	–	–	–	–	40,000
Issue of ordinary shares to settle contingent consideration	310	–	–	–	–	310
Share options exercised	291	–	–	–	–	291
Capital Paid up	376	–	–	–	–	376
Share-buy back	(2,053)	(3,359)	–	(8,083)	–	(13,495)
Share-based payment transactions	–	–	753	–	–	753
Dividends to equity holders	–	(359)	–	–	–	(359)
Group Restructure	–	–	–	–	(24,237)	(24,237)
Total contributions by and distributions to owners	38,924	(3,718)	753	(8,083)	(24,237)	3,639
Balance at 30 June 2010	48,610	7,503	1,203	–	(24,237)	33,079
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

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

In thousands of AUD	Note	Consolidated	
		2011	2010
Cash flows from operating activities			
Cash receipts from customers		165,189	106,510
Cash paid to suppliers and employees		(152,098)	(88,507)
Cash generated from operations		13,091	18,003
Interest paid		(1,726)	(1,304)
Income tax paid		(1,972)	(1,600)
Net cash flows from operating activities	28	9,393	15,099
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		343	1,921
Acquisition of property, plant and equipment		(3,131)	(2,256)
Interest received		63	155
Business acquisition, net of cash acquired		–	(2,390)
Net cash flows used in investing activities		(2,725)	(2,570)
Cash flows from financing activities			
Proceeds from issue of share capital, net of issue costs		–	37,478
Buyback of shares on group restructure		–	(24,237)
Payment in relation to share buy-back		–	(13,496)
Proceeds from uncalled capital		–	376
Proceeds from exercise of share options		–	291
Proceeds from borrowings		532	2,436
Repayment of borrowings		(7,262)	(11,900)
Dividends paid	19	(2,636)	(359)
Net cash flows used in financing activities		(9,366)	(9,411)
Net increase/(decrease) in cash and cash equivalents		(2,698)	3,118
Cash and cash equivalents at beginning of period		8,718	5,600
Cash and cash equivalents at end of period	18	6,020	8,718

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 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 financial statements of the Company as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities').

The Group is primarily involved in to provide contracting services to the 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 24 August 2011.

(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 and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- note 13 – property, plant & equipment
- note 14 – intangible assets
- note 23 – measurement of share-based payments

(e) Changes in accounting policies

Starting as of 1 July 2010, the group has applied amendments to AASB 101 Presentation of Financial statements outlined in AASB 2010-4 Further amendments to Australian Accounting Standards arising from the Annual Improvements Project. The change in accounting policy only relates to disclosures and had no impact on consolidated earnings per share or net income.

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, except as explained in notes 2(e), 3(a)(i) and 3(d)(i), which address changes in accounting policy.

(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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(a) Basis of consolidation CONTINUED

(i) BUSINESS COMBINATIONS CONTINUED

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.

Acquisitions between 1 July 2004 and 1 July 2009

For acquisitions between 1 July 2004 and 1 July 2009, goodwill represents the excess of the cost of the acquisition over the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Acquisitions prior to 1 July 2004 (date of transition to IFRSs)

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 July 2003. In respect of acquisitions prior to 1 July 2003, goodwill represents the amount recognised under the Group's previous accounting framework, [Australian GAAP].

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. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(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.

(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.

Purchase 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.

(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.

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

	2011	2010
▶ 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(c) Property, plant and equipment CONTINUED

(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.

(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:

	2011	2010
▶ 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.

(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.

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(i) Employee benefits CONTINUED

(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.

(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.

(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.

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

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

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

(o) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation

authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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 2010, and have not been applied in preparing these consolidated financial statements of the Group. AASB 9 Financial Instruments, which becomes mandatory for the Group's 2014 consolidated financial statements, 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 binomial 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 Company'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. Over the last three financial years the only bad debts recognised were in relation to Pike River Coal Ltd who went bankrupt as a result of the explosion underground in November 2010. All outstanding debts at the time of the disaster were recognised as bad debts in the statement of comprehensive income.

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.

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.
 - \$9 million overdraft facility that is unsecured.
 - \$4.5 million Commercial bill facility that can be drawn down to meet short-term financing needs.
 - \$0.5 million Revolving bank guarantee facility.
- ▶ \$1 million Commercial bill facility that is on principal reduction each quarter.
- ▶ \$20.0 million Equipment finance facility.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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 shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 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.

	Underground mining services		Engineering and fabrication		Electrical and Mechanical Services		Consolidated	
In thousands of AUD	2011	2010	2011	2010	2011	2010	2011	2010
External revenues	150,088	87,168	13,469	8,778	1,272	2,176	164,830	98,122
Intersegment revenue	396	123	1,975	845	4,312	787	6,683	1,755
Depreciation and amortisation	(4,666)	(4,093)	(394)	(507)	(49)	(41)	(5,109)	(4,640)
Net finance costs	(1,586)	(1,062)	(3)	13	–	(9)	1,590	(1,058)
Reportable Segment profit/(loss) before income tax	13,518	9,900	1,099	564	(790)	(74)	13,827	10,390
Other material non cash items:								
Impairment on property, plant and equipment and intangible assets	(3,047)						(3,047)	
Segment assets	71,438	43,292	14,118	13,321	4,980	5,691	90,536	62,304
Capital expenditure	18,758	5,970	210	42	212	19	19,180	6,031
Segment liabilities	(47,460)	(28,446)	(2,021)	(1,432)	162	(75)	(49,318)	(29,953)

RECONCILIATIONS OF REPORTABLE SEGMENT REVENUES, PROFIT OR LOSS, ASSETS AND LIABILITIES AND OTHER MATERIAL ITEMS

in thousands of AUD	2011	2010
Revenues		
Total revenue for reportable segments	171,512	99,877
Elimination of inter-segment revenue	(6,683)	(1,755)
Consolidated revenue	164,830	98,122
Profit or loss		
Total profit or loss for reportable segments	13,827	10,390
Elimination of inter-segment profits	(437)	(344)
Unallocated amounts: other corporate expenses	5	(2,938)
Consolidated profit before income tax	13,395	7,108
Assets		
Total assets for reportable segments	90,536	62,304
Other assets	–	605
Consolidated total assets	90,536	62,909
Liabilities		
Total liabilities for reportable segments	49,318	29,953
Other liabilities	(1,608)	(123)
Consolidated total liabilities	47,710	29,830

Geographical Information

The Group has only operated in Australia and New Zealand during the period. Total revenue from New Zealand operations represents \$1,594 thousand (2010: Nil) of the Group's total revenue. All assets are held within Australia as at 30 June 2011.

Major Customers

The Group has 3 customers, all in the underground mining services segment, which individually represent in excess of 10% of Group revenues (2010: 2 customers representing in excess of 10% of the Group revenues). The total revenue from these customers represents \$79,933 thousand (2010: \$50,324 thousand) of the Group's total revenues.

7 REVENUE

	Consolidated	
in thousands of AUD	2011	2010
Contracting revenue	146,518	85,295
Sale of goods	13,469	8,778
Machinery hire	4,843	4,049
	164,830	98,122

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

8 OTHER INCOME

In thousands of AUD	Consolidated	
	2011	2010
Administration revenue	228	16
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	5	25
	3,833	41

9 OTHER EXPENSES

In thousands of AUD	Consolidated	
	2011	2010
Loss on sale of property, plant and equipment	10	132
IPO expense	(4)	2,522
Business acquisition costs	11	232
Business Development Costs	51	214
Insurance	796	623
Impairment loss on trade receivables	1,173	–
	2,037	3,723

10 PERSONNEL EXPENSES

In thousands of AUD	Consolidated	
	2011	2010
Wages and salaries	100,069	55,133
Other associated personnel expenses	6,500	3,948
Contributions to defined contribution superannuation funds	4,885	2,908
Equity-settled share-based payment transactions	127	753
	111,581	62,742

11 FINANCE INCOME AND EXPENSE

Recognised in profit or loss	Consolidated	
In thousands of AUD	2011	2010
Interest income	63	155
Finance income	63	155
Bank Charges	(116)	(47)
Interest expense	(1,536)	(1,166)
Finance expense	(1,652)	(1,213)
Net finance expense recognised in profit or loss	(1,589)	(1,058)

12 INCOME TAX EXPENSE

	Consolidated	
In thousands of AUD	2011	2010
Current tax expense		
Current period	1,588	3,286
Adjustment for prior periods	(425)	(208)
	1,163	3,078
Deferred tax expense		
Origination and reversal of temporary differences	513	(745)
Adjustment for prior period	(23)	–
	490	(745)
Total income tax expense	1,653	2,333

Numerical reconciliation between tax expense and pre-tax accounting profit

	Consolidated	
In thousands of AUD	2011	2010
Profit excluding income tax	13,395	7,108
Income tax using the Group's statutory income tax rate of 30% (2009: 30%)	4,019	2,133
Non-deductible expenses	421	408
Effects of Entering into Tax Consolidation	(2,362)	
Under/(over) provision of previous year	(425)	(208)
	1,653	2,333

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 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
Cost or deemed cost								
Balance at 1 July 2009	805	25,413	1,785	777	406	192	172	29,550
Additions	25	3,901	205	123	1,754	23	–	6,031
Disposals	–	(3,179)	(6)	(5)	–	–	–	(3,190)
Acquired through business combination	3	878	227	–	–	32	–	1,140
Transfers	–	(180)	–	1	(139)	318	–	–
Balance at 30 June 2010	833	26,833	2,211	896	2,021	565	172	33,531
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
Depreciation and impairment losses								
Balance at 1 July 2009	646	8,838	786	489	–	73	67	10,899
Depreciation for the year	58	3,524	276	145	–	78	43	4,124
Disposals	–	(1,152)	(5)	(5)	–	–	–	(1,162)
Transfers	–	–	–	–	–	–	–	–
Balance at 30 June 2010	704	11,210	1,057	629	–	151	110	13,861
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
Carrying amounts								
At 1 July 2009	159	16,575	999	288	406	119	105	18,651
At 30 June 2010	129	15,623	1,154	267	2,021	414	62	19,670
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

The Group leases equipment under a number of finance lease agreements. At 30 June 2011 the net carrying amount of leased plant and equipment was \$17,977 thousand (2010: \$11,267 thousand).

Impairment

During the period to the year ending 30 June 2011, 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 Ltd 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 have come to the view that the full carrying value of the asset \$3,034 thousand should be impaired as at the 31 December 2010.

Mastermyne has continued negotiations with the insurers in relation to the claim for this loss event. Insurers have acknowledged that Mastermyne is an insured under the Industrial Special Risks (ISR) insurance policy issued by the insurers in favour of Pike River Coal Ltd and have offered terms for settlement. Negotiations are nearly complete but a settlement amount hadn't been formally agreed at 30 June 2011.

14 INTANGIBLE ASSETS

In thousands of AUD	Consolidated	
	2011	2010
Goodwill		
Cost (gross carrying amount)	18,268	18,013
Net carrying amount	18,268	18,013
Customer relationships		
Cost (gross carrying amount)	2,669	2,669
Accumulated amortisation and impairment	(1,636)	(1,169)
Net carrying amount	1,033	1,500
Intellectual property		
Cost (gross carrying amount)	1,483	1,483
Accumulated amortisation and impairment	(531)	(412)
Net carrying amount	952	1,071
Total intangible assets		
Cost (gross carrying amount)	22,420	22,165
Accumulated amortisation and impairment	(2,167)	(1,581)
Net carrying amount	20,253	20,584

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

14 INTANGIBLE ASSETS CONTINUED

Reconciliation of carrying amount at beginning and end of the period

In thousands of AUD	Consolidated	
	2011	2010
Goodwill		
Carrying amount – opening	18,013	17,181
Increase in contingent consideration	255	832
Carrying amount – closing	18,268	18,013
Customer relationships		
Carrying amount – opening	1,500	1,679
Acquired in business combination	–	259
Amortisation	(467)	(438)
Carrying amount – closing	1,033	1,500
Intellectual property		
Carrying amount – opening	1,071	–
Acquired in business combination	–	1,151
Amortisation	(119)	(80)
Carrying amount – closing	952	1,071
Total intangible assets		
Carrying amount – opening	20,584	18,860
Acquired in business combination	–	1,410
Increase in contingent consideration	255	832
Amortisation	(586)	(518)
Carrying amount – closing	20,253	20,584

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

Amortisation and impairment charge

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

Impairment testing for cash-generating units containing goodwill

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

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

In thousands of AUD	Consolidated	
	2011	2010
Underground mining services	6,429	6,174
Engineering and fabrication	7,301	7,301
Electrical services	4,538	4,538
	18,268	18,013

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 2011 and 2012. Cash flows for a further 3-year period were extrapolated using a constant growth rate of 5 percent 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 13.44% percent 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, and 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.

Increase in Contingent Consideration

MASTERMYNE UNDERGROUND PTY LTD

- ▶ On acquisition in the year ended 30 June 2008, the Group recognised contingent consideration of \$509 thousand based on an expected payment of \$590 thousand (determined from management's estimate of EBITDA for the 2009 and 2010 financial years), discounted to present value at 6 percent per annum.
- ▶ At 1 July 2009, \$590 thousand remained payable, the present value of which was \$548 thousand, discounted at 6 percent per annum.
- ▶ During the year ended 30 June 2010, additional contingent consideration of \$832 thousand was recognised as a result of the improved performance of Mastermyne Underground Pty Ltd relative to management's initial estimate of the EBITDA. Further, contingent consideration totalling \$620 thousand was paid, half in cash and half by way of the issue of 452 shares in Mastermyne Pty Ltd.
- ▶ As at 30 June 2010, the recognised balance of contingent consideration to be paid in November 2010 was \$773 thousand, being the present value of the expected payment of \$850 thousand, discounted at 6 percent per annum.
- ▶ During the year ended 30 June 2011, additional contingent consideration of \$255 thousand was recognised in goodwill as a result of the improved performance of Mastermyne Underground Pty Ltd relative to management's initial estimate of the EBITDA. All related contingent considerations were subsequently paid during the year ended 30 June 2011.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

15 TAX ASSETS AND LIABILITIES

Current tax assets and liabilities

The current tax liability for the Group of \$1,195 thousand (2009: \$2,026 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	2011	2010	2011	2010	2011	2010
Employee benefits	938	645	–	–	938	645
Property, plant and equipment	22	22	(519)	(969)	(497)	(947)
Receivables	–	–	(1,080)	–	(1,080)	–
Intangible assets	98	98	(276)	(389)	(178)	(291)
Accruals	243	71	–	–	243	71
Capital raising and business acquisition costs	515	804	(31)	(31)	484	773
Unbilled revenue	–	–	(1,070)	(422)	(1,070)	(422)
Other items	278	–	–	–	278	–
Tax loss carry-forwards	198	–	–	–	198	–
Tax assets/(liabilities)	2,292	1,640	(2,976)	(1,811)	(684)	(171)
Set off of tax	–	(988)	–	988	–	–
Net tax assets/(liabilities)	2,292	652	(2,976)	(823)	(684)	(171)

Movement in temporary differences during the year

Consolidated	Balance 1 July 2009	Recognised in profit or loss	Acquired in business combinations	Balance 30 June 2010
In thousands of AUD				
Employee benefits	550	70	25	645
Property, plant and equipment	(1,108)	161	–	(947)
Intangible assets	(406)	115	–	(291)
Accruals	64	(2)	9	71
Capital raising and business acquisition costs	273	500	–	773
Unbilled revenue	(289)	(133)	–	(422)
	(916)	711	34	(171)

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
Leased assets	–	–	–	–
Unbilled revenue	(422)	(648)	–	(1,070)
Other items	–	278	–	278
Tax loss carry-forwards	–	198	–	198
	(171)	(513)	–	(684)

16 INVENTORIES

	Consolidated	
In thousands of AUD	2011	2010
Inventory on hand	1,654	1,357
	1,654	1,357

During the year ended 30 June 2011 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to \$3,339 thousand (2010: \$1,813 thousand).

17 TRADE AND OTHER RECEIVABLES

	Consolidated	
In thousands of AUD	2011	2010
Trade receivables	23,280	9,431
Prepayments	937	476
Unbilled revenue	4,027	1,679
Other receivables	3,685	342
	31,929	11,928

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

18 CASH AND CASH EQUIVALENTS

In thousands of AUD	Consolidated	
	2011	2010
Bank balances	6,017	8,713
Cash on hand	3	5
Cash and cash equivalents in the statement of cash flows	6,020	8,718

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	
	2011	2010
On issue at 1 July	72,897,598	–
Issued for cash		40,000,000
Shares issued in common control transaction		32,897,598
Shares issued to settle contingent consideration		469,916
Exercise of share options	–	–
On issue at 30 June – fully paid	73,367,514	72,897,598

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.

Other contributed equity

Other contributed equity represents the excess of the fair value of the previous convertible preference shares over their face value upon modification of their terms to convert them to equity. The face value upon modification was recognised as share capital.

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
2011				
2010 Ordinary – Ordinary Shares Final Dividend	\$0.012	875	Franked	10/5/2010
2011 Ordinary – Ordinary Shares Interim Dividend	\$0.024	1,761	Franked	4/15/2011
Total amount		2,636		
2010				
2010 Ordinary – A&B Ordinary Shares	\$1.94	118	Franked	9/30/2009
2010 Ordinary – A&B Ordinary Shares	\$1.94	121	Franked	12/31/2009
2010 Ordinary – A&B Ordinary Shares	\$1.94	120	Franked	4/30/2010
Total amount		359		

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

After the balance sheet date, a dividend of 3.7 cents per share was declared by the Directors, fully franked at the rate of 30%. The record date for entitlement to this dividend will be 28 September 2011 and the payment date will be 13 October 2011.

In thousands of AUD	Company	
	2011	2010
Dividend franking account		
30 percent franking credits available to shareholders of Mastermyne Group Limited for subsequent financial years	8,559	7,622

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 \$1,163 thousand (2010:nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

20 EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2011 was based on the profit attributable to ordinary shareholders of \$11,742 thousand (2010: \$4,775 thousand) and a weighted average number of ordinary shares outstanding of 73,202,722 (2010: 50,392,827), calculated as follows.

PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

In thousands of AUD	Consolidated	
	2011	2010
Profit for the period	11,742	4,775
Profit attributable to ordinary shareholders	11,742	4,775

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

Number of shares	Consolidated	
	2011	2010
Issued ordinary shares at 1 July	72,897,598	46,666,241
Effect of share options exercised	–	309,177
Effect of shares issued	305,124	5,903,840
Effect of share buyback	–	(719,866)
Effect of scrip for cash buyback	–	(1,766,565)
Weighted average number of ordinary shares at 30 June	73,202,722	50,392,827

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2011 was based on profit attributable to ordinary shareholders of \$11,742 thousand (2010: \$4,775 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 73,202,722 (2010: 50,392,827), calculated as follows:

PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS (DILUTED)

In thousands of AUD	2011	2010
Profit for the period	11,742	4,775
Profit attributable to ordinary shareholders	11,742	4,775

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES (DILUTED)

Number of shares	Consolidated	
	2011	2010
Weighted average number of ordinary shares (basic)	73,202,722	50,392,827
Weighted average number of ordinary shares (diluted) at 30 June	73,202,722	50,392,827

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 26.

In thousands of AUD	Consolidated	
	2011	2010
Current liabilities		
Insurance premium funding (unsecured)	176	326
Finance lease liabilities (secured)	4,779	3,686
Commercial bill facility (secured)	1,000	1,400
Contingent consideration (unsecured)	–	773
Loan – Mynesight	–	(1)
	5,955	6,184
Non-current liabilities		
Finance lease liabilities (secured)	12,635	2,847
Contingent consideration (unsecured)	–	–
Commercial bill facility (secured)	4,500	5,000
	17,135	7,847

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 and uncalled capital of the Group.

FINANCE LEASE LIABILITIES

Finance lease liabilities of the Group are payable as follows:

In thousands of AUD	Consolidated					
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	2011	2011	2011	2010	2010	2010
Less than one year	6,312	(1,533)	4,779	4,107	(421)	3,686
Between one and five years	14,353	(1,924)	12,429	3,091	(244)	2,847
More than five years	210	(4)	206	–	–	–
	20,875	(3,461)	17,414	7,198	(665)	6,533

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

22 EMPLOYEE BENEFITS

In thousands of AUD	Consolidated	
	2011	2010
Current		
Wages payable	808	299
Liability for annual leave	1,506	1,111
Liability for vesting sick leave	1,444	1,024
Liability for long service leave	88	69
	3,846	2,503
Non-current		
Liability for long service leave	87	28
	87	28

23 SHARE-BASED PAYMENTS

During the period 1,050,000 performance rights were granted on 23 November 2010. These options vest in 2012 and 2013, expiring in 2013 and 2014 respectively. These rights are subject to performance and are rights to shares in Mastermyne Group Limited.

As part of the consideration for the acquisition of Mastermyne Underground NNSW Pty Ltd during the period ending 30 June 2010, the vendors were given the opportunity to acquire two million fully paid ordinary shares in Mastermyne Group Limited. To be eligible to exercise the options each vendor must still be employed by the Group at the time the options are exercised.

The options exercise period is 24 months from the IPO listing date of 7 May 2010. The options exercise price is \$0.92 per share which is an 8% discount to the IPO listing price of \$1. None of these options were exercised at balance date.

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price	Number of options/rights	Weighted average exercise price	Number of options
	2011	2011	2010	2010
Outstanding at 1 July	\$0.920	2,000,000	\$427	2,268
Forfeited during the period	\$–	–	\$427	(1,587)
Exercised during the period	\$–	–	\$427	(681)
Granted during the period	\$0.83	1,050,000	\$0.92	2,000,000
Outstanding at 30 June	\$0.83	3,050,000	\$0.92	2,000,000
Exercisable at 30 June		3,050,000		2,000,000

24 TRADE AND OTHER PAYABLES

In thousands of AUD	Consolidated	
	2011	2010
Trade payables	8,878	4,693
Sundry creditors and accruals	9,930	5,726
	18,808	10,419

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	
		2011	2010
Trade and other receivables	18	31,929	11,928
Cash and cash equivalents	19	6,020	8,718
		37,949	20,646

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

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

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	
	2011	2010
Not Past Due	16,148	7,325
Past due 0-30 days	5,398	1,712
Past due 31-60 days	1,047	382
Past due 61-90 days	315	6
Greater than 90 days	1,518	6
	24,426	9,431

Impairment losses of \$1,146 thousand recognised at 30 June 2011 (2010: Nil).

At 30 June 2011 an Impairment loss of \$1,146 thousand relates to a customer that was placed into receivership during the year. An additional impairment loss of \$27 thousand relates to individuals who undertook an underground training course in the Group's training facility which will not be recovered.

Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days.

The movement in the allowance for impairment in respect of held-to-maturity investments during the year ended 30 June 2011 was as follows:

In thousands of AUD	Consolidated	
	2011	2010
Balance at 1 July	–	–
Impairment loss recognised	(1,173)	–
Impairment allowance utilised	27	–
Balance at 30 June	(1,146)	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

25 FINANCIAL INSTRUMENTS CONTINUED

Liquidity risk

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

				Consolidated				
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
30 June 2011								
Non-derivative financial liabilities								
Finance lease liabilities	22	17,414	(20,876)	(3,283)	(3,030)	(5,520)	(8,833)	(210)
Commercial bill facility	22	5,500	(7,035)	(674)	(657)	(301)	(5,403)	–
Insurance premium funding	22	176	(176)	(176)	–	–	–	–
Trade and other payables	25	18,808	(18,808)	(18,808)	–	–	–	–
		41,898	(46,895)	(22,941)	(3,687)	(5,821)	(14,236)	(210)

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

				Consolidated				
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
30 June 2010								
Non-derivative financial liabilities								
Finance lease liabilities	22	6,533	(7,198)	(2,678)	(1,429)	(1,955)	(1,136)	–
Contingent consideration	22	773	(850)	(850)	–	–	–	–
Commercial bill facility	22	6,400	(7,956)	(696)	(680)	(1,212)	(5,368)	–
Insurance premium funding	22	326	(326)	(326)	–	–	–	–
Trade and other payables	25	10,419	(10,419)	(10,419)	–	–	–	–
		24,451	(26,749)	(14,969)	(2,109)	(3,167)	(6,504)	–

Interest rate risk

PROFILE

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

Carrying amount	Consolidated	
In thousands of AUD	2011	2010
Fixed rate instruments		
Financial liabilities & Insurance premium funding	(17,590)	(7,633)
	(17,590)	(7,633)
Variable rate instruments		
Financial assets	6,020	8,718
Financial liabilities	(5,500)	(6,400)
	520	2,318

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.

Sensitivity analysis for variable rate instruments

At 30 June 2011 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	
	2011	2010
Change in profit		
Increase in interest rate by 1%	(59)	(62)
Decrease in interest rate by 2%	118	124

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 exposed to foreign currency fluctuations.

Fair values

FAIR VALUES VERSUS CARRYING AMOUNTS

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

Consolidated In thousands of AUD	30 June 2011		30 June 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets Carried at Amortised Cost				
Trade and other receivables	31,929	31,929	11,928	11,928
Cash and cash equivalents	6,020	6,020	8,718	8,718
	37,949	37,949	20,646	20,646
Liabilities Carried at Amortised Cost				
Finance lease liabilities	(17,414)	(17,768)	(6,533)	(6,620)
Contingent consideration	–	–	(773)	(773)
Commercial bill facility	(5,500)	(5,500)	(6,400)	(6,400)
Insurance premium funding	(176)	(176)	(326)	(326)
Trade and other payables	(18,808)	(18,808)	(10,419)	(10,419)
	(41,898)	(42,252)	(24,451)	(24,538)

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:

	2011	2010
Finance Lease Liabilities	9.04%	8.98%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

26 OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	Consolidated	
	2011	2010
Less than one year	1,164	209
Between one and five years	2,159	–
More than five years	–	–
	3,323	209

The amount recognised during the year in relation to minimum lease payments for the year ended 30 June 2011 totalled \$859 thousand (2010: \$589 thousand) for the Group.

27 CAPITAL AND OTHER COMMITMENTS

In thousands of AUD	Consolidated	
	2011	2010
Capital expenditure commitments		
Plant and equipment		
Contracted but not provided for and payable:		
Within one year	3,474	3,732
One year or later and no later than five years	–	–
Later than five years	–	–
	3,474	3,732

28 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

In thousands of AUD	Note	Consolidated	
		2011	2010
Cash flows from operating activities			
Profit for the period		11,741	4,775
Adjustments for:			
Depreciation	13	4,788	4,124
Amortisation of intangible assets		586	518
Impairment loss	13	3,034	–
Gain/(loss) on sale of property, plant and equipment	8,9	5	107
Share based payments	10	127	753
Net finance expense	11	1,589	1,058
Financing Transaction Costs		–	2,522
Income tax expense	12	1,653	2,333
Operating profit before changes in working capital and provisions		23,523	16,190
Change in trade and other receivables*	17	(20,001)	(2,072)
Change in inventories	16	(297)	(522)
Change in trade and other payables*	24	8,463	4,003
Change in provisions and employee benefits*	22	1,402	404
		13,090	18,003
Interest paid		(1,725)	(1,304)
Income taxes paid		(1,972)	(1,600)
Net cash from operating activities		9,393	15,099

* Excluding changes due to business combinations.

(i) Non-cash transactions

During the year the Group acquired plant and equipment totalling \$16,049 thousand (2010: \$3,775 thousand) by way of finance lease. The related acquisition and financing has been excluded from the statement of cash flows as non-cash transactions.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

29 RELATED PARTIES

Key management personnel compensation

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

In AUD	Consolidated	
	2011	2010
Short-term employee benefits	1,790,086	1,366,401
Post-employment benefits	124,940	93,536
Termination benefits	—	—
	1,915,026	1,459,937

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the directors' report.

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

Loans to key management personnel

No loans 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 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-director 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	Note	Transaction value year ended 30 June		Balance outstanding as at 30 June	
			2011	2010	2011	2010
	Andrew Watts – Watty Pty Ltd	(i)	168,300	168,300	14,025	28,050
	Andrew Watts – Watty Pty Ltd	(ii)	98,928	96,403	8,430	—
	Andrew Watts – Two Dots Ltd	(iii)	44,616	40,560	—	—
			311,844	264,703	22,455	28,050

- (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, 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.

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 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
Mr J. Wentworth	–	–	–	–	–
Executives					
Mr C. Kneipp	20,000	–	–	–	20,000
Ms V. Gayton	–	–	–	–	–
Ms B. Jooste	–	–	–	–	–
Mr A. Purse	32,000	–	–	–	32,000
Mr D. Fitzpatrick	100,000	–	–	–	100,000

Shares in Mastermyne Pty Ltd Prior to the IPO						Shares in Mastermyne Group Limited			
	Held at 1 July 2009	Purchases	Received on exercise of options	Sales	Shares held immediately Prior to the IPO	Equivalent shares if held in the Listed entity immediately prior to the IPO	Sales in IPO	Purchases in IPO	Shares held at 30 June 2010
Directors									
Mr P. Slaughter	–	–	–	–	–	–	–	100,000	100,000
Mr D. Hamblin	22,800	22	–	–	22,822	17,521,164 (7,365,506)	–	–	10,155,658
Mr A. Watts	22,800	26	–	–	22,826	17,523,746 (2,418,318)	–	–	15,105,428
Mr A. Caruso	3,600	4	–	–	3,604	2,766,863 (968,863)	–	–	1,798,000
Mr I. Hall	–	–	–	–	–	–	–	100,000	100,000
Executives									
Mr C. Kneipp	–	–	–	–	–	–	–	20,000	20,000
Mr A. Purse	–	–	–	–	–	–	–	32,000	32,000
Mr D. Fitzpatrick	–	–	–	–	–	–	–	100,000	100,000

Transactions with parent and between subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

29 RELATED PARTIES CONTINUED

Transactions occurring between the parent and subsidiaries are made on terms equivalent to those that prevail in arm's length transactions. These transactions have been eliminated on consolidation:

- ▶ Mastermyne Engineering Pty Ltd, provided work to Mastermyne NNSW Pty Ltd for an amount of \$6,571 (2010: Nil). \$7,515 was outstanding between Mastermyne Engineering Pty Ltd and Mastermyne NNSW Pty Ltd at 30 June 2011 (2010: Nil).
- ▶ Mastermyne Engineering Pty Ltd, provided work to Mastermyne Services Pty Ltd for an amount of \$29,085 (2010: Nil). There was no amount outstanding between Mastermyne Engineering Pty Ltd and Mastermyne Service Pty Ltd at 30 June 2011 (2010: Nil).
- ▶ Mastermyne Services Pty Ltd, provided work to Mastermyne Pty Ltd for an amount of \$4,311,947 (2010: \$787,591). \$103,657 was outstanding between Mastermyne Services Pty Ltd and Mastermyne Pty Ltd at 30 June 2011 (2010: \$69,845).
- ▶ Mastermyne Services Pty Ltd, provided work to Myne Start Pty Ltd for an amount of \$41,051 (2010: Nil). There was no amount outstanding between Mastermyne Services Pty Ltd and Myne Start Pty Ltd at 30 June 2011 (2010: Nil).
- ▶ Mastermyne Underground Pty Ltd provided work to Mastermyne Pty Ltd for an amount of \$5,994 (2010: \$24,311). \$13,114 was outstanding between Mastermyne Underground Pty Ltd and Mastermyne Pty Ltd at 30 June 2011 (2010: Nil).
- ▶ Mastermyne Pty Ltd provided work to Mastermyne Engineering Pty Ltd for an amount of \$8,967 (2010: \$1,782). \$29,091 was outstanding between Mastermyne Engineering Pty Ltd and Mastermyne Pty Ltd at 30 June 2011 (2010: Nil).
- ▶ Mastermyne Pty Ltd provided work to Mastermyne Underground Pty Ltd for an amount of \$224,234 (2010: \$96,484). \$175,124 was outstanding between Mastermyne Underground Pty Ltd and Mastermyne Pty Ltd at 30 June 2011 (2010: \$8,778).
- ▶ Mastermyne Pty Ltd provided work to Mastermyne Services Pty Ltd for an amount of \$13,312 (2010: Nil). \$51,883 was outstanding between Mastermyne Pty Ltd and Mastermyne Services Pty Ltd at 30 June 2011 (2010: Nil).
- ▶ Mastermyne Pty Ltd provided work to Mastermyne Underground NNSW Pty Ltd for an amount of \$102,426 (2010: Nil). \$266,857 was outstanding between Mastermyne Pty Ltd and Mastermyne NNSW Pty Ltd at 30 June 2011 (2010: Nil).

During the year, the subsidiaries were also charged a shared services fee by Mastermyne Pty Ltd in relation to shared support services provided by Mastermyne Pty Ltd in relation to the following areas: CEO, CFO, Accountant, Group Safety Manager, HR/IR, Safety and Training Coordinator, IT Support, Administration, Payroll, Accounts Payable and Receivable. The calculation for the shared services fees for the subsidiaries is based on the proportion of the subsidiary's contribution to total Group turnover. These transactions have been eliminated on consolidation.

- ▶ Mastermyne Engineering Pty Ltd – Shared Services Fee \$149,022 (2010: \$173,422).
- ▶ Mastermyne Services Pty Ltd – Shared Services Fee \$64,166 (2010: \$64,166).
- ▶ Mastermyne Underground Pty Ltd – Shared Services Fee \$64,166 (2010: \$64,166).
- ▶ Mastermyne Underground NNSW Pty Ltd – Shared Services Fee \$74,400 (2010: Nil).

30 GROUP ENTITIES

Parent and ultimate controlling party

Parent entity	Country of incorporation	Ownership interest	
Mastermyne Group Limited		2011 %	2010 %
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 NSW 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 3.7 cents per share as per the details set out in note 20.

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

33 AUDITORS' REMUNERATION

In AUD	Consolidated	
	2011	2010
Audit services		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	181,624	160,669
	181,624	160,669
Other services		
Auditors of the Company		
KPMG Australia		
Taxation services	40,997	26,144
Risk Management Services	56,000	–
Investigating Accountant Report	–	555,000
	96,997	581,144

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

34 PARENT ENTITY DISCLOSURES

As at and throughout, the financial year ending 30 June 2011 the parent company of the group was Mastermyne Group Limited.

	Company	
in thousands of AUD	2011	2010
Results of the parent entity		
Profit for the period	1,426	(2,159)
Other Comprehensive income	–	–
Total comprehensive income for the period	1,426	(2,159)
Financial position of parent entity at year end		
Current assets	–	–
Total assets	54,479	55,098
Current liabilities	–	50
Total liabilities	–	50
Total equity of the parent entity comprising of:		
Share Capital	49,124	48,610
Share-based payments reserve	1,330	1,203
Retained earnings	4,025	5,235
Total Equity	54,479	55,048

Parent Entity Disclosures

There were no parent entity contingencies required for the year ending 30 June 2011.

Parent Entity Capital Commitments

There were no parent entity capital commitments at 30 June 2011.

Parent Entity Capital Commitments

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.

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 23 to 65 and the Remuneration report in the Directors' report, set out on pages 5 to 11, 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 2011 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 2011.
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
Non-Executive Chairman

Dated at Mackay this 24th day of August 2011.

INDEPENDENT AUDIT REPORT

to the members of Mastermyne Group Limited



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 balance sheet as at 30 June 2011, 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 description 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 2011 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 2011. 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 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

M J Jeffery
Partner

Brisbane

24 August 2011

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange (ASX) and not shown elsewhere in the Annual Report, current as at 30 September 2011, is advised hereunder.

STOCK EXCHANGE QUOTATION

Ordinary shares in Mastermyne Group Limited are quoted on the ASX (Home branch: Brisbane) under the code "MYE" and on the German Stock Exchange (Berlin Open Market) trading under the code "A1CXTE".

CLASSES OF SECURITIES

The Company has the following equity securities on issue:

ASX quoted: 75,367,514 ordinary shares, each fully paid, held by 928 shareholders

Unquoted: 1,050,000 performance rights, having differing prices, hurdles and periods, with latest expiry 30 September 2014, held by 1 employee

VOTING RIGHTS

The voting rights attaching to ordinary shares are set out in Rule 37 of the Company's Constitution and are summarised as follows:

- ▶ A holder of ordinary shares in the Company shall be entitled to be present at any shareholders' meeting, and to vote in respect of those shares held.
- ▶ Shareholders entitled to attend and vote at shareholders' meetings may appoint a proxy in accordance with the Corporations Act.
- ▶ At any shareholders' meeting every shareholder present in person or by proxy or by attorney or, in the case of a body corporate, a representative appointed pursuant to the Corporations Act, shall be entitled:
 - (a) on a show of hands, to one vote only; and
 - (b) on a poll, to one vote for each ordinary share held.

RESTRICTED SECURITIES

There are no restricted securities on issue.

ON-MARKET BUY-BACKS

There is no current on-market buy-back of any securities.

DISTRIBUTION OF SECURITY HOLDERS

Distribution of shares and the number of holders by size of holding are:

Range	Shares	%	No of Holders	%
1 to 1,000	33,801	0.04	55	5.93
1,001 to 5,000	755,549	1.00	215	23.17
5,001 to 10,000	2,033,234	2.70	235	25.32
10,001 to 50,000	7,777,510	10.32	344	37.07
50,001 to 100,000	2,998,350	3.98	42	4.52
100,001 and Over	61,769,070	81.96	37	3.99
Totals	75,367,514	100.00	928	100.00

There are 9 shareholders holding a total of 678 shares with less than a marketable parcel (of 341 shares based on the closing share price on 30 September 2011 of \$1.47).

TWENTY LARGEST SECURITY HOLDERS

The names of the 20 largest shareholders, the number of shares and the percentage of capital each holds, are:

Rank	Shareholder Name	A/C Designation	Holding	Percent
1	CARM NQ PTY LTD	<THE CARNOHOGAN FAMILY>	15,105,428	20.04%
2	DARREN WILLIAM HAMBLIN	<HAMBLIN FAMILY>	10,155,658	13.47%
3	COGENT NOMINEES PTY LIMITED		10,093,362	13.39%
4	NATIONAL NOMINEES LIMITED		7,548,239	10.02%
5	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LTD		2,076,025	2.75%
6	ANTHONY SALVATORE CARUSO	<THE MAD INVESTMENTS>	1,798,001	2.39%
7	ANTHONY CHARLES ZAHRA	<THE ZAHRA DISCRETIONARY UNIT>	1,659,810	2.20%
7	MICHAEL ALAN COOMBS	<THE COOMBS INVESTMENT>	1,659,810	2.20%
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		1,575,681	2.09%
9	UBS NOMINEES PTY LTD		1,333,274	1.77%
10	CITICORP NOMINEES PTY LIMITED		1,185,799	1.57%
11	VEGAS MINING PTY LTD	<RAE FAMILY TRUST>	1,000,000	1.33%
12	J P MORGAN NOMINEES AUSTRALIA LIMITED		953,727	1.27%
13	GARY ALLAN MACINTYRE & LISA MACINTYRE	<THE G&L MACINTYRE S/F>	780,752	1.04%
14	VAULT SAFETY PTY LTD	<COSGROVE FAMILY>	714,286	0.95%
15	BOND STREET CUSTODIANS LIMITED	<SLOW – V12746 A/C>	590,752	0.78%
16	AVANTEOS INVESTMENTS LIMITED	<DNR IMA A/C>	335,550	0.45%
17	CUSTODIAL SERVICES LIMITED	<BENEFICIARIES HOLDING A/C>	296,750	0.39%
18	INVESTMENT CUSTODIAL SERVICES LIMITED	<R>	293,030	0.39%
19	PJJJ PTY LTD	<COSGROVE FAMILY S/FUND A/C>	285,714	0.38%
20	BARRY WILLIAM SLOAN		208,820	0.28%
Total			59,650,468	79.15%

SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act are:

	Number of shares
Andrew Dominic Watts / Carm NQ Pty Ltd ATF Carnohogan Family Trust	15,105,428
Darren William Hamblin ATF Hamblin Family Trust	10,155,658
Wilson HTM Investment Group Limited & associates	9,041,271
National Australia Bank Limited & associates	5,893,092
Kinetic Investment Partners Limited	3,837,686



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CORPORATE DIRECTORY

Company

Mastermyne Group Limited
ABN 71 069 346 247

Mastermyne Group Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Directors

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

Company Secretary

William (Bill) Lyne
Chris Kneipp

Registered and Head Office

Level 1 Riverside Plaza
45 River Street
Mackay QLD 4740

AUSTRALIA

P: +61 (7) 4963 0400
F: +61 (7) 4944 0822

ECONTACTS

master@mastermyne.com.au
www.mastermyne.com.au

Postal Address

PO Box 1671
Mackay QLD 4740
AUSTRALIA

Share Registry

LINK Market Services Limited
Level 15, 324 Queen Street
Brisbane QLD 4000
AUSTRALIA

P: +61 (2) 8280 7454

Independent Auditors

KPMG
Riparian Plaza
Level 16, 71 Eagle Street
Brisbane QLD 4000
AUSTRALIA
P: +61 (7) 3233 3111
F: +61 (7) 3233 3100

Stock Exchange Listing

Mastermyne Group Limited is listed on the Australian Securities Exchange. The home exchange is Brisbane.

ASX Code MYE

Mastermyne Offices

MASTERMYNE HEAD OFFICE (INCLUDING MASTERMYNE UNDERGROUND AND MASTERMYNE SERVICES)

Level 1 Riverside Plaza
45 River Street
Mackay QLD 4740
AUSTRALIA
P: +61 (7) 4963 0400
F: +61 (7) 4944 0822

Mastermyne Engineering

ROCKHAMPTON QLD

42 Monier Road
Parkhurst QLD 4702
P: +61(7) 4920 0800
F: +61(7) 4920 0899

CARDIFF NSW

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Cardiff NSW 2285
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Mastermyne

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