

RIGHT BUSINESS RIGHT TEAM RIGHT TIME

Mastermyne Group Limited
Annual Report 2010



Mastermyne

IN OUR KEY MARKETS OF THE BOWEN BASIN AND THE ILLAWARRA WE ARE SEEING A RECORD NUMBER OF TENDERING OPPORTUNITIES AND ARE WELL PLACED THROUGH EXISTING RELATIONSHIPS WITH MAJOR AUSTRALIAN AND INTERNATIONAL COAL PRODUCERS TO WIN NEW CONTRACTS.

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Annual General Meeting

The annual general meeting will be held at Mackay Grand Mercure Suites, 9 Gregory Street Mackay QLD 4740
23rd November, 11.00am.

On behalf of the Directors, it gives me great pleasure to welcome you as a Shareholder in Mastermyne Group Limited and to present our first annual result since listing on the Australian Securities Exchange on May 7, 2010.

As a result of our focus on the continued expansion of the business, both geographically and through the mining support services we provide, Mastermyne has achieved the profit forecast outlined in the prospectus.

2010 Proforma net profit after tax was \$7.83 million resulting in proforma earnings per share of 10.7 CPS. A final dividend of 12 CPS was declared subsequent to balance date

The result is a very promising start as a public company, and stems from Mastermyne's decision to invest heavily in building an experienced executive team and a highly skilled workforce to manage its ongoing growth. It is one of Mastermyne's points of differentiation from its competitors.

The result also reflects the calibre of our client base and Mastermyne's ability to leverage and maximise our existing client relationships.

The Company has a market leading position in Queensland's Bowen Basin and a growing presence in the Illawarra and Hunter Valley coal producing regions in New South Wales.

Over the last year Mastermyne has been working diligently to expand its business, firstly by diversifying the number of services we offer, most recently the addition of ventilation and directional drilling services to our Underground division and secondly by growing our geographic footprint. Whilst there is still much work to be done, our approach to date has been successful and it has also allowed us to capitalise on the increasing demand for umbrella style contracts in the coal sector. In pursuing this business growth, the Company has been cognisant of the need to retain and build our human resources and skill base in a competitive environment; our management team has done a sound job in building good quality teams at all our projects.

During the year we have made significant progress in expanding our presence in New South Wales, particularly in the coal rich Hunter Valley, where we are hopeful of becoming one of the leading contractors over next 12 months. In our key markets of the Bowen Basin and the Illawarra we are seeing a record number of tendering opportunities and are well placed through existing relationships with major Australian and international coal producers to win new contracts, as well as developing new ones.

Mastermyne has consistently demonstrated to clients our ability to deliver on contracts, build on core competencies and add value to their operations. This has allowed Mastermyne to develop an enviable reputation across all of its operating divisions as a reliable and highly disciplined service provider.

On behalf of the Board and shareholders, I would like to thank our Managing Director Tony Caruso and his executive team for their hard work and dedication over the past year, particularly around the successful completion of the IPO while at the same time managing the day-to-day operations of the company.

I would also like to thank my board colleagues for their contribution in preparing the company for its Initial Public Offering.

Looking ahead, we are optimistic about the next 12 months as the directors believe that Mastermyne's leading position in the market will assist it to benefit from the increased demand for our services that we are currently experiencing. We have strategies in place to continue to increase our skilled workforce so that our service offering will retain its capacity to deliver client focused outcomes.

I look forward to working with my fellow directors, the senior management team and our 564 employees to deliver value for shareholders in FY2011.

Yours sincerely

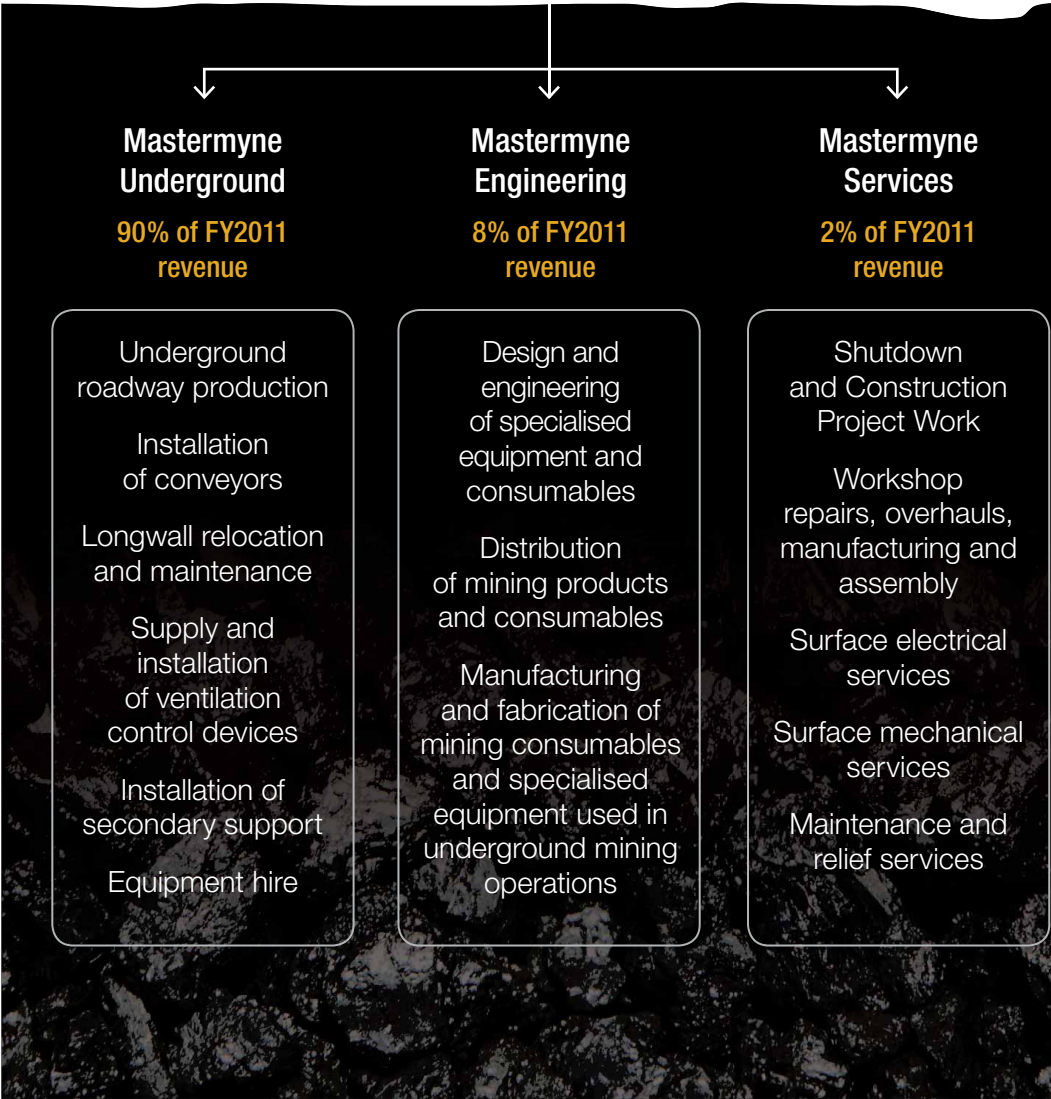


Peter Slaughter
Chairman
Mastermyne Group Limited



BUSINESS OVERVIEW

Mastermyne is a specialist provider of services to the Australian coal mining industry. The Company is a market leader in underground coal mining services in the world's largest resource of high quality coking coal, Queensland's Bowen Basin. It also has a growing presence in the New South Wales coal market. Mastermyne is structured into three operating divisions, each of which is a wholly owned subsidiary of Mastermyne Pty Ltd operating under the Mastermyne™ brand. These three operating divisions are summarised below.



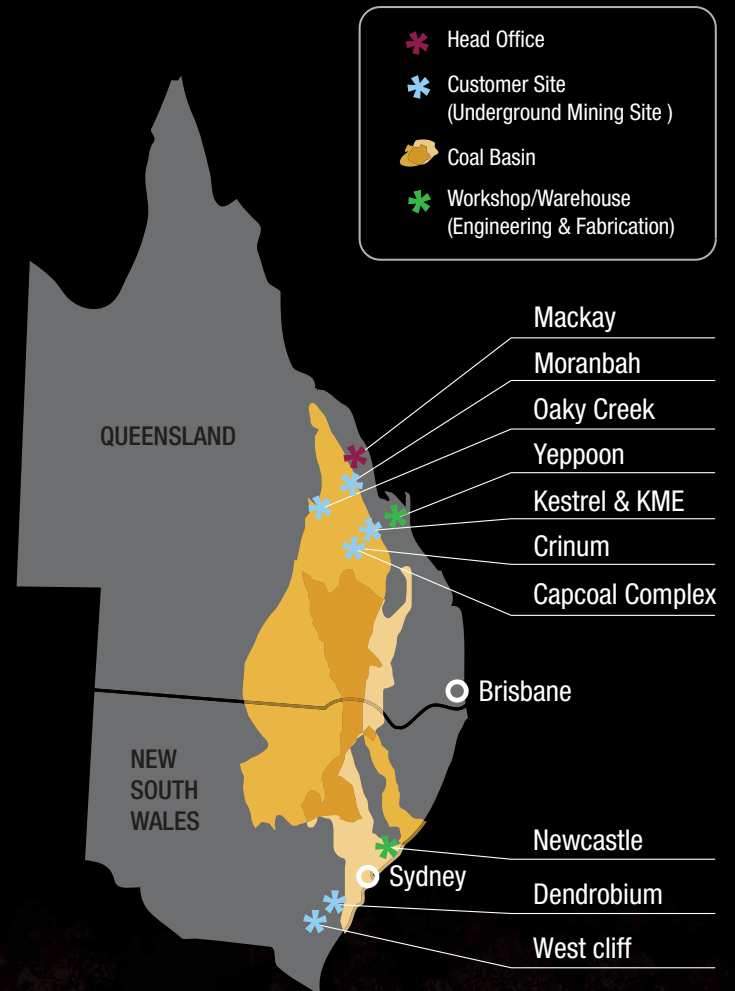
Mastermyne Underground is the largest operating division of the Company. Demand for its services is driven by production volumes at underground coal mines rather than new mine development or associated capital expenditure. This is evidenced by Mastermyne Underground's history of earnings stability and growth.

Mastermyne sees significant growth opportunities across its three operating divisions. Importantly, most of this growth during the forecast period is expected to be achieved from existing client relationships. The Company also plans to expand the range of services it provides to existing clients through new client contracts.

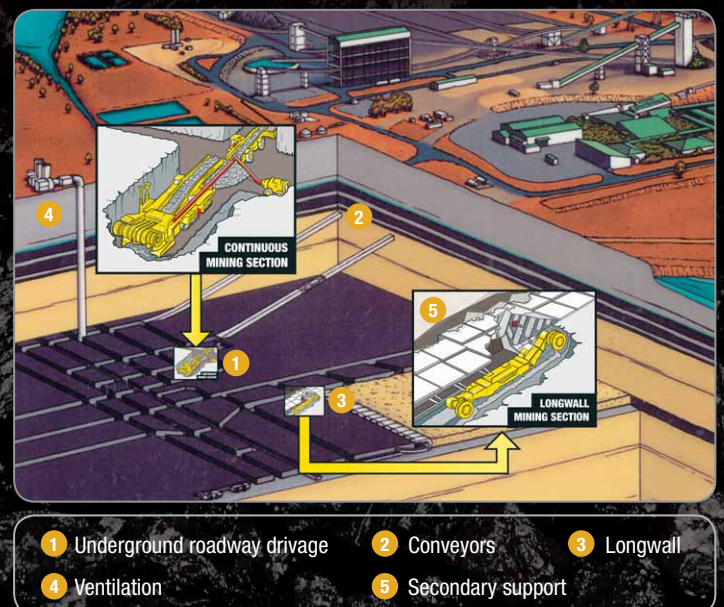
Supply and installation of ventilation control devices. Ventilation of a longwall mine and the longwall face is one of the most important aspects of longwall mining and continues through the life of the mine. Mastermyne supplies and installs the devices which regulate and control the flow of air into the mine.



Current Mastermyne Operations



Mastermyne's Scope of Services



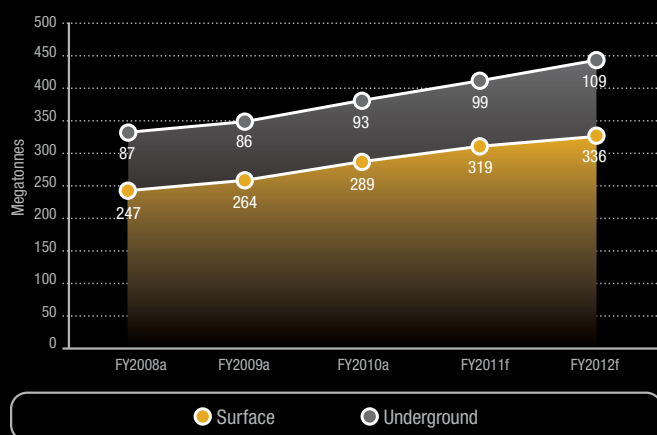
RIGHT SERVICES

Market leader servicing Australian coal market

- ▶ Mastermyne is a leading provider of specialised underground coal mining services in Queensland's Bowen Basin and is growing its presence in New South Wales.
- ▶ Mastermyne provides an extensive range of services essential to ongoing coal mine production.



Australian saleable coal production



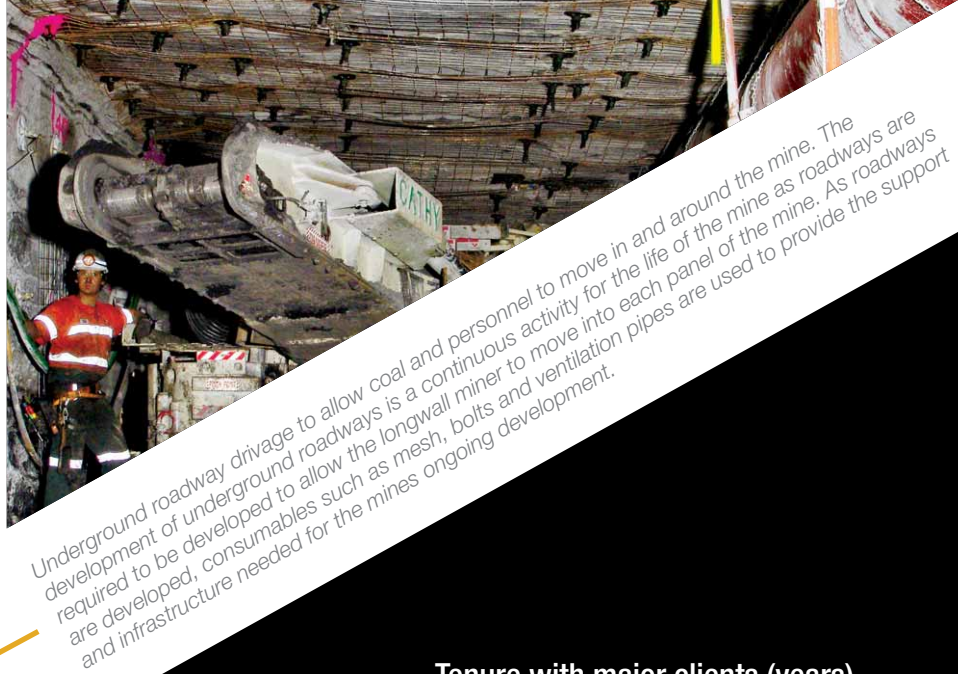
Source: Wood MacKenzie

RIGHT MARKET

Leveraged to coal sector growth

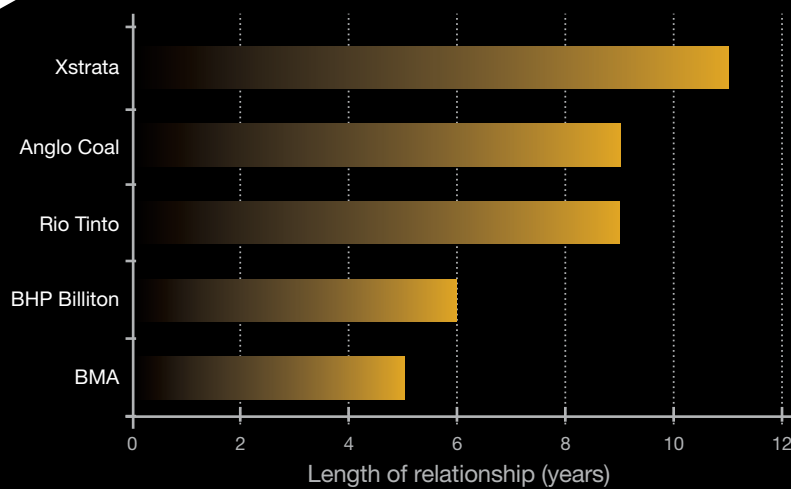
- ▶ Demand for Mastermyne's services is at record levels.
- ▶ Australian saleable coal production is expected to increase by 33% from FY2008 to FY2012.
- ▶ Mastermyne is well positioned to utilise its extensive range of services and its skilled workforce to secure contracts.

Installation and maintenance of conveyors which are an essential component of transporting the coal from the longwall to the surface. Conveyors are moved throughout the life of the mine to follow the longwall and roadway development. Mastermyne provides services to assist in the establishment of the conveyors and the ongoing extension of the conveyor network as the longwall moves to new panels.



Underground roadway drivage to allow coal and personnel to move in and around the mine. The development of underground roadways is a continuous activity for the life of the mine as roadways are required to be developed to allow the longwall miner to move into each panel of the mine. As roadways are developed, consumables such as mesh, bolts and ventilation pipes are used to provide the support and infrastructure needed for the mines ongoing development.

Tenure with major clients (years)



RIGHT CUSTOMERS

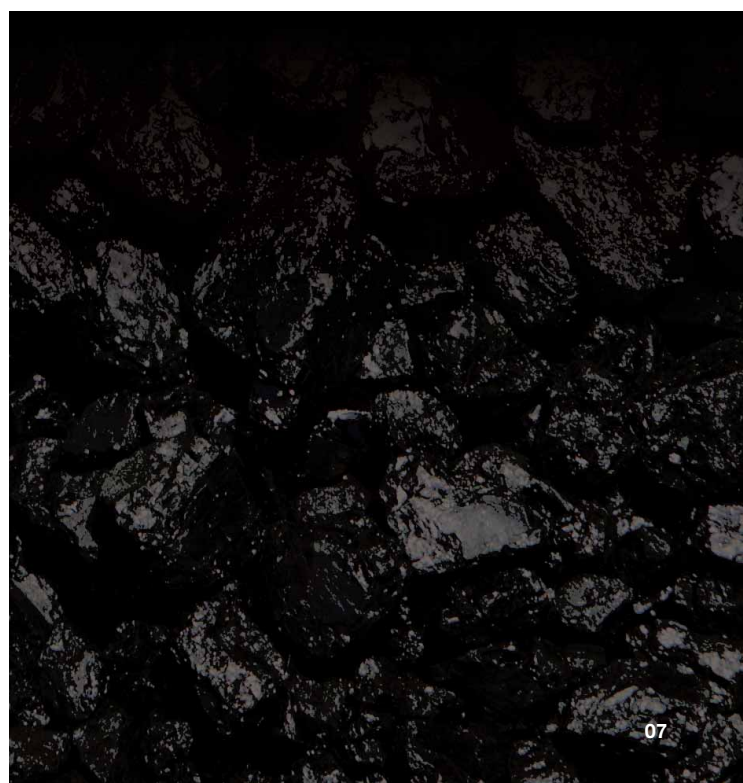
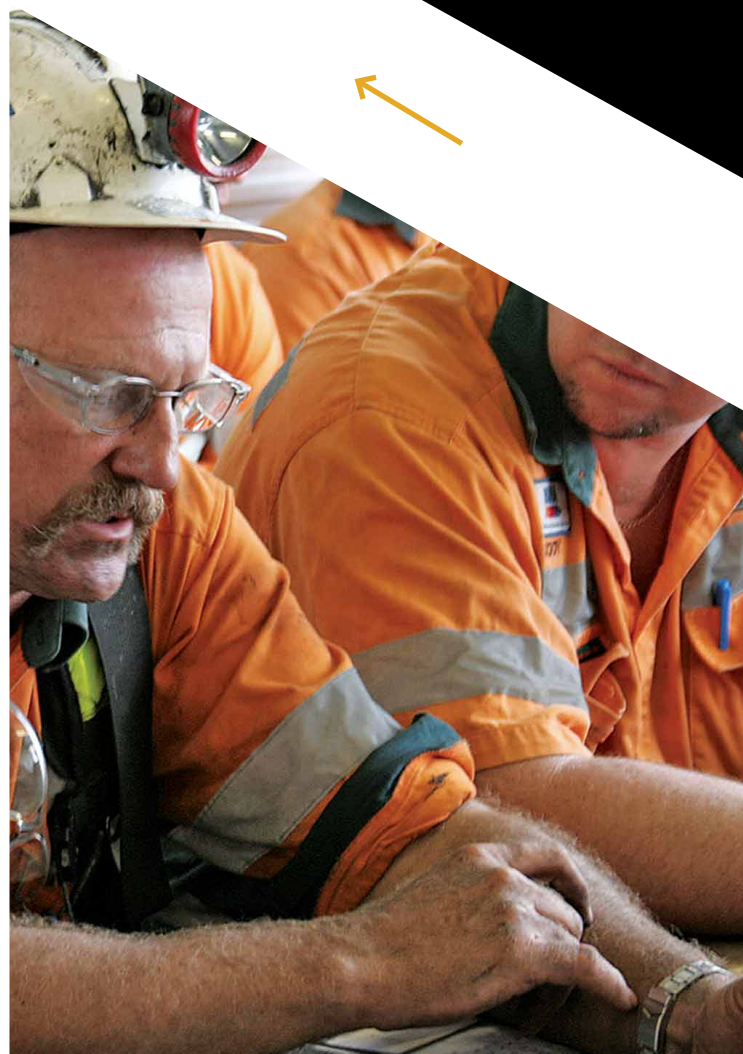
Quality Client Base

- ▶ Clients are major Australian and international resources companies and coal producers.
- ▶ Diversified client base includes Anglo Coal, BHP Billiton, BMA, Rio Tinto, Vale and Xstrata.
- ▶ Attractive contract structures.

RIGHT PEOPLE

Experienced Management Team and Skilled Workforce

- ▶ Mastermyne has invested heavily in building an experienced executive team and highly skilled work force to manage its ongoing growth. This is reflected in the quality of the business and consistency of earnings.
- ▶ Mastermyne's senior management team has combined experience of nearly 200 years in the underground coal mining industry.
- ▶ This management team combined with its skilled workforce underpins the future growth of the organisation and is considered one of Mastermyne's points of differentiation from its competitors.



RIGHT RESULTS

Strong Financial Performance

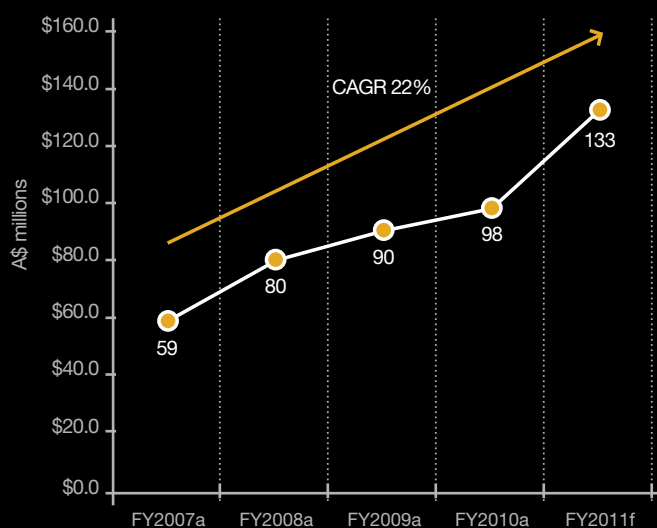
- ▶ The business has grown each year including during the global financial crisis as revenue is linked to coal mine production not new mine development.
- ▶ Mastermyne has a history of strong growth which is forecast to continue in FY2010 and FY2011 with EBITA growth of approximately 11.7% in pro forma FY2010 and approximately 20.3% in FY2011.



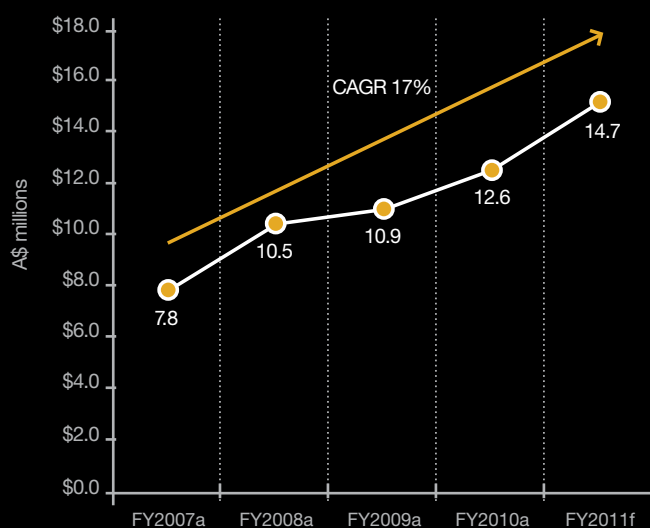
Installation of secondary support. To ensure the stability of roadways Mastermyne provides strata support services which involves installation of bolts and mesh to support roadways ceilings and walls.



Revenue



Pro forma EBITA



MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICERS REPORT

Mastermyne Group Limited
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2010 has been a significant year for the company and for the evolution of the Mastermyne business with the highlight being the successful completion of the Initial Public Offering (IPO). Even with the added workload of the IPO we have outperformed our own expectations this year with improved safety results, further year-on-year growth and better than budget financial performance. This demonstrates the depth and maturity of the business and the capability of all the management and staff at Mastermyne.

This year the focus for the Mastermyne Group has been on growing the range of services and products offered and expanding geographically into the Hunter Valley region of New South Wales. Our successful entry into the Hunter Valley means we can now provide customers with a credible single point of contact for their needs across all the major coal producing regions on the East Coast of Australia. We are seeing a fundamental shift in the way that mine operators are engaging contractors, favouring larger contracting groups like Mastermyne who can provide a range of services and minimise the interfaces with multiple smaller contracting organisations.

As we move into FY2011 we are continuing to experience increased demand, with a record level of enquiries and it is this demand that will continue to underpin the ongoing growth of our business across Mastermyne's three business divisions.

In FY2010 we successfully introduced ventilation and directional drilling services to our Underground division which has significantly expanded the range of services we are able to offer and put us in the unique position of being the only underground contractor to provide this range of services to the underground coal sector.

The increase in demand for contractors' services is also supporting our expansion into the Hunter Valley region and already we have seen a record number of tendering opportunities coming from this area. As our Illawarra employee numbers continue to grow (now in excess of 60 staff), I am confident that this year Mastermyne will establish itself as one of the major contractors in the area.

Mastermyne Services is also experiencing an increase in enquiries from the surface construction/shutdown and maintenance market after a very flat year. Projects which were previously deferred or cancelled following the GFC are now being revisited and this has led to a number of positive enquiries in our Services division. Similar to the Underground division, we have used FY2010 to position the Services division to capitalise on these opportunities with the inclusion of a mechanical capability along with workshop capability. I am pleased to be able to report that the contracted work for FY2011 has now exceeded budget with a solid pipeline of opportunities identified throughout the year.

The Engineering division has had a very strong finish to the 2010 financial year and this has been driven by the resurgence of demand for both thermal and coking coal. We have seen a significant increase in orders in our traditional markets in Queensland and our New South Wales operations have successfully gained a market share in both the Hunter Valley and Illawarra areas. With the manufacturing of ventilation devices added to our product line this year we have opened new doors for the Engineering division which we expect will lead to further growth in Qld and NSW.

2010 Results

Despite the distractions of the IPO the operating results for the Mastermyne Group have been very pleasing this year. The financial performance met the prospectus forecast and

The Key Numbers were:

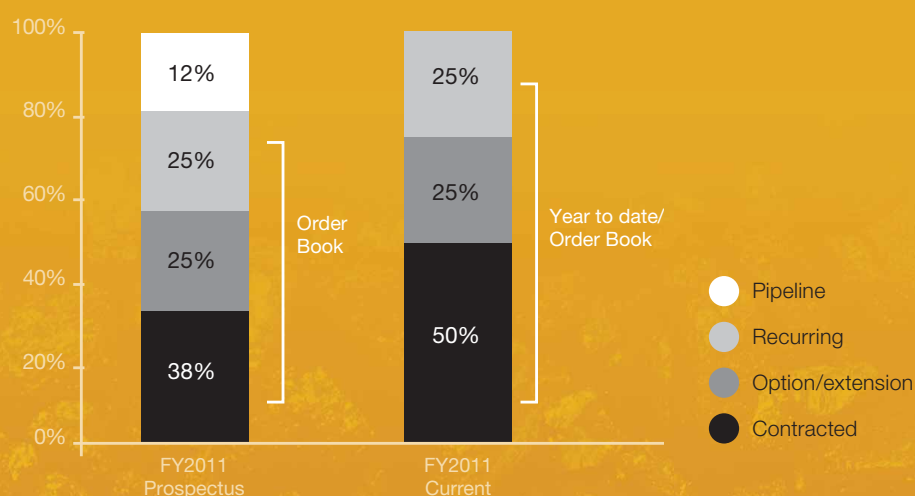
- ▶ **Combined Revenue was up 4.5% from the FY2010 budget as a result of increased manning levels on the umbrella contracts at Westcliff Mine and Moranbah North Mine.**
- ▶ **Gross Profits Margins were retained in line with budget**
- ▶ **Adjusted FY2010 Nett Profit was up by \$1.45 million to \$7.83 million**
- ▶ **Earnings per share was 10.7 CPS in line with the prospectus forecast.**
- ▶ **Net Operating cash flows up to \$2.4 million on prospectus forecast**
- ▶ **Total dividends paid were 1.2 cents per share fully franked.**

COMPANY HIGHLIGHTS

Operational Highlights

- ▶ Revenue 4.5% better result than the FY2010 forecast
- ▶ A strong safety performance for the FY2010 achieving a 40% reduction in the Total Recordable Injury Frequency Rate from previous year.
- ▶ FY2011 budget is now fully contracted
- ▶ Pipeline of work identified at 152m for FY2011 and 204m for FY2012
- ▶ Increase in the overall manning numbers by 40% in FY2010 to 564 employees
- ▶ The successful acquisition and integration of the Hunter Valley underground contracting business.
- ▶ Directional Drill rig due for delivery in September
- ▶ Training Centre under construction
- ▶ Overseas recruitment

Mastermyne forecast sources of revenue



Source (A\$m)	Description	FY2011 Prospectus	FY2011 Current
Contracted	Revenue expected to be generated by contracts in the forecast period. FY2010 includes year to date revenue to 31 December 2009.	51	67
Option/extension ²	Revenue from contracts expected to be extended beyond current contract expiration	33	33
Recurring	Revenue from renewal of existing purchase orders and regularly recurring business. Refer to section 6.4.	33	33
Required from Pipeline	Identified opportunities from new and existing contracts	16	0
Total		133	133

Notes: 1 Contract options are exercisable at the discretion of the client.

2 Recurring revenue is adjusted for inter-company revenue eliminations.

Business Highlights

Core to Mastermyne's success is the management of the safety of our workforce. We are committed to the highest safety standards at all our sites, and in this we are aligned with our customers' focus on safety. This year we have had a 40% reduction in the reported safety statistics (TRIFR) which effectively means a reduction in the injuries sustained at work by our employees compared to the previous financial year. This has been a very satisfying performance especially given it was achieved from an already low base. Mastermyne will again continue with the successful dual track approach to safety management which has been compliance and behavioural management to further reduce the injuries and work towards our goal of zero harm.

In 2010 we have strengthened our relationship with all our major customers through strong safety and operational performance. We have renewed contracts with Illawarra coal that will see our continued contracted presence in the area for at least the next two years with two one-year options thereafter. Core to this has been the successful negotiation of a three year enterprise bargaining agreement for the area which provides us with industrial stability for the foreseeable future.

People

Retention

Currently there is a national skills shortage which is affecting the Australian mining industry. We recognise that retention of our skilled personnel will be critical to the ongoing success of the business and have implemented a number of initiatives we believe will increase retention rates. We are confident our retention initiatives will maintain our turnover rates at the levels currently experienced.

Recruitment

In addition to our domestic recruitment we have started overseas recruitment programmes in the USA and NZ, with the first American employees due in the second quarter of FY2011.

Training centre

We believe that it is critical to train our own staff and investing in a training centre is one of the most logical and cost efficient ways to address the potential skills shortage in the mining sector. The training centre is being constructed at our head office in Mackay, with the first training course run in September 2010. Our current plan is to train approximately 110 people annually who can then be used on Mastermyne projects. Once our semi-skilled training program is bedded down, we plan to operate specialised trades courses at the training centre.

Employee relations

We are benefitting from industrial relations stability on all our projects, with a new enterprise bargaining agreement agreed in the Illawarra for a three year period.

Outlook

We believe the business is well positioned for the year ahead. Our growth strategies of increasing our service offering and geographic expansion are contributing to Mastermyne's order book and I can report that it is already filled for FY2011.

We have a pipeline of \$152 million of work identified for FY2011, and \$204 million of work for FY2012.

There is increasing interest from mining companies in outsourcing mining services and our three divisions, Underground, Engineering and Services are experiencing a record level of inquiries,

I am confident that we are well placed to address the labour issues which have the potential to affect industry. The retention initiatives, our recruitment programme and our training centre will continue to provide us with a highly skilled and committed workforce.

In FY2011 we will be focused on the successful execution of all of our projects, ensuring that we deliver the highest quality of services for our customers and contribute to their success. Mastermyne will also continue to explore the further extension of our mining services offer and the potential for new products.

At the same time as we are growing the business, we aim to continue to improve our safety performance which is crucial to the future success of the company.

Our senior management team, combined with our skilled workforce, are considered one of Mastermyne's points of differentiation from our competitors.

During the next 12 months they will be further leveraging the relationships we have forged with the major Australian and international resource companies and coal producers who are our clients.

With the order book secured and a strong and growing pipeline of opportunities I am confident of our ability to deliver for shareholders in FY2011.

Yours sincerely



Anthony (Tony) Caruso
CEO & Managing Director



BOARD OF DIRECTORS

Peter Slaughter

Non Executive Chairman

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, Australian Institute of Management, the Australian Institute of Company Directors and the Institute of Directors in the United Kingdom. Peter is currently a non-executive director of Nomad Building Solutions Limited and was a previous non-executive director of Sunshine Gas Limited and non-executive Chairman of Childcare Centres of Australia Limited.

Anthony (Tony) Caruso

CEO & Managing Director

Tony was appointed CEO of Mastermyne in FY2005 and Managing Director in FY2008 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 Member of the Australian Institute of Management.

Andrew Watts

Executive Director

Andrew has been involved in contracting within the mining industry since FY1994 and co-founded Mastermyne in FY1996. Andrew was responsible for all aspects of Mastermyne's operations until the appointment of Tony Caruso as CEO in FY2005. Andrew's current focus is on business development and acquisitions. Andrew relocated to Sydney in early FY2010 to focus on the New South Wales market.

Darren Hamblin

Non-executive Director

Darren has been involved in the mining industry since graduating as a mechanical engineer in FY1991. He has worked directly for mine owners as well as contractors in operations, planning and maintenance roles. Darren co-founded Mastermyne in FY1996. Following the appointment of Tony Caruso as CEO in FY2005, Darren has focused on developing Mastermyne's longer term business strategies and systems. Darren implemented Pronto throughout the business during FY2007. Darren became a non-executive Director in FY2008.

Ian Hall

Non-executive Director

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"). Whilst at PwC Ian's clients included most of Australia's largest financiers, legal practices, State and Federal Government Departments and Regulators and large corporates. Ian has experience in a diverse range of industries including mining, manufacturing, wholesaling, retailing, hospitality, property and construction. Ian brings a deep commercial experience with a no nonsense approach to the Board.

FINANCIAL REPORT

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DIRECTORS' REPORT

For the year ended 30 June 2010

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 2010 and the auditor's report thereon.

1 DIRECTORS

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

Mr P. Slaughter (appointed 22 March 2010)

Bachelor of Engineering (Metallurgical) (Hons), Graduate Diploma Company Director Course.

Chairman (independent)

Experience and other directorships

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

Peter is currently a non-executive Director of Nomad Building Solutions Limited and was a previous non-executive Director of Sunshine Gas Limited and non-executive Chairman of Childcare Centres of Australia Limited and Monto Minerals Limited.

Special Responsibilities

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

Mr I. Hall (appointed 22 March 2010)

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"). Whilst at PwC Ian's clients included most of Australia's largest financiers, legal practices, State and Federal Government Departments and Regulators and large corporates. Ian has experience in a diverse range of industries including mining, manufacturing, wholesaling, retailing, hospitality, property

and construction. Ian brings a deep commercial experience with a no nonsense approach to the Board.

Special Responsibilities

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

Mr D. Hamblin (appointed 8 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 Nominations Committee

Mr A. Watts (appointed 8 March 2010)

Executive Director

Experience and other directorships

Andrew has been involved in contracting within the mining industry since 1994 and co-founded Mastermyne in 1996.

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

Mr A. Caruso (appointed 8 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, Tamaya Resources Limited and Manacorn Corporation Limited of which he is also a director.

3 DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings		Audit and Risk Management Committee Meetings		Remuneration & Nomination Committee Meetings	
	A	B	A	B	A	B
Mr P. Slaughter	6	6	1	1	1	1
Mr I. Hall	6	6	1	1	1	1
Mr D. Hamblin	6	4	1	1	1	0
Mr A. Watts	6	5				
Mr A. Caruso	6	5				

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 9.49% to \$98.163 million in FY2010 (2009: \$89.656 million), driven by the full year impact of a contract that commenced in FY2009 which contributed \$39 million in revenue during FY2010. Also contributing to the growth in revenue were the acquisitions of MTR Mining Services Pty Ltd (revenue contribution of \$3.054 million), the Highlands Mining ventilation division (revenue contribution of \$2.070 million), and the Infintech ventilation division (\$0.699 million).

Net profit after tax for the year was \$4.775 million (2009: \$6.149 million). Whilst revenue increased from the prior year, the Group incurred a number of expenses associated with business acquisitions and the initial public offering (IPO), which have impacted the net profit after tax. The nature of these expenses were identified in the 2010 IPO prospectus as proforma adjustments, with the actual expenses incurred as follows:

- ▶ IPO preparation and listing costs of \$2.522 million;
- ▶ Stamp duty associated with the pre-IPO restructuring and share buy-back of \$0.343 million; and

- ▶ a non-cash, share-based payments expense \$0.753 million associated with the acquisition of MTR Mining Services Pty Ltd on 1 March 2010.

Cash Flow

The Group maintained a strong cash position as at 30 June 2010, with cash and cash equivalents totalling \$8.718 million (2009: \$5.600 million). The increased cash is impacted by the following significant items:

- ▶ net cash inflows from operating activities for the year of \$15.099 million (2009: net cash inflows of \$11.289 million), largely due to changes in working capital;
- ▶ net cash outflows from investing activities for the year of \$2.570 million (2009: net cash outflows of \$0.105 million), primarily as a result of the business acquisitions which occurred during FY2010; and
- ▶ net cash outflows from financing activities for the year of \$9.411 million (2009: net cash outflows of \$7.232 million), primarily as a result of the Group repaying existing shareholder loans in relation to dividends declared in prior years.

4 OPERATING AND FINANCIAL REVIEW *continued*

Operational Overview

This year's focus has been to increase the range of services and products offered and to expand geographically into the Hunter Valley region of New South Wales. Both of these initiatives have been successful with the establishment of the Hunter Valley operations now providing customers with a credible single point of contact for their needs. The Group has also successfully expanded the suite of services to include underground directional drilling, ventilation supply and installation and added mechanical and maintenance capabilities to the Services division.

The significant operational highlights for the financial year included:

- ▶ Safety performance well ahead of target by 40% and significantly better than Underground Coal sector benchmarks.
- ▶ The successful acquisition and integration of the Hunter Valley underground contracting business.
- ▶ Sourcing of the new LM90 directional drill rig in preparation for directional drilling in FY11.
- ▶ Fully contracting the order book to meet the FY11 forecast.
- ▶ Continued strong performance on our current contracts and the strengthening of relationships with our major customers.
- ▶ Increase in the overall manning numbers by 40% in FY10 to 564 employees.

Outlook

As Mastermyne moves into 2011 it is continuing to experience increased demand and a record level of enquiries and it is this demand that will continue to underpin the ongoing growth of our business across Mastermyne's three business divisions. The combination of this year's results and a fully contracted order book provides a very solid base as it moves into the 2011 financial year.

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 Services (appointed 10 August 2009)
- ▶ Mr J. Hayward, Business Development Manager (appointed 22 March 2010)

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 KPI's aligned with the short and long term strategic objectives of the Group. Remuneration structures reflect:

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

In addition to their salaries, the Group also provides non-cash benefits to its 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. 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.

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward key

5 REMUNERATION REPORT *continued*

5.1 Principles of Remuneration – Audited *continued*

Performance linked remuneration *continued*

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 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 more broadly based on “profit after tax” and “return on assets” compared to budgeted amounts approved by the Board each year. The non-financial objectives vary dependant 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.

At the end of the financial year the remuneration committee assess the actual performance of the Group, the relevant segment and individual against the KPI's set at the beginning of the financial year. Payment of individual bonuses is based on the assessment of the remuneration committee with recommendations from the managing director (for employees other than the managing director) taking into consideration the overall performance of the individual for the period. The managing director's STI bonus is set by the remuneration committee based on assessment of his/her performance against agreed KPIs.

Long-term incentive

There were no long term incentives awarded during the year. An employee performance rights plan was adopted by the Board on 22 March 2010, the Board has also resolved to activate the plan as of 1 July 2010, subject to shareholder approval of specific details as they apply to the Managing Director's 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.

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.

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. Currently, the CEO/Managing Director's contract is under review and it is expected that the termination provisions of that contract will be extended. 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 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. 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.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2010

5 REMUNERATION REPORT *continued*

5.1 Principles of Remuneration – Audited *continued*

Directors' Fees *continued*

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.

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:

2010	Short Term			Post-Employment			Share-based payments			
	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 (\$)
in AUD										
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

- ▶ In 2010 Directors fees for Mr P. Slaughter and Mr I. Hall are from 30 April 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 is calculated at the date of grant using the Black Scholes option-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.

5 REMUNERATION REPORT *continued*

5.2 Directors' and executive officers' remuneration – audited *continued*

2009	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 D. Hamblin	20,642	–	–	20,642	1,858	–	–	22,500	0.00%	0.00%
Executive Directors										
Mr D. Hamblin	90,000	–	7,397	97,397	6,095	61,627	–	165,120	0.00%	0.00%
Mr A. Watts	167,425	–	15,000	182,425	12,462	–	–	194,887	0.00%	0.00%
Mr A. Caruso	273,153	20,000	15,000	308,153	22,993	–	–	331,146	6.04%	0.00%
Executives										
Mr A. Purse	176,419	27,991	15,000	219,410	15,947	–	–	235,357	11.89%	0.00%
Mr J. Johnson*	206,295	–	14,301	220,597	13,960	21,504	–	256,060	0.00%	0.00%
Mr T. Miles	146,881	–	10,274	157,155	13,234	67,271	–	237,660	0.00%	0.00%
Mr T. Zahra*	263,557	–	15,000	278,557	15,097	–	–	293,654	0.00%	0.00%
Mr R. Matthews*	167,592	–	15,000	182,592	11,943	–	–	194,535	0.00%	0.00%
Totals	1,511,965	47,991	106,973	1,666,928	113,589	150,401	–	1,930,919		

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

Notes in relation to the 2009 tables of Directors' and executive officers' remuneration – audited

- In 2009 Mr D. Hamblin resigned as an executive on 27 December 2008. Mr D. Hamblin remained on the Board as a non-executive Director, with split in classifications in the 2009 table reflecting the two different roles.
- Mr T. Miles resigned as CFO on 7 March 2009.

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 T. Caruso	137,367	100%	100%
Executives			
Mr A. Purse	38,447	100%	100%
Mr C. Kneipp	45,107	75%	25%
Mr J. Hayward	10,000	9%	91%

(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 2010 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.

DIRECTORS' REPORT CONTINUED

For the year ended 30 June 2010

5 REMUNERATION REPORT *continued*

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 2010	Grant date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of Options vested during 2010
Executives						
Mr P. Cosgrove	1,000,000	1 March 2010	376,500	0.92	28 February 2012	1,000,000
Mr T. Rae	1,000,000	1 March 2010	376,500	0.92	28 February 2012	1,000,000

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

The above options were granted as part of the consideration for the acquisition of Mastermyne Underground NNSW Pty Ltd during the period. To be eligible to exercise the options each vendor must still be employed by the Group at the time the options are exercised.

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 the following shares were issued on the exercise of options previously granted as compensation:

	Number of shares	Amount paid \$/share
Executives		
Mr B. Sloan	454	427
Mrs C. Ivory	227	427

The above shares were acquired in Mastermyne Pty Ltd prior to the insertion of Mastermyne Group Limited.

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 2010	Grant date	% vested in year	% forfeited in year	Financial year in which grant vests
Executives					
Mr P. Cosgrove	1,000,000	1 March 2010	100%	0%	2010
Mr T. Rae	1,000,000	1 March 2010	100%	0%	2010

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 P. Cosgrove ¹	376,500	–	–
Mr T. Rae ¹	376,500	–	–
Mrs C. Ivory ²	–	77,221	–
Mr B. Sloan ²	–	154,442	–

1. Represents options to acquire shares in Mastermyne Group Limited.

2. Represents options to acquire shares in Mastermyne Pty Ltd.

5 REMUNERATION REPORT *continued*

5.4.5 Analysis of movements in options – audited *continued*

- (A) The value of options granted in the year is the fair value of the options calculated at grant date using the Black Scholes 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 2010.

7 ENVIRONMENTAL REGULATION

The Group is subject to various environmental regulations under both Commonwealth and State legislation in relation to its involvement in the operation of mines.

The Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

8 DIVIDENDS

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

	\$ per share	Total amount (\$'000)	Franked/unfranked	Date of payment
Declared and paid during the year 2010				
2010 Ordinary – A&B Ordinary Shares*	\$1.94	118	Franked	30/9/09
2010 Ordinary – A&B Ordinary Shares*	\$1.94	121	Franked	31/12/09
2010 Ordinary – A&B Ordinary Shares*	\$1.94	120	Franked	30/4/10
Total amount		359		

* These dividends were paid by Mastermyne Pty Ltd, the former parent company, prior to the insertion of Mastermyne Group Limited as the parent company to facilitate the initial public offering.

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

After the balance sheet date, a dividend of 1.2 cents per share was declared by the Directors, franked at the rate of 30%. The record date for entitlement to this dividend will be 28 September 2010 and the payment date will be 5 October 2010.

9 EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to year-end the directors declared a dividend of 1.2 cents per share as per the details set out in note 20 of the annual financial report.

Other than the matters 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 Group will continue pursue its goals of achieving the 2011 forecasts as set out in the 2010 prospectus. The focus will be on growing the acquisitions made during 2010, to increase market share and execution of the contracts already secured.

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	100,000	—
Mr I. Hall	100,000	—
Mr D. Hamblin	10,155,658	—
Mr A. Watts	15,105,428	—
Mr A. Caruso	1,798,000	—

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 the following current directors of the company, Mr P Slaughter, Mr A Caruso, Mr D Hamblin, Mr A Watts and Mr I Hall 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.

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	
	2010	2009
Audit services		
Auditors of the Company audit and review of financial reports (KPMG Australia)	160,669	112,284
	160,669	112,284
Services other than statutory audit		
Other assurance services		
Investigating Accountants Report (KPMG Australia)	555,000	–
Other services		
Taxation compliance services (KPMG Australia)	26,144	15,554
	581,144	15,554

15 PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave for Court to bring proceeding on behalf of the company or to intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a part to any such proceedings during the year.

16 LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration is set out on page 28 and forms part of the Directors' report for financial year ended 30 June 2010.

17 ROUNDING OFF

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the Directors:



P. Slaughter
Chairman

Dated at Brisbane this 27th day of August 2010.

CORPORATE GOVERNANCE STATEMENT

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, continuously since its listing on the ASX in May 2010.

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
- ▶ Ian Hall – Independent non-executive Director
- ▶ Darren Hamblin – Non-executive Director
- ▶ Tony Caruso – Managing Director
- ▶ Andrew Watts – Executive Director

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

1.3 BOARD CHARTER

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

- ▶ a detailed definition of “independence” for the purposes of appointment of Directors;
- ▶ a framework for annual performance review and evaluation;
- ▶ approval of criteria for monitoring and evaluating the performance of senior executives;
- ▶ approving and monitoring capital management and major capital expenditure;
- ▶ frequency of Board meetings;

1.3 BOARD CHARTER *continued*

- ▶ 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:

- ▶ Ian Hall (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. The committee comprises the following members:

- ▶ Peter Slaughter (Chair)
- ▶ Ian Hall
- ▶ 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;

1.5 REMUNERATION AND NOMINATION COMMITTEE *continued*

- ▶ 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 policy to regulate dealings in securities by Directors and senior management and their associates. This is designed to ensure fair and transparent trading in accordance with both the law and best practice.

The policy includes restrictions and clearance procedures in relation to when trading can and cannot occur.

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 on pages 14 of the Annual Report.

Two Directors, being the Chairman, Mr Peter Slaughter, and Mr Ian Hall, 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.

1.6 GOOD CORPORATE GOVERNANCE COMMITMENT

continued

Principle 2 – Structure the board to add value *continued*

A Remuneration and Nomination Committee has been established with its own charter, as discussed above.

The Board is committed to a performance evaluation process, but as the Company was only formed a few months ago the Board has deferred its inaugural evaluation until the first half of next year.

Principle 3 – Promote ethical and responsible decision making

The Board has adopted detailed Codes of Conduct and a detailed Securities Trading Policy. The purpose of these documents is to guide Directors in the performance of their duties and to define the circumstances in which both they and management, and their respective associates, are permitted to deal in securities.

The content of these documents generally complies with the suggestions detailed in the Recommendations. Copies of the Codes of Conduct and Securities Trading Policy can be accessed on the Company's website www.mastermyne.com.au

The Board will ensure that restrictions on dealings in securities are strictly enforced. Both the codes and policy 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.

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.

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.

In regard to improving adherence to the Recommendations, the Board has asked management to:

- ▶ establish formal policies for the oversight and management of material business risks, which will be disclosed in the Statement in future years;
- ▶ design and implement the risk management and internal control system to manage the Company's material business risks, and report to it on whether the risks are being managed effectively; which will also be reported on in the Statement in future years.

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. The Remuneration and Nomination 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 2010 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.

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

KPMG

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

M L Gray
Partner

Brisbane
27 August 2010

BALANCE SHEET

As at 30 June 2010

		Consolidated		
In thousands of AUD	Note	2010	2009 Restated	2008 Restated
Assets				
Cash and cash equivalents	19	8,718	5,600	1,648
Trade and other receivables	18	11,928	9,114	12,669
Inventories	17	1,357	835	601
Current tax assets	16	–	–	184
Total current assets		22,003	15,549	15,102
Deferred tax assets	16	652	94	72
Property, plant and equipment	14	19,670	18,651	21,989
Intangible assets	15	20,584	18,860	19,240
Total non-current assets		40,906	37,605	41,301
Total assets		62,909	53,154	56,403
Liabilities				
Trade and other payables	25	10,419	5,687	8,448
Loans and borrowings	22	6,184	10,334	9,400
Employee benefits	23	2,503	2,010	2,624
Current tax payable	16	2,026	407	–
Total current liabilities		21,132	18,438	20,472
Loans and borrowings	22	7,847	9,029	16,073
Employee benefits	23	28	12	47
Deferred tax liabilities	16	823	1,010	802
Total non-current liabilities		8,698	10,051	16,922
Total liabilities		29,830	28,489	37,394
Net assets		33,079	24,665	19,009
Equity				
Share capital		48,610	9,686	9,686
Reserves		(23,034)	8,533	8,552
Retained earnings		7,503	6,446	771
Total equity		33,079	24,665	19,009

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

		Consolidated	
In thousands of AUD	Note	2010	2009 Restated
Continuing operations			
Revenue	8	98,122	89,638
Other income	9	41	18
Contract disbursements		(15,406)	(15,577)
Personnel expenses	11	(62,742)	(55,021)
Office expenses		(3,484)	(3,269)
Depreciation and amortisation expense	14,15	(4,642)	(4,596)
Other expenses		(3,723)	(989)
Results from operating activities		8,166	10,204
Finance income		155	63
Finance expense		(1,213)	(1,535)
Net finance expense	12	(1,058)	(1,472)
Profit before income tax		7,108	8,732
Income tax expense	13	(2,333)	(2,583)
Profit for the period		4,775	6,149
Other comprehensive income for the period, net of income tax		–	–
Total comprehensive income for the period		4,775	6,149
Attributable to:			
Equity holders of the Company		4,775	6,149
Minority interest		–	–
Profit for the period		4,775	6,149
Earnings per share			
Basic earnings per share (AUD)	21	0.09	0.13
Diluted earnings per share (AUD)	21	0.09	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 2010

In thousands of AUD	Share capital	Retained earnings	Share-based payment reserve (note 20)	Other contributed equity (note 20)	Common Control Reserve (note 20)	Total
Balance at 1 July 2008 (restated)	9,686	771	469	8,083	–	19,009
Total comprehensive income for the period						
Profit for the period	–	6,149	–	–	–	6,149
Total comprehensive income for the period	–	6,149	–	–	–	6,149
Transactions with owners recorded directly in equity						
Share-based payment transactions	–	–	(19)	–	–	(19)
Dividends to equity holders	–	(474)	–	–	–	(474)
Total contributions by and distributions to owners	–	(474)	(19)	–	–	(493)
Balance at 30 June 2009 (restated)	9,686	6,446	450	8,083	–	24,665
Balance at 1 July 2009 (restated)	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 (note 2(f))	–	–	–	–	(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

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2010

		Consolidated	
In thousands of AUD	Note	2010	2009
Cash flows from operating activities			
Cash receipts from customers		106,510	93,221
Cash paid to suppliers and employees		(88,507)	(78,234)
Cash generated from operations		18,003	14,987
Interest paid		(1,304)	(1,889)
Income tax paid		(1,600)	(1,809)
Net cash flows from/(used in) operating activities	29	15,099	11,289
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		1,921	363
Acquisition of property, plant and equipment		(2,256)	(531)
Interest received		155	63
Business acquisition, net of cash acquired		(2,390)	–
Net cash flows from/(used in) investing activities		(2,570)	(105)
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		2,436	161
Repayment of borrowings		(11,900)	(7,037)
Dividends paid	20	(359)	(356)
Net cash flows from/(used in) financing activities		(9,411)	(7,232)
Net increase/(decrease) in cash and cash equivalents		3,118	3,952
Cash and cash equivalents at beginning of period		5,600	1,648
Cash and cash equivalents at end of period	19	8,718	5,600

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

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 2010 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) (including Australian Interpretations) 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) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were authorised for issue by the Board of Directors on 27 August 2010.

(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 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 14 – property, plant & equipment
- ▶ note 15 – intangible assets
- ▶ note 24 – measurement of share-based payments

(e) Changes in accounting policies

Starting as of 1 July 2009, the Group has changed its accounting policies in the following areas:

- ▶ Presentation of financial statements
- ▶ Accounting for business combinations
- ▶ Accounting for borrowing costs

The changes in accounting policies has had no financial impact.

Certain comparatives have been reclassified to conform with the current year's presentation

(f) Basis of presentation

On 30 April 2010, Mastermyne Group Limited was interposed between the existing shareholders of Mastermyne Pty Ltd and that company, to facilitate the Initial Public Offering which occurred on 7 May 2010. The insertion of Mastermyne Group Limited into the existing Group has been accounted for as a common control transaction and has been accounted for as described in note 3(a)(iii).

The financial information presented for the year ended 30 June 2010, and the related comparative information, therefore represents a continuation of the existing consolidated Group.

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

Change in accounting policy

The Group has adopted revised AASB 3 *Business Combinations* (2008) and amended AASB 127 *Consolidated and Separate Financial Statements* (2008) for business combinations occurring in the financial year starting 1 January 2009. All business combinations occurring on or after 1 January 2009 are accounted for by applying the acquisition method. The change in accounting policy is applied prospectively and had no material impact on earnings per share.

The Group has applied the acquisition method for the business combination disclosed in note 7.

3 SIGNIFICANT ACCOUNTING POLICIES *continued*

(a) Basis of consolidation *continued*

(i) Business Combinations *continued*

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. 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. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Measuring goodwill

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

Share-based payment awards

When share-based payment awards exchanged (replacement awards) for awards held by the acquiree's employees (acquiree's awards) relate to past services, then a part of the market-based measure of the awards replaced is included in the consideration transferred. If they require future services, then the difference between the amount included in consideration transferred and the market-based measure of the replacement awards is treated as post-combination compensation cost.

Contingent liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Non-controlling interest

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. 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) 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.

Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

3 SIGNIFICANT ACCOUNTING POLICIES *continued*

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. Dividends thereon are recognised as distributions within equity upon declaration by the directors.

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.

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.

(iii) 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.

(iv) Depreciation

Depreciation is recognised in profit or loss on a straight-line 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:

	2010	2009
► 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.

(v) 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2010

3 SIGNIFICANT ACCOUNTING POLICIES *continued*

(d) Intangible assets

(i) Goodwill

Change in accounting policy

As from 1 January 2009, the Group has adopted the revised AASB 3 *Business Combinations* (2008) and the amended AASB 127 *Consolidated and Separate Financial Statements* (2008). Revised AASB 3 and amended AASB 127 have been applied prospectively to business combinations with an acquisition date on or after 1 January 2009.

The change in accounting policy had no material impact on earnings per share. For details on the initial recognition and measurement of goodwill related to business combinations that occurred during the financial year ended 30 June 2010, see note 7.

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 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:

	2010	2009
▶ Customer related intangibles	3 – 7 years	5 – 7 years
▶ Intellectual Property	8 – 10 years	N/A

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 on the Group's balance.

(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

3 SIGNIFICANT ACCOUNTING POLICIES *continued*

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 benefits

Short-term employee benefit obligations including liabilities for wages, salaries, annual leave and sick leave represent present obligations resulting from employee's services provided to reporting date and are calculated on an undiscounted basis on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation, insurance and payroll tax.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

(v) Bonus plans

A liability and an expense for employee benefits in the form of profit sharing and bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- ▶ There are formal terms in the plan for determining the amount of the benefit;
- ▶ The amounts to be paid are determined before the time of completion of the financial report, or
- ▶ Past practice gives clear evidence of the amount of the obligation.

3 SIGNIFICANT ACCOUNTING POLICIES *continued*

(i) Employee benefits *continued*

(v) Bonus plans *continued*

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.

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,

3 SIGNIFICANT ACCOUNTING POLICIES *continued*

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 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.

(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 convertible preference shares.

(r) Presentation of Financial Statements

The Group applies revised AASB 101 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(s) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.

3 SIGNIFICANT ACCOUNTING POLICIES *continued*

(s) New standards and interpretations not yet adopted *continued*

- ▶ Revised AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have a significant impact on the financial statements.
- ▶ AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- ▶ AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash settled Share-based Payment Transactions* resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a Group. As a result of the amendments, AI 8 Scope of AASB 2 and AI 11 AASB 2 – Group and Treasure Share Transactions will be withdrawn from the application date. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have an effect on the Group's financial statements.
- ▶ AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issue* [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Group's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.
- ▶ AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* will become mandatory for the Group's 30 June 2014 financial statements. The Group has not yet determined the potential effect of the standard on the Group's financial statements.
- ▶ AASB 2009-12 *Amendments to Australian Accounting Standards* will become mandatory for the Group's 30 June 2012 financial statements. The Group has not yet determined the potential effect of the standard on the Group's financial statements.

- ▶ IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 30 June 2011 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

4 DETERMINATION OF FAIR VALUES

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

(i) Property, plant and equipment

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

(ii) Inventories

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

(iii) Share-based payment transactions

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

(iv) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate

4 DETERMINATION OF FAIR VALUES *continued*

of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 FINANCIAL RISK MANAGEMENT

Overview

The Company and Group have exposure to the following risks from its use of financial instruments:

- ▶ credit risk;
- ▶ interest rate risk; and
- ▶ 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 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 there have been no bad debts recognised.

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 to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. In addition, the Group maintains the following lines of credit:

- ▶ An \$8 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:
 - \$3 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.
- ▶ \$1.9 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.

There were no changes in the Group's approach to capital management during the year as a result of the Group restructure which occurred on 30 April 2010 (refer to notes (2(f) and 20).

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 2010

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.
- ▶ **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.

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

	Underground mining services		Engineering and fabrication		Electrical and Mechanical Services		Consolidated	
In thousands of AUD	2010	2009	2010	2009	2010	2009	2010	2009
External revenues	87,168	69,951	8,778	10,835	2,176	8,852	98,122	89,638
Intersegment revenue	123	–	845	500	787	809	1,755	1,309
Depreciation and amortisation	(4,093)	(4,151)	(507)	(400)	(41)	(45)	(4,641)	(4,596)
Net finance costs	(1,062)	(1,449)	13	(18)	(9)	(5)	(1,058)	(1,472)
Reportable Segment profit/(loss) before income tax	9,900	7,258	564	(106)	(74)	1,418	10,390	8,570
Segment assets	43,292	35,315	13,321	12,167	5,691	5,672	62,304	53,154
Capital expenditure	5,970	1,239	42	224	19	71	6,031	1,534
Segment liabilities	(28,446)	(27,089)	(1,432)	(949)	(75)	(451)	(29,953)	(28,489)

6 SEGMENT INFORMATION *continued*

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

In thousands of AUD	2010	2009
Revenues		
Total revenue for reportable segments	99,877	90,947
Elimination of inter-segment revenue	(1,755)	(1,309)
Consolidated revenue	98,122	89,638
Profit or loss		
Total profit or loss for reportable segments	10,390	8,570
Elimination of inter-segment profits	(344)	162
Unallocated amounts: other corporate expenses	(2,938)	–
Consolidated profit before income tax	7,108	8,732
Assets		
Total assets for reportable segments	62,304	53,154
Other assets	605	–
Consolidated total assets	62,909	53,154
Liabilities		
Total liabilities for reportable segments	29,953	28,489
Other liabilities	(123)	–
Consolidated total liabilities	29,830	28,489

Major Customers

The Group has two customers, all in the underground mining services segment, which individually represent in excess of 10% of Group revenues (2009: 3 customers representing in excess of 10% of the Group revenues). The total revenue from these customers represents \$50,324 thousand (2009: \$47,245 thousand) of the Group's total revenues.

7 BUSINESS COMBINATIONS

a) Acquisitions

During the 2010 financial year the Group made three acquisitions that qualify as a business combination, of which the details are listed below.

- 1) On 1 March 2009 the Group obtained control of MTR Mining Services Pty Ltd ("MTR"), a mining services company providing underground coal mining services to the coal industry in the Hunter Valley and northern New South Wales. The Group acquired 100% of the equity of the company.

This acquisition will give the Group a presence in the Hunter Valley market, which will allow the Group to target specific projects in the northern NSW region. The acquisition is expected to deliver the Group a greater market share, by expanding geographically and being able to offer the Group's growing range of services into another region.

In the four months to 30 June 2010 MTR contributed revenue of \$3,054 thousand and profit of \$60 thousand.

The company changed its name to Mastermyne Underground NNSW Pty Ltd on 16 April 2010.

- 2) On 9 October 2009 the Group acquired the ventilation division assets of Highlands Mining Pty Ltd. This was structured as an acquisition of the ventilation division's business to accelerate the expansion of the Group's range of services offered to the underground coal industry.

The acquisition of the Highlands ventilation business allows the Group to expand its suite of services, benefiting our clients by reducing the number of contract interfaces on site to better utilise contracted services.

In the nine months to 30 June 2010 Highlands contributed revenue of \$2,070 thousand and profit of \$303 thousand.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2010

7 BUSINESS COMBINATIONS *continued*

a) Acquisitions *continued*

- 3) On 1 October 2009 the Group acquired the ventilation manufacturing division assets of Infintech Pty Ltd. This was structured as an acquisition of the ventilation division's business to accelerate the expansion of the Group's range of products through the Engineering division.

The acquisition of the Infintech ventilation business allows the Group to expand its range of products. Synergies exist with the Underground division of the business, allowing the Group the opportunity to offer turn-key solutions for underground ventilation services.

In the nine months to 30 June 2010 Infintech contributed revenue of \$699 thousand and profit of \$229 thousand.

If all three acquisitions had occurred on 1 July 2009, management estimates that consolidated revenue would have been \$104,064 thousand and consolidated profit for the period would have been \$5,028 thousand. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of the acquisitions would have been the same if the acquisition had occurred on 1 July 2009.

Consideration Transferred

In thousands of AUD	MTR	Infintech Assets	Highlands Mining Assets	Total
Cash	968	380	1,800	3,148
Total Consideration	968	380	1,800	3,148

The Group has agreed to pay the vendors of MTR additional consideration of 50% of the acquired company's EBIT from settlement up to and including 30 June 2012. No contingent consideration has been recognised as the agreement is subject to the vendor's continued employment with the Group. The consideration will be recognised in each period's income statement as an employee expense.

As part of the consideration the Group also granted the vendors of MTR two million options in Mastermyne Group Limited at an exercise price of 92 cents. The options are also dependant on the vendors' continued employment with the Group. The grant date fair value of options of \$753 thousand has been recognised as a share-based payments expense included in employee expenses in the Group's consolidated statement of comprehensive income.

Identifiable assets acquired and liabilities assumed

In thousands of AUD	Note	MTR	Infintech Assets	Highlands Mining Assets	Total
Property, plant and equipment	14	370	196	574	1,140
Intangible Assets	15	–	184	1,226	1,410
Trade and other receivables		742	–	–	742
Cash and cash equivalents		758	–	–	758
Deferred Tax Assets		34	–	–	34
Trade and Other payables		(654)	–	–	(654)
Current Tax Liabilities		(177)	–	–	(177)
Employee Benefits		(105)	–	–	(105)
Total Consideration		968	380	1,800	3,148

Goodwill

There was no goodwill recognised as a result of the above business combinations.

Transactions separate from the acquisitions

The Group incurred acquisition costs of \$232 thousand relating to external legal fees and due diligence costs in relation to these acquisitions. These legal fees and due diligence expenses have been recognised in other expenses in the Group's consolidated statement of comprehensive income.

7 BUSINESS COMBINATIONS *continued*

b) Results of operations from 1 May 2010 to 30 June 2010

As described in note 2(f), the Group has elected to present its current year and comparative information as a continuation of the existing consolidated Group following the insertion of Mastermyne Group Limited into the Group on 30 April 2010.

The key captions of the statement of comprehensive income of the Group for the period 1 May 2010 to 30 June 2010 are summarised as follows:

	Period 1 July 2009 to 30 April 2010	Period 1 May 2010 to 30 June 2010	Year ended 30 June 2010
In thousands of AUD			
Revenue	79,665	18,457	98,122
Other income	35	6	41
Contract disbursements	(12,281)	(3,125)	(15,406)
Personnel expenses	(50,943)	(11,799)	(62,742)
Office Expenses	(2,777)	(707)	(3,484)
Depreciation and amortisation expense	(4,040)	(601)	(4,641)
Other expenses	(960)	(242)	(1,202)
Other expenses – IPO Expenses	(821)	(1,701)	(2,522)
Results from operating activities	7,878	288	8,166
Net finance expense	(928)	(130)	(1,058)
Profit before income tax	6,950	158	7,108
Income tax expense	(2,281)	(52)	(2,333)
Profit for the period	4,669	106	4,775
Total comprehensive income	4,669	106	4,775

The statement of changes in equity of the Group for the period 1 May 2010 to 30 June 2010 are summarised as follows:

In thousands of AUD	Share capital	Retained earnings	Share-based payment reserve (note 20)	Other contributed equity (note 20)	Common control reserve (note 20)	Total
Balance at 1 July 2009 (restated)	9,686	6,446	450	8,083	–	24,665
Total comprehensive income for the period						
Profit for the period	–	4,669	–	–	–	4,669
Total comprehensive income for the period	–	4,669	–	–	–	4,669
Transactions with owners recorded directly in equity						
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 (note 2(f))	–	–	–	–	(24,237)	(24,237)
Total contributions by and distributions to owners	(1,076)	(3,718)	753	(8,083)	(24,237)	(36,361)
Balance at 30 April 2010	8,610	7,397	1,203	–	(24,237)	(7,027)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2010

7 BUSINESS COMBINATIONS *continued*

b) Results of operations from 1 May 2010 to 30 June 2010 *continued*

In thousands of AUD	Share capital	Retained earnings	Share-based payment reserve (note 20)	Other contributed equity (note 20)	Common control reserve (note 20)	Total
Balance at 1 May 2010	8,610	7,397	1,203	–	(24,237)	(7,027)
Total comprehensive income for the period						
Profit for the period	–	106	–	–	–	106
Total comprehensive income for the period	–	106	–	–	–	106
Transactions with owners recorded directly in equity						
Issue of ordinary shares for cash	40,000	–	–	–	–	40,000
Total contributions by and distributions to owners	40,000	–	–	–	–	40,000
Balance at 30 June 2010	48,610	7,503	1,203	–	(24,237)	33,079

The key captions of the statement of cash flows of the Group for the period 1 May 2010 to 30 June 2010 are summarised as follows:

In thousands of AUD	Period 1 July 2009 to 30 April 2010	Period 1 May 2010 to 30 June 2010	Year ended 30 June 2010
Net cash flows from operating activities	9,624	5,475	15,099
Net cash flows from investing activities	(2,173)	(397)	(2,570)
Net cash flows from financing activities	(8,433)	(978)	(9,411)
Net increase in cash and cash equivalents	(982)	4,100	3,118
Cash and cash equivalents at the beginning of the period	5,600	4,618	5,600
Cash and cash equivalents at the end of the period	4,618	8,718	8,718

8 REVENUE

	Consolidated	
In thousands of AUD	2010	2009
Contracting revenue	85,295	75,260
Sale of goods	8,778	11,255
Machinery hire	4,049	3,123
	98,122	89,638

9 OTHER INCOME

	Consolidated	
In thousands of AUD	2010	2009
Administration revenue	16	10
Gain on sale of property, plant and equipment	25	8
	41	18

10 OTHER EXPENSES

	Consolidated	
In thousands of AUD	2010	2009
Loss on sale of property, plant and equipment	132	292
IPO expense	2,522	31
Business acquisition costs	232	–

11 PERSONNEL EXPENSES

	Consolidated	
In thousands of AUD	2010	2009
Wages and salaries	55,133	48,621
Other associated personnel expenses	3,948	3,769
Contributions to defined contribution superannuation funds	2,908	2,651
Equity-settled share-based payment transactions	753	(20)
	62,742	55,021

12 FINANCE INCOME AND EXPENSE

	Consolidated	
In thousands of AUD	2010	2009
Interest income	155	63
Finance income	155	63
Bank Charges	(47)	(29)
Interest expense	(1,166)	(1,506)
Finance expense	(1,213)	(1,535)
Net finance expense recognised in profit or loss	(1,058)	(1,472)

13 INCOME TAX EXPENSE

	Consolidated	
In thousands of AUD	2010	2009
Current tax expense		
Current period	3,286	2,497
Adjustment for prior periods	(208)	48
	3,078	2,545
Deferred tax expense		
Origination and reversal of temporary differences	(745)	119
Adjustment for prior period	–	(81)
	(745)	38
Total income tax expense	2,333	2,583

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2010

13 INCOME TAX EXPENSE *continued*

Numerical reconciliation between tax expense and pre-tax accounting profit

	Consolidated	
In thousands of AUD	2010	2009
Profit excluding income tax	7,108	8,732
Income tax using the Group's statutory income tax rate of 30% (2009: 30%)	2,133	2,620
Non-deductible expenses	408	(4)
Imputation credits	–	(33)
Under/(over) provision of previous year	(208)	–
	2,333	2,583

14 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 2008	721	24,401	2,022	714	1,906	162	172	30,098
Additions	32	1,068	10	40	350	33	–	1,533
Disposals	–	(1,653)	(247)	–	(171)	(10)	–	(2,081)
Transfers	52	1,597	–	23	(1,679)	7	–	–
Balance at 30 June 2009	805	25,413	1,785	777	406	192	172	29,550
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	–	0
Balance at 30 June 2010	833	26,833	2,211	896	2,021	565	172	33,531

Depreciation and impairment losses

Balance at 1 July 2008	526	6,606	644	269	–	40	24	8,109
Depreciation for the year	84	3,540	288	221	–	40	43	4,216
Disposals	–	(1,276)	(146)	(1)	–	(3)	(0)	(1,426)
Acquired through business combination	–	–	–	–	–	–	–	–
Transfers	36	(32)	–	–	–	(4)	–	–
Balance at 30 June 2009	646	8,838	786	489	–	73	67	10,899
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)
Acquired through business combination	–	–	–	–	–	–	–	–
Transfers	–	–	–	–	–	–	–	–
Balance at 30 June 2010	704	11,210	1,057	629	–	151	110	13,861

Carrying amounts

At 1 July 2008	195	17,795	1,378	445	1,906	122	148	21,989
At 30 June 2009	159	16,575	999	288	406	119	105	18,651
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

The Group leases equipment under a number of finance lease agreements. At 30 June 2010 the net carrying amount of leased plant and equipment was \$11,267 thousand (2009: \$11,507 thousand).

15 INTANGIBLE ASSETS

	Consolidated	
In thousands of AUD	2010	2009
Goodwill		
Cost (gross carrying amount)	18,013	17,181
Net carrying amount	18,013	17,181
Customer relationships		
Cost (gross carrying amount)	2,669	2,382
Accumulated amortisation and impairment	(1,169)	(703)
Net carrying amount	1,500	1,679
Intellectual property		
Cost (gross carrying amount)	1,483	333
Accumulated amortisation and impairment	(412)	(333)
Net carrying amount	1,071	–
Total intangible assets		
Cost (gross carrying amount)	22,165	19,896
Accumulated amortisation and impairment	(1,581)	(1,036)
Net carrying amount	20,584	18,860
Reconciliation of carrying amount at beginning and end of the period		
Goodwill		
Carrying amount – opening	17,181	17,181
Increase in contingent consideration	832	–
Carrying amount – closing	18,013	17,181
Customer relationships		
Carrying amount – opening	1,679	2,059
Acquired in business combination	259	–
Amortisation	(438)	(380)
Carrying amount – closing	1,500	1,679
Intellectual property		
Carrying amount – opening	–	–
Acquired in business combination	1,151	–
Amortisation	(80)	–
Carrying amount – closing	1,071	–
Total intangible assets		
Carrying amount – opening	18,860	19,240
Acquired in business combination	1,410	–
Increase in contingent consideration	832	–
Amortisation	(518)	(380)
Carrying amount – closing	20,584	18,860

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2010

15 INTANGIBLE ASSETS *continued*

Amortisation and impairment charge

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

Impairment testing for cash-generating units containing goodwill

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

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

In thousands of AUD	Consolidated	
	2010	2009
Underground mining services	6,174	5,342
Engineering and fabrication	7,301	7,301
Electrical services	4,538	4,538
	18,013	17,181

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 2010 and 2011. 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 13.242 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.

16 TAX ASSETS AND LIABILITIES

Current tax assets and liabilities

The current tax liability for the Group of \$2,026 thousand (2009: \$407 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.

16 TAX ASSETS AND LIABILITIES *continued*

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Assets		Liabilities		Net	
In thousands of AUD	2010	2009	2010	2009	2010	2009
Employee benefits	645	550	–	–	645	550
Property, plant and equipment	22	43	(969)	(1,151)	(947)	(1,108)
Intangible assets	98	98	(389)	(504)	(291)	(406)
Accruals	71	64	–	–	71	64
Capital raising and business acquisition costs	804	298	(31)	(25)	773	273
Unbilled revenue	–	–	(422)	(289)	(422)	(289)
Tax assets/(liabilities)	1,640	1,053	(1,811)	(1,969)	(171)	(916)
Set off of tax	(988)	(959)	988	959	–	–
Net tax assets/(liabilities)	652	94	(823)	(1,010)	(171)	(916)

Movement in temporary differences during the year

Consolidated	Balance 1 July 2008	Recognised in profit or loss	Acquired in business combinations	Balance 30 June 2009
In thousands of AUD				
Employee benefits	717	(167)	–	550
Property, plant and equipment	(1,054)	(54)	–	(1,108)
Intangible assets	(520)	114	–	(406)
Accruals	13	51	–	64
Capital raising and business acquisition costs	378	(105)	–	273
Unbilled revenue	(264)	(25)	–	(289)
	(730)	(186)	–	(916)

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)

17 INVENTORIES

	Consolidated	
In thousands of AUD	2010	2009
Inventory on hand	1,357	835
	1,357	835

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2010

17 INVENTORIES *continued*

During the year ended 30 June 2010 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to \$1,813 thousand (2009: \$519 thousand).

18 TRADE AND OTHER RECEIVABLES

	Consolidated	
In thousands of AUD	2010	2009
Trade receivables	9,431	7,610
Prepayments	476	254
Unbilled revenue	1,679	1,114
Other receivables	342	136
	11,928	9,114

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in note 26.

19 CASH AND CASH EQUIVALENTS

	Consolidated	
In thousands of AUD	2010	2009
Bank balances	8,713	5,599
Cash on hand	5	1
Cash and cash equivalents in the statement of cash flows	8,718	5,600

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

20 CAPITAL AND RESERVES

Insertion of Mastermyne Group Limited as the parent entity

On 30 April 2010, Mastermyne Group Limited acquired all of the issued capital of Mastermyne Pty Ltd, resulting in Mastermyne Group Limited becoming the new parent entity. The acquisition of the issued capital of Mastermyne Pty Ltd occurred pursuant to a cash-for-scrip and scrip-for-scrip offer.

The share capital of Mastermyne Group Limited is as follows:

	Ordinary Class shares	
	2010	2009
On issue at 1 July	–	–
Issued for cash	40,000,000	–
Shares issued in common control transaction	32,897,598	–
On issue at 30 June – fully paid	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.

20 CAPITAL AND RESERVES *continued*

Comparative share capital

For comparative purposes, the share capital of Mastermyne Pty Ltd was as follows:

	Ordinary A Class Shares		Ordinary B Class Shares		Convertible Preference Shares	
	2010	2009	2010	2009	2010	2009
On issue at 1 July	50,028	50,028	10,800	10,800	30,000	30,000
Shares issued to settle contingent consideration	452	–	–	–	–	–
Share-buy-back	(1,378)	–	(4,146)	–	(12,012)	–
Exercise of share options	–	681	–	–	–	–
Share conversion	(49,072)	–	49,072	–	–	–
On issue at 30 June	30	50,028	56,407	10,800	17,988	30,000

The Group has also issued share options (see note 24).

Ordinary Shares

A and B Class Ordinary Shares

The holders of A and B Class ordinary shares are collectively entitled to receive on a pro-rata basis a fixed cumulative dividend at the rate of \$466,667 per annum. The dividend payment ranks in priority to all other dividend payments, and is payable without requiring a declaration of the Company. In the event of winding up of the Company, unpaid dividends for A and B class shares first priority to receiving returns of capital to the members. The A and B class shareholders rank equally and after the entitlements of preference shareholders.

Convertible Preference Shares

The Convertible Preference Shares ("CPS") entitle the holder the right to:

- ▶ receive notices of meetings and vote at meetings of the company;
- ▶ receive dividends declared by the directors from time to time, on a cumulative basis and at a rate of 12.64% of the face value of the CPS once a declaration is made;
- ▶ receive dividends in preference to all dividends other than management dividends paid to A & B Class Ordinary Shareholders;
- ▶ convert the shares to an equivalent number of C class ordinary shares at any time; and
- ▶ receive a return of the face value of the CPS upon winding-up of the company.

Reserves

Share-based payments reserve

The Share-based Payments Reserve represents the grant date fair value of options granted to senior managers or key management personnel of the Company (see note 24).

Common Control Reserve

As a result of combinations of entities under common control, an equity account was created called the common control reserve. The balance of this account represents the excess of the fair value of Mastermyne Group Limited securities as at 7 May 2010 over the initial carrying value of Mastermyne Pty Ltd as at the date of Mastermyne Group Limited becoming the new parent entity of the Group.

Other contributed equity

Other contributed equity represents the excess of the fair value of the 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2010

20 CAPITAL AND RESERVES *continued*

Dividends

Dividends recognised in the current year by the Group are:

In thousands of AUD	Dollars per share	Total amount	Franked/unfranked	Date of payment
2010				
2010 Ordinary – A&B Ordinary Shares	\$1.94	118	Franked	30/9/09
2010 Ordinary – A&B Ordinary Shares	\$1.94	121	Franked	31/12/09
2010 Ordinary – A&B Ordinary Shares	\$1.94	120	Franked	30/4/10
Total amount		359		

2009

2009 Ordinary – A&B Ordinary Shares	\$1.95	118	Franked	26/2/09
2009 Ordinary – A&B Ordinary Shares	\$1.99	120	Franked	30/12/08
2009 Ordinary – A&B Ordinary Shares	\$1.96	118	Franked	31/3/09
2009 Ordinary – A&B Ordinary Shares	\$1.96	118	Franked	30/6/09
Total amount		474		

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

Dividends continued

After the balance sheet date, a dividend of 1.2 cents per share was declared by the Directors, franked at the rate of 30%. The record date for entitlement to this dividend will be 28 September 2010 and the payment date will be 5 October 2010.

In thousands of AUD	Company	
	2010	2009
Dividend franking account		
30 percent franking credits available to shareholders of Mastermyne Group Limited for subsequent financial years	7,622	9,280

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.

21 EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2010 was based on the profit attributable to ordinary shareholders of \$4,775 thousand (2009: \$6,149 thousand) and a weighted average number of ordinary shares outstanding of 50,392,827 (2009: 46,666,241), calculated as follows.

Profit attributable to ordinary shareholders

	Consolidated	
In thousands of AUD	2010	2009
Profit for the period	4,775	6,149
Profit attributable to ordinary shareholders	4,775	6,149
Weighted average number of ordinary shares		

	Consolidated	
Number of shares	2010	2009
Issued ordinary shares at 1 July	46,666,241	46,666,241
Effect of share options exercised	309,177	–
Effect of shares issued	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	50,392,827	46,666,241

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2010 was based on profit attributable to ordinary shareholders of \$4,775 thousand (2009: \$6,149 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 50,392,827 (2009: 71,942,637), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

In thousands of AUD	2010	2009
Profit for the period	4,775	6,149
Profit attributable to ordinary shareholders	4,775	6,149
Weighted average number of ordinary shares (diluted)		

	Consolidated	
Number of shares	2010	2009
Weighted average number of ordinary shares (basic)	50,392,827	46,666,241
Effect of preference shares on issue	–	23,015,506
Effect of share options on issue	–	2,260,890
Weighted average number of ordinary shares (diluted) at 30 June	50,392,827	71,942,637

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2010

22 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings which are measured at amortised cost. For more information about the Company's and Group's exposure to interest rate and liquidity risk, see note 26.

In thousands of AUD	Consolidated	
	2010	2009
Current liabilities		
Preference dividends payable (unsecured)	–	1,162
Insurance premium funding (unsecured)	326	161
Finance lease liabilities (secured)	3,686	4,923
Commercial bill facility (secured)	1,400	1,000
Contingent consideration (unsecured)	773	413
Dividends payable	–	2,498
Interest payable on preference dividends	–	179
Loan – Mynesight	(1)	(2)
	6,184	10,334
Non-current liabilities		
Finance lease liabilities (secured)	2,847	4,056
Contingent consideration (unsecured)	–	473
Commercial bill facility (secured)	5,000	4,500
	7,847	9,029

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
	2010	2010	2010	2009	2009	2009
Less than one year	4,107	(421)	3,686	5,491	(568)	4,923
Between one and five years	3,091	(244)	2,847	4,306	(250)	4,056
More than five years	–	–	–	–	–	–
	7,198	(665)	6,533	9,797	(818)	8,979

23 EMPLOYEE BENEFITS

In thousands of AUD	Consolidated	
	2010	2009
Current		
Wages payable	299	188
Liability for annual leave	1,111	915
Liability for vesting sick leave	1,024	861
Liability for long service leave	69	46
	2,503	2,010
Non-current		
Liability for long service leave	28	12
	28	12

24 SHARE-BASED PAYMENTS

During the period 681 options were exercised with the remaining 1,587 options lapsing on 31 October 2009. These options were to acquire ordinary shares of Mastermyne Pty Ltd and were exercised prior to the IPO.

As part of the consideration for the acquisition of Mastermyne Underground NSW Pty Ltd during the period, 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	Weighted average exercise price	Number of options
	2010	2010	2009	2009
Outstanding at 1 July ¹	\$427	2,268	451	3,268
Forfeited during the period ¹	\$427	(1,587)	504	(1,000)
Exercised during the period ¹	\$427	(681)	–	–
Granted during the period ²	\$0.92	2,000,000	–	–
Outstanding at 30 June²	\$0.92	2,000,000	\$427	2,268
Exercisable at 30 June		2,000,000		2,268

1. Represents options to acquire shares in Mastermyne Pty Ltd.

2. Represents options to acquire shares in Mastermyne Group Limited.

25 TRADE AND OTHER PAYABLES

In thousands of AUD	Consolidated	
	2010	2009
Trade payables	4,693	2,709
Sundry creditors and accruals	5,726	2,978
	10,419	5,687

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2010

26 FINANCIAL INSTRUMENTS

Credit risk

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

In thousands of AUD	Note	Consolidated	
		2010	2009
Trade and other receivables	18	11,928	9,114
Cash and cash equivalents	19	8,718	5,600
		20,646	14,714

The Group has three significant customers each representing more than 10% of the carrying amount of trade receivables at 30 June 2010. 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

None of the Group's receivables are considered to be impaired (2009: Nil).

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

In thousands of AUD	Consolidated	
	2010	2009
Not Past Due	7,325	6,022
Past due 0-30 days	1,712	1,492
Past due 31-60 days	382	58
Past due 61-90 days	6	38
Greater than 90 days	6	–
	9,431	7,610

No impairment losses were recognised at 30 June 2010 (2009: Nil).

Based on historic default rates and the projects under contract, the Group believes that no impairment allowance is necessary in respect of trade receivables.

26 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
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)

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
30 June 2009							
Non-derivative financial liabilities							
Finance lease liabilities	22	8,979	(9,797)	(2,746)	(2,745)	(3,217)	(1,089)
Contingent consideration	22	886	(941)	(427)	(514)	–	–
Commercial bill facility	22	5,500	(6,846)	(653)	(639)	(264)	(5,290)
Preference dividends payable	22	1,162	(1,162)	(1,162)	–	–	–
Insurance premium funding	22	161	(161)	(161)	–	–	–
Dividends payable	22	2,498	(2,498)	(2,498)	–	–	–
Interest payable on preference dividends	22	179	(179)	(179)	–	–	–
Trade and other payables	25	5,687	(5,687)	(5,688)	–	–	–
		25,052	(27,271)	(13,513)	(3,898)	(3,481)	(6,379)

Interest rate risk

Profile

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

Carrying amount		Consolidated	
In thousands of AUD		2010	2009
Fixed rate instruments			
Financial liabilities		(7,633)	(13,865)
		(7,633)	(13,865)
Variable rate instruments			
Financial assets		8,718	5,600
Financial liabilities		(6,400)	(5,500)
		2,318	100

26 FINANCIAL INSTRUMENTS *continued*

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 2010 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	
	2010	2009
Change in profit		
Increase in interest rate by 1%	(62)	(50)
Decrease in interest rate by 2%	124	99

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	30 June 2010		30 June 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
In thousands of AUD				
Assets Carried at Amortised Cost				
Trade and other receivables	11,928	11,928	9,114	9,114
Cash and cash equivalents	8,718	8,718	5,600	5,600
	20,646	20,646	14,714	14,714
Liabilities Carried at Amortised Cost				
Finance lease liabilities	(6,533)	(6,620)	(8,979)	(9,090)
Contingent consideration	(773)	(773)	(886)	(886)
Commercial bill facility	(6,400)	(6,400)	(5,500)	(5,500)
Preference dividends payable	–	–	(1,162)	(1,162)
Insurance premium funding	(326)	(326)	(161)	(161)
Dividends payable	–	–	(2,498)	(2,498)
Interest payable on preference dividends	–	–	(179)	(179)
Trade and other payables	(10,419)	(10,419)	(5,687)	(5,687)
	(24,451)	(24,538)	(25,052)	(25,163)

The basis for determining fair values is disclosed in note 4.

26 FINANCIAL INSTRUMENTS *continued*

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:

	2010	2009
Finance Lease Liabilities	8.98%	7.98%

27 OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated	
In thousands of AUD	2010	2009
Less than one year	209	375
Between one and five years	–	177
More than five years	–	–
	209	553

The amount recognised during the year in relation to minimum lease payments for the year ended 30 June 2010 totalled \$589 thousand (2009: \$502 thousand) for the Group.

28 CAPITAL AND OTHER COMMITMENTS

	Consolidated	
In thousands of AUD	2010	2009
Capital expenditure commitments		
Plant and equipment		
Contracted but not provided for and payable:		
Within one year	3,732	–
One year or later and no later than five years	–	–
Later than five years	–	–
	3,732	–
Other commitments		
Contracted but not provided for and payable:		
Within one year	–	333
	–	333

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2010

29 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

		Consolidated	
In thousands of AUD	Note	2010	2009
Cash flows from operating activities			
Profit for the period		4,775	6,149
Adjustments for:			
Depreciation	14	4,124	4,216
Amortisation of intangible assets	15	518	380
Gain/(loss) on sale of property, plant and equipment	9,10	107	284
Share based payments	11	753	(20)
Net finance expense	12	1,058	1,472
Financing Transaction Costs		2,522	–
Income tax expense	13	2,333	2,583
Operating profit before changes in working capital and provisions		16,190	15,064
Change in trade and other receivables*	18	(2,072)	3,565
Change in inventories	17	(522)	(234)
Change in trade and other payables*	25	4,003	(2,760)
Change in provisions and employee benefits*	23	404	(648)
		18,003	14,987
Interest paid		(1,304)	(1,889)
Income taxes paid		(1,600)	(1,809)
Net cash from operating activities		15,099	11,289

*Excluding changes due to business combinations

(i) Non-cash transactions

During the year the Group acquired plant and equipment totalling \$3,775 thousand (2009: \$1,003 thousand) by way of finance lease. The related acquisition and financing has been excluded from the statement of cash flows as non-cash transactions.

30 RELATED PARTIES

Key management personnel compensation

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

In AUD	Consolidated	
	2010	2009
Short-term employee benefits	1,366,401	985,183
Post-employment benefits	93,536	72,589
Termination benefits	–	128,898
	1,459,937	1,186,670

30 RELATED PARTIES *continued*

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 value year ended 30 June		Balance outstanding as at 30 June	
Transaction	Note	2010	2009	2010	2009
Andrew Watts – Watty Pty Ltd	(i)	168,300	170,356	28,050	14,025
Andrew Watts – Watty Pty Ltd	(ii)	96,403	84,871	–	–
Andrew Watts – Two Dots Ltd	(iii)	40,560	–	–	–
		305,263	255,227	28,050	14,025

- (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.
- (ii) 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 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2010

30 RELATED PARTIES *continued*

Movements in shares

The movement during the reporting period in the number of ordinary shares in Mastermyne Pty Ltd and Mastermyne Group Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	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

	Shares in Mastermyne Pty Ltd Prior to the IPO				
	Held at 1 July 2008	Purchases	Received on exercise of options	Sales	Shares held at 30 June 2009
Directors					
Mr D. Hamblin	22,800	–	–	–	22,800
Mr A. Watts	22,800	–	–	–	22,800
Mr A. Caruso	3,600	–	–	–	3,600

Other related party transactions

Champ Ventures Pty Ltd, who held a 32.65% shareholding in Mastermyne Pty Ltd before the initial public offer, provided management services to the Group. The management services were provided under contract in the Management Services Agreement and was at arm's length. The service fee totals \$333,333 per annum exclusive of GST and was payable by the Group to Champ Ventures Pty Ltd quarterly in arrears on each payment date. The term was for a period of 3 years commencing on the date of the agreement being the 21 July 2005 with an extension automatically extended to the first anniversary of that date for expiry, with extensions being able to occur on more than one occasion. The agreement ceased on 30 April 2010 coinciding with Champ Ventures selling 100% of their shares in the initial public offer of Mastermyne Group Limited securities.

Transactions with parent and between subsidiaries

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 Pty Ltd for an amount of \$803,336 (2009: \$500,030). \$47,517 was outstanding between Mastermyne Engineering Pty Ltd and Mastermyne Pty Ltd at 30 June 2010 (2009: \$52,858).
- ▶ Mastermyne Engineering Pty Ltd also provided services to Mastermyne Underground Pty Ltd during the period of \$41,500 (2009: \$0). There was no amount outstanding between Mastermyne Engineering Pty Ltd and Mastermyne Underground Pty Ltd at 30 June 2010 (2009: \$0)
- ▶ Mastermyne Services Pty Ltd provided work to Mastermyne Pty Ltd for an amount of \$787,591 (2009: \$808,943). \$69,845 was outstanding between Mastermyne Services Pty Ltd and Mastermyne Pty Ltd at 30 June 2010 (2009: \$78,260).

30 RELATED PARTIES *continued*

Transactions with parent and between subsidiaries *continued*

- ▶ Mastermyne Pty Ltd provided work to Mastermyne Engineering Pty Ltd for an amount of \$1,782 (2009: \$44,840). There was no amount outstanding between Mastermyne Engineering Pty Ltd and Mastermyne Pty Ltd at 30 June 2010 (2009: \$0)
- ▶ Mastermyne Pty Ltd provided work to Mastermyne Underground Pty Ltd for an amount of \$96,484 (2009: \$79,346). \$8,778 was outstanding between Mastermyne Underground Pty Ltd and Mastermyne Pty Ltd at 30 June 2010 (2009: \$0)
- ▶ Mastermyne Underground Pty Ltd provided work to Mastermyne Pty Ltd for an amount of \$24,311 (2009: \$0). There was no amount outstanding between Mastermyne Pty Ltd and Mastermyne Underground Pty Ltd at 30 June 2010 (2009: \$0).

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 \$173,422 (2009: \$173,422)
- ▶ Mastermyne Services Pty Ltd – Shared services Fee \$64,166 (2009: \$64,166)
- ▶ Mastermyne Underground Pty Ltd – Shared services Fee \$64,166 (2009: \$64,166)

31 GROUP ENTITIES

Parent and ultimate controlling party

Country of incorporation		Ownership interest	
		2010 %	2009 %
Parent entity			
Mastermyne Group Limited	Australia		
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 NSW Pty Ltd (acquired 1 March 2010)	Australia	100	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2010

32 DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Directors' report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up. The deed took effect on 23 June 2010.

The subsidiaries subject to the deed are:

- ▶ Mastermyne Pty Ltd
- ▶ Mastermyne Engineering Pty Ltd (formerly Capricorn Mining Queensland Pty Ltd)
- ▶ Mastermyne Underground Pty Ltd (formerly PYD Mining Services Pty Ltd)
- ▶ Mastermyne Services Pty Ltd (formerly DRE Electrical Services Pty Ltd)
- ▶ Mastermyne Underground NSW Pty Ltd (formerly MTR Mining Services 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.

33 SUBSEQUENT EVENTS

Subsequent to year-end the Directors declared a dividend of 1.2 cents per share as per the details set out in note 20.

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

34 AUDITORS' REMUNERATION

In AUD	Consolidated	
	2010	2009
Audit services		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	160,669	112,284
	160,669	112,284
Other services		
Auditors of the Company		
KPMG Australia		
Taxation services	26,144	15,554
Investigating Accountant Report	555,000	–
	581,144	15,554

35 CORRECTION OF ERROR

During the year it was identified that the terms of the Convertible Preference Shares ("CPS") issued by Mastermyne Pty Ltd had been modified during the year ended 30 June 2007. This had the effect that the previously non-discretionary dividend entitlement of 12.64% of their face value was removed and replaced with a dividend entitlement at the same rate, but only upon declaration by the directors. At the same time, the right of the CPS holders to receive interest on unpaid dividend entitlements at a rate of 15% per annum was removed.

This modification of the rights of the CPS should have resulted in an extinguishment of the related financial liability during the year ended 30 June 2007 of \$7 million, the recognition of an equity instrument at its fair value of \$15.1 million, and the recognition of interest expense for the related premium of \$8.1 million. As a consequence, the preference dividends and interest on unpaid preference dividends which had been accrued by the Group since the modification of the terms of the CPS did not represent an entitlement of the CPS holders and should not have been recognised.

This error has been corrected in the financial statements for the year ended 30 June 2010, with the effect that:

- ▶ interest expense decreased, and pre-tax profit increased, for the year ended 30 June 2009 by \$1.4 million (2008: \$1.3 million);
- ▶ income tax expense increased for the year ended 30 June 2009 by \$127 thousand (2008: \$87 thousand);
- ▶ profit after tax increased for the year ended 30 June 2009 by \$1.3 million (2008: \$1.2 million);
- ▶ current tax payable as at 30 June 2009 increased by \$0.2 million (2008: \$90 thousand);
- ▶ current interest-bearing loans and borrowings decreased as at 30 June 2009 by \$2.9 million (2008: \$1.6 million);
- ▶ non-current interest bearing loans and borrowings decreased as at 30 June 2009 by \$7 million (2008: \$6.8 million);
- ▶ share capital increased as at 30 June 2009 by \$7 million (2008: \$7 million);
- ▶ other reserves increased as at 30 June 2009 by \$8.1 million (2008: \$8.1 million);
- ▶ retained earnings decreased as at 1 July 2008 by \$7.9 million, as at 30 June 2008 by \$6.7 million, and as at 30 June 2009 by \$5.4 million;
- ▶ basic earnings per share increased as at 30 June 2009 from \$0.10 per share to \$0.13 per share; and
- ▶ diluted earnings per share increased as at 30 June 2009 from \$0.08 per share to \$0.09 per share.

The restatement of the basic and diluted earnings per share has been recalculated for the transactions that occurred during the year ended 30 June 2010 that adjusted the number of shares without a corresponding change in resources (refer note 21).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2010

36 PARENT ENTITY DISCLOSURES

As at and throughout, the financial year ending 30 June 2010 the parent company of the Group was Mastermyne Group Limited.

In thousands of AUD	Company	
	2010	2009
Results of the parent entity		
Profit for the period	(2,159)	–
Other Comprehensive income	–	–
Total comprehensive income for the period	(2,159)	–
Financial position of parent entity at year end		
Current assets	–	–
Total assets	55,098	–
Current liabilities	50	–
Total liabilities	50	–
Total equity of the parent entity comprising of:		
Share Capital	48,610	–
Share-based payments reserve	1,203	–
Retained earnings	5,235	–
Total Equity	55,048	–

Parent Entity Disclosures

There were no parent entity contingencies required for the year ending 30 June 2010.

Parent Entity Capital Commitments

There were no parent entity capital commitments at 30 June 2010.

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 32.

DIRECTORS' DECLARATION

36 PARENT ENTITY DISCLOSURES *continued*

1. In the opinion of the directors of Mastermyne Group Limited (the "Company"):
 - (a) the consolidated financial statements and notes that are set out on pages 29 to 68 and the Remuneration report in the Directors' report, set out on pages 14 to 23, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2010 and of their performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the Group entities identified in Note 32 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Class Order 98/1418.
3. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2010.
4. The Directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of Directors.



P. Slaughter
Chairman

Dated at Brisbane this 27th day of August 2010.

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 the Group comprising Mastermyne Group Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the balance sheet as at 30 June 2010, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 36 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies 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 and fair presentation of the financial report 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 (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Group's financial position and of its performance.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.



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

Independence

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

Auditor's opinion

In our opinion:

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 2010. 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 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

M L Gray
Partner

Brisbane
27 August 2010

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange (ASX) and not shown elsewhere in the Annual Report, current as at 14 September 2010, 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: 72,897,598 ordinary shares, each fully paid, held by 1,112 shareholders.

Unquoted: 2,000,000 options, exercisable at 92¢ each, expiring 28 February 2012, held by 2 option holders.

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.

Holders of options have no voting rights until such options are exercised, following which the shares issued will rank equally with all other ordinary shares.

RESTRICTED SECURITIES

Details of restricted securities on issue:

- ▶ 32,250,017 ordinary shares, subject to voluntary escrow until 14 days after the lodgement with ASX of the Company's annual and financial reports for the year ending 30 June 2011.

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	12,238	0.02	15	1.35
1,001 to 5,000	603,723	0.83	156	14.03
5,001 to 10,000	3,121,241	4.28	340	30.58
10,001 to 50,000	12,387,705	16.99	516	46.40
50,001 to 100,000	3,611,014	4.95	47	4.23
100,001 and Over	53,161,677	72.93	38	3.42
Totals	72,897,598	100.00	1,112	100.00

There are no shareholders with less than a marketable parcel (of 409 shares based on the closing share price on 14 September 2010 of \$1.22).

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	20.72%
2	Darren William Hamblin	Hamblin Family	10,155,658	13.93%
3	Cogent Nominees Pty Limited		7,435,134	10.20%
4	National Nominees Limited		3,951,776	5.42%
5	Anthony Salvatore Caruso	The Mad Investments	1,798,001	2.47%
6	Anthony Charles Zahra	The Zahra Discretionary Unit	1,659,810	2.28%
6	Michael Alan Coombs	The Coombs Investment	1,659,810	2.28%
7	ANZ Nominees Limited	<Cash Income A/C>	1,542,673	2.12%
8	HSBC Custody Nominees (Australia) Limited		1,430,000	1.96%
9	UBS Nominees Pty Ltd		1,195,013	1.64%
10	J P Morgan Nominees Australia Limited	<Cash Income A/C>	1,055,146	1.45%
11	Gary Allan MacIntyre & Lisa MacIntyre	The G&L MacIntyre S/F	790,752	1.08%
12	Harley Jake Hutchinson & Carol Dawn Hutchinson	The J&C Hutchinson S/F	590,752	0.81%
13	Citicorp Nominees Pty Limited		548,515	0.75%
14	J P Morgan Nominees Australia Limited		519,952	0.71%
15	ABN Amro Clearing Sydney Nominees Pty Ltd	<Custodian A/C>	317,981	0.44%
16	Willben Pty Ltd	<Robert Wilson Family A/C>	260,000	0.36%
17	Moat Investments Pty Ltd	<Moat Investment A/C>	250,000	0.34%
18	Barry William Sloan		208,820	0.29%
19	RBC Dexia Investor Services Australia Nominees Pty Limited	MLCI	208,030	0.29%
20	Winconlon Pty Ltd	<The Wells Super Fund A/C>	200,000	0.27%
Total			50,883,251	69.80%
Balance of Register			22,014,347	30.20%
Grand Total			72,897,598	100.00%

OPTIONHOLDERS

The names of the optionholders, the number of options and the percentage each holds, are:

Optionholder Name	Holding	Percent
Phillip Anthony Cosgrove	1,000,000	50.00%
Tony Rae	1,000,000	50.00%
Totals	2,000,000	100.00%

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	7,864,560

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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
Ian Hall	Non-executive Director

Company Secretary

William (Bill) Lyne

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
Phone: +61 (7) 3233 3111
Fax: +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
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Mastermyne Engineering

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Yeppoon Qld 4703
P: +61 (7) 4939 4222
F: +61 (7) 4939 4833

Thornton NSW

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Thornton NSW 2322
P: +61 (2) 4966 2955
F: +61 (2) 4966 2533

