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Mastermyne Group Limited

and its Controlled Entities

ABN 96 142 490 579

Annual Financial Report 30 June 2020



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mining | products | training



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ABN: 96 142 490 579

Appendix 4E

Results for announcement to market for the year ending 30 June 2020

Name of Entity Mastermyne Group Limited
ABN 96 142 490 579

| | 30 Jun 2020 \$000 | 30 Jun 2019 \$000 | Movement \$000 | Movement % |
|---|----------------------|----------------------|-------------------|---------------|
| Revenue from Ordinary Activities | | | | |
| - Continuing operations | 292,670 | 225,593 | 67,077 | 30% |
| - Discontinued operations | - | 12,442 | (12,442) | -100% |
| | 292,670 | 238,035 | 54,635 | 23% |
| Profit for the year after tax attributable to owners of the entity | | | | |
| - Continuing operations | 11,557 | 7,194 | 4,466 | 62% |
| - Discontinued operations | - | 3,154 | (3,154) | -100% |
| | 11,557 | 10,348 | 1,312 | 13% |
| Earnings per share attributable to owners of the entity | | | | |
| Basic earnings per share (Cents) | 11.0 | 10.2 | 1.0 | 10% |
| Diluted earnings per share (Cents) | 10.9 | 10.1 | 1.0 | 10% |

| Dividend Information | Record Date | Payment Date | Amount per Security | Franked Amount per Security |
|--|--------------------|---------------------|----------------------------|------------------------------------|
| Final dividend for the year ended 30 June 2020 | 25/09/2020 | 15/10/2020 | 0.04 | 0.04 |

The Company operates a Dividend Reinvestment Plan ("DRP") which will be utilised for FY2020 final dividend. Shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. No discount will be applied. The last day for the receipt of an election notice for participation in the plan is 28th September 2020. The Dividend Reinvestment Plan dated 22nd March 2010 can be downloaded from www.mastermyne.com.au.

| Net Tangible Asset Backing | 30 Jun 2020 \$000 | 30 Jun 2019 \$000 |
|--|----------------------|----------------------|
| Net tangible assets per ordinary share | 0.60 | 0.57 |

The Annual General Meeting of the Company will be held at:

| | |
|------------------|---|
| Location: | Level 1 45 River Street, Mackay QLD 4740 |
| Date: | 17 November 2020 |
| Time: | 11 AM |

Additional information supporting the Appendix 4E disclosure requirements can be found in the Annual Financial Report, which contains the Directors' Report and the 30 June 2020 Financial Statements and accompanying notes.

This report is based on the consolidated financial statements for the year ended 30 June 2020, which have been audited by Pitcher Partners.



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 2020 and the auditor's report's thereon.

1 Directors

Colin Bloomfield, *(appointed 6 March 2014), appointed Chairman 26 February 2015, Bachelor of Engineering (Mining), Graduate Certificate of Management, Independent Chairman*

Experience and other directorships

Colin brings to the Company over 30 years of mining experience in technical, operations, management and corporate roles. He is also an experienced Company Director having been in various Directorships for almost twenty years.

Colin's former roles during his 27 years with BHP Billiton include President Illawarra Coal (8 years), Vice President Health, Safety and Environment (Global role) and Project Director for the BHP Billiton merger integration as well as member of the deal team for the transaction. He was also an Underground Coal Mine Manager both in New South Wales and Queensland.

Currently, Colin is Chairman of the Flagstaff Group and Destination Wollongong and a Director at Community Alliance Credit Union and Wollongong Golf Club. He has previously been a Director at the Minerals Council of Australia and Chairman of the NSW Minerals Council and Port Kembla Coal Terminal.

Special responsibilities

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

Andrew Watts, *(appointed 10 March 2010), Non-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 relocated to Sydney in early 2010 to focus on the New South Wales market.

Special responsibilities

Member of the Audit and Risk Management Committee
Member of the Remuneration and Nomination Committee (replaced as Chairman 1 November 2018)

Gabriel (Gabe) Meena, *(appointed 15 September 2015), Bachelor Engineering (Mechanical), Non-executive Director*

Experience and other directorships

Gabe is an executive with over 30 years experience in the steel, mining and stevedoring industry covering operations, maintenance and engineering. Gabe has held senior operational and management roles with Bluescope Steel as General Manager Mills and Coating, Bluescope Steel China as President China Coated and BHP Collieries as General Manager of a number of coal mines.

Gabe's most recent role was General Manager Operations with Patrick Terminals. Gabe has a Bachelor in Mechanical Engineering and is a graduate of the Australian Institute of Company Directors.

Special responsibilities

Member of the Audit and Risk Management Committee (replaced as Chairman 1 November 2018)
Chairman of the Remuneration and Nomination Committee (appointed 1 November 2018)

1 Directors (continued)

Julie Whitcombe, (appointed 7 June 2018), Bachelor of Engineering (Mining) (First Class Hons), MBA, CA (Distinction), Non-executive Director

Experience and other directorships

Julie brings over 20 years of experience across financial, strategic and operational roles, with a focus throughout her career on the resources sector. Julie is currently Chief Executive Officer for RDO Australia Group, an equipment dealership business operating 18 branches across eastern Australia supplying and servicing John Deere and Vermeer equipment in support of a range of industry sectors in Australia.

Prior to her current role, Julie spent nine years as part of the executive team of Senex Energy Limited, an ASX-listed oil and gas company. Her roles at Senex have included Executive General Manager Queensland Assets (with responsibility for the operation and development of the company's coal seam gas acreage in Queensland), Executive General Manager Strategic Planning and Chief Financial Officer. Julie's broad background allows her to bring a unique combination of experience in financial accounting and equity markets and a focus on business-led strategy and growth. Julie is a graduate of the Australian Institute of Company Directors.

Special responsibilities

Chairman of the Audit and Risk Management Committee (appointed 1 November 2018)
 Member of the Remuneration and Nomination Committee

Anthony (Tony) Caruso, (appointed 10 March 2010), Post Graduate Degree in Business Management, Managing Director

Experience and other directorships

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

Special responsibilities

Chairman of the Audit and Risk Management Committee (appointed 1 November 2018)
 Member of the Remuneration and Nomination Committee

2 Company secretary

Brett Maff was appointed Company Secretary and Chief Financial Officer on 12 November 2018. Brett has over 20 years experience in senior financial, executive and company secretarial roles in the mining resources and mining services industries. Brett has a Bachelor of Commerce and is a Certified Practising Accountant.

3 Meetings of directors

The numbers of meetings of the Company's board of Directors and of each board committee held during the year ended 30 June 2020, and the numbers of meetings attended by each Director were:

| | Board meetings | | Audit Committee | | Remuneration & Nomination Committee | |
|------------------|----------------|---|-----------------|---|-------------------------------------|---|
| | A | B | A | B | A | B |
| Mr. C Bloomfield | 8 | 9 | 4 | 4 | 2 | 3 |
| Mr. A Watts | 9 | 9 | 4 | 4 | 3 | 3 |
| Mr. G Meena | 9 | 9 | 4 | 4 | 3 | 3 |
| Ms. J Whitcombe | 9 | 9 | 4 | 4 | 3 | 3 |
| Mr. A Caruso | 9 | 9 | 4 | 4 | 3 | 3 |

A= Number of meetings attended

B= Number of meetings held during the time the Director held office or was a member of the committee during the year

4 Operating and financial review

Results

Overview

Mastermyne Group Limited and its controlled subsidiaries has delivered continuing strong results for the 2020 financial year, which sees the business in excellent shape. The Company has delivered a record financial result which featured a strong Net Cash position of \$21.4 million after dividends, acquisition payments and capital expenditure through the year. New projects were won during the year along with renewal of existing projects and the Company successfully completed projects in NSW. The new projects are now contributing at full run rate and underpin a very healthy order book for FY2021 and beyond. As a result, the Company has declared a final dividend of 4.0 cents per share (fully franked) bringing the total dividend payment for the year to 6 cents per share.

Key highlights of the FY2020 result are:

- Safe operations remains our primary focus with lengthy injury free periods at multiple sites
- Record revenue and NPAT well ahead of the PCP (Revenue increased by 23% to \$292.7 million and Net Profit up 37%¹ to \$11.7 million)
- Reported EBITDA of \$28.6 million with margins increasing to 9.8% (8.8% before AASB16 impact in line with PCP)
- Final dividend declared of 4.0 cents per share (fully franked)
- New projects were won and mobilised at Aquilla and Moranbah North
- Wilson Mining successfully integrated and poised to deliver further growth
- Record order book of \$656.0 million²

¹Pre FY2019 Mastertec gain on sale of \$2.0 million

²Plus purchase order and recurring work \$30-40 million p.a.

Operational overview

The Company was successful in securing contract extensions at Anglo American Moranbah North Mine, Glencore Integra Mine and BMA Broadmeadow Mine. It also secured a major new contract for the Aquila Underground Development project (Anglo American) which contributed to the revenue growth and to a record order book of \$656 million. In addition to the award and extension of contracts, scope increases were awarded with an additional development unit at Moranbah North and the conveyor installation works at Aquila Underground project. The Whitehaven Narrabri and South 32 Appin projects were both successfully completed and demobilised at the end of FY2020.

The Wilson Mining acquisition was completed early FY2020 and integration now successfully completed. The strategic acquisition further complemented the underground suite of services provided by the Mastermyne group, providing strong mining operational synergies for clients. Furthermore, the Wilson Mining acquisition has provided a productive platform for diversification opportunities into other underground commodities.

The Company commissioned a second Mynesight training facility in Wollongong NSW. The facility includes a simulated underground coal mining operation, which provides valuable training to new entrants to the underground coal environment. The facility also allows access to the Wollongong coal operations in the region to provide induction and refresher training to these workforces.

The Company continues its focus on improving safety outcomes with good results achieved across all the projects. Recent industry events reinforces the Group's continuing focus on risk management and reducing exposure to critical risks. In addition, the now embedded "Brian Science" program continues to build our self-supporting safety culture, and provides key insights into our safety message delivery and behaviours.

4 Operating and financial review (continued)

Results (continued)

Operational overview (continued)

As revenue continued to grow to record levels, the Company has maintained its disciplined approach to overheads with only minimal escalation to support the increased activities, and subsequently overheads have materially decreased as a percentage of revenue. Despite costs from the inclusion of Wilson Mining, the Company was still very pleased with an increase of EBITDA margins to 9.8% (8.8% before AASB16 impact in line with PCP).

During the period, \$13.4 million (\$9.1 million net of funding) in capital was invested to overhaul mining equipment for hire into new long term contracts, and acquire new fleet which has been a strong contributor to the strength in the EBITDA margin for FY2020.

The Company maintains an exceptionally strong balance sheet through strong operational performance and working capital management, resulting in a Net Cash position of \$21.4 million. Included in this strong Net Cash position is the impact of cash outflows for returns to shareholders through dividends, acquisition payment for Wilson Mining and major project related capital investment to further bolster future margins.

The Group's order book, which is heavily weighted to Metallurgical coal projects (~95%), currently stands at a \$656 million with \$208 million of this to be delivered FY2021, and \$448 million in FY2022 and beyond. In addition to the contracted works, the Company forecasts a further \$30-40 million per annum in recurring and purchase order work.

With the record results achieved, resulting in a strong balance sheet and cash position, exceptional cashflow generation and future order book, the Group has continued the commitment of returns to shareholders and declared of a final ordinary dividend of 4.0 cents per share (fully franked) for FY2020.

Balance Sheet and Cash Flows

The overall cash position at 30 June 2020 represented a net increase in cash and cash equivalents of \$8.9 million. The increase was a result of strong EBITDA performance and active management of working capital. Furthermore, the cash increase also allowed for returns to shareholders through dividends, capital investment in current and new equipment fleet, and the acquisition of Wilson Mining Services Pty Ltd during the period.

The cash flow movements were as follows:

- net cash inflows from operating activities for the year ended 30 June 2020 of \$30.8 million (year ended 30 June 2019: inflows of \$22.2 million), represented by cashflow generation from operational performance and strong working capital management;
- net cash outflows from investing activities for the year ended 30 June 2020 of \$12.7 million (year ended 30 June 2019: outflows of \$2.2 million), represented by capital investment in new and existing fleet and the acquisition purchase price for Wilson Mining Services Pty Ltd; and
- net cash outflows from financing activities for the year ended 30 June 2020 of \$9.2 million (year ended 30 June 2019: outflows of \$3.2 million), represented the payment of dividends, repayment on on-going lease liabilities, offset by funding provided for the purchase of new equipment.

The net assets of the Group have increased from \$64.3 million (30 June 2019) to \$73.9 million at 30 June 2020. Significant changes for the period included the recognition of right-of-use assets and corresponding lease liabilities in accordance with introduction of AASB 16 requirements. In addition, the impacts as a result of the acquisition of Wilson Mining Services Pty Ltd and the related contingent liability payments have been recognised in the period.

In addition to an exceptionally strong cash balance and Net Cash position, the Group maintains significant headroom in its current bank facilities providing additional working capital to support future growth. Mastermyne has invoice finance facility limit of \$20.0 million for working capital and a further \$10.0 million for equipment funding.

4 Operating and financial review (continued)

Results (continued)

Outlook

Despite the impacts of global COVID restrictions the outlook for metallurgical coal continues to be supported by strong fundamentals. The demand for Australian seaborne metallurgical coal is expected to remain robust in the medium to long term. The Company's exposure to metallurgical coal is strong at ~95% of the current order book.

The on-going COVID restrictions globally are anticipated to weigh on short term coal pricing, but metallurgical coal pricing is expected to recover sooner than thermal coal pricing. The Company is extremely well placed with a strong order book and balance sheet strength to manage this period, in addition, the ability and flexibility to seize opportunities as they arise.

The operational focus for the Mastermyne in FY2021 will be on executing the current order book safely and commercially to continue to generate strong free cash flows. Wilson Mining will support the ongoing growth for the mining business and our exposure to the underground metalliferous sector.

Lower capital investment is expected with a modest level of sustaining capital but this will continue to be reviewed in conjunction with new projects. Any investment in fleet will be designed to deliver EBITDA margin improvement.

The Company is continuing to progress several Whole of Mine (WoM) opportunities with one project now substantially progressed. The final decision on this WoM project could occur as early as the first half of the FY2021 financial year. The Company is also progressing other growth strategies which will see continued diversification into the metalliferous sector.

The Company will continue with its disciplined capital management strategy maintaining a Net Cash position of up to \$20 million allowing it to retain its financial strength through the market cycles and provide reliable returns to shareholders through dividend payments.

5 Remuneration Report (audited)

The Directors present the Mastermyne Group Limited 2020 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

(a) Principles of remuneration

Key management personnel have the 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 and executives of the Company listed below.

| Name | Position |
|---|--|
| Non-executive and executive Directors (see pages 1 to 2 for details about each Director) | |
| Mr. C Bloomfield | Independent Chairman |
| Mr. A Watts | Non-executive Director |
| Mr. G Meena | Non-executive Director |
| Ms. J Whitcombe | Non-executive Director |
| Mr. A Caruso | Managing Director & Chief Executive Officer |
| Other executives | |
| Mr. D Sykes | General Manager Strategy and Growth |
| Ms. V Gayton | General Manager Human Resources |
| Mr. P McCoy | General Manager Mining QLD (Ceased 30 March 2020) |
| Mr. P Green | General Manager Mining QLD (Appointed 30 March 2020) |
| Mr. W Price | General Manager Mining NSW |
| Mr. B Maff | Chief Financial Officer |

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

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

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

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

Fixed remuneration

Fixed remuneration consists of base compensation (which is calculated on total cost basis and includes any fringe benefit tax charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds. Executives may receive their fixed remuneration as cash, or cash with non-monetary benefits such as travel allowances.

5 Remuneration Report (audited) (continued)

(a) Principles of remuneration (continued)

Fixed remuneration (continued)

Fixed remuneration is reviewed annually, or on promotion, by the RNC through a process that considers individual, segment and overall performance of the Group. In addition, external data is provided for analysis of KMP's remuneration to ensure it remains competitive by benchmarking against the market place. The chairman of the RNC sources data independently of management from appropriate independent advisors. For key executive management other than the CEO/Managing Director, 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.

In FY 2020, fixed remuneration was increased for 5 executives, with an average increase of 4%. This was done to align the remuneration with the level for comparative roles.

Performance link remuneration

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

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

Short-term incentive bonus

The Mastermyne short term incentive plan was introduced as a structured incentive to reward KMP's performance against predetermined KPIs.

| Feature | Description | | | | | | | | | |
|--|--|-----------|---------------|---------------|-----------------------|-----|-----|------------------|-----|-----|
| Max opportunity | CEO/Managing Director: 75% of fixed remuneration Other executives: 50% of fixed remuneration | | | | | | | | | |
| Performance metrics | The STI metrics align with our strategic objectives of the Group, with specific financial and non-financial measures (normally 5 or 6) for individual performance, group performance and underlying performance of the Group. | | | | | | | | | |
| | A summary of the measures and weightings are set out in the table below: | | | | | | | | | |
| | <table border="1"> <thead> <tr> <th>KMP</th> <th>Financial</th> <th>Non-financial</th> </tr> </thead> <tbody> <tr> <td>CEO/Managing Director</td> <td>40%</td> <td>60%</td> </tr> <tr> <td>Other executives</td> <td>40%</td> <td>60%</td> </tr> </tbody> </table> | KMP | Financial | Non-financial | CEO/Managing Director | 40% | 60% | Other executives | 40% | 60% |
| | KMP | Financial | Non-financial | | | | | | | |
| CEO/Managing Director | 40% | 60% | | | | | | | | |
| Other executives | 40% | 60% | | | | | | | | |
| The financial performance objectives may vary by individual and are broadly based on profitability compared to budgeted amounts approved by the Board each year. | | | | | | | | | | |
| Delivery of STI | The non-financial objectives vary dependent upon position and responsibility and are aligned with the measures and targets set to achieve the strategic objectives of the Group on an annual basis. | | | | | | | | | |
| | At the end of the financial year, the RNC assess the actual performance of the Group, the relevant segment and individual against the KPI's set at the beginning of the year. Payment of individual bonuses is based on the assessment of the RNC with recommendations from the Managing Director (for employees other than the Managing Director) taking into consideration the overall performance of the individual for the period. The Managing Director's STI bonus is set by the board based on assessment of his/her performance against agreed KPIs as assessed by the RNC and recommended to the Board. | | | | | | | | | |
| Board discretion | 100% of the STI award is paid in cash at the end of the financial year. STI payments must be self funding. | | | | | | | | | |
| | The Board has discretion to adjust remuneration outcomes up or down to prevent any inappropriate award outcomes, including reducing down to zero, if appropriate. | | | | | | | | | |

5 Remuneration Report (audited) (continued)

(a) Principles of remuneration (continued)

Long-term incentives

Executive KMP participate at the Board's discretion, in the Employee Performance Rights Plan comprising annual grants of rights which are subject to various vesting conditions outlined in the table below. 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.

| Feature | Description | | | | | | | | | | | | | | |
|--|---|---|--------------------|--|-----------|-----------|---|----|----|--|---|---|---|------|------|
| Opportunity/ Allocation | CEO/Managing Director: 40% of fixed remuneration Other executives: 20% of fixed remuneration The opportunity is divided by the share price face value to determine the number of rights. | | | | | | | | | | | | | | |
| Performance hurdle | <p>Vesting of the rights will be subject to achievement of the vesting conditions set out below:</p> <ul style="list-style-type: none"> • Vesting Condition 1: The main Vesting Condition is that the eligible participant must be employed within the Group on the Test Date. If employment has ceased with the Group prior to the Test Date, the performance rights will lapse unless the Board at its absolute discretion determines otherwise. • Vesting Condition 2: Vesting is also conditional on the continuation of good conduct and the execution of duties in the best interests of Mastermyne. If it is deemed the eligible participant has acted fraudulently or dishonestly, or is in breach of obligations to Mastermyne, the Board at its discretion may determine that some or all of the performance rights will lapse. • Vesting Condition 3: There is an overriding Vesting Condition, requiring a minimum 8% total shareholder return (TSR) during the TSR measurement period (i.e. from the Time of Grant to the Test Date). • Vesting Condition 4: If Vesting Condition 3 is achieved there are two further Vesting Conditions that will each be applied independently to 50% of the performance rights. Both of these Vesting Conditions depend on Mastermyne's TSR percentile rank during the TSR measurement period: <ul style="list-style-type: none"> (a) Tranche A: 50% of the performance rights will be conditional on the Company's TSR rank relative to companies in the ASX All Ordinaries Accumulation index; and (b) Tranche B: 50% of the performance rights will be conditional on the Company's TSR rank relative to companies in the ASX 200 Resources Accumulation index. <p>For each tranche, the percentage of performance rights which will vest will be as specified in the table below:</p> <table border="1"> <thead> <tr> <th rowspan="2">TSR Rank during TSR measurement period</th> <th colspan="2">Proportion to vest</th> </tr> <tr> <th>Tranche A</th> <th>Tranche B</th> </tr> </thead> <tbody> <tr> <td>Below 50th percentile of the ASX Peer Group or the Resources Peer Group</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>50th percentile to 75th percentile of the ASX Peer Group or Resources Peer Group</td> <td>50% plus 2% for each percentile above 50th percentile</td> <td>50% plus 2% for each percentile above 50th percentile</td> </tr> <tr> <td>Above 75th percentile of the ASX Peer Group or the Resources Peer Group</td> <td>100%</td> <td>100%</td> </tr> </tbody> </table> | TSR Rank during TSR measurement period | Proportion to vest | | Tranche A | Tranche B | Below 50th percentile of the ASX Peer Group or the Resources Peer Group | 0% | 0% | 50th percentile to 75th percentile of the ASX Peer Group or Resources Peer Group | 50% plus 2% for each percentile above 50th percentile | 50% plus 2% for each percentile above 50th percentile | Above 75th percentile of the ASX Peer Group or the Resources Peer Group | 100% | 100% |
| TSR Rank during TSR measurement period | Proportion to vest | | | | | | | | | | | | | | |
| | Tranche A | Tranche B | | | | | | | | | | | | | |
| Below 50th percentile of the ASX Peer Group or the Resources Peer Group | 0% | 0% | | | | | | | | | | | | | |
| 50th percentile to 75th percentile of the ASX Peer Group or Resources Peer Group | 50% plus 2% for each percentile above 50th percentile | 50% plus 2% for each percentile above 50th percentile | | | | | | | | | | | | | |
| Above 75th percentile of the ASX Peer Group or the Resources Peer Group | 100% | 100% | | | | | | | | | | | | | |
| Exercise price | The exercise price is \$Nil. | | | | | | | | | | | | | | |
| Forfeiture and termination | Rights will lapse if performance conditions are not met. Rights will be forfeited on cessation of employment unless the board determines otherwise, eg in the case of retirement due to injury, disability, death or redundancy. | | | | | | | | | | | | | | |

5 Remuneration Report (audited) (continued)

(a) Principles of remuneration (continued)

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 Group pays fringe benefits tax on these benefits.

(b) Link between remuneration and performance

FY 2020 performance and impact on remuneration

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward KMP for meeting or exceeding their financial and personal objectives.

The Group's performance in 2020 remained strong. Management delivered a revenue result well above target, while not compromising on our core safety values. For more information on 2020 results, see page 3 of the operating and financial review.

Statutory performance indicators

We aim to align our executive remuneration to our strategic and business objectives and the creation of shareholder wealth. The table below shows measures of the Group's financial performance over the last five years as required by the *Corporations Act 2001*. However, these are not necessarily consistent with the measures used in determining variable amounts of remuneration to be awarded to KMPs. As a consequence, there may not always be a direct correlation between statutory key performance measures and the variable remuneration.

| Performance indicator | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|--------|--------|--------|---------|----------|
| Profit/(loss) for the year attributable to owners of Mastermyne (\$'000) | 11,557 | 10,348 | 5,435 | (2,012) | (13,156) |
| Dividends payments (\$'000) | 6,346 | - | - | - | 911 |
| Increase/(decrease) in share price (%) | (37.0) | (14.0) | +248.0 | +182.0 | (31.0) |
| Return on capital employed from continuing operations (%) | 24.0 | 18.0 | 17.0 | (6.0) | (32.0) |

Profit is considered one of the financial performance targets in setting STI. Profit amounts for 2016 to 2020 have been calculated in accordance with Australian Accounting Standards (AASBs).

The overall level of KMP compensation takes into account the performance of the Group over a number of years. The Group's profits have increased as a result of an improved sentiment and outlook in the coal industry over the past 12 months, resulting in a strong profit from ordinary activities.

5 Remuneration Report (audited) (continued)

(c) Contractual arrangements with executive KMPs

The RNC recommends Group remuneration policies for Key Management Personnel. The RNC focuses mainly on the CEO's remuneration but reviews agreements made with other KMP. In recommending the CEO remuneration package, the RNC takes advice from independent advisors in executive and non-executive remuneration as noted below.

| Component | CEO description | Senior executive description |
|---|---|---|
| Fixed remuneration | \$369,011 (i) | Range between \$252,000 and \$330,623 (i) |
| Contract duration | Ongoing contract | Ongoing contract |
| Notice by the individual/company | 9 months | 3 months |
| Termination of employment (without cause) | Entitlement to pro-rata STI for the year Unvested LTI will remain on foot subject to achievement of the performance hurdles at the original date of testing The Board has discretion to award a greater or lower amount | |
| Termination of employment (with cause) or by the individual | STI is not awarded, and all unvested LTI will lapse | |

(i) The actual remuneration paid to KMP during the year will vary from the contracted amounts depending on the number of payroll weeks in the financial year.

Different contractual terms apply to the following individuals:

- P Green is employed as a contractor through a consulting company. As a contractor he does not receive superannuation benefits and he is not entitled to STI's or LTI's.

(d) Remuneration expenses for executive KMP

The following tables show details of the remuneration expense recognised for the Group's executive key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards.

5 Remuneration Report (audited) (continued)

(d) Remuneration expenses for executive KMP (continued)

| 2020 | Short-term employee benefits | | | Post-employment benefits | Long-term benefits | Share based payments | Termination benefits | Total | Performance related |
|---|------------------------------|------------|-----------------------|--------------------------|-----------------------|----------------------|----------------------|-----------|---------------------|
| | Cash salary and fees | Cash bonus | Non-monetary benefits | Super-annuation | Employee entitlements | Rights | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| Executive Director | | | | | | | | | |
| Mr. A Caruso | 376,108 | 138,379 | 15,000 | 47,584 | 34,513 | 109,231 | - | 720,815 | 34.35% |
| Other key management personnel | | | | | | | | | |
| Mr. D Sykes | 336,981 | 62,818 | - | 36,689 | 24,343 | 47,401 | - | 508,232 | 21.69% |
| Ms. V Gayton | 254,808 | 63,000 | - | 29,675 | 33,047 | 32,197 | - | 412,727 | 23.07% |
| Mr. P McCoy | 177,387 | - | 19,500 | 16,797 | (24,378) | - | - | 189,306 | -% |
| Mr. P Green | 74,250 | - | - | - | - | - | - | 74,250 | -% |
| Mr. W Price | 312,891 | 76,747 | - | 37,015 | 19,969 | 24,319 | - | 470,941 | 21.46% |
| Mr. B Maff | 328,702 | 97,113 | - | 21,404 | 22,043 | 10,241 | - | 479,503 | 22.39% |
| Total key management personnel compensation | 1,861,127 | 438,057 | 34,500 | 189,164 | 109,537 | 223,389 | - | 2,855,774 | 23.16% |

Notes in relation to the 2020 table of remuneration expenses for executive KMP:

* P McCoy transferred to a non-KMP role on 30 March 2020.

* P Green was appointed as Executive General Manager QLD Mining on 30 March 2020.

* The fair value of the rights is calculated at the date of grant using a Monte Carlo pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights recognised in this reporting period.

5 Remuneration Report (audited) (continued)

(d) Remuneration expenses for executive KMP (continued)

| 2019 | Short-term employee benefits | | | Post-employment benefits | Long-term benefits | Share based payments | Termination benefits | Total | Performance related |
|---|------------------------------|------------|-----------------------|--------------------------|-----------------------|----------------------|----------------------|-----------|---------------------|
| | Cash salary and fees | Cash bonus | Non-monetary benefits | Super-annuation | Employee entitlements | Rights | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| Executive Director | | | | | | | | | |
| Mr. A Caruso | 353,164 | 153,113 | 19,500 | 32,307 | 9,961 | 93,267 | - | 661,312 | 37.26% |
| Other key management personnel | | | | | | | | | |
| Mr. D Sykes | 316,676 | 105,678 | - | 28,841 | 17,216 | 40,848 | - | 509,259 | 28.77% |
| Ms. V Gayton | 221,012 | 98,498 | - | 20,499 | 8,906 | 25,411 | - | 374,326 | 33.10% |
| Mr. P McCoy | 226,356 | 81,405 | 19,500 | 21,430 | 11,901 | - | - | 360,592 | 22.58% |
| Mr. W Price | 293,741 | 112,922 | 19,500 | 27,905 | - | 8,295 | - | 462,363 | 26.22% |
| Mr. B Maff | 229,122 | 72,994 | - | 4,442 | - | - | - | 306,558 | 23.81% |
| Ms. L Blockley | 203,200 | - | - | 13,866 | (29,484) | - | 61,923 | 249,505 | -% |
| Total key management personnel compensation | 1,843,271 | 624,610 | 58,500 | 149,290 | 18,500 | 167,821 | 61,923 | 2,923,915 | 27.10% |

Notes in relation to the 2019 table of remuneration expenses for executive KMP:

* L Blockley resigned as Chief Financial Officer on 12 November 2018.

* B Maff was appointed interim Chief Financial Officer on 12 November 2018, and Chief Financial Officer on 8 April 2019.

* The fair value of the rights is calculated at the date of grant using a Monte Carlo pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights recognised in this reporting period.

5 Remuneration Report (audited) (continued)

(e) Performance based remuneration granted & forfeited during the year

The table below shows for each KMP how much of their STI cash bonus was awarded and how much was forfeited. It also shows the value of rights that were granted and exercised during FY 2020. The number of rights and percentages vested/forfeited for each grant date are disclosed in Section (h) Equity instruments on pages 14 to 15.

| 2020 | Total STI bonus | | | LTI Rights | |
|--------------|-------------------------|--------------|----------------|----------------------|-------------------------|
| | Total opportunity \$ | Awarded % | Forfeited % | Value granted* \$ | Value exercised** \$ |
| Mr. A Caruso | 276,758 | 50 | 50 | 107,333 | 352,173 |
| Mr. D Sykes | 165,312 | 38 | 62 | 46,337 | 156,377 |
| Ms. V Gayton | 126,000 | 50 | 50 | 35,099 | 85,865 |
| Mr. P McCoy | - | - | - | - | - |
| Mr. P Green | - | - | - | - | - |
| Mr. W Price | 153,494 | 50 | 50 | 45,592 | - |
| Mr. B Maff | 161,250 | 60 | 40 | 44,123 | - |

* The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted during the year as part of remuneration.

** The value at the exercise date of options that were granted as part of remuneration and were exercised during the year has been determined as the intrinsic value of the options at that date.

(f) Services from remuneration consultants

In the current year the RNC was presented with a report comparing KMP salaries across industry peers. The data was sourced from publicly available sources. No specific recommendations were sought on director or KMP remuneration due to the Board's view that market circumstances were too fluid to allow historical information to provide a useful guide to appropriate remuneration levels.

\$13,150 in external fees were paid for remuneration research reports during the 2020 financial year.

(g) Non-executive director arrangements

Non-executive Directors receive a board fee and fees for chairing or participating on board committees, see table below. They do not receive performance-based pay or retirement allowances. The fees are inclusive of superannuation. The chairman does not receive additional fees for participating in or chairing committees.

Fees are reviewed annually by the board taking into account comparable roles and market data provided by the board's independent remuneration adviser.

| Board fees | | \$ |
|-------------------------------|--------|--------|
| Chair | | 88,695 |
| Other non-executive directors | | 49,275 |
| Committee fees | | |
| Audit | Chair | 5,475 |
| | Member | - |
| Remuneration and nomination | Chair | 5,475 |
| | Member | - |

All non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of Director.

The actual remuneration paid to Non-executive Directors during the year will vary from the contracted amounts depending on the number of payroll weeks in the financial year.

5 Remuneration Report (audited) (continued)

(g) Non-executive director arrangements (continued)

The following table shows details of the remuneration expense recognised for the Group's non-executive directors for the current and previous financial year measured in accordance with the requirements of the accounting standards.

| 2020 | Short-term employee benefits | | | Post-employment benefits | Total |
|--------------------------------------|------------------------------|----------------------------|--|--------------------------|----------------|
| | Board fees \$ | Audit committee fees \$ | Remuneration and nomination committee fees \$ | Super-annuation \$ | |
| Non-executive Directors | | | | | |
| Mr. C Bloomfield | 82,923 | - | - | 7,878 | 90,801 |
| Mr. A Watts | 46,154 | - | - | 4,385 | 50,539 |
| Mr. G Meena | 46,154 | - | 5,096 | 4,869 | 56,119 |
| Ms. J Whitcombe | 46,154 | 5,096 | - | 4,869 | 56,119 |
| Total non-executive directors | 221,385 | 5,096 | 5,096 | 22,001 | 253,578 |

| 2019 | Short-term employee benefits | | | Post-employment benefits | Total |
|--------------------------------------|------------------------------|----------------------------|--|--------------------------|----------------|
| | Board fees \$ | Audit committee fees \$ | Remuneration and nomination committee fees \$ | Super-annuation \$ | |
| Non-executive Directors | | | | | |
| Mr. C Bloomfield | 79,442 | - | - | 7,547 | 86,989 |
| Mr. A Watts | 45,014 | - | 1,671 | 4,435 | 51,120 |
| Mr. G Meena | 44,039 | 1,671 | 3,329 | 4,659 | 53,698 |
| Ms. J Whitcombe | 44,986 | 3,329 | - | 4,590 | 52,905 |
| Total non-executive directors | 213,481 | 5,000 | 5,000 | 21,231 | 244,712 |

(h) Equity instruments

Rights

The terms and conditions of each grant of rights affecting remuneration in the current or a future reporting period are as follows:

| Grant date | Vesting and exercise date | Expiry date | Exercise price | Value per option at grant date | Performance achieved | % Vested |
|------------|---------------------------|-------------|----------------|--------------------------------|----------------------|----------|
| Tranche A | | | | | | |
| 21/11/2019 | 1/10/2022 | 1/10/2022 | - | 0.7415 | To be determined | - |
| 21/11/2018 | 1/10/2021 | 1/10/2021 | - | 0.8077 | To be determined | - |
| 21/11/2017 | 1/10/2020 | 1/10/2020 | - | 0.5225 | To be determined | - |
| 15/11/2016 | 1/10/2019 | 1/10/2019 | - | 0.1993 | > 75th percentile | 100 |
| Tranche B | | | | | | |
| 21/11/2019 | 1/10/2022 | 1/10/2022 | - | 0.7100 | To be determined | - |
| 21/11/2018 | 1/10/2021 | 1/10/2021 | - | 0.7727 | To be determined | - |
| 21/11/2017 | 1/10/2020 | 1/10/2020 | - | 0.4695 | To be determined | - |
| 15/11/2016 | 1/10/2019 | 1/10/2019 | - | 0.1997 | > 75th percentile | 100 |

5 Remuneration Report (audited) (continued)

(h) Equity instruments (continued)

The number of performance rights provided as remuneration to key management personnel is shown in the table below. All rights refer to rights to acquire one ordinary share of Mastermyne Group Limited for no consideration which upon exercise are exchangeable on a one for one basis.

The following table shows a reconciliation of rights held by each KMP from the beginning through to the end of FY2020. There were no vested rights as at 1 July 2019.

| 2020 Name | Grant Date | Balance at the start of the year | Granted as compensation | Vested | | Exercised | Forfeited | | Balance at the end of the year | |
|------------------|------------|----------------------------------|-------------------------|---------|-----|-----------|-----------|---|--------------------------------|----------|
| | | Unvested | | Number | % | | Number | % | Vested and exercisable | Unvested |
| Tranche A | | | | | | | | | | |
| Mr. A Caruso | 21/11/2019 | - | 73,947 | - | - | - | - | - | - | 73,947 |
| Mr. A Caruso | 21/11/2018 | 58,980 | - | - | - | - | - | - | - | 58,980 |
| Mr. A Caruso | 21/11/2017 | 128,369 | - | - | - | - | - | - | - | 128,369 |
| Mr. A Caruso | 15/11/2016 | 182,925 | - | 182,925 | 100 | (182,925) | - | - | - | - |
| Mr. D Sykes | 21/11/2019 | - | 31,924 | - | - | - | - | - | - | 31,924 |
| Mr. D Sykes | 21/11/2018 | 25,168 | - | - | - | - | - | - | - | 25,168 |
| Mr. D Sykes | 21/11/2017 | 56,351 | - | - | - | - | - | - | - | 56,351 |
| Mr. D Sykes | 15/11/2016 | 81,225 | - | 81,225 | 100 | (81,225) | - | - | - | - |
| Ms. V Gayton | 21/11/2019 | - | 24,181 | - | - | - | - | - | - | 24,181 |
| Ms. V Gayton | 21/11/2018 | 17,591 | - | - | - | - | - | - | - | 17,591 |
| Ms. V Gayton | 21/11/2017 | 36,168 | - | - | - | - | - | - | - | 36,168 |
| Ms. V Gayton | 15/11/2016 | 44,600 | - | 44,600 | 100 | (44,600) | - | - | - | - |
| Mr. W Price | 11/21/2019 | - | 31,411 | - | - | - | - | - | - | 31,411 |
| Mr. W Price | 11/21/2018 | 24,818 | - | - | - | - | - | - | - | 24,818 |
| Mr. B Maff | 21/11/2019 | - | 30,398 | - | - | - | - | - | - | 30,398 |
| Tranche B | | | | | | | | | | |
| Mr. A Caruso | 21/11/2019 | - | 73,947 | - | - | - | - | - | - | 73,947 |
| Mr. A Caruso | 21/11/2018 | 58,980 | - | - | - | - | - | - | - | 58,980 |
| Mr. A Caruso | 21/11/2017 | 128,369 | - | - | - | - | - | - | - | 128,369 |
| Mr. A Caruso | 15/11/2016 | 182,925 | - | 182,925 | 100 | (182,925) | - | - | - | - |
| Mr. D Sykes | 21/11/2019 | - | 31,924 | - | - | - | - | - | - | 31,924 |
| Mr. D Sykes | 21/11/2018 | 25,168 | - | - | - | - | - | - | - | 25,168 |
| Mr. D Sykes | 21/11/2017 | 56,351 | - | - | - | - | - | - | - | 56,351 |
| Mr. D Sykes | 15/11/2016 | 81,225 | - | 81,225 | 100 | (81,225) | - | - | - | - |
| Ms. V Gayton | 21/11/2019 | - | 24,181 | - | - | - | - | - | - | 24,181 |
| Ms. V Gayton | 21/11/2018 | 17,591 | - | - | - | - | - | - | - | 17,591 |
| Ms. V Gayton | 21/11/2017 | 36,168 | - | - | - | - | - | - | - | 36,168 |
| Ms. V Gayton | 15/11/2016 | 44,600 | - | 44,600 | 100 | (44,600) | - | - | - | - |
| Mr. W Price | 21/11/2019 | - | 31,411 | - | - | - | - | - | - | 31,411 |
| Mr. W Price | 21/11/2018 | 24,818 | - | - | - | - | - | - | - | 24,818 |
| Mr. B Maff | 21/11/2019 | - | 30,398 | - | - | - | - | - | - | 30,398 |

Shareholdings

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

| 2020 Name | Balance at the start of year | Received during the year on exercise of rights | Other changes during the year | Balance at the end of the year |
|------------------|------------------------------|--|-------------------------------|--------------------------------|
| Mr. C Bloomfield | 1,100,000 | - | - | 1,100,000 |
| Mr. A Watts | 12,262,245 | - | - | 12,262,245 |
| Mr. G Meena | 100,000 | - | - | 100,000 |
| Ms. J Whitcombe | 44,000 | - | 50,000 | 94,000 |
| Mr. A Caruso | 1,767,129 | 365,850 | - | 2,132,979 |
| Mr. D Sykes | 13,176 | 162,450 | - | 175,626 |
| Ms. V Gayton | 12,840 | 89,200 | (12,840) | 89,200 |
| Mr. B Maff | 25,086 | - | 63,938 | 89,024 |

5 Remuneration Report (audited) (continued)

(i) Individual directors and executives compensation disclosures

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 given to key management personnel

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

Other transactions with key management personnel

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 transaction with the Group or its subsidiaries in the reporting period. The terms and conditions of the transaction with key management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management persons related entities on an arm's length basis. These include the following:

- 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.
- The Group rents the premises at 56A 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.
- The Group paid Treatwater & Plumbing Pty Ltd, which is owned by Anthony Caruso, fees for general plumbing services during the year. Fees paid are at arm's length and due and payable under normal payments terms.

Aggregate amounts of each of the above types of other transactions with key management personnel of Mastermyne Group Limited:

| | 2020 \$ | 2019 \$ |
|--------------------------------------|----------------|----------------|
| <i>Amounts recognised as expense</i> | | |
| Rent of 45 River Street | 189,739 | 168,023 |
| Rent of 56A Grosvenor Drive | 23,464 | 21,509 |
| General plumbing repairs | 116 | - |
| | <u>213,319</u> | <u>189,532</u> |

From time to time key management personnel and directors of the Group, or their related entities, may purchase goods or services from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

Amounts recognised as assets and liabilities

At the end of the reporting period there were no amounts recognised as assets or liabilities in relation to the above transactions.

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 industrial products and services in the coalfields and supporting industries of Queensland and New South Wales.

7 Significant changes in the state of affairs

During the financial year the Group acquired 100% of the ordinary shares of Wilson Mining Services Pty Ltd ('WM').

Other than this acquisition, there were no other significant changes in the state of affairs.

8 Environmental regulation

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

9 Dividends - Mastermyne Group Limited

Dividends paid to members during the financial year were as follows:

Ordinary shares

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Final dividend for the year ended 30 June 2019 of 2 cents (2019 - nil) per fully paid share | 2,110 | - |
| Special Dividend for the year ended 30 June 2019 of 2 cents (2019 - nil) per fully paid share | 2,110 | - |
| Interim dividend for the year ended 30 June 2020 of 2 cents (2019 - nil) per fully paid share | 2,126 | - |
| Total dividends paid | 6,346 | - |

Dividends not recognised at the end of the reporting period

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 4 cents per fully paid ordinary share (2019 - 2 cents Ordinary; 2 cents Special). | 4,257 | 4,066 |

10 Events subsequent to reporting date

Other than the dividend declared subsequent to balance date as disclosed above, no matter or circumstance has arisen since 30 June 2020 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

11 Likely developments

Despite the impacts of global COVID restrictions the outlook for metallurgical coal continues to be supported by strong fundamentals. The demand for Australian seaborne metallurgical coal is expected to remain robust in the medium to long term. The on-going COVID restrictions globally are anticipated to weigh on short term coal pricing, but metallurgical coal pricing is expected to recover sooner than thermal coal pricing. The Sector continues to utilise contracting companies for their operational needs in order to maintain flexible operations and cost control with their organisations. The Company is continuing to progress several whole of mine opportunities with the potential to provide a material and resilient additional revenue stream for the Company.

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.

12 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 | Rights over ordinary shares |
| Colin Bloomfield | 1,100,000 | - |
| Gabe Meena | 100,000 | - |
| Julie Whitcombe | 94,000 | - |
| Andrew Watts | 12,262,245 | - |
| Tony Caruso | 2,132,979 | 522,592 |

13 Shares under option

Unissued ordinary shares

At the date of this report there were no unissued ordinary shares of the Company under option.

14 Insurance of officers and indemnities

Indemnity

The Company has agreed to indemnify the following current Directors of the Company, Colin Bloomfield, Tony Caruso, Andrew Watts, Gabe Meena and Julie Whitcombe 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 of officers

During the financial year, the entity has paid premiums on behalf of the Company in respect of Directors' and Officers' liability and legal expenses insurance contracts for the year ended 30 June 2020 and, since the end of the financial year, the entity has paid or agreed to pay on behalf of the Company, premiums in respect of such insurance contracts for the year ended 30 June 2021. Such insurance contracts insure against certain liability (subject to specific exclusions) persons who are or have been Directors or executive officers of the Company.

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.

15 Non-audit services

During the year, Pitcher Partners, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board of Directors 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 & Risk 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 have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

15 Non-audit services (continued)

Details of the amounts paid or payable to the auditor of the Company, Pitcher Partners, and its related practices for audit and non-audit services provided during the year are set out below.

| | 2020 \$ | 2019 \$ |
|---|----------------|---------------|
| Audit services | | |
| Pitcher Partners | | |
| Audit and review of financial statements | 110,000 | 95,000 |
| Total remuneration for audit services | <u>110,000</u> | <u>95,000</u> |
| Taxation services | | |
| Pitcher Partners | | |
| Tax compliance services | - | 8,000 |
| Total remuneration for taxation services | <u>-</u> | <u>8,000</u> |

16 Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings. The Group was not a part to any such proceedings during the year.

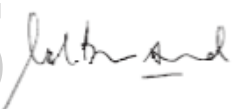
17 Auditor's independence declaration

The Lead auditor's independence declaration is set out on page 19 and forms part of the Directors' report for the financial year ended 30 June 2020.

18 Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial report and directors' report. Amounts in the financial report and the directors' report have been rounded off in accordance with the instrument to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of Directors.



Mr. C Bloomfield
Director
Brisbane

Brisbane
18 August 2020

Level 38, 345 Queen Street
Brisbane, QLD 4000

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Brisbane, QLD 4001

p. +61 7 3222 8444

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF MASTERMYNE GROUP LIMITED**

In relation to the independent audit for the year ended 30 June 2020, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

This declaration is in respect of Mastermyne Group Limited and the entities it controlled during the year.

PITCHER PARTNERS



J. J. EVANS
Partner

Brisbane, Queensland
18 August 2020

Brisbane Sydney Newcastle Melbourne Adelaide Perth

Pitcher Partners is an association of independent firms.

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Mastermyne Group Limited
 Consolidated statement of comprehensive income
 For the year ended 30 June 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|-------|----------------|----------------|
| Revenue from contracts with customers | 4 | 292,670 | 225,593 |
| Other income | 5 | 1,345 | 147 |
| Contract disbursements | | (37,305) | (33,932) |
| Personnel expenses | 6 | (220,030) | (166,999) |
| Office expenses | | (6,495) | (4,443) |
| Depreciation and amortisation expense | 6 | (11,086) | (7,812) |
| Other expenses | 6 | (1,563) | (1,002) |
| Results from operating activities | | 17,536 | 11,552 |
| Finance income | | 44 | 44 |
| Finance expenses | | (798) | (589) |
| Net finance expense | 7 | (754) | (545) |
| Profit before income tax | | 16,782 | 11,007 |
| Income tax expense | 8 | (5,122) | (3,597) |
| Profit from continuing operations | | 11,660 | 7,410 |
| Discontinued operation | | | |
| Revenue | | - | 12,442 |
| Other Revenue | | - | 12 |
| Operating Expenses | | - | (10,801) |
| Depreciation | | - | (524) |
| Profit before tax | | - | 1,129 |
| Income Tax Expense | | - | (5) |
| Profit after tax | | - | 1,124 |
| Gain on sale of Mastertec | | - | 2,030 |
| Profit from discontinued operation, net of income tax | | - | 3,154 |
| Profit for the period | | 11,660 | 10,564 |
| Total comprehensive income for the period | | 11,660 | 10,564 |
| Profit is attributable to: | | | |
| Owners of Mastermyne Group Limited | | 11,557 | 10,348 |
| Non-controlling interests | | 103 | 216 |
| | | 11,660 | 10,564 |
| Total comprehensive income for the period is attributable to: | | | |
| Owners of Mastermyne Group Limited | | 11,557 | 10,348 |
| Non-controlling interests | | 103 | 216 |
| | | 11,660 | 10,564 |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Mastermyne Group Limited
 Consolidated statement of comprehensive income
 For the year ended 30 June 2020
 (continued)

| | Notes | 2020 \$'000 | 2019 \$'000 |
|--|-------|----------------|----------------|
| Total comprehensive income for the period attributable to owners of Mastermyne Group Limited arises from: | | | |
| Continuing operations | | 11,557 | 7,194 |
| Discontinued operations | | - | 3,154 |
| | | <u>11,557</u> | <u>10,348</u> |
| Cents | | | |
| Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company: | | | |
| Basic earnings per share | 18 | 11.0 | 7.1 |
| Diluted earnings per share | 18 | 10.9 | 7.0 |
| Earnings per share for profit attributable to the ordinary equity holders of the Company: | | | |
| Basic earnings per share | 18 | 11.0 | 10.2 |
| Diluted earnings per share | 18 | 10.9 | 10.1 |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Mastermyne Group Limited
Consolidated balance sheet
As at 30 June 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|-------|----------------|----------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 9 | 25,359 | 16,423 |
| Trade and other receivables | 10 | 49,092 | 39,172 |
| Inventories | 11 | 6,262 | 3,218 |
| Total current assets | | 80,713 | 58,813 |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 22,421 | 18,276 |
| Right-of-use assets | 16 | 14,462 | - |
| Intangible assets | 13 | 12,188 | 6,756 |
| Deferred tax assets | 8(d) | 7,912 | 8,126 |
| Total non-current assets | | 56,983 | 33,158 |
| Total assets | | 137,696 | 91,971 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 14 | 34,136 | 16,824 |
| Lease liabilities | 16 | 4,918 | - |
| Current tax liabilities | 8(c) | 1,593 | 2,422 |
| Employee benefit obligations | 15 | 9,987 | 8,141 |
| Total current liabilities | | 50,634 | 27,387 |
| Non-current liabilities | | | |
| Lease liabilities | 16 | 9,124 | - |
| Employee benefit obligations | 15 | 169 | 241 |
| Other non-current liabilities | 17 | 3,855 | - |
| Total non-current liabilities | | 13,148 | 241 |
| Total liabilities | | 63,782 | 27,628 |
| Net assets | | 73,914 | 64,343 |
| EQUITY | | | |
| Share capital | 20 | 61,003 | 61,003 |
| Other reserves | 20 | (19,826) | (23,960) |
| Retained earnings | | 32,212 | 26,878 |
| Equity attributable to owners of Mastermyne Group Limited | | 73,389 | 63,921 |
| Non-controlling interests | | 525 | 422 |
| Total equity | | 73,914 | 64,343 |

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Mastermyne Group Limited
Consolidated statement of changes in equity
For the year ended 30 June 2020

| | Attributable to owners of Mastermyne Group Limited | | | | | Total \$'000 | Non- controlling interests \$'000 | Total equity \$'000 |
|--|---|--------------------------------|------------------------|-----------------------------------|--|-----------------|--|---------------------------|
| | Share capital \$'000 | Retained earnings \$'000 | Other equity \$'000 | Share-based payments \$'000 | Common Control Reserve \$'000 | | | |
| Balance at 1 July 2018 | 61,003 | 16,451 | - | 182 | (24,237) | 53,399 | 359 | 53,758 |
| Profit for the period | - | 10,348 | - | - | - | 10,348 | 216 | 10,564 |
| Total comprehensive income for the period | - | 10,348 | - | - | - | 10,348 | 216 | 10,564 |
| Transactions with owners in their capacity as owners: | | | | | | | | |
| Distribution to non-controlling interest | - | - | - | - | - | - | (153) | (153) |
| Share-based payment transactions | - | - | - | 174 | - | 174 | - | 174 |
| Share options exercised | - | 65 | - | (65) | - | - | - | - |
| Transfer of unvested share based payment transactions | - | 14 | - | (14) | - | - | - | - |
| Total contributions by and distributions to owners | - | 79 | - | 95 | - | 174 | (153) | 21 |
| Balance at 30 June 2019 | 61,003 | 26,878 | - | 277 | (24,237) | 63,921 | 422 | 64,343 |
| Balance at 1 July 2019 | 61,003 | 26,878 | - | 277 | (24,237) | 63,921 | 422 | 64,343 |
| Profit for the period | - | 11,557 | - | - | - | 11,557 | 103 | 11,660 |
| Total comprehensive income for the period | - | 11,557 | - | - | - | 11,557 | 103 | 11,660 |
| Transactions with owners in their capacity as owners: | | | | | | | | |
| Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax | 23 | - | 3,799 | - | - | 3,799 | - | 3,799 |
| Payment of Dividends | 19 | (6,346) | - | - | - | (6,346) | - | (6,346) |
| Share-based payment transactions | - | - | - | 224 | - | 224 | - | 224 |
| Share options exercised | - | 123 | - | (123) | - | - | - | - |
| Dividends reinvested | - | - | 234 | - | - | 234 | - | 234 |
| Total contributions by and distributions to owners | - | (6,223) | 4,033 | 101 | - | (2,089) | - | (2,089) |
| Balance at 30 June 2020 | 61,003 | 32,212 | 4,033 | 378 | (24,237) | 73,389 | 525 | 73,914 |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Mastermyne Group Limited
 Consolidated statement of cash flows
 For the year ended 30 June 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|--|-------|-----------------|----------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 315,613 | 267,763 |
| Payments to suppliers and employees (inclusive of GST) | | (278,557) | (243,202) |
| | | <u>37,056</u> | <u>24,561</u> |
| Interest received | | 44 | 51 |
| Interest paid | | (798) | (589) |
| Income taxes paid | | (5,471) | (1,763) |
| Net cash inflow from operating activities | 9 | <u>30,831</u> | <u>22,260</u> |
| Cash flows from investing activities | | | |
| Payment for acquisition of subsidiary, net of cash acquired | | (3,799) | - |
| Payments for property, plant and equipment | | (8,285) | (8,049) |
| Initial direct costs on right-of-use assets | | (485) | - |
| Payment of software development costs | | (281) | - |
| Proceeds from sale of Mastertec | | - | 5,885 |
| Proceeds from sale of property, plant and equipment | | 129 | - |
| Net cash (outflow) from investing activities | | <u>(12,721)</u> | <u>(2,164)</u> |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | - | (3,000) |
| Principal elements of finance lease payments | | (3,062) | - |
| Dividends paid to company's shareholders | 19 | (6,112) | - |
| Dividends paid to non-controlling interests in subsidiaries | | - | (153) |
| Net cash (outflow) from financing activities | | <u>(9,174)</u> | <u>(3,153)</u> |
| Net increase in cash and cash equivalents | | | |
| | | 8,936 | 16,943 |
| Cash and cash equivalents at the beginning of the financial year | | 16,423 | (520) |
| Cash and cash equivalents at end of year | 9 | <u>25,359</u> | <u>16,423</u> |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Basis of preparation

The financial statements are for the Group consisting of Mastermyne Group Limited ("the Company") and its controlled entities (together referred to as the 'Group' and individually as 'Group entities'). The principal accounting policies adopted in the preparation of this annual report are set out in the following notes to the financial statements. These policies have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. These financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of each entity in the Group. These financial statements have been prepared under the historical cost convention. Mastermyne Group Limited is a for-profit entity for the purpose of preparing the financial statements. The Group is primarily involved in providing contracting services to the underground long wall mining operations and industrial products and services in the coalfields and supporting industries of Queensland and New South Wales.

Statement of compliance

The consolidated financial statements of the Mastermyne Group Limited Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

New and amended standards adopted by the group

The Group has adopted all of the new and revised accounting standards and interpretations issued by the Australian Accounting Standards Board that are relevant to our operations and effective for an annual reporting period commencing 1 July 2019. Please refer to Note 2 for further information.

Significant estimates and judgements

The preparation of the financial statements requires the use of certain critical accounting estimates which, by definition, will seldom equal the actual result. Management also needs to exercise judgement in applying the Group's accounting policies. The areas involving significant estimates, assumptions or judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Note 8(d): Recognition of deferred tax asset for carried-forward tax losses;
- Note 13: Key assumptions used in value-in-use calculations;
- Note 16: Determining the lease term;
- Note 16: Determining the incremental borrowing rate;
- Note 23: Contingent consideration;
- Note 23: Valuation of acquired intangible assets; and
- Note 27: Measurement of share-based payments.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

1 Basis of preparation (continued)

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Corporate information

The financial statements were authorised for issue by the Directors on 18 August 2020. The Directors have the power to amend and reissue the financial statements.

Mastermyne Group Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Riverside Plaza
45 River Street
Mackay QLD 4740

2 Changes in accounting policies

AASB 16 Leases

The Group has adopted AASB 16 *Leases* using the modified retrospective approach from 1 July 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The new accounting policies are disclosed in Note 16.

On adoption of AASB 16 *Leases*, the Group recognised lease liabilities in relation to leases which has previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 19 was 4%.

The Group did not have any leases previously classified as 'finance leases' at the date of initial application.

(i) *Practical expedients applied*

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 July 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;

2 Changes in accounting policies (continued)

AASB 16 Leases (continued)

(i) Practical expedients applied (continued)

- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 *Leases* and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(ii) Measurement of lease liabilities

| | 2020 \$'000 |
|--|----------------|
| Operating lease commitments disclosed as at 30 June 2019 | 2,449 |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | 2,440 |
| (Less): short-term leases not recognised as a liability | (1,483) |
| Lease liability recognised as at 1 July 2019 | <u>957</u> |
| Of which are: | |
| Current lease liabilities | 620 |
| Non-current lease liabilities | <u>337</u> |
| | <u>957</u> |

(iii) Measurement of right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet as at 30 June 2019.

(iv) Adjustments recognised in the consolidated balance sheet on 1 July 2019

The change in accounting policy affected the following items in the consolidated balance sheet on 1 July 2019:

- right-of-use assets - increase by \$957,000.
- lease liabilities - increase by \$957,000.

3 Segment information

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.

The Group's operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

During the current reporting period, the Directors reassessed the reportable segments and are of the opinion that all operating segments meet the criteria for aggregation into a single reportable segment as the CODM reviews results, assesses performance and allocate resources at a Group level, and the operating segments have similar economic characteristics and customers.

As the information reported to the CODM is the consolidated results of the Group, the segment results for the year ended 30 June 2019 and 30 June 2020 are shown throughout these financial statements and are not duplicated here.

For information regarding major customers, refer to Note 22(b). The Group operates in one geographical segment, namely Australia.

For information regarding product and service sales, refer to Note 4 Revenue from contracts with customers.

4 Revenue from contracts with customers

Disaggregation of revenue from contracts with customers

The Group derives revenue from contracts with customers from the transfer of goods and services over time and at a point in time as follows:

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| From continuing operations | | |
| Contracting revenue | 271,233 | 207,498 |
| Sale of goods | 5,498 | 5,619 |
| Machinery hire | 15,939 | 12,476 |
| | <u>292,670</u> | <u>225,593</u> |
| From discontinued operations | | |
| Contracting revenue | - | 12,442 |
| | <u>-</u> | <u>12,442</u> |
| Total revenue from contracts with customers | <u>292,670</u> | <u>238,035</u> |

Accounting policy

The company derives revenue from contracting, sale of goods and machinery hire. Revenue is recognised as, or when, goods or services are transferred to the customer, and is measured at an amount that reflects the consideration to which the company expects to be entitled in exchange for the goods or services.

Consideration included in the measurement of revenue

The consideration to be received from customers may include fixed amounts, variable amounts, or both. Where the contract includes a right to variable consideration, the Group estimates the amount of variable consideration using the most likely amount approach on a contract-by-contract basis. Variable consideration is included in the measurement of revenue only to the extent that it is highly probable, based on historical experience, that a significant reversal of the cumulative amount recognised will not occur when the uncertainty associated with the variability is subsequently resolved.

Revenue is recognised for the major business activities as follows:

Contracting

Contracting revenue is recognised over time, and dependent on the type of contract, is measured using either the input or output method. For schedule of rates contracts, the input method is used to recognise revenue based on the resources consumed, costs incurred or machine hours. For fixed price contracts the output method is used to recognise revenue on the basis of direct measurement of the value of goods or services transferred, for example, number of bolts installed.

Sale of goods

Revenue from the sale of goods is recognised when the Company transfers control of goods to a customer for the amount to which the Company expects to be entitled.

Machinery hire

Machinery hire revenue is recognised over time using the input method.

4 Revenue from contracts with customers (continued)

Receivables from contracts with customers

A receivable from a contract with a customer represents the company's unconditional right to consideration arising from the transfer of goods or services to the customer (i.e., only the passage of time is required before payment of the consideration is due). Subsequent to initial recognition, receivables from contracts with customers are measured at amortised cost and are tested for impairment. Receivables from contracts with customers include trade and other receivables and unbilled revenue at year end.

5 Other income

| | 2020 \$'000 | 2019 \$'000 |
|------------------------|----------------|----------------|
| Administration Income | 795 | 147 |
| Contractual settlement | 550 | - |
| | <u>1,345</u> | <u>147</u> |

6 Expenses

| | Notes | 2020 \$'000 | 2019 \$'000 |
|--|--------|----------------|----------------|
| Personnel expenses | | | |
| Wages and salaries | | 191,670 | 145,612 |
| Other associated personnel expenses | | 16,129 | 12,111 |
| Contributions to defined contribution superannuation funds | | 12,007 | 9,102 |
| Equity-settled share based payment transactions | | 224 | 174 |
| | | <u>220,030</u> | <u>166,999</u> |
| Depreciation and amortisation | | | |
| Depreciation | 12, 16 | 10,794 | 7,669 |
| Amortisation | 13 | 292 | 143 |
| | | <u>11,086</u> | <u>7,812</u> |
| Other expenses | | | |
| Business development costs | | 122 | 66 |
| Insurance | | 1,375 | 931 |
| Loss on sale of property, plant and equipment | | 66 | 5 |
| | | <u>1,563</u> | <u>1,002</u> |

7 Finance income and costs

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Interest income from financial instruments measured using the effective interest method | (44) | (44) |
| Finance income | (44) | (44) |
| Interest and finance charges paid/payable for lease liabilities and financial liabilities not at fair value through profit or loss | 798 | 589 |
| Finance Expense | 798 | 589 |
| Net finance costs recognised in profit or loss | 754 | 545 |

Accounting policy

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial assets except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Finance expenses

Finance expenses comprise interest expense on borrowings, interest in respect of lease liabilities and unwinding of the discount on provisions. 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.

8 Income tax

(a) Income tax expense

The major components of income tax expense follow:

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Current income tax expense | 4,818 | 5,181 |
| Utilisation of carry forward capital losses not previously brought to account | - | (679) |
| Adjustment for prior period | (47) | 30 |
| Total current tax expense | 4,771 | 4,532 |
| Deferred income tax relating to the origination and reversal of temporary differences | 351 | (818) |
| Adjustment for prior periods | - | (112) |
| Total deferred tax expense/(benefit) | 351 | (930) |
| Income tax expense | 5,122 | 3,602 |
| Income tax expense is attributable to: | | |
| Profit from continuing operations | 5,122 | 3,597 |
| Profit from discontinued operations | - | 5 |
| | 5,122 | 3,602 |

8 Income tax (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

A reconciliation between income tax expense and the product of accounting profit before income tax multiplied by the Company's applicable income tax rate is as follows:

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Profit from continuing operations before income tax expense | 16,782 | 11,007 |
| Profit from discontinued operation before income tax expense | - | 3,159 |
| | <u>16,782</u> | <u>14,166</u> |
| Tax at the Australian tax rate of 30.0% (2019 - 30.0%) | 5,035 | 4,250 |
| | - | - |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Imputation Credits | - | (132) |
| Other non-deductible expenses | 134 | 113 |
| Non-assessable income | - | 132 |
| Utilisation of carry forward capital losses not previously brought to account | - | (679) |
| | <u>5,169</u> | <u>3,684</u> |
| Under/(over) provision of previous year | (47) | (82) |
| Income tax expense | <u>5,122</u> | <u>3,602</u> |

(c) Current tax assets and liabilities

The current tax liability for the Group of \$1,593,000 (2019: \$2,422,000) represents the amount of income taxes payable, in respect of current and prior periods.

(d) Deferred tax balances

Deferred income tax assets and liabilities are attributable to the following temporary differences:

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Tax losses | 6,289 | 7,065 |
| Employee benefits | 3,097 | 2,568 |
| Accruals | 385 | 332 |
| Capital raising and business acquisition costs | 44 | 62 |
| Lease liabilities | 3,040 | - |
| Property, Plant and Equipment | 251 | - |
| Total deferred tax assets | <u>13,106</u> | <u>10,027</u> |
| Property, Plant and Equipment | - | (44) |
| Receivables | (87) | (100) |
| Intangible Assets | (435) | (10) |
| Right-of-use assets | (2,997) | - |
| Unbilled Revenue | (1,675) | (1,747) |
| Total deferred tax liabilities | <u>(5,194)</u> | <u>(1,901)</u> |
| Net deferred tax assets | <u>7,912</u> | <u>8,126</u> |

8 Income tax (continued)

(d) Deferred tax balances (continued)

Movements in deferred tax assets and liabilities are as follows:

| Movements | Tax losses \$'000 | Employee benefits \$'000 | Accruals \$'000 | Capital raising and business acquisition costs \$'000 | Lease liabilities \$'000 | Property, plant and equipment \$'000 | Receivables \$'000 | Intangible assets \$'000 | Right-of-use assets \$'000 | Other \$'000 | Unbilled revenue \$'000 | Total \$'000 |
|----------------------------|----------------------|--------------------------------|--------------------|--|--------------------------------|---|-----------------------|--------------------------------|----------------------------------|-----------------|-------------------------------|-----------------|
| Balance at 1 July 2018 | 7,543 | 1,691 | 321 | 79 | - | (765) | - | (57) | - | (21) | - | 8,791 |
| (Charged)/credited | | | | | | | | | | | | |
| - to profit or loss | (1,987) | 877 | 11 | (21) | - | 721 | (100) | 48 | - | 21 | 1,360 | 930 |
| - to current tax liability | 1,509 | - | - | 4 | - | - | - | (1) | - | - | (3,107) | (1,595) |
| Balance at 30 June 2019 | 7,065 | 2,568 | 332 | 62 | - | (44) | (100) | (10) | - | - | (1,747) | 8,126 |
| At 1 July 2019 | 7,065 | 2,568 | 332 | 62 | - | (44) | (100) | (10) | - | - | (1,747) | 8,126 |
| (Charged)/credited | | | | | | | | | | | | |
| - to profit or loss | (1,308) | 92 | 53 | (22) | 3,040 | 493 | 13 | 49 | (2,997) | 148 | 88 | (351) |
| - to current tax liability | 11 | - | - | 4 | - | - | - | - | - | - | - | 15 |
| Acquisition of subsidiary | 521 | 437 | - | - | - | (198) | - | (474) | - | (148) | (16) | 122 |
| Balance at 30 June 2020 | 6,289 | 3,097 | 385 | 44 | 3,040 | 251 | (87) | (435) | (2,997) | - | (1,675) | 7,912 |

8 Income tax (continued)

Accounting policy

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation legislation

Mastermyne Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Significant estimate: Recognition of deferred tax asset for carried forward losses

The deferred tax assets include an amount of \$6,289,000, which relate to revenue losses totalling \$20,964,000 (2019: \$23,550,000) which are available to be offset against future taxable income. These losses arose within Diversified Mining Services Pty Ltd and Wilson Mining Services Pty Ltd prior to the acquisition by the Group. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the Group. The losses can be carried forward indefinitely and have no expiry date.

9 Cash and cash equivalents

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Current assets | | |
| Cash at bank and on hand | 1 | - |
| Bank balances | 25,358 | 16,423 |
| Cash and cash equivalents in the statement of financial position | <u>25,359</u> | <u>16,423</u> |

Accounting policy

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

Reconciliation of profit after income tax to net cash inflow from operating activities

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|--------|----------------|----------------|
| Profit for the period | | 11,660 | 10,564 |
| Adjustments for: | | | |
| Depreciation | 12, 16 | 10,793 | 8,193 |
| Amortisation of intangible assets | 13 | 292 | 143 |
| Non-cash employee benefits expense - share-based payments | 27 | 224 | 174 |
| Net (gain)/loss on sale of non-current assets | 6 | 66 | 5 |
| Gain on sale of Mastertec | | - | (2,030) |
| Net finance expense | | 754 | 538 |
| Income tax expense | | 5,122 | 3,602 |
| Change in operating assets and liabilities: | | | |
| (Increase) in trade and other receivables | | (7,738) | 2,717 |
| (Increase) in inventories | | 680 | (245) |
| Increase/(decrease) in trade and other payables | | 15,022 | (2,040) |
| Increase/(decrease) in provisions and employee benefits | | 181 | 2,940 |
| Interest paid | | (798) | (589) |
| Interest received | | 44 | 51 |
| Income taxes paid | | (5,471) | (1,763) |
| Net cash inflow from operating activities | | <u>30,831</u> | <u>22,260</u> |

Non-cash investing and financing activities

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|--------|----------------|----------------|
| Acquisition of right-of-use assets | 16 | 16,146 | - |
| Shares to be issued in partial settlement of business combination | 23 | 3,799 | - |
| Dividends on unissued shares to be issued as additional ordinary shares | 19, 23 | 234 | - |
| | | <u>20,179</u> | <u>-</u> |

9 Cash and cash equivalents (continued)

Changes in liabilities arising from financing activities

The following section sets out the movements in liabilities arising from financing activities for the period presented.

| | Leases \$'000 |
|--|------------------|
| 30 June 2019 | - |
| Recognised on adoption of AASB 16 (see note 2) | (957) |
| | <u>(957)</u> |
| Cash flows from financing activities | 3,062 |
| Acquisition - leases | (16,146) |
| 30 June 2020 | <u>(14,041)</u> |

10 Trade and other receivables

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------------|----------------|----------------|
| Current | | |
| Trade and other receivables (i) | 42,072 | 32,255 |
| Unbilled revenue (ii) | 5,582 | 5,825 |
| | <u>47,654</u> | <u>38,080</u> |
| Prepayments | 1,438 | 1,092 |
| | <u>49,092</u> | <u>39,172</u> |

Accounting policy

Loans and receivables are carried at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period of maturity. We establish an allowance for expected credit losses for loans and receivables using the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and unbilled revenue have been grouped based on shared credit risk characteristics and the days past due. The unbilled revenue represents receivables from contracts with customers for which the Company has an unconditional right to consideration arising from the transfer of goods or services to the customer (i.e. only the passage of time is required before payment of the consideration is due) and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the unbilled revenue. The expected loss rates are based on the historical credit losses experienced over the previous ten years. We adjust historical loss rates to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

10 Trade and other receivables (continued)

(i) Trade and other receivables

Trade and other receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less any loss allowance.

Trade and other receivables include amounts for insurance reimbursements if the Group is virtually certain that some or all of a contractual claim will be reimbursed. The expense and reimbursement are presented on a net basis in the profit and loss.

(ii) Unbilled revenue

Unbilled revenue represents receivables from contracts with customers for which the Company has an unconditional right to consideration arising from the transfer of goods or services from the customer, but but has not been invoiced at balance date. They are generally converted to trade receivables within 30 days and then due for settlement and are therefore all classified as current. The Group holds unbilled revenue with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less any loss allowance.

11 Inventories

| | 2020 \$'000 | 2019 \$'000 |
|----------------|----------------|----------------|
| Raw materials | 2,464 | 1,125 |
| Finished goods | 3,798 | 2,093 |
| | <u>6,262</u> | <u>3,218</u> |

Inventories recognised as expense in cost of goods sold during the year ended 30 June 2020 amounted to \$3,769,000 (2019: \$4,264,000).

Accounting policy

Raw materials and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

12 Property, plant and equipment

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------|-----------------|-----------------|
| Plant and equipment | | |
| Gross value | 68,937 | 61,306 |
| Accumulated depreciation | <u>(47,689)</u> | <u>(43,887)</u> |
| | <u>21,248</u> | <u>17,419</u> |
| Motor vehicles | | |
| Gross value | 1,024 | 606 |
| Accumulated depreciation | <u>(558)</u> | <u>(442)</u> |
| | <u>466</u> | <u>164</u> |
| Leasehold improvements | | |
| Gross value | 214 | 214 |
| Accumulated depreciation | <u>(181)</u> | <u>(149)</u> |
| | <u>33</u> | <u>65</u> |
| Computer equipment | | |
| Gross value | 2,051 | 1,695 |
| Accumulated depreciation | <u>(1,377)</u> | <u>(1,067)</u> |
| | <u>674</u> | <u>628</u> |
| | <u>22,421</u> | <u>18,276</u> |

Reconciliation of carrying amounts

| | Plant and equipment \$'000 | Motor vehicles \$'000 | Leasehold improvements \$'000 | Computer equipment \$'000 | Total \$'000 |
|--------------------------------|----------------------------------|-----------------------------|-------------------------------------|---------------------------------|-----------------|
| Year ended 30 June 2019 | | | | | |
| Opening net book amount | 19,916 | 462 | 48 | 627 | 21,053 |
| Additions | 6,891 | 656 | 49 | 453 | 8,049 |
| Disposals | (1,591) | (888) | - | (154) | (2,633) |
| Depreciation charge | (7,797) | (66) | (32) | (298) | (8,193) |
| Closing net book amount | <u>17,419</u> | <u>164</u> | <u>65</u> | <u>628</u> | <u>18,276</u> |
| Year ended 30 June 2020 | | | | | |
| Opening net book amount | 17,419 | 164 | 65 | 628 | 18,276 |
| Acquisition of subsidiary | 3,114 | 434 | - | 173 | 3,721 |
| Additions | 7,915 | 169 | - | 201 | 8,285 |
| Disposals | (23) | (171) | - | - | (194) |
| Transfers | 17 | - | - | (17) | - |
| Depreciation charge | (7,194) | (130) | (32) | (311) | (7,667) |
| Closing net book amount | <u>21,248</u> | <u>466</u> | <u>33</u> | <u>674</u> | <u>22,421</u> |

12 Property, plant and equipment (continued)

Accounting policy

Property and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. The cost of self constructed assets includes the costs of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised within "other income" or "other expenses" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is recognised in profit or loss on a straight-line or diminishing value 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 period are as follows:

| | |
|--------------------------|----------------|
| • Plant and equipment | 7.50 - 50.00% |
| • Motor vehicles | 12.50 - 30.00% |
| • Computer equipment | 37.50 - 50.00% |
| • Leasehold improvements | 7.50 - 15.00% |

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

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.

13 Intangible assets

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Goodwill | | |
| Gross value | 10,291 | 6,429 |
| | <u>10,291</u> | <u>6,429</u> |
| Software | | |
| Gross value | 432 | 151 |
| Accumulated amortisation and impairment | (93) | (5) |
| | <u>339</u> | <u>146</u> |
| Intellectual property | | |
| Gross value | 1,449 | 1,449 |
| Accumulated amortisation | (1,342) | (1,268) |
| | <u>107</u> | <u>181</u> |
| Customer relationships | | |
| Gross value | 3,536 | 2,945 |
| Accumulated amortisation | (3,030) | (2,945) |
| | <u>506</u> | <u>-</u> |
| Exclusive distribution rights | | |
| Gross value | 991 | - |
| Accumulated amortisation | (46) | - |
| | <u>945</u> | <u>-</u> |
| | <u>12,188</u> | <u>6,756</u> |

Reconciliation of carrying amounts

| | Goodwill \$'000 | Software \$'000 | Intellectual property \$'000 | Customer relationships \$'000 | Exclusive distribution rights \$'000 | Total \$'000 |
|--------------------------------|--------------------|--------------------|------------------------------------|-------------------------------------|---|-----------------|
| Year ended 30 June 2019 | | | | | | |
| Opening net book amount | 6,429 | - | 319 | - | - | 6,748 |
| Additions | - | 151 | - | - | - | 151 |
| Amortisation charge | - | (5) | (138) | - | - | (143) |
| Total closing net book value | <u>6,429</u> | <u>146</u> | <u>181</u> | <u>-</u> | <u>-</u> | <u>6,756</u> |
| Year ended 30 June 2020 | | | | | | |
| Opening net book amount | 6,429 | 146 | 181 | - | - | 6,756 |
| Additions | - | 281 | - | - | - | 281 |
| Acquisition of business | 3,862 | - | - | 590 | 991 | 5,443 |
| Amortisation charge | - | (88) | (74) | (84) | (46) | (292) |
| Closing net book amount | <u>10,291</u> | <u>339</u> | <u>107</u> | <u>506</u> | <u>945</u> | <u>12,188</u> |

13 Intangible assets (continued)

Accounting policy

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, consistent with managements assessment of operating segments (note 3).

Software

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use. Amortisation is calculated using the diminishing value method over the estimated useful lives of the respective assets, generally 2 to 5 years.

Intellectual property

Separately acquired intellectual property is shown at historical cost. Intellectual property acquired in a business combination is recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method over the estimated useful lives of the respective assets, generally eight to ten years.

Customer contracts

The customer relationships were acquired as part of a business combination (see note 23 for details). They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line based on the timing of projected cash flows of the relationships over their estimated useful lives. Amortisation is calculated using the straight line method over the estimated useful lives of the respective assets, generally three to seven years. We test customer relationship assets for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired, and we write its value down when impaired.

13 Intangible assets (continued)

Accounting policy (continued)

Exclusive distribution rights

The exclusive distribution rights were acquired as part of a business combination (see note 23 for details). They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line based over the life of the underlying agreement, currently eighteen years.

Impairment testing

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. 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 purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

No impairment was identified at 30 June 2020 or 30 June 2019.

Significant estimate: Key assumptions used in value-in-use calculations

For the purposes 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. The aggregate carrying amount of goodwill allocated to each CGU is as follows:

| | 2020 \$'000 | 2019 \$'000 |
|-------------------|----------------|----------------|
| Mastermyne Mining | 6,429 | 6,429 |
| Wilson Mining | 3,862 | - |
| | <u>10,291</u> | <u>6,429</u> |

The Group tests whether goodwill has suffered any impairment on an annual basis. For the 2020 and 2019 reporting periods, the recoverable amount of the cash-generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions.

Mastermyne Mining

The Mastermyne Mining calculations use cash flow projections based on financial budgets approved by management for 2021, with cash flows beyond the 2021 financial year extrapolated using an average growth rate of 3.3% (2019: 3.8%) to cover a five-year period. Cash flows beyond the five-year period are extrapolated using a terminal growth rate of 2.5% (2019: 2.5%).

A 12.87% before-tax discount rate was applied to cash flow projections (2019: 14.6%). The discount rate was estimated based the Group's weighted average cost of capital, an industry average beta, risk-free rate consistent with an Australian government 10-year treasury bond with a minimum yield used of 3.0%, 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.

Impact of possible changes in key assumptions

No reasonable change in any of the key assumptions would result in an impairment.

13 Intangible assets (continued)

Significant estimate: Key assumptions used in value-in-use calculations (continued)

Wilson Mining

The Wilson Mining calculations use cash flow projections based on financial budgets approved by management for 2021, with cash flows beyond the 2021 financial year extrapolated using an average growth rate of 4.0% to cover a five-year period. Cash flows beyond the five-year period are extrapolated using a terminal growth rate of 2.5%.

A 13.96% before-tax discount rate was applied to cash flow projections. The discount rate was estimated based the Group's weighted average cost of capital, an industry average beta, risk-free rate consistent with an Australian government 10-year treasury bond with a minimum yield used of 3.00%, 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.

Impact of possible changes in key assumptions

If the discount rate were to increase by 5% to 18.96%, the carrying value of the goodwill in relation to Wilson Mining Services would exceed its recoverable amount by \$706,000.

14 Trade and other payables

| | 2020 \$'000 | 2019 \$'000 |
|-------------------------------|----------------|----------------|
| Current liabilities | | |
| Trade and other payables | 14,832 | 5,348 |
| Sundry creditors and accruals | 19,304 | 11,476 |
| | <u>34,136</u> | <u>16,824</u> |

Accounting policy

Trade and other payables

Trade payables and other payables are unsecured and are usually paid within 30 days of recognition.

Payables also include liabilities for contractual claims when the Group has a present legal obligation as a result of past events, it is probable that an outflow will be required to settle the obligation and the amount has been reliably estimated. In these circumstances the liability is measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Wages and salaries

Liabilities for wages and salaries, including non-monetary benefits, to be settled wholly within 12 months of the reporting date are recognised in sundry creditors and accruals in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled including on-costs, such as superannuation, workers compensation insurance and payroll tax.

Bonus plans

We recognise a liability for employee benefits in the form of bonus plans in sundry creditors and accruals when we have a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. We measure liabilities for bonus plans at the amounts expected to be paid when they are settled; settlement occurs within 12 months.

14 Trade and other payables (continued)

Accounting policy (continued)

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

15 Employee benefit obligations

| | 2020 | | | 2019 | | |
|------------------------------------|-------------------|---------------------------|-----------------|-------------------|---------------------------|-----------------|
| | Current \$'000 | Non- current \$'000 | Total \$'000 | Current \$'000 | Non- current \$'000 | Total \$'000 |
| Liability for annual leave | 6,488 | - | 6,488 | 5,259 | - | 5,259 |
| Liability for vesting sick leave | 3,033 | - | 3,033 | 2,700 | - | 2,700 |
| Liability for long service leave | 466 | 169 | 635 | 182 | 241 | 423 |
| Total employee benefit obligations | 9,987 | 169 | 10,156 | 8,141 | 241 | 8,382 |

Accounting policy

Annual leave and vested sick leave

Liabilities for annual leave and sick leave expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheet.

Long service leave

The Group has liabilities for long service leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. These obligations are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

16 Leases

This note provides information for leases where the Group is a lessee. The Group does not have any leases where it is a lessor.

As explained in Note 1, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described in Note 16 and the impact of the change in Note 2.

Until 30 June 2019, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (note 21). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

| | 2020 \$'000 | 2019 \$'000 |
|----------------------------|----------------|----------------|
| Right-of-use assets | | |
| Buildings | 4,052 | - |
| Equipment | 9,849 | - |
| Vehicles | 561 | - |
| | <u>14,462</u> | <u>-</u> |
| Lease liabilities | | |
| Current | 4,918 | - |
| Non-current | 9,124 | - |
| | <u>14,042</u> | <u>-</u> |

In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under AASB 117 *Leases*. The Group did not hold any 'finance leases' in the previous year.

Additions to the right-of-use assets during the 2020 financial year were \$16,632,000.

(ii) Amounts recognised in the statement of profit or loss

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|-------|----------------|----------------|
| Depreciation charge of right-of-use assets | | | |
| Buildings | | 522 | - |
| Equipment | | 2,259 | - |
| Vehicles | | 346 | - |
| | | <u>3,127</u> | <u>-</u> |

16 Leases (continued)

(ii) Amounts recognised in the statement of profit or loss (continued)

| | | | |
|--|---|--------|---|
| Interest expense (included in finance cost) | 7 | 366 | - |
| Expense relating to short-term leases (included in contract disbursements and office expenses) | | 12,321 | - |
| Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses) | | 28 | - |
| Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses) | | 85 | - |

Total cash outflow for leases in 2020 was \$15,862,000.

Accounting policy

The Group leases various offices, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods of 3 months to 5 years, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

16 Leases (continued)

Accounting policy (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgement: Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Significant estimate: Determining the incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Group estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

17 Other liabilities

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------|----------------|----------------|
| Non-current | | |
| Contingent consideration | 3,855 | - |

Accounting policy

Contingent consideration are payable as part of the consideration for the business combination described in Note 23. Obligations falling due more than 12 months after the end of the reporting period are recognised as non-current liabilities and discounted to present value.

18 Earnings per share

Basic earnings per share

| | 2020 Cents | 2019 Cents |
|---|---------------|---------------|
| From continuing operations attributable to the ordinary equity holders of the Company | 11.0 | 7.1 |
| From discontinued operation | - | 3.1 |
| Total basic earnings per share attributable to the ordinary equity holders of the Company | <u>11.0</u> | <u>10.2</u> |

Diluted earnings per share

| | 2020 Cents | 2019 Cents |
|---|---------------|---------------|
| From continuing operations attributable to the ordinary equity holders of the Company | 10.9 | 7.0 |
| From discontinued operation | - | 3.1 |
| Total diluted earnings per share attributable to the ordinary equity holders of the Company | <u>10.9</u> | <u>10.1</u> |

Reconciliations of earnings used in calculating earnings per share

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
|--|----------------|----------------|

Basic earnings per share

Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:

| | | |
|-----------------------------|---------------|---------------|
| From continuing operations | 11,557 | 7,194 |
| From discontinued operation | - | 3,154 |
| | <u>11,557</u> | <u>10,348</u> |

Diluted earnings per share

Profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company:

| | | |
|--|---------------|---------------|
| Used in calculating basic earnings per share | <u>11,557</u> | <u>10,348</u> |
|--|---------------|---------------|

18 Earnings per share (continued)

Weighted average number of shares used as the denominator

| | 2020 Number | 2019 Number |
|---|--------------------|--------------------|
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 105,351,520 | 101,393,000 |
| Adjustments for calculation of diluted earnings per share: | | |
| Performance rights outstanding | 1,211,803 | 1,512,000 |
| Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share | <u>106,563,323</u> | <u>102,905,000</u> |

Accounting policy

The Group presents basic and diluted earnings per share data for its ordinary shares.

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note 20).

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

19 Dividends

Ordinary shares

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Final dividend for the year ended 30 June 2019 of 2 cents (2019 - nil) per fully paid share | 2,110 | - |
| Special Dividend for the year ended 30 June 2019 of 2 cents (2019 - nil) per fully paid share | 2,110 | - |
| Interim dividend for the year ended 30 June 2020 of 2 cents (2019 - nil) per fully paid share | 2,126 | - |
| Total dividends paid | <u>6,346</u> | - |

Dividends include amounts on shares to be issued as consideration for the Wilson Mining Services Pty Ltd acquisition during the year. These dividends are payable and will be issued as additional ordinary shares. Refer to Note 20 and 23 for more information.

19 Dividends (continued)

Dividends not recognised at the end of the reporting period

| | |
|--------|--------|
| 2020 | 2019 |
| \$'000 | \$'000 |

In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 4 cents per fully paid ordinary share (2019 - 2 cents Ordinary; 2 cents Special).

| | |
|-------|-------|
| 4,257 | 4,066 |
|-------|-------|

Franked dividends

The final dividends recommended after 30 June 2020 will be fully franked out of existing franking credits, or out of franking credits arising from the payment of income tax in the year ending 30 June 2021.

| | | |
|--|---------|--------|
| | Company | |
| | 2020 | 2019 |
| | \$'000 | \$'000 |

Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2019 - 30.0%)

| | |
|--------|--------|
| 18,602 | 17,034 |
|--------|--------|

The above amounts are calculated from the balance of the franking account as at the end of the reporting period, adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity, Mastermyne Group Limited, if distributable profits of subsidiaries were paid as dividends.

20 Equity

Share capital

| | Notes | 2020 Shares | 2019 Shares | 2020 \$'000 | 2019 \$'000 |
|----------------------------|-------|----------------|----------------|----------------|----------------|
| Ordinary shares Fully paid | | 102,282,985 | 101,665,486 | 61,003 | 61,003 |
| Total share capital | | 102,282,985 | 101,665,486 | 61,003 | 61,003 |

Movements in ordinary shares:

| Details | Notes | Number of shares (thousands) | Total \$'000 |
|-----------------------------|-------|---------------------------------|-----------------|
| Opening balance 1 July 2018 | | 101,088 | 61,003 |
| Exercise of options | | 577 | - |
| Balance 30 June 2019 | | 101,665 | 61,003 |
| Exercise of options | | 618 | - |
| Balance 30 June 2020 | | 102,283 | 61,003 |

20 Equity (continued)

Share capital (continued)

Ordinary shares

The Company does not have authorised capital or par value in respect of issued shares. All issued shares are fully paid. Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number and amounts paid on the shares held. Every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and on a poll each share is entitled to one vote.

Performance rights

Information relating to the Employee Performance Rights Plan, including details of rights issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is set out in Note 27.

Capital management

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

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

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

Reserves

(i) Other equity

The other equity reserve represents the shares to be issued to the vendors of Wilson Mining Services Pty Ltd as part of the consideration paid for the acquisition of the business. Further information can be found in Note 23.

(ii) Share-based payments reserve

The share-based payments reserve represents the grant date fair value of equity instruments granted to senior managers or key management personnel of the Company (note 27).

(iii) 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 became the new parent entity of the Group.

21 Commitments

Non-cancellable operating leases

The Group leases various offices, warehouses, equipment and vehicles under non-cancellable operating leases expiring within 3 months to 5 years, with options to extend in some cases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 July 2019, the group has recognised right-of-use assets for these leases, except for short term and low-value leases. All amounts related to short term and low-value leases have been included in Note 16(b). The table below is included for comparative purposes only.

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | - | 2,055 |
| Later than one year but not later than five years | - | 394 |
| | <u>-</u> | <u>2,449</u> |

22 Financial risk management

The Group's business activities can expose us to a variety of financial risks: market risk (including foreign exchange risk, price risk, and cash flow and fair value interest rate risk), credit risk, and liquidity risk. The Board, together with management, seeks to identify, monitor and mitigate risk. Internal controls are monitored on a continuous basis and, wherever possible, improved. Risk management is identified in the Group's various corporate governance policies and will continue to be kept under regular review. Review takes place at both the Audit and Risk Management Committee level, with meetings at least four times a year, and at the Board level.

All of the Group's financial assets except cash and cash equivalents are within the loans and receivables category, and our financial liabilities are all within the financial liabilities recorded at amortised cost category.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities are denominated in a currency other than the Australian dollar. From time to time we make purchases from suppliers who require the currency of settlement to be a foreign currency. At 30 June 2020 and 2019 our exposure to foreign currency risk was immaterial.

(ii) Price risk

The Group is not exposed to equity securities or commodity price risks.

(iii) Cash flow and fair value interest rate risk

The Group is not exposed to cash flow and fair value interest rate risk.

(b) 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 and cash and cash equivalents.

22 Financial risk management (continued)

(b) Credit risk (continued)

The Group's exposure to credit risk is influenced by the individual characteristics of each customer. The majority of the Group's customers are large multinational mining companies with strong payment track records and credit history. There is no formal credit policy in place, however, each customer is assessed individually for creditworthiness before the Group's standard payment and delivery terms and conditions (30 days) are offered. Collateral is not normally obtained. The Group operates under signed contracts, purchase orders and forward purchase agreements which all have agreed payment terms included.

The aged receivables are reviewed on a weekly basis by senior management and overdue amounts followed up with customers for payment. The Group does not require collateral in respect of trade and other receivables.

The Group has two (2019: two) significant customers each representing more than 10% of the carrying amount of trade receivables at 30 June 2020. The total of the receivables from these customers is \$24,609,000 (2019: \$22,172,000). The breakdown of each customer is as follows:

| | 2020 \$'000 | 2019 \$'000 |
|------------|----------------|----------------|
| Customer 1 | 20,267 | 14,247 |
| Customer 2 | 4,342 | 7,925 |
| Total | <u>24,609</u> | <u>22,172</u> |

In the current and comparative period, the Group's cash and cash equivalents are held with AA-Rated Australian Banks.

Trade receivables and unbilled revenue

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and unbilled revenue.

To measure the expected credit losses, trade receivables and unbilled revenue have been grouped based on shared credit risk characteristics and the days past due. The unbilled revenue represents the Company's unconditional right to consideration arising from the transfer of goods and services to the customer (i.e. only the passage of time is required before payment of the consideration is due), and has substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the unbilled revenue.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 30 June 2020 or 1 July 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, no loss allowance has been recognised as at 30 June 2020 and 30 June 2019.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available. The Group's approach to managing liquidity is to ensure, as far as possible, that it will maintain sufficient liquidity levels to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

22 Financial risk management (continued)

(c) Liquidity risk (continued)

(i) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

| | Facility Limit \$'000 | Undrawn Amount \$'000 |
|------------------------------------|--------------------------|-----------------------------|
| 30 June 2020 | | |
| Invoice facility | 20,000 | 20,000 |
| Bank guarantee facility | 500 | 443 |
| Corporate credit card facility | 500 | 498 |
| Equipment facility | 10,000 | 10,000 |
| Total Multi Option Facility | 31,000 | 30,941 |
| 30 June 2019 | | |
| Invoice facility | 20,000 | 20,000 |
| Bank guarantee facility | 500 | 477 |
| Corporate credit card facility | 500 | 500 |
| Total Multi Option Facility | 21,000 | 20,977 |

(ii) Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

| Contractual maturities of financial liabilities | Notes | Less than 6 months \$'000 | 6 - 12 months \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Total contractual | Carrying Amount \$'000 |
|---|-------|---------------------------------|----------------------------|---------------------------------------|---------------------------------------|---------------------------|-------------------------|------------------------------|
| | | | | | | | cash flows \$'000 | |
| 30 June 2020 | | | | | | | | |
| Trade payables | 14 | 34,135 | - | - | - | - | 34,135 | 34,135 |
| Lease liabilities | | 2,799 | 2,636 | 3,750 | 4,536 | 1,667 | 15,388 | 14,041 |
| Total non-derivatives | | 36,934 | 2,636 | 3,750 | 4,536 | 1,667 | 49,523 | 48,176 |
| | | 36,934 | 2,636 | 3,750 | 4,536 | 1,667 | 49,523 | 48,176 |
| 30 June 2019 | | | | | | | | |
| Trade payables | 14 | 16,824 | - | - | - | - | 16,824 | 16,824 |
| | | 16,824 | - | - | - | - | 16,824 | 16,824 |

23 Business combination

Summary of acquisition

On 30 August 2019, Mastermyne Group Limited acquired 100% of the ordinary shares of Wilsons Mining Services Pty Ltd ('WM') for total consideration of \$11,453,000. WM have 25 years' experience supporting the Australian underground coal industry and are renowned for the supply and installation of cavity fill and strata consolidation phenolic foams, polyurethane chemicals and ventilation control devices. WM are the Australian and New Zealand exclusive distributor of Weber Mining products including the industry leading Rocsil, Fenoflex and Marithan range. The additional niche, highly valued underground services further enhances Mastermyne's suite of services.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| | \$'000 |
|------------------------------|---------------|
| Purchase consideration | |
| Cash paid | 3,799 |
| Ordinary shares to be issued | 3,799 |
| Contingent consideration | 3,855 |
| Total purchase consideration | <u>11,453</u> |

The number of shares to be issued as part of the consideration paid for Wilson Mining (3,857,655) was determined under the terms of the sale agreement, based on a 90 day volume weighted average price prior to the completion date. While unissued, the shares retain their dividend rights and any dividends paid will be settled as additional shares to the vendors calculated on a 5 day volume weighted average price prior to record date.

Significant estimate: Contingent consideration

The contingent consideration arrangement requires the Group to pay the former owners of WM 50% of the EBITDA of WM for three years from 2020 to 2022, up to a maximum undiscounted amount of \$10,000,000 plus 25% of the EBITDA for the three years from 2020 to 2022 in excess of \$20,000,000 with no maximum amount payable. There is no minimum amount payable.

The fair value of the contingent consideration arrangement of \$3,855,000 was estimated calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 4% and assumed probability-adjusted annual EBITDA in WM of nil to \$5,040,000. The discount rate has been calculated with regard to the projection and credit risks associated with the liability.

The assets and liabilities recognised as a result of the acquisition are as follows:

| | Fair value \$'000 |
|----------------------------------|----------------------|
| Trade and other receivables | 2,045 |
| Inventories | 3,724 |
| Other current assets | 137 |
| Current tax asset | 144 |
| Plant and equipment | 3,721 |
| Customer relationships | 590 |
| Exclusive distribution rights | 991 |
| Deferred tax asset | 122 |
| Trade payables and other payable | (2,290) |
| Provision for employee benefits | (1,593) |
| Net identifiable assets acquired | <u>7,591</u> |
| Add: goodwill | 3,862 |
| Net assets acquired | <u>11,453</u> |

23 Business combination (continued)

Summary of acquisition (continued)

The assets acquired and liabilities assumed in the above business combination have been accounted for on a provisional basis at year-end.

The goodwill is attributable to WM's strong position and profitability in the chemical injection and strata consolidation markets and the synergies expected to complement our existing integrated underground mining solutions offering. None of the goodwill is expected to be deductible for tax purposes.

Significant estimate: Valuation of acquired intangible assets

The fair value of the customer relationships and exclusive distribution rights of \$591,000 and \$991,000 respectively, were estimated calculating the present value of the future expected cash flows.

For customer relationships, cash flows were estimated based on the historical sales data with 4 long-term customer and projected over a 5.5 year period which is consistent with WM's historic average customer age. An 11.9% post-tax discount rate was applied to cash flow projections. The discount rate was estimated based the Group's weighted average cost of capital, an industry average beta, risk-free rate consistent with an Australian government 10-year treasury bond with a minimum yield used of 4.5%, a market risk premium of 6% and a calculated cost of debt based on the Group's current debt and interest rates payable on this debt.

For exclusive distribution rights, cash flows were estimated using the 'Relief from Royalty' method over the life of the underlying exclusive distribution agreement. A royalty rate of 3.8% was applied consistent with median royalty rates observed in the mining industry. An 11.9% post-tax discount rate was applied to cash flow projections. The discount rate was estimated based the Group's weighted average cost of capital, an industry average beta, risk-free rate consistent with an Australian government 10-year treasury bond with a minimum yield used of 4.5%, a market risk premium of 6% and a calculated cost of debt based on the Group's current debt and interest rates payable on this debt.

Acquired receivables

The fair value of the trade and other receivables is \$2,045,000 and includes trade receivables with a fair value of \$1,965,000 all of which are expected to be collected.

Revenue and profit contribution

The acquired business contributed revenues of \$14,343,000 and a net loss of \$287,000 to the Group for the period from 1 September 2019 to 30 June 2020. If the acquisition had occurred on 1 July 2019, consolidated revenue and consolidated profit after tax for the year ended 30 June 2020 would have been \$295,161,000 and \$10,604,000 respectively. Since acquisition, numerous processes have been undertaken to ensure WM adds value to the Group. Significant overhead restructuring, integration of systems and leverage of major project opportunities with current clients and potential clients have been completed during the year.

Accounting policy

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. Consideration for an acquisition comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the company. Consideration also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

23 Business combination (continued)

Accounting policy (continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

24 Related parties

Wholly-owned group

The consolidated financial statements include the financial statements of Mastermyne Group Limited (being the ultimate parent entity) and the subsidiaries listed in the following table:

| Name of entity | Country of incorporation | Equity holding (ordinary shares) | |
|---|--------------------------|----------------------------------|-----------|
| | | 2020 % | 2019 % |
| Mastermyne Pty Ltd | Australia | 100 | 100 |
| Mastermyne Engineering Pty Ltd | Australia | 100 | 100 |
| Mastermyne Underground Pty Ltd | Australia | 100 | 100 |
| Mastermyne Underground NSW Pty Ltd | Australia | 100 | 100 |
| Myne Start Pty Ltd | Australia | 100 | 100 |
| MyneSight Pty Ltd | Australia | 67 | 67 |
| Mastermyne Contracting Services Pty Ltd | Australia | 100 | 100 |
| Ausscaffold Pty Ltd | Australia | 100 | 100 |
| Diversified Mining Services Pty Ltd | Australia | 100 | 100 |
| Falcon Mining Pty Ltd | Australia | 100 | 100 |
| Wilson Mining Services | Australia | 100 | - |

Principles of consolidation and equity accounting

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Parent entity financial information

Summarised financial information for the parent entity, Mastermyne Group Limited is as follows:

24 Related parties (continued)

Parent entity financial information (continued)

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Results of parent entity | | |
| Loss for the year | (1,301) | (526) |
| Total comprehensive loss for the year | <u>(1,301)</u> | <u>(526)</u> |
| Financial position of parent entity at year-end | | |
| Current assets | 34,875 | 10,631 |
| Total assets | <u>99,689</u> | <u>63,502</u> |
| Current liabilities | 15,295 | 6,390 |
| Total liabilities | <u>43,818</u> | <u>6,554</u> |
| Total equity of the parent entity at year-end | | |
| Share capital | 61,003 | 61,003 |
| Retained earnings | <u>(5,510)</u> | <u>(4,332)</u> |
| Total equity | <u>55,871</u> | <u>56,853</u> |

Guarantees entered into by the parent entity

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 25.

Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2020 or 30 June 2019. For information about guarantees given by the parent entity, please see above.

Contractual commitments for the acquisition of property, plant or equipment

There were no parent entity capital commitments as at 30 June 2020 or 30 June 2019.

25 Deed of cross guarantee

Mastermyne Group Limited and the wholly-owned subsidiaries listed below are parties to a deed of cross guarantee under which each Company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.

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 subject to the deed are as follows:

- Mastermyne Pty Ltd
- Mastermyne Engineering Pty Ltd
- Mastermyne Underground Pty Ltd
- Mastermyne Underground NSW Pty Ltd
- Myne Start Pty Ltd
- Mastermyne Contracting Services Pty Ltd
- Ausscaffold Pty Ltd
- Diversified Mining Services Pty Ltd
- Falcon Mining Pty Ltd
- Wilson Mining Services Pty Ltd

25 Deed of cross guarantee (continued)

Consolidated balance sheet

Set out below is a consolidated balance sheet as at 30 June 2020 of the closed group consisting of Mastermyne Group Limited.

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------------------|----------------|----------------|
| Current assets | | |
| Cash and cash equivalents | 24,284 | 15,246 |
| Trade receivables | 48,302 | 38,501 |
| Inventories | 6,262 | 3,218 |
| Total current assets | <u>78,848</u> | <u>56,965</u> |
| Non-current assets | | |
| Property, plant and equipment | 22,074 | 18,146 |
| Right-of-use assets | 13,923 | - |
| Intangible assets | 11,414 | 5,982 |
| Deferred tax assets | 7,819 | 8,052 |
| Investments in subsidiaries | 733 | 723 |
| Total non-current assets | <u>55,963</u> | <u>32,903</u> |
| Total assets | <u>134,811</u> | <u>89,868</u> |
| Current liabilities | | |
| Trade and other payables | 33,775 | 16,539 |
| Lease liabilities | 4,533 | - |
| Current tax liabilities | 1,502 | 2,141 |
| Employee benefits | 9,793 | 7,965 |
| Other current liabilities | 3,799 | - |
| Total current liabilities | <u>53,402</u> | <u>26,645</u> |
| Non-current liabilities | | |
| Lease liabilities | 8,962 | - |
| Employee benefits | 84 | 179 |
| Other non-current liabilities | 3,855 | - |
| Total non-current liabilities | <u>12,901</u> | <u>179</u> |
| Total liabilities | <u>66,303</u> | <u>26,824</u> |
| Net assets | <u>68,508</u> | <u>63,044</u> |
| Equity | | |
| Contributed equity | 61,003 | 61,003 |
| Reserves | (19,826) | (23,960) |
| Retained earnings | 31,364 | 26,001 |
| Total equity | <u>72,541</u> | <u>63,044</u> |

25 Deed of cross guarantee (continued)

Consolidated statement of profit or loss, statement of comprehensive income and summary of movements in consolidated retained earnings

The above companies represent a 'closed group' for the purposes of the instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Mastermyne Group Limited, they also represent the 'extended closed group'.

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| <i>Consolidated statement of comprehensive income</i> | | |
| Revenue | 286,726 | 232,573 |
| Other income | 1,330 | 137 |
| Gain on sale of discontinued operation | - | 2,030 |
| Contract disbursements | (37,399) | (36,009) |
| Personnel Expenses | (215,239) | (171,369) |
| Office expenses | (6,010) | (4,316) |
| Depreciation and amortisation expense | (10,813) | (8,284) |
| Other expenses | (1,530) | (973) |
| Results from operating activities | <u>17,065</u> | <u>13,789</u> |
| Finance income | 39 | 40 |
| Finance expense | (773) | (584) |
| Net finance expense | <u>(734)</u> | <u>(544)</u> |
| Profit before income tax | 16,331 | 13,245 |
| Income tax expense | (4,985) | (3,329) |
| Profit for the period | <u>11,346</u> | <u>9,916</u> |
| Total comprehensive income for the period | <u>11,346</u> | <u>9,916</u> |

26 Key management personnel

Key management personnel compensation is set out below.

| | 2020 \$ | 2019 \$ |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 2,565,261 | 2,749,862 |
| Post-employment benefits | 211,165 | 170,521 |
| Termination benefits | - | 61,923 |
| Long-term benefits | 109,537 | 18,500 |
| Share-based payments | 223,389 | 167,821 |
| | <u>3,109,352</u> | <u>3,168,627</u> |

26 Key management personnel (continued)

Individual directors and executives compensation

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

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 in the reporting period. The terms and conditions of the transactions with key management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management persons and their related entities on an arm's length basis.

The following transactions occurred with related parties:

| Transaction | Transaction value | |
|---|-------------------------|----------------|
| | Year ended 30 June 2020 | 2019 |
| | \$ | \$ |
| Andrew Watts - Watty Pty Ltd (i) | 189,739 | 168,023 |
| Andrew Watts - Watty Pty Ltd (ii) | 23,464 | 21,509 |
| Tony Caruso - Treatwater & Plumbing Pty Ltd (iii) | 116 | - |
| | <u>213,319</u> | <u>189,532</u> |

(i) The Group rents the premises at 45 River Street, Mackay which is owned by Andrew Watts through his company, Watty Pty Ltd. Amounts paid for rent are at arm's length and are due and payable under normal payment terms.

(ii) The Group rents the premises at 56A Grosvenor Drive, Moranbah which is owned by Andrew Watts through his company, Watty Pty Ltd. Amounts paid for rent are at arm's length and are due and payable under normal payment terms.

(iii) The Group paid Treatwater & Plumbing Pty Ltd, which is owned by Anthony Caruso, fees for general plumbing services during the year. Fees paid are at arm's length and due and payable under normal payment terms.

27 Share-based payments

Employee Performance Rights Plan

The establishment of the Employee Performance Right Plan was approved by shareholders at the 2015 annual general meeting. The plan is designed to provide long-term incentives for senior managers and above (including executive Directors) to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Rights or options are granted under the plan for no consideration and carry no dividend or voting right.

In accordance with the plan, employees holding vested options are entitled to purchase shares in the Company at a set exercise price based on volume weighted average price in the two months preceding the offer.

Set out below are summaries of rights granted under the plan:

| | 2020 | | 2019 | |
|-----------------------------|----------------------------------|------------------|----------------------------------|------------------|
| | Average exercise price per right | Number of rights | Average exercise price per right | Number of rights |
| As at 1 July | - | 1,312,390 | - | 1,711,464 |
| Granted during the year | - | 383,722 | - | 253,114 |
| Exercised during the year * | - | (617,500) | - | (577,950) |
| Forfeited during the year | - | - | - | (74,238) |
| As at 30 June | - | <u>1,078,612</u> | - | <u>1,312,390</u> |

- The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2020 was \$0.95 (2019: \$1.07).

No rights expired during the periods covered by the above tables.

Performance rights outstanding at the end of the year have the following expiry dates and exercise prices:

| Grant date | Expiry date | Exercise price | Vesting conditions | Performance Rights 30 June 2020 | Performance Rights 30 June 2019 |
|------------------|-------------|----------------|--------------------|---------------------------------|---------------------------------|
| 21 November 2019 | 1/10/2022 | 0.00 | 1, 2, 3, 4(a) | 191,861 | - |
| 21 November 2019 | 1/10/2022 | 0.00 | 1, 2, 3, 4(b) | 191,861 | - |
| 21 November 2018 | 1/10/2021 | 0.00 | 1, 2, 3, 4(a) | 126,557 | 126,557 |
| 21 November 2018 | 1/10/2021 | 0.00 | 1, 2, 3, 4(b) | 126,557 | 126,557 |
| 21 November 2017 | 1/10/2020 | 0.00 | 1, 2, 3, 4(a) | 220,888 | 220,888 |
| 21 November 2017 | 1/10/2020 | 0.00 | 1, 2, 3, 4(b) | 220,888 | 220,888 |
| 15 November 2016 | 1/10/2019 | 0.00 | 1, 2, 3, 4(a) | - | 308,750 |
| 15 November 2016 | 1/10/2019 | 0.00 | 1, 2, 3, 4(b) | - | 308,750 |
| Total | | | | <u>1,078,612</u> | <u>1,312,390</u> |

Weighted average remaining contractual life of rights outstanding at end of period (years)

1.2

27 Share-based payments (continued)

Employee Performance Rights Plan (continued)

Vesting of the rights will be subject to achievement of the vesting conditions set out below and the eligible participant being employed at the vesting date:

- **Vesting Condition 1:** The main vesting condition is that the eligible participant must be employed within the Group on the Test Date. If employment is ceased with the Group prior to the Test Date, the performance rights will lapse unless the Board, at its absolute discretion, determines otherwise.
- **Vesting Condition 2:** Vesting is also conditional on the continuation of good conduct and the execution of duties in the best interests of Mastermyne. If it is deemed the eligible participant has acted fraudulently or dishonestly, or is in breach of obligations to Mastermyne, the Board, at its absolute discretion, may determine that some or all of the performance rights will lapse.
- **Vesting Condition 3:** There is an overriding vesting condition requiring a minimum 8% total shareholder return (TSR) during the TSR measurement period (i.e. from the Time of Grant to the Test Date).
- **Vesting Condition 4:** If vesting condition 3 is achieved, there are two further vesting conditions that will each be applied independently to 50% of the performance rights. Both of these vesting conditions depend on Mastermyne's TSR percentile rank during the TSR measurement period:
 - (a) **Tranche A:** 50% of the performance rights will be conditional on the Company's TSR rank relative to companies in the ASX All Ordinaries Accumulation index.
 - (b) **Tranche B:** 50% of the performance rights will be conditional on the Company's TSR rank relative to companies in the ASX 200 Resource Accumulation index.

For each tranche, the percentage of performance rights which will vest will be as specified in the table below:

| TSR Rank during TSR measurement period | % of Tranche A or Tranche B performance rights |
|---|---|
| Below 50th percentile of the ASX Peer Group or the Resources Peer Group | 0% |
| 50th percentile to 75th percentile of the ASX Peer Group or the Resource Peer Group | 50% plus 2% for each percentile above 50th percentile |
| Above 75th percentile of the ASX Peer Group or the Resource Peer Group | 100% |

Significant estimate: Measurement of share based payments

The assessed fair value at grant date of rights granted during the year ended 30 June 2020 was \$0.74 per right for Tranche A and \$0.71 per right for Tranche B (2019: \$0.81 and \$0.77 respectively). The fair value at grant date is independently determined using an adjusted form of the Black-Scholes Model which includes a Monte Carlo simulation model that takes into account the exercise price, volatility of the underlying share, the expected dividend yield, the risk-free interest for the term of the right and the correlations and volatilities of the peer group companies.

27 Share-based payments (continued)

Employee Performance Rights Plan (continued)

Significant estimate: Measurement of share based payments (continued)

The model inputs for rights outstanding at year end are set out below:

| | 2020 | 2019 | 2018 | 2017 |
|---|-----------|-----------|-----------|-----------|
| Fair value at grant date Tranche A | \$0.7415 | \$0.8077 | \$0.5225 | \$0.1993 |
| Fair value at grant date Tranche B | \$0.7100 | \$0.7727 | \$0.4695 | \$0.1997 |
| Share price | \$1.14 | \$1.19 | \$0.88 | \$0.33 |
| Exercise price | \$nil | \$nil | \$nil | \$nil |
| Expected volatility (weighted average volatility) | 60.0% | 75.0% | 78.4% | 71.1% |
| Option life (expected weighted average life) | 2.9 years | 2.9 years | 2.9 years | 2.9 years |
| Expected dividends | 1.90% | 5.81% | 5.81% | 9.5% |
| Risk-free interest rate (based on government bonds) | 0.66% | 2.12% | 1.86% | 1.84% |

Accounting policy

The grant-date fair value of share-based payment awards granted to employees is recognised as a "personnel 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 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.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

| | 2020 | 2019 |
|---|------|------|
| | \$ | \$ |
| Equity-settled share based payment transactions | 224 | 174 |

28 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, Mastermyne Group Limited, its related practices and non-related audit firms:

Pitcher Partners Australia

(i) *Audit and other assurance services*

| | 2020 \$ | 2019 \$ |
|---|----------------|---------------|
| Audit and review of financial statements | 110,000 | 95,000 |
| Total remuneration for audit and other assurance services | <u>110,000</u> | <u>95,000</u> |

(ii) *Taxation services*

| | | |
|--|----------|--------------|
| Tax compliance services | - | 8,000 |
| Total remuneration for taxation services | <u>-</u> | <u>8,000</u> |

| | | |
|------------------------------|----------------|----------------|
| Total auditors' remuneration | <u>110,000</u> | <u>103,000</u> |
|------------------------------|----------------|----------------|

29 Events occurring after the reporting period

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while its impact has been limited for the consolidated entity up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Apart from the dividend declared as disclosed in Note 19, no matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

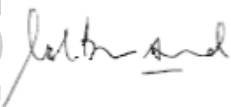
In the opinion of the directors of Mastermyne Group Limited (the 'Company'):

- (a) the consolidated financial statements and notes set out on pages 21 to 65 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed Group identified in note 25 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 25.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors.



Mr. C Bloomfield
Director
Brisbane

Brisbane
18 August 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MASTERMYNE GROUP LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Mastermyne Group Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with *Australian Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How our audit addressed the key audit matter |
|------------------|--|
|------------------|--|

| | |
|--|--|
| Acquisition of Wilsons Mining Services Pty Ltd <i>(Refer to note 23)</i> | |
|--|--|

During the year the Group acquired Wilsons Mining Services Pty Ltd (“WMS”) for gross purchase consideration of \$11.453 million. This was considered a significant purchase for the Group.

Accounting for this transaction is a complex and judgemental exercise, requiring management to determine the fair value of acquired assets and liabilities, in particular the valuation of deferred consideration and the allocation of purchase consideration to goodwill and separately identifiable intangible assets such as customer relationships and exclusive distribution rights.

It is due to the size of the acquisition and the estimation process involved in accounting for it that this is a key area of audit focus.

Our procedures included amongst others:

- We read the sale and purchase agreement to understand key terms and conditions;
- We evaluated the assumptions and methodology in management’s valuation models, such as forecast revenues, operating costs and contributory assets, used to determine the value of WMS customer relationships and exclusive distribution rights to the Group;
- We used our Corporate Finance valuation specialists to compare these valuation assumptions with external benchmarks (for example discount rates) and to consider the assumptions based on our knowledge of the Group and its industries;
- We considered the Group’s determination of the final fair value adjustments at 30 June 2020 and compared them to the provisionally reported values at 31 December 2019. We performed testing on certain fair value adjustments to confirm that they related to new information obtained about facts and circumstances that existed on acquisition date, therefore were eligible for recognition; and
- We assessed the adequacy of the Group’s disclosures in respect of business acquisitions.

| | |
|--|--|
| Impairment assessment of goodwill (\$10.291 million) <i>(Refer to note 13)</i> | |
|--|--|

The consolidated statement of financial position as at 30 June 2020 includes goodwill of \$10.291 million which relates to the consolidation of subsidiaries acquired in the current and previous years.

The carrying amount of goodwill is supported by the value-in-use calculations prepared by management which are based on budgeted future cash flows and key estimates such as growth and discount rates.

Goodwill is deemed to be a key audit matter due to the use of key estimates and judgements in the value-in-use calculation.

Our procedures included amongst others:

- Assessing management’s determination of the Group’s CGU’s based on our understanding of the nature of the Group’s business and internal reporting in order to assess how results were monitored and reported;
- Assessing the reasonableness of key estimates and judgements, considering supporting management prepared documentation or historical performance, where available;
- Comparing the prior year forecast to assess the accuracy of the forecasting process;
- Reviewing management’s value-in-use calculations for accuracy; and
- Performing a sensitivity analysis of management’s value-in-use calculation.

| Key Audit Matter | How our audit addressed the key audit matter |
|---|--|
| Adoption of Australian Accounting Standard AASB 16 Leases <i>(Refer to note 16)</i> | |
| <p>The 30 June 2020 financial year was the first year of adoption for Australian Accounting Standard AASB 16 <i>Leases</i>. The Group has entered into a significant volume of leases by number and value, over properties, motor vehicles and equipment as a lessee.</p> <p>The Group has recognised \$14.462 million of new right-of-use assets on the statement of financial position and the corresponding lease liability of \$14.042 million. Due to the change in the accounting standard, and the calculations and assumptions required to determine the individual lease values, such as the incremental borrowing rate and likelihood of options being exercised, we have considered this to be a key audit matter.</p> | <p>Our procedures included amongst others:</p> <ul style="list-style-type: none"> • Understanding and evaluating the controls in place to recognise the lease liabilities and right-of-use assets on the statement of financial position; • Considering whether the Group's new accounting policies as set out in Note 1, satisfied the requirements of AASB 16 including the initial adoption of any practical expedients selected by the Group as part of the transition process; • Assessing the integrity of the Group's AASB 16 lease calculation model used, including the accuracy of the underlying calculation formulas; • For a sample of leases, agreeing the Group's inputs in the AASB 16 lease calculation model in relation to those leases such as, key dates, fixed and variable rent payments, renewal options and incentives, to the relevant terms of the underlying signed lease agreements; • Evaluating the assumptions used in calculating the lease liabilities and right-of-use assets; and • Assessing the adequacy of the financial report disclosures contained in note 16. |
| Recoverability of deferred tax assets (\$6.829 million) <i>(Refer to note 8)</i> | |
| <p>At 30 June 2020, the Group's consolidated statement of financial position included deferred tax assets of \$7.912 million of which \$6.829 million related to unused tax losses. The recognition of deferred tax assets is dependent upon an assessment that it is probable the Group will generate sufficient future taxable income to utilise them.</p> <p>The unused tax losses were recognised as part of business combinations and are to be utilised based on available fractions. It is due to the significant judgement and assumptions involved in assessing the Group's ability to generate future taxable income that we focused on this area as a key audit matter.</p> | <p>Our procedures included amongst others:</p> <ul style="list-style-type: none"> • Obtaining and testing the Group's calculation of its current and deferred tax balances for the year ended 30 June 2020; • Challenging and evaluating the reasonableness of key judgements and assumptions used in the Group's forecast of taxable income including assessing their consistency with the Board-approved budget for the year ending 30 June 2021 and cash flow assumptions; • Assessing the historical accuracy of the Group's budgeting and forecasting and considered implications for our assessment of key assumptions used in the Group's current forecast of taxable income • Assessing the availability of tax losses to the Group under the current Australian tax legislation including those acquired as part of business combinations; and • Engaging our taxation experts in the completion of these procedures and in making our assessments of the available fraction calculations and application of the available fraction method. |

The 30 June 2020 financial year was the first year of adoption for Australian Accounting Standard AASB 16 *Leases*. The Group has entered into a significant volume of leases by number and value, over properties, motor vehicles and equipment as a lessee.

The Group has recognised \$14.462 million of new right-of-use assets on the statement of financial position and the corresponding lease liability of \$14.042 million. Due to the change in the accounting standard, and the calculations and assumptions required to determine the individual lease values, such as the incremental borrowing rate and likelihood of options being exercised, we have considered this to be a key audit matter.

Our procedures included amongst others:

- Understanding and evaluating the controls in place to recognise the lease liabilities and right-of-use assets on the statement of financial position;
- Considering whether the Group's new accounting policies as set out in Note 1, satisfied the requirements of AASB 16 including the initial adoption of any practical expedients selected by the Group as part of the transition process;
- Assessing the integrity of the Group's AASB 16 lease calculation model used, including the accuracy of the underlying calculation formulas;
- For a sample of leases, agreeing the Group's inputs in the AASB 16 lease calculation model in relation to those leases such as, key dates, fixed and variable rent payments, renewal options and incentives, to the relevant terms of the underlying signed lease agreements;
- Evaluating the assumptions used in calculating the lease liabilities and right-of-use assets; and
- Assessing the adequacy of the financial report disclosures contained in note 16.

| | |
|--|---|
| Recoverability of deferred tax assets (\$6.829 million) <i>(Refer to note 8)</i> | |
| <p>At 30 June 2020, the Group's consolidated statement of financial position included deferred tax assets of \$7.912 million of which \$6.829 million related to unused tax losses. The recognition of deferred tax assets is dependent upon an assessment that it is probable the Group will generate sufficient future taxable income to utilise them.</p> <p>The unused tax losses were recognised as part of business combinations and are to be utilised based on available fractions. It is due to the significant judgement and assumptions involved in assessing the Group's ability to generate future taxable income that we focused on this area as a key audit matter.</p> | <p>Our procedures included amongst others:</p> <ul style="list-style-type: none"> • Obtaining and testing the Group's calculation of its current and deferred tax balances for the year ended 30 June 2020; • Challenging and evaluating the reasonableness of key judgements and assumptions used in the Group's forecast of taxable income including assessing their consistency with the Board-approved budget for the year ending 30 June 2021 and cash flow assumptions; • Assessing the historical accuracy of the Group's budgeting and forecasting and considered implications for our assessment of key assumptions used in the Group's current forecast of taxable income • Assessing the availability of tax losses to the Group under the current Australian tax legislation including those acquired as part of business combinations; and • Engaging our taxation experts in the completion of these procedures and in making our assessments of the available fraction calculations and application of the available fraction method. |

At 30 June 2020, the Group's consolidated statement of financial position included deferred tax assets of \$7.912 million of which \$6.829 million related to unused tax losses. The recognition of deferred tax assets is dependent upon an assessment that it is probable the Group will generate sufficient future taxable income to utilise them.

The unused tax losses were recognised as part of business combinations and are to be utilised based on available fractions. It is due to the significant judgement and assumptions involved in assessing the Group's ability to generate future taxable income that we focused on this area as a key audit matter.

Our procedures included amongst others:

- Obtaining and testing the Group's calculation of its current and deferred tax balances for the year ended 30 June 2020;
- Challenging and evaluating the reasonableness of key judgements and assumptions used in the Group's forecast of taxable income including assessing their consistency with the Board-approved budget for the year ending 30 June 2021 and cash flow assumptions;
- Assessing the historical accuracy of the Group's budgeting and forecasting and considered implications for our assessment of key assumptions used in the Group's current forecast of taxable income
- Assessing the availability of tax losses to the Group under the current Australian tax legislation including those acquired as part of business combinations; and
- Engaging our taxation experts in the completion of these procedures and in making our assessments of the available fraction calculations and application of the available fraction method.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 16 of the directors' report for the year ended 30 June 2020. In our opinion, the Remuneration Report of Mastermyne Group Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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 Australian Auditing Standards.

PITCHER PARTNERS



J. J. EVANS
Partner

Brisbane, Queensland
18 August 2020

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