

Mastermyne Group Limited

Risk Factors Statement

1.1 Introduction

Mastermyne's business activities are subject to risk factors both specific to its business activities and that of a general nature. If any of the risks associated with Mastermyne materialise, Mastermyne's business, results of operations, financial position and prospects could be materially and adversely affected. The principal risk factors are described below. While some of these risks can be mitigated by the use of appropriate safeguards and systems, many are outside the control of Mastermyne and cannot be mitigated.

It should be noted that the list is not exhaustive and that certain other risk factors may apply.

All of these risks are monitored by Mastermyne management with the oversight of the Audit & Risk Management Committee. Management's role includes implementing risk aversion and mitigation strategies towards reducing a likely risk occurrence and/or taking appropriate measures to thwart/correct any risk events. Some of the risk mitigants are also noted below.

1.2 Risks specific to an investment in Mastermyne Group

1.2.1 Labour shortages

The operations of Mastermyne are labour-intensive and the Directors recognise that the future growth of Mastermyne is highly dependent on its ability to retain existing personnel and recruit and retain additional employees. Developments in the resources and energy sectors have resulted in a shortage of skilled personnel. Should Mastermyne fail to retain existing employees and recruit and retain additional personnel, this may have a negative impact on existing operations and future growth prospects of Mastermyne, and adversely affect the financial performance and/or financial position of Mastermyne.

A by-product of the skills shortage is that it may create opportunities for small owner-operator contractors to compete with the Group.

1.2.2 Increased labour costs

Labour costs account for a substantial amount of Mastermyne's costs. In recent years, the Australian resources and energy sectors have experienced increased demand and competition for skilled labour. This demand has subsequently resulted in increased labour costs. The costs of labour are largely out of the control of Mastermyne and the Directors. There can therefore be no guarantee that labour costs will not increase in the future. Should Mastermyne incur increased labour costs in future, which cannot be passed on to customers, this may adversely affect the financial performance and/or financial position of Mastermyne.

1.2.3 Industrial accidents

Industrial accidents may occur with respect to Mastermyne's businesses. In the event of a serious accident, for example resulting in a fatality or serious injury, or a series of such accidents on projects, substantial claims may be brought against the customer and/or Mastermyne.

Any such claim could result in substantial liability for Mastermyne, which could negatively impact on growth prospects and adversely affect the financial performance and/or financial position of Mastermyne.

Mastermyne addresses the likely impact of such accidents through the management and monitoring of a comprehensive safety program which produces TRIFR (Total Recordable Injury Frequency Rate) performance against targets that are reported on to monthly Board meetings.

1.2.4 Client production issues including infrastructure limitations

The level of coal production depends on a number of factors outside the control of Mastermyne and the Directors, including, but not limited to, continued global economic growth, continued international demand, and the pace of supply growth. A prolonged decline in the demand for coal production may have an adverse effect on the financial performance and/or financial position of Mastermyne.

One of the key external factors constraining new coal mining projects is transport and other infrastructure. Large scale infrastructure projects, including roads, railways and particularly ports are complex, have long lead times and may be subject to significant delays. Mastermyne's business may be adversely affected by a lack of new coal mining projects as a result of infrastructure constraints.

The pricing of client contracts is dependent on a number of factors, some of which are outside the control of Mastermyne and the Directors: factors include, but are not limited to, the level of coal production and the presence of substantial market competition. A prolonged decline in the level of coal production and/or an increase in market competition may have an adverse effect on the financial performance and/or position of Mastermyne.

1.2.5 Operational risks

Mastermyne and its customers are exposed to a range of operational risks relating to both current and future operations. Such operational risks include equipment failures, information technology system failures, external services failure, industrial action or disputes and natural disasters. Whilst Mastermyne endeavours to take appropriate action to mitigate these operational risks and to insure against them, Mastermyne cannot control the risks its customers are exposed to, nor can it completely remove all possible risks relating to its own business. A disruption to the operations of Mastermyne or its customers may have an adverse impact on the financial performance and/or financial position of Mastermyne.

1.2.6 Changing customer preferences regarding contractual arrangements

The majority of Mastermyne's contracts for the provision of services are negotiated on either a variable cost relationship-based agreement or a smaller number on a fixed-price basis. Fixed-price contracts are typically higher risk. Should customers in the future exhibit a preference for fixed-price contractual arrangements, this may have an adverse effect on the financial performance and/or financial position of Mastermyne. The nature of fixed cost contracts imposes additional risk on Mastermyne. An increase in costs above that anticipated at the time of entering fixed cost contracts or provided for under the terms of the fixed cost contract could adversely affect the financial performance and/or financial position of Mastermyne.

1.2.7 Changes to industrial relations laws

Mastermyne's business may be impacted by changes to Commonwealth industrial awards from time to time. Mastermyne is in a high risk industry in terms of the impact of restricted labour markets and labour reform and to the extent that these changes result in less flexibility for Mastermyne and employees in agreeing terms of employment, this may result in increased labour costs, compliance costs and potentially higher costs from industrial disputes. Further changes to Commonwealth industrial relations laws may result in additional labour and compliance costs.

1.2.8 Changes to Workplace Health and Safety Legislation

Mastermyne has a comprehensive Workplace Health and Safety compliance culture covering, in particular, operations in a mining environment with relevant inherent risks covered in various sections of this statement.

Mastermyne's business may be impacted by changes to workplace health and safety laws from time to time. To the extent that such changes result in additional compliance costs for Mastermyne this may result in increased labour costs and potentially higher costs from safety disputes.

1.2.9 Industrial dispute

Mastermyne is a services provider. Protracted industrial disputation could impact on its ability to deliver services in accordance with its contractual obligations and may result in loss of reputation, decrease in the ability to win work, breach of contract claims, increased legal and labour costs resulting in an impact on revenue. Mastermyne's current financial position, profits and prospects could be adversely affected. Mastermyne taken steps to reduce the risk of protected industrial action brought under the Fair Work Act 2009 (Cth). To date, Mastermyne has worked positively towards renegotiation of its industrial instruments under that Act. Similarly, if Mastermyne's clients are impacted by industrial action (protected or non protected) it may adversely impact the availability of work.

1.2.10 Dependence on key personnel

Mastermyne depends on the talent and experience of its staff as its primary asset. It is essential that appropriately skilled staff be available in sufficient numbers to support Mastermyne's business.

Mastermyne requires staff that are skilled in many areas, some of which may be considered niche specialities in which there are limited practitioners available for recruitment.

While Mastermyne has initiatives to mitigate this risk, loss of key staff may have a negative impact on the financial performance or otherwise of Mastermyne. The loss of key staff to a competitor may magnify this impact.

1.2.11 Subcontractors

Mastermyne is dependent on subcontractors for a number of material parts of its contracts. Mastermyne could therefore be adversely affected if any material subcontractor was to be in any financial distress or otherwise unable to perform its obligations. While some of this risk is minimised by appropriate obligations in subcontracting agreements, there is still a residual risk to Mastermyne. Given the skills shortage in the industry, Mastermyne may also be impacted by any change in legislation or other factors that restrict Mastermyne's ability to source skilled services through the use of subcontractors.

1.2.12 Reversal in outsourcing trends

The future growth of Mastermyne is dependent on the continuation of the outsourcing of ancillary mining services. A reduction in the reliance on third parties to conduct ancillary operations may arise where outsourcing no longer becomes cost-effective to the customer or the customer is able to perform the services in-house using existing resources. Should a decline in the outsourcing of these services occur, this may negatively affect the growth prospects and financial performance and/or financial position of Mastermyne.

1.2.13 Key relationship breakdown

A large proportion of Mastermyne's revenue is derived from several key relationship-based contracts with leading coal production companies.

Should one or more of these customers terminate or default on a contract, or fail to renew their contracts with Mastermyne, or if Mastermyne defaults on a contract, this may have an adverse affect on the financial performance and/or financial position of Mastermyne.

1.2.14 Contract and principal risk

A number of Mastermyne's contracts can be terminated by the customer at short notice. In addition, customers may default due to insolvency or other reasons. A customer's termination of, or default under, a contract, could result in a loss of expected revenues, and additional expenses for demobilisation, maintenance and storage of equipment. Accordingly, the termination of, or default under, a contract by any of Mastermyne's customers could have an adverse effect on Mastermyne's business, financial condition and results of operations.

It is common for companies in the industries in which Mastermyne operates, to enter into protracted negotiations with customers before reaching a written agreement. Mastermyne may commence work on a project, the subject of such protracted negotiations, before a final contract is entered into. Similarly, Mastermyne may continue to work for customers after the term of a contract has ended on the basis that an informal rollover of

terms under previous contracts has been agreed to. In the event of a dispute where no formal contract has been executed, Mastermyne may not have all of the protection for its operations which would normally be provided by a written and signed contract which could adversely affect the financial performance and/or financial position of Mastermyne if such works or payment for work is later disputed by a customer.

1.2.15 Failure to win new contracts

Mastermyne's performance is dependent on Mastermyne's ability to win new contracts. If Mastermyne is unable to win new contracts, there is a risk that Mastermyne's financial performance will be adversely impacted. In addition, Mastermyne's future performance will depend significantly on the terms and conditions of the new contracts.

1.2.16 Plant and equipment constraints

The operations of Mastermyne are highly dependent on access to plant and equipment on an ongoing basis. Developments in the resources and energy sectors have resulted in a shortage in the availability of specialist plant and equipment, resulting in extended lead-times for both new and used plant and equipment. Many of the specialist services provided by Mastermyne require the use of purpose-built equipment. Should Mastermyne have difficulty in gaining access to additional purpose-built equipment or adequate supplies of equipment at appropriate prices and in a timely manner, or if the quality of the equipment is not acceptable or suitable for its intended use, this may constrain the Group's ability to provide services and may ultimately have an adverse effect on the growth opportunities and financial performance and/or financial position of Mastermyne.

1.2.17 Remote locations

Mastermyne regularly undertakes projects in remote locations. The remoteness of the location exposes Mastermyne to an increased risk of a shortage of skilled and general labour and potentially increased costs which may or may not be able to be passed onto the customer. Mastermyne may also be exposed to a greater risk of logistical difficulties with plant and equipment because of the remote locations of its projects.

1.2.18 Consolidation of mining companies

The potential consolidation of some of the major coal mining companies may affect Mastermyne's bargaining power and therefore contract pricing and terms. It may also lead to more services of the type offered by Mastermyne being performed in-house by customers.

1.2.19 Increased competition from new and existing competitors

The Board believes that the industry in which the Group operates is characterised by a large number of small, independent operators which are highly competitive. In addition, the Board believes that there are a number of larger companies currently operating in related businesses which may potentially have the financial resources and technical capabilities to broaden their offering to compete with Mastermyne. Increased competition from new and existing competitors may have an adverse effect on the financial performance and/or financial position of Mastermyne.

1.2.20 Early mine closure

Mastermyne typically enters into contracts for the provision of services in relation to large, individual mines, which remain in force over extended periods of time. Mastermyne ordinarily deploys its equipment and/or personnel with a view to providing services in relation to the particular mine on a continual basis over the duration of a service contract's life. Early or unforeseeable closure of a mine could result in loss of expected revenues, and additional expenses for demobilisation, maintenance and storage of equipment used at that mine. Accordingly, this may have an adverse effect on the financial performance and/or financial position of Mastermyne.

1.2.21 Capital and maintenance expenditure

Although Mastermyne's business is not overly capital intensive it requires sufficient access to capital to fund the maintenance and replacement of its existing fleet of plant and equipment and any future expansion. Failure to obtain capital on favourable terms may hinder Mastermyne's ability to expand and maintain its fleet of equipment which may reduce Mastermyne's competitiveness. This may ultimately have an adverse effect on the financial performance and/or financial position of Mastermyne.

1.2.22 Environmental incidents and claims

Mastermyne operates in industries where environmental issues, including inclement weather, may potentially delay contract performance or result in a complete shutdown of a project, causing a deferral or preventing receipt of anticipated revenues. Such issues may ultimately have an adverse effect on the financial performance and/or financial position of Mastermyne.

1.2.23 Reputation

Mastermyne's ability to retain and source new customers is heavily dependent on its reputation and current relationships with key customers. A dissatisfied client, poor performance or litigation may result in significant damage to the Mastermyne brand and may impact on Mastermyne's ability to maintain existing clients or enter into new client relationships, resulting in an adverse impact on its financial performance and/or financial position.

1.2.24 Insurance risks

Mastermyne provides services to clients, which exposes Mastermyne to the risk of liability from defective services, including indirect or consequential losses suffered by third parties. Mastermyne limits its exposure to liability contractually, and Mastermyne maintains public liability insurance. Mastermyne also has insurance for errors and omissions (professional indemnity) and Directors' and officers' insurance, which it believes to be commensurate with industry standards, and adequate having regard to the business activities of Mastermyne.

There is a risk that Mastermyne's insurance coverage will be insufficient to meet a very large claim or a number of large claims, or that Mastermyne is unable to secure insurance to satisfactorily cover all anticipated risks or that the cost of insurance will increase beyond anticipated levels.

Accordingly, Mastermyne could be adversely impacted by increases in the cost of insurance premiums or an inability to access insurance coverage arising from circumstances that might or might not be related to the business of Mastermyne.

1.2.25 Finance

Mastermyne's current operations and growth depend on the availability of various debt finance facilities. Should the current facilities cease to be available or new facilities for expansion and acquisitions not be available in the future, Mastermyne's current financial position, profits and prospects could be adversely affected.

1.2.26 Growth

Mastermyne anticipates strong growth in future years. However, there is a risk that Mastermyne may be unable to manage its future growth successfully. If some of the risks outlined in this section eventuate, the future growth of Mastermyne could be adversely affected.

1.2.27 Mergers and Acquisitions

Mastermyne's future growth could be adversely impacted if suitable mergers and acquisitions are not available to Mastermyne, if necessary to supplement organic growth. If Mastermyne's due diligence processes are not successful, or if a merger or acquisition does not perform to the forecast level, Mastermyne may also be adversely affected.

1.2.28 Joint Ventures

Mastermyne is involved in various joint ventures. Whilst the relationships with joint venture parties are expected to significantly benefit Mastermyne, Mastermyne is exposed to the risks associated with the various joint venture partners' business, reputation and financial performance.

1.2.29 Foreign operations

Whilst Mastermyne does not have any operations outside Australia, management continue to be cognizant of the possibility of risks inherent in doing business with customers at an international level becoming relevant. These include changes in regulatory requirements, tariffs, customs, duties and other trade barriers, difficulties in staffing and managing foreign operations and monetary exchange rates, longer payment cycles, problems in collecting amounts receivable, political instability, expropriation, nationalisation and war.

1.2.30 Emissions Trading Scheme

Implications for the Australian coal industry of any Australian carbon emissions trading scheme remain unclear. The introduction of an emissions cap and trade system could create mandatory requirements for entities that emit greenhouse gases from facilities above certain threshold levels. Therefore, the establishment of a carbon trading scheme could have some, as yet unquantifiable, potential impact on the operations, performance, profitability, prospects or value of the Australian coal industry and therefore would impact on Mastermyne.

1.3 General risks

Mastermyne is exposed to a number of general risks that could adversely affect Mastermyne's assets and liabilities, financial position, profits and prospects. These general risks include, but are not limited to, the following:

1.2.31 Macro-economic risks

Changes in the general economic outlook both in Australia and globally may impact the performance of Mastermyne and its projects. Such changes may include:

- > contractions in the Australian economy or increases in the rate of inflation resulting from domestic or international conditions (including movements in domestic interest rates and reduced economic activity);
- > increases in expenses (including the cost of goods and services used by Mastermyne);
- > new or increased government taxes or duties or changes in taxation laws including imposts such as royalties, charges and taxes affecting the level of mining and exploration activities;
- > changes in government policy affecting the coal mining industry and further regulation of the coal and other mining industry generally; and
- > fluctuations in equity markets in Australia and internationally.

1.2.32 Broader general risks

