MMA

MERMAID MARINE
AUSTRALIA LTD


# Annual Report 2009

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## Mermaid Marine Australia Limited

ABN 21 083 185 693

## Corporate Directory

**Directors**

| | |
|---|---|
| Tony Howarth | Chairman |
| Jeffrey Weber | Managing Director |
| James Carver | Executive Director |
| Jeffrey Mews | Non-Executive Director |
| Mark Bradley | Non-Executive Director |

**Company Secretary**
Dylan Darbyshire-Roberts

## Registered Office

Eagle Jetty, 20 Mews Road
FREMANTLE WA 6160
Telephone: 61 8 9431 7431
Facsimile: 61 8 9431 7432
Email: corporate@mma.com.au
Internet: www.mma.com.au

## Auditors

Deloitte Touche Tohmatsu
Chartered Accountants
Level 14, Woodside Plaza
240 St Georges Terrace, PERTH WA 6000
Telephone: 61 8 9365 7000
Facsimile: 61 8 9365 7001

## Solicitors

Blake Dawson
Level 32, Exchange Plaza
2 The Esplanade, PERTH WA 6000
Telephone: 61 8 9366 8000
Facsimile: 61 8 9366 8111

## Bankers

National Australia Bank Limited
100 St Georges Terrace, PERTH WA 6000
Telephone: 1300 889 398
Facsimile: 61 8 9441 9282


GUARDIAN

# Contents

MMA's ongoing development and success is a strong endorsement of the performance of the Company's Board, management and employees.

**Net profit after tax increased by 48%**

**Earning per share increased by 23%**

# Chairman's Address

The past year has been characterised by extreme volatility and uncertainty in global markets. At Mermaid Marine we have focussed on controlling the things that we can control and ensuring we have the flexibility at Board and Management level to deal with the challenges and opportunities that arise.

At the same time we have been drawing on the relationships the Company has invested in over many years with its clients, bankers, shareholders and suppliers. These relationships take on a whole new level of importance in times of extreme uncertainty.

Despite the challenging macroeconomic environment, I am pleased to be able to report that MMA is continuing to perform well and has produced another year of substantial growth in earnings. Net Profit After Tax increased by 48% on the prior year to $26.5 million and Earnings per Share increased by 23% to 14.5 cents per share. In May 2008 the Company raised $47 million in additional capital to fund future growth and shareholders should continue to see the benefit of this investment in the 2010 financial year.

In 2008 MMA committed to a new dividend payout ratio of 40-50% of earnings. As such, MMA paid a fully franked two cents per share interim dividend in April 2009 and announced a final fully franked dividend of four cents per share to be paid in October 2009. This is effectively a 200% increase on the dividend flowing from the 2008 financial year and reflects a desire by the Board to put franking credits in the hands of our shareholders where they are of maximum benefit.

Capital expenditure for the year was $44 million with the majority of this being spent on new developments at the Dampier Supply Base. The expansion of the wharf facility in Dampier was managed by our own team and was completed on time and under budget. The expansion has doubled our berth capacity at Dampier, and activity has increased commensurately. In addition, work commenced on the upgrade of the Dampier Supply Base to support the Gorgon Project. The completed facilities will be progressively handed to the Gorgon team through the remainder of this calendar year. Both the wharf and supply base developments are expected to drive future growth in earnings for the company.

MMA also took the opportunity to bolster its fleet of vessels during the second half of the year. As previously announced, the newly acquired *Mermaid Vision* presents a new opportunity for MMA to become more involved in the offshore drilling market. The *Mermaid Voyager*, which delivers in September, is scheduled to spend its first year in our fleet supporting Apache Energy's offshore operations. The key to these acquisitions was the sound financial position of the Company leading into the global financial crisis.

During the year the Board undertook a detailed risk analysis across the organisation and the Audit and Risk Committee has been increased in size to assist in managing this critical component of the company's compliance regime. The balance between risk and reward is a core function of the Board and Senior Management.

The Oil and Gas market in Australia, particularly around LNG developments, has a particularly positive outlook. Woodside Petroleum is currently undertaking construction of the Pluto development and a Final Investment Decision has recently been made on the Gorgon development. Similarly the Browse Basin contains a number of highly prospective gas fields with a reasonable expectation of production facilities in the future.

MMA's ongoing development and success is a strong endorsement of the performance of the Company's Board, management and employees. My colleagues on the Board have provided stability at a time of uncertainty and I thank them for their efforts. The management team led by Managing Director, Jeff Weber, has produced an outstanding result for shareholders in the 2009 financial year.

We look forward with some optimism to 2010 and expect to continue to deliver growth in earnings for our shareholders.

Tony Howarth

**Chairman**

# Managing Director's Review of Operations

## The 2009 financial year was another year of strong growth for Mermaid Marine Australia Ltd (MMA). The result was particularly pleasing in light of the challenging economic environment experienced throughout the year.

Net operating profit after tax (NPAT) increased by 48% on the previous year to $26.5 million. The compound annual growth rate in MMA's NPAT over the last four years is 68%, enabling MMA to substantially outperform both the ASX 300 and Small Ordinaries over the same time period. Total Shareholder Return for the year was a very credible 25.6%

Each of MMA's operating divisions delivered strong results for the year, with a particularly encouraging performance from the expanded Dampier Supply Base and from the Company's recently established international business.

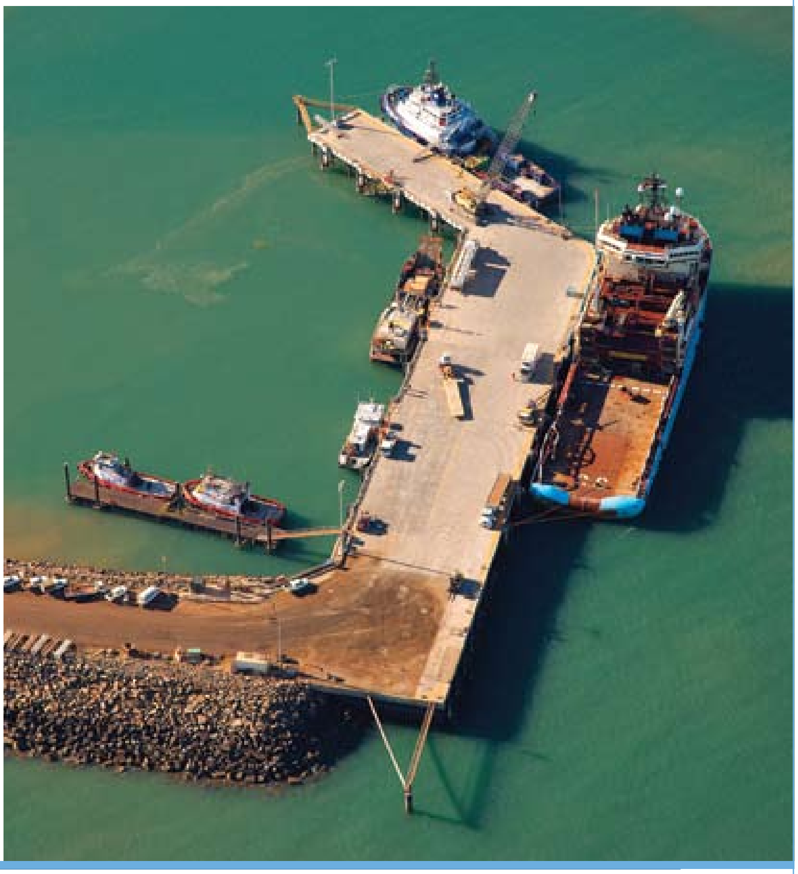
### Strategy

MMA is two years into a five year strategy which is reviewed annually to ensure that it remains relevant in relation to the market in which the company is operating. Detailed business plans are developed on an annual basis to reflect the strategy for the next 12 months.

Given the Board and management team's belief that domestic demand for the Company's services will be sufficient to drive ongoing growth in the medium term, MMA's overall strategy remains primarily Australia focussed. However the strategy also recognises that as MMA continues to grow, its international operations will need to play an increasing role. This measured international expansion is being driven through our Singapore Company.

In terms of our Australian business, strategically we wish to grow our market offer into the exploration sector of the offshore oil and gas industry. The purchase of the new vessel '*Mermaid Vision*' during the year was consistent with this goal.

The 2010 financial year will see the company continuing to invest in new vessels and supply base infrastructure and assets as part of our ongoing growth strategy.



## Financial Highlights

MMA's revenue increased by 10% to $164 million for the year - a smaller increase than might be expected given the significant increase in NPAT. This is due to a percentage of the Company's vessel revenue being generated by the international operations where, due to a different cost structure, lower revenues are generated to achieve the same return on asset. Consequent to these international operations EBITDA, EBIT and NPAT margins all improved over the year. As highlighted in the Chairman's Address, MMA was in a position to substantially increase dividends from the previous corresponding period.

MMA has a strong focus on return on assets as a key measure of performance and driver of investment decisions. Return on assets for the year reduced slightly to 14.5%. However, this is expected to improve in the 2010 financial year as investments made in 2009 begin to contribute to earnings.

**Revenue increased by 10% to $164m**

**Cash at bank $38m**

**Earnings per share growth of 23%**

MMA's balance sheet remains strong with gearing at year end of 35% and cash at bank of $38 million. MMA prudently raised capital in May 2008 to fund ongoing developments within the organisation and it is pleasing to report a growth in earnings per share of 23% despite the fact much of this capital will only be fully leveraged in FY 2010. A total of $44 million in capital expenditure was incurred during the year with the majority of this directed towards infrastructure on our Dampier Supply Base.

Financially the 2009 financial year was another outstanding result and the Company is in good shape to take advantage of future developments in our market.

## Operational Highlights

From an operational standpoint the highlight of the year was the solid contribution from each of our businesses to the final result. In previous years the core vessel business has been the major driver of overall financial performance. While this remained the case this year, the supply base businesses in Dampier and Broome have each contributed a higher percentage of earnings and more importantly are poised for further growth into the future.

It was also encouraging from an operational outlook to see the integrated nature of our service offering in Dampier continue to gain traction as a differentiating factor in the offshore oil and gas market.

## Vessel Operations

MMA's vessels continued to experience high utilisation levels during the year, successfully supporting a number of offshore construction programmes.

The year commenced with finalisation of the construction of Woodside Petroleum's (Woodside) Angel platform and tie in. From there some of our vessels sailed to the Bonaparte Basin to support the construction of the ENI Blacktip Project, which ran until April.

Also during this time MMA provided vessel support for Apache's Van Gogh project and BHP Billiton's Pyrenees project.

In December Woodside commenced construction of the offshore component of the Pluto field and MMA was fortunate to be involved with vessels in both the deep water and shallow water sections of the trunkline construction. Work on this project is expected to continue throughout 2010 and provide ongoing work for our vessels.

During the year, MMA continued to build its team of project management professionals. This highly-experienced team fulfils two important functions. Firstly, it allows MMA to provide ongoing project management support to its clients. This ensures our clients have access to all MMA services through one focal point and has been an important factor in our ongoing success, particularly in the offshore construction support segment. Secondly, the individuals contribute highly technical and specific expertise to our operations and development teams, assisting in the continual improvement and growth in our operations.

Internationally it was a watershed year for MMA. We commenced the financial year with one vessel, the *Mermaid Discovery*, working for our client Geokinetics in Egypt. At the same time we mobilised three vessels in Singapore, *The Crest Diamond*, *Miclyn Glory* and *Swissco Sovereign*, to undertake Ocean Bottom Cable (OBC) seismic operations for Geokinetics in Australia.

After initially working with Geokinetics in Australia for Apache, the OBC fleet was repositioned to Angola to undertake a major offshore seismic operation in the region.

## Managing Director's Review of Operations

This was a significant challenge for the organisation as we came to grips with managing the supply chain issues associated with working in new markets and also recruiting an additional 50 international crew members to manage the vessels. Ultimately the operation has been successful and as the team gains knowledge, we have been able to improve productivity for our clients and therefore improve the competitiveness and contribution of this business.

The *Mermaid Discovery* is currently contracted until November 2009 and we are confident of gaining an extension to this contract. The three vessel Angolan spread has been extended by 12 months to April 2010 and we are currently in discussions with clients about opportunities beyond this time.

In the interim we are also building capability within the management team of our international operations. We currently have a Superintendent in country to manage the Angolan fleet that is supported by an Operations Manager and Recruitment Manager working in our Singapore office. By December we expect to have a Commercial Manager operating in our Singapore office with a mandate to consolidate the international operating regime and to build relationships for ongoing growth in the region. As part of this process, MMA will undertake a detailed strategic plan for the international business.

Utilisation of the current MMA fleet was approximately 75% during the year with the larger vessels running at a slightly higher rate. Given this figure is essentially full utilisation, MMA's future vessel earnings growth will be driven by additional vessels. MMA has committed to the purchase of the *Mermaid Vision* and *Mermaid Voyager* both of which are contracted into work on delivery. A Letter of Intent has been received from Apache in relation to a 12 month charter of the *Mermaid Voyager*.

MMA expects to purchase another vessel similar to the *Mermaid Voyager* to form part of the spot fleet and service the short term offshore support market predominantly in Australia.

Our Singapore-based international business has added significant value in relation to the purchase of these new vessels, with the *Mermaid Vision's* initial contract including international towage operations with international crews before heading to Australia. This would not have been possible on a competitive basis prior to the establishment of the Singapore company.

The vessel business continues to be the major contributor to MMA's earnings and with a young and highly capable Australian based fleet, augmented by an emerging capability to operate competitively on an international basis, the future for this part of MMA's business remains positive.

## Supply Base Operations

### Dampier Supply Base

The Dampier Supply Base is MMA's single largest asset. The significant on-site development which has taken place during the past year has created a differentiating asset which is highly attractive to clients. During the year the wharf extension was completed and upgrade works were commenced to support Chevron's Gorgon project.

Construction costs for the main wharf extension came in around $5 million below the original $22 million budget despite construction commencing at a time when steel and concrete prices were still at historically high levels. The majority of the savings came as a result of MMA undertaking the work directly and being able to achieve high productivity levels from the construction team led by Nigel Prettyman - one of Australia's most experienced and credentialed wharf construction managers.

The wharf extension has essentially doubled the berth capacity of the facility and as a result MMA has achieved substantial growth in vessel numbers and vessel cargo since the expansion was completed. Importantly, MMA has been able to attract companies who are drilling offshore and over the last six months have provided stevedoring services to a number of the major exploration campaigns in the region.

MMA's goal is to have the personnel and equipment necessary to service offshore vessels more efficiently than our competitors. To this end the Company has invested in: enhanced training for our employees; two new 250 tonne crawler cranes; and a Maffi Trailer system. The wharf is currently running two gangs with two cranes and average tonnage across the wharf has more than tripled since the start of the year. The added advantage of the increased wharf capacity is that more vessels visiting the facility translates to increased activity throughout the entire base.

The other major undertaking has been the upgrade works for the Gorgon project. This has involved expansion of the LCT ramp, construction of a new barge berth, development of laydown areas and the construction of numerous office blocks across the base. The first facilities are in the process of being handed over to our clients for operation with the balance of the works to be completed by the end of the calendar year. In addition MMA will be undertaking roadworks around the base to improve access between the relevant laydown areas. This is a substantial project for the company with the final cost expected to be in the region of $30-$35 million. MMA has engaged a Project Manager, Italo Piscedda, to manage the works through a number of subcontracting companies.

On completion of this project the Dampier Supply Base will be a world class facility well positioned for future growth.

### Dampier Slipway

The Dampier Slipway experienced another year of strong demand, resulting in a 55% increase in revenue. However, margins remained under pressure as high input costs continue to present challenges.

The cost of employment in the Dampier region remains high, primarily as a result of high rental costs for accommodation. The slipway workforce now totals more than 30 personnel and staff turnover has reduced dramatically during the year. The reduced turnover has resulted in productivity and training improvements, as well as an improvement in safety performance. This stability is critical as MMA continues to work on improving margins while providing a competitive service.

A major upgrade of the slipway facilities has been undertaken over the last two years to increase the capacity of the cradles and improve the services and infrastructure. In addition MMA now undertakes all blasting and painting work directly, which improves quality control and profitability. During the year 35 vessels were docked of which 40% were MMA vessels.

The Slipway will continue to be a major strategic asset for MMA, providing certainty around vessel maintenance and control over timing of vessel dockings to suit our contractual obligations. In addition, the savings generated by the proximity of the slipway to MMA's operations are significant.

### Broome Supply Base – Toll Mermaid Joint Venture

The Broome Supply Base experienced substantial growth in earnings on the back of a number of drilling campaigns undertaken in the Browse Basin by the following companies:

- Shell
- Woodside
- Conoco Phillips
- Murphy Oil
- Inpex

During the year the main 3.2 hectare Supply Base was bitumised and fenced and is now in use supporting our various clients' operations. A new warehouse has recently been completed and work is expected to commence on a new office complex over the next few months. These developments are aimed at establishing the JV as the quality supply base operator in the region with a view to future developments offshore.

While exploration in the region is expected to be more subdued in the 2010 financial year, the Browse Basin remains a highly prospective region for future production of LNG.

Inpex has announced the commencement of FEED for its Icthys project. This project is expected to have an initial capacity to produce more than eight million tonnes of LNG per annum, approximately 1.6 million tonnes of LPG and 100,000 barrels of condensate per day at peak. This is a significant project which will require substantial support during the construction project.

Similarly Shell has an attractive prospect in the Prelude field and is considering the merits of floating LNG to develop this field. Woodside, who has already undertaken substantial exploration drilling in the region, is also considering a new development utilising the recently announced Kimberley Hub at James Price Point. Any one of these projects has the potential to drive substantial growth in the Broome Supply Base operations.

## Health, Safety, Environment and Security

Work hours across the organisation increased by 44% over the year as a result of growth in our core operating businesses and the construction activity on the Dampier Supply Base. This growth was on the back of a 40% increase in work hours in the previous financial year and presents a number of challenges in managing the health and safety of our personnel.

MMA employs an Integrated Business Management System (IBMS) as the fundamental tool in ensuring that our safety management processes are captured within our core business processes. This management system is constantly reviewed internally and externally to ensure that the company continues to improve in both safety and execution. In the previous financial year MMA recorded a 70% improvement in our "All Injury" frequency rate which was an excellent outcome. While MMA has not been able to achieve the same level of improvement in the 2009 financial year we have put in place a number of initiatives that will assist in our goal of an injury free workplace.

During the past year there have been a total of 27 statutory / regulatory audits, 16 client audits and 39 internal audits all of which have provided opportunities to verify system compliance and identify improvements to ensure our systems continue to grow with our business. The number of audits also highlights the criticality of our systems both internally and in meeting the ongoing expectations of clients and regulatory bodies.

As the overall safety performance improves across the organisation more sophisticated tools are required to enhance our safety culture and performance. We have proven over the last 12 months that work sites that identify the most hazards are statistically the safest worksites and the process of hazard identification has been reinforced across the organisation. In addition, MMA's safety group is working towards implementing a more behavioural based safety system across the organisation and is liaising with our clients to plan and develop this approach.

The Dampier Supply Base and our offshore vessels are captured under the International Ship and Port Security Code (ISPS Code) which was introduced in Australia in July 2004. The aim of this code is to "detect security threats and take preventative measures against security incidents affecting ships or port facilities used in international trade". Compliance with this code is fundamental to our operations

both in Australia and internationally. With more MMA vessels trading internationally and the Dampier Supply Base servicing more vessels this aspect of our compliance operations takes a high profile.

Environmental compliance is one of MMA's key operating licences and as such MMA has a comprehensive environment management and monitoring program in place. Management of our operations to ensure we operate in an environmentally sustainable manner is crucial to our ongoing success and monitoring programs provide the necessary evidence required to demonstrate we are not negatively impacting on the sensitive areas in which we operate. MMA has achieved 100% compliance in all aspects of our licences and State Government Ministerial environmental requirements.

## People

As MMA continues to grow, the depth and capability of management becomes more and more critical. At MMA we have been able to attract high quality managers across the disciplines and have, over the last two years in particular, brought in a significant number of highly experienced operations and commercial personnel. We are cognisant of the fact that the ability to grow on a sustainable basis is dictated by having the right people and having the systems and processes in place to ensure that these people know exactly what is expected of them.

On this note I would like to pay tribute to the Senior Management team, managers and staff across the organisation for their ongoing commitment and endeavour. The competition is always for the best people and I believe that the shareholders of MMA are well served by the people within the Company.

**Jeffrey Weber**
**Managing Director**

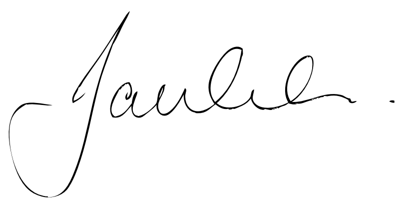
| David Lofthouse | Ted Graham | David Ross | Peter Raynor | Treena Vivian | Jeff Rogers |
|---|---|---|---|---|---|
| General Manager Business Development | General Manager Corporate Development | Chief Operating Officer | Chief Financial Officer | General Manager Human Resources | Health, Safety & Security Manager |

"The 2009 financial year was a successful one for our company and our shareholders. We enter into the 2010 financial year optimistic that Mermaid Marine can continue to grow earnings and shareholder value."

I would also like to thank my colleagues on the Board of Directors. The Board has set a very clear strategy which is constantly reviewed and acts as the framework for clear and timely decision making at the management level. As outlined in the Chairman's Address, the Board has also taken on a more interactive role in management of risk across the organisation. During the recent financial crisis, management of risk has been clearly identified as a crucial factor in protecting shareholders funds.

Finally I would like to thank our clients for their ongoing support. It has been a time of extraordinary volatility in oil prices, exchange rates, debt markets and equity markets among other things. During these times the relationship with clients and the ability to work with them to achieve their goals is all the more important. Similarly our suppliers play an important role in ensuring MMA provides the highest level of service and reliability at competitive rates.

The 2009 financial year was a successful one for our company and our shareholders. We enter into the 2010 financial year optimistic that Mermaid Marine can continue to grow earnings and shareholder value.



Jeff Weber

**Managing Director**

# Corporate Governance Statement

The Board of Directors of Mermaid Marine Australia Limited (the Company) is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Australian Stock Exchange Listing Rule 4.10.3 requires companies to disclose the extent to which they have complied with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition) released on 2 August 2007 ("ASX Principles"). Where recommendations have not been followed, the Company must identify the recommendations which have not been followed and give reasons for not following them. The Company's corporate governance practices for the year ended 30 June 2009 are outlined in this Corporate Governance Statement. The following table lists each of the ASX Principles and the Company's assessment of its compliance with the ASX Principles:

| Principle 1: Lay solid foundations for management and oversight | Comply |
|---|---|
| 1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | ✓ |
| 1.2 Companies should disclose the process for evaluating the performance of senior executives. | ✓ |
| 1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1. | ✓ |

| Principle 2: Structure the board to add value | Comply |
|---|---|
| 2.1 A majority of the board should be independent directors. | ✓ |
| 2.2 The chair should be an independent director. | ✓ |
| 2.3 The roles of chair and chief executive officer should not be exercised by the same individual. | ✓ |
| 2.4 The board should establish a nomination committee. | ✓ |
| 2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. | ✓ |
| 2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2.5. | ✓ |

| Principle 3: Promote ethical and responsible decision-making | Comply |
|---|---|
| 3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to: | ✓ |
| 3.1.1 the practices necessary to maintain confidence in the company's integrity; | ✓ |
| 3.1.2 the practices necessary to take into account their legal obligations and reasonable expectations of their stakeholders; and | ✓ |
| 3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | ✓ |
| 3.2 Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy. | ✓ |
| 3.3 Companies should provide the information indicated in the Guide to reporting on Principle 3. | ✓ |

| Principle 4: Safeguard integrity in financial reporting | Comply |
|---|---|
| 4.1 The board should establish an audit committee. | ✓ |
| 4.2 The audit committee should be structured so that it:<br>• consists only of non-executive directors;<br>• consists of a majority of independent directors;<br>• is chaired by an independent chair, who is not chair of the board; and<br>• has at least three members. | ✓ |
| 4.3 The audit committee should have a formal charter. | ✓ |
| 4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4. | ✓ |

| Principle 5: Make timely and balanced disclosure | Comply |
|---|---|
| 5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. | ✓ |
| 5.2 Companies should provide the information indicated in the Guide to reporting on Principle 5. | ✓ |

## ASX Principles

| Principle 6: Respect the rights of shareholders | Comply |
|---|---|
| 6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. | ✓ |
| 6.2 Companies should provide the information indicated in the Guide to reporting on Principle 6. | ✓ |

| Principle 7: Recognise and manage risk | Comply |
|---|---|
| 7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | ✓ |
| 7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | ✓ |
| 7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | ✓ |
| 7.4 Companies should provide the information indicated in the Guide to reporting on Principle 7. | ✓ |

| Principle 8: Remunerate fairly and responsibly | Comply |
|---|---|
| 8.1 The board should establish a remuneration committee. | ✓ |
| 8.2 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | ✓ |
| 8.3 Companies should provide the information indicated in the Guide to reporting on Principle 8. | ✓ |

For further information on the corporate governance policies adopted by the Company refer to the Corporate Governance and Company Policies section under the "Company" tab on the Company's website: www.mma.com.au

### The Board and Board Structure

Details of the functions and responsibilities of the Board, Chairman and matters delegated to senior executives are set out in sections 1 to 3 of the Board Charter (a copy of which can be found under the Corporate Governance section of the Company's website). The roles and responsibilities of the Company's Board and senior executives are consistent with those set out in ASX Principle 1.

Details of the performance review process for senior executives are set out in the Remuneration Report, which forms part of the Directors' Report in this Annual Report. A performance evaluation for senior executives has taken place in the relevant reporting period in accordance with the process set out in the Remuneration Report.

### Board Structure

The Board is currently comprised of 5 directors, with:

- Three non-executive directors, including the Chairman; and
- Two executive directors.

A description of the skills, experience and expertise relevant to the position of director held by each director in office at the date of this annual report is included in the Directors' Report.

### Board Independence

Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent directors. In addition, Recommendation 2.2 requires the chairperson of the Company to be independent.

As defined by the Corporate Governance Council, directors of the Company are considered to be independent when they are non-executive directors who are independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

In the context of director independence, "materiality" is considered from both the Company and individual director's perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the Company's loyalty.

The Board assesses the independence of directors upon their appointment and regularly reviews and assesses the independence of non-executive directors.

Of the five current Board members, the following three directors are considered by the Board to be independent (having regard to the relationships affecting independent status described in Box 2.1 of the Recommendations and other facts, information and circumstances that the Board considers relevant):

| Name | Position |
|---|---|
| Mr A Howarth | Chairman, Non-Executive Director |
| Mr M Bradley | Non-Executive Director |
| Mr J Mews | Non-Executive Director |

The Board has considered the independence of Mr Bradley who has previously been employed in an executive capacity by the Company. The Board considers Mr Bradley to be independent as there has been a period of at least three years since ceasing such employment.

Of the five current Board members, the following two directors are not considered by the Board to be independent (having regard to the relationships affecting independent status described in Box 2.1 of the Recommendations and other facts, information and circumstances that the Board considers relevant):

| Name | Position |
|---|---|
| Mr J Weber | Managing Director |
| Mr J Carver | Executive Director |

Therefore, the majority of the Board is considered to be independent. Further, the chairperson of the Company is an independent director.

There are procedures in place, agreed by the Board, to enable directors, in furtherance of their duties, to seek independent professional advice (if necessary) at the Company's expense.

The period of office held by each director in office at the date of this report is as follows:

| Name | Period in Office |
|---|---|
| Mr J Carver | 11 years |
| Mr J Mews | 11 years |
| Mr M Bradley | 9 years |
| Mr A Howarth | 8 years |
| Mr J Weber | 7 years |

The Board considers that the length of time that Mr Carver and Mr Mews have been on the Board does not have an adverse impact on each director's ability to bring an independent judgment to bear in decision-making. The Board considers that having some directors who have served on the Board for longer periods helps to ensure continuity of corporate knowledge and experience.

## Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee. Its role is to make recommendations to the Board about:

- the necessary and desirable competencies of directors;
- effective induction programmes for new directors;
- review of Board succession plans;
- developing, implementing and regularly re-assessing a process for the evaluation of the performance of the Board, its committees and directors;
- the selection, appointment and re-election of directors;
- the company's remuneration, recruitment, retention and termination policies and procedures for senior executives;
- senior executives remuneration and incentives;
- superannuation arrangements; and
- the remuneration framework for directors.

The objective of the Company's remuneration policy is to enhance both corporate and individual performance by taking into account all factors which it deems necessary to ensure that members of the executive management of the Company are motivated to pursue the long term growth and success of the Company within an appropriate control framework and to ensure there is a clear relationship between senior executive performance, Company performance and remuneration.

The specific responsibilities of the Nomination and Remuneration Committee are set out in the committee's Charter which is to be found at Appendix C of the Board Charter and are consistent with the requirements of the ASX Principles.

The Nomination and Remuneration Committee comprised the following members throughout the year:

| Name | Position |
|---|---|
| Mr M Bradley (Chairman) | Independent, Non-Executive Director |
| Mr A Howarth | Independent, Non-Executive Director |
| Mr J Carver | Executive Director |

Details of:

- the remuneration and all monetary and non-monetary components for each of the five highest-paid (non-director) executives during the year and for each of the directors during the year; and
- the difference in the structure of remuneration of non-executive directors from that of executive directors and senior executives and the relationship between remuneration and Company performance

are set out in the Director's Report and Notes 29 of the Annual Report.

The Board exercises its discretion to pay bonuses, options and other incentive payments, commensurate with the overall performance of the Company and the performance of the individual during the period.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

## Performance Evaluation

A performance evaluation for the Board, its committees and directors has taken place during the reporting period in accordance with section 12 and Appendix J of the Board Charter. This evaluation was carried out by the Nomination and Remuneration Committee and involved a review of the performance of the Board, its committees and each director against measurable and qualitative benchmarks as determined by the Board having regard to accepted, sound corporate governance standards.

Details of the number of meetings of the Nomination and Remuneration Committee held during the year and the attendance at those meetings is set out in the Directors' Report.

## Audit & Risk Committee

The Board has established an Audit & Risk Committee which operates under a formal charter approved by the Board (a copy of which is set out under Appendix B of the Board Charter). It is the Board's responsibility to regularly review and approve the company's risk management and oversight policies (including a review of the effectiveness of the implementation of that system) to satisfy itself that the management has developed and implemented a sound system of risk management and internal control. Whilst retaining ultimate responsibility, the Board has delegated its responsibility for risk oversight, risk management and internal control to the Audit & Risk Committee. This includes monitoring the integrity of the financial statements of the Company, reviewing external reporting procedures, reviewing the performance of the Company's external audit function to ensure that independence is maintained, assessing the propriety of all related-party transactions, monitoring, assessing and making recommendations to the Board in relation to the Company's business policies and procedures, internal control systems, compliance with applicable laws and regulations, the Company's risk management framework and the effectiveness of the Company's management of its material business risks.

The Audit & Risk Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The members of the Audit & Risk Committee during the year were:

| Name | Position |
|---|---|
| Mr J Mews (Chairman) | Independent, Non-Executive Director |
| Mr A Howarth | Independent, Non-Executive Director |
| Mr M Bradley (appointed 10 June 2009) | Independent, Non-Executive Director |

Details of the qualifications of each of the above members of the Audit & Risk Committee, the number of meetings of the Audit & Risk Committee held during the year and the attendance at those meetings is set out in the Directors' Report respectively.

The Chair of the Audit & Risk Committee is an independent, non-executive director who is not chair of the Board.

The Board has considered that the nature of the non-audit services provided by the external auditor, Deloitte Touche Tohmatsu, during the year and has determined that the services provided, and the amount paid for those services, are compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and that the auditor's independence has not been compromised.

## Policies, Declarations and Assurances

Details of the Company's:

- Director's Code of Conduct and Corporate Code of Conduct are set out in section 7 and Appendix D and G of the Board Charter respectively;
- Share Trading Policy is set out in section 8 and Appendix E of the Board Charter;
- Communications Policy and Disclosure Policy are set out in sections 9, 10, 11 and Appendix F of the Board Charter;
- Risk Management Policy (Summary) is set out in section 13 and Appendix H of the Board Charter and under the Company Policies section of the Company's website;
- Procedures for the selection, appointment and rotation of the external auditor are set out in Appendix I of the Board Charter; and
- Procedures for the evaluation of the Board and its Committee's are set out in section 12 and Appendix J of the Board Charter.

In line with ASX Recommendation 7.2, management has reported to the Board that the Company's material business risks are being effectively managed in line with the risk management and internal control systems designed and implemented by management and approved by the Board.

In line with ASX Recommendation 7.3, the Board has received the written assurances from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks (see subsection (c) of the Directors' Declaration in this Annual Report).

# Directors' Report

## The directors of Mermaid Marine Australia Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2009.

In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

**Directors** The names and particulars of the directors of the Company during or since the end of the financial year are:

### Mr Anthony (Tony) John Howarth AO - Chairman

Appointed 5 July 2001

Tony was appointed as Chairman of the Company on 1 August 2006. Tony is also currently Deputy Chairman of Bank of Queensland Limited and a non-executive director of AWB Limited and Wesfarmers Limited. Tony worked in the banking and finance industry for over 30 years. His work has involved a number of overseas appointments. He has previously held the positions of Managing Director of Challenge Bank Limited, CEO of Hartleys Limited and Chairman of Alinta Limited and Home Building Society Limited. Tony is also involved in a number of business and community organisations including holding the positions of Chairman of St John of God Health Care Inc, President of the Australian Chamber of Commerce and Industry and a director of the Chamber of Commerce and Industry WA. He is a member of Rio-Tinto's WA Future Fund and the University of Western Australia's Senate. Tony is a member of the Company's Nomination and Remuneration Committee and the Audit & Risk Committee.

### Mr Jeffrey Andrew Weber - Managing Director

Appointed 31 December 2002

Jeff began his career as a marine engineer with BHP Transport. He went on to complete a degree in this field in 1993 and in 1994 graduated with a Master's in Engineering and Technology Management from the University of Queensland. During his 19 years with BHP, Jeff gained comprehensive project management experience and helped develop new business for BHP Transport in Australia and south-east Asia. He also managed a major initiative with BHP's steel division, reviewing its logistics arrangements and developing processes to improve services and reduce costs. In 1998, Jeff joined Riverside Marine in Queensland and helped expand its operations Australia-wide. This included forming a joint venture company with Wijsmuller International Towage BV, RiverWijs and negotiating with Woodside Petroleum to take over that Company's harbour towage operation in Dampier, Western Australia. As Managing Director of Mermaid Marine, Jeff is responsible for the financial and operational performance of all of the Company's business lines.

### Mr James Henry Carver - Executive Director

Appointed 29 June 1998

Captain James Carver is a Ships' Master with over 30 years' direct experience in the marine industry. As Woodside Petroleum's first Ships' Master, he carried out marine operations in LNG development. Captain Carver, who has been involved in exploration, construction and production for most of the oil and gas projects on the North-West Shelf, has an in-depth knowledge of the industry, its needs and its future. He established Mermaid Marine in 1982 and pursued a 'can do' attitude at sea and ashore. Under his direction, the fleet grew from one to 15 vessels and the base at Dampier was secured for its present expansion. Captain Carver is a member of the Company's Nomination and Remuneration Committee.

### Mr Jeffrey Arthur Sydney Mews - Non-Executive Director

Appointed 12 August 1998

A Fellow of the Institute of Chartered Accountants in Australia, Jeff is also an Associate of the Australian Society of Certified Practising Accountants, a Fellow of the Australian Institute of Company Directors and a Fellow of the Taxation Institute of Australia. Jeff spent more than 22 years as a partner in the taxation consulting division of PricewaterhouseCoopers before retiring from the partnership. His experience in the oil, gas and mining industries is extensive and he has been directly involved, at a senior level, with most major resource projects in Western Australia since the 1970's. Jeff is currently a director of Arafura Pearls Holdings Ltd. As well as being a past Chairman of the Western Australian division of the Taxation Institute of Australia, Jeff was a Member of the Salaries and Allowances Tribunal for the State of Western Australia for 14 years and was a Founding Governor of the Malcolm Sargent Cancer Fund for Children (now Redkite) in Western Australia. Jeff is the Chairman of the Company's Audit & Risk Committee.

### Mr Mark Francis Bradley - Non-Executive Director

Appointed 22 September 2000

A civil engineer with a track record in senior off-shore engineering management, Mark joined the J Ray McDermott company in 1977 for service on Esso's Tuna/Mackerel project in Bass Strait. During the 14 years of technically challenging work that followed, Mark held senior positions with the company in Indonesia, Singapore, Malaysia, Dubai and Saudi Arabia. Still with McDermott, but returning to Australia, he then worked on new projects in Bass Strait and, finally, the Woodside North Rankin A and Goodwyn A platforms on the North-West Shelf in Western Australia. In 1991, Mark joined Clough Offshore as project manager of a number of North-West Shelf projects. Duties in Thailand, China and Indonesia followed, and by 1993 he was operations/project manager for BHP's Griffin project. In 1994, Mark became managing director of Clough Offshore. A highly talented manager, he then presided over that company's fivefold growth, which was to make it one of the most well-equipped, professional and competitive groups in the off-shore contracting business. In 1997, Mark joined the Board of Clough Engineering as an executive director, retiring and becoming a shareholder and director of Mermaid Marine in 2000. Mark is the Chairman of the Company's Nomination and Remuneration Committee and a member of the Audit & Risk Committee.

*The above named directors held office during the whole of the financial year.*

## Directorships of Other Listed Companies

Directorships of other listed companies held by the directors in the three years immediately before the end of the financial year are as follows:

| Name | Company | Period of Directorship |
|---|---|---|
| Mr A Howarth | AWB Limited | Since March 2005 |
| Mr A Howarth | Bank of Queensland Limited | Since December 2007 |
| Mr A Howarth | Wesfarmers Limited | Since July 2007 |
| Mr A Howarth | Alinta Limited | 2000-2006 |
| Mr A Howarth | Home Building Society | 2003-2007 |
| Mr J Mews | Arafura Pearls Holdings Ltd | Since 2001 |

## Directors' Shareholdings

The following table sets out each director's relevant interest in shares and options of the Company as at the date of this report:

| Name | Fully paid ordinary shares direct | Fully paid ordinary shares indirect | Share options direct |
|---|---|---|---|
| Mr A Howarth | 403,688 | 424,454 | - |
| Mr J Weber | 1,157,153 | 520,000 | 2,847,624 |
| Mr M Bradley | 3,073,819 | - | - |
| Mr J Carver | 40,000 | 6,522,217 | - |
| Mr J Mews | 392,153 | 357,153 | - |

The directors do not have any interests in shares or options of any related body corporate of the Company.

## Share Options Granted to Directors and Senior Management

During and since the end of the financial year an aggregate of 2,663,016 share options were granted to the following directors and five highest remunerated officers of the Company as part of their remuneration:

| Name | Number of options granted | Issuing entity | Number of ordinary shares under option |
|---|---|---|---|
| Mr J Weber | 1,277,584 | Mermaid Marine Australia | 1,277,584 |
| Mr D Ross | 518,500 | Mermaid Marine Australia | 518,500 |
| Mr P Raynor | 518,500 | Mermaid Marine Australia | 518,500 |
| Mr E Graham | 174,216 | Mermaid Marine Australia | 174,216 |
| Ms T Vivian | 174,216 | Mermaid Marine Australia | 174,216 |

## Company Secretary

### Mr Dylan Darbyshire-Roberts Appointed 19 August 2008

Mr Dylan Darbyshire-Roberts held the position of company secretary of Mermaid Marine Australia Limited at the end of the financial year. He joined the Company in May 2007 in the role of Commercial Manager. Previously, he was a senior associate with the law firm DLA Phillips Fox where he practised in the areas of insurance, corporate and marine law. After obtaining a Bachelor of Commerce degree (1995) and a LLB degree (1997) at the University of Natal (PMB), Dylan qualified as a solicitor in South Africa, New South Wales and Western Australia. Dylan has worked in a legal capacity in all of these jurisdictions as well as the UK over the past 10 years.

## Principal Activities

The consolidated entity's principal activities during the course of the financial year were:

- Operating crewed vessel charters; and
- Operating supply base and marine support facilities.

There were no significant changes in the nature of the activities of the consolidated entity during the financial year.

## Review of Operations

A review of, and information about the operations of the consolidated entity for the financial year and the results of those operations are set out in the Chairman's Address and the Managing Director's Review of Operations in this Annual Report.

## Changes in State of Affairs

During the financial year there were no significant changes in the state of affairs of the consolidated entity other than those referred to in the financial statements or the notes thereto.

## Subsequent Events

There has not been any matter or circumstance occurring subsequent to the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

## Future Developments

The Chairman's Address and the Managing Director's Review of Operations give an indication, in general terms, of likely developments in the Company's operations in future financial years, and the expected results of those operations.

## Environmental Regulations

The consolidated entity continues to conduct its operations within the parameters of the Department of Environmental and Conservation Licence and Ministerial requirements. There were no breaches of licence conditions for the year ended 30 June 2009.

## Dividends

In respect of the financial year ended 30 June 2008, as detailed in the Directors' Report for that financial year, a final dividend of two cents per share franked to 100% at 30% corporate income tax rate was paid to holders of fully paid ordinary shares on 8 October 2008.

In respect of the financial year ended 30 June 2009, an interim dividend of two cents per share franked to 100% at 30% corporate income tax rate was paid to holders of fully paid ordinary shares on 8 April 2009.

In respect of the financial year ended 30 June 2009, the directors have declared a final dividend of four cents per share franked to 100% at 30% corporate income tax rate to be paid on 7 October 2009 to the holders of fully paid ordinary shares in the Company on the record date of 18 September 2009.

## Shares Under Option and Issued on Exercise of Options and Share

Details of unissued shares under option or rights at the date of this report are:

| Issuing entity | Number of shares under option | Class of shares | Exercise price of options $ | Expiry date of options |
|---|---|---|---|---|
| Mermaid Marine Australia Ltd | 1,080,000 | Ordinary | 0.48(a) | 19 May 2011 |
| Mermaid Marine Australia Ltd | 970,040 | Ordinary | 1.83(b) | 11 October 2012 |
| Mermaid Marine Australia Ltd | 2,412,644 | Ordinary | 1.83(c) | 11 October 2012 |
| Mermaid Marine Australia Ltd | 469,193 | Ordinary | 1.83(c) | 24 January 2013 |
| Mermaid Marine Australia Ltd | 1,385,432 | Ordinary | 1.60(d) | 23 September 2013 |
| Mermaid Marine Australia Ltd | 1,277,584 | Ordinary | 1.60(d) | 23 September 2013 |

(a) These share options can only be exercised during their exercise period subject to the share price of the Company being equal to or greater than 70 cents for the 19 May 2011 options or 80 cents for the 25 August 2011 options as detailed in note 24.

(b) These share options vest on 11 October 2010 and can only be exercised during their exercise period subject to the share price of the Company achieving certain levels as detailed in note 24.

(c) 15% of these share options vest 36 months after their issue date. The remaining 85% of these share options can only be exercised during their exercise period subject to the Company achieving certain performance criteria as detailed in note 24.

(d) These share options vest on 23 September 2011 and can only be exercised during their exercise period subject to the share price of the Company achieving certain levels as detailed in note 24.

Holders of options over unissued shares in the Company do not have the right, by virtue of the option, to participate in any share issue of the Company.

Details of shares issued during or since the end of the financial year as a result of exercise of an option are:

| Issuing entity | Number of shares issued | Class of shares | Amount paid for shares $ | Amount unpaid on shares $ |
|---|---|---|---|---|
| Mermaid Marine Australia Ltd | 520,000 | Ordinary | 0.00 | Nil |
| Mermaid Marine Australia Ltd | 649,200 | Ordinary | 0.48 | Nil |
| Mermaid Marine Australia Ltd | 100,000 | Ordinary | 0.62 | Nil |
| Mermaid Marine Australia Ltd | 1,200,000 | Ordinary | 0.40 | Nil |

## Insurance and Indemnities of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company, the company secretary and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, company secretary or executive officer to the extent permitted by the Corporations Act 2001. The relevant contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

## Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, seven Board Meetings, three Audit & Risk Committee meetings and two Nomination and Remuneration committee meetings were held.

| Name | Board of Directors | | Audit & Risk Committee | | Nomination & Remuneration Committee | |
|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended |
| Mr A Howarth | 7 | 7 | 3 | 3 | 2 | 2 |
| Mr J Weber | 7 | 7 | n/a | n/a | n/a | n/a |
| Mr M Bradley | 7 | 7 | n/a | n/a | 2 | 2 |
| Mr J Carver | 7 | 7 | n/a | n/a | 2 | 2 |
| Mr J Mews | 7 | 7 | 3 | 3 | n/a | n/a |

## Proceedings on Behalf of the Company

No persons applied for leave under s.237 of the Corporations Act 2001 to bring, or intervene in, proceedings on behalf of the Company during the financial year.

## Non-Audit Services

Details of the amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 28 to the Financial Statements.

The directors are satisfied that the provision of non-audit services during the year, by the auditor (or another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 28 to the financial statements do not compromise the external auditors independence, based on advice received from the Audit & Risk Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing economic risks and rewards.

## Auditor's Independence Declaration

The auditor's independence declaration is included on page 33 of this Annual Report.

## Rounding Off of Amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Director's Report and Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

## Remuneration Report

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Mermaid Marine Australia Limited's directors and its senior management for the financial year ended 30 June 2009. The prescribed details for each person covered by this report are detailed below under the following headings:

- Director and Senior Management Details;
- Remuneration Policy;
- Relationship between Remuneration Policy and Company Performance;
- Remuneration of Directors and Senior Management; and
- Key Terms of Employment Contracts.

## Director and Senior Management Details

The directors of Mermaid Marine Australia Limited during and since the end of the financial year were:

Mr A Howarth (Chairman) (Non-Executive Director)
Mr J Weber (Managing Director)
Mr J Carver (Executive Director)
Mr M Bradley (Non-Executive Director)
Mr J Mews (Non-Executive Director)

The term "senior management" is used in this Remuneration Report to refer to the following persons. Except as noted, the following senior management of Mermaid Marine Australia Limited held their current position for the whole of the financial year and since the end of the financial year:

Mr D Ross (Chief Operating Officer)
Mr P Raynor (Chief Financial Officer)
Mr E Graham (General Manager – Development)
Mr S Lee (Supply Base Manager)
Mr D Verboon (Slipway Manager)
Ms T Vivian (General Manager – Human Resources)
Mr J Rogers (Health, Safety & Security Manager) – Appointed 9 March 2009

## Remuneration Policy

The Nomination and Remuneration committee reviews the remuneration packages of all directors and executives on an annual basis and makes recommendations to the Board. Remuneration packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries, and are adjusted by a performance factor to reflect changes in the performance of the Company and the consolidated entity.

## Non Executive Directors' Fees

Non executive directors' fees are determined within an aggregate directors' fee pool which is periodically recommended for approval by shareholders. The maximum fees payable to non-executive directors are currently $550,000 per annum in aggregate (approved by shareholders on 27 November 2008).

Fees paid to non-executive directors are set at levels which reflect both the responsibilities of, and time commitments required from each non-executive director to discharge his duties. Non-executive directors' fees are reviewed annually by the Board to ensure they are appropriate for the duties performed, including Board committee duties, and are in line with the market. Other than statutory superannuation, directors are not entitled to retirement allowances.

## Senior Executive Remuneration

Senior executive remuneration comprises both a fixed component and an at-risk component, which is designed to remunerate senior executives for increasing shareholder value and for achieving financial targets and business strategies. It is also designed to attract and retain high calibre executives. The remuneration of senior executives has three components:

- Fixed annual remuneration comprising base salary and superannuation;
- Short-term incentives (STI) – an annual "at-risk" cash component designed to reward performance against key performance indicators (KPIs). These KPIs are designed to measure the achievement of strategic financial and operating objectives of the Group. The maximum STI opportunity varies according to the role;
- Long-term incentives – the Company grants options or rights over its ordinary shares.

## Relationship Between the Remuneration Policy and Company Performance

The salary and fees and non-monetary components are reviewed and determined annually by the Nomination and Remuneration committee.

In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board by having regard to the overall performance of the Company and consolidated entity and the performance of the individual during the period.

The tables below set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2009:

| | 30 June 2009 | 30 June 2008 | 30 June 2007 | 30 June 2006 | 30 June 2005 |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Revenue | 163,881 | 149,364 | 103,124 | 71,096 | 49,478 |
| Net profit before tax | 33,555 | 25,400 | 17,560 | 12,229 | 3,875 |
| Net profit after tax | 26,524 | 17,897 | 12,513 | 9,208 | 2,359 |
| Share price at start of the year | $1.55 | $1.90 | $0.60 | $0.35 | $0.32 |
| Share price at end of the year | $1.83 | $1.55 | $1.90 | $0.60 | $0.35 |
| Interim dividend | 2cps | Nil | Nil | Nil | Nil |
| Final dividend | 4cps | 2cps | 1cps | Nil | Nil |
| Basic earnings per share | 14.50cps | 11.82cps | 8.91cps | 6.60cps | 1.83cps |
| Diluted earnings per share | 14.36cps | 11.63cps | 8.78cps | 6.60cps | 1.83cps |

## Remuneration of Directors and Senior Management

The following tables disclose the remuneration of the directors and senior management of the consolidated entity for the financial year to which the report relates and to the previous financial year: *(tables shown on next page)*

| 2009 | Short term employee benefits | | | Post employment benefits | Share based payment | Total |
|---|---|---|---|---|---|---|
| | Salary & fees | Bonus | Non-monetary | Superannuation | Options & rights | |
| | $ | $ | $ | $ | $ | $ |
| **Directors** | | | | | | |
| Mr A Howarth | 129,538 | - | - | 11,658 | - | 141,196 |
| Mr J Weber | 650,000 | 262,762 | - | 49,456 | 124,434 | 1,086,652 |
| Mr M Bradley | 66,923 | - | - | 6,023 | - | 72,946 |
| Mr J Carver | 170,001 | - | - | - | - | 170,001 |
| Mr J Mews | 76,923 | - | - | 6,923 | - | 83,846 |
| **Senior Management** | | | | | | |
| Mr D Ross | 345,688 | 106,640 | - | 29,312 | 62,632 | 544,272 |
| Mr P Raynor | 344,037 | 106,640 | - | 30,963 | 62,632 | 544,272 |
| Mr E Graham | 192,661 | 31,500 | - | 17,339 | 21,953 | 263,453 |
| Mr S Lee | 150,000 | 25,500 | 124,675 | 15,579 | 5,926 | 321,680 |
| Mr D Verboon | 132,962 | 20,250 | 35,638 | 12,211 | 6,209 | 207,270 |
| Mr J Rogers | 41,462 | 7,000 | - | 3,732 | - | 52,194 |
| Ms T Vivian | 194,142 | 35,831 | - | 17,474 | 20,412 | 267,859 |
| **Total** | **2,494,337** | **596,123** | **160,313** | **200,670** | **304,198** | **3,755,641** |

| 2008 | Short term employee benefits | | | Post employment benefits | Share based payment | Total |
|---|---|---|---|---|---|---|
| | Salary & fees | Bonus | Non-monetary | Superannuation | Options & rights | |
| | $ | $ | $ | $ | $ | $ |
| **Directors** | | | | | | |
| Mr A Howarth | 120,000 | - | - | 10,800 | - | 130,800 |
| Mr J Weber | 485,893 | 198,198 | - | 38,538 | 253,318 | 975,947 |
| Mr M Bradley | 55,000 | - | - | 4,950 | - | 59,950 |
| Mr J Carver | 150,000 | - | - | - | - | 150,000 |
| Mr J Mews | 65,000 | - | - | 5,850 | - | 70,850 |
| **Senior Management** | | | | | | |
| Mr D Ross | 259,673 | 79,625 | - | 21,468 | 53,577 | 414,343 |
| Mr P Raynor | 245,543 | 78,750 | - | 23,098 | 53,577 | 400,968 |
| Mr E Graham | 160,607 | 27,000 | - | 13,740 | 18,019 | 219,366 |
| Mr S Lee | 115,500 | 23,100 | 120,446 | 10,395 | 12,553 | 281,994 |
| Mr D Verboon | 118,962 | 18,500 | 17,191 | 9,627 | 12,747 | 177,027 |
| Ms T Vivian | 141,072 | 27,600 | - | 12,696 | 16,959 | 198,327 |
| **Total** | **1,917,250** | **452,773** | **137,637** | **151,162** | **420,750** | **3,079,572** |

No Director or Senior Management person appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

## Bonus and share-based payments granted as compensation for the current financial year

### Bonuses

Key senior management personnel were granted cash bonuses for the 2009 and 2008 financial years as noted above. The respective amounts were subject to a number of specified key performance targets being achieved. These performance targets relate to the following areas of the business:

- Financial;
- Business Growth;
- Business Improvement; and
- Employees' health/safety and attraction/retention of staff.

The bonuses were granted on 30 June each year.

The remuneration package of the managing director, Mr J Weber, included a cash bonus component of up to 38% of the base salary, non-monetary benefit and superannuation for the 2009 financial year (2008: 38%).

The remuneration packages of the other key management personnel for the 2009 financial year include a cash bonus component of up to 28% (2008: 28%) of the base salary, non-monetary benefit and superannuation.

All of the key performance indicators for measurement of eligibility for short-term incentives were met during the year resulting in 100% of possible amounts being paid.

### Employee Share Options and Rights Plans

The Company operates share option and rights schemes for executives and senior management and other employees. Each share option or right converts into one ordinary share of Mermaid Marine Australia Limited on exercise. No amounts are paid or payable by the recipient on receipt of the options or rights. The options or rights carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

During the financial year, the following share option and rights schemes were in existence:

| Series | Number issued | Grant Date | Expiry Date | Exercised Price $ | Fair Value at grant date $ | Vesting Date |
|---|---|---|---|---|---|---|
| (1) 15 Nov 2005 (a) | 600,000 | 15 Nov 2005 | 15 Nov 2009 | 0.40 | 0.13 | Date of issue |
| (2) 7 Dec 2005 (a) | 600,000 | 7 Dec 2005 | 7 Dec 2009 | 0.40 | 0.18 | Date of issue |
| (3) 19 May 2006 (b) | 2,115,000 | 19 May 2006 | 19 May 2011 | 0.48 | 0.21 | 24 mths after date of issue |
| (4) 25 Aug 2006 (b) | 205,000 | 25 Aug 2006 | 25 Aug 2011 | 0.62 | 0.28 | 24 mths after date of issue |
| (5) 21 Nov 2006 (c) | 520,000 | 21 Nov 2006 | 24 Sept 2008 | 0.00 | 0.70 | 26 August 2008 |
| (6) 22 Nov 2007 (d) | 970,040 | 22 Nov 2007 | 11 Oct 2012 | 1.83 | 0.39 | 11 October 2010 |
| (7) 23 Oct 2007 (e) | 2,576,788 | 23 Oct 2007 | 11 Oct 2012 | 1.83 | 0.45 | 36 mths after date of issue |
| (8) 24 Jan 2008 (e) | 487,714 | 24 Jan 2008 | 24 Jan 2013 | 1.83 | 0.45 | 36 mths after date of issue |
| (9) 23 Sep 2008 (f) | 1,385,432 | 23 Sept 2008 | 23 Sept 2013 | 1.60 | 0.26 | 36 mths after date of issue |
| (10) 27 Nov 2008 (g) | 1,277,584 | 27 Nov 2008 | 23 Sept 2013 | 1.60 | 0.08 | 36 mths after date of issue |

a) In accordance with the terms of the Managing Director and Senior Executive Share Option Plans, the options granted on 15 November 2005 and 7 December 2005 vested upon their issue.

b) The options issued on 19 May 2006 and 25 August 2006 vested 24 months after their issue date. The options issued on the 19 May 2006 may be exercised following their vesting date if the price of the Mermaid Marine Australia Ltd shares traded on the ASX is equal to or greater than 70 cents for a period of at least five consecutive trading days following the grant date and prior to the expiry date of the options. The options issued on 25 August 2006 may be exercised following their vesting date if the price of the Mermaid Marine Australia Ltd shares traded on the ASX is equal to or greater than 80 cents for a period of at least five consecutive trading days following the grant date and prior to the expiry date of the options.

c) In accordance with the terms of the Managing Director Incentive Share Plan, 520,000 shares may be issued by the board to the Managing Director during the period commencing 26 August 2008 and expiring 30 days thereafter subject to the following performance hurdles:

   (i) Fifty percent of the shares may be issued if the weighted volume average share price (WVASP) of the Company's shares which are traded on the ASX exceeds 80 cents for a period of at least 10 successive trading days during the two year period commencing on 23 August 2006 and ending on 25 August 2008.

   (ii) The remaining 50% of the shares may be issued if the weighted volume average share price (WVASP) of the Company's shares which are traded on the ASX exceeds $1.00 for a period of at least 10 successive trading days during the two year period commencing on 23 August 2006 and ending on 25 August 2008.

   These shares were issued on 23 September 2008.

d) In accordance with the terms of the Managing Director's Share Option Plan – October 2007, 970,040 share options vest on 11 October 2010 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 11 October 2007 and ending on 11 October 2010 and a maximum period of five years commencing on 11 October 2007 and ending on 11 October 2012.

e) 15% of the options issued on 23 October 2007 and 24 January 2008 vest 36 months after their issue date. The remaining 85% may be exercised subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years from issue date and a maximum period of five years from issue date.

f) In accordance with the terms of the Senior Executive Share Option Plans, 1,385,432 share options vest on 23 September 2011 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 23 September 2008 and ending on 23 September 2011 and a maximum period of five years commencing on 23 September 2008 and ending on 23 September 2013.

g) In accordance with the terms of the Managing Director's Share Option Plan – 2008, 1,277,584 share options vest on 23 September 2011 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 23 September 2008 and ending on 23 September 2011 and a maximum period of five years commencing on 23 September 2008 and ending on 23 September 2013.

The following grants of share based payment compensation to directors and senior management relate to the current financial year:

| Name | Option Series | During the financial year | | | | |
|---|---|---|---|---|---|---|
| | | Number granted | Number vested | % of grant vested | % of grant forfeited | % of compensation for the year consisting of options |
| Mr D Ross | (9) Issued 23 Sept 2008 | 518,500 | - | - | - | 11.5% |
| Mr P Raynor | (9) Issued 23 Sept 2008 | 518,500 | - | - | - | 11.5% |
| Mr E Graham | (9) Issued 23 Sept 2008 | 174,216 | - | - | - | 8.0% |
| Ms T Vivian | (9) Issued 23 Sept 2008 | 174,216 | - | - | - | 7.6% |
| Mr J Weber | (10) Issued 27 Nov 2008 | 1,277,584 | - | - | - | 11.5% |

During the year, the following directors and senior management exercised options and rights that were granted to them as part of their compensation. Each option converts into one ordinary share of Mermaid Marine Australia Limited.

| Name | Number of options and rights exercised | Number of ordinary shares of Mermaid Marine Australia Ltd | Amount paid | Amount paid |
|---|---|---|---|---|
| | | | $ | $ |
| Mr J Weber | 520,000 | 520,000 | Nil | Nil |
| Ms T Vivian | 100,000 | 100,000 | 48,000 | Nil |

The following table summarises the value of options granted, exercised or lapsed to directors and senior management during the year.

| Name | Value of options granted at grant date | Value of options/rights exercised at exercise date | Value of options lapsed at lapse date |
|---|---|---|---|
| | $ | $ | $ |
| Mr J Weber | 68,057 | 806,000 | - |
| Mr D Ross | 93,772 | - | - |
| Mr P Raynor | 93,772 | - | - |
| Mr E Graham | 31,507 | - | - |
| Ms T Vivian | 31,507 | 140,000 | - |

The Board has adopted a Share Trading Policy that, among other things, prohibits executives from entering into transactions that limit the economic risk of participated in unvested employee entitlements. The policy also requires executives proposing to enter into arrangements that limit the economic risk of a vested holding in the Company securities to first obtain approval from the Chairman of the Board (or, in the case of the Chairman, prior approval of the Chairman of the Audit & Risk Committee) and subsequently provide details of the dealing within five business days of the dealing taking place. Any bread of the Share Trading Policy is taken very seriously by the Company and is subject to disciplinary action, including possible termination of a person's employment or appointment.

## Key Terms of Employment Contracts

The executives and senior management are all employed by the Company under an employment contract, none of which are of fixed-term duration.

All contracts with senior executives may be terminated by either party giving the required notice and subject to termination payments as detailed below:

**Jeff Weber – Managing Director**

- The Company and the employee are required to provide six months notice of termination.
- If the employee is made redundant as a result of a material diminution in the nature and level of responsibilities or functions of the employee's position as a publicly listed company located in Perth, Western Australia, including without limitation through a change in control of the Company, the employee will be entitled to a payment of 1.5 times the Fixed Annual Remuneration in the relevant year.

**David Ross – Chief Operating Officer**

- The Company and the employee are required to provide six months notice of termination.
- If the employee is made redundant as a result of a material diminution in the nature and level of responsibilities or functions of the employee's position as a publicly listed company located in Perth, Western Australia, including without limitation through a change in control of the Company, the employee will be entitled to a payment of 1.5 times the Fixed Annual Remuneration in the relevant year.

**Peter Raynor – Chief Financial Officer**

- The Company and the employee are required to provide six months notice of termination.
- If the employee is made redundant as a result of a material diminution in the nature and level of responsibilities or functions of the employee's position as a publicly listed company located in Perth, Western Australia, including without limitation through a change in control of the Company, the employee will be entitled to a payment of 1.5 times the Fixed Annual Remuneration in the relevant year.

**Edward Graham – General Manager Development**

- The Company and employee are required to provide 30 days notice of termination.
- No termination benefits are payable.

**Shaun Lee – Supply Base Manager (Dampier)**

- The Company and employee are required to provide 30 days notice of termination.
- No termination benefits are payable.

**Dirk Verboon – Slipway Manager (Dampier)**

- The Company and employee are required to provide 30 days notice of termination.
- No termination benefits are payable.

**Jeff Rogers – Health, Safety & Security Manager**

- The Company and employee are required to provide 6 weeks notice of termination.
- No termination benefits are payable.

**Treena Vivian – General Manager Human Resources**

- The Company and employee are required to provide 30 days notice of termination.
- No termination benefits are payable.

This Director's Report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the directors

Tony Howarth

**Chairman**

Fremantle, 17 September 2009

# Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Mermaid Marine Australia Limited
"Eagle Jetty"
20 Mews Road
Fremantle WA, 6160

17 September 2009

Dear Board Members

**Mermaid Marine Australia Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Mermaid Marine Australia Limited.

As lead audit partner for the audit of the financial statements of Mermaid Marine Australia Limited for the period ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

**DELOITTE TOUCHE TOHMATSU**

**Kathleen Bozanic**
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Services Legislation

Member of
**Deloitte Touche Tohmatsu**

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# Independent Auditor's Report to the Members of Mermaid Marine Australia Limited

## Report on the Financial Report

We have audited the accompanying financial report of Mermaid Marine Australia Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 36 to 85.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes complies with International Financial Reporting Standards.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting

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policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

*Auditor's Independence Declaration*

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

*Auditor's Opinion*

In our opinion:

(a) the financial report of Mermaid Marine Australia Limited is in accordance with the *Corporations Act 2001*, including:
  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 25 to 32 of the directors' report for the year ended 30 June 2008. 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.

*Auditor's Opinion*

In our opinion the Remuneration Report of Mermaid Marine Australia Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

**Kathleen Bozanic**
Partner
Chartered Accountants
Perth, 17 September 2009

# Director's Declaration

The directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and consolidated entity; and

c) the director's have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 31 to the financial statements, will as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to S.295(5) of the Corporations Act 2001.

On behalf of the directors

Tony Howarth

**Chairman**

Fremantle, 17 September 2009

# 2009

# Financials

# Income Statement
## For the financial year ended 30 June 2009

| | Note | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $'000 | $'000 | $'000 | $'000 |
| Revenue | 4 | 163,881 | 149,364 | 80,948 | 1,188 |
| Other income | 4 | 500 | - | - | 300 |
| Share of profits of associates accounted for using the equity method | 10 | 2,217 | 431 | - | - |
| Vessel expenses | | (99,516) | (100,626) | - | - |
| Supply base expenses | | (18,034) | (11,591) | - | - |
| Administration expenses | | (7,516) | (5,607) | (213) | (65) |
| Finance costs | | (7,977) | (6,571) | (1,174) | (240) |
| **Profit before tax** | **4** | **33,555** | **25,400** | **79,561** | **1,183** |
| **Income tax expense** | **5** | **(7,031)** | **(7,503)** | **(228)** | **(443)** |
| **Profit for the year** | | **26,524** | **17,897** | **79,333** | **740** |
| **Profit attributable to equity holders of the parent** | | **26,524** | **17,897** | **79,333** | **740** |
| Earnings per share | | | | | |
| - Basic (cents per share) | 26 | 14.50 | 11.82 | | |
| - Diluted (cents per share) | 26 | 14.36 | 11.63 | | |

*The Income Statement should be read in conjunction with the accompanying notes.*

# Balance Sheet
## As at 30 June 2009

| | Note | Consolidated 2009 $'000 | Consolidated 2008 $'000 | Company 2009 $'000 | Company 2008 $'000 |
|---|---|---|---|---|---|
| **Current Assets** | | | | | |
| Cash and cash equivalents | 21(a) | 38,383 | 56,217 | 29,478 | 44,236 |
| Trade and other receivables | 7 | 40,718 | 29,790 | 1,425 | 1,023 |
| Inventories | 8 | 1,560 | 2,124 | - | - |
| Other | 9 | 1,891 | 599 | - | 24 |
| **Total Current Assets** | | **82,552** | **88,730** | **30,903** | **45,283** |
| **Non-Current Assets** | | | | | |
| Investments accounted for using the equity method | 10 | 3,591 | 1,374 | - | - |
| Other financial assets | 11 | - | - | 186,865 | 83,782 |
| Property, plant and equipment | 12 | 211,963 | 177,798 | - | - |
| Deferred tax assets | 5 | - | - | 272 | 358 |
| **Total Non-Current Assets** | | **215,554** | **179,172** | **187,137** | **84,140** |
| **Total Assets** | | **298,106** | **267,902** | **218,040** | **129,423** |
| **Current Liabilities** | | | | | |
| Trade and other payables | 14 | 19,625 | 18,484 | 6 | 6 |
| Borrowings | 15 | 13,272 | 36,104 | 2,550 | 627 |
| Other financial liabilities | 16 | 1,243 | 695 | - | - |
| Provisions | 17 | 1,779 | 1,417 | - | - |
| Current tax liabilities | 5 | 818 | 3,564 | 348 | 2,849 |
| **Total Current Liabilities** | | **36,737** | **60,264** | **2,904** | **3,482** |
| **Non-Current Liabilities** | | | | | |
| Borrowings | 15 | 84,895 | 54,750 | 29,421 | 14,534 |
| Provisions | 17 | 493 | 345 | - | - |
| Deferred tax liabilities | 5 | 7,742 | 5,236 | - | - |
| **Total Non-Current Liabilities** | | **93,130** | **60,331** | **29,421** | **14,534** |
| **Total Liabilities** | | **129,867** | **120,595** | **32,325** | **18,016** |
| **Net Assets** | | **168,239** | **147,307** | **185,715** | **111,407** |
| **Equity** | | | | | |
| Issued capital | 18 | 108,489 | 106,242 | 108,489 | 106,242 |
| Reserves | 19 | (592) | (60) | 670 | 635 |
| Retained earnings | 20 | 60,342 | 41,125 | 76,556 | 4,530 |
| **Total Equity** | | **168,239** | **147,307** | **185,715** | **111,407** |

*The Balance Sheet should be read in conjunction with the accompanying notes.*

# Statement of Changes in Equity
## For the financial year ended 30 June 2009

| CONSOLIDATED | Ordinary shares | Employee equity settled benefits reserve | Hedging reserve | Foreign currency translation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 July 2007** | **58,067** | **680** | **(881)** | **-** | **24,707** | **82,573** |
| Loss on cash flow hedge | - | - | (862) | - | - | (862) |
| Net expense recognised directly in equity | - | - | (862) | - | - | (862) |
| Transfer to initial carrying amount of non financial hedged item on cash flow hedge | - | - | 1,048 | - | - | 1,048 |
| Profit for the year | - | - | - | - | 17,897 | 17,897 |
| Total recognised income and expense for the year | - | - | 186 | - | 17,897 | 18,083 |
| Issue of shares (note 18) | 48,363 | - | - | - | - | 48,363 |
| Share issue costs | (1,338) | - | - | - | - | (1,338) |
| Recognition of share based payments | - | 639 | - | - | - | 639 |
| Transfer to share capital | 684 | (684) | - | - | - | - |
| Dividend payment | - | - | - | - | (1,479) | (1,479) |
| Deferred income tax | 466 | - | - | - | - | 466 |
| **Balance at 1 July 2008** | **106,242** | **635** | **(695)** | **-** | **41,125** | **147,307** |
| Exchange differences arising on translation of foreign operations | - | - | - | (392) | - | (392) |
| Loss on cash flow hedge | - | - | (1,023) | - | - | (1,023) |
| Net expense recognised directly in equity | - | - | (1,023) | (392) | - | (1,415) |
| Transfer to profit & loss on cashflow hedge | - | - | 127 | - | - | 127 |
| Transfer to initial carrying amount of non financial hedged item on cash flow hedge | - | - | 348 | - | - | 348 |
| Profit for the year | - | - | - | - | 26,524 | 26,524 |
| Total recognised income and expense for the year | - | - | (548) | (392) | 26,524 | 25,584 |
| Issue of shares (note 18) | 1,823 | - | - | - | - | 1,823 |
| Share issue costs | (34) | - | - | - | - | (34) |
| Recognition of share based payments | - | 493 | - | - | - | 493 |
| Transfer to share capital | 458 | (458) | - | - | - | - |
| Dividend payment | - | - | - | - | (7,307) | (7,307) |
| Deferred income tax | - | - | 373 | - | - | 373 |
| **Balance at 30 June 2009** | **108,489** | **670** | **(870)** | **(392)** | **60,342** | **168,239** |

*The Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

## Statement of Changes in Equity
### For the financial year ended 30 June 2009

| COMPANY | Ordinary shares $'000 | Employee equity settled benefits reserve $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|
| **Balance at 1 July 2007** | **58,067** | **680** | **5,269** | **64,016** |
| Profit for the year | - | - | 740 | 740 |
| Total recognised income and expense for the year | - | - | 740 | 740 |
| Issue of shares (note 18) | 48,363 | - | - | 48,363 |
| Share issue costs | (1,338) | - | - | (1,338) |
| Recognition of share based payments | - | 639 | - | 639 |
| Transfer to share capital | 684 | (684) | - | - |
| Dividend payment | - | - | (1,479) | (1,479) |
| Deferred income tax | 466 | - | - | 466 |
| **Balance at 1 July 2008** | **106,242** | **635** | **4,530** | **111,407** |
| Profit for the year | - | - | 79,333 | 79,333 |
| Total recognised income and expense for the year | - | - | 79,333 | 79,333 |
| Issue of shares (note 18) | 1,823 | - | - | 1,823 |
| Share issue costs | (34) | - | - | (34) |
| Recognition of share based payments | - | 493 | - | 493 |
| Transfer to share capital | 458 | (458) | - | - |
| Dividend payment | - | - | (7,307) | (7,307) |
| Deferred income tax | - | - | - | - |
| **Balance at 30 June 2009** | **108,489** | **670** | **76,556** | **185,715** |

*The Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

# Cash Flow Statement
## For The Financial Year Ended 30 June 2009

| | Note | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $'000 | $'000 | $'000 | $'000 |
| **Cash flows from Operating Activities** | | | | | |
| Receipts from customers | | 164,612 | 153,198 | - | - |
| Interest received | | 2,040 | 1,101 | 1,944 | 1,035 |
| Payments to suppliers and employees | | (125,739) | (113, 284) | (6) | (191) |
| Income tax paid | | (6,909) | (3,607) | - | - |
| Interest and other costs of finance paid | | (7,965) | (6,547) | (1,174) | (535) |
| Dividends received | | - | 152 | 152 | - |
| **Net cash provided by Operating Activities** | **21(c)** | **26,039** | **31,013** | **916** | **309** |
| **Cash flows from Investing Activities** | | | | | |
| Payments for property, plant and equipment | | (51,742) | (39,294) | - | - |
| Proceeds from sale of property, plant and equipment | | 7,523 | 4,881 | - | - |
| Proceeds from sale of interest in associates | | - | 166 | - | - |
| Payment for investment in subsidiary | | - | - | (50) | (39) |
| Amounts advanced to related parties | | (550) | (750) | (26,928) | (30,539) |
| **Net cash used in Investing Activities** | | **(44,769)** | **(34,997)** | **(26,978)** | **(30,578)** |
| **Cash flows from Financing Activities** | | | | | |
| Proceeds from issue of shares | | 153 | 46,629 | 154 | 46,629 |
| Payment for share issue costs | | (22) | (56) | (22) | (56) |
| Proceeds from borrowings | | 43,206 | 22,015 | 17,600 | 15,475 |
| Repayment of borrowings | | (36,665) | (24,285) | (790) | (314) |
| Dividends paid | | (5,638) | (1,028) | (5,638) | (1,028) |
| **Net cash provided by Financing Activities** | | **1,034** | **43,275** | **11,304** | **60,706** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(17,696)** | **39,291** | **(14,758)** | **30,437** |
| Cash and cash equivalents at the beginning of the financial year | | 56,217 | 16,926 | 44,236 | 13,799 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | (138) | - | - | - |
| **Cash and cash equivalents at the end of the financial year** | **21(a)** | **38,383** | **56,217** | **29,478** | **44,236** |

*The Cash Flow Statement should be read in conjunction with the accompanying notes.*

# Notes to the Financial Statements
## For The Financial Year Ended 30 June 2009

### 1. Adoption of New and Revised Accounting Standards

In the current year, the Group and the Company have adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below.

At the date of authorisation of the financial report, a number of standards and interpretations listed below were in issue but not yet effective.

Initial application of the following standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Group and the Company's financial report:

| Standard | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| AASB 101 'Presentation of Financial Statement' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101', AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101' | 1 January 2009 | 30 June 2010 |
| AASB 8 'Operating Segments', AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8' | 1 January 2009 | 30 June 2010 |

Initial application of the following Standards is not expected to have any material impact on the financial report of the Group and the Company:

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| AASB 123 'Borrowing Costs' (revised), AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123' | 1 January 2009 | 30 June 2010 |
| AASB 3 'Business Combinations' (2008), AASB 127 'Consolidated and Separate Financial Statements' and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127' | AASB 3 (business combinations occurring after the beginning of annual reporting periods beginning 1 July 2009), AASB 127 and AASB 2008-3 (1 July 2009) | 30 June 2010 |
| AASB 2008-1 'Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations' | 1 January 2009 | 30 June 2010 |
| AASB 2008-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project' | 1 January 2009 | 30 June 2010 |
| AASB 2008-6 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' | 1 July 2009 | 30 June 2010 |

## 1. Adoption of New and Revised Accounting Standards (continued)

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| AASB 2008-7 'Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate' | 1 January 2009 | 30 June 2010 |
| AASB 2008-8 'Amendments to Australian Accounting Standards – Eligible Hedged Items' | 1 July 2009 | 30 June 2010 |
| AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions' | 1 January 2010 | 30 June 2010 |
| AASB 2009-2 'Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments' | 1 January 2009 | 30 June 2010 |

## 2. Significant Accounting Policies

### Statement of Compliance

The Financial Report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The Financial Report includes the separate financial statements of the Company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The Financial Statements were authorised for issue by the directors on 17 September 2009.

### Basis of Preparation

The Financial Report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

## a. Financial Instruments Issued by the Company

### Debt and Equity Instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group are recorded at the proceeds received, net of direct issue cost.

## 2. Significant Accounting Policies (continued)

### Financial Guarantee Contract Liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of:

- The amount of the obligation under the contract, as determined under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'; and
- The amount initially recognised less, where appropriate, cumulative amortisation in accordance with the revenue recognition policies described in note 2(s).

### Financial Liabilities

Financial liabilities are classified as other financial liabilities.

### Other Financial Liabilities

Other financial liabilities including borrowings are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

## b. Income Tax

### Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

### Deferred Tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and branches, associates and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Group intends to settle its current tax assets and liabilities on a net basis.

## 2. Significant Accounting Policies (continued)

### Current and Deferred Tax for the Period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

### Tax Consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Mermaid Marine Australia Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the Group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

Further information about the tax funding arrangement is detailed in note 5 to the Financial Statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

## c. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## d. Financial Assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company's financial statements.

Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in Company's financial statements.

Other financial assets are classified into the following specified category; loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### Effective Interest Rate Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

### Loans and Receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. They are recorded at amortised cost less impairment.

## 2. Significant Accounting Policies (continued)

### Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss are assessed for indictors of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

### Derecognition of Financial Assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

## e. Leased Assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### Group as Lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs. Refer to note 2(c).

Finance leased assets are amortised on a diminishing value basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## f. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as the 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

## 2. Significant Accounting Policies (continued)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

### g. Impairment of Long-lived Assets

At each reporting date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. A recoverable amount is the higher of fair value less cost to sell and 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 of which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

### h. Property, Plant and Equipment

Leasehold buildings and improvements, plant and equipment and equipment under finance lease are stated at cost less, where applicable, accumulated depreciation and impairment. Construction in progress is stated at cost. Cost includes expenditure that is directly attributed to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a diminishing value basis or straight line basis so as to write off the net cost or other re-valued amount of each asset over its expected useful life to its estimated residual value. Leasehold buildings and improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

The gain or loss arising on disposal or retirement of an item of property, plant an equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

The following rates are used in the calculation of depreciation:

| | |
|---|---|
| Leasehold buildings and improvements | 2.38% - 5% straight line |
| Vessels | 4% straight line / 4% diminishing value |
| Vessel refits | 20% straight line / 10% diminishing value |
| Plant and equipment | 4% - 40% straight line |

## 2. Significant Accounting Policies (continued)

### i. Share-based Payments

Equity-settled share-based payments with employees and others providing similar services are measured at fair value of the equity instrument at grant date. Fair value is measured by use of a Binomial model. The expected life used in the model has been adjusted based on management's best estimates for the effects of non transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve.

Equity settled share-based payments to employees of subsidiaries of the Company are charged to the Income Statement of the relevant subsidiaries. In the Company's books, the cost of investments in the subsidiaries is increased accordingly.

No amount has been recognised in the Financial Statements in respect of other equity-settled share based payments.

### j. Cash and Cash Equivalents

Cash comprises cash-on-hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

### k. Derivative Financial Instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk. Further details of derivative financial instruments are disclosed in note 32 to the Financial Statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit and loss immediately unless the derivative is designated and effective as a hedging instrument in which event, the timing of the recognition in profit and loss depends on the nature of the hedge relationship. The Group has designated the derivatives as the hedge of the foreign exchange risk of a firm commitment (cash flow hedge).

#### Hedge Accounting

Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item. Note 32 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the Statement in Changes in Equity.

#### Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

## 2. Significant Accounting Policies (continued)

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

### l. Employee Benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

#### Defined Contribution Plans

Contributions to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

### m. Foreign Currency

The individual financial statements of each Group entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purposes of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Mermaid Marine Australia Ltd, and the presentation currency for the consolidated financial statements.

During the reporting period, there was a change in functional currency for a 100% owned foreign subsidiary from Australian dollars to United States dollars as a result of increased proportion of the subsidiary's revenues and expenses being denominated in United States dollars.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, monetary items denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except:

- for exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer to note 2(k)).
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

## 2. Significant Accounting Policies (continued)

### n. Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) for receivables and payables which are recognised inclusive of GST.

The gross amount of GST recoverable from, and payable to, the taxation authority are included as part of receivables and payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as investing and operating cash flows respectively.

### o. Joint Ventures Arrangements

#### Jointly Controlled Assets

Interests in jointly controlled assets are reported in the Financial Statements by including the consolidated entity's share of assets.

#### Jointly Controlled Entities

Interests in jointly controlled entities in which the Group is a venturer (and so has joint control) are accounted for under the equity method in the consolidated financial statements and the cost method in the Company's Financial Statements.

### p. Payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

### q. Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### r. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

### s. Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable.

#### Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined by recognising revenue from time and material contracts at contractual rates as hours are delivered and direct expenses incurred.

## 2. Significant Accounting Policies (continued)

### Rental Income

Rental income from operating leases is recognised in accordance with the Groups accounting policy outlined in note 2e.

### Dividend and Interest Revenue

Dividend revenue from investments is recognised when the Group's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

## 3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 2, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## 4. Profit from Operations

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| **a) Revenue from continuing operations consisted of the following items:** | | | | |
| Rendering of services | 156,685 | 143,586 | - | - |
| Rental revenue | 5,156 | 4,677 | - | - |
| Interest – other entities | 2,040 | 1,101 | 1,948 | 1,035 |
| Dividend received - associate | - | - | - | 153 |
| Dividend received – subsidiaries | - | - | 79,000 | - |
| | **163,881** | **149,364** | **80,948** | **1,188** |
| **b) Profit for the year before income tax** | | | | |
| **Profit/(loss) for the year before income tax has been arrived at after crediting/(charging) the following gains and losses:** | | | | |
| Net foreign exchange gain | 1,042 | - | - | - |
| Property, plant and equipment | 500 | (900) | - | - |
| Investment in associates | - | (24) | - | 300 |
| **c) Other expenses** | | | | |
| **Profit for the year includes the following expenses:** | | | | |
| Depreciation of non-current assets: | | | | |
| Leasehold buildings and improvements | 1,421 | 1,245 | - | - |
| Vessels | 4,664 | 1,370 | - | - |
| Vessels – hire purchase | 2,974 | 4,139 | - | - |
| Plant and equipment | 414 | 484 | - | - |
| Plant and equipment – hire purchase | 358 | 198 | - | - |
| | **9,831** | **7,436** | **-** | **-** |
| Bad and doubtful debts arising from: | | | | |
| Other entities | 240 | 42 | - | - |
| Net foreign exchange (loss) | - | (276) | - | - |
| Interest expense – other entities | 1,946 | 2,166 | 1,174 | 240 |
| Finance charges – lease finance charges | 6,382 | 4,861 | - | - |
| Total interest expenses | 8,328 | 7,027 | 1,174 | 240 |
| Less: amounts included in the cost of qualifying assets | (351) | (456) | - | - |
| | **7,977** | **6,571** | **1,174** | **240** |
| Operating leases – minimum lease payments | 525 | 454 | - | - |
| Employee benefit expense: | | | | |
| **Post employment benefits:** | | | | |
| Defined contribution plans | 2,779 | 1,775 | - | - |
| **Share based payments:** | | | | |
| Equity settled share-based payments | 493 | 639 | - | - |
| Other employee benefits | 61,755 | 62,591 | - | - |
| | **65,027** | **65,005** | **-** | **-** |

## 5. Income Taxes

### (a) Income tax recognised in profit or loss

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Tax expense comprises:** | $'000 | $'000 | $'000 | $'000 |
| Current tax expense in respect of the current year | 4,276 | 5,269 | 114 | 372 |
| Deferred tax expense relating to origination and reversal of temporary differences | 2,879 | 1,894 | 86 | 71 |
| Adjustment recognised in the current year in relation to the current tax of prior years | (124) | 340 | 28 | - |
| **Total tax expense** | **7,031** | **7,503** | **228** | **443** |

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| **Profit from operations** | **33,555** | **25,400** | **79,561** | **1,183** |
| Income tax expense calculated at 30% | 10,066 | 7,620 | 23,868 | 355 |
| Effect of revenue that is exempt from taxation | (3,101) | (294) | (23,645) | (75) |
| Effect of expenses that are not deductible in determining taxable profit | 270 | 163 | - | 299 |
| Effect of tax deductible items not included in accounting profit | (78) | (136) | (23) | (136) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (2) | (190) | - | - |
| | **7,155** | **7,163** | **200** | **443** |
| Adjustment recognised in the current year in relation to the current tax of prior years | (124) | 340 | 28 | - |
| | **7,031** | **7,503** | **228** | **443** |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. The tax rate payable by Singaporean corporate entities under Singaporean tax law is 17%. During the financial year the Group continued operations in Singapore and as a result the Group was subject to taxes in both Australia and Singapore.

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| **(b) Income tax recognised directly in equity** | | | | |
| The following deferred tax amounts were credited directly to equity during the period: | | | | |
| **Deferred Tax** | | | | |
| Arising on income and expenses taken directly to equity: | | | | |
| Revaluations of financial instruments treated as cash flow hedges | 373 | - | - | - |
| Arising on transactions with equity participants: | | | | |
| Share issue expenses deductible over 5 years | - | 466 | - | 466 |
| | **373** | **466** | **-** | **466** |

## 5. Income Taxes (continued)

### (c) Current tax assets and liabilities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| **Current tax liabilities:** | | | | |
| Income tax payable attributable to: | | | | |
| Parent entity | 228 | 372 | 228 | 372 |
| Entities in the tax consolidated group | 120 | 2,477 | 120 | 2,477 |
| Other | 470 | 715 | - | - |
| | **818** | **3,564** | **348** | **2,849** |

### (d) Deferred tax balances

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| **Deferred tax assets comprise:** | | | | |
| Temporary differences | - | - | 272 | 358 |
| | **-** | **-** | **272** | **358** |
| **Deferred tax liabilities comprise:** | | | | |
| Temporary differences | 7,742 | 5,236 | - | - |
| | **7,742** | **5,236** | **-** | **-** |

Deferred tax assets/(liabilities) arise from the following:

| | Opening balance | Charged to income | Charged to equity | Closing balance |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **2009** | Consolidated | | | |
| **Gross deferred tax liabilities:** | | | | |
| Property, plant and equipment | (5,952) | (2,762) | - | (8,714) |
| Inventory | (606) | 198 | - | (408) |
| Receivables | (135) | (324) | - | (459) |
| Other | (3) | (41) | - | (44) |
| | **(6,696)** | **(2,929)** | **-** | **(9,625)** |
| **Gross deferred tax assets:** | | | | |
| Provisions | 972 | 174 | - | 1,146 |
| Share issue costs | 472 | (123) | - | 349 |
| Revaluation of financial instruments | - | - | 373 | 373 |
| Other | 16 | (1) | - | 15 |
| | **1,460** | **50** | **373** | **1,883** |
| | **(5,236)** | **(2,879)** | **373** | **(7,742)** |

## 5. Income Taxes (continued)

| | Opening balance | Charged to income | Charged to equity | Closing balance |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **2008** | Consolidated | | | |
| **Gross deferred tax liabilities:** | | | | |
| Property, plant and equipment | (3,742) | (2,210) | - | (5,952) |
| Inventory | (571) | (35) | - | (606) |
| Receivables | (134) | (1) | - | (135) |
| Other | (169) | 166 | - | (3) |
| | **(4,616)** | **(2,080)** | **-** | **(6,696)** |
| **Gross deferred tax liabilities:** | | | | |
| Provisions | 609 | 363 | - | 972 |
| Share issue costs | - | 6 | 466 | 472 |
| Other | 201 | (185) | - | 16 |
| | **810** | **184** | **466** | **1,460** |
| | **(3,806)** | **(1,896)** | **466** | **(5,236)** |

| | Opening balance | Charged to income | Charged to equity | Closing balance |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **2009** | Company | | | |
| **Gross deferred tax liabilities:** | | | | |
| Other | - | - | - | - |
| | **-** | **-** | **-** | **-** |
| **Gross deferred tax assets:** | | | | |
| Other | 358 | (86) | - | 272 |
| | **358** | **(86)** | **-** | **272** |
| | **358** | **(86)** | **-** | **272** |
| **2008** | | | | |
| **Gross deferred tax liabilities:** | | | | |
| Other | - | - | - | - |
| | **-** | **-** | **-** | **-** |
| **Gross deferred tax assets:** | | | | |
| Other | - | (108) | 466 | 358 |
| | **-** | **(108)** | **466** | **358** |
| | **-** | **(108)** | **466** | **358** |

## 5. Income Taxes (continued)

### Tax consolidation

#### Relevance of tax consolidation to the Group

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Mermaid Marine Australia Ltd. The members of the tax-consolidated group are identified at note 31.

#### Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Mermaid Marine Australia Ltd and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if any entity should leave the tax consolidated group. The effect of the tax sharing agreement is that each members' liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

## 6. Dividends Provided for or Paid

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Adjusted franking account balance | 13,600 | 10,442 | 13,438 | 10,280 |
| Impact on franking account balance of dividends not recognised | (3,150) | (1,557) | (3,150) | (1,557) |

| **Recognised Amounts** | 2009 | | 2008 | |
|---|---|---|---|---|
| **Fully paid ordinary shares** | Cents Per Share | Total $'000 | Cents Per Share | Total $'000 |
| Interim dividend: Fully franked at a 30% tax rate | 2 | 3,662 | - | - |
| Final dividend: Fully franked at a 30% tax rate | 2 | 3,645 | 1 | 1,479 |
| **Unrecognised amounts** Fully paid ordinary shares | | | | |
| **Final dividend:** Fully franked at a 30% tax rate | 4 | 7,350 | 2 | 3,633 |

On 21 August 2009, the directors declared a fully franked final dividend of four cents per share in respect of the financial year ended 30 June 2009 to the holders of fully paid ordinary shares, to be paid on 7 October 2009. The dividend will be paid to all shareholders on the register of members on 18 September 2009. This dividend has not been included as a liability in these Financial Statements.

## 7. Trade and Other Receivables

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Trade receivables (i) | 35,535 | 26,887 | - | - |
| Allowance for doubtful debts | (276) | (96) | - | - |
| Other receivables | 4,316 | 1,794 | 1,322 | 921 |
| Goods and services tax recoverable | 1,143 | 1,205 | 103 | 102 |
| | **40,718** | **29,790** | **1,425** | **1,023** |

(i) The average credit period on rendering of services is 30 days. An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past rendering of services, determined by reference to past default experience. The Group has provided for certain receivables over 150 days because historical experience is such that receivables that are past due beyond 150 days are generally not recoverable. Trade receivable between 120 days and 150 days are provided for based on estimated irrecoverable amount from the rendering of services, determined by reference to past default experience.

Included in the Group's trade receivable balance are debtors with a carrying amount of $8.8 million (2008: $3.3 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 54 days (2008: 53 days).

| | Consolidated | | Company | |
|---|---|---|---|---|
| **Ageing of past due but not impaired** | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| 31-60 days | 3,184 | 1,717 | - | - |
| 61-90 days | 2,467 | 479 | - | - |
| 91-120 days | 2,619 | 727 | - | - |
| 121-150 days | 359 | 14 | - | - |
| Over 150 days | 153 | 323 | - | - |
| **Total** | **8,782** | **3,260** | **-** | **-** |

| | Consolidated | | Company | |
|---|---|---|---|---|
| **Movement in the allowance for doubtful debts** | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Balance at the beginning of the year | 96 | 53 | - | - |
| Impairment losses recognised on receivables | 246 | 81 | - | - |
| Amounts written off as uncollectible | (66) | - | - | - |
| Amounts recovered during the year | - | (38) | - | - |
| **Balance at the end of the year** | **276** | **96** | **-** | **-** |

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

## 8. Inventories

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Fuel – at cost | 1,560 | 2,124 | - | - |

## 9. Other Current Assets

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Prepayments | 1,891 | 599 | - | 24 |

## 10. Investments Accounted For Using The Equity Method

| Name of Entity | Principal Activity | Country of Incorporation | Ownership Interest | | Consolidated Carrying Amount | |
|---|---|---|---|---|---|---|
| | | | 2009 | 2008 | 2009 | 2008 |
| | | | % | % | $'000 | $'000 |
| Toll Mermaid Logistics Broome Pty Ltd (i) | Supply base services in Broome for the offshore oil and gas industry. | Australia | 50 | 50 | 3,591 | 1,374 |
| **Total** | | | | | **3,591** | **1,374** |

(i) The reporting date of Toll Mermaid Logistics Broome Pty Ltd (TMLB) is 30 June. The consolidated entity acquired a 50% ownership interest in TMLB in October 2006. Pursuant to shareholder agreement the consolidated entity has the right to cast 50% of the votes at TMLB shareholder meetings.

Summarised financial information in respect to the group's associates is set out below:

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| **Financial position:** | | |
| Total assets | 12,471 | 6,109 |
| Total liabilities | (5,289) | (3,361) |
| Net assets | 7,182 | 2,748 |
| Group's share of associates' net assets | 3,591 | 1,374 |
| **Financial performance:** | | |
| Total revenue | 22,221 | 10,135 |
| Total profit for the year | 6,336 | 1,306 |
| Group's share of associates' profit/(loss) before tax | 3,168 | 653 |
| Group's share of associates' income tax expense | (951) | (222) |
| Group's share of associates' profit/(loss) | 2,217 | 431 |

## Contingent Liabilities and Capital Commitments

The consolidated entity's share of the contingent liabilities, capital commitments and other expenditure commitments of the associate entities are nil (2008: nil).

## 11. Other Financial Assets Non Current

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Loans - subsidiaries | - | - | 145,841 | 81,720 |
| Impairment of loans to subsidiaries | - | - | (2,276) | (2,276) |
| Shares in subsidiaries | - | - | 43,056 | 3,913 |
| Impairment of shares in subsidiaries | - | - | (181) | - |
| Shares in associates | - | - | 425 | 425 |
| | **-** | **-** | **186,865** | **83,782** |

During the year the Company reviewed the provision raised for impairment of inter-company loans to subsidiaries. These loans form part of the unallocated assets in note 30. The impairment of loans to subsidiaries is reconciled as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Balance at the beginning of the year | - | - | (2,276) | (2,276) |
| Reversal of impairment | - | - | - | - |
| **Balance at the end of the year** | **-** | **-** | **(2,276)** | **(2,276)** |

## 12. Property, Plant and Equipment

| Consolidated | Leasehold Buildings and improvements at cost | Vessels at cost | Vessels – Hire purchase at cost | Plant and Equipment at cost | Plant and Equipment – Hire purchase at cost | TOTAL |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Gross carrying amount:** | | | | | | |
| **Balance at 1 July 2007** | **40,251** | **9,967** | **81,915** | **6,226** | **2,495** | **140,854** |
| Additions | 8,014 | 1,295 | 52,417 | 3,519 | 2,879 | 68,124 |
| Disposals | - | (5,480) | (3,355) | (523) | (26) | (9,384) |
| Transfers | - | 3,336 | (3,336) | 191 | (191) | - |
| **Balance at 1 July 2008** | **48,265** | **9,118** | **127,641** | **9,413** | **5,157** | **199,594** |
| Additions | 26,824 | 8,348 | 6,753 | 1,258 | 897 | 44,080 |
| Disposals | - | (11,046) | - | (50) | - | (11,096) |
| Transfers | 1,376 | 63,701 | (62,908) | (2,169) | - | - |
| Net Currency Exchange Differences | - | 6,737 | 173 | 17 | - | 6,927 |
| **Balance at 30 June 2009** | **76,465** | **76,858** | **71,659** | **8,469** | **6,054** | **239,505** |
| **Accumulated depreciation:** | | | | | | |
| **Balance at 1 July 2007** | **(5,136)** | **(2,984)** | **(6,292)** | **(3,059)** | **(519)** | **(17,990)** |
| Disposals | - | 2,841 | 292 | 495 | 2 | 3,630 |
| Transfers | - | (1,055) | 1,055 | (135) | 135 | - |
| Depreciation expense | (1,245) | (1,370) | (4,139) | (484) | (198) | (7,436) |
| **Balance at 1 July 2008** | **(6,381)** | **(2,568)** | **(9,084)** | **(3,183)** | **(580)** | **(21,796)** |
| Disposals | - | 4,045 | - | 8 | - | 4,053 |
| Transfers | - | (4,755) | 4,755 | - | - | - |
| Depreciation expense | (1,421) | (4,664) | (2,974) | (414) | (358) | (9,831) |
| Depreciation capitalised in Assets | (33) | - | - | - | - | (33) |
| Net Currency Exchange Differences | - | 71 | - | (6) | - | 65 |
| **Balance at 30 June 2009** | **(7,835)** | **(7,871)** | **(7,303)** | **(3,595)** | **(938)** | **(27,542)** |
| Net book value: | | | | | | |
| As at 30 June 2008 | 41,884 | 6,550 | 118,557 | 6,230 | 4,577 | 177,798 |
| As at 30 June 2009 | 68,630 | 68,987 | 64,356 | 4,874 | 5,116 | 211,963 |

The aggregate depreciation allocated during the year is recognised as an expense and disclosed in note 4 to the Financial Statements.

## 13. Assets Pledged as Security

In accordance with the security arrangements of liabilities, as disclosed in note 15 to the Financial Statements, all non-current assets of the group have been pledged as security, except deferred tax assets.

## 14. Current Trade and Other Payables

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Trade payables | 5,695 | 7,786 | - | - |
| Other payables and accruals | 12,328 | 8,533 | 6 | 6 |
| GST payable | 1,602 | 2,165 | - | - |
| | **19,625** | **18,484** | **6** | **6** |

The average credit period on purchases of all goods is 30 days. The Group monitors payments to ensure that all payables are paid within the credit time frame.

## 15. Borrowings

**Secured – at amortised cost**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| **Current** | | | | |
| Hire purchase liability (i) | 5,441 | 35,235 | - | - |
| Bank loan (ii) | 7,831 | 869 | 2,550 | 627 |
| | **13,272** | **36,104** | **2,250** | **627** |
| **Non Current** | | | | |
| Hire purchase liability (i) | 37,627 | 34,019 | - | - |
| Bank loan (ii) | 47,268 | 20,731 | 29,421 | 14,534 |
| | **84,895** | **54,750** | **29,421** | **14,534** |

Summary of borrowing arrangements:

(i) Secured by hire purchase assets, the borrowings are a mix of variable and fixed interest rate debt with repayment periods not exceeding 10 years. The current weighted average effective interest rate on the hire purchase liabilities is 7.78% (2008: 8.05%) - refer note 23.

(ii) The bank loan is secured by mortgage debentures over the assets and undertakings of certain controlled entities, registered ships mortgages over the vessels of certain controlled entities and a registered mortgage by way of sub-demise of the Dampier Supply base lease. The borrowings are variable interest rate debt with repayment periods not exceeding 10 years. The current weighted average effective interest rate on the bank loans is 5.09% (2008: 8.02%).

## 16. Other Current Financial Liabilities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Derivatives | | | | |
| Derivatives that are designated and effective as hedging instruments carried at fair value | | | | |
| **Foreign currency forward contracts** | **1,243** | **695** | **-** | **-** |

## 17. Provisions

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| **Current** | | | | |
| Employee benefits (i) | 1,779 | 1,417 | - | - |
| **Non current** | | | | |
| Employee benefits | 493 | 345 | - | - |

(i) The current provision for employee benefits includes $1,779 thousand (Company: nil thousand) of annual leave entitlements (2008: $1,417 thousand and nil thousand for the Group and the Company respectively).

## 18. Issued Capital

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| 183,701,113 fully paid ordinary shares (2008: 181,667,663) | 108,489 | 106,242 | 108,489 | 106,242 |

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Balance at beginning of financial year | 181,668 | 106,242 | 147,859 | 58,067 |
| Issue of shares under share option incentive plan (note 24) | 839 | 153 | 681 | 281 |
| Issue of shares under share purchase plan | - | (34) | 7,868 | 11,408 |
| Share placement | - | - | 25,000 | 35,352 |
| Issue of shares under dividend reinvestment plan | 1,194 | 1,670 | 260 | 450 |
| Transfer from employee equity settled benefits reserve (note 19) | - | 458 | - | 684 |
| **Balance at end of financial year** | **183,701** | **108,489** | **181,668** | **106,242** |

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

### Share Options

As at 30 June 2009, executives and employees held options over 9,224,893 ordinary shares (2008: 6,881,077) in aggregate. Please refer to note 24 for details of these options.

## 19. Reserves

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Employee equity-settled benefits | 670 | 635 | 670 | 635 |
| Hedging | (870) | (695) | - | - |
| Foreign currency translation | (392) | - | - | - |
| | **(592)** | **(60)** | **670** | **635** |
| **Employee equity-settled benefits reserve** | | | | |
| Balance at beginning of financial year | 635 | 680 | 635 | 680 |
| Share based payment | 493 | 639 | 493 | 639 |
| Transfer to share capital | (458) | (684) | (458) | (684) |
| **Balance at end of financial year** | **670** | **635** | **670** | **635** |

The employee equity settled benefits reserve arises on the grant of share options and rights to executives and employees under the Company's share option and rights plans. Amounts are transferred out of the reserve and into issued capital when the options and rights are exercised. Further information about share based payments to employees is included in note 24.

| **Hedging reserve** | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Balance at beginning of financial year | (695) | (881) | - | - |
| Transfer to profit and loss on cashflow hedge | 127 | - | - | - |
| Foreign exchange contracts loss recognised | (1,023) | (862) | - | - |
| Transfer to initial carrying amount of hedged item | 348 | 1,048 | - | - |
| Related income tax | 373 | - | - | - |
| **Balance at end of financial year** | **(870)** | **(695)** | **-** | **-** |

The hedging reserve represents hedging gains or losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non financial hedged item, consistent with the applicable accounting policy.

| **Foreign currency translation reserve** | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Balance at beginning of financial year | - | - | - | - |
| Translation of foreign operations | (392) | - | - | - |
| **Balance at end of financial year** | **(392)** | **-** | **-** | **-** |

Exchange differences relating to the translation from the functional currencies of the Group's foreign controlled entities into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

## 20. Retained Earnings

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Balance at beginning of financial year | 41,125 | 24,707 | 4,530 | 5,269 |
| Net profit attributable to members of the parent entity | 26,524 | 17,897 | 79,333 | 740 |
| Dividend provided for or paid (note 6) | (7,307) | (1,479) | (7,307) | (1,479) |
| **Balance at end of financial year** | **60,342** | **41,125** | **76,556** | **4,530** |

## 21. Notes to the Statement of Cash Flows

### (a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Cash and cash equivalents | 38,383 | 56,217 | 29,478 | 44,236 |

### (b) Non cash financing and investing activities

During the financial year, the Group acquired property, plant and equipment with an aggregate value of $1.0 million which was financed by hire purchase agreements. This acquisition will be reflected in the cash flow statement over the term of the finance lease via lease payments.

In addition, the company issued shares to the value of $1.67 million under the Dividend Reinvestment Plan.

### (c) Reconciliation of profit for the year to net cash flows from operating activities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| **Profit for the year** | **26,524** | **17,897** | **79,333** | **740** |
| Depreciation of non current assets | 9,831 | 7,436 | - | - |
| (Gain)/Loss on sale of property, plant and equipment | (500) | 900 | - | (300) |
| Allowance for doubtful debts | 181 | 42 | - | - |
| Bad debts | 60 | - | - | - |
| Equity settled share based payment | 493 | 639 | - | - |
| Increase/(decrease) in current tax liability | (2,746) | 2,000 | (2,500) | 1,622 |
| Dividends received | - | - | (79,000) | - |
| Impairment of non-current asset | - | - | 181 | - |
| Share of associates profit | (2,217) | (431) | - | - |
| Increase/(decrease) in deferred tax liabilities | 2,506 | 1,428 | - | - |
| (Increase)/decrease in deferred tax assets | - | - | 86 | (358) |
| **Change in net assets and liabilities** | | | | |
| Current trade and other receivables | (11,478) | (10,046) | 153 | (153) |
| Prepayments | (1,292) | 34 | 24 | (24) |
| Inventories | 564 | (222) | - | - |
| Provisions | 510 | 670 | - | - |
| Investments | (50) | (40) | (50) | (40) |
| Trade and other payables | 3,653 | 10,706 | 2,689 | (1,178) |
| **Net cash flows from operating activities** | **26,039** | **31,013** | **916** | **309** |

## 21. Notes to the Statement of Cash Flows (continued)

### (d) Financing Facilities

Secured loan facilities with various maturing dates through to 2018 and which may be extended by mutual agreement:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Amount used | 55,099 | 21,600 | 31,971 | 15,161 |
| Amount unused | 25,000 | 19,699 | - | - |
| | **80,099** | **41,299** | **31,971** | **15,161** |
| **Secured bank overdraft:** | | | | |
| Amount used | - | - | - | - |
| Amount unused | 4,000 | 4,000 | 4,000 | 4,000 |
| | **4,000** | **4,000** | **4,000** | **4,000** |

Subsequent to the end of the financial year a new financing facility totalling $29.8 million was approved by the Group's bankers.

## 22. Commitments for Expenditure

### (a) Lease Commitments

Hire purchase liabilities and non-cancellable operating lease commitments are disclosed in note 23 to the Financial Statements.

### (b) Capital Expenditure Commitments

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Plant and equipment | | | | |
| **Not longer than 1 year** | **54,780** | **14,688** | **-** | **-** |

## 23. Leases

Finance leases relate to vessels and equipment with lease terms of up to 10 years. The Group has options to purchase the equipment for a nominated amount at the conclusion of the lease agreements.

### (a) Hire Purchase Contracts (accounted for as finance leases)

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Not later than 1 year | 8,662 | 39,028 | - | - |
| Later than 1 year and not later than 5 years | 40,244 | 36,689 | - | - |
| Later than 5 years | 3,348 | 4,538 | - | - |
| Minimum future payments | 52,254 | 80,255 | - | - |
| Less future finance charges | (9,186) | (11,001) | - | - |
| **Present value of minimum lease payments** | **43,068** | **69,254** | **-** | **-** |
| **Included in the Financial Statements as:** | | | | |
| Borrowing - current - note 15 | 5,441 | 35,235 | - | - |
| Borrowing - non current -note 15 | 37,627 | 34,019 | - | - |
| | **43,068** | **69,254** | **-** | **-** |

### (b) Operating Leases

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Not later than 1 year | 742 | 408 | - | - |
| Later than 1 year and not later than 5 years | 1,247 | 595 | - | - |
| Later than 5 years | 737 | 871 | - | - |
| **Aggregate lease expenditure contracted for at balance date** | **2,726** | **1,874** | **-** | **-** |
| **Aggregate operating lease commitments comprise:** | | | | |
| Office rental commitments (i) | 707 | 229 | - | - |
| Supply base rental commitments (ii) | 1,944 | 1,541 | - | - |
| Other | 75 | 104 | - | - |
| | **2,726** | **1,874** | **-** | **-** |

**(i) Office Rental Commitments:**

The Company's Mews Road premises in Fremantle is committed under a one year arrangement with a three year option term commencing 1 September 2009. The current rental amount of $345,590 (2008: $245,570) per annum is subject to market review annually.

**(ii) Supply Base Rental Commitments:**

Supply base rental commitments represents the lease of the Dampier supply base for a term of 21 years commencing 1 January 1999 with an option to renew the term for a further period of 21 years.

The approved use of the site is for the purpose of conducting a multi purpose marine service facility and supply base including but not limited to open and covered laydown and storage, warehousing, production and storage of drilling mud and other drilling supplies, operating and maintaining vessels and floating plant together with associated docking, maintenance and engineering works. Any other uses require the prior written consent of the Lessor.

Restrictions apply to the assignment or subletting of the site (or any part) without prior consent of the Lessor, although that consent cannot unreasonably be withheld (subject to "usual" prudential requirements common to leases in Western Australia).

## 24. Share-based Payments

### Share Option and Rights Incentive Plans

The Group has established the Managing Director, Senior Executive and Employee Share Option Incentive Plans and the Managing Director Share Incentive Plan whereby executives and employees of the Group have been issued with options and rights over ordinary shares of Mermaid Marine Australia Limited.

Upon exercise, each share option or right, converts into one ordinary share of Mermaid Marine Australia Ltd. No amounts are paid or are payable by the recipient on receipt of the options or rights. The options or rights carry no rights to dividends and no voting rights. Holders of options or rights do not have the right, by virtue of the option or right, to participate in any share issue of the Company. The options may be exercised at any time from their vesting date to the date of their expiry.

The options or rights are not quoted on the ASX.

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

| Series | Number issued | Grant Date | Expiry Date | Exercise price | TOTAL |
|---|---|---|---|---|---|
| (1) Issued 22 April 2004 (a) | 1,670,000 | 22 April 2004 | 22 April 2008 | 0.40 | 0.14 |
| (2) Issued 15 November 2005 (b) | 600,000 | 15 Nov 2005 | 15 Nov 2009 | 0.40 | 0.13 |
| (3) Issued 7 December 2005 (b) | 600,000 | 7 Dec 2005 | 7 Dec 2009 | 0.40 | 0.18 |
| (4) Issued 19 May 2006 (c) | 2,115,000 | 19 May 2006 | 19 May 2011 | 0.48 | 0.21 |
| (5) Issued 25 August 2006 (c) | 205,000 | 25 Aug 2006 | 25 Aug 2011 | 0.62 | 0.28 |
| (6) Issued 21 November 2006 (d) | 520,000 | 21 Nov 2006 | 24 Sept 2008 | 0.00 | 0.70 |
| (7) Issued 22 November 2007 (e) | 970,040 | 22 Nov 2007 | 11 Oct 2012 | 1.83 | 0.39 |
| (8) Issued 23 October 2007 (f) | 2,576,788 | 23 Oct 2007 | 11 Oct 2012 | 1.83 | 0.45 |
| (9) Issued 24 January 2008 (f) | 487,714 | 24 Jan 2008 | 24 Jan 2013 | 1.83 | 0.45 |
| (10) Issued 23 September 2008 (g) | 1,385,432 | 23 Sept 2008 | 23 Sept 2013 | 1.60 | 0.26 |
| (11) Issued 27 November 2008 (h) | 1,277,584 | 27 Nov 2008 | 23 Sept 2013 | 1.60 | 0.08 |

(a) The options issued on 22 April 2004 vested on 22 April 2005.

(b) In accordance with the terms of the Managing Director and Senior Executive Share Option Plans, the options granted on 15 November 2005 and 7 December 2005 vested upon their issue.

(c) The options issued on 19 May 2006 and 25 August 2006 vested 24 months after their issue date. The options issued on the 19 May 2006 may be exercised following their vesting date if the price of the Mermaid Marine Australia Ltd shares traded on the ASX is equal to or greater than 70 cents for a period of at least five consecutive trading days following the grant date and prior to the expiry date of the options. The options issued on 25 August 2006 may be exercised following their vesting date if the price of the Mermaid Marine Australia Ltd shares traded on the ASX is equal to or greater than 80 cents for a period of at least five consecutive trading days following the grant date and prior to the expiry date of the options.

(d) In accordance with the terms of the Managing Director Incentive Share Plan, 520,000 shares may be issued by the board to the Managing Director during the period commencing 26 August 2008 and expiring 30 days thereafter subject to the following performance hurdles:

(i) Fifty percent of the shares may be issued if the weighted volume average share price (WVASP) of the Company's shares which are traded on the ASX exceeds 80 cents for a period of at least 10 successive trading days during the two year period commencing on 23 August 2006 and ending on 25 August 2008.

## 24. Share-based Payments (continued)

(ii) The remaining 50% of the shares may be issued if the weighted volume average share price (WVASP) of the Company's shares which are traded on the ASX exceeds $1.00 for a period of at least 10 successive trading days during the two year period commencing on 23 August 2006 and ending on 25 August 2008.

These shares were issued on 23 September 2008.

(e) In accordance with the terms of the Managing Director's Share Option Plan – October 2007, 970,040 share options vest on 11 October 2010 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 11 October 2007 and ending on 11 October 2010 and a maximum period of five years commencing on 11 October 2007 and ending on 11 October 2012.

(f) 15% of the options issued on 23 October 2007 and 24 January 2008 vest 36 months after their issue date. The remaining 85% may be exercised subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years from issue date and a maximum period of five years from issue date.

(g) In accordance with the terms of the Senior Executive Share Option Plans, 1,385,432 share options vest on 23 September 2011 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 23 September 2008 and ending on 23 September 2011 and a maximum period of five years commencing on 23 September 2008 and ending on 23 September 2013.

(h) In accordance with the terms of the Managing Director's Share Option Plan – 2008, 1,277,584 share options vest on 23 September 2011 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 23 September 2008 and ending on 23 September 2011 and a maximum period of five years commencing on 23 September 2008 and ending on 23 September 2013.

The weighted average fair value of the share options granted during the year was $0.17 (2008: $0.44). The options were priced using a binomial option pricing model. Where relevant, the fair value of the options has been adjusted for any market related vesting conditions.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| **Inputs into the model** | **Series (10)** | **Series (11)** | **Series (7)** | **Series (8&9)** |
| Grant date share price | $1.55 | $0.99 | $1.80 | $1.80 |
| Exercise price | $1.60 | $1.60 | $1.83 | $1.83 |
| Expected volatility | 34% | 34% | 41% | 41% |
| Option life | 5 years | 5 years | 5 years | 5 years |
| Dividend yield | 1.29% | 2.02% | 0% | 0% |
| Risk free rate | 5.62% | 4.05% | 6.15% | 6.24% |

## 24. Share-based Payments (continued)

The following reconciles the outstanding share options and rights granted under the Managing Director, Senior Executives and Employee Share Option and Rights Plans at the beginning and end of the financial year:

| Employee Share Option Plans | 2009 | | 2008 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price $ | Number of options | Weighted average exercise price $ |
| Balance at the beginning of the financial year | 6,881,077 | 1.22 | 4,020,000 | 0.45 |
| Granted during the financial year | 2,663,016 | 1.60 | 4,034,542 | 1.83 |
| Exercised during the financial year (i) | (319,200) | 0.48 | (630,800) | 0.41 |
| Expired during the year | - | - | (130,000) | 0.40 |
| Forfeited during the financial year | - | - | (412,665) | 1.10 |
| Balance at the end of the financial year (ii) | 9,224,893 | 1.36 | 6,881,077 | 1.22 |
| Exercisable at end of the financial year | 2,710,000 | 0.45 | 2,529,200 | 0.45 |

| Managing Director Incentive Share Plan | 2009 | | 2008 | |
|---|---|---|---|---|
| | Number of rights | Weighted average exercise price $ | Number of rights | Weighted average exercise price $ |
| Balance at the beginning of the financial year | 520,000 | 0.00 | 520,000 | 0.00 |
| Exercised during the financial year (i) | (520,000) | 0.00 | - | - |
| Balance at the end of the financial year (ii) | - | - | 520,000 | 0.00 |
| Exercisable at end of the financial year | - | - | - | - |

### (i) Exercised during the financial year

The following share options were exercised during the financial year:

| 2009 - Options – Series | Number exercised | Exercise date | Weighted average share price at exercise date |
|---|---|---|---|
| (4) Issued 19 May 2006 | 319,200 | Various | $1.37 |

| 2008 - Options – Series | Number exercised | Exercise date | Weighted average share price at exercise date |
|---|---|---|---|
| (1) Issued 22 April 2004 | 575,000 | Various | $1.62 |
| (4) Issued 19 May 2006 | 55,800 | 13 June 2008 | $1.57 |

| Managing Director Incentive Share Plan | Number exercised | Exercise date | Weighted average share price at exercise date |
|---|---|---|---|
| (6) Issued 21 Nov 2006 | 520,000 | 23 Sept 2008 | $1.55 |

## 24. Share-based Payments (continued)

### (ii) Balance at end of the financial year

The following share options and rights were outstanding at the end of the financial year:

| 2009 - Options - Series | Number | Exercise price $ | Expiry Date |
|---|---|---|---|
| (2) Issued 15 November 2005 | 600,000 | 0.40 | 15 November 2009 |
| (3) Issued 7 December 2005 | 600,000 | 0.40 | 7 December 2009 |
| (4) Issued 19 May 2006 | 1,410,000 | 0.48 | 19 May 2011 |
| (5) Issued 25 August 2006 | 100,000 | 0.62 | 25 August 2011 |
| (7) Issued 22 November 2007 | 970,040 | 1.83 | 11 October 2012 |
| (8) Issued 23 October 2007 | 2,412,644 | 1.83 | 11 October 2012 |
| (9) Issued 24 January 2008 | 469,193 | 1.83 | 24 January 2013 |
| (10) Issued 23 Sept 2008 | 1,385,432 | 1.60 | 23 September 2013 |
| (11) Issued 17 Dec 2008 | 1,277,584 | 1.60 | 23 September 2013 |
| **Total** | **9,224,893** | | |

| 2008 - Options - Series | Number | Exercise price $ | Expiry Date |
|---|---|---|---|
| (2) Issued 15 November 2005 | 600,000 | 0.40 | 15 November 2009 |
| (3) Issued 7 December 2005 | 600,000 | 0.40 | 7 December 2009 |
| (4) Issued 19 May 2006 | 1,729,200 | 0.48 | 19 May 2011 |
| (5) Issued 25 August 2006 | 100,000 | 0.62 | 25 August 2011 |
| (7) Issued 22 November 2007 | 970,040 | 1.83 | 11 October 2012 |
| (8) Issued 23 October 2007 | 2,412,644 | 1.83 | 11 October 2012 |
| (9) Issued 24 January 2008 | 469,193 | 1.83 | 24 January 2013 |
| **Total** | **6,881,077** | | |

| 2009 - Managing Director Incentive Share Plan | Number | Exercise price $ | Expiry Date |
|---|---|---|---|
| (6) Issued 21 November 2006 | - | - | - |

| 2008 - Managing Director Incentive Share Plan | Number | Exercise price $ | Expiry Date |
|---|---|---|---|
| (6) Issued 21 November 2006 | 520,000 | - | 24 September 2008 |

## 25. Subsequent Events

There has not been any matter or circumstance that occurred subsequent to the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

## 26. Earnings Per Share

| | Consolidated | |
|---|---|---|
| | 2009 | 2008 |
| | Cents per Share | Cents per Share |
| Basic earnings per share | 14.50 | 11.82 |
| Diluted earnings per share | 14.36 | 11.63 |

### Basic Earnings per Share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| **(a) Net Profit** | **26,524** | **17,897** |

| | 2009 | 2008 |
|---|---|---|
| | No.'000 | No.'000 |
| **(b) Weighted average number of ordinary shares for the purposes of basic earnings per share** | **182,888** | **151,361** |

### Diluted Earnings per Share

The earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted earnings per share are as follows:

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| **(a) Net Profit** | **26,524** | **17,897** |

| | 2009 | 2008 |
|---|---|---|
| | No.'000 | No.'000 |
| **(b) Weighted average number of ordinary shares for the purposes of diluted earnings per share** | **184,697** | **153,896** |

Weighted average number of ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

| | 2009 | 2008 |
|---|---|---|
| | No.'000 | No.'000 |
| Weighted average number of ordinary shares used in the calculation of basic EPS | 182,888 | 151,361 |
| Shares deemed to be issued for no consideration in respect of: | | |
| Employee options | 1,809 | 2,535 |
| **Weighted average number of ordinary shares used in the calculation of diluted EPS** | **184,697** | **153,896** |

(c) The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares used in the calculation of diluted earnings per share.

| | 2009 | 2008 |
|---|---|---|
| | No.'000 | No.'000 |
| Employee options | - | - |
| Employee options – lapsed | 319 | 542 |
| | **319** | **542** |

## 27. Key Management Personnel Compensation

The directors and other key management personnel of the Group during the year were:

Mr A Howarth (Chairman / Non-Executive Director)

Mr J Weber (Managing Director)

Mr M Bradley (Non-Executive Director)

Mr J Carver (Executive Director)

Mr J Mews (Non-Executive Director)

Mr D Ross (Chief Operating Officer)

Mr P Raynor (Chief Financial Officer)

Mr E Graham (General Manager - Development)

Mr S Lee (Supply Base Manager - Dampier)

Mr D Verboon (Slipway Manager)

Ms T Vivian (General Manager – Human Resources)

Mr J Rogers (Health, Safety & Security Manager) – appointed 9 March 2009

### Key Management Personnel Compensation Policy

The remuneration committee reviews the remuneration packages of all key management personnel on an annual basis and makes recommendations to the Board. Remuneration packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries, adjusted by a performance factor to reflect changes in the performance of the Company.

### Key Management Personnel Compensation

The aggregate compensation of the key management personnel of the consolidated entity and the Company is set out below:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Short term employee benefits | 3,250,773 | 2,507,660 | - | - |
| Post-employment benefits | 200,670 | 151,162 | - | - |
| Share based payments | 304,198 | 420,750 | - | - |
| **Present value of minimum lease payments** | **3,755,641** | **3,079,572** | **-** | **-** |

*Note: All key management personnel are employed by Mermaid Marine Vessel Operations Pty Ltd, a wholly owned subsidiary of Mermaid Marine Australia Ltd.*

## 28. Remuneration of Auditors

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| **Auditor of the Parent Entity** | | | | |
| Audit or review of the financial report | 239,150 | 160,475 | - | - |
| Taxation services | 296,244 | 261,364 | - | - |
| | **535,394** | **421,839** | **-** | **-** |
| **Other Auditor** | | | | |
| **Audit of subsidiary financial report** | **16,286** | **17,076** | **-** | **-** |

The auditor of Mermaid Marine Australia Ltd is Deloitte Touche Tohmatsu.

## 29. Related Party Transactions

### (a) Equity interests in related parties

#### (i) Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 31 to the Financial Statements.

#### (ii) Equity interests in associates and joint ventures

Details of interests in associates and joint ventures are disclosed in note 10 to the financial Statements.

#### (iii) Equity interests in other related parties

There are no equity interests in other related parties.

### (b) Transaction with Key Management Personnel

#### (i) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 27.

#### (ii) Key management personnel equity holdings

Fully paid ordinary shares of Mermaid Marine Australia Limited:

| 2009 | Balance at 1 July 2008 | Granted as compensation | Received on exercise of options | Net other change | Balance at 30 June 2009 | Balance held nominally |
|---|---|---|---|---|---|---|
| | No. | No. | No. | No. | No. | No. |
| Mr A Howarth | 804,479 | - | - | 23,663 | 828,142 | - |
| Mr J Weber | 557,153 | - | 520,000 | - | 1,077,153 | - |
| Mr M Bradley | 3,073,819 | - | - | - | 3,073,819 | - |
| Mr J Carver | 7,070,000 | - | - | (507,783) | 6,562,217 | - |
| Mr J Mews | 749,306 | - | - | - | 749,306 | - |
| Mr D Ross | 57,153 | - | - | - | 57,153 | - |
| Mr P Raynor | 441,141 | - | - | 146,276 | 587,417 | - |
| Mr E Graham | 352,981 | - | - | (85,827) | 267,154 | - |
| Mr S Lee | 100,153 | - | - | (3,000) | 97,153 | - |
| Mr D Verboon | 137,408 | - | - | - | 137,408 | - |
| Mr J Rogers | - | - | - | - | - | - |
| Ms T Vivian | - | - | 100,000 | (73,000) | 27,000 | - |

| 2008 | Balance at 1 July 2007 | Granted as compensation | Received on exercise of options | Net other change | Balance at 30 June 2008 | Balance held nominally |
|---|---|---|---|---|---|---|
| | No. | No. | No. | No. | No. | No. |
| Mr A Howarth | 725,512 | - | - | 78,967 | 804,479 | - |
| Mr J Weber | 553,704 | - | - | 3,449 | 557,153 | - |
| Mr M Bradley | 3,070,370 | - | - | 3,449 | 3,073,819 | - |
| Mr J Carver | 5,004,530 | - | - | 2,065,470 | 7,070,000 | - |
| Mr J Mews | 742,408 | - | - | 6,898 | 749,306 | - |
| Mr D Ross | 153,704 | - | - | (96,551) | 57,153 | - |
| Mr P Raynor | 303,704 | - | - | 137,437 | 441,141 | - |
| Mr T Graham | 234,108 | - | 100,000 | 18,873 | 352,981 | - |
| Mr S Lee | 93,704 | - | - | 6,449 | 100,153 | - |
| Mr D Verboon | 197,408 | - | - | (60,000) | 137,408 | - |
| Ms T Vivian | - | - | - | - | - | - |

## 29. Related Party Transactions (continued)

Share options of Mermaid Marine Australia Limited:

| 2009 | Balance at 1 July 2008 | Granted as compensation | Exercised | Lapsed | Balance at 30 June 2009 | Balance vested at 30 June 2009 | Vested but not exercisable | Vested & exercisable | Options vested during year |
|---|---|---|---|---|---|---|---|---|---|
| | No. | No. | No. | No. | No. | No. | No. | No. | No. |
| Mr J Weber | 1,570,040 | 1,277,584 | - | - | 2,847,624 | 600,000 | - | 600,000 | 200,000 |
| Mr D Ross | 895,704 | 518,500 | - | - | 1,414,204 | 500,000 | - | 500,000 | 100,000 |
| Mr P Raynor | 895,704 | 518,500 | - | - | 1,414,204 | 500,000 | - | 500,000 | 100,000 |
| Mr T Graham | 252,629 | 174,216 | - | - | 426,845 | 100,000 | - | 100,000 | - |
| Mr S Lee | 165,190 | - | - | - | 165,190 | 100,000 | - | 100,000 | - |
| Mr D Verboon | 168,295 | - | - | - | 168,295 | 100,000 | - | 100,000 | - |
| Ms T Vivian | 235,670 | 174,216 | (100,000) | - | 309,886 | - | - | - | - |
| Mr J Rogers | - | - | - | - | - | - | - | - | - |

| 2008 | Balance at 1 July 2007 | Granted as compensation | Exercised | Lapsed | Balance at 30 June 2008 | Balance vested at 30 June 2008 | Vested but not exercisable | Vested & exercisable | Options vested during year |
|---|---|---|---|---|---|---|---|---|---|
| | No. | No. | No. | No. | No. | No. | No. | No. | No. |
| Mr J Weber | 600,000 | 970,040 | - | - | 1,570,040 | 400,000 | - | 400,000 | 400,000 |
| Mr D Ross | 500,000 | 395,704 | - | - | 895,704 | 400,000 | - | 400,000 | 400,000 |
| Mr P Raynor | 500,000 | 395,704 | - | - | 895,704 | 400,000 | - | 400,000 | 400,000 |
| Mr T Graham | 200,000 | 152,629 | (100,000) | - | 252,629 | 100,000 | - | 100,000 | 100,000 |
| Mr S Lee | 100,000 | 65,190 | - | - | 165,190 | 100,000 | - | 100,000 | 100,000 |
| Mr D Verboon | 100,000 | 68,295 | - | - | 168,295 | 100,000 | - | 100,000 | 100,000 |
| Ms T Vivian | 100,000 | 135,670 | - | - | 235,670 | 100,000 | - | 100,000 | 100,000 |

Share rights of Mermaid Marine Australia Limited:

| 2009 | Balance at 1 July 2008 | Granted as compensation | Exercised | Lapsed | Balance at 30 June 2009 | Balance vested at 30 June 2009 | Vested but not exercisable | Vested & exercisable | Options vested during year |
|---|---|---|---|---|---|---|---|---|---|
| | No. | No. | No. | No. | No. | No. | No. | No. | No. |
| Mr J Weber | 520,000 | - | (520,000) | - | - | - | - | - | - |

| 2008 | Balance at 1 July 2007 | Granted as compensation | Exercised | Lapsed | Balance at 30 June 2008 | Balance vested at 30 June 2008 | Vested but not exercisable | Vested & exercisable | Options vested during year |
|---|---|---|---|---|---|---|---|---|---|
| | No. | No. | No. | No. | No. | No. | No. | No. | No. |
| Mr J Weber | 520,000 | - | - | - | 520,000 | - | - | - | - |

All share options and share rights issued to the executives during the financial year were made in accordance with the terms of the respective share option plans and share incentive plan.

During the financial year 100,000 share options (2008:100,000) were exercised by key management personnel at an exercise price of 48 cents per option for 100,000 ordinary shares in Mermaid Marine Australia Ltd (2008: 100,000). No amounts remain unpaid on the options exercised during the financial year at year end.

Further details of the share based payment arrangement during the financial year are contained in note 24 to the financial statements.

## 29. Related Party Transactions (continued)

**(iii) Other transactions with key management personnel of the Group**

**1. Fremantle Premises**

The Achiever Partnership, a related entity of Mr J Mews, and the Company entered into a formal lease agreement for the lease to the entity of its registered office at 20 Mews Road, Fremantle. The lease agreement contains all other usual contractual provisions that would be expected to be found in a commercial lease of like nature.

Since the end of the 2009 financial year, the Company renewed its lease for a further 1 year arrangement with a three year term option commencing 1 September 2009.

The Company is responsible for all fitting out, maintenance (except capital works items), rates, taxes, insurance, and other usual variable outgoings.

The current annual rental is $345,590 (2008: $245,570) per annum plus outgoings. Rental is subject to market reviews annually during the term. Rental and outgoings paid during the financial year amounted to $324,639 (2008: $348,205).

**2. Consultancy Services**

During the year, Business Analysts – Australia, an entity of which Mr J Carver is a director and shareholder, provided consultancy services to the Company upon negotiated commercial terms. Consultancy services paid during the financial year amounted to $170,001 (2008: $150,000), based upon an agreed market day rate.

**(c) Transactions with other related parties**

Mermaid Marine Asia Pte Ltd received management services from Mermaid Marine Vessel Operations Pty Ltd and was charged $1,550,884 (2008: $1,565,211).

Other transactions that occurred during the financial year between entities in the wholly owned group were the provision of services at commercial rates.

During the year Mermaid Marine Australia Ltd recognised tax payable in respect of the tax liabilities of its wholly-owned subsidiaries. Payments to/from the Company are made in accordance with the terms of the tax funding arrangement.

Amounts receivable from entities in the wholly-owned group are disclosed in note 11.

**(d) Parent entity**

Mermaid Marine Australia Limited is the ultimate Australian parent entity.

## 30. Segment Information

| | Vessels | | Supply Base | | Total | |
|---|---|---|---|---|---|---|
| | 2009 $ '000 | 2008 $ '000 | 2009 $ '000 | 2008 $ '000 | 2009 $ '000 | 2008 $ '000 |
| **Segment Revenues** | | | | | | |
| Sales to outside customers | 133,370 | 130,264 | 28,331 | 18,275 | 161,701 | 148,539 |
| Inter-segment revenue | 255 | 125 | 8,561 | 5,199 | 8,816 | 5,324 |
| **Total** | **133,625** | **130,389** | **36,892** | **23,474** | **170,517** | **153,863** |
| Eliminations | | | | | (8,816) | (5,324) |
| Unallocated | | | | | 2,180 | 825 |
| **Total consolidated revenue** | | | | | **163,881** | **149,364** |

Inter-segment services are provided for amounts equal to competitive market prices charged to external customers for similar services.

## 30. Segment Information (continued)

| | Vessels | | Supply Base | | Total | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | $ '000 | $ '000 | $ '000 | $ '000 | $ '000 | $ '000 |
| **Segment Results** | | | | | | |
| Segment result | 33,854 | 29,641 | 10,153 | 6,801 | 44,007 | 36,442 |
| Eliminations | | | | | 144 | (118) |
| **Total** | | | | | **44,151** | **36,324** |
| Unallocated | | | | | (10,596) | (10,924) |
| **Profit before income tax expense** | | | | | **33,555** | **25,400** |
| Income tax expense | | | | | (7,031) | (7,503) |
| **Profit for the period** | | | | | **26,524** | **17,897** |
| **Segment assets and liabilities** | | | | | | |
| Segment Assets | 167,753 | 155,522 | 86,202 | 53,736 | 253,955 | 209,258 |
| Unallocated assets | | | | | 44,151 | 58,644 |
| **Consolidated** | | | | | **298,106** | **267,902** |
| **Liabilities** | | | | | | |
| Segment liabilities | 10,696 | 21,789 | 8,738 | 2,390 | 19,434 | 24,179 |
| Unallocated liabilities | | | | | 110,433 | 96,416 |
| **Consolidated** | | | | | **129,867** | **120,595** |

| | Vessels | | Supply Base | | Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | $ '000 | $ '000 | $ '000 | $ '000 | $ '000 | $ '000 | $ '000 | $ '000 |
| **Other segment Information** | | | | | | | | |
| Carrying value of equity accounted investments included in segment assets | - | - | - | - | 3,591 | 1,374 | 3,591 | 1,374 |
| Share of net profit/(loss) of associates accounted for under the equity method | - | - | - | - | 2,217 | 431 | 2,217 | 431 |
| Acquisition of segment assets | 15,065 | 54,911 | 28,673 | 12,856 | 342 | 355 | 44,080 | 68,122 |
| Depreciation and amortisation of segment assets | 7,716 | 5,681 | 1,965 | 1,581 | 150 | 173 | 9,831 | 7,435 |
| Proceeds from sale of property plant and equipment | 7,523 | 4,789 | - | 37 | - | 221 | 7,523 | 5,047 |

### Geographical segments

The consolidated entity conducted its business mainly within Australia during financial year end 2009.

For management purposes, the consolidated entity is organised into two major operating divisions – Vessels and Supply Base. These divisions are the basis on which the consolidated entity reports its primary segment information. The principal services of each of the divisions are as follows:

**Vessels** Operating crewed vessel charters, vessel manning, management and logistics;

**Supply Base** Operating supply base and marine support facilities.

## 31. Subsidiaries

| | Note | Country of Incorporation | Ownership Interest 2009 % | Ownership Interest 2008 % |
|---|---|---|---|---|
| **Parent Entity** | | | | |
| Mermaid Marine Australia Limited | (i) | Australia | | |
| **Subsidiaries** | | | | |
| Mermaid Marine Group Pty Ltd | (ii) (iii) | Australia | 100 | 100 |
| Mermaid Marine Vessel Operations Pty Ltd | (ii) (iii) | Australia | 100 | 100 |
| Mermaid Marine Pty Ltd | (ii) (iii) | Australia | 100 | 100 |
| Mermaid Marine Offshore Pty Ltd | (ii) (iii) | Australia | 100 | 100 |
| Mermaid Marine Charters Pty Ltd | (ii) (iii) | Australia | 100 | 100 |
| Mermaid Supply Base Pty Ltd | (ii) (iii) | Australia | 100 | 100 |
| Dampier Stevedoring Pty Ltd | (ii) | Australia | 100 | 100 |
| Mermaid Manning and Management Pty Ltd | (ii) | Australia | 100 | 100 |
| Mermaid Labour and Management Pty Ltd | | Australia | 99 | 99 |
| Mermaid Marine Asia Singapore Pte Ltd | | Singapore | 100 | 100 |

(i) Mermaid Marine Australia Limited is the head entity within the tax consolidated group.

(ii) These companies are members of the tax consolidated group.

(iii) Pursuant to ASIC Class Order 98/1418, relief has been granted to these wholly owned controlled entities from the Corporations Law requirements for preparation, audit and lodgement of the financial report. As a condition of the Class Order, Mermaid Marine Australia Limited and the controlled entities entered into a Deed of Cross Guarantee on 24 June 1999.

The consolidated income statement and balance sheet of entities which are party to the deed of cross guarantee are:

| | 2009 $ '000 | 2008 $ '000 |
|---|---|---|
| **INCOME STATEMENT** | | |
| Revenue | 144,402 | 127,840 |
| Share of net profits of associate accounted for using the equity method | 2,217 | 431 |
| Vessel expenses | (80,036) | (84,188) |
| Supply base expenses | (26,596) | (11,591) |
| Administrative expenses | (10,159) | (5,685) |
| Finance costs | (5,600) | (5,927) |
| **Profit before income tax expense** | **24,228** | **20,880** |
| **Income tax (expense)/benefit** | **(6,737)** | **(6,549)** |
| **Profit for the year** | **17,491** | **14,331** |

## 31. Subsidiaries (continued)

| | 2009 | 2008 |
|---|---|---|
| **BALANCE SHEET** | **$ '000** | **$ '000** |
| **Current Assets** | | |
| Cash and cash equivalents | 35,504 | 51,620 |
| Trade and other receivables | 32,770 | 20,967 |
| Inventories | 1,560 | 2,124 |
| Other | 661 | 550 |
| **Total Current Assets** | **70,495** | **75,261** |
| **Non-Current Assets** | | |
| Investments accounted for using the equity method | 3,591 | 1,374 |
| Other financial assets | 10,744 | 42,762 |
| Property, plant and equipment | 168,178 | 139,710 |
| **Total Non-Current Assets** | **182,513** | **183,846** |
| **Total Assets** | **253,008** | **259,107** |
| **Current Liabilities** | | |
| Trade and other payables | 16,056 | 9,284 |
| Borrowings | 13,272 | 21,176 |
| Other financial liabilities | 1,243 | 695 |
| Provisions | 1,770 | 1,417 |
| Current tax payables | 348 | 3,186 |
| **Total Current Liabilities** | **32,689** | **35,758** |
| **Non-Current Liabilities** | | |
| Trade and other payables | 10,548 | 22,122 |
| Borrowings | 84,895 | 52,347 |
| Deferred tax liabilities | 7,454 | 5,029 |
| Provisions | 493 | 345 |
| **Total Non-Current Liabilities** | **103,390** | **79,843** |
| **Total Liabilities** | **136,079** | **115,601** |
| **Net Assets** | **116,929** | **143,506** |
| **Equity** | | |
| Issued capital | 69,812 | 106,201 |
| Reserves | (432) | (60) |
| Retained earnings | 47,549 | 37,365 |
| **Total Equity** | **116,929** | **143,506** |
| **Retained earnings** | | |
| Retained earnings at beginning of the financial year | 37,365 | 24,513 |
| Net profit | 17,491 | 14,331 |
| Dividend provided for or paid | (7,307) | (1,479) |
| **Retained earnings at end of the financial year** | **47,549** | **37,365** |

## 32. Financial Instruments

### (a) Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2008.

The capital structure of the Group consists of debt, which includes borrowings disclosed in note 15 , cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 18,19 and 20 respectively.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand the Group's assets as well as to make routine outflows of tax, dividends and repayment of maturing debt. Where additional funding is required the Group approaches a variety of lenders to identify appropriate borrowing facilities.

### Gearing ratio

The Group uses its gearing ratio to manage its capital. The ratio is monitored on a monthly basis by the Board and management and is measured as net debt to equity. Based on recommendations of management and the Board, the Group will balance its overall capital structure through payment of dividends, new share issues as well as the issue of new borrowing facilities or redemption of existing facilities.

The gearing ratio at year end was as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Debt (i) | 98,167 | 90,854 | 31,971 | 15,161 |
| Cash and cash equivalents | (38,383) | (56,217) | (29,478) | (44,236) |
| Net debt | 59,784 | 34,637 | 2,493 | (29,075) |
| Equity (ii) | 168,239 | 147,307 | 106,896 | 111,407 |
| Net debt to equity ratio | 36% | 24% | 2% | n/a |

(i) Debt is defined as long and short-term borrowings, as detailed in note 15.

(ii) Equity includes all capital and reserves.

### (b) Categories of financial instruments

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| **Financial assets** | | | | |
| Loans and receivables | 40,718 | 29,790 | 145,003 | 80,804 |
| Cash and cash equivalents | 38,383 | 56,217 | 29,478 | 44,236 |
| **Financial liabilities** | | | | |
| Derivative instrument in designated hedge accounting relationship | 1,243 | 695 | - | - |
| Amortised cost | 117,792 | 109,338 | 31,977 | 15,167 |

## 32. Financial Instruments (continued)

### (c) Financial risk management objectives

Management monitors and manages the financial risks of the Group and the Company on an ongoing basis. These risks include market risk (including currency risk and interest rate risk) credit risk and liquidity risk.

The Group and the Company seeks to minimise the effects of these risks, by using, where considered appropriate, derivative financial instruments to hedge these risk exposures. The use of financial derivatives is limited to the hedging of specific identified risks as directed by the board of directors. The Group and the Company do not enter into or trade financial instruments including derivative financial instruments for speculative purposes.

There has been no change to the Group's or Company's exposure to market risks or the manner in which it manages and measures risk.

### (d) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group has entered into foreign exchange forward contracts to hedge the foreign currency risk arising on:

- The purchase of vessels denominated by USD contracts
- The purchase of a crane denominated by a JPY contract
- Vessel expenses denominated by USD contracts

The Group manages its exposure to interest rate risk by maintaining an appropriate mix of fixed and floating rate borrowings and variation in maturity dates.

At a Group level, market risks are managed through sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

### (e) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts. The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| US dollars | 1,662 | 1,340 | 8,787 | 4,541 |
| Singapore dollars | 225 | 284 | 430 | 111 |

The Company does not have any foreign currency denominated monetary assets and monetary liabilities at the reporting date.

### Foreign currency sensitivity analysis

The Group is mainly exposed to US dollars (USD) and Singapore dollar (SGD).

The following table details the Group's sensitivity to a 10% increase in the Australian dollar against the relevant foreign currency. For a 10% decrease in the Australian Dollar against the respective currency there would be an equal, opposite impact on the profit and other equity. The 10% sensitivity is based on reasonably possible changes, over a financial year, using the observed range of historical rates for the previous five year period. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

## 32. Financial Instruments (continued)

| | USD impact | | | | Singapore dollar impact | | | |
|---|---|---|---|---|---|---|---|---|
| | Consolidated | | Company | | Consolidated | | Company | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Profit or loss | (798) | (302) | - | - | (16) | 12 | - | - |
| Other equity | (3,153) | (174) | - | - | - | - | - | - |

The Group's sensitivity to foreign currency has increased during the current period mainly due to increased vessel operations resulting in increased foreign currency denominated trade receivables and payables.

**Forward foreign exchange contracts**

The Group has entered into forward foreign exchange contracts to cover specific foreign currency payments required under vessel purchase contracts, the purchase of a crane and expenses denominated in USD.

The following table details the forward foreign currency contracts outstanding as at reporting date:

| Outstanding Contracts | Average exchange rate | | Foreign currency | | Contract value | | Fair value | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | FC'000 | FC'000 | $'000 | $'000 | $'000 | $'000 |
| **Buy US Dollars** | | | | | | | | |
| Less than 3 months | 0.780 | 0.820 | 28,140 | 3,884 | 36,058 | 4,739 | (1,223) | (659) |
| 3 to 6 months | - | 0.927 | - | 2,024 | - | 2,182 | - | (35) |
| **Buy Japanese Yen** | | | | | | | | |
| Less than 3 months | 76.90 | - | 119,717 | - | 1,557 | - | (20) | - |
| **Total** | | | | | | | **(1,243)** | **(694)** |

As at reporting date the aggregate amount of unrealised losses under forward foreign exchange contracts relating to anticipated future transactions is $1,243,000 (2008:$694,000). In the current year, these unrealised losses have been deferred in the hedging reserve to the extent the hedge is effective. It is anticipated theses payments relating to new capital expenditure will be made in the first 3 months of the next financial year, at which time the amount deferred to equity will be included in the carrying value of the new assets.

**(f) Interest rate risk management**

The Company and the Group are exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The Company and the Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

**Interest rate sensitivity analysis**

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A movement of 150 basis points has been selected as the amount to use for this analysis. The 150 basis points sensitivity is based on reasonably possible changes, over a financial year, using the observed range of historical rates for the previous five year period.

At reporting date, if interest rates had been 150 basis points higher / lower and all other variables were held constant, the impact on the net profit of the Group would be as follows:

- Net profit would decrease / increase by $316,000 (2008: decrease / increase by $271,000). This is mainly attributable to the Group's exposure to interest rates on its variable borrowings.

The Group's sensitivity to interest rates has increased during the current period due to the increased debt levels on variable rate borrowings.

## 32. Financial Instruments (continued)

### (g) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing with credit worthy counterparties. The Group's exposures to its counterparties are continuously monitored by management.

Trade receivables consist of a large number of customers spread over across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group and the Company do not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics, other than the amount due from subsidiaries.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's and the Company's maximum exposure to credit risk.

### (h) Liquidity risk management

The group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities. Included in note 21 is a list of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

### Liquidity and interest risk tables

The following tables detail the Company's and the Group's remaining contractual maturity for its non derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

| | Weighted average effective interest rate | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | 5+ years |
|---|---|---|---|---|---|---|
| | % | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Consolidated** | | | | | | |
| **2009** | | | | | | |
| Non interest bearing | - | 19,625 | - | - | - | - |
| Finance lease liability | 7.78 | 711 | 1,187 | 6,764 | 40,243 | 3,348 |
| Variable interest rate instruments | 5.09 | 682 | 2,185 | 8,405 | 50,620 | 1,071 |
| | | **21,018** | **3,372** | **15,169** | **90,863** | **4,419** |
| **2008** | | | | | | |
| Non interest bearing | - | 18,484 | - | - | - | - |
| Finance lease liability | 8.05 | 1,017 | 2,019 | 35,992 | 36,689 | 4,538 |
| Variable interest rate instruments | 8.02 | 212 | 761 | 3,598 | 27,276 | 2,750 |
| | | **19,713** | **2,780** | **39,590** | **63,965** | **7,288** |
| **Company** | | | | | | |
| **2009** | | | | | | |
| Non interest bearing | - | - | - | - | - | - |
| Finance lease liability | - | - | - | - | - | - |
| Variable interest rate instruments | 4.81 | 569 | 450 | 2,997 | 33,141 | - |
| | | **569** | **450** | **2,997** | **33,141** | **-** |
| **2008** | | | | | | |
| Non interest bearing | - | - | - | - | - | - |
| Finance lease liability | - | - | - | - | - | - |
| Variable interest rate instruments | 7.66 | 98 | 296 | 1,534 | 17,884 | - |
| | | **98** | **296** | **1,534** | **17,884** | **-** |

At the year end it was not probable that the counterparty to the financial guarantee contract will claim under the contract. Consequently the amount included above is nil.

## 32. Financial Instruments (continued)

The following tables detail the Company's and the Group's expected maturity for its non derivative financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

| | Weighted average effective interest rate | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | 5+ years |
|---|---|---|---|---|---|---|
| | % | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Consolidated** | | | | | | |
| **2009** | | | | | | |
| Non interest bearing | - | 27,998 | 4,766 | 7,954 | - | - |
| Variable interest rate instruments | 2.46 | 39,329 | - | - | - | - |
| | | **67,327** | **4,766** | **7,954** | **-** | **-** |
| **2008** | | | | | | |
| Non interest bearing | - | 25,117 | 2,094 | 2,579 | - | - |
| Variable interest rate instruments | 6.18 | 56,506 | - | - | - | - |
| | | **81,623** | **2,094** | **2,579** | **-** | **-** |
| **Company** | | | | | | |
| **2009** | | | | | | |
| Non interest bearing | - | 1,425 | - | - | - | 143,578 |
| Variable interest rate instruments | 2.91 | 30,355 | - | - | - | - |
| | | **31,780** | **-** | **-** | **-** | **143,578** |
| **2008** | | | | | | |
| Non interest bearing | - | 1,023 | - | - | - | 79,781 |
| Variable interest rate instruments | 7.16 | 45,254 | - | - | - | - |
| | | **46,277** | **-** | **-** | **-** | **79,781** |

The following table illustrates the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis.

| | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | 5+ years |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Consolidated** | | | | | |
| **2009** | | | | | |
| Net settled | | | | | |
| Foreign exchange contracts | 24,357 | 13,258 | - | - | - |
| **2008** | | | | | |
| Net settled | | | | | |
| Foreign exchange contracts | 743 | 3,996 | 2,182 | - | - |

The Company does not hold any derivative instruments (2008:nil).

## 32. Financial Instruments (continued)

### (i) Fair value of financial instruments

The fair value of financial assets and liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.
- the fair value of derivative instruments are calculated using quoted prices.

**Derivatives**

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the financial statements approximates their fair values.

# Additional Stock Exchange Information

As at 15 September 2009

## Ordinary Share Capital

185,331,113 fully paid ordinary shares are held by 6,768 individual shareholders. All issued ordinary shares carry one vote per share.

| Substantial shareholders | Number of Shares | % of Issued Capital |
|---|---|---|
| IOOF Holdings | 16,422,393 | 8.97 |
| Acorn Capital Holdings | 13,537,769 | 7.37 |
| Commonwealth Bank of Australia | 10,138,587 | 5.54 |
| Thorney | 9,510,000 | 5.18 |
| Invesco Australia Limited | 9,264,511 | 5.05 |

## Distribution of Holders of Ordinary Shares

| Size of Holding | Number of ordinary shareholders |
|---|---|
| 1 to 1,000 | 1,540 |
| 1,001 to 5,000 | 2,604 |
| 5,001 to 10,000 | 1,048 |
| 10,001 to 100,000 | 1,447 |
| 100,001 and over | 129 |
| **Total** | **6,768** |

| Twenty Largest Shareholders | Number of Shares | % of Issued Capital |
|---|---|---|
| National Nominees Limited | 31,991,597 | 17.26 |
| JP Morgan Nominees Australia Limited | 17,303,852 | 9.34 |
| ANZ Nominees Limited (Cash Income) | 12,034,913 | 6.49 |
| Argo Investments Limited | 5,650,000 | 3.05 |
| Sawtell Pty Ltd Jim Carvers A/C | 5,007,153 | 2.70 |
| Citicorp Nominees Pty Limited CFSIL CWLTH AUST SHS | 4,952,203 | 2.67 |
| HSBC Custody Nominees (Australia) Limited | 4,846,647 | 2.62 |
| Cogent Nominees Pty Limited | 4,799,932 | 2.59 |
| Evelin Investments Pty Limited | 3,330,232 | 1.80 |
| Citicorp Nominees Pty Limited | 3,254,145 | 1.76 |
| Mr Mark Francis Bradley | 3,073,819 | 1.66 |
| The Australian National University Investment Section | 1,700,000 | 0.92 |
| Mirrabooka Investments Limited | 1,450,000 | 0.78 |
| Citicorp Nominees Pty Limited | 1,391,724 | 0.75 |
| Akir Pty Ltd | 1,252,918 | 0.68 |
| Citicorp Nominees Pty Ltd Cwlth Bank Off Super | 1,240,465 | 0.67 |
| Mr John Paterson | 1,236,488 | 0.67 |
| Sawtell Pty Ltd Jim Carvers A/C | 1,229,312 | 0.66 |
| Mr Jeffrey Andrew Weber | 1,003,449 | 0.54 |
| Osson Pty Ltd Private A/C | 753,449 | 0.41 |
| | **107,502,298** | **58.02** |

## Additional Stock Exchange Information

### Voting Rights

All ordinary shares carry one vote per share without restriction.

### Unquoted Options

7,594,893 unlisted options are held by 69 individual option holders.

### Shareholder Enquiries

Shareholders can obtain information about their shareholding by contacting the Company's share registry:

Computershare Investor Services Pty Ltd

GPO Box 2975

Melbourne

Victoria 3001 Australia

Enquiries:

| | |
|---|---|
| (within Australia) | 1300 850 505 |
| (outside Australia) | 61 3 9415 4000 |
| Facsimile: | 61 3 9473 2500 |

web.queries@computershare.com.au

www.computershare.com

### Change of Address

Shareholders should notify the share registry in writing immediately there is a change to their registered address.

### Stock Exchange Listing

Shares in Mermaid Marine Australia Limited are listed on the Australian Stock Exchange.

### Publications

The Annual Report is the main source of information for shareholders.

MERMAID MARINE
AUSTRALIA LTD

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