MMA

MERMAID MARINE
AUSTRALIA LTD

ANNUAL REPORT 2007

MERMAID MARINE AUSTRALIA LIMITED
A.C.N. 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
Peter Raynor

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CHAIRMAN'S ADDRESS

Mermaid Marine Australia Limited (MMA) took another major step forward in 2007 in its development as a service provider of choice in the Australian Oil and Gas market. The financial performance of the Company improved substantially, driving strong growth in total shareholder return.

MMA posted a net profit of $12.51 Million for the 2007 financial year, up 36% on last year's result. This is an excellent achievement and even more so when you consider that last year's result was boosted by a one off abnormal profit from the sale of our manning business. On a pure operating basis MMA has grown its net earnings by 120% over the 2006 result. Operating cash flow grew by 57% over the previous corresponding period and the return on capital for all our assets also grew strongly. The result supports the Company's decision to invest in new vessels and infrastructure over the last couple of years.

I indicated at the 2006 AGM that the Board considered payment of a dividend as a high priority. On the basis of our performance and with confidence in the future performance of the Company, the Board of MMA is pleased to advise that a dividend will be paid this year. The dividend will be 1 cent per share fully franked and details of the dividend payment and timing have been advised to the market. MMA will also introduce a Dividend Reinvestment Plan in which shareholders can elect to participate. The subscription price for the shares to be issued under the Plan will be at a 2.5% discount to the market price of the Company's shares.

During the year the Board entered into discussions with P&O Maritime relating to a merger between the two companies. Ultimately the merger did not eventuate and the full year result of the company highlights the fact that MMA can comfortably stand on its own and deliver superior results to our shareholders. The Board is committed to continued growth in the company with the main focus on the Oil and Gas market but with an open mind towards complimentary markets that leverage our marine skills and infrastructure.

The signs are good for the Oil and Gas market to remain buoyant for some time. Over the next five years there are more than 300 wells planned to be drilled around Australia and major projects such as the Woodside Pluto Project are moving out of the planning phase and into development. There are at least five new floating oil production facilities either approved or planned over the next two to three years in the North West Shelf region and the Timor Sea region. The scale of exploration activity in the Browse basin highlights the potential of this region to be a major source of gas into

CHAIRMAN'S ADDRESS

the future. The challenge for the organisation is to take advantage of the opportunities as they arise and we are well positioned with supply bases in Dampier and Broome and a highly capable fleet of offshore vessels.

In February 2007, Alan Birchmore resigned from the Board of Directors for personal reasons. Alan has been on the Board of MMA since listing and has contributed significantly to the development of the organisation. I wish Alan well for the future and take this opportunity to thank him for his tireless efforts as Chairman and Director of MMA. I would also like to thank my other Board members for their ongoing support and guidance during a year that presented a number of challenges but ultimately was highly successful.

Finally, the outcomes we have delivered to shareholders are a result of a lot of dedication and endeavor from everybody within the organisation and their efforts are to be commended.

Tony Howarth
Chairman

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

The 2007 financial year was an excellent year for Mermaid Marine Australia Ltd (MMA). The company improved in all key performance measures and further enhanced its position in the Australian Oil and Gas services market. MMA has now grown substantially over the last two years on the back of investment in people, assets and infrastructure.

In a time of unprecedented demand for people across all industries, our ability to attract and retain high quality personnel is strong testament to the culture of the organisation and its belief in the long term future of the company. Equally impressive, we were able to meet our growth targets without incurring any injuries that required personnel to take time off work.

FINANCIAL HIGHLIGHTS

MMA grew revenue by 45% to $103.1 million for the year, up from $71.1 million in 2006. With EBITDA and EBIT margins also rising, the net profit after tax of $12.5 million represents a 120% increase from the normalised operating earnings of 2006. Importantly, the improved operating margins drove strong growth in return on assets and return on equity. The improved performance has allowed the Company to commence paying a dividend with the confidence that we can continue to do so into the future.

The balance sheet of the Company also strengthened during the year with gearing falling to 55.8% down from 83.2% in June 2006. Debt grew from $56.4 million to $63.0 million but this was more than offset by the increase in shareholder equity. The Company undertook a Share Purchase Plan in June 2007 raising $9.7 million. These funds were used to support the acquisition of the new vessel Mermaid Sentinel and provide working capital for the organisation as it continues to grow. Operating cash flow grew to $18.1 million up from $11.5 million for the previous corresponding period. The Company spent $22.9 million in capital down from $45.9 million in 2006. The majority of this capital was directed towards fleet expansion. Overall the balance sheet is in excellent shape to support the continued expansion of the company.

OPERATIONAL HIGHLIGHTS

MMA has two main operating divisions, Vessel Operations and Supply Base Operations. Included in our Supply Base Operations structure is our Slipway Operations and our Joint Venture Broome Supply Base Operation.

All MMA operations report through to the Chief Operating Officer. This management structure allows us to provide our clients with an integrated or 'bundled' service for a range of different offshore activities. This is a key development area for the company. Security of service, ensuring continuity in the offshore marine supply chain, has become an increasingly important consideration for the Australian Oil and Gas industry. We are in a unique position now to offer this service, as we improve the depth and capability of our fleet, and the wharf, laydown and warehousing infrastructure on the Supply Bases.

The Board of MMA is currently considering a range of development opportunities to further strengthen this market offer and to ensure that we continue to meet emerging industry requirements.

VESSEL OPERATIONS

In April 2006 MMA completed the transaction with Total Marine Services to acquire their vessels. At the same time, the new vessel Mermaid Investigator was delivered. This meant that, as a company, we started the 2007 financial year with a number of new vessels at our disposal. This put significant pressure on our scheduling, operations and crewing personnel. We are pleased to report that we met this challenge and delivered substantial growth in this division of the organisation.

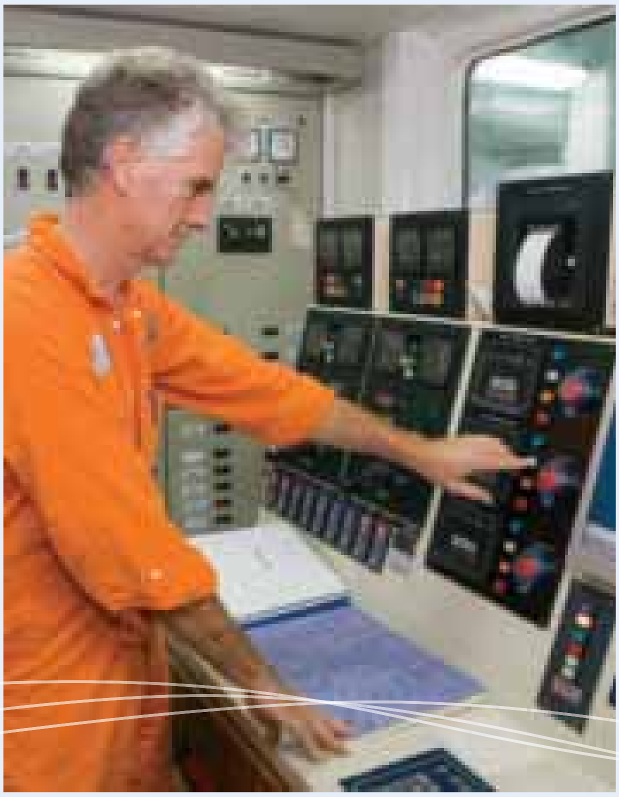
MANAGING DIRECTOR'S REVIEW OF OPERATIONS

Revenue grew by 62% to $86.8 million with EBITDA almost doubling from $13.6 million in 2006 to $25.8 million in 2007. The increase in revenue was driven by:

- the increase in fleet numbers,
- a higher average day rate due to an increase in the number of larger vessels and
- higher fleet utilisation overall.

The first quarter of the year saw record fleet utilisation as a range of project activities carried over from the 2006 financial year. There were a high number of cyclones recorded in WA's North West in 2006, causing delays and disruptions to production and development activities.

The second and third quarters saw fleet utilisation decrease slightly but still maintain a comparatively high average rate of 75%. The last quarter was more in line with our traditional demand profile, with reduced development activity, in particular, as the weather conditions offshore deteriorated and made vessel-associated work difficult. The winter months are historically quieter for the organisation and generally impact on our first and last quarter activity. However, as MMA has increased its exposure to production support operations, which continue through these quieter periods, demand seasonality has become less pronounced than in the past. Production support activities are generally covered by term contracts, further reducing the overall volatility in our earnings.



Two additional vessels, the Mermaid Sound and the Mermaid Sentinel were added to the fleet in the latter part of the financial year.

The Mermaid Sound is a purpose-built Offshore Support Vessel (OSV), designed in Australia and built in the Cheoy Lee yards in China. The vessel cost just over USD10 million and has a number of unique characteristics. The vessel operates off the coast of Exmouth where the combined sea conditions of wind, currents and swell are particularly challenging. As a result our client, Woodside, was keen to ensure the vessel was highly reliable, had good sea-keeping abilities and was constructed and operated with a clear focus on minimal environmental impact. The Mermaid Sound achieves this through modern Diesel Electric design, which allows the vessel to operate safely and effectively with one of the main engines out of service. An added benefit of the system is that main engines can be started and stopped to match demand, which results in a significant, direct fuel saving and reduction in the greenhouse gas production of the unit. The Mermaid Sound is built to "Clean Class" standards under Classification Society rules which ensure the best possible environmental management of the vessel. This vessel is a good indicator of how far the company has progressed over the last five years and is a good model of working with our clients to develop world class outcomes for the Australian Oil and Gas industry.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

The Mermaid Sentinel was purchased from a South-East Asian company and joined our fleet in late June 2007. It is a sister ship to the Mermaid Guardian, 40 metres in length with a bollard pull of approximately 50 tonnes. The vessel was purchased to meet the increasing demand for general support services in the North West region and will operate both in the contract and spot market. This vessel type is highly versatile and can undertake a range of roles including:

- International and Offshore towing
- Offtake support
- Dive support
- Small anchor handling
- Survey operations
- Standby operations.

The Mermaid Guardian is a proven performer, operationally and financially, and we are confident that the new Mermaid Sentinel will perform equally well.

MMA is constructing another multi-purpose vessel through Cheoy Lee in China, with delivery expected in the last quarter of the 2008 financial year. The vessel, 54 metres in length and accommodating over 30 people, will join the fleet to support survey operations and other development activities. With specifically designed survey features, the vessel can also undertake supply and towing activities and will be a welcome addition to the fleet.

During the last year, MMA also bareboat chartered two vessels for six months each to meet additional, short term requirements for our clients. In bareboat chartering, MMA takes effective ownership of the vessel for the period of the charter; crewing, maintaining and operating it to undertake the required services.

Over the past two years, MMA has completed a number of bareboat charters and is ideally placed to provide this service for our clients. As vessel operators we have the depth and experience in our marine management team to ensure the vessel owners are comfortable that their assets are being operated professionally. We have the Safety Management Systems in place that allow us to take control of an unfamiliar vessel and quickly implement a management plan that ensures its safe and efficient operation.

MMA has developed a detailed understanding of the various regulatory regimes, in South-East Asia particularly, that allows us to move quickly. We have also developed our relationships with vessel owners and brokers, necessary to ensure we provide the best possible vessel for the specific role. While our core business remains building and operating our own fleet, we expect to grow bareboat chartering as part of our business. It adds value for our clients, helps develop strong relationships in the larger vessel market, and builds increasing capability within the organisation as we charter and operate a range of vessels we would not normally purchase.

It has been a year of strong growth in our vessel numbers, vessel performance and vessel earnings. As an organisation we will continue to invest in our fleet development and expansion. This investment will enable us to take advantage of our current market and to explore opportunities in markets to which we are not currently exposed. Our focus will remain on the Oil and Gas industry but where opportunities arise outside this market, where we can leverage our skills and market position, we will certainly review the possibilities. MMA has positioned itself as a supplier of choice in the Oil and Gas industry and the skills, systems and experience we bring to bear as an organisation can definitely be leveraged into new markets.

SUPPLY BASE OPERATIONS

Dampier Supply Base

The Dampier Supply Base expansion, started in 2000, became operational around May 2002. It has been a challenging infrastructure development for the Company so we are pleased to report this year's earnings as a step change improvement in the financial performance of MMA's single largest asset.

In 2005, to meet the expected growth in demand in the Dampier region, the Board took the decision to increase our wharf infrastructure. The wharf facility was increased by 66 metres to an overall length of 110 metres. This development was funded out of internal cash flows and at the time represented a significant investment for the organisation. MMA undertook the construction directly and delivered it on time and on budget. It was this decision and execution that has driven the growth in earnings and overall return on capital for the Dampier facility. Revenue increased by 81% from 2006, with return on capital more than doubling to 10.6%. The Dampier Supply Base is a high fixed-cost asset, so relatively small increases in revenue have a positive impact on the EBITDA and EBIT margins of the operation.

The wharf facility is now highly utilised and drives activity throughout the whole supply base. Growth in demand continues, so in consultation with our clients, MMA is again reviewing the wharf infrastructure. Drilling operations are getting more expensive so the supply chain becomes more critical and delays in servicing vessels more costly. Current indications are that there are more than 300 new wells to be drilled in the North West Shelf region over the next five years. These wells, further offshore and in deeper water, require higher levels of drilling consumables than has previously been the case in Australia. With this backdrop, and major projects such as Pluto now being approved, MMA will ensure that it develops the necessary infrastructure to take advantage of the opportunities.

There are a number of other developments planned for the 2008 financial year. The Board has now signed off on a new warehouse facility. To ensure the best possible logistics management, the multi-user facility will be strategically positioned within the supply base and will provide over 2000 square metres of undercover storage. A number of our clients have already expressed an interest in taking additional undercover storage space for their operations. In addition, a range of laydown areas will be upgraded over the next 12 months to increase our usable land area to service offshore drilling, construction and production operations.

The Dampier Supply Base is a key organic growth platform for the organisation as demand for our services continues to increase over the coming years.

Broome Supply Base

Commencing in November 2006, MMA entered into a Joint Venture with Toll Energy (TMLB) to run supply base operations in Broome. The expected scale of activity emerging in this area made the logic of a joint operation compelling, as the respective strengths of both companies involve supply base operations. Turnover in Broome has more than quadrupled from the previous corresponding period as Inpex, Shell and Woodside ramp up their exploration activities in the Browse Basin. There is a high potential for one or more of these exploration programs to develop into production facilities. MMA is ideally placed to take advantage of these developments from both a supply base and vessel perspective.

During the year TMLB secured a lease area of 3.3 hectares, ideally positioned close to the port facility. Over the next two years this area will be developed to meet the laydown, warehousing and office space requirements of our clients in the region. In addition to this new land, TMLB currently has a long term lease on a 3000 square metre shed at the port. An additional three hectares has been developed on Toll land for our client's drill casing storage requirements. TMLB and the Broome Port Authority are discussing further land leases over the next few years.

The performance of this company from its inception in November 2006 is testament to the quality of the management team in Broome. Developments in the Browse Basin region augur well for the future of this area of MMA's operations.

Slipway

In a clear strategic advantage to MMA, the slipway operation provides a critical service, maintaining our fleet competitively and in a timely manner.

During 2007 the slipway encountered strong demand as MMA's fleet increased in size, and the number of vessels operating in the North West region increased. During the year a considerable amount of work was undertaken on the slipway to improve the environmental performance, safety and efficiency of the operation. Further upgrade work on the cradles will be carried out over the 2008 financial year, to ensure that we are able to service vessels as they get larger.

A total of 36 vessels were docked at the facility during the year, of which 13 were MMA vessels. Slipway operations are characterised by high labour content, which in the current environment is difficult to source competitively. So, while turnover increased by 67% from the 2006 financial year; profit only increased by 27%. The reduced margin was driven primarily by the costs of contract labour and housing in Dampier. While MMA has had to increase charges to reflect the growing cost base it is currently reviewing a variety of cost control measures. We expect activity on the slipway to remain strong over the year and also expect to improve upon our profit margins.

However, the true value of the slipway is less in pure operating profit and more in the ability to manage our fleet requirements around our contracts, ensuring the highest possible utilisation of our vessels.

BUSINESS SYSTEMS

With the exponential growth in the company over the last two years there has been an equal increase in the number of employees working within the organisation. Due to cost and availability of personnel, our strategy over the last 12 months has been to move a number of administrative and support roles out of Dampier to our Fremantle office. This initiative has been supported by major upgrades of our IT infrastructure to meet the change in work processes. Further improvements in the overall IT support infrastructure will happen over the 2008 financial year, as the communications infrastructure improves between our Fremantle office and Dampier. We are also standardising our fleet communications infrastructure. This will ensure that everybody within the organisation has live access to the information they need to efficiently undertake their respective roles. As the company continues to grow, communication across the diverse operating units becomes more critical and we are making the changes needed to meet this challenge.

Over the past 12 months MMA has also continued to develop the Integrated Business Management System. This system drives performance of the organisation from a health, safety and environmental perspective, and links it to our business with standardised operating procedures and processes. As a service provider to major oil and gas clients, quality management systems are fundamental to our license to operate. The improvement in our audit results over the last 12 months highlights the advantages of this integrated system. The premise of the system is one of continuous improvement. Refinement of the system is driven by all MMA employees in conjunction with regular client consultation and feedback.

People

The continued success of MMA is due to people throughout the organisation delivering an excellent service, but more importantly, continuously looking at ways in which we can improve. I would like to take this opportunity to thank the Senior Management Team of David Ross (COO), Peter Raynor (CFO), Treena Vivian (General Manger HR) and Ted Graham (General Manager Development).

Over the last 12 months new people have joined the organisation with our Fremantle Office numbers increasing by over 20%. As a company we have been able to attract high quality marine, financial and administrative people. Equally importantly, we have been able to retain the people that have contributed to the longer term development of the company. Ours is a 24 hour per day, 7 days per week business and I would like to thank everybody within the company for their commitment and enthusiasm.

I would also like to thank our clients for their ongoing support and our suppliers for helping us to achieve our excellent performance in 2007.

It is an exciting time for MMA, and given the expected developments within our core markets, the prospects for the company are outstanding.

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 best practice recommendations of the ASX Corporate Governance Council. Where a recommendation has not been followed, the company must give reasons for not following the recommendation. The Company's Corporate Governance Statement below is structured with reference to the ASX Corporate Governance Council's "Principles of good corporate governance and best practice recommendations" (Recommendations), which are as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the Board to add value
Principle 3	Promote ethical and responsible decision making
Principle 4	Safeguard integrity in financial reporting
Principle 5	Make timely and balanced disclosure
Principle 6	Respect the rights of shareholders
Principle 7	Recognise and manage risk
Principle 8	Encourage enhanced performance
Principle 9	Remunerate fairly and responsibly
Principle 10	Recognise the legitimate interests of stakeholders

For further information on the corporate governance policies adopted by the Company refer to the corporate governance section of the Company's website: www.mma.com.au

STRUCTURE OF THE BOARD

A brief description of the experience and skills of each director in office at the date of the annual report is included in the Directors Report on page 14. As defined by the Corporate Governance Council, directors of the Company are considered to be independent when they 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 exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the company and individual director 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.

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.

Of the five current Board members the following three directors are not considered by the Board to be independent (applying the indicators relevant to a determination of independence noted in Box 2.1 of the Recommendations):

Name	Position
Mr J Weber	Managing Director
Mr M Bradley	Non-Executive Director
Mr J Carver	Executive Director

Therefore the majority of the Board are not considered to be independent.

Mr Mark Bradley and Mr Jim Carver are both former executives of the Company and their vast industry experience significantly increases the collective expertise and knowledge of the Board. This expertise and knowledge is balanced by the skills, experience and professional quality of the Company's two non-executive independent directors in Mr Tony Howarth (Chairman) and Mr Jeffrey Mews.

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

Name	Term in Office
Mr J Carver	9 years
Mr J Mews	9 years
Mr M Bradley	7 years
Mr A Howarth	6 years
Mr J Weber	5 years

For additional details regarding Board appointments, please refer to the Company's website: www.mma.com.au

NOMINATION AND REMUNERATION COMMITTEE

The Board has established a nomination and remuneration committee, which meets at least annually. Its role is to:

- Assess the necessary and desirable competencies of Board members, carry out a review of Board succession plans, evaluate the Board's performance and make recommendations for the appointment and removal of directors; and
- Review and recommend appropriate remuneration policies which are designed to meet the needs of the Company. The objective of the Company's remuneration policy is to enhance 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 that there is a clear relationship between key executive performance, Company performance and remuneration.

The nomination and remuneration committee comprised the following members throughout the year:

Name	Position
Mr A Howarth (Chairman)	Independent, Non-Executive Director
Mr J Mews	Independent, Non-Executive Director

The board considers that is appropriate for the committee to comprise two members having regard to the total number of directors of the Company.

Details of the amount of 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 is set out on page 19 of the Directors' Report. Also included is the differences in the structure of remuneration of non-executive directors from that of executive directors.

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.

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 on page 18 of the Directors' Report.

AUDIT COMMITTEE

The Board has established an audit committee, which operates under a formal charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes monitoring the integrity of the financial statements of the Company, reviewing external reporting procedures, reviewing the performance of the Company's internal and external audit functions to ensure that independence is maintained and assessing the propriety of all related-party transactions. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity to the audit committee.

The 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 committee during the year were:

Name	*Position*
Mr J Mews (Chairman)	Independent, Non-Executive Director
Mr A Howarth	Independent, Non-Executive Director
Mr Alan Birchmore	Non independent, Non–Executive Director (resigned 14 February 2007)

The board considers that is appropriate for the committee to comprise two members having regard to the total number of directors of the Company.

Details of the number of meetings of the audit committee held during the year and the attendance at those meetings is set out on page 18 of the Directors' Report.

PERFORMANCE

A performance evaluation of the Board, its members and key executives has taken place during the reporting period. This evaluation was carried out by the nomination and remuneration committee and involved a review of the performance of the Board, each Board member and key executives against measurable and qualitative benchmarks as determined by the Board having regard to accepted, sound corporate governance standards.

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 2007. 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:

A.J. Howarth

J.A. Weber

MR ANTHONY (TONY) JOHN HOWARTH AO

Chairman – Appointed 1 August 2006

Prior to his appointment as Chairman, Tony served as a Non-Executive Director of the company from 5 July 2001. Currently Tony is also Chairman of Home Building Society Limited, a Non-Executive Director of AWB Limited and was recently appointed as a Non-Executive Director of Wesfarmers Ltd. 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. 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 Group, Deputy 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.

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 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 the 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 in 2000.

M.F.Bradley

J.H. Carver

J.A.S. Mews

A.G.Birchmore

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 the 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 in-depth knowledge of the industry, its needs and its future. Establishing the Company in 1982, he pursued a 'can do' attitude at sea and on shore. Under his direction, the fleet grew from one to 15 vessels and the base at Dampier was secured for its present expansion.

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 1970s. 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 is currently a Member of the Salaries and Allowances Tribunal for the State of Western Australia and was a Founding Governor of the Malcolm Sargent Cancer Fund for Children (now Redkite) in Western Australia.

MR ALAN GORDON BIRCHMORE

Non-Executive Director
- Appointed 12 August 1998,
Resigned 14 February 2007

Alan was chairman at the initial public listing of Mermaid Marine in 1998 and remained in that role until 1 August 2006. Alan continued as a non-executive director of the Company until resigning on 14 February 2007 due to medical reasons on the advice of his doctor. He has occupied senior management and board appointments in Australia, England, mainland Europe and the United States of America, with direct responsibility over a range of financial, industrial and mining operations. In the UK he was Managing Director of Airship Industries which, in JV with Westinghouse, was a successful US defence contractor. He was a Director of T.V.am and British Satellite Broadcasting Ltd (later B Sky B) and as Chairman, privatised 2 Hungarian Government companies for London institutions. As Chief Executive of the New York-listed Bond International Gold, he was responsible for a worldwide workforce of 6,000 employees in Canada, the United States, South America and Australia. The company developed the Superpit at Kalgoorlie and successfully ran that as Australia's largest gold-mining operation, in joint venture with Homestake Mining of the United States. Alan also sat as a founding Director on the Argyle joint venture, the world's largest diamond mine. In 1990, as a major shareholder, he became Chairman of St Barbara Mines Limited at listing, and during the time of his stewardship, the company became highly profitable, as a top 10 Australian gold producer. He retired from the board of St Barbara in 1997. He is currently Chairman of the Albany Port Authority, Chairman of Bauxite Australia and a Fellow of the Australian Institute of Company Directors.

COMPANY SECRETARY

MR PETER ALAN RAYNOR

Peter was appointed Company Secretary and Chief Financial Officer of the Company on 20 June 2005. Peter is a member of the Australian Society of CPA's. He has over 22 years corporate experience having held senior financial and commercial positions in both publicly listed and large private companies operating in the funds management, property and resources sectors.

PRINCIPAL ACTIVITIES

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

- Operating crewed vessel charters;
- Operating supply base facilities and slipway operations;

REVIEW OF OPERATIONS

A review of operations 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.

DIVIDENDS

In respect of the financial year ended 30 June 2007, the directors recommend the payment of a final dividend of 1 cent per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares on 5 October 2007.

CHANGES IN THE 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 REGULATION

The company 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 2007.

SHARE OPTIONS AND SHARE RIGHTS

Share options and share rights granted to directors and executives

During and since the end of the financial year an aggregate of 520,000 share rights were granted to the following directors and executives of the company and the consolidated entity as part of their remuneration:

Directors and Executives	Number of share rights granted	Issuing entity	Number of ordinary shares under rights
Mr J Weber	520,000	Mermaid Marine Australia Ltd	520,000

Share options and share rights on issue at the date of this report or exercised during the year

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

Issuing entity	Number of shares under option/rights	Class of shares	Exercise price of options/rights $	Expiry date of options/rights
Mermaid Marine Australia Ltd	655,000	Ordinary	0.40	22 April 2008
Mermaid Marine Australia Ltd	600,000	Ordinary	0.40 (a)	15 November 2009
Mermaid Marine Australia Ltd	600,000	Ordinary	0.40 (a)	7 December 2009
Mermaid Marine Australia Ltd	1,940,000	Ordinary	0.48 (b)	19 May 2011
Mermaid Marine Australia Ltd	175,000	Ordinary	0.62 (b)	25 Aug 2011
Mermaid Marine Australia Ltd	520,000	Ordinary	0.00 (c)	24 Sept 2008

(a) These share options can only be exercised in maximum tranches of 200,000 options during their exercise period subject to the share price of the company achieving certain levels as detailed in note 24.

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

(c) These incentive shares may be issued during the period commencing 26 August 2008 and expiring 30 days thereafter 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	635,000	Ordinary	0.40	nil

INDEMNIFICATION 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 any related body corporate against any liability incurred by such directors, company secretary or executive officers to the extent permitted by the Corporations Act 2001. The 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, indemnified or agreed to indemnify an officer or auditor of the company or 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, 9 board meetings, 3 audit committee meetings and 4 remuneration committee meetings were held.

Directors	Board of Directors		Audit Committee		Remuneration and Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended
Mr A Howarth	9	9	3	3	4	4
Mr J Weber	9	9	n/a	n/a	n/a	n/a
Mr M Bradley	9	9	n/a	n/a	n/a	n/a
Mr J Carver	9	9	n/a	n/a	n/a	n/a
Mr J Mews	9	9	3	3	4	4
Mr A Birchmore (resigned: 14 February 2007)	7	6	3	3	n/a	n/a
Mr J Birchmore (alternate Director for Mr A Birchmore)	1	1	n/a	n/a	n/a	n/a

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:

Directors	Fully paid ordinary shares direct	Fully paid ordinary shares indirect	Share options/rights direct
Mr A Howarth	388,704	336,808	-
Mr A Birchmore	18,404	48,704	-
Mr J Weber	553,704	-	1,120,000
Mr M Bradley	3,070,370	-	-
Mr J Carver	-	5,004,530	-
Mr J Mews	388,704	353,704	-

REMUNERATION REPORT

Remuneration policy for directors and executives

The 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, adjusted by a performance factor to reflect changes in the performance of the individual and the company.

Director and executive details

The directors of Mermaid Marine Australia Limited during the year were:

- Mr A Howarth (Chairman – Appointed 1 August 2006), (Non-Executive Director)
- Mr A Birchmore (Chairman – resigned 1 August 2006), (Non-Executive Director – resigned 14 February 2007)
- Mr J Weber (Managing Director)
- Mr M Bradley (Non-Executive Director)
- Mr J Carver (Executive Director)
- Mr J Mews (Non-Executive Director)

The group executives of Mermaid Marine Australia Limited during the year were:

- Mr D Ross (Chief Operating Officer)
- Mr P Raynor (Chief Financial Officer/Company Secretary)
- Mr T Graham (General Manager – Development)
- Mr S Lee (Supply Base Manager)
- Mr D Verboon (Slipway Manager)

Elements of director and executive remuneration

Remuneration packages contain the following key elements:

(a) Primary benefits – salary/fees, bonuses and non-monetary benefits including the provision of motor vehicles;

(b) Post-employment benefits – superannuation; and

(c) Equity – share options and rights granted under the Managing Director, Senior Executive and Employee share option plans and the Managing Director Incentive Share Plan as disclosed in notes 24 and 27 to the financial statements.

The following table discloses the remuneration of the directors of the company:

	Short Term Employee Benefits			Post Employment			Equity		
2007	Salary & fees	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other	Options & rights (i)	Other benefits	Total
Directors	$	$	$	$	$	$	$	$	$
Mr A Howarth	114,231	-	-	10,800	-	-	-	-	125,031
Mr Birchmore	44,692	-	1,876	4,022	-	-	-	-	50,590
Mr J Weber	269,211	114,922	51,908	24,230	-	-	183,993	-	644,264
Mr M Bradley	55,923	-	-	4,950	-	-	-	-	60,873
Mr J Carver	157,768	-	-	962	-	-	-	-	158,730
Mr J Mews	62,462	-	-	5,850	-	-	-	-	68,312

The following table discloses the remuneration of the 5 highest remunerated executives of the company and group executives of the consolidated entity:

	Short Term Employee Benefits			Post Employment			Equity		
2007	Salary & fees	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other	Options & rights (i)	Other benefits	Total
Executives	$	$	$	$	$	$	$	$	$
Mr D Ross	199,642	46,015	8,944	16,650	-	-	39,051	-	310,302
Mr P Raynor	159,090	45,684	16,269	14,843	-	-	39,051	-	274,937
Mr T Graham	145,223	19,812	8,788	13,026	-	-	7,959	-	194,808
Mr S Lee	105,000	18,900	57,757	9,450	-	-	7,959	-	199,066
Mr D Verboon	122,000	22,000	-	9,900	-	-	7,959	-	161,859

(i) The value placed on options and rights in the tables above is based on the valuation at the date of issue using the Binomial model, pro-rated over the period from grant date to vesting date, as set out in notes 24 and 27 to the financial statements.

Elements of remuneration related to performance:

The salary and fees and non-monetary components are reviewed and determined annually by the nomination and remuneration committee with due regard to current market rates and are benchmarked against comparable industry salaries, adjusted by a performance factor to reflect changes in performance of the individual and the company.

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 the performance of the individual during the period.

Value of options and rights issued to directors and executives:

The following table discloses the value of options and rights granted, exercised or lapsed during the year:

Directors / executives	Options/rights granted: value at grant date (1)	Options/ rights exercised: value at exercise date	Options/rights lapsed: value at time of lapse	Total value of options/ rights granted, exercised and lapsed	Value of options/rights included in remuneration for the year (1)	Percentage of total remuneration for year that consists of options/rights
	$	$	$	$	$	%
Mr J Weber	365,040	-	-	365,040	183,993	28.6%
Mr D Ross	-	-	-	-	39,051	12.6%
Mr P Raynor	-	-	-	-	39,051	14.2%
Mr E Graham	-	-	-	-	7,959	4.1%
Mr S Lee	-	6,060	-	6,060	7,959	4.0%
Mr D Verboon	-	8,080	-	8,080	7,959	4.9%

(1) The options and rights were granted during the current and previous years and vest at various dates – refer note 24. The value of the options and rights is determined at grant date, and is included in remuneration on a proportionate basis from grant date to vesting date.

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.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 21 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.

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, 13 September 2007

Deloitte.

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The Board of Directors
Mermaid Marine Australia Limited
Eagle Jetty
20 Mews Road
FREMANTLE WA 6160

13 September 2007

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 financial year ended 30 June 2007, 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

Keith Jones
Partner
Chartered Accountant

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	Consolidated		Company	
		2007 $'000	2006 $'000	2007 $'000	2006 $'000
Revenue	4	103,080	66,812	246	404
Other income	4	44	4,284	7,933	-
Share of profits of associates accounted for using the equity method	10	639	122	-	-
Vessel expenses		(65,003)	(42,540)	-	-
Supply base expenses		(12,349)	(7,916)	-	-
Engineering and labour hire expenses		-	(2,366)	-	-
Administration expenses		(4,670)	(3,089)	(10)	(93)
Finance costs		(4,181)	(3,078)	(2)	-
Profit before tax	4	17,560	12,229	8,167	311
Income tax (expense)/income	5	(5,047)	(3,021)	(26)	511
Profit for the year		12,513	9,208	8,141	822
Profit attributable to equity holders of the parent		**12,513**	**9,208**	**8,141**	**822**
Earnings Per Share					
- Basic (cents per share)	26	8.91	6.60		
- Diluted (cents per share)	26	8.78	6.60		

Notes to the financial statements are included in pages 27 to 65.

BALANCE SHEET AS AT 30 JUNE 2007

	Note	Consolidated		Company	
		2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current Assets					
Cash and cash equivalents	21(A)	16,926	6,027	13,799	41
Trade and other receivables	7	18,274	20,550	18	18
Inventories	8	1,902	1,942	-	-
Other	9	633	624	-	-
Total Current Assets		**37,735**	**29,143**	**13,817**	**59**
Non-Current Assets					
Investments accounted for using the equity method	10	1,286	219	-	-
Other financial assets	11	-	-	51,769	47,018
Property, plant & equipment	12	122,866	107,015	-	-
Total Non-Current Assets		**124,152**	**107,234**	**51,769**	**47,018**
Total Assets		**161,887**	**136,377**	**65,586**	**47,077**
Current Liabilities					
Trade and other payables	14	9,005	14,586	6	9
Borrowings	15	5,485	4,401	-	-
Other financial liabilities	16	881	11	-	-
Provisions	17	815	789	-	-
Current tax liabilities	5	1,564	1,623	1,564	1,623
Total Current Liabilities		**17,750**	**21,410**	**1,570**	**1,632**
Non-Current Liabilities					
Borrowings	15	57,481	51,967	-	-
Provisions	17	277	178	-	-
Deferred tax liabilities	5	3,806	2,322	-	-
Total Non-Current Liabilities		**61,564**	**54,467**	**-**	**-**
Total Liabilities		**79,314**	**75,877**	**1,570**	**1,632**
Net Assets		**82,573**	**60,500**	**64,016**	**45,445**
Equity					
Issued capital	18	58,067	48,047	58,067	48,047
Reserves	19	(201)	259	680	270
Retained earnings/(accumulated losses)	20	24,707	12,194	5,269	(2,872)
Total Equity		**82,573**	**60,500**	**64,016**	**45,445**

Notes to the financial statements are included on page 27 to 65

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

Consolidated Financial Year ended 30 June 2007

	Ordinary Shares $'000	Employee equity settled benefits reserve $'000	Hedging reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2006	**48,047**	**270**	**(11)**	**12,194**	**60,500**
Loss on cashflow hedge	-	-	(1,508)	-	(1,508)
Net expense recognised directly in equity	**-**	**-**	**(1,508)**	**-**	**(1,508)**
Transfer to initial carrying amount of non financial hedged item on cashflow hedge	-	-	638	-	638
Profit for the year	-	-	-	12,513	12,513
Total recognised income and expense for the year	**-**	**-**	**(870)**	**12,513**	**11,643**
Issue of shares (Note 18)	10,036	-	-	-	10,036
Share issue costs	(16)				(16)
Recognition of share based payments	-	410	-	-	410
Balance at 30 June 2007	**58,067**	**680**	**(881)**	**24,707**	**82,573**

Consolidated Financial Year ended 30 June 2006

	Ordinary Shares $'000	Employee equity settled benefits reserve $'000	Hedging reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2005	**47,755**	**193**	**-**	**2,986**	**50,934**
Loss on cashflow hedge	-	-	(11)	-	(11)
Net expense recognised directly in equity	**-**	**-**	**(11)**	**-**	**(11)**
Profit for the year	-	-	-	9,208	9,208
Total recognised income and expense for the year	**-**	**-**	**(11)**	**9,208**	**9,197**
Issue of shares (Note 18)	292	-	-	-	292
Recognition of share based payments	-	77	-	-	77
Balance at 30 June 2006	**48,047**	**270**	**(11)**	**12,194**	**60,500**

Notes to the financial statements are included on pages 27 to 65.

Company Financial Year ended 30 June 2007

	Ordinary Shares $'000	Employee equity settled benefits reserve $'000	Retained earnings (Accumulated losses) $'000	Total $'000
Balance at 1 July 2006	**48,047**	**270**	**(2,872)**	**45,445**
Profit for the year	-	-	8,141	8,141
Total recognised income and expense for the year	**-**	**-**	**8,141**	**8,141**
Issue of shares (Note 18)	10,036	-	-	10,036
Share issue costs	(16)	-	-	(16)
Recognition of share based payments	-	410	-	410
Balance at 30 June 2007	**58,067**	**680**	**5,269**	**64,016**

Company Financial year ended 30 June 2006

	Ordinary Shares $'000	Employee equity settled benefits reserve $'000	Retained earnings (Accumulated losses) $'000	Total $'000
Balance at 1 July 2005	**47,755**	**193**	**(3,694)**	**44,254**
Profit for the year	-	-	822	822
Total recognised income and expense for the year	**-**	**-**	**822**	**82**
Issue of shares (Note 18)	292	-	-	292
Recognition of share based payments	-	77	-	77
Balance at 30 June 2006	**48,047**	**270**	**(2,872)**	**45,445**

Notes to the financial statements are included in pages 27 to 65.

CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	Consolidated		Company	
		2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash Flows from Operating Activities					
Receipts from customers		115,967	64,545	-	-
Interest received		426	430	246	404
Payments to suppliers and employees		(90,489)	(49,597)	(41)	(11)
Income tax paid		(3,625)	(784)	(3,625)	(379)
Interest and other costs of finance paid		(4,153)	(3,045)	-	-
Net Cash Provided By / (Used In) Operating Activities	21(c)	**18,126**	**11,549**	**(3,420)**	**14**
Cash Flows from Investing Activities					
Payments for property, plant and equipment		(24,848)	(17,186)	-	-
Proceeds from sale of property, plant and equipment		2,239	103	-	-
Additional interests acquired in associates		(425)	-	(425)	
Amounts received from/(advanced to) related parties		-	-	7,583	(4,235)
Net Cash (Used In) / Provided By Investing Activities		**(23,034)**	**(17,083)**	**7,158**	**(4,235)**
Cash Flows from Financing Activities					
Proceeds from issue of shares		10,036	292	10,036	292
Payment for share issue costs		(16)	-	(16)	-
Proceeds from borrowings		10,474	2,641	-	-
Repayment of borrowings		(4,687)	(5,355)	-	-
Net Cash Provided By / (Used In) Financing Activities		**15,807**	**(2,422)**	**10,020**	**292**
Net Increase/(Decrease) in cash and cash equivalents		**10,899**	**(7,956)**	**13,758**	**(3,929)**
Cash and cash equivalents at the beginning of the financial year		**6,027**	**13,983**	**41**	**3,970**
Cash and cash equivalents at the end of the financial year	21(A)	**16,926**	**6,027**	**13,799**	**41**

Notes to the financial statements are included in pages 27 to 65.

1. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the group has 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. The adoption of these new and revised Standards and Interpretations has resulted in changes to the group's accounting policies in the following area:

- Financial guarantee contracts (AASB 2005-09 'Amendments to Australian Standards')

The impact of this change in accounting policy is discussed in detail later in this note.

At the date of authorisation of the financial report, the following Standards and Interpretations, including those issued by the IASB where an Australian equivalent has not been made by the AASB, were in issue but not yet effective:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue	1 January 2007	30 June 2008
AASB 101 'Presentation of Financial Statements' – revised standard	1 January 2007	30 June 2008
Interpretation 10 'Interim Financial Reporting and Impairment'	1 November 2006	30 June 2008
AASB 8 'Operating Segments'	1 January 2009	30 June 2010
AASB 2007-7 'Amendments to Australian Accounting Standards'	1 July 2007	30 June 2008
AASB 123 'Borrowing Costs' – revised standard	1 January 2009	30 June 2010
AASB 2007-06 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the company or the group. The circumstances addressed by Interpretation 10, which prohibits the reversal of certain impairment losses, do not affect either the company's or the group's previously reported results and accordingly there will be no impact to these financial statements on adoption of the Interpretation.

The application of AASB 101 (revised), AASB 7 and AASB 2005-10 will not affect any of the amounts recognised in the financial statements, but will change the disclosures presently made in relation to the company's and group's financial instruments and the objectives, policies and processes for managing capital.

Accounting for financial guarantee contracts

The AASB released AASB 2005-9 'Amendments to Australia Accounting Standards' in September 2005. AASB 2005-9 amends AASB 139 'Financial Instruments: Recognition and Measurement' to require certain financial guarantee contracts to be recognised in accordance with AASB 139 and measured initially at their fair values, and subsequently measured at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described in note 2(s).

The changes introduced by AASB 2005-9 are applied by the group with effect from the beginning of the comparative reporting period presented in this financial report (i.e., with effect from 1 July 2005).

Mermaid Marine Australia Limited (the company) is party to a deed of cross guarantee with other entities in the group. 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.

1. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The application of these amendments results in such financial guarantee contracts now being recognised and measured at the higher of the best estimate of the expenditure required to settle the obligation and the amount initially recognised less, where appropriate, cumulative amortisation. No material adjustment was required in either the group or separate company financial statements for this.

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 consolidated financial statements and notes of the group comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the group'.

The financial statements were authorised for issue by the directors on 13 September 2007

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.

Financial Guarantee Contract Liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described in note 2(s).

Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

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, 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

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

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

Other financial assets are classified into the following specified categories; financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit and loss

Financial assets held for trading purposes are classified as current assets and are stated at fair value, with any resultant gain or loss recognised on profit or loss.

Held-to-maturity investments

Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis. 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 through the expected life of the financial asset, or, where appropriate, a shorter period.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Available-for-sale financial assets

Certain shares and convertible notes may be classified as being available-for-sale and are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the 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.

e) Leased assets

Leases are classified as finance leases whenever 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.

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. 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 assets

At each reporting date, the group reviews the carrying amounts of its tangible and intangible 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. 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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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. 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.

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

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.

The above policy is applied to all equity settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of other equity-settled share based payments.

j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and short term investments in money market instruments, net of outstanding bank overdrafts.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 cashflows 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.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. 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.

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. At that time, 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, long service leave and sick 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 incurred.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

m) Foreign Currency

The individual financial statements of each group company are presented in the currency of the primary economic environment in which the entity operates (its functional currency). 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.

All foreign currency transactions during the financial year are brought to account using the exchange rate prevailing at the date of the transaction. 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.

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)).

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 operating cash flows.

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.

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 valued at the lower of cost and net realisable value.

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 cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

Interest revenue

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 various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. 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 OPERATION

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
a) Revenue from continuing operations consisted of the following items:				
Rendering of services	99,479	65,276	-	-
Rental revenue	3,175	1,106	-	-
Interest – other entities	426	430	246	404
	103,080	**66,812**	**246**	**404**
b) Profit before income tax Profit before income tax has been arrived at after crediting/(charging) the following gains and losses from operations:				
Net foreign exchange gain	44	-	-	-
Gain/(loss) on disposal of :				
Property, plant and equipment	(221)	(116)	-	-
Sale of business	-	4,400	-	-
Reversal of impairment of inter-company loan provision	-	-	7,933	-
	(177)	**4,284**	**7,933**	**-**
c) Profit before income tax has been arrived at after charging the following expenses:				
Depreciation of non-current assets:				
Leasehold buildings and improvements	1,184	1,068	-	-
Vessels	1,007	803	-	-
Vessels – hire purchase	3,014	1,550	-	-
Plant and equipment	369	601	-	-
Plant and equipment – hire purchase	159	128	-	-
	5,733	**4,150**	**-**	**-**
Bad and doubtful debts arising from:				
Other entities	164	57	-	-
Net foreign exchange loss	-	34	-	-
	164	**91**	**-**	**-**
Finance costs:				
Interest expense – other entities	1,369	1,475	2	-
Finance charges – lease finance charges	2,812	1,603	-	-
	4,181	**3,078**	**2**	**-**
Operating leases – rental expenses	**511**	**270**	**-**	**-**
Employee benefit expense:				
Share based payments:				
Equity settled share based payments	**410**	**77**	**-**	**-**

5. INCOME TAXES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(a) Income tax recognised in profit or loss **Tax expense/(income) comprises:**				
Current tax expense	3,563	2,544	26	83
Deferred tax expense/(income) relating to origination and reversal of temporary differences	1,390	1,071	-	-
Adjustment recognised in the current year in relation to the current tax of prior years	94	-	-	-
Benefits arising from previously unrecognised tax losses, tax credits or temporary differences of a prior period that is used to reduce				
- current tax expense	-	(594)	-	(594)
Total tax expense/(income)	**5,047**	**3,021**	**26**	**(511)**
The prima facie income tax expense/ (income) on pre-tax accounting profit from operations reconciles to the income tax expense/(income) in the financial statements as follows:				
Profit from operations	17,560	12,229	8,167	311
Income tax expense calculated at 30%	5,268	3,669	2,450	93
Depreciation differences	(62)	(7)	-	-
Entertainment	21	15	-	-
Capital raising cost	(34)	(34)	(34)	(34)
Other items	(47)	8	(10)	24
Unused tax capital losses and tax offsets not recognised as deferred tax assets	-	(594)	-	(594)
Equity share of associates' profit / (loss)	(193)	(36)	-	-
Effect of revenue that is exempt from taxation	-	-	(2,380)	-
	4,953	3,021	26	(511)
Adjustment recognised in the current year in relation to the current tax of prior years	94	-	-	-
	5,047	**3,021**	**26**	**(511)**
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. There has been no change in the corporate tax rate when compared with the previous reporting period.				
(b) Current tax assets and liabilities				
Current tax liabilities:				
Income tax payable attributable to:				
Parent entity	26	(511)	26	(511)
Entities in the tax consolidated group	1,538	2,131	1,538	2,131
Other	-	3	-	3
	1,564	**1,623**	**1,564**	**1,623**
(c) Deferred tax balances				
Deferred tax assets comprise:				
Temporary differences	-	-	-	-
	-	-	-	-
Deferred tax liabilities comprise:				
Temporary differences	3,806	2,322	-	-
	3,806	**2,322**	**-**	**-**

5. INCOME TAXES CONTINUED

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

	Opening balance $'000	Charged to income $'000	Closing balance $'000
		Consolidated	
2007			
Gross taxable temporary differences:			
Property, plant and equipment	(1,766)	(1,976)	(3,742)
Inventory	(583)	12	(571)
Receivables	(315)	181	(134)
Other	(66)	(103)	(169)
	(2,730)	(1,886)	(4,616)
Gross deductible temporary differences:			
Provisions	408	201	609
Other	-	201	201
	408	402	810
Total	**(2,322)**	**(1,484)**	**(3,806)**
2006			
Gross taxable temporary differences:			
Property, plant and equipment	(1,270)	(496)	(1,766)
Inventory	(384)	(199)	(583)
Receivables	(168)	(147)	(315)
Other	(29)	(37)	(66)
	(1,851)	(879)	(2,730)
Gross deductible temporary differences:			
Provisions	437	(29)	408
Other	142	(142)	-
	579	(171)	408
Total	**(1,272)**	**(1,050)**	**(2,322)**
		Company	
2007			
Gross deferred tax liabilities:			
Other	-	-	-
	-	-	-
Gross deferred tax assets:			
Other	-	-	-
	-	-	-
Total	**-**	**-**	**-**
2006			
Gross deferred tax liabilities:			
Other	-	-	-
	-	-	-
Gross deferred tax assets:			
Other	24	(24)	-
	24	(24)	-
Total	**24**	**(24)**	**-**

5. INCOME TAXES CONTINUED

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Unrecognised deferred tax balances				
The following deferred tax assets have not been brought to account as assets:				
Tax losses - capital	234	234	234	234

Tax consolidation

Relevance of tax consolidation to the consolidated entity

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

	2007		2006	
	Cents Per Share	Total $'000	Cents Per Share	Total $'000
Recognised Amounts No dividends were paid or declared during the financial year (2006: nil).				
Unrecognised Amounts				
Fully paid Ordinary Shares				
Final Dividend:				
Fully Franked at a 30% tax rate	1	1,479	-	-

On 24 August 2007, the directors declared a fully franked dividend of 1 cent per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2007, to be paid to shareholders on 19 October 2007. This dividend has not been included as a liability in these financial statements. The dividend will be paid to all shareholders on the register of members on 5 October 2007. The total estimated dividend to be paid is $1,479 thousand.

6. DIVIDENDS PROVIDED OR PAID CONTINUED

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Adjusted franking account balance	7,469	3,843	7,307	3,681
Impact on franking account balance of dividends not recognised	(634)	-	(634)	-

7. CURRENT TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Trade receivables	16,517	16,468	-	-
Allowance for doubtful debts	(53)	(74)	-	-
Other receivables	1,214	2,928	18	18
Goods and services tax (GST) recoverable	596	1,228	-	-
	18,274	**20,550**	**18**	**18**

8. CURRENT INVENTORIES

Consumables – at cost	**1,902**	**1,942**	**-**	**-**

9. OTHER CURRENT ASSETS

Prepayments	**633**	**624**	**-**	**-**

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Name of Entity	Principal Activity	Country of Incorporation	Ownership Interest		Consolidated Carrying Amount	
			2007 %	2006 %	2007 $'000	2006 $'000
Associates						
Mermaid Clough Pty Ltd (i)	Charter and operation of a barge.	Australia	50	50	361	219
Toll Mermaid Logistics Broome Pty Ltd (ii)	Supply Base Services in Broome for the offshore Oil & Gas industry.	Australia	50	-	925	-
Total					**1,286**	**219**

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD CONTINUED

(i) The reporting date of Mermaid Clough Pty Ltd (MCJV) is 30 June. The consolidated entity acquired a 50% ownership interest in MCJV in August 2002. Pursuant to a shareholder agreement the consolidated entity has the right to cast 50% of the votes at MCJV shareholder meetings.

(ii) 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 a shareholder agreement the consolidated entity has the right to cast 50% of the votes at TMLB shareholder meetings.

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

	Consolidated	
	2007 $'000	2006 $'000
Financial position:		
Total assets	5,521	1,116
Total liabilities	(2,948)	(678)
Net assets	2,573	438
Group's share of associates' net assets	1,286	219
Financial performance:		
Total revenue	7,521	1,045
Total profit for the year	1,825	350
Group's share of associates' profit/(loss) before tax	913	175
Group's share of associates' income tax expense	(274)	(53)
Group's share of associates' profit/(loss)	639	122

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 (2006: nil).

Dividends Received from Associates

During the year the consolidated entity received no dividends (2006:nil) from its associates.

11. OTHER FINANCIAL ASSETS

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
NON CURRENT				
Loans - subsidiaries	-	-	50,685	54,702
Impairment of loans to subsidiaries	-	-	(2,276)	(10,209)
Shares in subsidiaries	-	-	2,935	2,525
Shares in associates	-	-	425	-
	-	-	**51,769**	**47,018**

During the year the company reviewed the provision raised for impairment of intercompany loans to subsidiaries. These loans form part of the unallocated assets in the segment note. The amount of the impairment reversed was $7,932 thousand.

12. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Leasehold Buildings and improvements - at cost $'000	Vessels - cost $'000	Vessels - hire purchase - at cost $'000	Plant Equipment - at cost $'000	Plant and Equipment - hire purchase - at cost $'000	TOTAL $'000
Gross Carrying Amount						
Balance at 1 July 2005	34,669	9,432	25,061	5,767	1,400	76,329
Additions	4,697	250	39,724	607	356	45,634
Disposals	(250)	-	-	(80)	-	(330)
Balance at 1 July 2006	**39,116**	**9,682**	**64,785**	**6,294**	**1,756**	**121,633**
Additions	1,308	1,778	18,607	460	739	22,892
Disposals	(173)	(2,968)	-	(528)	-	(3,669)
Transfers	-	1,475	(1,475)	-	-	-
Balance at 30 June 2007	**40,251**	**9,967**	**81,917**	**6,226**	**2,495**	**140,856**
Accumulated Depreciation						
Balance at 1 July 2005	(2,923)	(2,430)	(2,361)	(2,634)	(232)	(10,580)
Disposals	33	-	-	79	-	112
Depreciation expense	(1,068)	(803)	(1,550)	(601)	(128)	(4,150)
Balance at 1 July 2006	**(3,958)**	**(3,233)**	**(3,911)**	**(3,156)**	**(360)**	**(14,618)**
Disposals	7	1,888	-	466	-	2,361
Transfers	-	(633)	633	-	-	-
Depreciation expense	(1,184)	(1,007)	(3,014)	(369)	(159)	(5,733)
Balance at 30 June 2007	**(5,136)**	**(2,984)**	**(6,292)**	**(3,059)**	**(519)**	**(17,990)**
Net Book Value						
As at 30 June 2006	35,157	6,450	60,874	3,138	1,396	107,015
As at 30 June 2007	**35,115**	**6,983**	**75,625**	**3,167**	**1,976**	**122,866**

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.

The consolidated entity does not hold title to the equipment under hire purchase pledged as security.

14. CURRENT TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Trade payables	3,147	9,754	-	-
Other payables and accruals	4,967	3,529	6	9
GST payable	891	1,303	-	-
	9,005	**14,586**	**6**	**9**

15. BORROWINGS

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
CURRENT				
At amortised cost:				
Hire purchase liability – secured (i)	4,465	3,381	-	-
Bank loan – secured (ii)	1,020	1,020	-	-
	5,485	**4,401**	**-**	**-**

NON CURRENT				
At amortised cost:				
Hire purchase liability – secured (i)	43,131	33,956	-	-
Bank loan – secured (ii)	14,350	18,011	-	-
	57,481	**51,967**	**-**	**-**

(i) The hire purchase liability is secured by a charge over the respective assets - 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.

16. OTHER CURRENT FINANCIAL LIABILITIES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Foreign currency forward contracts	**881**	**11**	**-**	**-**

17. PROVISIONS

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
CURRENT				
Employee benefits	**815**	**789**	**-**	**-**

NON CURRENT				
Employee benefits	**277**	**178**	**-**	**-**

18. ISSUED CAPITAL

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
147,858,958 fully paid ordinary shares (2006: 140,027,367)	58,067	48,047	58,067	48,047

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.

	Company			
	2007 No.'000	2007 $'000	2006 No.'000	2006 $'000
Fully Paid Ordinary Shares				
Balance at beginning of financial year	140,027	48,047	139,364	47,755
Issue of shares under Share Option Incentive Plan-note 24	585	234	663	292
Issue of shares under Share Purchase Plan	7,247	9,786	-	-
Balance at end of financial year	**147,859**	**58,067**	**140,027**	**48,047**

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

Share Options

As at 30 June 2007, executives and employees held options over 4,020,000 ordinary shares, in aggregate, with 705,000 of those options expiring 22 April 2008, 600,000 on 15 November 2009, 600,000 on 7 December 2009, 1,940,000 on 19 May 2011 and 175,000 on 25 August 2011. In addition under the Managing Director Share Incentive Plan a further 520,000 shares may be issued upon the satisfaction of certain conditions, as detailed in note 24.

As at 30 June 2006, executives and employees held options over 4,705,000 ordinary shares, in aggregate, with 1,390,000 of those options expiring 22 April 2008, 600,000 on 15 November 2009, 600,000 on 7 December 2009 and 2,115,000 on 19 May 2011.

19. RESERVES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Reserves Comprise				
Employee equity-settled benefits reserve	680	270	680	270
Hedging reserve	(881)	(11)	-	-
	(201)	**259**	**680**	**270**
Employee equity-settled benefits reserve				
Balance at beginning of financial year	270	193	270	193
Share based payment	410	77	410	77
Balance at end of financial year	**680**	**270**	**680**	**270**

19. RESERVES CONTINUED

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.

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Hedging reserve				
Balance at beginning of financial year	(11)	-	-	-
Foreign exchange contracts loss recognised	(1,508)	(11)	-	-
Transfer to initial carrying amount of hedged item	638	-	-	-
Balance at end of financial year	**(881)**	**(11)**	**-**	**-**

The hedging reserve represents hedging losses recognised on the effective portion of cash flow hedges. The cumulative deferred 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.

20. RETAINED EARNINGS

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Balance at beginning of financial year	12,194	2,986	(2,872)	(3,694)
Net Profit for year	12,513	9,208	8,141	822
Balance at end of financial year	**24,707**	**12,194**	**5,269**	**(2,872)**

21. NOTES TO THE STATEMENT OF CASH FLOWS

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(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 cashflow statement is reconciled to the related items in the balance sheet as follows:				
Cash and cash equivalents	**16,926**	**6,027**	**13,799**	**41**
(b) Non cash financing and investing activities				
During the financial year, the consolidated entity acquired property, plant and equipment with an aggregate value of $13.9 million (2006: $27.6 million) which was financed by hire purchase agreements. In the comparative year the company disposed of its manning business for a total of $4.4 million. The proceeds from the sale were used to partially finance the acquisition of new vessels and are not reflected in the cash flow statement.				
(c) Reconciliation of profit for the year to net cash flows from operating activities				
Profit for the year	12,513	9,208	8,141	822
Depreciation of non current assets	5,733	4,151	-	-
(Gain)/Loss on sale of property, plant and equipment	221	(4,283)	-	-
Allowance for doubtful debts	(21)	55	-	-
Bad Debts	184	-	-	-
Equity settled share based payment	410	77	-	77
Increase/(Decrease) in current tax payable	(60)	1,187	(3,625)	(379)
Share of associates' (profit)/loss	(639)	(122)	-	-
Increase/(Decrease) in deferred tax liabilities	1,484	1,049		(511)
Reversal of impairment non-current assets	-	-	(7,933)	-
Change in net assets and liabilities				
Current trade and other receivables	580	(10,832)		
Prepayments	(9)	39	-	-
Inventories	39	(661)	-	-
Unearned revenue	(68)	-	-	-
Provisions	124	(364)	-	-
Investments	-	-	-	-
Trade and other payables	(2,365)	12,045	(3)	5
Net cash flows from operating activities	**18,126**	**11,549**	**(3,420)**	**14**

21. NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(d) Financing facilities				
Secured loan facilities with various maturing dates through to 2014 and which may be extended by mutual agreement:				
- Amount used	15,370	19,031	-	-
- Amount unused	12,039	10,522	-	-
	27,409	**29,553**	**-**	**-**
Secured bank overdraft				
- Amount used	-	-	-	-
- Amount unused	4,000	-	4,000	-
	4,000	**-**	**4,000**	**-**

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				
Plant and equipment				
Not longer than 1 year	12,039	10,522	-	-
	12,039	**10,522**	**-**	**-**

23. LEASES

Finance Leases relate to vessels and equipment with lease terms of up to 10 years. The consolidated entity 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)				
Not later than 1 year	8,064	6,113	-	-
Later than 1 year and not later than 5 years	47,134	36,251	-	-
Later than 5 years	4,097	4,863	-	-
Minimum future payments	59,295	47,227	-	-
Less future finance charges	(11,699)	(9,890)	-	-
Present value of minimum lease payments	**47,596**	**37,337**	**-**	**-**
Included in the financial statements as:				
Borrowing - current - note 15	4,465	3,381	-	-
Borrowing - non current -note 15	43,131	33,956	-	-
	47,596	**37,337**	**-**	**-**

23. LEASES CONTINUED

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(b) Operating Leases				
Not later than 1 year	380	275	-	-
Later than 1 year and not later than 5 years	761	697	-	-
Later than 5 years	1,005	779	-	-
Aggregate lease expenditure contracted for at balance date	**2,146**	**1,751**	**-**	**-**
Aggregate operating lease commitments comprise:				
Office rental commitments (i)	407	480	-	-
Supply base rental commitments (ii)	1,675	1,189	-	-
Other	64	82	-	-
	2,146	**1,751**	**-**	**-**

(i) Office Rental Commitments:

The Company's Mews Road premises in Fremantle is committed under a 5 year arrangement commencing 1 May 2004. The current rental amount of $169,325 per annum is subject to market review every 2 years during the term, although the rental may not decrease during the term.

(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 whereby executives and employees of the consolidated entity have been issued with options over ordinary shares of Mermaid Marine Australia Limited. During the year the company also established the Managing Director Share Incentive Plan.

Upon exercise, each share option 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. The options carry no rights to dividends and no voting rights. Holders of options do not have the right, by virtue of the option, 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 details of the Managing Director Share Incentive Plan are set out below.

The options are not quoted on the ASX.

24. SHARE BASED PAYMENTS CONTINUED

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

Series	Number	Grant Date	Expiry Date	Exercise price $	Fair Value at grant date $
(1) Issued 17 May 2002 (A)	1,295,000	17 May 2002	17 May 2006	0.44	n/a
(2) Issued 22 April 2004 (A)	1,670,000	22 April 2004	22 April 2008	0.40	0.14
(3) Issued 15 November 2005 (B)	600,000	15 Nov 2005	15 Nov 2009	0.40	0.13
(4) Issued 7 December 2005 (B)	600,000	7 Dec 2005	7 Dec 2009	0.40	0.18
(5) Issued 19 May 2006 (C)	2,115,000	19 May 2006	19 May 2011	0.48	0.21
(6) Issued 25 August 2006 (C)	205,000	25 Aug 2006	25 Aug 2011	0.62	0.28
(7) Issued 21 November 2006 (D)	520,000	21 Nov 2006	24 Sept 2008	0.00	0.70

(a) The options issued on 17 May 2002 and 22 April 2004 vest 12 months after their date of issue.

(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 vest upon their issue. The options will be issued in tranches of 200,000 options on the first, second and third anniversaries of the respective option plan dates. The first tranche of options may be exercised if the price of the Mermaid Marine Australia Ltd shares traded on the ASX is equal to or greater than 50 cents for a period of at least 5 consecutive trading days during the exercise period of the options. The second tranche may be exercised if the share price of the company's shares traded on the ASX is equal to or greater than 65 cents for a period of at least 5 consecutive trading days during the exercise period of the options and the third tranche of options may be exercised if the share price of the company's shares traded on the ASX is equal to or greater than 70 cents for a period of at least 5 consecutive trading days during the exercise period of the options.

(c) The options issued on 19 May 2006 and 25 August 2006 vest 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 5 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 5 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) 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 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

24. SHARE BASED PAYMENTS CONTINUED

The weighted average fair value of the share options granted during the year was $0.28 (2006: $0.19). The options were priced using a binomial option pricing model. Where relevant, the theoretical value of the options has been adjusted for any market related vesting conditions.

Inputs into the model	Series (6)
Grant date share price	$0.605
Exercise price	$0.62
Expected volatility	50.92%
Option life	5 years
Dividend yield	0%
Risk free rate	5.60%

The weighted average fair value of the equity instruments issued during the year was $0.70. The fair value was calculated based on the closing market price of the company's shares on 22 November 2006 of $0.78 per share, adjusted for the likelihood of the share price hurdles being achieved to satisfy the vesting condition.

Inputs into the model	Series (7)
Grant date share price	$0.78
Discount applied for $0.80 price condition	2.5%
Discount applied for $1.00 price condition	17.5%
Average discount %	10%
Average discount $	$0.08
Fair Value	$0.70
Dividend yield	0%

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	2007		2006	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at the beginning of the financial year	4,705,000	0.44	2,965,000	0.42
Granted during the financial year	205,000	0.62	3,315,000	0.45
Exercised during the financial year (i)	(585,000)	0.40	(663,000)	0.44
Expired / lapsed during the financial year	(305,000)	-	(912,000)	-
Balance at the end of the financial year (ii)	4,020,000	0.45	4,705,000	0.44
Exercisable at end of the financial year	705,000	0.40	1,390,000	0.40

24. SHARE BASED PAYMENTS CONTINUED

Managing Director Incentive Share Plan	2007		2006	
	Number of rights	Weighted average exercise price $	Number of rights	Weighted average exercise price $
Balance at the beginning of the financial year	-	-	-	-
Granted during the financial year	520,000	0.00	-	-
Exercised during the financial year (i)	-	-	-	-
Expired / lapsed during the financial year	-	-	-	-
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:

2007 Options - Series	Number exercised	Exercise date	Share price at exercise date $
(2) Issued 22 April 2004	585,000	various	1.63

2006 Options - Series	Number exercised	Exercise date	Share price at exercise date $
(1) Issued 17 May 2002	663,000	17 May 2006	0.47

(ii) Balance at end of the financial year

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

2007 Options - Series	Number	Exercise price $	Expiry Date
(2) Issued 22 April 2004	705,000	0.40	22 April 2008
(3) Issued 15 November 2005	600,000	0.40	15 November 2009
(4) Issued 7 December 2005	600,000	0.40	7 December 2009
(5) Issued 19 May 2006	1,940,000	0.48	19 May 2011
(6) Issued 25 August 2006	175,000	0.62	25 Aug 2011
Total	**4,020,000**		

2006 Options - Series	Number	Exercise price $	Expiry Date
(2) Issued 22 April 2004	1,390,000	0.40	22 April 2008
(3) Issued 15 November 2005	600,000	0.40	15 November 2009
(4) Issued 7 December 2005	600,000	0.40	7 December 2009
(5) Issued 19 May 2006	2,115,000	0.48	19 May 2011
Total	**4,705,000**		

24. SHARE BASED PAYMENTS CONTINUED

2007 Rights - Series	Number	Exercise price $	Expiry Date
Issued 21 November 2006	520,000	0.00	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

	2007	2006
	Cents per Share	Cents per Share
Basic earnings per share	8.91	6.60
Diluted earnings per share	8.78	6.60
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:		
	$'000	$'000
(a) Net Profit	12,513	9,208
	No.'000	No.'000
(b) Weighted average number of ordinary shares for the purposes of basic earnings per share	140,395	139,446
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:		
	$'000	$'000
(a) Net Profit	12,513	9,208
	No.'000	No.'000
(b) Weighted average number of ordinary shares for the purposes of diluted earnings per share	142,484	139,566
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:		
	No.'000	No.'000
Weighted average number of ordinary shares used in the calculation of basic EPS	140,395	139,446
Shares deemed to be issued for no consideration in respect of:		
Employee Options	2,089	120
Weighted average number of ordinary shares used in the calculation of diluted EPS	142,484	139,566
(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.		
	No.'000	No.'000
Employee Options	-	3,410
Employee Options – Lapsed	305	330
	305	**3,740**

27. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel of Mermaid Marine Australia Limited during the year were:

- Mr A Howarth (Chairman - appointed 1 August 2006, Non-Executive Director)
- Mr A Birchmore (Chairman - resigned 1 August 2006, Non-Executive Director - resigned 14 February 2007)
- 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 / Company Secretary)
- Mr T Graham (General Manager - Development)
- Mr S Lee (Supply Base Manager - Dampier)
- Mr D Verboon (Slipway Manager) – Key management personnel from 1 July 2006
- Mr S Smith (Marine Manager) – Ceased being key management personnel from 30 June 2006

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.

The remuneration packages of the non executive and executive directors, other than the managing director, do not include any cash bonus or share based payment component.

The remuneration package of the managing director, Mr J Weber, included a cash bonus component of up to 33% of the base salary for the 2007 financial year (2006: 35%) which was linked to a number of specified key performance targets for the company. In addition, during the 2007 financial year, Mr Weber was granted share rights under the Managing Director Share Incentive Plan. Under the plan Mr Weber is entitled to receive up to 520,000 shares after a period of two years. The issue of the shares are subject to performance hurdles being met as detailed below and in note 24.

The remuneration packages of the other key management personnel for the 2007 financial year include a cash bonus component of up to 23% (2006: 18%) of the base salary which is linked to a number of specified key performance targets for the company. During the 2007 financial year, no options were granted to the other key management personnel.

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	
	2007	2006	2007	2006
Short term employee benefits	1,848,117	1,542,165	-	-
Post-employment benefits	114,683	103,818	-	-
Share based payments	285,972	66,208	-	-
	2,248,772	**1,712,191**	**-**	**-**

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

27. KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

The compensation of each member of the key management personnel of the consolidated entity is set out below:

2007	Short term employee benefits			Post Employment benefits	Share-based payment Equity-Settled		Total
	Salary & Fees $	Bonus (i) $	Non-monetary $	Super-annuation $	Shares & units $	Options & rights (ii) $	$
Mr A Howarth	114,231	-	-	10,800	-	-	125,031
Mr A Birchmore	44,692	-	1,876	4,022	-	-	50,590
Mr J Weber	269,211	114,922	51,908	24,230	-	183,993	644,264
Mr M Bradley	55,923	-	-	4,950	-	-	60,873
Mr J Carver	157,768	-	-	962	-	-	158,730
Mr J Mews	62,462	-	-	5,850	-	-	68,312
Mr D Ross	199,642	46,015	8,944	16,650	-	39,051	310,302
Mr P Raynor	159,090	45,684	16,269	14,843	-	39,051	274,937
Mr T Graham	145,223	19,812	8,788	13,026	-	7,959	194,808
Mr S Lee	105,000	18,900	57,757	9,450	-	7,959	199,066
Mr D Verboon	122,000	22,000	-	9,900	-	7,959	161,859
Total	**1,435,242**	**267,333**	**145,542**	**114,683**	**-**	**285,972**	**2,248,772**

2006	Short term employee benefits			Post Employment benefits	Share-based payment Equity-Settled		Total
	Salary & Fees $	Bonus (i) $	Non-monetary $	Super-annuation $	Shares & units $	Options & rights (ii) $	$
Mr A Birchmore	70,000	-	4,736	6,300	-	-	81,036
Mr J Weber	232,235	98,866	27,729	21,446	-	29,215	409,491
Mr M Bradley	70,000	-	-	6,300	-	-	76,300
Mr J Carver	135,000	-	3,920	3,150	-	-	142,070
Mr A Howarth	45,000	-	-	4,050	-	-	49,050
Mr J Mews	45,000	-	-	4,050	-	-	49,050
Mr D Ross	155,451	28,050	7,128	14,850	-	16,665	222,144
Mr P Raynor	119,335	23,240	2,557	10,740	-	16,665	172,537
Mr T Graham	143,054	15,736	-	12,874	-	1,221	172,885
Mr S Smith	116,514	23,677	15,785	11,836	-	1,221	169,033
Mr S Lee	91,363	25,500	42,289	8,222	-	1,221	168,595
Total	**1,222,952**	**215,069**	**104,144**	**103,818**	**-**	**66,208**	**1,712,191**

(i) Mr Weber and some other key management personnel were granted cash bonuses for the 2007 and 2006 financial years. The bonuses were granted on 30 June each year and the respective amounts were subject to a number of specified key performance targets being achieved.

(ii) Mr Weber was granted the right to a total of 520,000 shares under the Managing Director Incentive Share Plan on 21 November 2006. Further details of the share rights are contained in notes 24 and 29.

28. AUDITORS' REMUNERATION

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Auditor of the Parent Entity				
Audit or review of the financial report	134,080	115,320	-	
Taxation services	146,284	98,510	-	-
Other non-audit services	-	16,600	-	
	280,364	**230,430**	-	

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

29. RELATED PARTY DISCLOSURES

(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

2007	Balance at 1 July 2006 No.	Granted as compensation No.	Received on exercise of options No.	Net Other Change No.	Balance at 30 June 2007 No.	Balance held nominally No.
Mr A Howarth	714,400	-	-	11,112	725,512	-
Mr A Birchmore	12,029,700	-	-	(11,962,592)	67,108	-
Mr J Weber	550,000	-	-	3,704	553,704	-
Mr M Bradley	5,666,666	-	-	(2,596,296)	3,070,370	-
Mr J Carver	9,600,826	-	-	(4,596,296)	5,004,530	-
Mr J Mews	1,135,000	-	-	(392,592)	742,408	-
Mr D Ross	200,000	-	-	(46,296)	153,704	-
Mr P Raynor	300,000	-	-	3,704	303,704	-
Mr T Graham	249,400	-	-	(15,292)	234,108	-
Mr S Lee	15,000	-	75,000	3,704	93,704	-
Mr D Verboon	130,000	-	100,000	(32,592)	197,408	-

29. RELATED PARTY DISCLOSURES CONTINUED

2006	Balance at 1 July 2005 No.	Granted as compensation No.	Received on exercise of options No.	Net Other Change No.	Balance at 30 June 2006 No.	Balance held nominally No.
Mr A Howarth	329,400	-	-	385,000	714,400	-
Mr A Birchmore	11,668,700	-	-	361,000	12,029,700	-
Mr J Weber	50,000	-	400,000	100,000	550,000	-
Mr M Bradley	6,666,666	-	-	(1,000,000)	5,666,666	-
Mr J Carver	9,215,826	-	-	385,000	9,600,826	-
Mr J Mews	750,000	-	-	385,000	1,135,000	-
Mr D Ross	-	-	-	200,000	200,000	-
Mr P Raynor	-	-	-	300,000	300,000	-
Mr T Graham	39,400	-	100,000	110,000	249,400	-
Mr S Lee	15,000	-	-	-	15,000	-

Share options of Mermaid Marine Australia Limited

2007	Balance at 1/7/06 No.	Granted as remuneration No.	Exercised No.	Lapsed No.	Balance at 30/6/07 No.	Balance vested at 30/6/07 No.	Vested but not No.	Vested and No.	Options vested during year No.
Mr J Weber	600,000	-	-	-	600,000	-	-	-	-
Mr D Ross	500,000	-	-	-	500,000	-	-	-	-
Mr P Raynor	500,000	-	-	-	500,000	-	-	-	-
Mr T Graham	200,000	-	-	-	200,000	100,000	-	100,000	-
Mr S Lee	175,000	-	75,000	-	100,000	-	-	-	-
Mr D Verboon	200,000	-	100,000	-	100,000	-	-	-	-

2006	Balance at 1/7/05 No.	Granted as remuneration No.	Exercised No.	Lapsed No.	Balance at 30/6/06 No.	Balance vested at 30/6/06 No.	Vested but not No.	Vested and No.	Options vested during year No.
Mr J Weber	400,000	600,000	400,000	-	600,000	-	-	-	-
Mr D Ross	-	500,000	-	-	500,000	-	-	-	-
Mr P Raynor	-	500,000	-	-	500,000	-	-	-	-
Mr T Graham	200,000	100,000	100,000	-	200,000	100,000	-	100,000	-
Mr S Smith	30,000	100,000	-	-	130,000	30,000	-	30,000	-
Mr S Lee	115,000	100,000	-	40,000	175,000	75,000	-	75,000	-

29. RELATED PARTY DISCLOSURES CONTINUED

Share rights of Mermaid Marine Australia Limited

2007	Balance at 1/7/06 No.	Granted as remuner-ation No.	Exercised No.	Lapsed No.	Balance at 30/6/07 No.	Balance vested at 30/6/07 No.	Vested but not exercise-able No.	Vested and exercise-able No.	Options vested during year 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 175,000 share options (2006: 500,000) were exercised by key management personnel at an exercise price of 40 cents per option for 175,000 ordinary shares in Mermaid Marine Australia Ltd (2006: 500,000). 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 notes 24 and 27.

(iii) Other transactions with key management personnel

(1) Directors Fees:

During the year, a total of $37,692 (2006: $81,036) for directors fees, superannuation and non-monetary benefits were paid to Mr J Birchmore, a related party of Mr A Birchmore. This is reflected in full in note 27 – Remuneration of Key Management Personnel.

(2) Fremantle Premises:

The Achiever Partnership, a related entity of Mr A Birchmore and 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.

During the 2004 financial year, the company exercised its right to renew the term of the lease for a further 5 years, commencing 1 May 2004.

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 $169,325 per annum plus outgoings. Rental is subject to market reviews every 2 years during the term, although the rental may not decrease.

Rental and outgoings paid during the financial year amounted to $ 217,333 (2006: $203,661).

(3) 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 $147,076 (2006: $100,000), based upon an agreed market day rate. This is reflected in full in note 27 – Remuneration of Key Management Personnel Compensation.

(c) Transactions with other related parties

Transactions involving other related parties

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

29. RELATED PARTY DISCLOSURES CONTINUED

Transactions involving the parent entity

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 REPORTING

	Vessels		Supply Base		Engineering & Labour Hire		Total	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Segment Revenues								
Sales to outside customers	86,741	53,555	15,914	9,961	-	2,781	102,655	66,297
Inter-segment revenue	77	62	6,265	4,158	-	-	6,342	4,220
Total	86,818	53,617	22,179	14,119		2,781	108,997	70,517
Eliminations							(6,342)	(4,220)
Unallocated							425	515
Total consolidated revenue							**103,080**	**66,812**
Intersegment services are provided for amounts equal to competitive market prices charged to external customers for similar services								
Segment Results								
Segment result	21,738	11,016	4,078	2,045	-	4,936	25,816	17,997
Eliminations							(514)	(33)
Total							25,302	17,964
Unallocated							(7,742)	(5,735)
Profit before income tax expense							17,560	12,229
Income tax (expense)							(5,047)	(3,021)
Profit for the year							**12,513**	**9,208**
Segment assets and liabilities								
Assets								
Segment assets	100,376	88,397	42,864	42,010	-	624	143,240	131,031
Unallocated assets							18,647	5,346
Consolidated							161,887	136,377
Liabilities								
Segment Liabilities	8,596	13,659	1,401	1,778	-	75	9,997	15,512
Unallocated liabilities							69,317	60,365
Consolidated							**79,314**	**75,877**

30. SEGMENT REPORTING CONTINUED

	Vessels		Supply Base		Engineering & Labour Hire		Unallocated		Total	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Other segment Information										
Carrying value of equity accounted investments included in segment assets	-	-	-	-	-	-	1,286	219	1,286	219
Share of net profit/(loss) of associates accounted for under the equity method	-	-	-	-	-	-	639	122	639	122
Acquisition of segment assets	20,385	40,985	2,435	4,558	-	-	72	91	22,892	45,634
Depreciation and amortisation of segment assets	4,021	2,656	1,464	1,308	-	87	248	100	5,733	4,151
Proceeds from sale of fixed assets	1,155	-	1,084	103	-	4,400	-	-	2,239	4,503
Net book value of fixed asset sales	1,081	-	220	218	-	-	-	-	1,301	218

Geographical segments

The consolidated entity conducted its business mainly within Australia during both financial years. Work conducted outside of Australia during both financial years was immaterial.

For management purposes, the consolidated entity is organised into three major operating divisions – Vessels, Supply Base and Engineering & Labour Hire. 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 facilities and slipway operations; and
- Engineering & Labour Hire — Engineering and labour hire.

There was no segment activity in the Engineering & Labour Hire division during the current financial year following the disposal of the manning business in April 2006.

31. SUBSIDIARIES

	Note	Country of Incorporation	Ownership Interest 2007 %	Ownership Interest 2006 %
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

(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:

	2007 $'000	2006 $'000
INCOME STATEMENT		
Revenue	103,080	66,803
Other Income	44	4,284
Share of net profits of associate accounted for using the equity method	639	122
Vessel expenses	(65,003)	(42,540)
Supply base expenses	(12,349)	(7,916)
Engineering and labour expenses	-	(2,478)
Administrative expenses	(4,669)	(3,165)
Finance costs	(4,181)	(3,078)
Profit before income tax expense	17,561	12,032
Income tax (expense)/benefit	(5,047)	(2,896)
Profit for the year	**12,514**	**9,136**

31. SUBSIDIARIES CONTINUED

	2007 $'000	2006 $'000
BALANCE SHEET		
Current Assets		
Cash and cash equivalents	16,912	6,014
Trade and other receivables	18,267	20,532
Inventories	1,902	1,942
Other	633	624
Total Current Assets	**37,714**	**29,112**
Non-Current Assets		
Investments accounted for using the equity method	1,286	219
Other financial assets	938	959
Property, plant and equipment	122,866	107,015
Total Non-Current Assets	**125,090**	**108,193**
Total Assets	**162,804**	**137,305**
Current Liabilities		
Trade and other payables	8,912	14,482
Borrowings	5,485	4,401
Other financial liabilities	881	11
Provisions	815	789
Current tax payables	1,563	1,518
Total Current Liabilities	**17,656**	**21,201**
Non-Current Liabilities		
Trade and other payables	1,210	1,210
Borrowings	57,481	51,967
Deferred tax liabilities	3,801	2,444
Provisions	277	178
Total Non-Current Liabilities	**62,769**	**55,799**
Total Liabilities	**80,425**	**77,000**
Net Assets	**83,379**	**60,305**
Equity		
Issued capital	58,067	48,047
Reserves	(201)	259
Retained earnings	24,513	11,999
Total Equity	**82,379**	**60,305**
Retained earnings		
Retained earnings at beginning of the financial year	11,999	2,863
Net profit	12,514	9,136
Retained earnings at end of the financial year	**24,513**	**11,999**

32. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives

The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The group only enters into financial instruments to hedge specific identified risks.

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates as a result of a vessel being constructed under a USD defined contract. The consolidated entity has entered into forward foreign exchange contract to hedge the risk associated with this contract.

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

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

(c) 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 parameters utilising forward foreign exchange contracts.

Forward foreign exchange contracts

The group has entered into forward foreign exchange contracts to cover specific foreign currency payments required under a vessel construction contract and a vessel purchase contract.

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	
	2007 $	2006 $	2007 FC'000	2006 FC'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Buy US Dollars								
Less than 3 months	0.792	0.735	7,600	5,850	9,599	7,962	(648)	(10)
3 to 6 months	0.760	0.734	1,860	1,950	2,447	2,655	(233)	(1)
Total							**(881)**	**(11)**

As at reporting date the aggregate amount of unrealised losses under forward foreign exchange contracts relating to anticipated future transactions is $881 thousand (2006:unrealised loss of $11 thousand). In the current year, these unrealised losses have been deferred in the hedging reserve to the extent the hedge is effective.

32. FINANCIAL INSTRUMENTS CONTINUED

(d) Interest Rate Risk

The Group's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities as at 30 June 2007 were as follows:

Financial Instruments	Variable interest rate	Fixed maturity dates:			Non interest bearing	Total carrying amount as per Balance Sheet	Weighted average interest rate
		1 year or less	Between 1 to 5 years	Over 5 years			
	$'000	$'000	$'000	$'000		$'000	%
(i) Financial Assets							
Cash and cash equivalents	16,926	-	-	-	-	16,926	5.80
Trade receivables	-	-	-	-	16,517	16,517	N/A
Other receivables	-	-	-	-	1,214	1,214	N/A
Total Financial Assets	**16,926**	**-**	**-**	**-**	**17,731**	**34,657**	
(ii) Financial Liabilities							
Trade payables	-	-	-	-	3,147	3,147	N/A
Other payables and accruals	-	-	-	-	4,967	4,967	N/A
Hire purchase liability	-	6,661	38,138	2,797	-	47,596	7.89
Bank loan – secured	15,370	-	-	-	-	15,370	8.36
Foreign currency forward contract	-	-	-	-	881	881	N/A
Employee Entitlements	-	-	-	-	1,092	1,092	N/A
Other							
Total Financial Liabilities	**15,370**	**6,661**	**38,138**	**2,797**	**10,087**	**73,053**	

n/a: not applicable for non-interest bearing financial instruments

32. FINANCIAL INSTRUMENTS CONTINUED

(d) Interest Rate Risk (continued)

The Group's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities as at 30 June 2006 were as follows:

Financial Instruments	Variable interest rate	Fixed maturity dates:			Non interest bearing	Total carrying amount as per Balance Sheet	Weighted average interest rate
	$'000	1 year or less $'000	Between 1 to 5 years $'000	Over 5 years $'000	$'000	$'000	%
(i) Financial Assets							
Cash and cash equivalents	6,027	-	-	-	-	6,027	4.16
Trade receivables	-	-	-	-	16,468	16,468	N/A
Other receivables	-	-	-	-	2,928	2,928	N/A
Total Financial Assets	**6,027**	**-**	**-**	**-**	**19,396**	**25,423**	
(ii) Financial Liabilities							
Trade payables	-	-	-	-	9,754	9,754	N/A
Other payables and accruals	-	-	-	-	3,529	3,529	N/A
Hire purchase liability	-	4,988	29,149	3,200	-	37,337	7.59
Bank loan – secured	19,031	-	-	-	-	19,031	8.14
Foreign currency forward contract	-	-	-	-	11	11	N/A
Employee Entitlements	-	-	-	-	967	967	N/A
Other loans	-	-	-	-	-	-	N/A
Total Financial Liabilities	**19,031**	**4,988**	**29,149**	**3,200**	**14,261**	**70,629**	

n/a: not applicable for non-interest bearing financial instruments

32. FINANCIAL INSTRUMENTS CONTINUED

(e) Credit risk exposures

The group does not have any significant credit risk exposure to any single counter party or any group of counter parties having similar characteristics.

(f) Fair value of financial instruments

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

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

- the fair value of foreign currency forward contracts, including hedging assets and liabilities, are calculated using quoted prices and market rates.
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cashflow analysis.

(g) 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.

33. JOINTLY CONTROLLED ASSETS

The consolidated entity's interest in jointly controlled assets is detailed below. The amounts are included in the financial statements and consolidated financial statements under their respective asset categories:

	Consolidated	
	2007 $'000	2006 $'000
Non Current Assets		
Property, Plant and Equipment	1,744	2,030
Total Assets	**1,744**	**2,030**

DIRECTORS' 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, 13 September 2007

Deloitte.

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Independent Auditor's Report to the Members of Mermaid 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 2007, 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 22 to 66.

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 consolidated financial statements and notes of the Group, comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

Member of
Deloitte Touche Tohmatsu

Deloitte.

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 2007 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the consolidated financial statements and notes of the Group also comply with International Financial Reporting Standards as disclosed in Note 2.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Keith Jones
Partner
Chartered Accountants
Perth, 13 September 2007

ADDITIONAL STOCK EXCHANGE INFORMATION

As at 07 September 2007

Ordinary Share Capital

147,908,958 fully paid ordinary shares are held by 3,632 individual shareholders. All issued ordinary shares carry one vote per share.

Substantial Shareholders

	Number of Shares	% of Issued Capital
IIM Unit Trust	15,672,402	11.18%
Thorney Pty Ltd	12,428,400	8.87%
Consolidated Press Holdings	10,407,503	7.04%
Invesco Australia Ltd	9,264,511	6.60%
Merrill Lynch & Co., Inc	8,892,418	6.37%

Distribution of Holders of Ordinary Shares

Size of Holding	Number of ordinary shareholders
1 to 1,000	400
1,001 to 5,000	1,057
5,001 to 10,000	752
10,001 to 100,000	1,298
100,001 and over	125
Total	**3,632**

Twenty Largest Shareholders

	Number of Shares	% of Issued Capital
Citicorp Nominees Pty Limited	14,603,798	9.87
Invia Custodian Pty Limited (Black A/C)	12,103,704	8.18
HSBC Custody Nominees (Australia) Limited – A/C 2	9,488,917	6.42
National Nominees Limited	8,590,470	5.81
ANZ Nominees Limited Cash Income A/C	7,021,794	4.75
J P Morgan Nominees Australia Limited	6,750,970	4.56
Argo Investments Limited	5,000,000	3.38
Sawtell Pty Ltd (Jim Carvers A/C)	4,618,704	3.12
Mr Mark Bradley	3,070,370	2.08
Citicorp Nominees Pty Limited CFSIL CFS WS Small Comp A/C	2,773,285	1.87
Citicorp Nominees Pty Limited CFS Developing Companies	2,009,295	1.36
The Australian National University Investment Section	1,813,891	1.23
Mr John Paterson	1,504,094	1.02
Akir Pty Ltd	1,119,469	0.76
HSBC Custody Nominees (Australia) Limited	948,200	0.64
RBC Dexia Investor Services Aust Nom. P/L (BKCust A/C)	765,402	0.52
Mr Jeffrey Weber	553,704	0.37
MALLA PTY Ltd c/- G R Downing	553,704	0.37
Seymour Group Pty Ltd	543,977	0.37
Mr William Gordon Martin Chemco Super Fund	494,000	0.33
Total	**84,327,748**	**57.01**

Voting Rights

All ordinary shares carry one vote per share without restriction.

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.

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MERMAID MARINE
AUSTRALIA LTD

ANNUAL REPORT 2007