MERMAID MARINE
AUSTRALIA LTD

ANNUAL REPORT
2008




MERMAID MARINE AUSTRALIA LIMITED

A.B.N. 21 083 185 693

CORPORATE DIRECTORY

Directors

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

Company Secretary

Peter Raynor – resigned 19 August 2008
Dylan Darbyshire-Roberts – appointed 19 August 2008

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BANKERS

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THIS HAS BEEN AN EXCITING YEAR OF ACHIEVEMENT FOR THE COMPANY AND 2009 PROMISES TO BE EQUALLY POSITIVE WITH A BROAD RANGE OF OPPORTUNITIES EMERGING IN OUR MARKET.

CHAIRMAN'S ADDRESS

On behalf of Mermaid Marine Australia Ltd's (MMA) Board of Directors I am pleased to report that our business and management team delivered an extremely strong performance for the 2008 financial year, building on the equally positive result achieved in the previous year.

Delivering shareholder value over the long-term is one of the key challenges for any Board and it is pleasing to note that MMA has not only delivered strong earnings growth for the year, but has also successfully built a platform to generate continued growth into the future.

There have been a number of important developments within the Company during the last year. Our core vessel business was strengthened by the acquisition of new vessels and the Dampier supply base has an exciting future, having secured new contracts and progressed critical infrastructure development. Equally, the longer-term potential of our Broome JV remains encouraging as major oil and gas companies increase exploration levels in the adjacent Browse Basin. We also began the development of our international business with the opening of an office in Singapore and securing of a major contract involving up to four vessels working overseas during the year. These initiatives are outlined in more detail in the Managing Director's Review of Operations.

Net profit after tax increased by 43% to $17.9 million on revenue growth of 45% to $149 million. Cash flow from operations increased by over 70% to $31.0 million, which is particularly encouraging given the current macro environment in which we now find ourselves. Capital expenditure for the year increased to $68 million with the majority being used to fund new vessel acquisitions. MMA also raised $47 million in new equity through a placement and share purchase plan. This capital raising not only reduced our gearing to 23.5% at year end but also highlighted that there is strong support from the market for the Company's growth strategy. The funds will be used to expand our Dampier supply base facilities during FY2009 and also enable the purchase of new vessels.

The Board declared a fully franked dividend of 2cps for the 2008 financial year, up from 1cps in 2007 and has resolved to implement a new dividend policy. Commencing in the 2009 financial year, MMA will pay an interim and final dividend reflecting a payout ratio of between 40% and 50%. While MMA will continue to invest capital in new vessels and infrastructure to meet growing demand, the Company is building up valuable franking credits that the Board believes are best employed in the hands of our shareholders. The new policy also reflects the growing maturity of the Company as an industrial stock with long-term capital and dividend growth.

The growth in the Company over the last three years is testament to the MMA management team led by the Managing Director Jeff Weber, and supported by dedicated staff both onshore and offshore. There is no doubt that the depth of capability within the Company has developed as the operations expand and the Board has been able to observe this first hand with Board meetings being held in Dampier and Broome during the year.

Finally, I would like to thank my fellow directors for their support and guidance during the year. The Board is united around a clear strategy and remains positive about the future prospects of MMA. This has been an exciting year of achievement for the Company and 2009 promises to be equally positive with a broad range of opportunities emerging in our market.

Tony Howarth
Chairman

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

I am pleased to report that Mermaid Marine Australia Ltd (MMA) has delivered its third consecutive year of extremely strong growth across all of its operating divisions.

Net operating profit after tax (NPAT) rose to $17.9 million, an increase of 43% on the previous year. In turn, MMA has delivered a 78% compound annual growth rate in NPAT over the past three years. This improved performance flowed from both increased revenue and the better margins achieved through increased utilisation of our assets.

Our growth was achieved against the background of significantly weaker equity and debt markets during the year, and particularly during the last half of FY2008. This meant that despite our strong earnings and operational performance, MMA's share price fell approximately 18% during the year. While this is disappointing, MMA's share price performance remained superior to a large number of similar sized companies.

STRATEGY

In June 2007 MMA established a new five year strategy and set quite aggressive growth targets for the period. The key elements of the strategy are to:

- maintain market share in our core vessel business;
- expand our vessel service offer to support exploration activities;
- develop our supply base assets in Dampier and Broome;
- develop a "client specific" international business based out of Singapore;
- continuously improve the systems and processes required to sustain the quality of our operations in Australia and overseas.

A major review of our strategy was undertaken after the first year and it is pleasing to note that we are trading ahead of the majority of our 12 month targets.

It has also been important to test the assumptions that form the basis of the strategy, particularly in light of the recent credit crisis and the impact on the global economy. The outcome of this review is that our overall growth strategy is robust, notwithstanding the short-term challenges that all companies are experiencing in the current environment.

FINANCIAL HIGHLIGHTS

MMA's revenue rose by 45% to $149.4 million during the year representing the same percentage growth as was achieved in 2007. Both EBITDA and EBIT margins were maintained which was pleasing given the increase in revenue from chartered vessels. The use of chartered vessels tends to have a negative impact on EBITDA margins but improves our return on capital.

Overall, MMA's return on assets improved from 13.4% in FY2007 to 16.5% in FY2008 reflecting strong earnings from the entire asset base. Operating cash flow grew by more than 70% from the previous year highlighting our ability to generate strong cash flows from our asset base. This is a critical component of MMA's ongoing growth strategy.

As highlighted in the Chairman's message, the MMA Board has approved a 2 cps dividend payable in October 2008 and also approved a new dividend policy for the Company. The new policy will result in an interim and final dividend being paid by the Company reflecting a payout ratio of between 40% and 50%. This new policy highlights the growing maturity of MMA as an industrial stock and is an appropriate balance between the ongoing capital requirements of the Company and the desire to transfer valuable franking credits to our shareholders.

MMA's balance sheet was strengthened during the year with a capital raising of $47 million through a placement and share purchase plan. Consequently, gearing (net debt to equity) has been reduced to 23.5% at year end with $56 million cash at bank. Capital expenditure totalled $68 million during the year with approximately $55 million funding new vessel acquisitions and the remainder funding upgrades of our supply base infrastructure in Dampier and Broome. The capital was primarily raised to support a new contract with Chevron by establishing supply base operations in Dampier for its Gorgon operations, and also to fund new vessel acquisitions.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

OPERATIONAL HIGHLIGHTS

MMA's Australian vessel and supply base operations recorded strong growth in earnings during the year. In addition, our Singapore-based business, which was established in November 2007, has had an immediate contribution to earnings with its Mermaid Discovery vessel operating in Egypt for the latter part of the financial year.

VESSEL OPERATIONS

MMA's core vessel business continued to perform strongly in FY2008 contributing approximately 80% of the Company's overall EBIT. It is expected that this business will contribute a similar percentage of earnings in FY2009, with the contribution from our supply base operations increasing in percentage terms in FY2010 as a result of investments made during FY2009.

EBITDA margins were down slightly from FY2007 due to higher revenue from chartered vessels. However, the return on assets remained above our 15% hurdle rate due to high utilisation of our fleet. Average utilisation for the year across the fleet was approximately 75%.

There were a number of operational highlights during the year.

MMA was the main marine contractor to McDermott International in the construction of Woodside's Angel project. There were five key vessels involved in this project, two of which were chartered for the period of the construction. The vessels were involved in towing barges from South-East Asia, anchor handling for the DB30 Pipelay barge, and carrying supplies from Dampier out to the project. This type of construction work is key to MMA's ongoing development and we appreciate the confidence companies such as McDermott and Woodside place in us to supply the critical vessel support needed to successfully execute their construction programme.

MMA established its Singapore office in late 2007 as part of its international strategy. While our primary

Woodside Energy's Angel Project jacket installation.

focus remains in Australia, where demand is increasing as a result of the world-scale projects currently under development, our international business is providing us with additional growth opportunities.

With the establishment of our Singapore office, MMA was also able to provide a suitably flexible arrangement for a new client, Geokinetics, which enabled them to operate both in Australia and internationally. MMA initially purchased the Mermaid Discovery for the Geokinetics contract and then chartered three additional vessels to meet their growing requirements. The Mermaid Discovery is currently operating in Egypt and the other three vessels will operate in Angola during FY2009.

Our international strategy is highly client-focused rather than geographically focused.

Demand for MMA's vessels in Australia is still impacted by weather conditions with typically lower demand in the first and last quarters of the financial year due to adverse weather conditions offshore. The growth in our international business enables us to better manage this volatility.

The Singapore office also enables us to become more competitive in the international vessel market and to develop the relationships required to access suitable vessels and crew. International demand for qualified and experienced marine offshore crews remains extremely high, just as it is in Australia, and during FY2009 we aim to position our international business to attract the best people we can.

Vessel in Cape Town en route to Angola.

SUPPLY BASE OPERATIONS

Extension to Dampier Supply Base wharf under way.

Dampier Supply Base

Revenue from our Dampier supply base grew by approximately 30% over the year with EBITDA increasing by 50%. This is particularly encouraging as our margins are improving despite increasing input costs. The main driver of margin improvement is the increased utilisation of our wharf facility due to the higher number of vessels working in the region. Wharf utilisation was maintained above 80% for the year which is effectively full utilisation when taking into account time between vessels berthing and unberthing.

This high utilisation level and the related high levels of activity throughout the entire base led to a decision to increase our wharf infrastructure. Construction has commenced on a $22 million upgrade to our main wharf which will effectively double existing berth capacity. MMA is undertaking this work directly which enables us to control costs and maintain maximum operational status of the existing infrastructure. The berth expansion is expected to be completed by May 2009 at which time MMA will have a world-class facility to service the offshore oil and gas industry.

In addition to increasing our wharf infrastructure, a new 200 tonne crawler crane was purchased during the year to supplement our current 150 tonne crawler crane. The benefit of this larger crane is that it can undertake heavier lifts and has a larger reach that reduces the need for numerous crane movements. The additional crane provides backup and enables two vessels to be stevedored on our wharf at the same time. We are always looking for ways to ensure we remain the facility of choice for servicing offshore vessels. The key performance indicator for this is the time required to load and unload vessels and MMA is investing significant resources and training into continuously improving this performance.

A new 2,250m^2 warehouse was also constructed on the Dampier supply base during the year to meet the continued demand for undercover storage for our clients. The warehouse has five bays and the majority of this space has been let. Our aim is to retain at least one bay to service short-term requirements of our clients, particularly supporting the offshore construction industry. We are also aiming to retain laydown area in Dampier to service more short-term requirements.

New 2,250m^2 warehouse at the Dampier Supply Base.

In May 2008 MMA signed an "Agreement to Sublease" with Chevron Corporation covering approximately 50,000m^2 of the supply base area. This was the first step towards signing a formal sublease and to develop parts of our supply base to support Chevron's Gorgon project. The leased areas represent approximately 40% of the overall lettable area on the base and once operational in 2009 will increase the overall utilisation of the facility.

All of these positive developments will continue to drive future earnings growth at the Dampier supply base. The facility will increasingly move from a model of long-term storage to being a major staging point for offshore developments planned for construction over the next five years.

Vessel being serviced on the slipway at the Dampier Supply Base.

Dampier Slipway

Our Dampier slipway has been operating for approximately six years and numerous cyclones over that period of time have resulted in the lower part of the slipway slowly becoming covered in silt. As a result, a dredging programme was undertaken over the latter part of the year to clear the silt and return the slip to full operating capability, regardless of tidal conditions. This impacted on revenue for the year as the facility was effectively closed while the dredging took place. Slipway revenue dropped approximately 13% from the previous year. However, EBITDA improved by approximately 100% as a result of a number of initiatives undertaken during the year to improve returns.

While the Dampier slipway's capacity is 4,000 tonnes, the design of the cradles that support vessels on the slipway has been limited to 2,000 tonnes. Due to the increase in the number of larger vessels servicing the North West, MMA upgraded the cradles during the year to support 3,000 tonne vessels. MMA is now able to service the majority of vessels operating in the region.

Up until this year all blasting and painting of vessels was undertaken by subcontractors. In order to improve overall productivity, MMA has purchased the required equipment and employed personnel directly to carry out this activity.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

This has improved control over this key service and also improved earnings on the facility. The slipway now employs more than 30 specialist tradesman providing ship repair services to MMA and external clients.

The slipway is a critical element of MMA's business, both in terms of managing the costs associated with maintaining our vessels and, equally importantly, in managing the timing of regulatory dockings to ensure highest possible fleet utilisation. It is a sustainable competitive advantage that the Company has in the region.

Broome Supply Base

Returns from our Broome JV operation were marginally lower than last year due to delays in the arrival of a number of rigs that were expected to be drilling in the Browse Basin region. MMA's 50% share of profit from the JV was $466,000 after tax compared to $489,000 in FY2007.

Storage of drilling pipe at the Broome Supply Base.

During the year, our Broome facilities supported drilling operations for Woodside, Inpex, Shell, BHP Billiton and Santos. All of these companies are currently undertaking exploration wells and it is expected that a number of these fields could move into a production phase. Developing production wells would require a significantly higher level of support than would typically be encountered during exploration.

A number of key developments were undertaken during the year to upgrade the Broome facility to world standards. An additional 15,000m² of land was bituminised in the casing yard to cater for increased demand for storage. The new area has been designed to ensure the highest safety levels, and sets the standard for casing yards in the oil and gas industry. The primary goal was to enable loading and unloading of casing with minimal human intervention and that has been achieved.

In addition, work commenced on the new 32,000m² supply base adjacent to the port. While there were some delays associated with relocating the main water pipe running through the property, the land has now been cleared. Approximately 4,000m² of the area has been bituminised as a laydown area with the rest of the area expected to be completed in FY2009. Development plans have been lodged for a new office block on the base and ancillary infrastructure required to support the offshore operations.

The Broome JV has also finalised the lease of the 3000m² warehouse on the waterfront. Some of the land has been released back to the Broome Port Authority for its developments and the JV remains in control of the warehouse and a small loading area adjacent to it.

Overall, the plans for Broome are progressing well and MMA remains confident that this region will have a significant positive impact on the Company's long-term growth.

SAFETY

Another pleasing result during the year was the improvement in safety performance across the Company with our key "all injury" frequency rate dropping by over 70%. As a service provider in the oil and gas industry, managing the health and safety of our employees is critical. Our clients have extremely high standards and demand the same from the companies that support their operations.

Complacency is the greatest enemy of safe operations and MMA is continuously exploring new opportunities for improvement and new initiatives to maintain the focus on this critical area. With up to 200 seagoing staff offshore at any particular time and another 150 shore-based personnel working in our supply base, slipway and administration areas, safety remains a constant challenge.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

BUSINESS SYSTEMS

A fundamental component of MMA's overall service delivery is the business systems that guide our day-to-day operations. We operate under an Integrated Business Management System (IBMS) which embeds critical safety processes and procedures within our management system.

There are a number of major elements of the system:

1. management leadership, commitment and accountability;
2. operations integrity assessment and improvement;
3. risk assessment and management;
4. health, safety and environment;
5. facilities design and construction;
6. information and documentation;
7. personnel and training;
8. management of services;
9. management of change;
10. third party services;
11. incident investigation and analysis; and
12. emergency preparedness.

The IBMS has been in operation for the last three years and is continuously improved on the basis of feedback from employees and as a result of statutory, client and internal audits. During the past year there have been a total of 18 statutory audits, 13 client audits and 20 internal audits carried out on the various operational divisions of the organisation. This clearly highlights the critical nature of our systems both from a statutory and client perspective. It also highlights the opportunity for continuous improvement as we receive feedback from a number of industry experts, some of whom are brought in from our clients' overseas operations.

High levels of environmental compliance are also a critical success factor for our Company, particularly given the sensitive nature of the natural environment that we work within. This area has been a major focus over the last two years as we upgrade facilities such as the slipway to improve environmental compliance. Under our lease agreement in Dampier we operate under a Ministerial environmental plan as well as needing to meet strict national and international environmental standards on our vessels.

Management of the systems and processes that guide our operations is one of MMA's core capabilities and one which assists in differentiating our business within the offshore service industry.

PEOPLE

One of the keys to maintaining MMA's level of growth is leading with people. In our business the assets we have are only as good as the people operating them and we have invested significant time and resources during the year in ensuring that we continue to attract and retain the best possible people across the organisation. This year we established new agreements with our slipway personnel, Dampier supply base personnel and Broome JV personnel. This was achieved in a very positive spirit with the right balance between acceptable wage outcomes and the need to continue to improve productivity. In addition, we have recruited a number of new senior managers covering roles such as business development, safety and operations. The market for experienced personnel, particularly in the marine sector, remains tight both in Australia and internationally but this is offset to some extent by MMA's growing reputation in the industry.

There is no doubt that wages input costs continue to grow; particularly as a result of the high housing costs for personnel living in the Karratha region. This pressure reached a point where MMA has now taken the decision to purchase houses in Dampier and Karratha in order to provide stable accommodation for our key managers in the region. Capital expenditure to date on housing is approximately $3 million. Importantly however, we have been able to maintain our margins in the face of this increasing cost pressure based on rate increases and productivity improvement across the Company.

MMA experienced rapid growth in employees over the year with the hours worked increasing by over 40% compared to FY2007. Hours worked has almost doubled since FY2006. During the peak of operations more than 200 seagoing staff were engaged on MMA vessels and on chartered vessels under the management of MMA. In addition, our shore-based personnel numbers have grown by approximately 50% during the year. This level of growth in personnel places significant pressure on our human resources team as well as the operations team and achieving this growth with an improvement in safety performance is an excellent outcome.

I would like to take this opportunity to pay tribute to MMA's senior management team: David Ross (COO), Peter Raynor (CFO), Treena Vivian (General Manager HR), Ted Graham (General Manager Development) and a new appointee Allan Burns (Health, Safety and Security Manager). In addition, I would like to acknowledge Peter Raynor's contribution as Company Secretary over the last three years. Due to the growth of the Company and the consequent demand on Peter's time, Dylan Roberts has taken over this critical role.

I would also like to thank all of our employees who worked hard to make the 2008 financial year the success that it was.

MMA is fortunate to work with some of the most successful companies in the oil and gas sector and I would like to acknowledge their support. We look forward to working with them going in the future and continually improving our business to meet their needs. Similarly our suppliers are critical to ongoing growth and we could not continue to develop as an organisation without their support.

The 2008 financial year was a great year for MMA and we move into the FY2009 confident that we can continue to grow the Company for our shareholders.

Jeff Weber
Managing Director

MERMAID DISCOVERY, PURCHASED IN DECEMBER 2007, NOW WORKING UNDER CONTRACT IN EGYPT

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 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 and policies section of the Company's website: www.mma.com.au.

THE BOARD AND BOARD STRUCTURE

Details of the functions and responsibilities of the Board, Chairman and matters delegated to management are set out in sections 1 to 3 of the Board Charter (a copy of which can be found under the corporate governance section of the Company's website).

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 15. 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's perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to 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 two directors are considered by the Board to be not 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 J Carver	Executive Director

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

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

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

Name	Term in Office
Mr J Carver	10 years
Mr J Mews	10 years
Mr M Bradley	8 years
Mr A Howarth	7 years
Mr J Weber	6 years

NOMINATION AND REMUNERATION COMMITTEE

The Board has established a nomination and remuneration committee. 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 to ensure 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:

- Mr A Howarth (Chairman) Independent, Non-Executive Director,
- Mr J Mews (resigned 25 October 2007) Independent, Non-Executive Director,
- Mr M Bradley (appointed 25 October 2007) Independent, Non-Executive Director, and
- Mr J Carver (appointed 25 October 2007) Executive Director.

The charter of the nomination and remuneration committee is detailed in Appendix C of the Board Charter.

Details of:

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

are set out on pages 21-24 of the Director's Report and Notes 24 and 27 of the Annual Report.

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

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

Details of the number of meetings of the nomination and remuneration committee held during the year and the attendance at those meetings are set out on page 20 of the Directors' Report.

AUDIT COMMITTEE

The Board has established an audit committee which operates under a formal charter approved by the Board (a copy of which is set out under Appendix B of the Board Charter). It is the Board's responsibility to 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:

- Mr J Mews (Chairman) Independent, Non-Executive Director, and
- Mr A Howarth Independent, Non-Executive Director.

Details of the qualifications of each of the above members of the audit committee, the number of meetings of the audit committee held during the year and the attendance at those meetings is set out on pages 15, 16 and 20 respectively of the Directors' Report.

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

POLICIES

Details of the Company's:

- Codes of Conduct and Share Trading Policy are set out in Appendix D, E and G of the Board Charter;
- Communications Strategy and Disclosure Policy are set out in sections 9, 10, 11 and Appendix F of the Board Charter; and
- Relevant policies on risk oversight and management are set out under Appendix B of the Board Charter and under the Company Policies section of the Company's website.

The Board has received the written statements contemplated by Recommendations 4.1 and 7.2 (see subsection (c) of the Directors' Declaration on page 32 of the Annual Report).

PERFORMANCE

A performance evaluation of the Board, its members and key executives has taken place during the reporting period in accordance with section 12 of the Board Charter. This evaluation was carried out by the nomination and remuneration committee and involved a review of the performance of the Board, 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 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

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

Mr Anthony (Tony) John Howarth AO
Chairman - Appointed 5 July 2001

Tony was appointed as chairman of the Company on 1 August 2006. Tony is also currently Deputy Chairman of Bank of Queensland Limited and a non-executive director of AWB Limited, and Wesfarmers 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 and Home Building Society Limited. Tony is also involved in a number of business and community organisations including holding the positions of Chairman of St John of God Health Care Inc, President of the Australian Chamber of Commerce and Industry and a director of the Chamber of Commerce and Industry WA. He is a member of Rio-Tinto's WA Future Fund and the University of Western Australia's Senate.

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 that company's fivefold growth which was to make it one of the most well-equipped, professional and competitive groups in the off-shore contracting business. In 1997, Mark joined the Board of Clough Engineering as an executive director, retiring and becoming a shareholder and director of Mermaid in 2000.

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. He established Mermaid Marine in 1982 and pursued a 'can do' attitude at sea and ashore. Under his direction the fleet grew from one to 15 vessels and the base at Dampier was secured for its present expansion.

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 was a member of the Salaries and Allowances Tribunal for the State of Western Australia for 14 years and was a Founding Governor of the Malcolm Sargent Cancer Fund for Children (now Redkite) in Western Australia.

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

DIRECTORSHIPS OF OTHER LISTED COMPANIES

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

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

DIRECTORS' SHAREHOLDINGS

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

Name	Fully paid ordinary shares direct	Fully paid ordinary shares indirect	Share options/rights direct
Mr A Howarth	392,153	412,326	-
Mr J Weber	557,153	-	2,090,040
Mr M Bradley	3,073,819	-	-
Mr J Carver	40,000	7,030,000	-
Mr J Mews	392,153	357,153	-

SHARE OPTIONS/RIGHTS GRANTED TO DIRECTORS AND SENIOR MANAGEMENT

During and since the end of the financial year an aggregate of 2,114,937 share options were granted to the following directors and five highest remunerated officers of the Company as part of their remuneration:

Name	Number of options granted	Issuing entity	Number of ordinary shares under option
Mr J Weber	970,040	Mermaid Marine Australia	970,040
Mr D Ross	395,704	Mermaid Marine Australia	395,704
Mr P Raynor	395,704	Mermaid Marine Australia	395,704
Mr E Graham	152,629	Mermaid Marine Australia	152,629
Mr S Lee	65,190	Mermaid Marine Australia	65,190
Ms T Vivian	135,670	Mermaid Marine Australia	135,670

COMPANY SECRETARY

Mr Peter Alan Raynor – Appointed 20 June 2005, resigned 19 August 2008

Peter was appointed Company Secretary and Chief Financial Officer of the Company on 20 June 2005 and held the position of Company Secretary at the end of the financial year. Peter is a member of the Australian Society of CPAs. 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.

Mr Dylan Darbyshire-Roberts – Appointed 19 August 2008

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

PRINCIPAL ACTIVITIES

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

- Operating crewed vessel charters; and
- Operating supply base 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 on page 3 and the Managing Director's Review of Operations on page 4.

CHANGES IN STATE OF AFFAIRS

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

SUBSEQUENT EVENTS

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

FUTURE DEVELOPMENTS

The Chairman's Address on page 3 and the Managing Director's Review of Operations on page 4 give an indication, in general terms, of likely developments in the Company's operations in future financial years, and the expected results of those operations.

ENVIRONMENTAL REGULATIONS

The 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 2008.

DIVIDENDS

In respect of the financial year ended 30 June 2007, as detailed in the Directors' Report for that financial year, a final dividend of one cent per share franked to 100% at 30% corporate income tax rate was paid to holders of fully paid ordinary shares on 5 October 2007.

In respect of the financial year ended 30 June 2008, the directors have declared a final dividend of two cents per share franked to 100% at 30% corporate income tax rate to be paid on 8 October 2008 to the holders of fully paid ordinary shares in the Company on the record date of 24 September 2008.

SHARES UNDER OPTION AND ISSUED ON EXERCISE OF OPTIONS AND SHARE RIGHTS

Details of unissued shares under option or rights 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	520,000	Ordinary	0.00(a)	24 September 2008
Mermaid Marine Australia Ltd	600,000	Ordinary	0.40(b)	15 November 2009
Mermaid Marine Australia Ltd	600,000	Ordinary	0.40(b)	7 December 2009
Mermaid Marine Australia Ltd	1,620,000	Ordinary	0.48(c)	19 May 2011
Mermaid Marine Australia Ltd	100,000	Ordinary	0.62(c)	25 August 2011
Mermaid Marine Australia Ltd	970,040	Ordinary	1.83(d)	11 October 2012
Mermaid Marine Australia Ltd	2,412,644	Ordinary	1.83(e)	11 October 2012
Mermaid Marine Australia Ltd	469,193	Ordinary	1.83(e)	24 January 2013

(a) 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.

(b) 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.

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

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

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

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

Issuing entity	Number of shares issued	Class of shares	Amount paid for shares $	Amount unpaid on shares $
Mermaid Marine Australia Ltd	575,000	Ordinary	0.40	Nil
Mermaid Marine Australia Ltd	165,000	Ordinary	0.48	Nil

DIRECTORS' REPORT

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, except to the extent permitted by law, 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, eight board meetings, three audit committee meetings and three remuneration and nomination committee meetings were held. Mr Jeff Mews resigned as a member of the remuneration and nomination committee on 25 October 2007. Mr Mark Bradley and Mr Jim Carver were appointed members of the remuneration and nomination committee on 25 October 2007.

Name	**Board of Directors**		**Audit Committee**		**Remuneration and Nomination Committee**	
	Held	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Mr A Howarth	8	8	3	3	3	3
Mr J Weber	8	8	n/a	n/a	n/a	n/a
Mr M Bradley	8	8	n/a	n/a	1	1
Mr J Carver	8	7	n/a	n/a	1	1
Mr J Mews	8	8	3	3	2	2

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 29 of this Annual Report.

DIRECTORS' REPORT

ROUNDING OFF OF AMOUNTS

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

REMUNERATION REPORT

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of the MMA's directors and its senior management for the financial year ended 30 June 2008. The prescribed details for each person covered by this report are detailed below under the following headings:

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

DIRECTOR AND SENIOR MANAGEMENT DETAILS

The directors of MMA during the year were:

Mr A Howarth (Chairman) (Non-Executive Director)

Mr J Weber (Managing Director)

Mr M Bradley (Non-Executive Director)

Mr J Carver (Executive Director)

Mr J Mews (Non-Executive Director)

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

Mr D Ross (Chief Operating Officer)

Mr P Raynor (Chief Financial Officer/Company Secretary, resigned as Company Secretary on 19th August 2008)

Mr T Graham (General Manager – Development)

Mr S Lee (Supply Base Manager)

Mr D Verboon (Slipway Manager)

Ms T Vivian (General Manager – Human Resources)

REMUNERATION POLICY

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, and are adjusted by a performance factor to reflect changes in the performance of the Company and the consolidated entity.

Non executive directors fees

Non executive directors' fees are determined within an aggregate directors' fee pool which is periodically recommended for approval by shareholders. The maximum fees payable to non-executive directors are currently $350,000 per annum in aggregate (approved by shareholders in November 2002).

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

Senior executive remuneration

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

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

RELATIONSHIP BETWEEN THE REMUNERATION POLICY AND COMPANY PERFORMANCE

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

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

The tables below set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2008:

	30 June 2008 $'000	30 June 2007 $'000	30 June 2006 $'000	30 June 2005 $'000	30 June 2004 $'000
Revenue	149,364	103,124	71,096	49,478	35,132
Net profit before tax	25,400	17,560	12,229	3,875	3,544
Net profit after tax	17,897	12,513	9,208	2,359	4,300
Share price at start of the year	$1.90	$0.60	$0.35	$0.32	$0.15
Share price at end of the year	$1.55	$1.90	$0.60	$0.35	$0.32
Interim dividend	Nil	Nil	Nil	Nil	Nil
Final dividend	2cps	1cps	Nil	Nil	Nil
Basic earnings per share	11.82cps	8.91cps	6.60cps	1.83cps	3.75cps
Diluted earnings per share	11.63cps	8.78cps	6.60cps	1.83cps	3.74cps

MMA adopted the Australian equivalents to International Financial Reporting Standards with effect from 1 July 2004, which resulted in various changes to its accounting policies from that date. The results for the year ended 30 June 2004 are reported in accordance with MMA's previous accounting policies as permitted under Australian accounting standards as applicable at that time.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The following tables disclose the remuneration of the directors and senior management of the consolidated entity for the financial year to which the report relats and to the previous financial year.

2008	**Short term employee benefits**			**Post employment benefits**	**Share-based payment**	**Total**
	Salary & fees $	**Bonus $**	**Non-monetary $**	**Superannuation $**	**Options & rights $**	**$**
Directors						
Mr A Howarth	120,000			10,800		130,800
Mr J Weber	428,203	198,198	57,690	38,538	253,318	975,947
Mr M Bradley	55,000	-	-	4,950	-	59,950
Mr J Carver	150,000	-	-	-	-	150,000
Mr J Mews	65,000	-	-	5,850	-	70,850
Senior Management						
Mr D Ross	238,532	79,625	21,141	21,468	53,577	414,343
Mr P Raynor	230,972	78,750	14,571	23,098	53,577	400,968
Mr T Graham	152,662	27,000	7,945	13,740	18,019	219,366
Mr S Lee	115,500	23,100	120,446	10,395	12,553	281,994
Mr D Verboon	118,962	18,500	17,191	9,627	12,747	177,027
Ms T Vivian	141,072	27,600	-	12,696	16,959	198,327
Total	1,815,903	452,773	238,984	151,162	420,750	3,079,572

2007	**Short term employee benefits**			**Post employment benefits**	**Share-based payment**	**Total**
	Salary & fees $	**Bonus $**	**Non-monetary $**	**Superannuation $**	**Options & rights $**	**$**
Directors						
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
Senior Management						
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

BONUS AND SHARE-BASED PAYMENTS GRANTED AS COMPENSATION FOR THE CURRENT FINANCIAL YEAR

Bonuses

Key senior management personnel were granted cash bonuses for the 2008 and 2007 financial years as noted above. The respective amounts were subject to a number of specified key performance targets being achieved. These performance targets relate to the following areas of the business:

- Financial
- Business growth
- Business improvement
- Employees' health/safety and attraction/retention of staff

The bonuses were granted on 30 June each year.

The remuneration package of the managing director, Mr J Weber, included a cash bonus component of up to 38% of the base salary for the 2008 financial year (2007: 33%).

The remuneration packages of the other key management personnel for the 2008 financial year include a cash bonus component of up to 28% (2007: 23%) of the base salary.

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

EMPLOYEE SHARE OPTIONS AND RIGHTS PLANS

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

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

Option/rights series	Number	Grant date	Expiry date	Grant date (fair value) $	Vesting date
(1) Issued 22 April 2004 (a)	1,670,000	22 April 2004	22 April 2008	0.14	12 mths after date of issue
(2) Issued 15 November 2005 (b)	600,000	15 Nov 2005	15 Nov 2009	0.13	date of issue
(3) Issued 7 December 2005 (b)	600,000	7 Dec 2005	7 Dec 2009	0.18	date of issue
(4) Issued 19 May 2006 (c)	2,115,000	19 May 2006	19 May 2011	0.21	24 mths after date of issue
(5) Issued 25 August 2006 (c)	205,000	25 Aug 2006	25 Aug 2011	0.28	24 mths after date of issue
(6) Issued 21 November 2006 (d)	520,000	21 Nov 2006	24 Sept 2008	0.70	26 August 2008
(7) Issued 22 November 2007 (e)	970,040	22 Nov 2007	11 Oct 2012	0.39	11 October 2010
(8) Issued 23 October 2007 (f)	2,576,788	23 Oct 2007	11 Oct 2012	0.45	36 mths after date of issue
(9) Issued 24 January 2008 (f)	487,714	24 Jan 2008	24 Jan 2013	0.45	36 mths after date of issue

The relevant performance criteria that needs to be met in relation to the options/rights granted in Series (1) – (9) above before the beneficial interest will vest in the recipient is as follows:

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

(b) In accordance with the terms of the managing director and senior executive share option plans, the options granted on 15 November 2005 and 7 December 2005 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 five 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 five 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 five 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 five consecutive trading days following the grant date and prior to the expiry date of the options. The options issued on 25 August 2006 may be exercised following their vesting date if the price of the Mermaid Marine Australia Ltd shares traded on the ASX is equal to or greater than 80 cents for a period of at least vie consecutive trading days following the grant date and prior to the expiry date of the options.

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

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

   (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.

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

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

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

		During the financial year				
Name	Option series	Number granted	Number vested	% of grant vested	% of grant forfeited	% of compensation for the year consisting of options
Mr J Weber	(7) Issued 22 Nov.2007	970,040	-	-	-	26.0%
Mr D Ross	(8) Issued 23 Oct. 2007	395,704	-	-	-	12.9%
Mr P Raynor	(8) Issued 23 Oct. 2007	395,704	-	-	-	13.4%
Mr E Graham	(8) Issued 23 Oct.2007	152,629	-	-	-	8.2%
Mr S Lee	(8) Issued 23 Oct. 2007	65,190	-	-	-	4.5%
Mr D Verboon	(8) Issued 23 Oct. 2007	68,295	-	-	-	7.2%
Ms T Vivian	(8) Issued 23 Oct. 2007	135,670	-	-	-	8.6%

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

Name	Number of options exercised	Number of ordinary shares of Mermaid Marine Australia Ltd	Amount paid	Amount unpaid
Mr E Graham	100,000	100,000	$40,000	Nil

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

Name	Value of options granted at grant date $	Value of options exercised at exercise date $	Value of options lapsed at lapse date $
Mr J Weber	229,434	-	-
Mr D Ross	108,016	-	-
Mr P Raynor	108,016	-	-
Mr E Graham	41,663	21,220	-
Mr S Lee	17,795	-	-
Mr D Verboon	18,643	-	-
Ms T Vivian	37,034	-	-

KEY TERMS OF EMPLOYMENT CONTRACTS

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

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

Jeff Weber – Managing Director

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

David Ross – Chief Operating Officer

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

Peter Raynor – Chief Financial Officer

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

Edward Graham – General Manager Development

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

Shaun Lee – Supply Base Manager (Dampier)

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

Dirk Verboon – Slipway Manager

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

Treena Vivian – General Manager Human Resources

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

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

On behalf of the directors

Tony Howarth
Chairman
Fremantle, 22 September 2008

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
A.C.N. 74 490 121 060

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The Board of Directors
Mermaid Marine Australia
Eagle Jetty, 20 Mews Road
Fremantle
Western Australia 6160

22 September 2008

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 2008, 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 Accountants

Member of
Deloitte Touche Tohmatsu

AUDIT REPORT

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the Members of Mermaid Marine Australia Limited

We have audited the accompanying financial report of Mermaid Marine Australia Limited, which comprises the balance sheet as at 30 June 2008, 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 27 to 74.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Mermaid Marine Australia Limited on 17 September 2008 would be in the same terms if provided to the directors as at the date of this auditor's report.

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 2008 and of their performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 23 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Mermaid Marine Australia Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Keith Jones
Partner
Chartered Accountants
Perth, 22 September 2008

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, 22 September 2008

INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

		CONSOLIDATED		COMPANY	
		2008	**2007**	**2008**	**2007**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
Revenue	4	149,364	103,080	1,188	246
Other income	4	-	44	300	7,933
Share of profits of associates accounted for using the equity method	10	431	639	-	-
Vessel expenses		(100,626)	(65,003)	-	-
Supply base expenses		(11,591)	(12,349)	-	-
Administration expenses		(5,607)	(4,670)	(65)	(10)
Finance costs		(6,571)	(4,181)	(240)	(2)
PROFIT BEFORE TAX	4	25,400	17,560	1,183	8,167
Income tax expense	5	(7,503)	(5,047)	(443)	(26)
PROFIT FOR THE YEAR		17,897	12,513	740	8,141
Profit attributable to equity holders of the parent		17,897	12,513	740	8,141
Earnings per share					
- Basic (cents per share)	26	11.82	8.91		
- Diluted (cents per share)	26	11.63	8.78		

Notes to the financial statements are included in pages 38 to 89.

BALANCE SHEET
AS AT 30 JUNE 2008

		CONSOLIDATED		COMPANY	
		2008	2007	2008	2007
	Note	$'000	$'000	'000	$'000
CURRENT ASSETS					
Cash and cash equivalents	21(a)	56,217	16,926	44,236	13,799
Trade and other receivables	7	29,790	18,274	1,023	18
Inventories	8	2,124	1,902	-	-
Other	9	599	633	24	-
TOTAL CURRENT ASSETS		88,730	37,735	45,283	13,817
NON-CURRENT ASSETS					
Investments accounted for using the equity method	10	1,374	1,286	-	-
Other financial assets	11	-	-	83,782	51,769
Property, plant and equipment	12	177,798	122,866	-	-
Deferred tax assets	5	-	-	358	-
TOTAL NON-CURRENT ASSETS		179,172	124,152	84,140	51,769
TOTAL ASSETS		267,902	161,887	129,423	65,586
CURRENT LIABILITIES					
Trade and other payables	14	18,484	9,005	6	6
Borrowings	15	36,104	5,485	627	-
Other financial liabilities	16	695	881	-	-
Provisions	17	1,417	815	-	-
Current tax liabilities	5	3,564	1,564	2,849	1,564
TOTAL CURRENT LIABILITIES		60,264	17,750	3,482	1,570
NON-CURRENT LIABILITIES					
Borrowings	15	54,750	57,481	14,534	-
Provisions	17	345	277	-	-
Deferred tax liabilities	5	5,236	3,806	-	-
TOTAL NON-CURRENT LIABILITIES		60,331	61,564	14,534	-
TOTAL LIABILITIES		120,595	79,314	18,016	1,570
NET ASSETS		147,307	82,573	111,407	64,016
EQUITY					
Issued capital	18	106,242	58,067	106,242	58,067
Reserves	19	(60)	(201)	635	680
Retained earnngs	20	41,125	24,707	4,530	5,269
TOTAL EQUITY		147,307	82,573	111,407	64,016

Notes to the financial statements are included in pages 38 to 89.

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

CONSOLIDATED FINANCIAL YEAR ENDED 30 JUNE 2008

	Ordinary shares	Employee equity settled benefits reserve	Hedging reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2007	58,067	680	(881)	24,707	82,573
Loss on cash flow hedge	-	-	(862)	-	(862)
Net expense recognised directly in equity	-	-	(862)	-	(862)
Transfer to initial carrying amount of non financial hedged item on cash flow hedge	-	-	1,048	-	1,048
Profit for the year	-	-	-	17,897	17,897
Total recognised income and expense for the year	-	-	186	17,897	18,083
Issue of shares (note 18)	48,363	-	-	-	48,363
Share issue costs	(1,338)	-	-	-	(1,338)
Recognition of share based payments	-	639	-	-	639
Transfer to share capital	684	(684)	-	-	0
Dividend payment	-	-	-	(1,479)	(1,479)
Deferred income tax	466	-	-	-	466
Balance at 30 June 2008	106,242	635	(695)	41,125	147,307

CONSOLIDATED FINANCIAL YEAR ENDED 30 JUNE 2007

	Ordinary shares	Employee equity settled benefits reserve	Hedging reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2006	48,047	270	(11)	12,194	60,500
Loss on cash flow 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 cash flow 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

Notes to the financial statements are included in pages 38 to 89.

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

COMPANY FINANCIAL YEAR ENDED 30 JUNE 2008

	Ordinary shares	Employee equity settled benefits reserve	Retained earnings (accumulated losses)	Total
	$'000	$'000	$'000	$'000
Balance at 1 July 2007	58,067	680	5,269	64,016
Profit for the year	-	-	740	740
Total recognised income and expense for the year	-	-	740	740
Issue of shares (note 18)	48,363	-	-	48,363
Share issue costs	(1,338)	-	-	(1,338)
Recognition of share based payments	-	639	-	639
Transfer to share capital	684	(684)	-	0
Dividend payment	-		(1,479)	(1,479)
Deferred income tax	466			466
Balance at 30 June 2008	106,242	635	4,530	111,407

COMPANY FINANCIAL YEAR ENDED 30 JUNE 2007

	Ordinary shares	Employee equity settled benefits reserve	Retained earnings (accumulated losses)	Total
	$'000	$'000	$'000	$'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

Notes to the financial statements are included in pages 38 to 89.

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

		CONSOLIDATED		COMPANY	
		2008	2007	2008	2007
	Note	$'000	$'000	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		153,198	115,967	-	-
Interest received		1,101	426	1,035	246
Payments to suppliers and employees		(113, 284)	(90,489)	(191)	(41)
Income tax paid		(3,607)	(3,625)	-	(3,625)
Interest and other costs of finance paid		(6,547)	(4,153)	(535)	-
Dividends received		152	-	-	-
Net cash provided by / (used in) operating activities	21(c)	31,013	18,126	309	(3,420)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(39,294)	(24,848)	-	-
Proceeds from sale of property, plant and equipment		4,881	2,239	-	-
Proceeds from sale of interest in associates		166	-	-	-
Additional interests acquired in associates		-	(425)	-	(425)
Payment for investment in subsidiary		-	-	(39)	-
Amounts received from/(advanced to) related parties		(750)	-	(30,539)	7,583
Net cash (used in)/provided by investing activities		(34,997)	(23,034)	(30,578)	7,158
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		46,629	10,036	46,629	10,036
Payment for share issue costs		(56)	(16)	(56)	(16)
Proceeds from borrowings		22,015	10,474	15,475	-
Repayment of borrowings		(24,285)	(4,687)	(314)	-
Dividends paid		(1,028)	-	(1,028)	-
Net cash provided by financing activities		43,275	15,807	60,706	10,020
Net increase in cash and cash equivalents		39,291	10,899	30,437	13,758
Cash and cash equivalents at the beginning of the financial year		16,926	6,027	13,799	41
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	21(a)	56,217	16,926	44,236	13,799

Notes to the financial statements are included in pages 38 to 89.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

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. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The Group has also adopted the following standards as listed below which only impacted on the group's financial statements with respect to disclosure.

- AASB 101 'Presentation of Financial Statements (revised September 2007)'.
- AASB 7 'Financial Instruments: Disclosures'.
- AASB 2008-4 'Amendment to Australian Accounting Standards – Key Management Personnel Disclosures by Disclosing Entities (AASB 124)'.

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

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

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

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

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

1. Adoption of new and revised accounting standards (continued)

The initial application of the expected issue of an Australian equivalent accounting standard to the following standard is not expected to have a material impact on the financial report of the Group and the Company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending:
AASB 2008-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 January 2009	30 June 2010
AASB 2008-6 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 July 2009	30 June 2010
AASB 2008-7 'Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'	1 January 2009	30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The rinancial 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 rinancial report includes the separate financial statements of the Company and the consolidated financial statements of the Group.

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

The rinancial statements were authorised for issue by the directors on 22 September 2008.

Basis of preparation

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

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

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

(a) Financial instruments issued by the Company

Debt and equity instruments

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

2. Significant accounting policies (continued)

Financial guarantee contract liabilities

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

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

Financial liabilities

Financial liabilities are classified as other financial liabilities.

Other financial liabilities

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

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

(b) Income tax

Current tax

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

Deferred tax

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

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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.

2. Significant accounting policies (continued)

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.

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's financial statements.

2. Significant accounting policies (continued)

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

Other financial assets are classified into the following specified 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.

Effective interest rate method

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

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

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 in 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.

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 investments 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 investments 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.

Impairment of financial assets

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

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

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

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised,

2. Significant accounting policies (continued)

the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

Derecognition of financial assets

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

(e) Leased assets

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

Group as lessee

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

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

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

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

(f) Basis of consolidation

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

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.

2. Significant accounting policies (continued)

(g) Impairment of long-lived assets

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. A recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset of which the estimates of future cash flows have not been adjusted.

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

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

(h) Property, plant and equipment

Leasehold buildings and improvements, plant and equipment and equipment under finance lease are stated at cost less, where applicable, accumulated depreciation and impairment. 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.

2. Significant accounting policies (continued)

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

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

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

(j) Cash and cash equivalents

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

(k) Derivative financial instruments

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

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

Hedge accounting

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

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

Cash flow hedge

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

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

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

2. Significant accounting policies (continued)

(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 employees have rendered service entitling them to the contributions.

(m) Foreign currency

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

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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

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)).

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

(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.

2. Significant accounting policies (continued)

(o) Joint ventures arrangements

Jointly controlled assets

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

Jointly controlled entities

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

(p) Payables

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

(q) Inventories

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

(r) Provisions

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

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

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

(s) Revenue recognition

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

Rendering of services

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

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Dividend and interest revenue

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

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4. PROFIT FROM OPERATIONS

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
(a) Revenue from continuing operations consisted of the following items:				
Rendering of services	143,586	99,479	-	-
Rental revenue	4,677	3,175	-	-
Interest – other entities	1,101	426	1,035	246
Dividend received - associate	-	-	153	-
	149,364	103,080	1,188	246
(b) Profit for the year before income tax				
Profit/(loss) for the year before income tax has been arrived at after crediting/(charging) the following gains and losses:				
Net foreign exchange gain (loss)	-	44	-	-
Gain/(loss) on disposal of :				
Property, plant and equipment	(900)	(221)	-	-
Investment in associates	(24)	-	300	-
Reversal of impairment of inter-company loan provision	-	-	-	7,933
	(924)	(177)	300	7,933
(c) Other expenses				
Profit for the year includes the following expenses:				
Depreciation of non-current assets:				
Leasehold buildings and improvements	1,245	1,184	-	-

4. Profit from operations (continued)

	CONSOLIDATED		COMPANY	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Vessels	1,370	1,007	-	-
Vessels – hire purchase	4,139	3,014	-	-
Plant and equipment	484	369	-	-
Plant and equipment – hire purchase	198	159	-	-
	7,436	5,733	-	-
Bad and doubtful debts arising from:				
Other entities	42	164	-	-
Net foreign exchange loss	(276)	-	-	-
Interest expense – other entities	2,166	2,421	240	2
Finance charges – lease finance charges	4,861	2,812	-	-
Total interest expenses	7,027	5,233	240	2
Less: amounts included in the cost of qualifying assets	(456)	(1,052)	-	-
	6,571	4,181	240	2
Operating leases – minimum lease payments	454	511	-	-
Employee benefit expense:				
Post employment benefits:				
Defined contribution plans	1,775	1,173	-	-
Share based payments:				
Equity settled share-based payments	639	410	-	-
Other employee benefits	62,591	43,815	-	-
	65,005	45,398	-	-

5. INCOME TAXES

	CONSOLIDATED		COMPANY	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
(a) Income tax recognised in profit or loss				
Tax expense comprises:				
Current tax expense in respect of the current year	5,269	3,563	372	26
Deferred tax expense relating to origination and reversal of temporary differences	1894	1,390	71	-
Adjustment recognised in the current year in relation to the current tax of prior years	340	94	-	-
Total tax expense	7,503	5,047	443	26
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:				
Profit from operations	25,400	17,560	1,183	8,167
Income tax expense calculated at 30%	7,620	5,268	355	2,450
Effect of revenue that is exempt from taxation	(294)	(302)	(75)	(2,380)
Effect of expenses that are not deductible in determining taxable profit	163	21	299	-
Effect of tax deductible items not included in accounting profit	(136)	(34)	(136)	(44)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(190)	-	-	-
	7,163	4,953	443	26
Adjustment recognised in the current year in relation to the current tax of prior years	340	94	-	-
	7,503	5,047	443	26

5. Income taxes (continued)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. The tax rate payable by Singaporean corporate entities under Singaporean tax law is 18%. During the financial year the Group commenced operations in Singapore and as a result the Group was subject to taxes in both Australia and Singapore.

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
(b) Income tax recognised directly in equity				
The following deferred tax amounts were credited directly to equity during the period:				
Deferred Tax				
Arising on transactions with equity participants				
Share expenses deductible over 5 years	466	-	466	-
(c) Current tax assets and liabilities				
Current tax liabilities:				
Income tax payable attributable to:				
Parent entity	372	26	372	26
Entities in the tax consolidated group	2,477	1,538	2,477	1,538
Other	715	-	-	-
	3,564	1,564	2,849	1,564
(d) Deferred tax balances				
Deferred tax assets comprise:				
Temporary differences	-	-	358	-
	-	-	358	
Deferred tax liabilities comprise:				
Temporary differences	5,236	3,806	-	-
	5,236	3,806	-	-

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

5. Income taxes (continued)

	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
2008	CONSOLIDATED			
Gross deferred tax liabilities:				
Property, plant and equipment	(3,742)	(2,210)	-	(5,952)
Inventory	(571)	(35)	-	(606)
Receivables	(134)	(1)	-	(135)
Other	(169)	166	-	(3)
	(4,616)	(2,080)	-	(6,696)
2008				
Gross deferred tax assets:				
Provisions	609	363	-	972
Share issue costs	-	6	466	472
Other	201	(185)	-	16
	810	184	466	1,460
	(3,806)	(1,896)	466	(5,236)
2007				
Gross deferred tax liabilities:				
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 deferred tax assets:				
Provisions	408	201	-	609
Other	-	201	-	201
	408	402	-	810
	(2,322)	(1,484)	-	(3,806)
2008	COMPANY			
Gross deferred tax liabilities:				
Other	-	-	-	-
	-	-	-	-
Gross deferred tax assets:				
Other	-	(108)	466	358
	-	(108)	466	358
	-	(108)	466	358
2007				
Gross deferred tax liabilities:				
Other	-	-	-	-
Gross deferred tax assets:				
Other	-	-	-	-

5. Income taxes (continued)

Tax consolidation

Relevance of tax consolidation to the Group

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

Nature of tax funding arrangements and tax sharing agreements

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

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

6. DIVIDENDS PROVIDED FOR OR PAID

Recognised amounts	2008		2007	
Fully paid ordinary shares	**Cents per share**	**Total $'000**	**Cents per share**	**Total $'000**
Final dividend:				
Fully franked at a 30% tax rate	1	1,479	-	-
Unrecognised amounts				
Fully paid ordinary shares				
Final dividend:				
Fully franked at a 30% tax rate	2	3,633	1	1,479

On 20 August 2008, the directors declared a fully franked final dividend of two cents per share in respect of the financial year ended 30 June 2008 to the holders of fully paid ordinary shares, to be paid on 8 October 2008. The dividend will be paid to all shareholders on the register of members on 24 September 2008. This dividend has not been included as a liability in these financial statements.

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Adjusted franking account balance	10,442	7,469	10,280	7,307
Impact on franking account balance of dividends not recognised	(1,557)	(634)	(1,557)	(634)

7. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		COMPANY	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Trade receivables [i]	26,887	16,517	-	-
Allowance for doubtful debts	(96)	(53)	-	-
Other receivables	1,794	1,214	921	18
Goods and services tax recoverable	1,205	596	102	-
	29,790	18,274	1,023	18

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

Included in the Group's trade receivable balance are debtors with a carrying amount of $3.4 million (2007: $3.1 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 53 days (2007: 68 days).

Ageing of past due but not impaired

	CONSOLIDATED		COMPANY	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
31-60 days	1,795	2,225	-	-
61-90 days	479	519	-	-
91-120 days	744	104	-	-
121-150 days	14	126	-	-
Over 150 days	363	79	-	-
Total	3,395	3,053	-	-

7. Trade and other receivables (continued)

Movement in the allowance for doubtful debts

	CONSOLIDATED		COMPANY	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Balance at the beginning of the year	53	74	-	-
Impairment losses recognised on receivables	81	182	-	-
Amounts recovered during the year	(38)	(203)	-	-
Balance at the end of the year	96	53	-	-

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

8. INVENTORIES

	CONSOLIDATED		COMPANY	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Consumables – at cost	2,124	1,902	-	-

9. OTHER CURRENT ASSETS

	CONSOLIDATED		COMPANY	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Prepayments	599	633	24	-

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

NAME OF ENTITY	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST		CONSOLIDATED CARRYING AMOUNT	
			2008 %	2007 %	**2008 $'000**	2007 $'000
Associates						
Mermaid Clough Pty Ltd [(i)]	Charter and operation of a barge.	Australia	-	50	-	361
Toll Mermaid Logistics Broome Pty Ltd [(ii)]	Supply base services in Broome for the offshore oil and gas industry.	Australia	50	50	1,374	925
Total					1,374	1,286

(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. On 31 March 2008 the 50% ownership interest in MCJV was disposed of.

(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	
	2008 $'000	2007 $'000
Financial position:		
Total assets	6,109	5,521
Total liabilities	(3,361)	(2,948)
Net assets	2,748	2,573
Group's share of associates' net assets	1,374	1,286
Financial performance:		
Total revenue	10,135	7,521
Total profit for the year	1,306	1,825
Group's share of associates' profit/(loss) before tax	653	913
Group's share of associates' income tax expense	(222)	(274)
Group's share of associates' profit/(loss)	431	639

10. Investments accounted for using the equity method (continued)

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 (2007: nil).

Dividends received from associates

During the year the Company and the consolidated entity received dividends of $153 thousand (2007: nil) from MCJV.

11. OTHER FINANCIAL ASSETS NON CURRENT

	CONSOLIDATED		COMPANY	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Loans - subsidiaries	-	-	81,720	50,685
Impairment of loans to subsidiaries	-	-	(2,276)	(2,276)
Shares in subsidiaries	-	-	3,913	2,935
Shares in associates	-	-	425	425
	-	-	83,782	51,769

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

	CONSOLIDATED		COMPANY	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Balance at the beginning of the year	-	-	(2,276)	(10,209)
Reversal of impairment	-	-	-	7,933
Balance at the end of the year	-	-	(2,276)	(2,276)

12. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Leasehold buildings and improvements at cost	Vessels at cost	Vessels - hire purchase at cost	Plant and equipment at cost	Plant and equipment - hire purchase at cost	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amount:						
Balance at 1 July 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 1 July 2007	40,251	9,967	81,915	6,226	2,495	140,856
Additions	8,014	1,295	52,417	3,519	2,879	68,122
Disposals	-	(5,480)	(3,355)	(523)	(26)	(9,384)
Transfers	-	3,336	(3,336)	191	(191)	-
Balance at 30 June 2008	48,265	9,118	127,641	9,413	5,157	199,594
Accumulated depreciation:						
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 1 July 2007	(5,136)	(2,984)	(6,292)	(3,059)	(519)	(17,990)
Disposals	-	2,841	292	495	2	3,630
Transfers	-	(1,055)	1,055	(135)	135	-
Depreciation expense	(1,245)	(1,370)	(4,139)	(484)	(198)	(7,436)
Balance at 30 June 2008	(6,381)	(2,569)	(9,084)	(3,183)	(580)	(21,796)
Net book value:						
As at 30 June 2007	35,115	6,983	75,625	3,167	1,976	122,866
As at 30 June 2008	41,884	6,587	118,558	6,193	4,577	177,798

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

13. ASSETS PLEDGED AS SECURITY

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

14. CURRENT TRADE AND OTHER PAYABLES

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Trade payables	7,786	3,147	-	-
Other payables and accruals	8,533	4,967	6	6
GST payable	2,165	891	-	-
	18,484	9,005	6	6

15. BORROWINGS

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Secured – at amortised cost				
CURRENT				
Hire purchase liability (i)	35,235	4,465	-	-
Bank loan (ii)	869	1,020	627	-
	36,104	5,485	627	-
NON CURRENT				
Hire purchase liability (i)	34,019	43,131	-	-
Bank loan (ii)	20,731	14,350	14,534	-
	54,750	57,481	14,534	-

Summary of borrowing arrangements:

(i) Secured by hire purchase assets, the borrowings are a mix of variable and fixed interest rate debt with repayment periods not exceeding 7 years. The current weighted average effective interest rate on the hire purchase liabilities is 8.05% (2007: 7.89%) - refer note 23.

(ii) The bank loan is secured by mortgage debentures over the assets and undertakings of certain controlled entities, registered ships mortgages over the vessels of certain controlled entities and a registered mortgage by way of sub-demise of the Dampier supply base lease. The borrowings are variable interest rate debt with repayment periods not exceeding 10 years. The current weighted average effective interest rate on the bank loans is 7.66% (2007: 8.36%)

16. OTHER CURRENT FINANCIAL LIABILITIES

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Derivatives				
Derivatives that are designated and effective as hedging instruments carried at fair value				
Foreign currency forward contracts	695	881	-	-

17. PROVISIONS

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	$'000	$'000	$'000
CURRENT				
Employee benefits (i)	1,417	815	-	-
NON CURRENT				
Employee benefits	345	277	-	-

(i) The current provision for employee benefits includes $1,417 thousand (Company: nil thousand) of annual leave entitlements (2007: $815 thousand and nil thousand for the Group and the Company respectively).

18. ISSUED CAPITAL

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
181,667,663 fully paid ordinary shares (2007: 147,858,958)	106,242	58,067	106,242	58,067

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.

18. Issue capital (continued)

Fully paid ordinary shares

	COMPANY			
	2008	**2008**	**2007**	**2007**
	No.'000	**$'000**	**No.'000**	**$'000**
Balance at beginning of financial year	147,859	58,067	140,027	48,047
Issue of shares under share option incentive plan (note 24)	681	281	585	234
Issue of shares under share purchase plan	7,868	11,408	-	-
Share placement	25,000	35,352	-	-
Issue of shares under dividend reinvestment plan	260	450	7,247	9,786
Transfer from employee equity settled benefits reserve (note 19)	-	684	-	-
Balance at end of financial year	181,668	106,242	147,859	58,067

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

Share options

As at 30 June 2008, executives and employees held options over 6,881,077 ordinary shares (2007: 4,020,000) in aggregate. Please refer to note 24 for details of these options. In addition, under the Managing Director Share Incentive Plan a further 520,000 shares (2007:520,000) may be issued upon the satisfaction of certain conditions, as detailed in note 24.

19. RESERVES

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Employee equity-settled benefits	635	680	635	680
Hedging	(695)	(881)	-	-
	(60)	(201)	635	680
Employee equity-settled benefits reserve				
Balance at beginning of financial year	680	270	680	270
Share based payment	639	410	639	410
Transfer to share capital	(684)	-	(684)	-
Balance at end of financial year	635	680	635	680

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	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Hedging reserve				
Balance at beginning of financial year	(881)	(11)	-	-
Foreign exchange contracts loss recognised	(862)	(1,508)	-	-
Transfer to initial carrying amount of hedged item	1,048	638	-	-
Balance at end of financial year	(695)	(881)	-	-

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

20. RETAINED EARNINGS

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Balance at beginning of financial year	24,707	12,194	5,269	(2,872)
Net profit attributable to members of the parent entity	17,897	12,513	740	8,141
Dividend provided for or paid (note 6)	(1,479)	-	(1,479)	-
Balance at end of financial year	41,125	24,707	4,530	5,269

21. NOTES TO THE STATEMENT OF CASH FLOWS

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'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 cash flow statement is reconciled to the related items in the balance sheet as follows:				
Cash and cash equivalents	56,217	16,926	44,236	13,799
(b) Non cash financing and investing activities				
During the financial year, the Group acquired property, plant and equipment with an aggregate value of $30.1 million which was financed by hire purchase agreements. This acquisition will be reflected in the cash flow statement over the term of the finance lease via lease payments				
(c) Reconciliation of profit for the year to net cash flows from operating activities				
Profit for the year	17,897	12,513	740	8,141
Depreciation of non current assets	7,436	5,733	-	-
(Gain)/Loss on sale of property, plant and equipment	900	221	(300)	-
Allowance for doubtful debts	42	(21)	-	-
Bad debts	-	184	-	-
Equity settled share based payment	639	410	-	-
Increase/(decrease) in current tax liability	2,000	(60)	1,622	(3,625)
Share of associates profit/loss	(431)	(639)	-	-
Increase/(decrease) in deferred tax liabilities	1,428	1,484	(358)	-
Reversal of impairment non-current assets	-	-	-	(7,933)
Change in net assets and liabilities				
Current trade and other receivables	10,046	580	(153)	-

21. Notes to the statement of cash flows (continued)

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Prepayments	34	(9)	(24)	-
Inventories	(222)	39	-	-
Unearned revenue	-	(68)	-	-
Provisions	670	124	-	-
Investments	(40)	-	(40)	-
Trade and other payables	(9,386)	(2,365)	(1,178)	(3)
Net cash flows from operating activities	31,013	18,126	309	(3,420)

(d) Financing facilities

Secured loan facilities with various maturing dates through to 2018 and which may be extended by mutual agreement:				
- Amount used	21,600	15,370	-	-
- Amount unused	19,699	12,039	-	-
	41,299	27,409	-	-
Secured bank overdraft				
- Amount used	-	-	-	-
- Amount unused	4,000	4,000	4,000	4,000
	4,000	4,000	4,000	4,000

22. COMMITMENTS FOR EXPENDITURE

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**

(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	14,688	12,039	-	-
	14,688	12,039	-	-

23. LEASES

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

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
(a) Hire purchase contracts (accounted for as finance leases)				
Not later than 1 year	39,028	8,064	-	-
Later than 1 year and not later than 5 years	36,689	47,134	-	-
Later than 5 years	4,538	4,097	-	-
Minimum future payments	80,255	59,295	-	-
Less future finance charges	(11,001)	(11,699)	-	-
Present value of minimum lease payments	69,254	47,596	-	
Included in the financial statements as:				
Borrowing - current - note 15	35,235	4,465	-	-
Borrowing - non current -note 15	34,019	43,131	-	-
	69,254	47,596	-	-
(b) Operating leases				
Not later than 1 year	408	380	-	-
Later than 1 year and not later than 5 years	595	761	-	-
Later than 5 years	871	1,005	-	-
Aggregate lease expenditure contracted for at balance date	1,874	2,146	-	-
Aggregate operating lease commitments comprise:				
Office rental commitments (i)	229	407	-	-
Supply base rental commitments (ii)	1,541	1,675	-	-
Other	104	64	-	-
	1,874	2,146	-	-

(i) Office rental commitments

The Company's Mews Road premises in Fremantle is committed under a five year arrangement commencing 1 May 2004. The current rental amount of $245,570 per annum is subject to market review every two years during the term, although the rental may not decrease during the term.

23 Leases (continued)

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

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

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

24. SHARE-BASED PAYMENTS

Share option and rights incentive plans

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

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

The options or rights are not quoted on the ASX.

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

Series	Number issued	Grant date	Expiry date	Exercise price $	Fair value at grant date $
(1) Issued 22 April 2004 (a)	1,670,000	22 April 2004	22 April 2008	0.40	0.14
(2) Issued 15 November 2005 (b)	600,000	15 Nov 2005	15 Nov 2009	0.40	0.13
(3) Issued 7 December 2005 (b)	600,000	7 Dec 2005	7 Dec 2009	0.40	0.18
(4) Issued 19 May 2006 (c)	2,115,000	19 May 2006	19 May 2011	0.48	0.21
(5) Issued 25 August 2006 (c)	205,000	25 Aug 2006	25 Aug 2011	0.62	0.28
(6) Issued 21 November 2006 (d)	520,000	21 Nov 2006	24 Sept 2008	0.00	0.70
(7) Issued 22 November 2007 (e)	970,040	22 Nov 2007	11 Oct 2012	1.83	0.39
(8) Issued 23 October 2007 (f)	2,576,788	23 Oct 2007	11 Oct 2012	1.83	0.45
(9) Issued 24 January 2008 (f)	487,714	24 Jan 2008	24 Jan 2013	1.83	0.45

24. Share based payments (continued)

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

(b) In accordance with the terms of the Managing Director and Senior Executive Share Option Plans, the options granted on 15 November 2005 and 7 December 2005 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 five 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 five 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 five 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 five consecutive trading days following the grant date and prior to the expiry date of the options. The options issued on 25 August 2006 may be exercised following their vesting date if the price of the Mermaid Marine Australia Ltd shares traded on the ASX is equal to or greater than 80 cents for a period of at least five consecutive trading days following the grant date and prior to the expiry date of the options.

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

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

(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.

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

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

The weighted average fair value of the share options granted during the year was $0.44 (2007: $0.70). The options were priced using a binomial option pricing model. Where relevant, the fair value of the options has been adjusted for any market related vesting conditions.

24. Share based payments (continued)

Inputs into the model	Series (7)	Series (8 & 9)
Grant date share price	$1.80	$1.80
Exercise price	$1.83	$1.83
Expected volatility	41%	41%
Option life	5 years	5 years
Dividend yield	0%	0%
Risk free rate	6.15%	6.24%

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

	2008		2007	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Balance at the beginning of the financial year	4,020,000	0.45	4,705,000	0.44
Granted during the financial year	4,034,542	1.83	205,000	0.62
Exercised during the financial year (i)	(630,800)	0.41	(585,000)	0.40
Expired during the year	(130,000)	0.40	-	-
Forfeited during the financial year	(412,665)	1.10	(305,000)	0.40
Balance at the end of the financial year (ii)	6,881,077	1.22	4,020,000	0.45
Exercisable at end of the financial year	2,529,200	0.45	705,000	0.40

Managing Director Incentive Share Plan

	2008		2007	
	Number of rights	**Weighted average exercise price $**	**Number of rights**	**Weighted average exercise price $**
Balance at the beginning of the financial year	520,000	0.00	-	-
Granted during the financial year	-	-	520,000	0.00
Exercised during the financial year (i)	-	-	-	-
Expired during the year	-	-	-	-
Forfeited during the financial year	-	-	-	-
Balance at the end of the financial year (ii)	520,000	0.00	520,000	0.00
Exercisable at end of the financial year	-	-	-	-

24. Share-based payments (continued)

(i) Exercised during the financial year

The following share options were exercised during the financial year:

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

2007 - Options – Series	Number exercised	Exercise date	Weighted average share price at exercise date $
(1) Issued 22 April 2004	585,000	Various	1.63

(ii) Balance at end of the financial year

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

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

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

24. Share-based payments (continued)

2008 - Rights - Series	Number	Exercise price $	Expiry date
(6) Issued 21 November 2006	520,000	0.00	24 September 2008

2007 - Rights - Series	Number	Exercise price $	Expiry date
(6) 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

	CONSOLIDATED	
	2008	2007
	Cents per share	Cents per share
Basic earnings per share	11.82	8.91
Diluted earnings per share	11.63	8.78

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:

	2008	2007
	$'000	$'000
(a) Net Profit	17,897	12,513

	2008	2007
	No.'000	No.'000
(b) Weighted average number of ordinary shares for the purposes of basic earnings per share	151,361	140,395

26. Earnings per share (continued)

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:

	2008	2007
	$'000	$'000
(a) Net profit	17,897	12,513

	2008	2007
	No.'000	No.'000
(b) Weighted average number of ordinary shares for the purposes of diluted earnings per share	153,896	142,484

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:

	2008	2007
	No.'000	No.'000
Weighted average number of ordinary shares used in the calculation of basic EPS	151,361	140,395
Shares deemed to be issued for no consideration in respect of:		
Employee options	2,535	2,089
Weighted average number of ordinary shares used in the calculation of diluted EPS	153,896	142,484

(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.

	2008	2007
	No.'000	No.'000
Employee options	-	-
Employee options – lapsed	542	305
	542	305

27. KEY MANAGEMENT PERSONNEL COMPENSATION

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

Mr A Howarth (Chairman - appointed 1 August 2006, Non-Executive Director)

Mr J Weber (Managing Director)

Mr M Bradley (Non-Executive Director)

Mr J Carver (Executive Director)

Mr J Mews (Non-Executive Director)

Mr D Ross (Chief Operating Officer)

Mr P Raynor (Chief Financial Officer / Company Secretary)

Mr T Graham (General Manager - Development)

Mr S Lee (Supply Base Manager - Dampier)

Mr D Verboon (Slipway Manager)

Ms T Vivian (General Manager – Human Resources) - key management personnel from 1 July 2007

Key management personnel compensation policy

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

Key management personnel compensation

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

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	$	$	$	$
Short term employee benefits	2,507,660	1,848,117	-	-
Post-employment benefits	151,162	114,683	-	-
Share based payments	420,750	285,972	-	-
	3,079,572	2,248,772	-	-

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 Group is set out below:

2008	Short term employee benefits			Post employment benefits	Share based payment	Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Options & rights	
	$	$	$	$	$	$
Mr A Howarth	120,000	-	-	10,800	-	130,800
Mr J Weber	428,203	198,198	57,690	38,538	253,318	975,947
Mr M Bradley	55,000	-	-	4,950	-	59,950
Mr J Carver	150,000	-	-	-	-	150,000
Mr J Mews	65,000	-	-	5,850	-	70,850
Mr D Ross	238,532	79,625	21,141	21,468	53,577	414,343
Mr P Raynor	230,972	78,750	14,571	23,098	53,577	400,968
Mr T Graham	152,662	27,000	7,945	13,740	18,019	219,366
Mr S Lee	115,500	23,100	120,446	10,395	12,553	281,994
Mr D Verboon	118,962	18,500	17,191	9,627	12,747	177,027
Ms T Vivian	141,072	27,600	-	12,696	16,959	198,327
Total	1,815,903	452,773	238,984	151,162	420,750	3,079,572

2007	Short term employee benefits			Post employment benefits	Share based payment	Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Options & rights	
	$	$	$	$	$	$
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

28. REMUNERATION OF AUDITORS

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Auditor of the Parent Entity				
Audit or review of the financial report	160,475	134,080	-	-
Taxation services	261,364	146,284	-	-
	421,839	280,364	-	-
Other Auditor				
Audit of subsidiary financial report	17,076	-	-	-

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

29. RELATED PARTY TRANSACTIONS

(a) Equity interests in related parties

(i) Equity interests in subsidiaries
Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 31 to the financial statements.

(ii) Equity interests in associates and joint ventures
Details of interests in associates and joint ventures are disclosed in note 10 to the financial statements.

(iii) Equity interests in other related parties
There are no equity interests in other related parties.

(b) Transaction with key management personnel

(i) Key management personnel compensation
Details of key management personnel compensation are disclosed in note 27.

(ii) Key management personnel equity holdings

29. Related party transactions (continued)

Fully paid ordinary shares of Mermaid Marine Australia Limited:

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

2007	Balance at 1 July 2006	Granted as compen-sation	Received on exercise of options	Net other change	Balance at 30 June 2007	Balance held nominally
	No.	No.	No.	No.	No.	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 transactions (continued)

Share options of Mermaid Marine Australia Limited:

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

2007	Balance at 1 June 2006	Granted as compen-sation	Exercised	Lapsed	Balance at 30 June 2007	Balance vested at 30 June 2007	Vested but not exer-ciseable	Vested & exercis-able	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	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	-	-	-	-

Share rights of Mermaid Marine Australia Limited:

2008	Balance at 1 July 2007	Granted as compen-sation	Exercised	Lapsed	Balance at 30 June 2008	Balance vested at 30 June 2008	Vested but not exer-ciseable	Vested & exercis-able	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Mr J Weber	520,000	-	-	-	520,000	-	-	-	-

2007	Balance at 1 July 2006	Granted as compen-sation	Exercised	Lapsed	Balance at 30 June 2007	Balance vested at 30 June 2007	Vested but not exer-ciseable	Vested and exer-cisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Mr J Weber	-	520,000	-	-	520,000	-	-	-	-

29. Related party transactions (continued)

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

During the financial year 100,000 share options (2007:175,000) were exercised by key management personnel at an exercise price of 40 cents per option for 100,000 ordinary shares in Mermaid Marine Australia Ltd (2007: 175,000). 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 to the financial statements.

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

1. Fremantle Premises

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

During the 2004 financial year, the Company exercised its right to renew the term of the lease for a further five 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 $245,570 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 $ 348,205 (2007: $217,333).

2. Consultancy Services

During the year, Business Analysts – Australia, an entity of which Mr J Carver is a director and shareholder, provided consultancy services to the Company upon negotiated commercial terms. Consultancy services paid during the financial year amounted to $150,000 (2007: $147,076), 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 Mermaid Marine Asia Pte Ltd received management services from Mermaid Marine Vessel Operations Pty Ltd and was charged $1,565,211 (2007: nil).Other transactions that occurred during the financial year between entities in the wholly owned group were the provision of services at commercial rates.

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

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

(d) Parent entity

Mermaid Marine Australia Limited is the ultimate Australian parent entity.

30. SEGMENT INFORMATION

	VESSELS		SUPPLY BASE		TOTAL	
	2008	2007	**2008**	2007	**2008**	2007
	$ '000	$ '000	**$ '000**	$ '000	**$ '000**	$ '000
Segment revenues						
Sales to outside customers	130,264	86,741	18,275	15,914	148,539	102,655
Inter-segment revenue	125	77	5,199	6,265	5,324	6,342
Total	130,389	86,818	23,474	22,179	153,863	108,997
Eliminations					(5,324)	(6,342)
Unallocated					825	469
Total consolidated revenue					149,364	103,124
Inter-segment services are provided for amounts equal to competitive market prices charged to external customers for similar services						
Segment results						
Segment result	29,641	21,738	6,801	4,078	36,442	25,816
Eliminations					(118)	(514)
Total					36,324	25,302
Unallocated					(10,924)	(7,742)
Profit before income tax expense					25,400	17,560
Income tax expense					(7,503)	(5,047)
Profit for the period					17,897	12,513
Segment assets and liabilities						
Segment assets	155,522	100,376	53,736	42,864	209,258	143,240
Unallocated assets					58,644	18,647
Consolidated					267,902	161,887
Liabilities						
Segment liabilities	21,789	8,596	2,390	1,401	24,179	9,997
Unallocated liabilities					96,416	69,317
Consolidated					120,595	79,314

30. Segment information (continued)

	VESSELS		SUPPLY BASE		UNALLOCATED		TOTAL	
	2008	2007	2008	2007	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Other segment information								
Carrying value of equity accounted investments included in segment assets	-	-	-	-	1,374	1,286	1,374	1,286
Share of net profit/(loss) of associates accounted for under the equity method	-	-	-	-	431	639	431	639
Acquisition of segment assets	54,911	20,385	12,856	2,435	355	72	68,122	22,892
Depreciation and amortisation of segment assets	5,681	4,021	1,581	1,464	173	248	7,435	5,733
Proceeds from sale of property plant and equipment	4,789	1,155	37	1,084	221	-	5,047	2,239

Geographical segments

The consolidated entity conducted its business mainly within Australia during financial year end 2008.

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

Vessels - Operating crewed vessel charters, vessel manning, management and logistics.

Supply Base - Operating supply base facilities and slipway operations

31. SUBSIDIARIES

	Note	Country of Incorporation	Ownership Interest 2008	Ownership Interest 2007
			%	%
Parent Entity				
Mermaid Marine Australia Limited	(i)	Australia		
Subsidiaries				
Mermaid Marine Group Pty Ltd	(ii) (iii)	Australia	100	100
Mermaid Marine Vessel Operations Pty Ltd	(ii) (iii)	Australia	100	100
Mermaid Marine Pty Ltd	(ii) (iii)	Australia	100	100
Mermaid Marine Offshore Pty Ltd	(ii) (iii)	Australia	100	100
Mermaid Marine Charters Pty Ltd	(ii) (iii)	Australia	100	100
Mermaid Supply Base Pty Ltd	(ii) (iii)	Australia	100	100
Dampier Stevedoring Pty Ltd	(ii)	Australia	100	100
Mermaid Manning and Management Pty Ltd	(ii)	Australia	100	100
Mermaid Labour and Management Pty Ltd		Australia	99	99
Mermaid Marine Asia Singapore Pte Ltd		Singapore	100	n/a

(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:

INCOME STATEMENT

	2008 $'000	2007 $'000
Revenue	127,840	103,080
Other Income	-	44
Share of net profits of associate accounted for using the equity method	431	639
Vessel expenses	(85,786)	(65,003)
Supply base expenses	(11,591)	(12,349)
Administrative expenses	(5,607)	(4,669)
Finance costs	(5,927)	(4,181)
Profit before income tax expense	19,360	17,561
Income tax (expense)/benefit	(6,549)	(5,047)
Profit for the year	12,811	12,514

31. Subsidiaries (continued)

BALANCE SHEET

	2008 $'000	2007 $'000
CURRENT ASSETS		
Cash and cash equivalents	51,620	16,912
Trade and other receivables	20,967	18,267
Inventories	2,124	1,902
Other	549	633
Total Current Assets	75,260	37,714
NON-CURRENT ASSETS		
Investments accounted for using the equity method	1,374	1,286
Other financial assets	42,762	938
Property, plant and equipment	139,710	122,866
Total Non-Current Assets	183,846	125,090
Total Assets	259,106	162,804
CURRENT LIABILITIES		
Trade and other payables	9,285	8,912
Borrowings	21,176	5,485
Other financial liabilities	695	881
Provisions	1,417	815
Current tax payables	3,186	1,563
Total Current Liabilities	35,759	17,656
NON-CURRENT LIABILITIES		
Trade and other payables	22,122	1,210
Borrowings	52,347	57,481
Deferred tax liabilities	5,029	3,801
Provisions	345	277
Total Non-Current Liabilities	79,843	62,769
Total Liabilities	115,602	80,425
Net Assets	143,506	82,379
EQUITY		
Issued capital	106,242	58,067
Reserves	(60)	(201)
Retained earnings	37,324	24,513
Total Equity	143,506	82,379
Retained earnings		
Retained earnings at beginning of the financial year	24,513	11,999
Net profit	12,811	12,514
Retained earnings at end of the financial year	37,324	24,513

32. FINANCIAL INSTRUMENTS

(a) Capital risk management

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

The Group's overall strategy remains unchanged from 2007.

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

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

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

Gearing ratio

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

The gearing ratio at year end was as follows:

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	'000	**'000**	**'000**	**'000**
Debt [(i)]	90,854	62,966	15,161	-
Cash and cash equivalents	(56,217)	(16,926)	(44,236)	(13,799)
Net debt	34,637	46,040	(29,075)	(13,799)
Equity [(ii)]	147,307	82,573	111,407	64,016
Net debt to equity ratio	24%	56%	n/a	n/a

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

(ii) Equity includes all capital and reserves.

32. Financial instruments (continued)

(b) Categories of financial instruments

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Loans and receivables	29,790	18,274	80,804	48,427
Cash and cash equivalents	56,217	16,926	44,236	13,799
Financial liabilities				
Derivative instrument in designated hedge accounting relationship	695	881	-	-
Amortised cost	109,338	71,971	15,167	6

(c) Financial risk management objectives

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

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

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

(d) Market risk

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

- The construction of a vessel denominated by a USD contract
- The payment of vessel charter fees where the charter contract is denominated in USD

The Group manages its exposure to interest rate risk by maintaining an appropriate mix of fixed and floating rate borrowings

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

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

(e) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign

32. Financial instruments (continued)

exchange contracts. The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	LIABILITIES		ASSETS	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
US dollars	1,340	250	4,541	10
Singapore dollars	284	334	111	39

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

Foreign currency sensitivity analysis

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

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

	USD IMPACT				SINGAPORE DOLLAR IMPACT			
	Consolidated		Company		Consolidated		Company	
	2008	2007	2008	2007	2008	2007	2008	2007
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Profit or loss	(302)	26	-	-	12	21	-	-
Other equity	(302)	26	-	-	12	21	-	-

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

Forward foreign exchange contracts

The Group has entered into forward foreign exchange contracts to cover specific foreign currency payments required under a vessel construction contract and the payment of vessel charter fees.

32. Financial instruments (continued)

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	
	2008	2007	2008	2007	2008	2007	2008	2007
	$	$	FC'000	FC'000	$'000	$'000	$'000	$'000
Buy US Dollars								
Less than 3 months	0.820	0.792	3,884	7,600	4,739	9,599	(659)	(648)
3 to 6 months	0.927	0.760	2,024	1,860	2,182	2,447	(35)	(233)
Total							(694)	(881)

As at reporting date the aggregate amount of unrealised losses under forward foreign exchange contracts relating to anticipated future transactions is $694 thousand (2007:$881 thousand). In the current year, these unrealised losses have been deferred in the hedging reserve to the extent the hedge is effective. It is anticipated the payment relating to the vessel construction contract will be made in September 2008, at which time the amount deferred to equity will be included in the carrying value of the new vessel. The payments under the vessel charter contracts will be payable during the first six months of the next financial year at which stage the amounts deferred in equity will be released into the profit or loss.

(f) Interest rate risk management

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

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

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A movement of 50 basis points has been selected as the amount to use for this analysis. The 50 basis points sensitivity is based on reasonably possible changes, over a financial year, using the observed range of historical rates for the previous five year period.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's :

- Net profit would decrease by $90 thousand and increase by $90 thousand (2007: decrease by $80 thousand and increase by $80 thousand). This is mainly attributable to the Groups exposure to interest rates on its variable borrowings.

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

32. Financial instruments (continued)

(g) Credit risk management

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

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

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

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

(h) Liquidity risk management

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

Liquidity and interest risk tables

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

CONSOLIDATED

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
	%	$'000	$'000	$'000	$'000	$'000
2008						
Non interest bearing	-	18,484	-	-	-	-
Finance lease liability	8.05	1,017	2,019	35,992	36,689	4,538
Variable interest rate instruments	8.02	212	761	3,598	27,276	2,750
		19,713	2,780	39,590	63,965	7,288
2007						
Non interest bearing	-	9,005	-	-	-	-
Finance lease liability	7.89	758	1,419	5,887	47,134	4,097
Variable interest rate instruments	8.36	100	452	1,628	11,558	7,405
		9,863	1,871	7,515	58,692	11,502

32. Financial instruments (continued)

COMPANY

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
	%	$'000	$'000	$'000	$'000	$'000
2008						
Non interest bearing	-	-	-	-	-	-
Finance lease liability	-	-	-	-	-	-
Variable interest rate instruments	7.66	98	296	1,534	17,884	-
		98	296	1,534	17,884	-
2007						
Non interest bearing	-	-	-	-	-	-
Finance lease liability	-	-	-	-	-	-
Variable interest rate instruments	-	-	-	-	-	-
		-	-	-	-	-

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

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

CONSOLIDATED

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
	%	$'000	$'000	$'000	$'000	$'000
2008						
Non interest bearing	-	25,117	2,094	5,579	-	-
Variable interest rate instruments	6.18	56,506	-	-	-	-
		81,623	2,094	2,579	-	-

32. Financial instruments (continued)

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
	%	$'000	$'000	$'000	$'000	$'000
2007						
Non interest bearing	-	15,413	1,282	1,579	-	-
Variable interest rate instruments	5.80	17,008	-	-	-	-
		32,421	1,282	1,579	-	11,502

COMPANY

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
2008						
Non interest bearing	-	1,023	-	-	-	79,781
Variable interest rate instruments	7.16	45,254	-	-	-	-
		46,277	-	-	-	79,781
2007						
Non interest bearing	-	18	-	-	-	48,409
Variable interest rate instruments	5.80	13,866	-	-	-	-
		13,884	-	-	-	48,409

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

CONSOLIDATED

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
2008	$'000	$'000	$'000	$'000	$'000
Net settled					
Foreign exchange contracts	743	3,996	2,182	-	-
2007					
Net settled					
Foreign exchange contracts	6,738	2,861	2,447	-	-

The Company does not hold any derivative instruments (2007: nil).

32. Financial instruments (continued)

(i) Fair value of financial instruments

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

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

Derivatives

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

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

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	
	2008	**2007**
	$'000	**$'000**
Non Current Assets		
Property, Plant and Equipment	-	1,744
Total Assets	-	1,744

ADDITIONAL STOCK EXCHANGE INFORMATION

AS AT 9 SEPTEMBER 2008

ORDINARY SHARE CAPITAL

181,667,663 fully paid ordinary shares are held by 4,629 individual shareholders. All issued ordinary shares carry one vote per share.

SUBSTANTIAL SHAREHOLDERS

	NUMBER OF SHARES	% OF ISSUED CAPITAL
Thorney Pty Ltd	12,809,006	7.64%
Ariadne Australia Ltd	10,133,359	5.83%
Invesco Australia Ltd	9,264,511	6.60%

DISTRIBUTION OF HOLDERS OF ORDINARY SHARES

SIZE OF HOLDING	NUMBER OF ORDINARY SHAREHOLDERS
1 to 1,000	800
1,001 to 5,000	1,411
5,001 to 10,000	830
10,001 to 100,000	1,444
100,001 and over	144
Total	4,629

TWENTY LARGEST SHAREHOLDERS

	NUMBER OF SHARES	% OF ISSUED CAPITAL
National Nominees Limited	18,473,089	10.16
JP Morgan Nominees Australia Limited	14,732,482	8.10
Invia Custodian Pty Limited	11,422,455	6.28
Gisbourne Pty Ltd	10,136,808	5.58
HSBC Custody Nominees	7,674,394	4.22
Citicorp Nominees Pty Limited	6,085,908	3.35
Argo Investments Limited	5,650,000	3.11
Sawtell Pty Ltd	5,007,153	2.75
Mr Mark Bradley	3,073,819	1.69
ANZ Nominees Limited Cash Income	2,772,882	1.53
The Australian National University Investment Section	2,770,091	1.52
USB Nominees Pty Ltd	2,675,323	1.47
Citicorp Nominees Pty Limited CFSIL CFS WS Small Comp	2,092,402	1.15
Citicorp Nominees Pty Limited CFS Developing Companies	2,009,295	1.11
Mr John Paterson	1,684,094	0.93
Citicorp Nominees Pty Limited CFSIL CWLTH AUST SHS	1,518,456	0.84
Mirrabooka Investments Limited	1,400,000	0.77
Merrill Lynch (Australia) Nominees Pty Limited	1,398,543	0.77
Sawtell Pty Ltd	1,379,312	0.76
Akir Pty Ltd	1,252,918	0.69
Total	103,209,424	56.78

ADDITIONAL STOCK EXCHANGE INFORMATION
AS AT 9 SEPTEMBER 2008

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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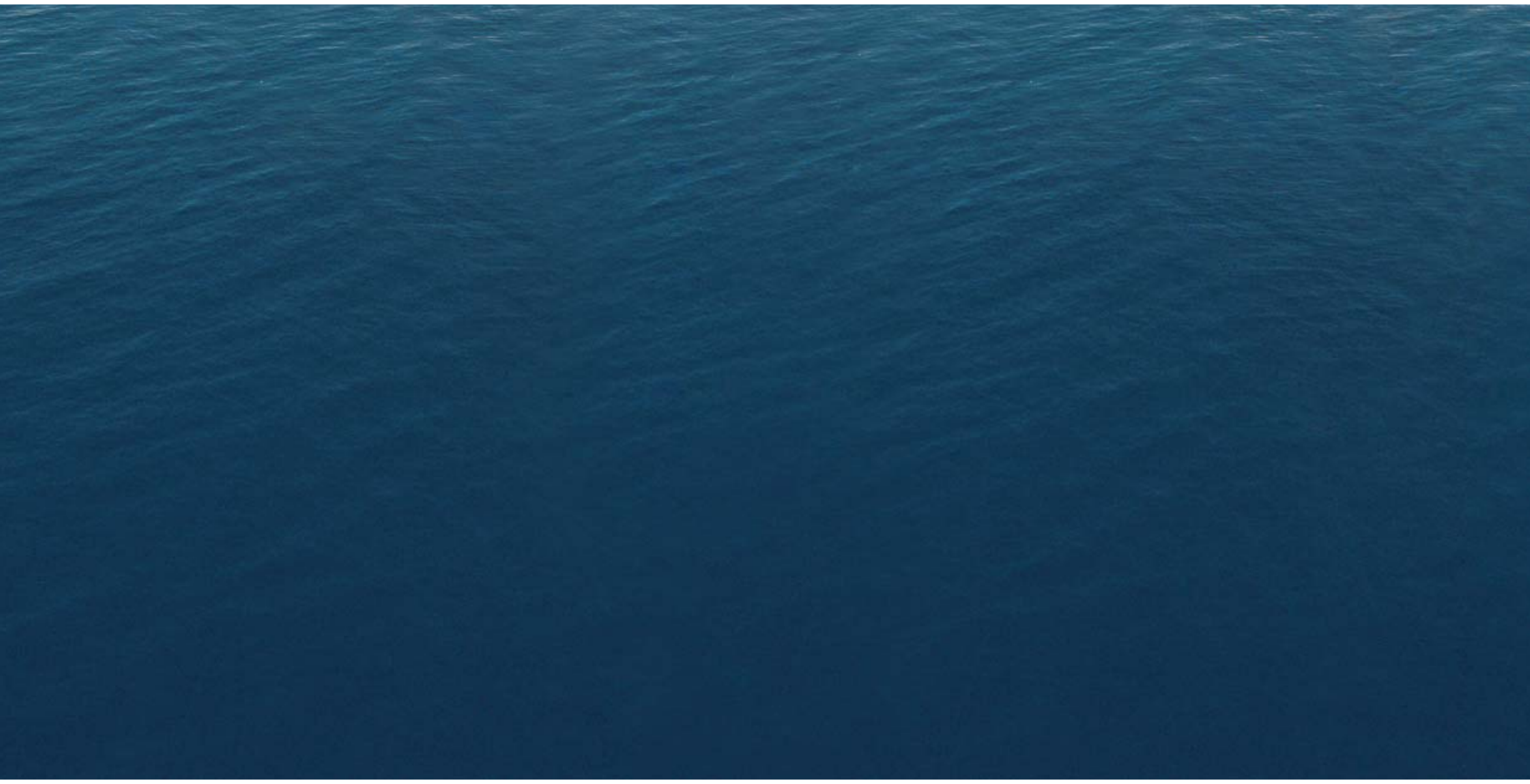
MERMAID MARINE
AUSTRALIA LTD



MERMAID MARINE AUSTRALIA LIMITED

A.B.N. 21 083 185 693

REGISTERED OFFICE

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