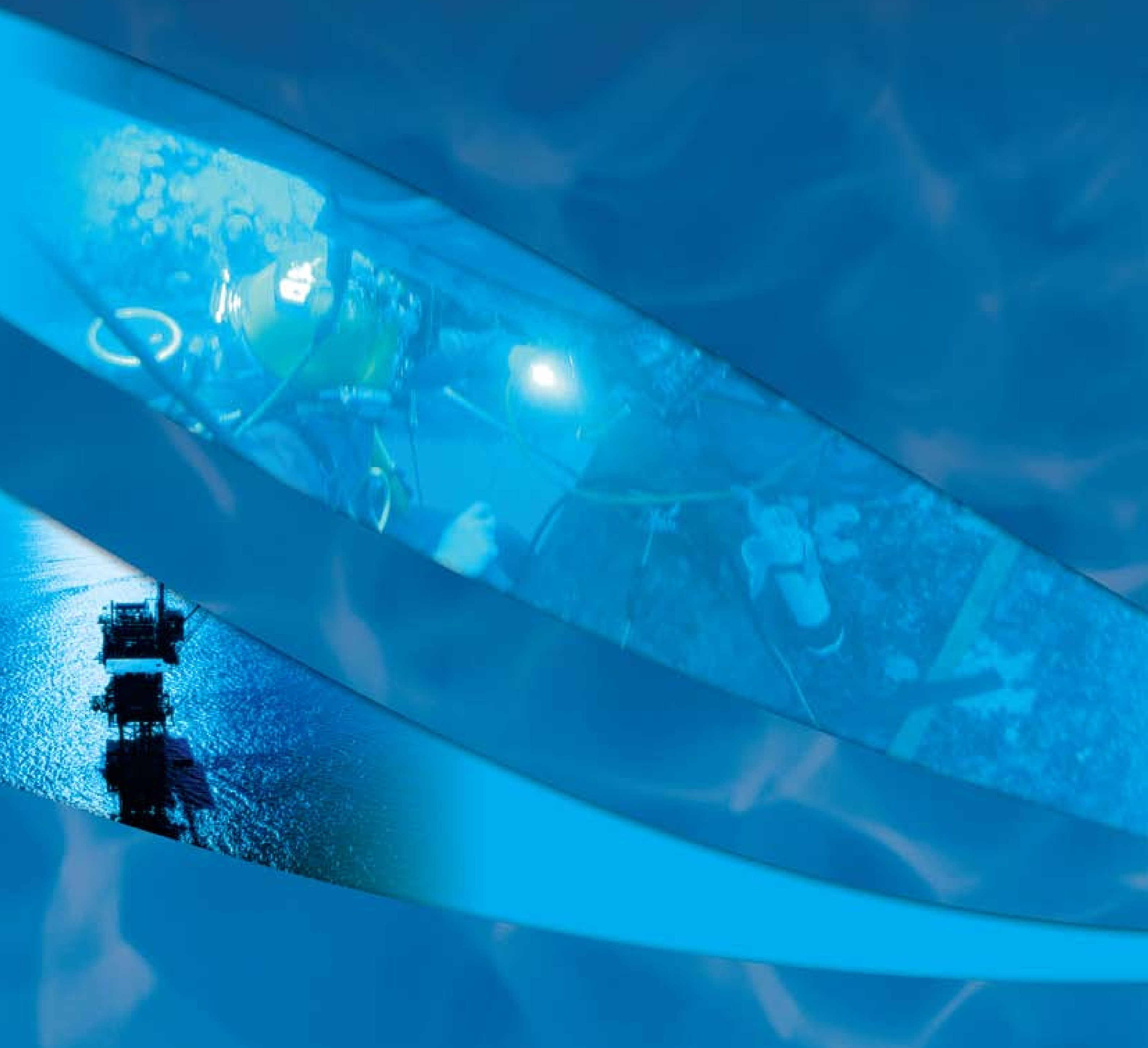
ABN: 76 105 665 843

ANNUAL REPORT 2007



CORPORATE DIRECTORY

DIRECTORS

Mr Christian Mark Lange	CEO & Managing Director
Mr Ross Kennan	Chairman
Mr David Agostini	Non-Executive Director
Ms Cathryn Curtin	Non-Executive Director
Mr Robert Scott	Non-Executive Director

COMPANY SECRETARY

Mr Gabriel Chiappini

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Perth Western Australia 6000

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Perth Western Australia 6000

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West Perth Western Australia 6005

SOLICITORS

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Adelaide South Australia 5000

SHARE REGISTRY

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STOCK EXCHANGE

Australian Stock Exchange Limited
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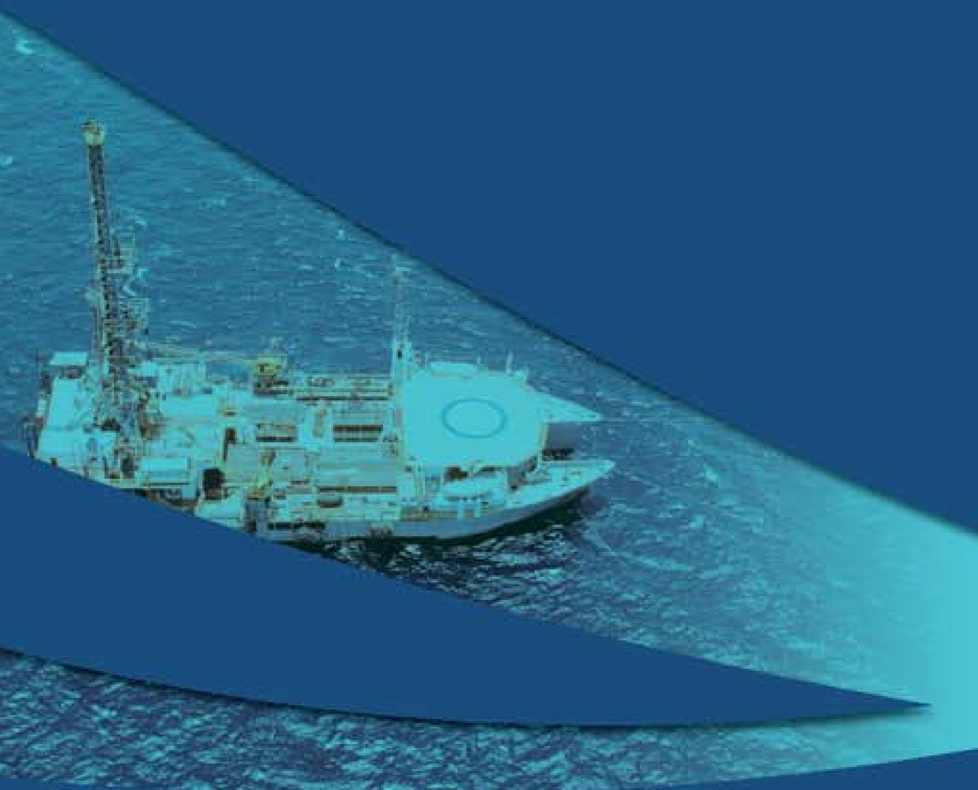
ASX CODE

NMS



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2007 has been a year of solid achievement for Neptune Marine Services. In 12 months we have transformed the group from a single technology focused operation to a diversified engineering services company with a solid domestic footprint and an emerging international presence in the oil and gas sector.

Neptune is still in the very early stages of its growth and the progress made during the year lays the foundation for the future.

With a suite of integrated products and services, a blue chip customer base and strong market conditions in the oil and gas sector, Neptune is well placed for strong growth in the coming year.

2007 HIGHLIGHTS

- Capital raisings totalling $52 million
- Acquired five businesses for a total consideration of $51.7 million and settled a sixth in August
- Secured first international contracts in the Gulf of Mexico and the Indian Ocean
- Revenue increased from $1.8 million to $15.5 million, $12.6 million generated in fourth quarter
- EBITDA $2.4 Million in the fourth quarter
- EBITDA of $1.5 million before non recurring restructuring cost and R&D expenditure
- Organic growth and acquisitions both contributing to growth
- All acquisitions integrated and performing well
- Strong outlook and favourable market conditions remain

CHAIRMAN'S REPORT

I am delighted to report on Neptune Marine Services Limited's progress for 2007 in my first year as Chairman. The period is best characterised as a transition year for Neptune, as the group moved from a single technology focused operation to a broad-based engineering services provider in the oil and gas sector.

By every measure, Neptune's progress has been significant. 12 months ago, the group's market capitalisation was about $20 million, today it is closer to $200 million; we had a total of 15 employees this time last year, now we have a committed team of more than 350 people; Neptune now operates in Australia and the United States, and has developed agency relationships in many of the major oil and gas markets throughout the world. This compares to a locally focused company 12 months ago.

These are just a few measures of Neptune's performance. It is pleasing to note that management has delivered on the strategy put into place 18 months ago, and on behalf of the Board, I commend Christian Lange and his team on their efforts thus far.

Encouraging financial performance

The financial performance for the year represents an encouraging start for Neptune. Earnings before interest, tax depreciation and amortisation (EBITDA) was $1.5 million. This was after IFRS adjustments, $0.7 million in non recurring reconstucting costs, and $0.8 million of net research and development expenses. Revenue increased significantly to $15.5 million.

A true measure of Neptune's growth is best illustrated by the group's fourth quarter performance. $12.6 million of revenue and EBITDA of $2.4 million was generated in this period, reflecting the early contributions of the new businesses acquired, as well as strong organic growth from the group's patented NEPSYS technology.

Acquisitions drive growth

The most significant achievement this year has been Neptune's successful acquisition program which has transformed the group into a rapidly developing oil and gas engineering services business. In 12 months we have acquired five businesses – Allied Diving, Territory Diving, Subsea Developments, Link Weld Engineering, US Underwater Services and – for a total consideration of $51.7 million. We also announced the completion of the acquisition of Tri-Surv Geomatics in August for $16.8 million plus an earn out. These are all strong businesses, and Neptune has been very fortunate to attract some excellent people with these businesses and we welcome them to the group.

Most significant is the customers that have continued to support our businesses now that they are part of Neptune. We are fortunate to have the calibre of blue chip customers that we do, and Neptune's future would not be possible without them. I thank them for their continued support.

To acquire these businesses, the group has undertaken two capital raisings during the year, raising almost $52 million. As a result, many new retail and institutional investors have joined Neptune's share register, and on behalf of the Board and the management team, we welcome their support.

A stronger Board

As Neptune evolves, the Board recognises the need to strengthen its skills and capabilities in order to best represent the interests of shareholders. The Board also has to have the knowledge base to be able to carefully assess management's strategies and performance. As well as my own appointment, we also welcomed Rob Scott to the Board. Rob is a professional company director and his skills greatly complement the current Board. We continue to assess the Board's performance and capabilities in line with Neptune's ongoing growth.

A favourable outlook

Based on the current structure of Neptune, in FY 2008 we expect to generate revenue of $60 million-$70 million, and earnings per share of 6-7 cents. This is based on the full 12 month contribution from five of our businesses and an 11 month contribution from Tri-Surv Geomatics.

Neptune is still in the very early stages of its development and the Board remains supportive of management's growth strategy. Neptune's future prospects remain encouraging.

Ross Kennan
Chairman

MANAGING DIRECTOR'S REPORT

In early 2006 Neptune gave an undertaking to its shareholders that it would establish the group as a multi-faceted oil and gas services business and I am pleased to report that we have delivered on what we set out to achieve.

2007 has been a year of real progress and Neptune's strategy of establishing itself as an integrated engineering services and Inspection Repair and Maintenance (IRM) provider to customers in the oil and gas sector is gathering momentum. The financial performance of the group in the last quarter reflects Neptune's early progress.

Neptune's dual growth drivers

Neptune's growth to date has been driven in two ways. Acquisitions have been the primary driver and I would join the Chairman in reflecting on the fact that completing five acquisitions and announcing a sixth in a twelve month period has indeed been a major achievement. Through these acquisitions, we have established three new lines of business – Diving Services, Engineering Services and Hydrographic Surveying.

In the Diving Services division, we have acquired three excellent businesses – Allied Diving Services, Territory Diving Services, both in Australia, and US Underwater Services, based in the United States.

The Engineering Services division has been created with the acquisition of Subsea Developments and specialist fabrication business Link Weld Engineering.

With the completion of the acquisition of specialist hydrographic survey business Tri-Surv Geomatics in August of this year, Neptune will also operate a Hydrographic Survey division. This division offers significant growth domestically and potentially in international markets.

Also pleasing has been Neptune's organic growth, with Neptune significantly strengthening its NEPSYS division. New joint venture partnerships and alliances have been established, particularly with US Underwater Services and Cal Dive in the United States. This has led to Neptune securing four NEPSYS projects in the oil and gas sector – three in the Gulf of Mexico and one in the Indian Ocean. NEPSYS remains an important part of Neptune's future, and with the technology patented in Australia and North America, and a track record of success in a number of markets, its growth potential is significant.

A global service model

Neptune's growth strategy is supported by a well defined and successful delivery model. Neptune has recognised the opportunity in providing an integrated suite of subsea services in the oil and gas sector. This has been driven by our customers who have a preference for partners offering an integrated suite of services under the one contract term.

In Australia we can now provide customers with subsea engineering services, pipeline engineering, commercial diving services, specialist fabrication, hydrographic survey works and subsea welding through NEPSYS. Already we have secured a number of multiple service projects with the leading energy companies. This illustrates that our integrated service model is the right one. Neptune is now in the process of establishing an Integrated Projects division to focus on sourcing and executing multi-faceted projects.

In the United States we can now offer both commercial diving services and the NEPSYS technology, and we have achieved this market position well ahead of schedule. Our presence in the US market through US Underwater Services now gives us the platform to expand into other service lines where we already have the experience through our Australian operations.

As sectors globalise, customers in the oil and gas sector will demand global service capabilities, and Neptune is in the process of establishing this capability in other international markets.

Putting in place the right foundation to support growth

For a company such as Neptune that is experiencing rapid growth, it is essential that the right foundation is in place to support not only present but future growth as a whole. While acquisitions and organic growth have been the focus for the group this year, establishing the right operating platform has been equally important.

Neptune's strategy of providing the necessary support, and allowing our businesses to grow and operate with a degree of autonomy and importantly, limits integration risk.

Our corporate function has also been strengthened to provide the necessary support services such as finance, human capital management, information technology and other systems and processes that help all Neptune's businesses focus on their core capabilities. Safety management is one of the most critical aspects to our business, and while the performance among all the businesses has been credible, we have strengthened our commitment by establishing a dedicated leadership team in Health, Safety and Environmental management that will continue to drive a common safety culture across the group.

What really sets Neptune apart is our people. Our strategy of acquiring bolt on businesses with motivated owners that want to grow their operations as part of a dynamic and growing public company, means we can attract and retain some excellent talent. We have achieved this with all the businesses to date and the motivation and commitment of the new Neptune team is encouraging.

Values are something that are often preached in many organisations, but as Neptune grows, they will be fundamental to our success. Excellence in health, safety and environmental management, service quality, innovation, professionalism, teamwork and customer focus, while demonstrating honesty, integrity and leadership, are the core values that our people operate by every day.

An encouraging start

We are encouraged by Neptune's progress. We have established a very different company from the Neptune of twelve months ago. It is important that shareholders recognise that Neptune is still very much a new company and it is in the very early stages of its growth and development.

In the coming year we are focused on building and developing the businesses we have acquired and progress to date has been encouraging. We also continue to assess acquisition opportunities and this will again be the key driver for Neptune's growth going forward.

With an expanding international footprint, a proven and accepted strategy, favourable market conditions, blue chip customers and a motivated and committed team, we expect another strong year of growth for Neptune.

Our vision is to be a preferred partner of our customers and the communities with which we interact. To that end, I would like to take this opportunity to thank our customers and our people for their support during the year, and for the confidence our shareholders have shown in us to date.

Christian Lange
CEO & Managing Director

DIVISIONAL OVERVIEW

Diving Services

Diving services revenues were $8.7million for the year including 172% increase in NEPSYS revenues to $4.9million.

The division was formed following the acquisition of Allied Diving Services (ADS) and Territory Diving Services (TDS) in December 2006, and completion of US Underwater Services (USUS) in early June 2007, and the dry underwater welding (NEPSYS) business.

Neptune has continued to expand the NEPSYS dry underwater welding technology into the US oil and gas sector with three projects in the Gulf of Mexico completed. The business also secured a project in India for the world's largest offshore drilling company, and completed a ship repair project in North Queensland, the largest NEPSYS ship repair to date. NEPSYS technology is now patented in North America and with new agency relationships established in other international markets, the prospect for NEPSYS in the coming year are encouraging.

Following the acquisitions, all major customers continue to support the businesses under Neptune's ownership, with a number of new projects being secured in Australia for customers such as Apache Energy, Roc Oil and ConocoPhillips. With the contribution of USUS and an expanded geographical footprint, the division is well positioned for future growth.

Engineering Services

To build its integrated engineering service platform, Neptune successfully completed the acquisition of Subsea Developments and Link Weld Engineering in March of this year. The division contributed $6.9million in revenue. These businesses provide Neptune with fabrication, engineering, project management and consulting services for the oil and gas sector, giving customers multiple services under the one contract.

Highlights include;

- The award of extended remedial engineering and project management works for Apache Energy.
- Fabrication of main line valve (MLV) assemblies and installation of loops 9 to 10 for Alinta's Dampier to Bunbury gas transmission line.
- Engineering and design works for subsea manifolds and pipelines for Coogee Resources' Montara field development
- Detailed subsea pipeline engineering for the Origin/Technip alliance for the Kupe field development in New Zealand.

The pipeline of opportunities is encouraging, with the division well placed to secure projects of greater scale. Supported by a blue chip and stable customer base, the outlook for the year is favourable.

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2007.

The names of directors in office at any time during or since the end of the year are:

Mr Christian Lange

Mr Ross Kennan (appointed 22/03/07)

Ms Cathryn Curtin

Mr David Agostini

Mr Robert Scott (appointed 17/05/07)

Mr Clive Langley (retired 17/05/07)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company Secretary

The following person held the position of company secretary at the date of this report: Mr Gabriel Chiappini. Mr Chiappini was appointed company secretary on 20 August 2007. He is currently company secretary for a number of ASX listed companies. Mr Chiappini is a chartered accountant and member of the Australian Institute of Company Directors. He graduated from Edith Cowan University in 1990 with a Bachelor of Business majoring in Finance and Accounting and has worked predominantly in London and Perth with experience in the property, investment banking and biotechnology sectors.

Principal Activities

The principal activities of the consolidated group during the financial year were:

- the commercialisation of the Neptune Marine Dry Underwater Welding Technology (NEPSYS);
- further research and development of applications for the Company's technology;
- the completion of projects through the provision of Diving Services, Engineering and Fabrication Services and application of the NEPSYS technology;
- the provision of an integrated suite of subsea services to the oil and gas sector, both domestically and internationally;

During the year ended 30 June 2007, Neptune Marine Services Limited, expanded their operations with the purchase of five entities. These entities provided Neptune with the opportunity to expand their existing activities and provide additional services to clients that previously would have involved engaging an external party.

Operating Results

The consolidated loss of the group after providing for income tax and eliminating minority equity interests amounted to $6,375,000 (2006: $2,736,000).

Dividends Paid or Recommended

No dividend has been declared or paid by the Company to the date of this report and no dividend is proposed in respect of the year ended 30 June 2007.

Review of Operations

Diving Services

The successful purchase of Allied Diving Services, Territory Diving Services and US Underwater Services has provided the group with significantly increased revenue potential, and a larger share of the underwater services market. It has also provided significant synergies with the existing Neptune Marine Services activities and allowed further growth of the NEPSYS Technology.

Overall results of the division have met expectations, and the division has had some significant contracts awarded to them for the coming year, including Apache awarding Neptune with the Bambra East Pipeline Project, and the extension of ConocoPhillips air diving contract in support of Bayu Undan.

NEPSYS Technology

The patented NEPSYS technology has grown organically, and has been assisted by the acquisitions made during the year by Neptune Marine Services. The NEPSYS technology has gained market penetration into the Gulf of Mexico, which has highlighted the benefits of Neptune's International presence. The group has also won the first NEPSYS job for a major drilling contractor and during the year completed the largest NEPSYS ship repair.

With the current market conditions and the synergies being realised through the most recent acquisitions, it is expected that revenues from the NEPSYS technology will continue to grow in the 2008 year.

Engineering and Fabrication

Neptune Marine Services also successfully acquired and integrated Link Weld Engineering and Subsea Developments (Australasia) Pty Ltd during the year ended 30 June 2007. Link Weld Engineering is a fabrication business located in Henderson who are renowned for their quality work. Subsea Developments is a engineering company based in Perth, who provide engineering services to a wide range of clients both domestically and internationally. Both new businesses have significant contracts in place for the coming year and significant growth is expected from both businesses, with the synergies of being part of the Neptune Group.

Financial Position

The net assets including goodwill of $44,482,000 of the consolidated group have increased to $56,647,000 at 30 June 2007 from $959,000 at 30 June 2006. This increase is a result of the following factors:

• improved operating performance of the group;

• the purchase of five new businesses through the issuing of additional shares in the company during the year.

The directors believe the group is in a strong and stable financial position to expand and grow its current operations.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

(i) The purchase of five trading entities to be included in the Neptune Group. The businesses purchased were Allied Diving Services Pty Ltd, Territory Diving Services Pty Ltd, Subsea Developments (Australasia) Pty Ltd, US Underwater Services LLP and Link Weld Engineering Pty Ltd.

(ii) The issuing of shares in Neptune Marine Services Limited to provide the funds to purchase the businesses at (i).

After Balance Date Events

Neptune Marine Services Limited completed the acquisition of specialist hydrographic surveying company Tri-Surv Pty Ltd ("Tri-Surv") on the 17th August 2007. Neptune acquired all of the issued capital of Tri-Surv for $16.4 million up front, paid $11,370,805 in cash; 7,332,188 in fully paid ordinary shares at 64 cents each, and has agreed to grant 525,000 unlisted options to Tri-Surv employees under the company's employee incentive option scheme. The options granted to employees, at the request of the founders of Tri-Surv, was in lieu of issuing shares.

In addition to the consideration paid at completion, Neptune will pay the Vendors 60% of Tri-Surv's EBIT under an earn-out arrangement for the next 3 years. The earn-out will be paid 70% in cash and 30% in Neptune ordinary shares. All shares issued as part of the purchase price will be held in voluntary escrow for 12 months.

Future Developments, Prospects and Business Strategies

To further improve the consolidated group's profit and maximise shareholder wealth, the following strategies will continue to be implemented:

(i) Continue to focus on and expand the integrated services model of Neptune Marine Services, to include the newly acquired businesses and NEPSYS technology.

(ii) Continue to build strong, long term relationships with blue chip customers, EPIC contractors and oil and gas operators above and beyond the existing relationships that already exist with these valuable clients.

These strategies, together with accelerating international exposure of the Neptune Group, expanding service and regional capability, continued selected acquisitions in both Australia and internationally, and the continued growth and expansion of the NEPSYS technology internationally pave the way for the Neptune Group to become a significant provider of services within the oil and gas industry.

Environmental Issues

The company continues to develop and maintain its environmental management system in accordance with the requirements of the Department of Environmental Protection. There were no breaches recorded during the financial year.

Information on Directors

Mr Christian Lange — Managing Director

Experience
Mr Lange, aged 40, is a former international Vice President for the global oilfield services group, Schlumberger Limited. In a 16-year career with Schlumberger, Mr Lange held a range of senior executive positions responsible for operations, capital markets, marketing, business strategy and general management.

He is also a former Managing Director and Chief Executive Officer of the minerals based manufacturing and distribution company, SDS Corporation Limited, sucessfully executing that Company's restructuring and turnaround strategy.

In his most recent Vice President's position in New York and Paris with Schlumberger, Mr Lange was responsible for the group's key capital markets, merger and acquisitions advice and investor relations. He has also held senior managment positions in operations, marketing and business strategy for the Middle East, North Africa and South America."

Directorships held in other listed entities
Mr Lange was a non-executive Director of Coretrack Limited, a company listed on the ASX, until he resigned in June 2006.

Mr Ross Kennan — Chairman

Experience
Mr Kennan has had an accomplished international career, most notably as Vice President and SBU Co-chair for international diversified technology and manufacturing

company, Honeywell Inc, where he spent 26 years in senior executive positions. Mr Kennan has over 17 years of international experience which enable him to provide strategic advice to further support Neptune Marine's continual global growth.

Mr Kennan currently chairs the Human Resource and Compensation committee at Neptune Marine Services Limited.

Directorships held in other listed entities
Mr Kennan currently sits on several boards and has recently retired from his position as a Chairperson of CEO mentoring group, The Executive Connection. Mr Kennan does not hold any Directorships in other listed entities.

Ms Cathryn Curtin — Non-Executive Director

Qualifications
Ms Curtin holds Education and Psychology degrees and is a registered psychologist, as well as holding a Master of Business Administration from the University of Western Australia.

Experience
Ms Curtin, aged 42, has held senior positions within both the private and Government sectors. She has held director positions in The Western Australian Department of Education and other private enterprises. Currently she runs her own private consultancy business and provides services to the mining, industrial and government sectors. Responsibilities have included the strategic development of company direction and delivery of a diverse range of project management experience and has operated within small and large businesses. She has played key roles in developing policy and in managing integration of strategic initiatives.

Directorships held in other listed entities
Ms Curtin is currently a non-executive Director of Coretrack Limited (appointed November 2005) and Costarella Design Limited (appointed April 2006) both of which are currently listed on the ASX. Ms Curtin was also a Director of Dyesol Limited until her resignation in February 2006.

Mr David Agostini — Non-Executive Director

Experience
Mr Agostini, aged 68, is highly experienced in working with Government, Universities and research groups. Mr Agostini is currently the Adjunct Professor at the School of Oil and Gas Engineering, at the University of WA, chaired the School's industry advisory board and the Industry Reference Group supporting the WA State Government in reforming Western Power in WA. He also holds a similar position with the advisory board of the Australian Resources Research Centre.

Mr Agostini is the chairman of the governing board of the WA Energy Research Alliance and was a member of the four-man panel chaired by Senator Warwick Parer which carried out the Australian Energy Markets Review for COAG over 12 months in 2002.

His professional career includes positions as General Manager of Woodside's North West Shelf interests, including the decision-making forum for marketing LNG into Asia; and is a former Woodside General Manager of Operations, covering the 3 Train LNG plant, domestic gas plant, North Rankin and Goodwin offshore platforms, the Cossack Pioneer floating production system and offshore drilling rigs.

Mr Agostini is also a former General Manager Gas for Woodside; and Deputy Strategy Manager for Shell in The Hague, covering downstream refining and LNG operations in the USA, Africa, and the Middle East.

Mr Agostini currently chairs the Occupational Health and Saftey committee at Neptune Marine Services Limited.

Directorships held in other listed entities — Mr Agostini does not hold any Directorships in other listed entities.

Mr Robert Scott — Non-Executive Director appointed 17 May 2007

Qualification
Fellow of the institute of chartered accountants in Australia.

Experience
Mr Scott has had a distinguished career spanning 35 years as a Chartered Accountant with major accounting firms. He retired as an International Partner of Arthur Andersen in 1995 and currently consults in corporate structuring and taxation planning to Gooding Pervan Chartered Accountants.

Directorships held in other listed entities
Mr Scott currently holds the following Directorships, Armadeus Energy Limited - Director since March 1996, bioMD Limited - Chairman since June 1999, Australian Renewable Fuels Limited - Director since December 2002 and Homeloans Limited - Director since November 2000, all of which are listed entities. Mr Scott was also a non-executive Director of Evans and Tate Limited from July 2005 to August 2007.

Mr Clive Langley — Former Executive Director resigned 17 May 2007.

Remuneration Report

This report details the nature and amount of remuneration for each director of Neptune Marine Services Limited, and for the executives receiving the highest remuneration.

Remuneration policy (unaudited)

The remuneration policy of Neptune Marine Services Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The Board of Neptune Marine Services Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Binomial methodology.

Company performance, shareholder wealth and director and executive remuneration (unaudited)

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on key performance indicators, and the second being the issue of options to the majority of executives to encourage the alignment of personal and shareholder interests. The company believes this policy will have the effect of increasing shareholder wealth in the future.

Directors and Key Management Remuneration Policy (unaudited)

The board's policy for determining the nature and amount of remuneration of key management for the group is as follows:

The remuneration structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement. Any options not exercised before or on the date of termination lapse.

The employment conditions of the managing director, Mr Lange and other key management personnel are formalised in contracts of employment. Other than the Managing Director, all other key management personnel are permanent employees of Neptune Marine Services Limited. Mr Lange is employed under a fixed three-year contract, which commenced in February 2006 and expires in February 2009.

In relation to the contract with Mr Lange, the Company entered into an executive service agreement with Mr Lange to act as Managing Director of the Company effective from February 2006. The term of the contract is 3 years. If the Company terminated the agreement for any reason other than pursuant to specified circumstances, including offences involving fraud or dishonesty or committal of a serious or persistent breach of the agreement which was incapable of satisfactory remedy, the Company would be required to pay to Mr Lange all remuneration accrued up to and including the date of termination, payment in lieu of annual leave and long service leave to which he is entitled at the date of termination, and an amount equal to 12 months base salary plus any accrued performance entitlements.

The remuneration committee determines the proportion of fixed and variable compensation for each key management personnel. Refer to tables below.

Directors and Key Management Remuneration (audited)

	Short-term benefits				Post Employment Benefits	Other Long-term Benefits	Share-based Payment		Total	Proportion of remuneration based on performance	Value of options as proportion of remuneration
	Cash, salary & commissions $000	Bonus $000	Non-cash benefit $000	Other $000	Super-annuation $000	Other $000	Equity $000	Options $000	$000	%	%
2007											
Directors											
Mr Christian Lange	395	350	30	80	37	–	–	669	1,561	65%	43%
Mr Ross Kennan	-	-	-	-	-	-	-	-	-	0%	0%
Ms Cathryn Curtin	35	-	-	-	3	-	-	-	38	0%	0%
Mr David Agostini	35	-	-	-	3	-	-	-	38	0%	0%
Mr Robert Scott	-	-	-	-	-	-	-	-	-	0%	0%
Mr Clive Langley	174	170	-	-	16	-	-	-	360	47%	0%
Key Management Personnel											
Mr Nino Amato	62	-	5	-	6	-	-	46	119	0%	39%
Mr Russell Collins	60	-	-	-	5	-	-	-	65	0%	0%
Mr Graeme Creedon	104	-	-	8	38	-	-	40	190	0%	21%
Mr Geoffrey Edwards	101	-	-	-	9	-	-	50	160	0%	31%
Mr David Husband	30	-	-	-	35	-	-	-	65	0%	0%
Mr Colin Murphy	87	-	9	-	8	-	-	-	104	0%	0%
Mr Geoffrey O'Connor	150	-	17	-	14	-	-	75	256	0%	29%
Mr Timothy Proctor	112	-	-	-	10	-	-	-	122	0%	0%
Mr Mike Erinakes	13	-	-	-	-	-	-	6	19	0%	32%
	1,358	520	61	88	184	-	-	886	3,097		

	Short-term benefits				Post Employment Benefits	Other Long-term Benefits	Share-based Payment		Total	Proportion of remuneration based on performance	Value of options as proportion of remuneration
	Cash, salary & commissions $	Bonus $	Non-cash benefit $	Other $	Super-annuation $	Other $	Equity $	Options $	$	%	%
2006											
Directors											
Mr Christian Lange	121,250	-	-	12,500	4,162	-	-	462,500	600,412	77%	77%
Ms Cathryn Curtin	36,364	-	-	-	3,150	-	-	-	39,514	0%	0%
Mr David Agostini	11,667	-	-	-	263	-	-	80,440	92,370	0%	87%
Mr Clive Langley	170,000	-	-	-	15,300	-	-	-	185,300	0%	0%
Key Management Personnel											
Ms S Tough	7,863	-	-	-	525	-	-	-	8,388	0%	0%
Mr A Harrison	42,684	-	-	52,725	6,937	-	-	-	102,346	0%	0%
	389,828	-	-	65,225	30,337	-	-	542,940	1,028,330		

The short term incentive bonus is for performance during the 30 June 2007 financial year using the criteria as set out in each executive or employees contract. The amount was determined after performance reviews were completed and approved by the Board.

The fair value of the options is calculated at the date of grant using a binomial model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period. In valuing the options, market conditions have been taken into account.

The vesting of options issued to Christian Lange are subject to the Company's share price out performing the Small Ordinary's Index (ASX).

Service Agreements

Non-Executive Directors

- Term of agreement - All non-executive Directors have ongoing agreements of employment.
- One third of the non-executive Directors must retire each year, and can be re-elected at the AGM.
- All non-executive Directors are paid a monthly base salary and superannuation.

Mr Nino Amato - General Manager - Link Weld Engineering Pty Ltd

- Terms of agreement - Minimum of 3 years commencing 29 March 2007.
- Remuneration includes base salary, superannuation, car allowance, potential bonus if relevant KPI's are met, and incentive options.

Mr Russell Collins - Pipelines Business Manager - Subsea Developments (Australasia) Pty Ltd

- Terms of agreement - Minimum of 3 years commencing 2 March 2007.
- Remuneration includes base salary, superannuation, car allowance and incentive options.

Mr Graeme Creedon - Operations Manager

- Terms of agreement - Ongoing basis commencing 26 May 2005.
- Remuneration includes base salary and superannuation, and an incentive bonus of up to $20,000.

Mr Geoffrey Edwards - Chief Financial Officer

- Terms of agreement - Ongoing basis commencing 1 July 2007 (prior contract ended 30 June 2007)
- Remuneration includes base salary, superannuation, incentive bonus scheme and incentive option scheme.

Mr David Husband - Subsea Business Manager - Subsea Developments (Australasia) Pty Ltd

- Terms of agreement - Minimum of 3 years commencing 2 March 2007.
- Remuneration includes base salary, superannuation, car allowance and incentive options.

Mr Colin Murphy - General Manager - Allied Diving Services Pty Ltd

- Terms of agreement - Minimum of 2 years commencing 4 December 2006.
- Remuneration includes base salary, superannuation, car allowance, potential bonus scheme, and incentive options.

Mr Geoffrey O'Connor - Business Development Manager

- Terms of agreement - Ongoing commencing 14 March 2006.
- Remuneration includes base salary, superannuation, car allowance, incentive options, and 1% of project revenue bonus.

Mr Timothy Proctor - General Manager - Territory Diving Services Pty Ltd

- Terms of agreement - Minimum of 3 years commencing 4 December 2006.
- Remuneration includes base salary, superannuation, and a motor vehicle together with associated costs.

Mr Mike Erinakes - President / COO - US Underwater Services LLP

- Terms of agreement - Minimum of 3 years commencing 6 June 2007
- Remuneration includes base salary, incentive bonus scheme, a motor vehicle and incentive options.

Options issued as part of remuneration for the year ended 30 June 2007

Options are issued to employees and Directors as per the incentive option scheme detailed in note 27.

Options Granted As Remuneration

				Terms & Conditions for Each Grant			
	Vested No	**Granted No**	**Grant Date**	**Value per Option at Grant Date**	**Exercise Price**	**First Exercise Date**	**Last Exercise**
2007							
Directors							
Mr Christian Lange	1,000,000	3,000,000	29/05/2007	0.59	0.60	29/05/2007	29/05/2017
Key Management Personnel							
Mr Nino Amato	-	400,000	29/03/2007	0.31	0.59	29/03/2008	29/03/2012
Mr Geoffrey Edwards	-	400,000	22/02/2007	0.36	0.28	31/10/2007	30/10/2011
Mr Mike Erinakes	-	400,000	7/06/2007	0.40	0.82	7/06/2008	7/06/2012
	1,000,000	4,200,000					

No options were exercised during the year ended 30 June 2007.

				Terms & Conditions for Each Grant			
	Vested No	**Granted No**	**Grant Date**	**Value per Option at bGrant Date**	**Exercise Price**	**First Exercise Date**	**Last Exercise**
2006							
Directors							
Mr Christian Lange		1,000,000	26/04/2006	0.46	0.53	26/4/2006	28/02/2016
Mr D Agostini	-	200,000	28/02/2006	0.40	0.57	26/04/2006	28/02/2011
Key Management Personnel							
Mr M McGilvray	-	200,000	19/12/2005	0.43		19/12/2005	19/12/2010
Mr G Creedon	-	100,000	7/02/2006	0.66	0.59	7/02/2006	7/02/2011
Mr A Brown	-	50,000	28/02/2006	0.40	0.57	28/02/2006	28/02/2011
Mr G O'Connor	-	400,000	1/05/2006	0.39	0.61	1/05/2006	1/05/2011
	-	1,950,000					

All options were granted for nil consideration.

	Granted	Terms and Conditions for each Grant					Vested	
2007	**No.**	**Grant Date**	**Exercise price per option $**	**Expiry Date**	**First Exercise Date**	**Last Exercise Date**	**%**	**No.**
Directors								
Mr Christian Lange	3,000,000	29/5/07	0.60	29/5/17	29/5/07	29/5/17	33.33%	1,000,000
Key Management Personnel								
Mr Nino Amato	400,000	29/3/07	0.59	29/3/12	29/3/08	29/3/12	0.00%	-
Mr Geoffrey Edwards	400,000	22/2/07	0.28	30/10/11	31/10/07	30/10/11	0.00%	-
Mr Mike Erinakes	400,000	7/6/07	0.82	7/6/12	7/6/08	7/6/12	0.00%	-
Total	4,200,000							1,000,000

Meetings of Directors

During the financial year, 15 meetings of directors (including committees of directors) were held.
Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Directors' names						
Mr Christian Lange	15	15	1	1	-	-
Mr Ross Kennan	6	6	1	1	-	-
Ms Cathryn Curtin	15	15	1	1	2	2
Mr David Agostini	15	15	-	-	2	2
Mr Robert Scott	3	3	-	-	-	-
Mr Clive Langley	13	11	-	-	-	-

There was one meeting of the Occupational Health and Saftey Committee held during the year ended 30 June 2007 which was attended by Mr Christian Lange and Mr David Agostini.

Indemnifying Officers or Auditor

The company has agreed to indemnify current and former directors of the company against all liabilities to another person (other than the company or a related body corporate) that may arise from their position as directors of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

The company has also agreed to indemnify certain senior executives and officers for all liabilities to another person (other than the company or a related body corporate) that may arise from their position in the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

The company paid a premium, during the year in respect of a director and officer liability insurance policy, insuring the directors of the company, the company secretary, and all executive officers of the company against a liability incurred as such a director, secretary, or executive officer to the extent permitted by the Corporations Act 2001. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Employee details

Details of the number of permanent employees in the consolidated group as at 30 June 2007 are set out below:

	No.
Permanent employees	150

The consolidated Group employs a further 80 casual, contract and Part Time employees.

Non-audit Services

During the year Stantons International, the company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of these services is compatible with, and did not compromise, the audit independence requirements of the Corporations Act 2001 for the following reasons:

• all non-audit services were subject to the corporate governance procedures adopted by the company and have been reviewed to ensure they do not impact the integrity and objectivity of the auditor;

• the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 - Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the company, acting as an advocate for the company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the company , Stantons International, and its related practices for all non-audit services provided during the year are set out below:

General Consultancy	$ 6,269
	$ 6,269

Signed in accordance with a resolution of the Board of Directors.

Christian Lange
CEO & Managing Director
Dated this 27th day of September 2007

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2007 has been received and can be found on page 9 of the directors' report.

Rounding of Amounts

The company is an entity to which ASIC Class Order 98/100 applies. Accordingly, amounts in the financial 98/100 statements and directors' report have been rounded to the nearest thousand dollars.

Stantons International

ABN 41 103 088 697

LEVEL 1, 1 HAVELOCK STREET
WEST PERTH WA 6005, AUSTRALIA
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www.stantons.com.au

27 September 2007

Board of Directors
Neptune Marine Services Limited
140 St Georges Terrace
PERTH WA 6000

Dear Directors

RE: NEPTUNE MARINE SERVICES 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 Neptune Marine Services Limited.

As Audit Director for the audit of the financial statements of Neptune Marine Services Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely
STANTONS INTERNATIONAL
(Authorised Audit Company)

John Van Dieren
Director

FINANCIALS

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		$000	$000	$000	$000
Revenue	2	15,536	1,671	4,899	1,671
Cost of Sales		(6,544)	(1,062)	(1,944)	(1,062)
Gross Profit		8,992	609	2,955	609
Other income	2	1,376	443	1,366	443
Marketing expenses		(240)	(309)	(203)	(309)
Occupancy expenses		(307)	(128)	(134)	(128)
Corporate and administrative expenses		(2,508)	(1,682)	(1,214)	(1,682)
Depreciation of property, plant and equipment		(215)	(43)	(53)	(43)
Technical expenses		(1,661)	(698)	(1,661)	(698)
Employee benefits expense		(5,121)	(374)	(782)	(374)
Impairment of goodwill		(4,895)	-	-	-
Share based payments		(926)	(630)	(926)	(630)
Foreign Exchange loss		(463)	-	(458)	-
Finance costs		(323)	(13)	(105)	(13)
Other expenses		(166)	(12)	-	(12)
Loss before income tax	3	(6,457)	(2,837)	(1,216)	(2,837)
Income tax credit	4	82	101	247	101
Loss from continuing operations		(6,375)	(2,736)	(970)	(2,736)
Loss for the year		(6,375)	(2,736)	(970)	(2,736)
Loss attributable to members of the parent entity		(6,375)	(2,736)	(970)	(2,736)
Overall Operations					
Basic loss per share (cents per share)	8	(6.52)	(8.34)		
Diluted earnings per share (cents per share)	8	(6.52)	(8.34)		

The accompanying notes form part of these financial statements.

Prior period numbers have been restated to enable comparison with the current year.

FINANCIALS

BALANCE SHEET AS AT 30 JUNE 2007

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		$000	$000	$000	$000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	16,030	1,182	14,325	1,180
Trade and other receivables	10	10,340	194	2,147	193
Inventories	11	1,603	11	-	11
Other current assets	16	582	83	383	83
TOTAL CURRENT ASSETS		28,555	1,470	16,855	1,467
NON-CURRENT ASSETS					
Trade and other receivables	10	362	108	31,922	108
Financial assets	12	-	-	16,512	22
Property, plant and equipment	14	4,086	199	525	199
Intangible assets	15	44,482	-	-	-
TOTAL NON-CURRENT ASSETS		48,930	307	48,959	329
TOTAL ASSETS		77,485	1,777	65,814	1,796
CURRENT LIABILITIES					
Trade and other payables	17	8,325	696	2,318	690
Financial liabilities	18	2,120	21	391	21
Current tax liabilities	19	52	-	-	-
Short-term provisions	20	548	51	125	51
TOTAL CURRENT LIABILITIES		11,045	768	2,834	762
NON-CURRENT LIABILITIES					
Trade and other payables	17	5,186	-	594	25
Financial liabilities	18	4,607	50	18	50
TOTAL NON-CURRENT LIABILITIES		9,793	50	612	75
TOTAL LIABILITIES		20,838	818	3,446	837
NET ASSETS		56,647	959	62,368	959
EQUITY					
Issued capital	21	66,011	4,559	66,011	4,559
Reserves	22	1,795	1,184	2,110	1,184
Accumulated losses		(11,159)	(4,784)	(5,753)	(4,784)
Parent interest		56,647	959	62,368	959
TOTAL EQUITY		56,647	959	62,368	959

The accompanying notes form part of these financial statements.

FINANCIALS

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007

Consolidated Group	Note	Ordinary $000	Accumulated Losses $000	Foreign Currency Translation Reserve $000	General Reserves $000	Option Reserve $000	Total $000
Balance at 1 July 2005		4,083	(2,048)	-	-	554	2,589
Loss attributable to members of parent entity		-	(2,736)	-	-	-	(2,736)
Exercise of options		476	-	-	-	-	476
Cost of share based payments		-	-	-	-	630	630
Sub-total		4,559	(4,784)	-	-	1,184	959
Balance at 30 June 2006		4,559	(4,784)	-	-	1,184	959
Shares issued during the year		63,338	-	-	-	-	63,338
Transaction costs		(3,029)	-	-	-	-	(3,029)
Loss attributable to members of parent entity		-	(6,375)	-	-	-	(6,375)
Adjustments from translation of foreign controlled entities		-	-	(315)	-	-	(315)
Exercise of options		1,143	-	-	-	-	1,143
Cost of share based payments		-	-	-	-	926	926
Sub-total		66,011	(11,159)	(315)	-	2,110	56,647
Balance at 30 June 2007		66,011	(11,159)	(315)	-	2,110	56,647

The accompanying notes form part of these financial statements.

Parent Entity	Note	Ordinary $000	Accumulated Losses $000	Foreign Currency Translation Reserve $000	General Reserves $000	Option Reserve $000	Total $000
Balance at 1 July 2005		4,083	(2,048)	-	-	554	2,589
Loss attributable to members of parent entity		-	(2,736)	-	-	-	(2,736)
Exercise of options		476	0	-	-	-	476
Cost of share based payments		-	-	-	-	630	630
Sub-total		4,559	(4,784)	-	-	1,184	959
Balance at 30 June 2006		4,559	(4,784)	-	-	1,184	959
Shares issued during the year		63,338	-	-	-	-	63,338
Transaction costs		(3,029)	-	-	-	-	(3,029)
Exercise of options		1,143	-	-	-	926	2,069
Loss attributable to members of parent entity		-	(969)	-	-	-	(969)
Sub-total		66,011	(5,753)	-	-	2,110	62,368
Balance at 30 June 2007		66,011	(5,753)	-	-	2,110	62,368

The accompanying notes form part of these financial statements.

FINANCIALS

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		$000	$000	$000	$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		10,708	2,058	3,981	2,058
Interest received		349	106	340	106
Payments to suppliers and employees		(14,267)	(3,887)	(6,667)	(3,886)
(Borrowing costs paid)		(54)	(12)	(16)	(13)
Net cash provided by (used in) operating activities	26a	(3,264)	(1,735)	(2,362)	(1,735)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		-	3	-	3
Purchase of property, plant and equipment		(403)	(138)	(379)	(138)
Purchase of investments		(265)	-	(250)	-
Payment for subsidiaries, net of cash acquired	26b	(31,511)	-	(31,739)	-
Loan from controlled entity		-	-	(2,368)	24
Net cash provided by (used in) investing activities		(32,179)	(135)	(34,736)	(111)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		50,179	476	50,179	476
Proceeds from borrowings		224	188	176	188
Share buy-back payment		-	-	-	-
Repayment of borrowings		(112)	(151)	(112)	(151)
Net cash provided by (used in) financing activities		50,291	513	50,243	513
Net increase in cash held		14,848	(1,357)	13,145	(1,333)
Cash at beginning of financial year		1,182	2,539	1,180	2,513
Cash at end of financial year	9	16,030	1,182	14,325	1,180

The accompanying notes form part of these financial statements.

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 1 Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the consolidated group of Neptune Marine Services Limited and controlled entities, and Neptune Marine Services Limited as an individual parent entity. Neptune Marine Services Limited is a listed public company, incorporated and domiciled in Australia.

The consolidated financial report of the consolidated entity also complies with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board. The Company's financial report does not comply with IFRSs as the Company has elected to apply the relief provided to parent entities by AASB 132 Financial Instruments: Presentation and Disclosure in respect of certain disclosure requirements.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity that Neptune Marine Services Limited has the power to control the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 13 to the financial statements. All controlled entities with the exception of Neptune Marine Europe (Aps) and US Underwater Services LLC have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

NOTES (cont'd)

(c) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- raw materials - purchase cost on a first-in, first-out basis;
- finished goods and work-in-progress - cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, is depreciated on a straight-line basis over their useful lives to the consolidated Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Computer equipment	1 to 3 years
Leasehold improvements	3 to 5 years
Plant and equipment	3 to 5 years
Vehicles	5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the consolidated group are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(f) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

NOTES (cont'd)

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(g) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Research and Development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(i) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the groupís presentation currency are translated as follows:

- assets and liabilities are translated at year end exchange rates prevailing at that reporting date;

- income and expenses are translated at average exchange rates for the period; and

- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

NOTES (cont'd)

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(j) Employee Benefits

Wages, salaries, annual leave and non-monetary benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Equity-settled compensation

An expense is recognised for all equity-based remuneration, including shares and options issued to employees and directors. The fair value of securities granted is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The fair value of options granted is measured using a generally accepted valuation model, taking into account the terms and conditions upon which the options were granted.

(k) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(l) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(m) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Revenue from the rendering of a service is recognised upon the delivery of the service to the customer.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Licence fee revenue is recognised on an accruals basis when the Group has the right to receive payment under the relevant agreement and has performed its obligations.

Government grants are recognised at fair value where there is a reasonable assurance that the grant will be received and all grant conditions will be met.

All revenue is stated net of the amount of goods and services tax (GST).

(n) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare 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.

Other borrowing costs include interest and finance charges in respect of finance leases, and are expensed as incurred.

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

NOTES (cont'd)

(p) Business Combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

(q) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(r) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors report have been rounded off to the nearest $1,000.

Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates - Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates, including forecasting of profits, cashflows, and discount rates.

Key Estimates - Depreciation

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in note 14.

Key Estimates - Share based payments

The group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, with the assumptions detailed in note 27.

Key Estimates - Deferred payments

The group together with external advice makes judgements on the potential profits of the newly acquired subsidiaries. These judgements have an impact on the amount of deferred payments disclosed on the balance sheet.

NOTES (cont'd)

Note 2 Revenue

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		$000	$000	$000	$000
Revenue					
- rendering of services revenue from operating activities		15,536	1,671	4,899	1,671
Total Revenue		15,536	1,671	4,899	1,671
Other Revenue					
- interest received	2(a)	349	96	340	96
- government subsidies received		1,026	347	1,026	347
- other revenue		-	-	-	-
Total Other Revenue		1,376	443	1,366	443
Total Sales Revenue and Other Revenue		16,911	2,114	6,264	2,114
(a) Interest revenue from:					
- Other		349	96	340	96
Total interest revenue		349	96	340	96

Note 3 Loss for the Year

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
(a) Expenses	$000	$000	$000	$000
Cost of sales (inclusive of payroll costs of $495,010)	6,544	1,062	1,944	1,062
Finance costs:				
- Finance charges payable under finance leases and hire	10	13	-	13
- Interest on Discounted Deferred Payments	269	-	89	-
- Other Persons - Interest to Unrelated Parties	54	-	16	-
Total finance costs	656	26	210	26
Depreciation of leasehold improvements	12	9	10	9
Depreciation of leased vehicle	38	7	7	7
Depreciation of office furniture and equipment	38	20	29	20
Depreciation of plant and equipment	127	19	7	19
Foreign currency translation (gains)/losses	462	-	459	-
Net (gain)/loss on disposal of plant and equipment	-	(3)	-	(3)
Bad and doubtful debts	10	-	-	-
Employee benefit expenses:				
salaries and wages	3,907	-	1,730	-
- superannuation	357	-	171	-
- share based payments - cost of employee options	926	630	926	630
- employee entitlements	269	-	75	-
- other	72	-	69	-
Rent and outgoings	307	128	134	128
Impairment of goodwill	4,895	-	-	-

NOTES (cont'd)

Note 4 Income Tax Expense

		Consolidated Group		Parent Entity	
		2007	2006	2007	2006
	Note	$000	$000	$000	$000
(a) The components of tax expense comprise:					
Current tax		165	-	-	-
Deferred tax	19				
Recoupment of prior year tax losses					
Income tax credit - R&D tax offset		(247)	(101)	(247)	(101)
Under provision in respect of prior years					
		(82)	(101)	(247)	(101)
(b) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows					
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2006: 30%)					
- consolidated group		(1,937)	(821)		
- parent entity				(361)	(821)
Add:					
Tax effect of:					
- non-deductible depreciation and amortisation		812	-	-	-
- other non-allowable items		16	-	7	-
- write-downs to recoverable amounts		-	-	-	-
- share options expensed during year		275	-	275	-
- Foreign subsidiary loss		218	-	-	-
- Intercompany transactions recognised for tax		355	-	-	-
- losses not consolidated for tax		154	-	80	-
- Cost of equity settled transactions		-	189	-	189
- Income accrual		1	3	1	3
- Future income tax benefit not brought to account		156	628	156	627
- Prepayments		1	36	1	37
- non-deductible borrowing costs		33	-	-	-
- Provisions		35	-	23	-
- Accruals		239	-	85	-
		358	35	267	35
Less:					
Tax effect of:					
- Non-assessable income		-	-	74	-
- Income tax credit - R&D tax offset		247	101	247	101
- Capital raising costs		193	19	193	19
- Provisions		-	16	-	16
Recoupment of prior year tax losses not previously brought to account		-	-	-	-
Income tax attributable to entity		(82)	(101)	(247)	(101)
The applicable weighted average effective tax rates are as follows:		1%	4%	20%	4%

The decrease in the weighted average effective consolidated tax rate for 2007 is a result of accelerated tax allowances on plant and equipment compared to 2006.

NOTES (cont'd)

(c) Tax losses

	Consolidated		Parent	
	2007	2006	2007	2006
	$000	$000	$000	$000
Unused tax losses for which no deferred tax asset has been recognised (as recovery is not probable) Potential at 30% (2006: 30%)	990	760	842	760
(d) Unrecognised Temporary Differences				
Temporary differences for which deferred tax assets have not been recognised:				
- Provisions	201	24	175	24
- Accruals	197	-	125	-
- Capital raising costs	770	-	770	-
Unrecognised deferred tax assets relating to the above temporary differences	1168	24	1070	24

(e) Tax Consolidation Legislation

Neptune Marine Services Limited has not implemented the tax consolidation legislation as of 30 June 2007.

(f) Tax Rates

The potential tax benefit at 30 June 2007 in respect of tax losses not brought to account has been calculated at 30% for Australian entities. These same rates applied for the year ended 30 June 2006.

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NOTES (cont'd)

Note 5

Director and Key Management Personnel Compensation

(a) Names and positions held of the group and parent entity key management personnel in office at any time during the financial year are:

Directors	Position
Mr Christian Lange	Managing Director
Mr Ross Kennan	Non Executive Chairman
Ms Cathryn Curtin	Non Executive Director
Mr David Agostini	Non Executive Director
Mr Robert Scott	Non Executive Director

Key Management Personnel

Mr Nino Amato	General Manager - Link Weld Engineering Pty Ltd
Mr Russell Collins	Pipelines Business Manager - Subsea Developments (Australasia Pty Ltd
Mr Graeme Creedon	Operations Manager
Mr Geoffrey Edwards	Chief Financial Officer
Mr David Husband	Subsea Business Manager - Subsea Developments (Australasia) Pty Ltd
Mr Colin Murphy	General Manager - Allied Diving Services Pty Ltd
Mr Geoffrey O'Connor	Business Development Manager
Mr Timothy Proctor	General Manager - Territory Diving Services Pty Ltd
Mr Mike Erinakes	President / COO - US Underwater Services LLP

(b) Options Holdings

Number of Options Held by Key Management Personnel

2007	Balance 1 July 2006	Granted as Compensation	Options Exercised	Net Change Other	Balance 30 June 2007	Total Vested 30 June 2007	Total Exercisable 30 June 2007	Total Unexercisable 30 June 2007
Mr Christian Lange	1,000,000	3,000,000	-	-	4,000,000	2,000,000	2,000,000	2,000,000
Mr Nino Amato	-	400,000	-	-	400,000	-	-	400,000
Mr Graeme Creedon	-	100,000	-	-	100,000	-	-	100,000
Mr Geoffrey Edwards	-	400,000	-	-	400,000	-	-	400,000
Mr Geoffrey O'Connor	-	400,000	-	-	400,000	-	-	400,000
Mr Mike Erinakes	-	400,000	-	-	400,000	-	-	400,000
Mr David Agostini	200,000	-	-	-	200,000	200,000	200,000	-
	1,200,000	4,700,000	-	-	5,900,000	2,200,000	2,200,000	3,700,000

The 'net change other' column above includes those options that have been forfeited by holders as well as options issued during the year under review.

Further disclosure of options granted and exercised during the year can be found on page 6 of the Directors report.

NOTES (cont'd)

(c) Shareholdings

Number of Shares held by Key Management Personnel

2007 Directors	Balance 1 July 2006	Received as Compensation	Options Exercised	Net Change Other*	Balance 30 June 2007
Mr Christian Lange	61,376	-	-	352,102	413,478
Mr Ross Kennan	-	-	-	-	-
Ms Cathryn Curtin	55,000	-	-	29,000	84,000
Mr David Agostini	6,000	-	-	41,250	47,250
Mr Robert Scott	-	-	-	-	-
Mr Clive Langley	8,400,000	-	-	(8,400,000)	-
Key Management Personnel					
Mr Nino Amato	-	-	-	402,711	402,711
Mr Russell Collins	-	-	-	2,767,573	2,767,573
Mr Graeme Creedon	-	-	-	-	-
Mr Geoffrey Edwards	-	-	-	70,067	70,067
Mr David Husband	-	-	-	2,767,573	2,767,573
Mr Colin Murphy	-	-	-	328,125	328,125
Mr Geoffrey O'Connor	-	-	-	3,150	3,150
Mr Timothy Proctor	-	-	-	3,700	3,700
Mr Mike Erinakes	-	-	-	6,123,438	6,123,438
	8,522,376	-	-	4,488,689	13,011,065

* 'Net change other' refers to shares purchased, sold or granted as part of an acquisition during the financial year.

Note 6 Auditors' Remuneration

	Consolidated Group		Parent Entity	
	2007 $000'	2006 $000	2007 $000	2006 $000
Remuneration of the auditor of the parent entity for:				
-auditing or reviewing the financial report	73	16	73	16
-Other services	-	1	-	1
	73	17	73	17
Remuneration of other auditors of subsidiaries for:				
- auditing or reviewing the financial report of subsidiaries	18	-	8	-

Note 7 Dividends

No dividends have been provided for or paid during the year 1 July 2006 to 30 June 2007.

NOTES (cont'd)

Note 8 Earnings per Share

	Consolidated Group	
	2007 $000	2006 $000
(a) Loss used in the calculation of EPS	6,375	2,736

(b) Weighted average number of ordinary shares outstanding	No.	No
during the year used in calculating basic EPS	97,747,622	32,799,394

Due to the consolidated entity making a loss during the year, diluted EPS can only decrease the loss per share and therefore are disclosed as the same as basic EPS.

Note 9 Cash and Cash Equivalents

	Consolidated Group		Parent Entity	
	2007 $000	2006 $000	2007 $000	2006 $000
Cash at bank and in hand	16,030	382	14,325	380
Short-term bank deposits	-	800	-	800
	16,030	1,182	14,325	1,180

The effective interest rate on short-term bank deposits was 5.85% (2006: 5.7%); these deposits have an average maturity of 120 days (2006: 30 days).

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	16,030	1,182	14,325	1,180
	16,030	1,182	14,325	1,180

NOTES (cont'd)

Note 10 Trade and Other Receivables

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$000	$000	$000	$000
CURRENT				
Trade receivables	10,018	159	2,042	159
Provision for impairment of receivables	-	-	-	-
	10,018	159	2,042	159
Other receivable	361	62	134	61
Interest receivable	-	2	-	2
Less: Provision for doubtful amounts - other receivables	(39)	(29)	(29)	(29)
	10,340	194	2,147	193
NON-CURRENT				
Amounts receivable from:				
- wholly-owned entities	-	-	31,563	-
Security deposit	362	108	359	108
	362	108	31,922	108

Note 11 Inventories

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$000	$000	$000	$000
CURRENT				
At cost				
Work in progress	1,579	11	-	11
Finished goods	24	-	-	-
	1,603	11	-	11

NOTES (cont'd)

Note 12 Financial Assets

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		$000	$000	$000	$000"
NON CURRENT					
Investment in controlled entities - at cost	(a)	-	-	16,519	29
Less: provision for diminution in value		-	-	(7)	(7)
		-	-	16,512	22

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		$000	$000	$000	$000"
((a)) Investments in controlled entities					
(ii) Unlisted					
Investment at cost - Neptune Marine Europe ApS		-	-	29	29
Less: provision for diminution in value - Neptune Marine Europe Aps		-	-	(7)	(7)
Investment at cost - Allied Diving Services		-	-	2,729	-
Investment at cost - Territory Diving Services		-	-	4,134	-
Investment at cost - Other		-	-	92	-
Investment at cost - Neptune Marine Services International		-	-	9,535	-
		-	-	16,512	22

Note 13 Controlled Entities

(a) Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)*	
Parent Entity:		2007	2006
Neptune Marine Services Limited	Australia		
Ultimate Parent Entity:			
Neptune Marine Services Limited	Australia		
Subsidiaries of Neptune Marine Services Limited:			
Allied Diving Services Pty Ltd	Australia	100.00%	0.00%
Territory Diving Services Pty Ltd	Australia	100.00%	0.00%
Neptune Marine Services International Pty Ltd	Australia	100.00%	0.00%
Link Weld Engineering Pty Ltd	Australia	100.00%	0.00%
Subsea Developments (Australasia) Pty Ltd	Australia	100.00%	0.00%
US Underwater Services LLC	United States of America	100.00%	0.00%
Neptune Delaware Holdings Inc	United States of America	100.00%	0.00%
US Underwater Management LLC	United States of America	100.00%	0.00%
US Underwater Services LP	United States of America	100.00%	0.00%
Neptune Marine Europe (Aps)	Denmark	100.00%	100.00%

* Percentage of voting power is in proportion to ownership

NOTES (cont'd)

(b) Acquisition of Controlled Entities

Details of the acquisitions of controlled entities during the year ended 30 June 2007 can be found at note 31 'Business Combinations'.

Note 14 Property, Plant and Equipment

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$000	$000	$000	$000
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	3,207	96	146	96
Accumulated amortisation	(677)	(23)	(63)	(23)
	2,530	73	83	73
Leasehold improvements				
At cost	157	56	74	56
Accumulated amortisation	(31)	(14)	(28)	(14)
Total Leasehold Improvements	126	42	46	42
Leased vehicle				
At cost	911	32	34	32
Accumulated depreciation	(88)	(7)	(15)	(7)
	823	25	19	25
Office furniture and equipment				
At cost	694	89	436	89
Accumulated depreciation	(87)	(30)	(59)	(30)
	607	59	377	59
Total plant and equipment	4,086	199	525	199
Total Property, Plant and Equipment	4,086	199	525	199

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NOTES (cont'd)

(a) Movements in Carrying Amounts

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Office Furniture and Equipment $000	Leasehold Improvements $000	Plant and Equipment $000	Leased Vehicle $000	Total $000
Consolidated Group:					
Balance at 1 July 2005	49	1	19	32	101
Additions	33	50	72	-	155
Disposals	(3)	-	-	-	(3)
Additions through acquisition of entities	-	-	-	-	-
Depreciation expense	(20)	-	(18)	-	(38)
Amortisation	-	(9)	-	(7)	(16)
Balance at 30 June 2006	59	42	73	25	199
Additions	348	15	40	149	552
Disposals	-	-	-	-	-
Additions through acquisition of entities	238	81	2,544	687	3,550
Revaluation increments / (decrements)	-	-	-	-	
Depreciation expense	(38)	(12)	(127)	(38)	(215)
Balance at 30 June 2007	607	126	2,530	823	4,086
Parent Entity:					
Balance at 1 July 2005	49	1	19	32	101
Additions	33	50	72	-	155
Disposals	(3)	-	-	-	(3)
Additions through acquisition of entities	-	-	-	-	-
Depreciation expense	(20)	-	(18)	-	(38)
Amortisation	-	(9)	-	(7)	(16)
Balance at 30 June 2006	59	42	73	25	199
Additions	347	14	17	1	379
Disposals	-	-	-	-	-
Depreciation expense	(29)	(10)	(7)	(7)	(53)
Balance at 30 June 2007	377	46	83	19	525

NOTES (cont'd)

Note 15 Intangible Assets

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$000	$000	$000	$000
Intellectual property at cost	30	30	30	30
Accumulated impairment losses	(30)	(30)	(30)	(30)
Net carrying value	-	-	-	-
Goodwill				
Cost	51,020	-	-	-
Reduction in deferred payments	(922)			
Foreign exchange differences	(721)			
Accumulated impairment losses	(4,895)	-	-	-
Net carrying value	44,482	-	-	-
Patents				
Cost 30	30	30	30	30
Accumulated impairment losses	(30)	(30)	(30)	(30)
Net carrying value	-	-	-	-
Total intangibles	44,482	-	-	-

Intangible assets, other than goodwill have finite useful lives. The current amortisation charges in respect of intangible assets are included under depreciation and amortisation expense per the income statement. Goodwill has an infinite life and is tested annually for impairment.

Note 16 Other Assets

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$000	$000	$000	$000
CURRENT				
Prepayments	571	83	383	83
Deposits	11	-	-	-
	582	83	383	83

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NOTES (cont'd)

Note 17 Trade and Other Payables

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$000	$000	$000	$000
CURRENT				
Unsecured liabilities				
Trade payables	3,494	626	1,214	620
Sundry payables and accrued expenses	1,997	70	730	70
Deferred consideration	2,834	-	374	-
	8,325	696	2,318	690
NON-CURRENT				
Unsecured liabilities				
Deferred consideration	5,186	-	575	-
Unsecured loan owing to controlled entity	-	-	19	25
	5,186	-	594	25

Note 18 Financial Liabilities

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		$000	$000	$000	$000
CURRENT					
Unsecured liabilities					
Hire purchase liability	23	72	21	41	21
Other		358	-	350	-
		430	21	391	21
Secured liabilities					
Bank loans	18 (a), (b), (c)	1,690	-	-	-
		1,690	-	-	-
		2,120	21	391	21
NON-CURRENT					
Unsecured liabilities					
Hire purchase liabilities	23	193	50	18	50
		193	50	18	50
Secured liabilities					
Bank loans	18 (a), (b), (c)	4,414	-	-	-
		4,414	-	-	-
		4,607	50	18	50

NOTES (cont'd)

(a) Total current and non-current secured liabilities:

	Consolidated Group		Parent Entity	
	2007 $000	2006 $000	2007 $000	2006 $000
Bank loan	6,104	-	-	-
	6,104	-	-	-

(b) The carrying amounts of non-current assets pledged as security are:

	Consolidated Group		Parent Entity	
	2007 $000	2006 $000	2007 $000	2006 $000
Floating charge over assets, including listed investments at market value	6,104	-	-	-
	6,104	-	-	-

(c) The bank loans are secured by charge over the assets of the parent entity and the subsidiaries.

Note 19 Tax

	Consolidated Group		Parent Entity	
	2007 $000	2006 $000	2007 $000	2006 $000
Liabilities				
CURRENT				
Income Tax	52	-	-	-
TOTAL	52	-	-	-

NON-CURRENT	**Opening Balance**	**Charged to Income**	**Charged directly to Equity**	**Changes in Tax Rate**	**Exchange Differences**	**Closing Balance**
Consolidated Group	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Deferred Tax Assets						
Balance as at 30 June 2006	-	-	-	-	-	-
Provisions	-	197	-	-	-	197
Accruals	-	201	-	-	-	201
Capital Costs	-	-	770	-	-	770
Unused tax losses	-	991	-	-	-	991
Balance as at 30 June 2007	-	1,389	770	-	-	2,159

Deferred tax assets are not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur.

NOTES (cont'd)

NON-CURRENT	Opening Balance	Charged to Income	Charged directly to Equity	Changes in Tax Rate	Exchange Differences	Closing Balance
Parent Entity	$000	$000	$000	$000	$000	$000
Deferred Tax Assets	-	-	-	-	-	-
Balance as at 30 June 2006	-	-	-	-	-	-
Provisions	-	175	-	-	-	175
Accruals	-	125	-	-	-	125
Capital Costs	-	-	770	-	-	770
Unused tax losses	-	843	-	-	-	843
Balance as at 30 June 2007	-	1,143	770	-	-	1,913

Deferred tax assets are not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur.

Note 20 Provision for Long-term Employee Benefits

	Consolidated Group		Parent Entity	
	2007	**2006**	**2007**	**2006**
	$000	**$000**	**$000**	**$000**
Employee Entitlements				
CURRENT				
Provision for employee entitlements	548	51	125	51
Analysis of Total Provisions				
Current	548	51	125	51
Non-current	-	-	-	-
	548	51	125	51

Provision for Employee Entitlements

No provision has been recognised for employee entitlements relating to long service leave. The calculations performed including probability calculations, showed that there was not a requirement to provide for long service leave in the parent entity or any of the subsidiaries.

Note 21 Issued Capital

	Consolidated Group		Parent Entity	
	2007	**2006**	**2007**	**2006**
	$000	**$000**	**$000**	**$000**
204,964,014 (2006: 34,030,501) fully paid ordinary shares	66,011	4,559	66,011	4,559
	66,011	4,559	66,011	4,559

NOTES (cont'd)

(a) Ordinary Shares		Consolidated Group		Parent Entity	
		2007	2006	2007	2006
	No.	$	$	$	$
At the beginning of reporting period	32,124,501	4,558,705	4,082,505	4,558,705	4,082,505
Shares issued during year					
- 2006 year - Exercise of Directors options	1,900,000	-	475,000	-	475,000
- 2006 year - Exercise of Listed options	6,000	-	1,200	-	1,200
- 7 July 2006 - Exercise of options	26,520	5,304	-	5,304	-
- 9 August 2006 - Share purchase plan	1,784,397	571,007	-	571,007	-
- 25 October 2006 - Placement	5,000,000	1,000,000	-	1,000,000	-
- 2 November 2006 - Exercise of options	93,350	18,670	-	18,670	-
- 22 November 2006 - Exercise of options	5,000	1,000	-	1,000	-
- 30 November 2006 - Rights issue shares	81,771,336	16,354,267	-	16,354,267	-
- 4 December 2006 - Vendor shares - Allied Diving	625,000	125,000	-	125,000	-
- 4 December 2006 - Vendor shares - Territory Diving	1,875,000	450,000	-	450,000	-
- 5 February 2007 - Exercise of options	200,000	86,400	-	86,400	-
- 14 February 2007 - Exercise of options	54,013	10,803	-	10,803	-
- 2 March 2007 - Vendor shares - Subsea Developments	7,907,348	3,953,624	-	3,953,624	-
- 29 March 2007 - Vendor shares - Link Weld	4,027,119	2,416,271	-	2,416,271	-
- 3 April 2007 - Exercise of options	100,000	20,000	-	20,000	-
- 13 April 2007 - Exercise of options	210,000	42,000	-	42,000	-
- 26 April 2007 - Exercise of options	69,760	13,952	-	13,952	-
- 4 May 2007 - Exercise of options	1,679,850	335,970	-	335,970	-
- 11 May 2007 - Exercise of options	2,773,015	554,603	-	554,603	-
- 28 May 2007 - Exercise of options	212,700	42,540	-	42,540	-
- 31 May 2007 - Placement	50,000,000	30,000,000	-	30,000,000	-
- June 2007 - Vendor Shares - USUS	3,561,343	2,770,550	-	2,770,550	-
- 7 June 2007 - Vendor Shares - USUS	1,209,716	943,578	-	943,578	-
- 7 June 2007 - Vendor Shares - USUS	789,193	613,398	-	613,398	-
- 8 June 2007 - Exercise of options	58,853	11,771	-	11,771	-
- 13 June 2007 - Rights issue shares	6,900,000	4,140,000	-	4,140,000	-
Less transaction costs for capital raising activities					
- Capital raising costs to June 2007		(3,028,081)		(3,028,081)	
At reporting date	204,964,014	66,011,332	4,558,705	66,011,332	4,558,705

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

NOTES (cont'd)

(b) Options

(i) For information relating to the Neptune Marine Services Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end. Refer to Note 27: Share-based Payments.

(ii) For information relating to share options issued to key management personnel during the financial year. Refer to Note 27: Share-based Payments.

Note 22 Reserves

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$000	$000	$000	$000
Foreign currency translation reserve	(315)	-	-	-
Option reserve	2,110	1,184	2,110	1,184
	1,795	1,184	2,110	1,184
Movements:				
Foreign currency translation reserve				
Balance at 1 July	-	-	-	-
Currency translation difference arising during the year	(315)	-	-	-
Balance at 30 June	315	-	-	-
Option reserve				
Balance at 1 July	1,184	554	1,184	554
Cost of options issued to employees	926	630	926	630
Balance at 30 June	2,110	1,184	2,110	1,184

Note 23 Capital and Leasing Commitments

		Consolidated Group		Parent Entity	
	Note	2007	2006	2007	2006
		$000	$000	$000	$000
(a) Finance Lease Commitments					
Payable - minimum lease payments					
- not later than 12 months		95	27	45	27
- between 12 months and 5 years		220	56	19	56
- greater than 5 years		-	-	-	-
Minimum lease payments		315	83	64	83
Less future finance charges		(50)	(12)	(5)	(12)
Present value of minimum lease payments	18	265	71	59	71

The finance leases relate to motor vehicles, a truck and the leasehold improvement of premises for Neptune Marine Services Limited and several of the subsidiaries. All finance leases will be settled within the next 5 years.

NOTES (cont'd)

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$000	$000	$000	$000
(b) Operating Lease Commitments				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable - minimum lease payments				
- not later than 12 months	588	70	136	70
- between 12 months and 5 years	1,980	306	414	306
- greater than 5 years	59	69	-	69
	2,627	445	550	445

All operating leases of the parent and consolidated entity relate to the leasing of premises. All leases are payable monthly.

(c) Capital Expenditure Commitments

The consolidated group of Neptune Marine Services did not have any capital commitments at 30 June 2007.

At 30 June 2007 Neptune Marine Services Ltd had entered into an agreement to purchase Tri-Surv Pty Ltd, please refer to note 28 for details.

Note 24 Contingent Liabilities and Contingent Assets

The consolidated group of Neptune Marine Services was not aware of any contingent liabilities or contingent assets at the date of this report.

Related party guarantees provided by the parent entity

The parent entity has provided guarantees to third parties in relation to the interest bearing loan in US Underwater Services. The guarantee is secured over the assets of the consolidated group of Neptune Marine Services, to the extent of the interest bearing liability in the United States.

At 30 June 2007 the outstanding principal of the interest bearing liability was $6,104,000.

NOTES (cont'd)

Note 25 Segment Reporting

	Diving Services and NEPSYS		Engineering and Fabrication		Total	
	2007 $000	2006 $000	2007 $000	2006 $000	2007 $000	2006 $000
Primary Reporting - Business Segments						
REVENUE						
External Sales	8,654	1,766	6,882	-	15,536	1,766
Other segments	147	-	69	-	216	-
Total sales revenue	8,801	1,766	6,951	-	15,752	1,766

	Diving Services and NEPSYS		Engineering and Fabrication		Total	
	2007 $000	2006 $000	2007 $000	2006 $000	2007 $000	2006 $000
Segment Profit	2,722	384	952	-	3,674	384
Non operating movement					(10,049)	(3,120)
RESULT						
Profit/(Loss)					(6,375)	(2,736)
ASSETS						
Segment assets	53,233	1,777	24,252	-	77,485	1,777
LIABILITIES						
Segment liabilities	11,111	818	9,727	-	20,838	818

Secondary Reporting - Geographical Segments

	Segment Revenues from External Customers		Carrying Amount of Segment Assets	
	Consolidated Group		Parent Entity	
	2007 $000	2006 $000	2007 $000	2006 $000
Geographical location:				
Australia	14,729	1,766	70,569	1,777
United States of America	807	-	6,916	-
	15,536	1,766	77,485	1,777

NOTES (cont'd)

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arm's length. These transfers are eliminated on consolidation.

Business and Geographical Segments

Business segments

The consolidated group has the following two business segments:

- Diving Services and NEPSYS: This segment provides underwater diving services both domestically and internationally, coupled with the patented integrated NEPSYS technology of underwater welding.

- Engineering and Fabrication: This segment offers engineering services together with the fabrication and manufacture of goods required by clients.

Geographical segments

The consolidated group's business segments are located in Australia, with the diving services and NEPSYS technology division also having operations in the USA and Gulf of Mexico. Only minor services are provided to countries outside of Australia and the USA.

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NOTES (cont'd)

Note 26 Cash Flow Information

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$000	$000	$000	$000
(a) Reconciliation of Cash Flow from Operations with Profit/(Loss) after Income Tax				
Profit/(Loss) after income tax	(6,375)	(2,736)	(970)	(2,736)
Cash flows excluded from loss attributable to operating activities				
- Finance costs on discounted deferred payments	269	-	89	-
Non-cash flows in profit				
- Amortisation	53	16	-	16
- Depreciation	162	38	53	38
- Write-off of capitalised expenditure	6	-	5	-
- Write-downs to recoverable amount	-	-	-	3
- Share options expensed	926	630	926	630
- Foreign exchange losses	369	-	369	-
- Impairment loss	4,895	-	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
- (Increase)/decrease in trade and term receivables	(5,298)	(110)	(3,874)	(110)
- (Increase)/decrease in prepayments	(242)	(74)	(300)	(74)
- (Increase)/decrease in inventories	(814)	(10)	11	(10)
- Increase/(decrease) in trade payables and accruals	2,236	481	1,255	478
- Increase/(decrease) in income taxes payable	52	-	-	-
- Increase/(decrease) in deferred taxes payable				
- Increase/(decrease) in provisions	497	30	74	30
Cash flow from operations	(3,264)	(1,735)	(2,362)	(1,735)

(b) Acquisition of Entities

Details with regard to the various components including cash paid for the five entities purchased during the year can be found at note 31 'Business Combinations

(c) Loan Facilities

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$000	$000	$000	$000
Loan facilities	7,068,000	-	-	-
Amount utilised	(6,104,000)	-	-	-
	964,000	-	-	-

NOTES (cont'd)

The major facilities are summarised as follows:

Revolving loan facility
US$6,000,000 loan facility. The facility expires in 2010.
Finance will be provided under all facilities provided the company and the consolidated group have not breached any borrowing requirements and the required financial ratios are met.

Note 27 Share-based Payments

The following share-based payment arrangements existed at 30 June 2007:

Incentive Option Scheme

The Company operates an ownership-based incentive scheme known as the Neptune Marine Services Limited Incentive Option Scheme ("Scheme"), which was approved by shareholders at a general meeting held on 25 November 2005.

The Scheme provides for employees, directors and others involved in the management of the Company to be offered options for no consideration. Each option is convertible to one ordinary share. The Board may determine the exercise price of the options in its absolute discretion. Subject to the ASX Listing Rules, the exercise price may be nil but to the extent the Listing Rules specify or require a minimum price, the exercise price in respect of an offer made must not be less than any minimum price specified in the Listing Rules. Options issued under the Scheme that have not lapsed may be exercised at any time up to the date which is 5 years after the date of the grant of the options, or such other expiry date as the Board determines in its discretion at the time of grant. There are no voting or dividend rights attached to the options.

Options may not be offered under the Scheme if the total number of shares which would be issued were each option accepted, together with the number of shares in the same class or options to acquire such shares issued pursuant to all employee or executive share schemes during the previous five years, exceeds 5% of the total number of issued shares in that class as at the date of the offer.

All options granted to key management personnel are ordinary shares in Neptune Marine Services Limited which confer a right of one ordinary share for every option held.

The number and weighted average exercise price (WAEP) of options is as follows:

	Consolidated Group				Parent Entity			
	2007		2006		2007		2006	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	1,400,000	0.71	650,000	0.99	1,400,000	0.73	650,000	0.99
Granted	4,700,000	0.57	950,000	0.56	4,700,000	0.57	950,000	0.56
Forfeited	-	-	-	-	-	-	-	-
Exercised	(200,000)	-	-	-	(200,000)	-	-	-
Expired	-	-	(200,000)	0.90	-	-	(200,000)	0.90
Outstanding at year-end	5,900,000	0.62	1,400,000	0.73	5,900,000	-	1,400,000	0.73
Exercisable at year-end	2,200,000	-	1,400,000	-	2,200,000	-	1,400,000	-

NOTES (cont'd)

There were 200,000 options exercised under the incentive option scheme during the year ended 30 June 2007

The options outstanding at 30 June 2007 had a weighted average exercise price of $0.60 and a weighted average remaining contractual life of 5 years. Exercise prices range from $0.28 to $0.99 in respect of options outstanding at 30 June 2007

The weighted average fair value per option granted during the year was $0.51.

This price was calculated by using a Binomial option pricing model applying the following inputs:

	Mr C Lange	Other Options
Weighted average exercise price	$0.60	$0.56
Weighted average life of the option	10 years	5 years
Underlying share price	$0.79	$0.58
Expected share price volatility	50%	50%
Risk free interest rate	6.40%	6.40%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future tender, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under employee benefits expense in the income statement is $926,341 this relates in full, to equity-settled share-based payment transactions.

Note 28 Events After the Balance Sheet Date

Neptune Marine Services Limited completed the acquisition of specialist hydrographic surveying company Tri-Surv Pty Ltd ("Tri-Surv") on the 17th August 2007. Neptune acquired all of the issued capital of Tri-Surv for $16.4 million up front, paid in $11,370,805 cash; 7,332,188 in fully paid ordinary shares at 64 cents each, and has agreed to grant 525,000 unlisted options to Tri-Surv employees under the company's employee incentive option scheme. The options granted to employees, at the request of the founders of Tri-Surv, was in lieu of issuing shares.

In addition to the consolidation paid at completion, Neptune will pay the Vendors 60% of Tri-Surv's EBIT under an earn-out arrangement for the next 3 years. The earn-out will be paid 70% in cash and 30% in Neptune ordinary shares. All shares issued as part of the purchase price will be held in voluntary escrow for 12 months.

NOTES (cont'd)

Note 29 Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

	Consolidated Group		Parent Entity	
	2007	**2006**	**2007**	**2006**
	$000	**$000**	**$000**	**$000**
(a) Associated Companies				
Allied Diving Services a subsidiary of Neptune Marine Services Ltd, currently leases premises from Peter Sare and Colin Murphy (through a related superannuation fund). Colin is an employee of the Neptune Marine Services group.	20	-	-	-
US Underwater Services a subsidiary of Neptune Marine Services Ltd, currently leases premises from Michael and Angie Erinakes and their associated entities. Michael and Angie are both employees of the Neptune Marine Services group.	14	-	-	-
(b) Other Related Parties				
Mr C Langley who resigned as an executive director on 17 May 2007 holds a position in XLT Industrial Training Pty Ltd that results in him having control or significant influence over the financial or operating policies of that entity. That entity transacted with the Company in the reporting period. The terms and conditions of those transactions are considered to be no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.				
Aggregate expenses paid by the consolidated group to XLT Industrial Training Pty Ltd, of which Mr C Langley has significant influence.	177	112	177	112

NOTES (cont'd)

Note 30 Financial Instruments

(a) Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills, leases, preference shares, and derivatives.

The main purpose of non-derivative financial instruments is to raise finance for group operations. Derivatives are used by the group for hedging purposes. Such instruments include forward exchange and currency option contracts and interest rate swap agreements. The group does not speculate in the trading of derivative instruments.

(i) Financial Risks

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, and credit risk.

Interest rate risk

Cash and cash equivalents

The company held its cash reserves on deposit and in cheque accounts during the year, which earned interest at rates ranging between 0% and 5.85% (2006 0% and 5.75%) depending on account balances.

Other than cash, all the Company's financial assets are non-interest bearing.

Interest bearing liabilities

Interest bearing liabilities are comprised of hire purchase agreements of $265,000, bank loans of $6,104,000, and other finance arrangements of $358,000. Refer note 18 for details.

Other than the hire purchase agreements, bank loans and other finance arrangements, all the company's financial assets are non-interest bearing.

Foreign currency risk

The consolidated entity is exposed to foreign currency on sales, purchases, investments, intercompany loans and other borrowings that are denominated in a currency other than Australian Dollars. The currency giving rise to this risk are primarily US dollars.

At this stage the group does not seek to hedge this exposure.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. Certain businesses within the consolidated entity are largely reliant on a small number of customers which increases the concentration of credit risk. However, as the consolidated entity deals mainly with large reputable clients, the concentration of credit risk is minimised. Management does not expect any losses as a result of counterparty default.

Credit risk is managed through the credit approval process instigated by management at head office and by monitoring counterparties periodically.

At reporting date, there was no significant concentration of credit risk at group level. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivatives in the balance sheet.

NOTES (cont'd)

b) Financial Instruments

Interest rate swaps

Interest rate swap transactions entered into by the consolidated group to exchange variable interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. The consolidated group has variable interest rate debt and enters into swap contracts to pay interest at fixed rates.

The notional principal amounts of the swap contracts ($4,311,970) approximates the consolidated group's borrowing facility. The settlement dates of the swap contracts correspond with interest payment dates of the borrowings. The swap contracts require settlement of the net interest payable and are brought to account as an adjustment to borrowing costs.

(ii) Interest Rate Risk

The consolidated group's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate $000		Fixed Interest Rate Maturing Within Year $000		Fixed Interest Rate Maturing 1 to 5 years $000"	
	2007	2006	2007	2006	2007	2006	2007	2006
Financial Assets:								
Cash and cash equivalents	5.85%	5.75%	16,030	1,182	-	-	-	-
Receivables								
Total Financial Assets			16,030	1,182	-	-	-	-
Financial Liabilities:								
Bank loans and overdrafts	5.50%	0.00%	-	-	2,048	-	4,414	-
Trade and sundry payables								
Lease liabilities	8.02%	9.00%			72	21	193	50
Total Financial Liabilities			-	-	2,120	21	4,607	50

	Fixed Interest Rate Maturing Over 5 Years $000		Non-interest Bearing $000		Total $000	
	2007	2006	2007	2006	2007	2006
Financial Assets:						
Cash and cash equivalents	-	-	-	-	16,030	1,182
Receivables	-	-	10,713	302	10,713	302
Total Financial Assets	-	-	10,713	302	26,743	1,484
Financial Liabilities:						
Bank loans and overdrafts	-	-	-	-	6,462	-
Trade and sundry payables	-	-	13,511	696	13,511	696
Lease liabilities	-	-	-	-	265	71
Total Financial Liabilities	-	-	13,511	696	20,238	767

NOTES (cont'd)

(iii) Net Fair Value

The financial assets and liabilities included in assets and liabilities in the balance sheet are carried at amounts that approximate net fair values, determined in accordance with generally accepted models based on discounted cash flow theory.

The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows:

	2007		2006	
	Carrying Amount $000	**Net Fair Value $000**	**Carrying Amount $000**	**Net Fair Value $000**
Financial Assets				
Cash and cash equivalents	16,030	16,030	1,182	1,182
Loans and receivables	10,713	10,713	302	303
	26,743	26,743	1,484	1,485

	2007		2006	
	Carrying Amount $000	**Net Fair Value $000**	**Carrying Amount $000**	**Net Fair Value $000**
Financial liabilities				
US bank loan	6,104	6,104	-	-
Interest bearing liabilities	265	265	72	72
Other finance arrangements	358	358	-	-
Trade and other payables	13,511	13,511	695	695
	20,238	20,238	767	767

Note 31 Business Combinations

Link Weld Engineering Business Assets

Acquisition of Link Weld Engineering Business Assets

On 28 March 2007, Neptune Marine Services Limited acquired the business assets from Link Weld Engineering Pty Ltd a private company based in Western Australia specialising in engineering, fabrication and installation for the onshore and offshore oil and gas and mining industry. The total cost of the combination was $9,703,119 and comprised an issue of equity instruments, the payment of cash and costs directly attributable to the combination. The Group issued 4,027,119 ordinary shares with a fair value of $0.60 each, based on the quoted price of the shares of Neptune Marine Services Ltd at the date of exchange. The deferred payment amount is equal to the present value of six instalments of $500,000 each payable at six monthly intervals commencing from the acquisition date by way of cash as to 70% and ordinary shares issued at the volume weighted average price for the prior 20 business days as to 30%. At the date of acquisition, the fair value of the identifiable assets and liabilities of Link Weld Engineering business were:

NOTES (cont'd)

Acquisition of Link Weld Engineering Business Assets (continued)

	Consolidated Recognised on acquisition $
Plant and equipment	590,101
Inventories	750,061
Fair value of identifiable net assets	1,340,162
Goodwill arising on acquisition	8,362,957
	9,703,119
Cost of combination	
- Shares issued, at fair value	2,416,271
- Cash paid	4,112,163
- Deferred settlement	2,591,993
- Direct costs relating to the acquisition	582,692
Total cost of the combination	9,703,119
The cash outflow on acquisition is as follows:	
- Cash paid	(4,694,855)
Net consolidated cash outflow	(4,694,855)

From the date of acquisition, Link Weld Engineering has contributed $451,388 (excluding goodwill impairment and corporate overheads) to the net profit of the Group.

If the combination had taken place at the beginning of the year, the loss from continuing operations for the Group would have decreased $2,600,000 and revenue from continuing operations would have increased ($14,225,000) (these figures have not been audited).

The goodwill recognised on the acquisition is attributable mainly to the historic, present and projected earnings of the business.

The above goodwill arising on acquisition of Link Weld Engineering of $8,362,957 has been reduced by $1,228,271 to account for an impairment of the goodwill due to the fair value of ordinary shares issued in Neptune Marine Services Ltd of $0.60 at the date of exchange of control differing from the value of an ordinary share in Neptune Marine Services Ltd of $0.295 on the date agreement was made as to the number of shares the vendor was to receive as consideration.

Disclosure of book values of assets and liabilities at date of acquisition has not been provided as it is deemed impracticable .

NOTES (cont'd)

Subsea Developments (Australasia) Business Assets

Acquisition of Subsea Developments (Australasia) Business Assets

On 2 March 2007, Neptune Marine Services Limited acquired the business assets of Subsea Developments (Australasia) Pty Ltd a private company based in Western Australia specialising in engineering design for the onshore and offshore oil and gas and mining industry. The total cost of the combination was $11,649,876 and comprised an issue of equity instruments, the payment of cash and costs directly attributable to the combination. The Group issued 7,907,348 ordinary shares with a fair value of $0.50 each, based on the quoted price of the shares of Neptune Marine Services Ltd at the date of exchange. The deferred payment amount is equal to the present value of the estimate of earnings before interest and tax up $1.5 million plus 30% of the estimate of earnings before interest and tax in excess of $1.5 million for the three years from the date of acquisition. The deferred payments are payable annually 14 days subsequent to the anniversary of the acqusition date by way of cash as to 55% and ordinary shares issued at the volume weighted average price for the prior 20 business days as to 45%. At the date of acquisition, the fair value of the identifiable assets and liabilities of Subsea Developments business were:

	Consolidated Recognised on acquisition $
Plant and equipment	10,000
Fair value of identifiable net assets	10,000
Goodwill arising on acquisition	11,639,876
	11,649,876
Cost of combination	
- Shares issued, at fair value	3,953,674
- Cash paid	3,025,000
- Deferred Settlement	4,299,915
- Direct costs relating to the acquisition	371,287
Total cost of the combination	11,649,876
The cash outflow on acquisition is as follows:	
- Cash paid	(3,396,287)
Net consolidated cash outflow	(3,396,287)

From the date of acquisition, Subsea Developments (Australasia) has contributed $452,368 (excluding goodwill impairment and corporate overheads) to the net profit of the Group.

If the combination had taken place at the beginning of the year, the loss from continuing operations for the Group would have decreased $1,500,000 and revenue from continuing operations would have increased $10,000,000 (these figures have not been audited)

The goodwill recognised on the acquisition is attributable mainly to the historic, present and projected earnings of the business.

NOTES (cont'd)

Subsea Developments (Australasia) Business Assets (cont'd)

The above goodwill arising on acquisition of Subsea Developments (Australasia) of $11,639,876 has been reduced by $1,478,674 to account for an impairment of the goodwill due to the fair value of ordinary shares issued in Neptune Marine Services Ltd of $0.50 at the date of exchange of control differring from the value of an ordinary share in Neptune Marine Services Ltd of $0.313 on the date agreement was made as to the number of shares the vendor was to receive as consideration.

Disclosure of book values of assets and liabilities at date of acquisition has not been provided as it is deemed impracticable.

Allied Diving Services Pty Ltd

Acquisition of Allied Diving Services Pty Ltd

On 4 December 2006, Neptune Marine Services Limited acquired 100% of the voting shares of Allied Diving Services Pty Ltd an unlisted company based in Western Australia specialising in diving services for the offshore oil and gas industry. The total cost of the combination was $2,728,968 and comprised an issue of equity instruments, the payment of cash and costs directly attributable to the combination. The Group issued 625,000 ordinary shares with a fair value of $0.20 each, based on the quoted price of the shares of Neptune Marine Services Ltd at the date of exchange. At the date of acquisition, the fair value of the identifiable assets and liabilities of Allied Diving Services Pty Ltd were:

	Consolidated
	Recognised on acquisition
	$
Plant and equipment	205,640
Fair value of identifiable net assets	205,640
Goodwill arising on acquisition	2,523,328
	2,728,968
Cost of combination	
- Shares issued, at fair value	125,000
- Cash paid	2,500,000
- Direct costs relating to the acquisition	103,968
Total cost of the combination	2,728,968
The cash outflow on acquisition is as follows:	
- Cash paid	(2,603,968)
Net consolidated cash outflow	(2,603,968))

From the date of acquisition, Allied Diving Services has contributed $218,000 to the net profit of the Group.

If the combination had taken place at the beginning of the year, the loss from continuing operations for the Group would have decreased $500,000 and revenue from continuing operations would have increased $5,000,000 (these figures have not been audited).

NOTES (cont'd)

Acquisition of Allied Diving Services Pty Ltd (cont'd)
The goodwill recognised on the acquisition is attributable mainly to the historic, present and projected earnings of the business.

Disclosure of book values of assets and liabilities at date of acquisition has not been provided as it deemed impracticable.

Territory Diving Services Pty Ltd

Acquisition of Territory Diving Services Pty Ltd

On 4 December 2006, Neptune Marine Services Limited acquired 100% of the voting shares of Territory Diving Services Pty Ltd, an unlisted company based in the Northern Territory specialising in diving services for the offshore oil and gas industry. The total cost of the combination was $5,057,119 and comprised an issue of equity instruments, the payment of cash and costs directly attributable to the combination. The Group issued 625,000 ordinary shares with a fair value of $0.20 each, based on the quoted price of the shares of Neptune Marine Services Ltd at the date of exchange. The deferred payment amount is equal to the present value of 75% for the first year and 50% for the second and third year of earnings before interest from the date of acquisition. The deferred payments are payable annually 14 days subsequent to the anniversary of the acquisition date by way of cash as to 85% and ordinary shares issued at the volume weighted average price for the prior 20 business days as to 15%. At the date of acquisition, the fair value of the identifiable assets and liabilities of Territory Diving Services Pty Ltd were:

	Consolidated
	Recognised on acquisition $
Plant and equipment	659,826
Hire Purchase liabilities	(111,985)
Fair value of identifiable net assets	547,841
Goodwill arising on acquisition	4,509,278
	5,057,119
Cost of combination	
- Shares issued, at fair value	450,000
- Cash paid	2,550,000
- Deferred Settlement	1,781,900
- Direct costs relating to the acquisition	275,219
Total cost of the combination	5,057,119
The cash outflow on acquisition is as follows:	
- Cash paid	(2,825,219)
Net consolidated cash outflow	(2,825,219)

From the date of acquisition, Territory Diving Services has contributed $123,677 to the net profit of the Group.

If the combination had taken place at the beginning of the year, the loss from continuing operations for the Group would have decreased $500,000 and revenue from continuing operations would have increased $2,000,000 (these figures have not been audited).

NOTES (cont'd)

The goodwill recognised on the acquisition is attributable mainly to the historic, present and projected earnings of the business.

The above goodwill arising on acquisition of Territory Diving Services Pty Ltd of $4,509,278 has been reduced by $1,155,104 to account for an impairment of the goodwill.

Disclosure of book values of assets and liabilities at date of acquisition has not been provided as it is deemed impracticable.

US Underwater Services LLP

Acquisition of US Underwater Services LLP

On 6 June 2007, Neptune Marine Services Limited acquired 100% of US Underwater Services LLP through acquiring 100% of the voting shares of US Underwater Services LLC and US Underwater Management LLC both unlisted companies based in the United States of America specialising in diving services for the offshore oil and gas industry in the United States of America. The total cost of the combination was $22,547,392 and comprised an issue of equity instruments, the payment of cash and costs directly attributable to the combination. The Group issued 5,560,252 ordinary shares with a fair value of $0.78 each, based on the quoted price of the shares of Neptune Marine Services Ltd at the date of exchange. At the date of acquisition, the fair value of the identifiable assets and liabilities of US Underwater Services entities were:

	Consolidated
	Recognised on acquisition
	$
Cash and cash equivalents	228,033
Trade receivables	4,847,697
Plant and equipment	2,084,679
Inventories	28,355
Other	245,982
Trade Payables	(2,597,427)
Interest bearing liabilities	(6,274,818)
Fair value of identifiable net assets	(1,437,499)
Goodwill arising on acquisition	23,984,891
	22,547,392
Cost of combination	
- Shares issued, at fair value	4,327,526
- Cash paid	17,965,213
- Direct costs relating to the acquisition	254,653
Total cost of the combination	22,547,392
The cash outflow on acquisition is as follows:	
Cash paid	(18,219,866)
Net consolidated cash outflow	(18,219,866)

From the date of acquisition, US Underwater Services has contributed $126,631 to the net profit of the Group.

NOTES (cont'd)

Acquisition of US Underwater Services LLP (cont'd)

If the combination had taken place at the beginning of the year, the profit from continuing operations for the Group would have increased $4,750,000 and revenue from continuing operations would have been $10,000,000 (these figures have not been audited).

The goodwill recognised on the acquisition is attributable mainly to the historic, present and projected earnings of the business.

The above goodwill arising on acquisition of US Underwater Services LLP of $23,984,891 has been reduced by $1,032,789 to account for an impairment of the goodwill due to the fair value of ordinary shares issued in Neptune Marine Services Ltd of $0.78 at the date of exchange of control differing from the value of an ordinary share in Neptune Marine Services Ltd of $0.49 on the date agreement was made as to the number of shares the vendor was to receive as consideration.

Disclosure of book values of assets and liabilities at date of acquisition has not been provided as it is deemed impracticable.

Note 32 Company Details

The registered office of the company is:

Neptune Marine Services Limited

Level 16, 140 St George's Terrace

Perth Western Australia 6000

The principal place of Neptune Marine Services Limited are:

Neptune Marine Services Limited

Level 16, 140 St George's Terrace

Perth Western Australia 6000

FINANCIALS

DIRECTOR'S DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 10 to 50, are in accordance with the Corporations Act 2001 and

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the company and consolidated group;

2. the Chief Executive Officer and Chief Finance Officer have each declared that:

   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and

   (c) the financial statements and notes for the financial year give a true and fair view.

3. 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.

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

Ross Kennan
Chairman

Dated this 27th day of September, 2007

INDEPENDENT AUDITOR'S REPORT

Stantons International

ABN 41 103 088 697

LEVEL 1, 1 HAVELOCK STREET
WEST PERTH WA 6005, AUSTRALIA
PH: 61 8 9481 3188 • FAX: 61 8 9321 1204
www.stantons.com.au

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
NEPTUNE MARINE SERVICES LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of Neptune Marine Services Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and 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 permitted by the Corporations Regulations 2001, the Company has disclosed the information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration report" on pages 4 to 8, of the Directors' report and not the financial report. We have audited these remuneration disclosures.

Directors' Responsibility for the Financial Report and the AASB 124 remuneration disclosures contained in the Directors' 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 designing, implementing 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 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards, but that the financial report of the Company does not comply.

The directors of the Company are also responsible for the remuneration disclosures contained in the Directors' report.

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. Our responsibility is also to express an opinion that the remuneration disclosures contained in the Directors' report comply with Australian Accounting Standard AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the Directors' 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 and the remuneration disclosures contained in the Directors' 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 and the remuneration disclosures contained in the Directors' report.

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

Member of Russell Bedford International

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FINANCIALS

INDEPENDENT AUDITOR'S REPORT

Independence

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

Auditor's Opinion

In our opinion:

(a) the financial report of Neptune Marine Services Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of 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.

(b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 1.

(c) the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of Australian Accounting Standard AASB 124 Related Party Disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

STANTONS INTERNATIONAL
(An Authorised Audit Company)

J P Van Dieren
Director

West Perth, Western Australia
27 September 2007

ADDITIONAL INFORMATION FOR LISTED COMPANIES

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

1. Shareholding

a. Distribution of Shareholders

Category (size of holding)	Number Ordinary
1 – 1,000	254,223
1,001 – 5,000	3,802,972
5,001 – 10,000	5,501,044
10,001 – 100,000	40,107,155
100,001 – and over	156,182,282

b. The number of shareholdings held in less than marketable parcels is 30,426.

c. The names of the substantial shareholders listed in the holding company's register as at 10 September 2007 is:

Shareholder	Number Ordinary
Bond Street Custodians Limited	20,085,547

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

– Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Redeemable and converting preference shares

– These shares have no voting rights.

ADDITIONAL INFORMATION FOR LISTED COMPANIES

e. 20 Largest Shareholders — Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. Bond Street Custodians Limited (Smaller Co's A/C)	20,085,547	9.74
2. National Nominees Limited	10,173,027	4.94
3. Bond Street Custodians Limited (Long Short EQ Fund)	9,058,948	4.39
4. Bond Street Custodians Limited (Alpha Opp. Fund)	7,227,393	3.51
5. Thorney Investments Pty Ltd	6,437,500	3.12
6. HSBC Custody Nominees Limited	6,432,463	3.12
7. RBC Dexia Investor Services (Aus) Nominees Pty Ltd	6,152,397	2.98
8. J P Morgan Nominees Australia Limited	4,586,546	2.23
9. Bond Street Custodians Limited (Neutral Fund)	4,499,298	2.18
10. HSBC Custody Nominees Limited (Acct 2)	4,175,935	2.03
11. Quotidian No 2 Pty Ltd	3,908,550	1.90
12. Mr Michael Erinakes	3,561,343	1.73
13. HSBC Custody Nominees (Australia) Limited	2,875,000	1.39
14. Collins Industries Pty Ltd	2,767,573	1.34
15. Mr David Husband	2,767,573	1.34
16. Mr Sean O'Reilly	2,635,782	1.28
17. Mr Michael Erinakes	2,562,095	1.24
18. Redback Capital Pty Ltd	2,391,931	1.16
19. Cogent Nominees Pty Ltd	2,346,427	1.14
20. Wannering Pty Ltd	2,204,352	1.07
	106,849,680	51.83

2. The name of the Company Secretary is Gabriel Chiappini.

3. The address of the registered office in Australia is Level 16, 140 St George's Terrace, Perth WA 6000.

   Telephone 08 9226 5722.

4. Registers of securities are held at the following addresses

   Western Australia

   Level 2, Reserve Bank Building, 45 St George's Terrace, Perth WA 6000

5. Stock Exchange Listing

   Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.

FINANCIALS

CORPORATE GOVERNANCE REPORT

Principle	Corporate governance best practice recommendation	Compliance	How we comply
1.1	Formalise and disclose the functions reserved to the Board and those delegated to management	✓	The Board has adopted corporate governance practices and procedures to discharge its responsibilities.
2.1	A majority of the Board should be independent directors	✓	The majority of the Board is independent. The Board considers an independent director to be a non-executive director who meets the criteria for independence included in the ASX Best Practice Recommendations. The Board considers that Mr Ross Kennan, Ms Cathryn Curtin, Mr David Agostini and Mr Robert Scott meet these criteria.
2.2	The chairperson should be an independent director	✓	The Chairman, Mr Ross Kennan, is considered by the Board to be independent.
2.3	The roles of chairperson and Chief Executive Officer should not be exercised by the same individual	✓	The Chairman, Mr Ross Kennan, facilitates the relationship between the Board and, Mr Christian Lange, the Chief Executive Officer.
2.4	The Board should establish a nomination committee	✗	The Company does not presently have a separate nomination or remuneration committee as required by Best Practice Recommendations 2.4 and 9.2 respectively. The size of the Company and Board does not warrant the establishment of a separate nomination committee. The duties of such committee have been considered and adopted by the Board. The Board invites persons with relevant industry experience and financial experience when required to carry out the functions of such committee.
2.5	Provide the following information in the annual report:		
2.5.1	The skills, expertise and experience relevant to the position of director held by each director in office at the date of the annual report	✓	Refer to Directors' Report.
2.5.2	The names of the directors considered by the Board to be independent directors and the Company's materially thresholds (note: the Board should state its reasons if it considers a director to be independent notwithstanding that the director does not meet the definition of independence contained in the ASX Guidelines)	✓	Refer to Directors' Report.

CORPORATE GOVERNANCE REPORT

2.5.3	A statement as to whether there is a procedure agreed by the Board of directors to take independent professional advice at the expense of the Company	✓	The Board and its Committees may seek advice from independent experts whenever it is considered appropriate. The advice is at the Company's expense, subject to the prior approval of the Board.
2.5.4	The term of office held by each director in office at the date of the annual report	✓	Refer to Directors' Report.
2.5.5	The names of members of the nomination committee and their attendance at meeting so the committee	✗	Refer to 2.4
	The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section:		
	a) a description of the procedure for the selection and appointment of new directors to the Board	✗	Refer to 2.4
	b) the charter of the nomination committee or a summary of the role, rights, responsibilities and membership requirements for the committee	✗	Refer to 2.4
	c) the nomination committee's policy for the appointment of directors	✗	Refer to 2.4
3.1	Establish a code of conduct to guide directors, the Chief Executive Officer, the Chief Financial Officer and any other key executives as to: a) the practices necessary to maintain confidence in the Company's integrity	✓	The Board has adopted a Code of Conduct. The code outlines the Company's position on a range of ethical and legal issues including financial inducements, conflicts of interest and accountability. The code applies to directors, employees, and anyone who works with the Company.
3.2	Disclose the policy concerning trading in Company securities by directors, officers and employees	✓	The Board has adopted a policy on Dealing Rules for Employees and Directors. Directors and employees must not deal in the Company's securities during designated prohibited periods and at anytime they have unpublished price sensitive material.
3.3	The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section: a) any appliance code of conduct or a summary of its main provisions b) the trading policy or summary of its main provisions	✓	The policy on Dealing Rules for Employees and Directors is available on the Company's website in the Investor Centre section.

CORPORATE GOVERNANCE REPORT

4.1	Require the Chief Executive Officer and Chief Financial Officer to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards	✓	The Chief Executive Officer and Chief Financial Officer have certified that the 2007 financial statements present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.
4.2	The Board should establish an audit committee	✓	The Board has established an Audit and Risk Committee to assist it in exercising its authority.
4.3	"Structure the audit committee so that it consists of: a) only non-executive directors b) majority of independent directors c) independent chairperson, who is not the chairperson of the Board d) at least three members"	✓ ✓ ✓ ✓ ✗	The committee does not presently comply with the structure as required by the Best Practice Recommendation 4.3. The Board considers the size of the Company and Board does not warrant such structure, and resolved to structure the committee consisting of at least two non executive director members. The Board considers the committee is of sufficient size, independence and technical expertise to discharge its mandate effectively.
4.4	The audit committee should have a formal charter	✓	The Audit and Risk Committee has a formal charter that can be found at the Company's website.

CORPORATE GOVERNANCE REPORT

4.5	Provide the following information in the annual report:	✓	
	a) Details of the names and qualifications of those appointed to the audit committee	✓	Refer to Audit Committee Report
	b) The number of meetings of the audit committee and the names of the attendees.	✓	Refer to Audit Committee Report
	The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section:		
	c) the audit committee charter	✓	The charter of the Risk and Audit Committee is available at the Company's website in the Investor Centre section.
	d) information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners	✓	The committee manages the relationship between the Company and external auditor on behalf of the Board. It recommends to the Board potential auditors for appointment, re-appointment or replacement, the terms of engagement and renumeration of the external auditor.
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance	✓	The Board recognises that shareholders and the investment market generally should be informed of all major business events that influence the Company in a timely and widely available manner. To safeguard the effective dissemination of information the Company has adopted an Information Disclosure Policy. The Policy outlines how the Company identifies and distributes information to shareholders and market participants.
5.2	The following material should be publicly available, ideally on the Company's website in a clearly marked corporate governance section: • a summary of the policies and procedures designed to guide compliance with Listing Rule disclosure requirements	✓	The Company's Information Disclosure Policy is available on the Company's website in the Investor Centre section.

CORPORATE GOVERNANCE REPORT

6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	✓	The Company's communication strategy forms part of the Company's Information Disclosure Policy. The Board aims to ensure that the market and shareholders are informed of all major developments effecting the Company. The Company's website contains a section for shareholders and investors (Investor Centre). All announcements and corporate material of interest to shareholders and the market generally can be found on the Investor Centre.
6.2	The external auditor attends the annual general meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and conduct of the auditors report	✓	The Company's external auditor attends the AGM in accordance with Recommondation 6.2.
7.1	The Board or Board committee should establish policies on risk oversight and management	✓	The Board has established a Audit and Risk Committee to assist it exercising its responsibilities for risk oversight management.
7.2	The Chief Executive Officer and the Chief Financial Officer should state to the Board in writing that:	✓	The Chief Executive Officer and Chief Financial Officer have certified to the Board that the financial statements are founded on a sound system of risk management and internal compliance and that the system is operating efficiently and effectively in all material respects.
	a) the statement given under Recommendation 4.1 (integrity of financial statements) is based on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and	✓	
	b) the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects"	✓	
7.3	The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section:	✓	The risk management strategy forms part of the Company's Audit and Risk Charter and is available on the Company's website in the Investor Centre section.
	• Description of the Company's risk management policy and internal compliance and control system		

CORPORATE GOVERNANCE REPORT

8.1	"The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section:		"The Board regularly evaluates the performance of the Board, its Committees and individual directors, and key executives and the governance processes that support board work.
	a) the process for performance evaluation of the Board, its committees and individual directors, and key executives Include in the corporate governance statement:	✓ ✓	The performance of the Chief Executive Officer was monitored and evaluated by the Board on a formal basis by reference to agreed key performance indicates, which are regularly reviewed by the Board.
	b) whether a performance evaluation of the Board and its members has taken place in the reporting period and how it was conducted"		The Charter establishing the Human Resources and Compensation Committee is available on the Company's website in the Investor Centre section."
9.1	Provide disclosure in relation to the Company's remuneration policies to enable investors to understand: (i) the costs and benefits of those policies and (ii) The link between remuneration paid to directors and key executives and corporate performance	✓	Refer to Remuneration Report.
9.2	The Board should establish a remuneration committee	✓	The Board has established a Human Resources and Compensation Committee. The Committee's role is to assist the Board in establishing human resources and compensation policies and practices for directors, key executives and employees.
9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives	✓	Refer to Remuneration Report.
9.4	Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders	✓	Refer to Remuneration Report.
9.5	Provide the following information in the annual report:		
	a) Disclosure of the Company's remuneration policies referred to in best practice Recommendation 9.1	✓	Refer to Remuneration Report.
	b) the names of the members of the remuneration committee and their attendance at meetings of the committee.	✓	Refer to Remuneration Report.

CORPORATE GOVERNANCE REPORT

	c) the existence and terms of any schemes for retirement benefits, other than statutory superannuation, for non-executive directors. The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section:	✓	Refer to Remuneration Report.
	d) The charter of the remuneration committee or a summary of the role, rights, responsibilities and membership requirements for that committee.	✓	The Charter for the Human Resources and Compensation Committee is available on the Company's website in the Investor Centre section.
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders. Any applicable code of conduct or a summary of its main provisions should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section	✓	The Board has established a Code of Conduct. The Code enables employees to alert management and the Board in good faith to potential misconduct without fear of retribution, and will require recording and investigation of such events. The Code of Conduct is available on the Company's website in the Investor Centre section. The Board aims to ensure that the market is informed of all major developments affecting the Company. The Investor Centre contains corporate material of interest to shareholders and the market generally.

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