
PROSPECTUS

Neptune Marine Services Limited ABN 76 105 665 843

Non-renounceable entitlement offer

A pro-rata non-renounceable entitlement offer of up to 1,612,678,766 New Shares on the basis of 3.6 New Shares for every 1 Share held at an issue price of \$0.05 per New Share to raise a maximum of approximately \$80.6 million, with a minimum subscription of 1,200,000,000 New Shares to raise a minimum amount of \$60 million.

The Offer is conditional on Shareholder approval being obtained at the Company's general meeting being held at 10.00am (WST) on Tuesday, 1 March 2011.

The Entitlement Offer is scheduled to close at 5.00pm (WST) on Tuesday, 1 March 2011.

Important Information

This is an important document which requires your immediate attention. It should be read in its entirety. If after reading this Prospectus you have any questions about the New Shares being offered pursuant to this Prospectus or any other matter, then you should consult your professional adviser.

An investment in the New Shares offered by this Prospectus should be considered speculative.

Corporate Directory

Board of Directors

Mr Ross Kennan (Non-Executive Chairman)
Mr Geoff Newman (Non-Executive Director)
Mr Robert Scott (Non-Executive Director)

Company Secretary

Mr Gabriel Chiappini

Registered Office

Level 16
140 St Georges Terrace
Perth WA 6000

Tel: +61(8) 9424 1111
Fax: +61(8) 9424 1110
Website: www.neptunems.com
ASX Code: NMS

Joint lead managers

Patersons Securities Limited
Level 23, Exchange Plaza
2 The Esplanade
Perth WA 6000

Euroz Securities Limited
Level 18, Alluvion
58 Mounts Bay Road
Perth WA 6000

Auditors

Ernst & Young
11 Mounts Bay Road
Perth WA 6000

Lawyers

Norton Rose Australia
Level 39, BankWest Tower
108 St Georges Terrace
Perth WA 6000

Share Registry

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St George's Terrace
Perth WA 6000

Within Australia: 1300 136 502
Outside Australia: +61(3) 9415 4884
Fax: +61(8) 9323 2033

A Letter from the Chairman

Dear Fellow Shareholder,

Neptune Marine Services Limited – Entitlement Offer

On behalf of the Board of Neptune Marine Services Limited (**Neptune** or **Company**), I am pleased to recommend to you this 3.6 for 1 non-renounceable entitlement offer of new shares in your Company at an issue price of \$0.05 per share to raise up to approximately \$80.6 million (**Offer**).

This is a vital capital raising for Neptune and one we firmly believe will allow your Company to return to profitability and create a platform for sustainable earnings growth in the financial year ending 30 June 2012 and beyond.

Our unswerving focus is on restoring shareholder value for our investors by putting Neptune on a footing that allows it to prosper in the times ahead.

The raising of up to \$80.6 million is part of a wider turnaround plan for Neptune that the Board, senior management group and external advisers have constructed over the past two months. Implementation of the plan has already begun and, a number of significant new contracts have been secured from major customers. Upon completion, the Offer will provide the Company with the funds necessary to:

- enable the Company to satisfy repayment obligations under its recently extended Banking Facilities;
- provide working capital (including the funds necessary for the Company to execute its restructure plan);
- assist the Company to complete payments to the vendors of acquired businesses; and
- pay for the costs of the Offer and the costs associated with the extension of the Banking Facilities.

The use of funds raised pursuant to the Offer is more specifically detailed in section 2.2 of this Prospectus.

As you are aware, a restructuring of the Neptune business and cost base was required because Neptune's operational performance was, quite frankly, unacceptable. Your Board ordered a comprehensive operational review in which all assets and operations have been subjected to intense scrutiny and, where appropriate, will be rationalised, sold or closed down. Be assured, there will be renewal at every level within the Company, including the Board.

We took the view that nothing short of wholesale changes to the Company at corporate, operational and structural levels would suffice. Key also has been the renewal of our banking facilities with our banker, National Australia Bank. This comprehensive and far reaching restructure plan is summarised in more detail for shareholders in section 3 of this Prospectus and in the investor presentation which the Company released to the market on 31 January 2011 (**Investor Presentation**).

The first major changes under this plan have already been implemented. The Company has reduced its head count with an estimated on-going annual saving of \$5 million. The Company has had discussions with potential buyers of assets and businesses that are underperforming or that are not viewed as a strategic fit in the Company's future. As part of the review, the Board has assessed the carrying value of its intangible assets and plant and equipment resulting in impairments of \$79.7 million and \$19.8 million respectively. The impairments have been reflected in the Company's financial statements as set out in section 6 of this Prospectus.

In essence, it is about back to basics – concentrating on what Neptune does very well and moving out of those activities and operations that have failed to deliver on promise and expectations and are no longer considered critical to the Company's future operations.

It's a sobering point to have reached and be assured your Board shares your frustration and dissatisfaction. However, we feel confident that value will be restored as the results of the corporate and operational restructure come to fruition.

Fundamental to the restructure is the re-capitalisation of Neptune's balance sheet. To achieve this, the Neptune Board is very conscious of providing existing investors in the Company with the first opportunity to participate. The pro rata entitlement offer gives shareholders this opportunity and we urge you to take up your entitlement. We have also made provision for shareholders to make application for additional shares under the shortfall offer. Your directors have all committed to participate in the offer.

We expect a number of significant new corporate and institutional investors, together with members of the public to become new shareholders in Neptune by taking up any shortfall from the entitlement offer, which is being jointly managed by leading stockbrokers Patersons Securities Limited and Euroz Securities Limited.

This Prospectus details key information about the Offer and the impact of the Offer on the Company. I encourage you to read this document in its entirety along with the accompanying Entitlement and Acceptance Form (if you are an existing shareholder) or the Shortfall Offer Application Form (if you are a prospective new shareholder). In particular, you should also consider the key risk factors detailed in section 4 that could affect the operating and financial performance of Neptune or the value of an investment in Neptune. You should consult your stockbroker, accountant or other independent professional adviser in respect of the Offer.

Further detail with respect to the restructure plan is contained in the Investor Presentation. For further information on Neptune, you can also visit the Company's website at www.neptunems.com.

On behalf of Neptune, I recommend this Offer to you and would like to thank you for your patience and ongoing support of the Company. We look forward to sharing with you in what we expect to be a profitable future for our Company.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ross Kennan', with a horizontal line underneath.

ROSS KENNAN
Chairman

Important Notice

Prospectus

This Prospectus is dated 31 January 2011 and a copy of this Prospectus was lodged with ASIC on that date. The expiry date of this Prospectus is 13 months after the date of this Prospectus. No securities will be issued on the basis of this Prospectus after the expiry date. Neither ASIC nor ASX takes any responsibility for the content of this Prospectus or the merits of the investment to which this Prospectus relates.

Neptune applied to ASX for quotation of the New Shares on the ASX on 31 January 2011. The fact that ASX may grant Official Quotation of the New Shares is not to be taken in any way as an indication of the merits of Neptune or the New Shares.

The information provided in this Prospectus is not financial product advice and has been prepared without taking into account your investment objectives, financial circumstances or particular needs. If you have any questions you should seek professional advice before deciding to invest.

An investment in New Shares that are offered under this Prospectus should be considered speculative. Please refer to section 4 for details relating to risks involved with an investment in the Company.

Disclaimer

No person is authorised to give any information or to make any representation in connection with the Offer that is not contained in this Prospectus. Any information or representation not contained in this Prospectus may not be relied on as having been authorised by Neptune in connection with the Offer. Neither Neptune nor any other person warrants the future performance of Neptune or any return on any investment made under this Prospectus, except as required by law and then only to the extent so required.

Forward Looking Statements

Some of the information contained in this Prospectus constitutes forward looking statements that are subject to various risks and uncertainties. Forward looking statements include those containing such words as 'anticipate', 'estimate', 'should', 'will', 'expects', 'plans' or similar expressions. These statements discuss future objectives or expectations concerning results of operations or financial conditions or provide other forward-looking information. Neptune's actual results, performance or achievements could be significantly different from the results or objectives expressed in, or implied by, those forward looking statements. This Prospectus details some important factors that could cause Neptune's actual results to differ from the forward looking statements made in this Prospectus.

Foreign Jurisdictions

This Prospectus does not constitute an offer in any jurisdiction in which, or to any person to whom, it would be unlawful to make such an offer. The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. The return of a duly completed Entitlement and Acceptance Form or Shortfall Offer Application Form will be taken by the Company to constitute a representation and warranty made by the applicant to the Company that there has been no breach of such laws and that all necessary approvals and consents have been obtained.

In particular, neither the Offer nor the New Shares offered under this Prospectus has been, and will not be, registered under the *Securities Act of 1933* (United States) or the securities laws of any State or other jurisdiction of the United States and is not being made in the United States, or to, or for the account or benefit of "US Persons" (as defined in the *Securities Act of 1933*) except under an available exemption from registration. Without limitation, neither this Prospectus nor the accompanying Entitlement and Acceptance Form or Shortfall Offer Application Form may be sent to investors in the United States or otherwise distributed in the United States.

Transaction Specific Prospectus

This Prospectus is issued pursuant to section 713 of the Corporations Act. A company may only issue a prospectus pursuant to this section if the company has been a listed disclosing entity for a period of at least 12 months and its securities have been quoted by ASX at all times in the 3 months before the date of issue of the prospectus. A prospectus issued pursuant to section 713 may contain less information than a prospectus prepared in accordance with section 710 of the Corporations Act, but still all the information that investors and their professional advisers would reasonably require to make an informed assessment of the effect of the offer on the company and the rights and obligations attaching to the securities offered. A prospectus issued under section 713 of the Corporations Act must contain that information only to the extent which it is reasonable for investors and their professional advisers to expect to find the information in the prospectus.

This Prospectus does not repeat all of the information that the Company has previously disclosed to ASX. Shareholders should have regard to such information before making a decision whether or not to apply for the New Shares.

Electronic Prospectus

This Prospectus may be viewed online at www.neptunems.com/prospectus/default.aspx. The Offer is available to persons receiving an electronic version of this Prospectus in Australia and New Zealand. Persons who access the electronic version of this Prospectus should ensure that they download and read the entire Prospectus. Any person may obtain a hard copy of this Prospectus and the accompanying Entitlement Offer Application Form and Shortfall Offer Application Form free of charge by contacting the Company Secretary on +61 8 9424 1111.

Shareholder approval

The Company has obtained a waiver from ASX in relation to ASX Listing Rule 7.11.3 for the Company to make a non-renounceable offer of 3.6 New Shares for each Share held. A condition of the ASX waiver is that the Company's shareholders approve the Offer. The issue of New Shares pursuant to this Prospectus is conditional upon the approval of ordinary Shareholders at a general meeting scheduled to be held on 1 March 2011. If Shareholders do not approve the Offer, it will not proceed and money received by the Company under the Prospectus will be refunded, without interest.

Option holders

The Company has 14,486,682 unlisted Options currently on issue. The terms and conditions of these Options do not allow for the participation by those Option holders in new issues of securities. Those Option holders will, however, be entitled to exercise their Options in accordance with the terms and conditions of their Options in order to participate in the Offer. Accordingly, if Option holders exercise their Options prior to the Record Date, the number of Shares issued pursuant to this Prospectus may increase. The impact of the Offer on these Options, and the adjustment to their respective exercise prices as a result of the Offer, is set out in section 5.3.

Definitions and Abbreviations

Defined terms and abbreviations used in this Prospectus are explained in the Glossary in section 10.

Financial Amounts

The financial amounts in this Prospectus are expressed in Australian dollars unless otherwise stated.

Application for New Shares

If you are an Eligible Shareholder and wish to apply for New Shares, you must complete and return the personalised Entitlement and Acceptance Form which accompanies this Prospectus by the Closing Date. If you are not an Eligible Shareholder but wish to apply for New Shares, you must complete and return the Shortfall Offer Application Form which accompanies this Prospectus by the Shortfall Offer Closing Date. If you have not received a personalised Entitlement and Acceptance Form, please contact the Share Registry on 1300 136 502 (within Australia) or +61(3) 9415 4884 (outside Australia).

Alternatively, if you are an Eligible Shareholder you may apply for New Shares simply by making payment using BPAY. If you elect to make payment using BPAY, you do not need to return your Entitlement and Acceptance Form. Section 1.14 includes more detail on applying for New Shares via BPAY.

Enquiries

If you are an Eligible Shareholder or other investor and have any questions in relation to the Offer, please contact your stockbroker, accountant, solicitor or other professional adviser. If you have questions in relation to the Shares upon which your Entitlement has been calculated, or how to complete the Entitlement and Acceptance Form, the Shortfall Offer Application Form or to take up your Entitlement, please call the Share Registry on:

Within Australia: 1300 136 502

Outside Australia: +61(3) 9415 4884

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1. The Offer

1.1 Introduction

This Prospectus contains a non-renounceable pro-rata entitlement offer to eligible holders of Shares in the Company to take up New Shares at a subscription price of \$0.05 per New Share, payable in full upon Application. The Entitlement Offer is available to Eligible Shareholders, being shareholders of the Company at 5.00pm (WST) on 9 February 2011 with registered addresses in Australia and New Zealand. This Prospectus also contains a Shortfall Offer, as described in more detail in sections 1.13 and 1.20.

If you are an Eligible Shareholder or a person interested in participating in the Shortfall Offer, this document is important and requires your immediate attention. It should be read in its entirety. Please read carefully the instructions on the accompanying Entitlement and Acceptance Form regarding the acceptance of your Entitlement.

If you are in doubt as to the course you should follow, you should consult your stockbroker, solicitor, accountant or other professional adviser immediately.

1.2 Details of the Entitlement Offer

The Company currently has 447,966,324 fully paid ordinary shares on issue. The Company is offering for subscription up to 1,612,678,766 New Shares under the Entitlement Offer.

The Company has obtained a waiver from ASX in relation to ASX Listing Rule 7.11.3 for the Company to increase the ratio of shares to greater than 1 new share for every share held (up to 3.6 New Shares for each Share held) (**ASX Waiver**). A condition of the ASX Waiver is that Shareholders approve the Entitlement Offer. Accordingly, the offer of New Shares pursuant to this Prospectus is conditional upon Shareholders approving the Entitlement Offer at a general meeting scheduled to be held on 1 March 2011. If Shareholders do not approve the Entitlement Offer, the Entitlement Offer will not proceed and all application monies received by the Company under the Prospectus will be refunded, without interest.

Eligible Shareholders may also subscribe for New Shares in addition to their Entitlement. Details with respect to the application for Additional Shares are set out in sections 1.12(d) and 1.13. If all New Shares offered under the Entitlement Offer are not subscribed for (including by way of oversubscriptions as referred to above), the Directors may allocate any remaining Shortfall Shares at their discretion. The Directors have determined to exercise their discretion to give the Joint Lead Managers the right to place Shortfall Shares pursuant to the Shortfall Offer, as set out in more detail in section 1.20. Further details of the terms of the New Shares are set out in section 8.1.

1.3 Subscription Price

Each New Share is offered at a subscription price of \$0.05 each, payable in full upon acceptance.

1.4 Key Offer Metrics

New Share issue price	\$0.05 per New Share
Entitlement of Eligible Shareholders	3.6 New Shares for every 1 Share held on Record Date
Minimum number of New Shares to be issued under the Offer	1,200,000,000
Minimum Amount to be raised under the Offer	\$60,000,000
Maximum number of New Shares to be issued under the Offer [^]	1,612,678,766
Maximum Amount to be raised under the Entitlement Offer [^]	\$80,633,938

[^] Due to the entitlements of Option holders to exercise their Options before the Record Date, the maximum number of New Shares to be issued and amount of funds to be raised cannot be definitively determined by the Company as at the date of this Prospectus. The Maximum Amount referred to assumes that no Option holders exercise Options prior to the Record Date. The Maximum Amount also assumes that the Tri-Surv Vendors will not seek to convert their debt to equity pursuant to the terms of the Tri-Surv Acquisition Agreement. For more information please refer to sections 5.2, 5.3 and 7.1(c).

1.5 Timetable for the Entitlement Offer

Lodgement of Prospectus for the Offer (and announcement of Investor Presentation)	Monday, 31 January 2011
Notice of Entitlement Offer sent to Shareholders and Optionholders	Monday, 31 January 2011
"Ex date"	Thursday, 3 February 2011
Record Date	5.00pm (WST) Wednesday, 9 February 2011
Dispatch of Prospectus	Thursday, 10 February 2011
Opening Date	Thursday, 10 February 2011
General Meeting to approve Entitlement Offer	Tuesday, 1 March 2011
Closing Date	5.00pm (WST) Tuesday, 1 March 2011
ASX notified of any under subscriptions	Friday, 4 March 2011
Dispatch of holding statements for Entitlement Offer	Monday, 7 March 2011
Suspension ends (trading recommences)	Tuesday, 8 March 2011
Shortfall Offer Closing Date	5.00pm (WST) Friday, 27 May 2011
Last day to issue New Shares under the Shortfall Offer	Wednesday, 1 June 2011

All dates are indicative and subject to change. Neptune reserves the right to amend the timetable without prior written notice. Any extension of the Closing Date will have a consequential effect on the date of issue of the New Shares.

1.6 Investment highlights

The highlights of an investment in the Company include:

- the opportunity to invest in a re-structured Company with the non-profitable, non-contributing operations and assets to be rationalised, restructured or closed and a strong operating business retained for future profitability and organic growth;
- a strengthened balance sheet providing a platform to support strong and sustainable revenue growth;
- revised Banking Facilities, including the removal or renegotiation of certain financial covenants;
- an opportunity for Eligible Shareholders to participate in the recapitalisation of the Company in priority to other new investors; and
- a commitment to the renewal and strengthening of the board and management.

1.7 Summary of key risks

There are a number of risks associated with an investment in the Company, both specific to the Company and its business activities and general investment risks. Please refer to section 4 for further information with respect to the key risks which have been set out in this summary and other risks that are associated with investing in the Company. Key areas of risk include (but are not limited to):

- shareholder approval for the Entitlement Offer not being obtained meaning that the Minimum Amount cannot be raised, one of the terms of the Banking Facilities cannot be satisfied and

the Entitlement Offer will be withdrawn (in which case applicants will be refunded their Application Monies paid in accordance with section 1.10);

- the failure of the Company to effectively implement and execute the Restructure Plan or the Restructure Plan not achieving expected results;
- a downturn in the oil and gas, marine or renewable energy industries (or the factors upon which those industries depend), or increased volatility in any of those industries;
- the inability of the Company to meet its debt repayment obligations and satisfy the conditions of its revised Banking Facilities, including as a direct result of the Offer not being successful; and
- the ability of the Company to attract and retain key members of the senior management or operational team.

1.8 Your Entitlement

The Company is making a non-renounceable pro-rata entitlement offer of New Shares in the Company on the basis of 3.6 New Shares for every 1 Share held.

If you are an Eligible Shareholder, the number of New Shares to which you are entitled is calculated as at the Record Date and is shown on the Entitlement and Acceptance Form accompanying this Prospectus. Fractional entitlements to New Shares will be rounded up to the nearest whole New Share.

It is the responsibility of Shareholders to confirm the number of New Shares allotted to them prior to trading in the New Shares. Shareholders who sell New Shares before they receive notification of the number of New Shares allotted to them do so at their own risk.

1.9 Non-renounceable

Please note that Entitlements are non-renounceable and will not be tradable on ASX or otherwise transferable. You may take up all, or part, of your Entitlement and apply for Additional Shares in the Shortfall Offer. Eligible Shareholders who do not take up their Entitlement in full will not receive any value in respect of those Entitlements they do not take up. If you do not take up all of your Entitlement, your shareholding in the Company may be diluted. The New Shares will rank equally from allotment in all respects with existing Shares.

1.10 Entitlements and Acceptances

The Entitlement Offer may be accepted in whole or in part prior to the Closing Date. The Offer is conditional on the Minimum Amount being raised. The Directors reserve the right to vary the timetable for the Offer, subject to the ASX Listing Rules and NAB's consent, including extending the Offer Period. You can only accept the Entitlement Offer by completing the Entitlement and Acceptance Form, which accompanies this Prospectus (or by BPAY – see sections 1.12 and 1.14).

Option holders who exercise their Options and are registered as the holder of Shares as at the Record Date are entitled to participate in the Entitlement Offer in respect of those Shares. Further details regarding the Options on issue as at the date of this Prospectus are set out in section 5.3.

Eligible Shareholders and other investors should note that the issue of New Shares under the Offer will only take place subject to Shareholder approval being granted at the General Meeting and the Minimum Amount being raised. If these requirements are not met, the Offer will be withdrawn and any Application Monies paid will be returned to the applicant without any payment of interest.

1.11 Minimum Amount to be raised

The minimum amount to be raised under this Prospectus is \$60 million (before expenses of the Offer), to be achieved through the issue of at least 1,200,000,000 New Shares at an issue price of \$0.05 per New Share.

No New Shares will be issued until the Minimum Amount has been received. If the Minimum Amount is not raised by 4 March 2011, the Company will be in breach of a “review event” under the NAB Agreement (see section 5.4(f)) and will require the support of NAB in order to try and raise the Minimum Amount after that date. Despite any support NAB may grant, if the Minimum Amount is not raised within 4 months after the date of issue of this Prospectus the Company will either repay the Application Monies or issue a supplementary prospectus and allow applicants one month to withdraw their Application and be repaid their Application Monies.

Details regarding the source and application of the Offer proceeds, if only the Minimum Amount is raised, are set out in section 2.2.

1.12 Action required by Eligible Shareholders

Your acceptance of the Entitlement Offer must be made on the Entitlement and Acceptance Form accompanying this Prospectus (or by BPAY – as explained in this section 1.12 and section 1.14). Each Eligible Shareholder may also apply for Additional Shares (being New Shares in addition to their Entitlement under the Entitlement Offer).

Additional Shares will be allocated as part of the Shortfall Offer in the manner described in sections 1.12(d) and 1.13, below.

Eligible Shareholders may participate in the Entitlement Offer as follows:

(a) Take up your Entitlement in full and apply for Additional Shares

If you are an Eligible Shareholder and wish to take up all of your Entitlement plus apply for Additional Shares, please refer to sections 1.12(d) and 1.13 below which contain instructions on how to do so.

(b) Take up your Entitlement in full

If you are an Eligible Shareholder and wish to take up all of your Entitlement, please:

- complete the Entitlement and Acceptance Form, which accompanies this Prospectus, by inserting the number of New Shares that you wish to acquire (being the same number as your Entitlement as specified on the Entitlement and Acceptance Form); and
- forward your completed Entitlement and Acceptance Form, together with your cheque or bank draft for the amount shown on your Entitlement and Acceptance Form, in the reply paid envelope to the Company’s share registry:

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000

so that it is received by no later than 5.00pm (WST) on the Closing Date.

Cheques and bank drafts, in Australian currency should be made payable to “Neptune Marine Services Ltd – Share Issue Account” and crossed “not negotiable”.

You should ensure that sufficient funds are held in the relevant account(s) to cover the Application Monies. If the amount of your cheque for Application Monies is insufficient to pay in full for the number of whole New Shares you have applied for in your Entitlement and Acceptance Form, you will be taken to have applied for such lower number of New Shares as your cleared Application Monies will pay for (and to have set out that number of New Shares on your Entitlement and Acceptance Form). Alternatively, your Application will be rejected. If your cheque does not clear due to insufficient funds in your account, your Application will be rejected.

If you intend to pay for the New Shares by BPAY, there is no need to return the Entitlement and Acceptance Form (but you must ensure that your payment is received by no later than the

Closing Date (being 1 March 2011) (keeping in mind that payments made by BPAY may take 1 or more Business Days to clear). Please refer to section 1.14 for further information regarding payment by BPAY.

(c) Take up some of your Entitlement

If you are an Eligible Shareholder and wish to take up only some of your Entitlement, please:

- complete the Entitlement and Acceptance Form, which accompanies this Prospectus, by inserting the number of New Shares that you wish to acquire (being less than your Entitlement as specified on the Entitlement and Acceptance Form); and
- forward the completed Entitlement and Acceptance Form together with your cheque or bank draft for the total amount payable to the Company's share registry:

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000

so that it is received by no later than 5.00pm (WST) on the Closing Date.

Cheques and bank drafts, in Australian currency should be made payable to "Neptune Marine Services Ltd – Share Issue Account" and crossed "not negotiable".

You should ensure that sufficient funds are held in the relevant account(s) to cover the Application Monies. If the amount of your cheque for Application Monies is insufficient to pay in full for the number of whole New Shares you have applied for in your Entitlement and Acceptance Form, you will be taken to have applied for such lower number of New Shares as your cleared Application Monies will pay for (and to have set out that number of New Shares on your Entitlement and Acceptance Form). Alternatively, your Application will be rejected. If your cheque does not clear due to insufficient funds in your account, your Application will be rejected.

If you intend to pay for the New Shares by BPAY, there is no need to return the Entitlement and Acceptance Form (but you must ensure that your payment is received by no later than the Closing Date (being 1 March 2011) (keeping in mind that payments made by BPAY may take 1 or more Business Days to clear). Please refer to section 1.14 for further information regarding payment by BPAY.

(d) Take up MORE than your Entitlement

If you are an Eligible Shareholder and you wish to take up all of your Entitlement and apply for Additional Shares in excess of your Entitlement, please:

- complete the Entitlement and Acceptance Form, which accompanies this Prospectus, by inserting the total number of New Shares that you wish to acquire, including the number of Additional Shares (being more than your Entitlement as specified on the Entitlement and Acceptance Form); and
- forward the completed Entitlement and Acceptance Form together with your cheque or bank draft for the total amount payable (including the amount payable for the Additional Shares) to the Company's share registry:

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000

so that it is received by no later than 5.00pm (WST) on the Closing Date.

Cheques and bank drafts, in Australian currency should be made payable to "Neptune Marine Services Ltd – Share Issue Account" and crossed "not negotiable".

You should ensure that sufficient funds are held in the relevant account(s) to cover the Application Monies. If the amount of your cheque for Application Monies is insufficient to pay in full for the number of whole New Shares you have applied for in your Entitlement and Acceptance Form, you will be taken to have applied for such lower number of New Shares as your cleared Application Monies will pay for (and to have set out that number of New Shares on your Entitlement and Acceptance Form). Alternatively, your Application will be rejected. If your cheque does not clear due to insufficient funds in your account, your Application will be rejected.

If you intend to pay for the New Shares by BPAY, there is no need to return the Entitlement and Acceptance Form (but you must ensure that your payment is received by no later than the Closing Date (being 1 March 2011) (keeping in mind that payments made by BPAY may take 1 or more Business Days to clear). Please refer to section 1.14 for further information regarding payment by BPAY.

(e) Do nothing

You may do nothing. However, if you are an Eligible Shareholder and you do nothing, then New Shares representing your Entitlement may be sold to an Eligible Shareholder or other investor pursuant to the Shortfall Offer.

You should also note that, if you do not take up your Entitlement, then although you will continue to own the same number of Shares, your percentage shareholding in the Company will fall.

(f) General

If you have any queries concerning your Entitlement, please contact the Share Registry on 1300 136 502 (within Australia) or +61(3) 9415 4884 (outside Australia) or contact your stockbroker or professional adviser.

Entitlement and Acceptance Forms and accompanying cheques or bank drafts may be lodged at any time before the Closing Date. Applications received after the Closing Date may not be accepted. The Company will not be responsible for postal or delivery delays.

1.13 Shortfall Offer and applications for Additional Shares

Subject to the Corporations Act, the requirements of the Listing Rules and the terms of the JLM Mandate, the Directors have reserved the right to place some or all of any Shortfall (arising from Eligible Shareholders applying for less than their Entitlement under the Entitlement Offer), within 3 months after the Closing Date. Under the Shortfall Offer, all New Shares not subscribed for by Eligible Shareholders according to their respective Entitlements are available to be applied for by other Eligible Shareholders (by applying for Additional Shares) and other persons. The Shortfall Offer is a separate offer made pursuant to this Prospectus.

Applications from Eligible Shareholders for Additional Shares received prior to the Closing Date will be accorded a level of priority in the Shortfall Offer. Eligible Shareholders who apply for Additional Shares in excess of their Entitlement, should complete the Entitlement and Acceptance Form in accordance with paragraph 1.12(d) and return it by the Closing Date.

Eligible Shareholders are not required to complete the Shortfall Offer Application Form (even if they wish to apply for Additional Shares).

The total number of Additional Shares available to be issued pursuant to this Prospectus will be limited to the total number of New Shares offered under the Entitlement Offer which are not taken up by Eligible Shareholders in accordance with their Entitlement. Applications for Additional Shares will be satisfied out of the Shortfall. The Directors have exercised their absolute discretion and have appointed the Joint Lead Managers to issue the remaining Shortfall after the Closing Date.

In the event that Entitlements are not taken up at all or in full, Eligible Shareholders who have taken up all of their Entitlement and have made an application for Additional Shares may be allocated Additional Shares as follows:

- (a) the Directors reserve the right to allocate Additional Shares to Eligible Shareholders in part or not at all;
- (b) an Eligible Shareholder will not receive more Additional Shares than they have applied for; and
- (c) allocations will be made in a way such that the provisions of the Corporations Act, in particular the takeovers prohibitions in Chapter 6, are complied with.

There is no guarantee that Eligible Shareholders will be successful in being allocated any of the Additional Shares that they may apply for. If an application for Additional Shares is scaled back or the Directors, in consultation with the Lead Managers, decide not to issue Additional Shares to an Eligible Shareholder, the Application Monies for those Additional Shares which are not issued to the applicant will be returned to the applicant without any payment of interest.

If the Company receives oversubscriptions which exceed the number of New Shares available under this Entitlement Offer, subject to the priority of Eligible Shareholders applying for Additional Shares prior to the Closing Date as noted above, those Shareholders subscribing for more than their Entitlement will be scaled back in a pro-rata manner by reference to their current shareholding in the Company.

Information regarding general applications under the Shortfall Offer is set out in section 1.20.

1.14 **BPAY**

Eligible Shareholders who wish to pay for New Shares using BPAY will not need to return their Entitlement and Acceptance Forms. You can only make a payment via BPAY if you are the holder of an account with an Australian financial institution that supports BPAY transactions.

If you are an Eligible Shareholder and want to pay for New Shares using BPAY:

- (a) if you wish to take up your full Entitlement, simply make payment for the amount specified on your personalised Entitlement and Acceptance Form;
- (b) if you wish to take up less than your full Entitlement, payment should be made in the amount determined by multiplying the price per New Share (of \$0.05) by the number of New Shares you wish to take up; or
- (c) if you wish to apply for Additional Shares over and above your Entitlement, payment should be made in the amount determined by multiplying the price per New Share (of \$0.05) by the total number of New Shares and Additional Shares you wish to take up. If you wish to apply for Additional Shares and do not pay for the full number of Additional Shares you wish to apply for, you will be regarded as having applied for such whole number of Additional Shares which is covered in full by your Application Monies.

Please ensure that your payment reaches the Company no later than the Closing Date (keeping in mind that payments made by BPAY may take 1 or more Business Days to clear).

1.15 **Shareholders resident outside Australia or New Zealand**

The Company will extend the Offer to Shareholders with registered addresses in Australia and New Zealand.

The Company considers it would be unreasonable to extend the Entitlement Offer to Shareholders who are not Eligible Shareholders (**Ineligible Shareholders**), having regard to: the small number of such Shareholders; the small number and value of securities that would be offered in such jurisdictions; and the costs of complying with legal and regulatory requirements in those jurisdictions.

The Entitlement Offer has not been, and will not be, registered under the securities laws of any foreign country or jurisdiction (other than New Zealand). The distribution of this Prospectus in jurisdictions outside Australia or New Zealand may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

However, the Company may (at its absolute discretion) extend the Offer to certain Shareholders (as at the Record Date) in foreign jurisdictions if it is satisfied that the participation by those Shareholders will comply with all applicable laws in that jurisdiction.

Without limiting any other statement in this section 1.15, the New Shares, this Prospectus, and the Entitlement and Acceptance Form and the Shortfall Offer Application Form have not been and will not be registered under the *US Securities Act of 1933* or under any securities laws of any State or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States, or to, or for the benefit of "US Persons" (as defined in the *US Securities Act of 1933*), except under an available exemption from registration. There will be no public offer of the Entitlements or New Shares in the United States.

1.16 Quotation on ASX

Application was made to ASX on 31 January 2011 for the New Shares offered under this Prospectus to be quoted on the Australian Securities Exchange. If such New Shares are not admitted to Official Quotation within 3 months after the date of this Prospectus, all Application Monies received will be returned in accordance with the Corporations Act.

ASX takes no responsibility for the contents of this Prospectus.

1.17 Terms of the New Shares

A summary of the terms of the New Shares is set out in section 8.1. The New Shares will rank equally with existing Shares of the Company.

1.18 Brokerage and Stamp Duty

No brokerage or stamp duty is payable on the allotment of New Shares. You may pay brokerage if you sell your New Shares.

1.19 Privacy

If you apply for New Shares, you will provide personal information to the Company and the Share Registry. The Company and the Share Registry will collect, hold and use your personal information in order to assess your Application, service your needs as a shareholder, provide facilities and services that you request and carry out appropriate administration. All personal information will be collected in accordance with the national Privacy Principles as set out in the Privacy Act. Company and tax law requires some of the information to be collected. If you do not provide the information requested, your application may not be able to be processed.

The Corporations Act requires Neptune to include information about the security holder (including name, address and details of the securities held) in its public register. The information contained in Neptune's public register must remain there even if that person ceases to be a security holder of Neptune. Information contained in Neptune's register is also used to facilitate distribution payments and corporate communications (including Neptune's financial results, annual reports and other information that Neptune may wish to communicate to its security holders) and compliance by Neptune with legal and regulatory requirements.

The Company and the Share Registry may disclose your personal information for purposes related to your investment to their agents and service providers, including those listed below, or as otherwise authorised under the Privacy Act:

- (a) the Directors in order to assess your application;

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- (b) its Share Registry, for ongoing administration of the register; and
 - (c) printers and mailing houses, for the purposes of preparation and distribution of statements and for handling of mail.

Under the Privacy Act, you may request access to your personal information held by (or on behalf of) the Company and the Share Registry. You can request access to your personal information by telephoning or writing to the Company through the Share Registry as follows:

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000

Within Australia: 1300 136 502
Outside Australia: +61(3) 9415 4884
Fax: +61 8 9323 2033

1.20 General applications under the Shortfall Offer

Attached to and forming part of this Prospectus is an application form for the Shortfall Offer (entitled "Shortfall Offer Application Form") which is to be used by proposed new investors generally. If you are an Eligible Shareholder you should not use this form, but rather the Entitlement and Acceptance Form in accordance with paragraph 1.12.

Applications from the public for Shortfall Shares under the Shortfall Offer referred to in section 1.13 above will be subject to the prior rights of Eligible Shareholders, including applications from Eligible Shareholders for Additional Shares received on or before the Closing Date (to be satisfied out of any Shortfall).

The minimum subscription for general applications pursuant to the Shortfall Offer is 10,000 New Shares (being \$500 worth of New Shares).

If you are a general investor and you wish to make an Application to participate in the Shortfall Offer, please:

- (a) complete the Shortfall Offer Application Form, which accompanies this Prospectus, by inserting the number of New Shares for which you wish to apply for; and
- (b) forward the completed Shortfall Offer Application Form together with your cheque or bank draft for the total amount payable to the Company's share registry:

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000

so that it is received by no later than Friday, 27 May 2011 (the Shortfall Offer Closing Date).

Cheques and bank drafts, in Australian currency should be made payable to "Neptune Marine Services Ltd – Share Issue Account" and crossed "not negotiable".

You should ensure that sufficient funds are held in the relevant account(s) to cover the Application Monies. If the amount of your cheque for Application Monies is insufficient to pay in full for the number of whole New Shares you have applied for in your Shortfall Offer Application Form, you will be taken to have applied for such lower number of New Shares as your cleared Application Monies will pay for (and to have set out that number of New Shares on your Shortfall Offer Application Form). Alternatively, your Application will be rejected. If your cheque does not clear due to insufficient funds in your account, your Application will be rejected.

If you are a potential investor and are considering applying for New Shares pursuant to the Shortfall Offer, this document is important and requires your immediate attention. It should be read in its entirety. Please read carefully the instructions on the accompanying Shortfall Offer Application Form regarding the application process to apply for Shortfall Shares. If you are in doubt as to the course you should follow, you should consult your stockbroker, solicitor, accountant or other professional adviser immediately.

It is the responsibility of investors to confirm the number of New Shares allotted to them prior to trading in the New Shares. Investors who sell New Shares before they receive notification of the number of New Shares allotted to them do so at their own risk.

1.21 Notice to nominees and custodians

Nominees and custodians that hold Shares should note that the Offer is available only to Eligible Shareholders. Accordingly, only nominees and custodians with registered addresses in Australia or New Zealand (or who contact or are contacted by the Company or the Lead Managers and can demonstrate to the satisfaction of the Company that their participation in the Offer would not constitute a violation of securities laws in their jurisdiction) will be entitled to participate. With respect to the underlying beneficial holders of nominees and custodians, they may participate (wherever they reside) except to the extent that those underlying holders are:

- in the United States or US Persons (as defined in the *Securities Act of 1933*) or are acting for the account or benefit of any US Person; or
- not eligible or permitted under any applicable securities laws to receive the Offer.

The Company takes no responsibility for advising on the securities laws of any jurisdiction, or the legality of providing the Offer to any person for whom nominees and custodians may hold shares in the Company beneficially, or those persons acquiring a beneficial interest in New Shares as a result of the Offer. Nominees and custodians will need to assess whether the participation (whether direct or indirect) of a beneficiary is compatible with applicable foreign laws.

2. Purpose of the Offer

2.1 Purpose of the Offer

The purpose of the Offer is to raise funds which will:

- enable the Company to satisfy repayment obligations under its recently extended Banking Facilities (see section 5.4 for a summary of the revised Banking Facilities);
- provide working capital (including the funds necessary for the Company to execute the Restructure Plan);
- assist the Company to complete payments to the Vendors under the terms of the Vendor Agreements (as amended); and
- pay for the costs of the Offer and the costs associated with the extension of the Banking Facilities.

The Offer is critical to the Company's long term capital management and ongoing financial viability. Further details regarding the use of funds raised pursuant to the Offer (including if either the Minimum Amount or the Maximum Amount is raised) are set out in section 2.2 below.

2.2 Sources and use of funds raised

The Company hopes to raise up to approximately \$80.6 million pursuant to the Offer. The use of funds raised by the Company if either the Minimum Amount or the Maximum Amount is raised is set out in the table below.

Activity	Estimated expenditure (A\$)	
	Minimum Amount	Maximum Amount
Enable the Company to satisfy repayment obligations under its recently extended Banking Facilities*	\$25.6 million	\$46.2 million
Additional working capital (including the funds necessary for the Restructure Plan) ⁺	\$19.6 million	\$18.3 million
Assist the Company to complete payments to the Vendors under the terms of the Vendor Agreements [^]	\$9.4 million	\$9.4 million
Costs of the Offer and debt extension [#]	\$5.4 million	\$6.7 million
Total	\$60.0 million	\$80.6 million

* The terms of the Company's renegotiated Banking Facilities are summarised in section 5.4 which includes further information with respect to the specific facilities being repaid by the Company with the funds raised pursuant to the Offer.

⁺ The Company currently anticipates that the funds attributed towards working capital will be specifically utilised towards the Company's BHP contract in Port Hedland (\$2 million - \$5 million) and, if the Minimum Amount is raised, also towards the preparation for phase 2 of the Company's Qatar Gas contract (up to \$2 million). Funds would also be attributed towards liquidity management (\$5 million - \$8 million), contract support for performance bonds and guarantees (\$2 million - \$4 million) and towards Restructure Plan costs (\$2 million - \$4 million). \$300,000 of the working capital will be attributed to the repayment of further bank debt under the Banking Facilities.

[^] The payment of \$9,404,138 under the Vendor Agreements includes a payment of \$4,911,767 (plus accrued interest of \$351,767) to the Tri-Surv Vendors in satisfaction of the Third Deferred Payment, \$2,223,611 to the Access Vendor in satisfaction of the Second Earn-Out Payment, and \$1,809,298 (plus accrued interest of \$81,633) to the STS Vendors in satisfaction of the Outstanding STS Payments, all of which are set out in more detail in the summary of the Vendor Agreements in section 7.1. In addition, the payment of \$9,404,138 includes an anticipated payment to the SES Vendors.

[#] The amounts payable by the Company to NAB as set out in the table above include an extension fee of at least \$1,300,000 million (if the Maximum Amount is raised), with \$1,000,000 payable upon receipt of proceeds from the Offer and a minimum of a further \$300,000 payable by 31 December 2011, as set out in more detail in section 5.4(e). The amounts payable to the Lead Managers vary depending on whether the Minimum Amount or the Maximum Amount is raised, as set out in more detail in section 7.2(a).

The allocation of funds between these items of expenditure is the Company's best estimate based on its current intentions and plans. Depending on the progress of each of these items, Neptune may reallocate the use of funds between these areas as may be appropriate from time to time.

2.3 Reconciliation of cash position to 21 January 2011

The reconciliation of the cash position (below) of the Company as at 21 January 2011 has been based off the 31 October 2010 financial position contained in section 6.4 and prepared using management accounts from 1 November 2010 to 21 January 2011.

The below reconciliation has been presented on the basis of a minimum of 1,200,000,000 New Shares being issued to raise \$60 million and a maximum number of 1,612,678,766 New Shares being issued to raise approximately \$80.6 million.

	(A\$ '000)
Cash and cash equivalents (refer section 6.4) as at 31 October 2010	15,172
Movements from 1 November 2010 to 21 January 2011	
Increase in trade and other receivables	(15,353)
Increase in financial liabilities	5,183
Increase in trade creditors	3,945
Other items (net) (including profit for the period, property, plant and equipment and foreign exchange gain)	846
Cash and cash equivalents as at 21 January 2011	9,793
Pro forma adjustments based on Minimum Amount, refer section 6.4	19,405
Pro forma cash and cash equivalents as at 21 January 2011 based on Minimum Amount	29,198
Pro forma adjustments based on Maximum Amount, refer section 6.4	(1,204)
Pro forma cash and cash equivalents as at 21 January 2011 based on Maximum Amount	27,994

3. Company overview and update

3.1 About Neptune

Neptune is a publicly listed company (ASX: NMS) that provides engineered solutions to the global oil and gas, marine and renewable energy industries.

Founded in 2003, Neptune represents the amalgamation of numerous specialist businesses that are generally recognised as one of the leaders in their respective fields of expertise. Collectively, the expertises of these specialist businesses can be combined to provide a complete service offering.

Neptune is also the proprietor of the patented NEPSYS® dry underwater welding technology that has revolutionised conventional methods of offshore maintenance and repair.

(a) Operational focus

Across the divisions of Offshore Services and Engineering Services, Neptune has the in-house capability to provide a wide range of services including:

- Commercial Diving Services
- DP Construction Support Vessels
- Engineering - Subsea and Pipeline
- Hydrographic Surveying, Positioning and Geophysical Services
- NDT and Inspection Services
- NEPSYS® Dry Underwater Welding
- Offshore Asset Integrity Management
- Pipeline Stabilisation and Protection
- Project Management
- Remotely Operated Vehicles
- Repair and Maintenance Services – Topside and Subsea
- Specialist Fabrication and Associated Services
- Testing and Assembly Services

Neptune's primary operational focus is the offshore oil and gas sector where its comprehensive suite of subsea services can be tailored to provide engineered solutions that meet the demanding and diverse requirements of both 'Greenfield' (new) construction and 'Brownfield' (existing) inspection, repair and maintenance projects.

The flexibility of Neptune's service offering ensures that clients can choose to utilise any of the group's individual areas of expertise or combine a number of services resulting in a fully engineered solution with application from project inception to completion.

Combined with fast deployment and efficiency, this flexibility ensures the delivery of time and cost effective solutions that comply with all safety, quality and environmental best practices.

The inherent value of Neptune's services is best illustrated by the group's clientele that has included many of the industry's leading EPIC (Engineer, Procure, Install, Commission) contractors, oil and gas operators and drilling contractors.

(b) **Geographical focus**

In order to best address the specific requirements of its global client base, post restructure (which may involve the rationalisation, sale or closure of the US business) Neptune expects to have operational offices in Australia and the United Kingdom (although the Company notes that its operations in the United Kingdom remain subject to further strategic review), with commercial and business development teams based in South East Asia and the Middle East. This structure provides efficiency and focus within Neptune and ensures that clients operating in these areas have direct access to a local point of contact supported by geographically focussed teams of industry professionals.

Neptune's highly skilled and qualified personnel ensure the Company possesses the capabilities to provide a comprehensive range of engineered services and solutions, while a commitment to developing long term partnerships with asset owners and operators ensures these services are designed to suit the specific requirements and commercial objectives of each client.

3.2 **Restructure Plan**

(a) **Introduction**

Over the last two months the Neptune Board and senior management team, in consultation with PricewaterhouseCoopers, have developed a detailed and specific restructure plan which is primarily focused on returning the Company's business to profitability and creating a platform for sustainable earnings growth in the near future, so as to restore value to shareholders (**Restructure Plan**).

The Restructure Plan has been adopted by the Directors and implementation of the plan has already begun.

The Investor Presentation prepared by the Company (and announced to the market on 31 January 2011) contains additional information with respect to the development and execution of the Restructure Plan. Copies of the Investor Presentation will be sent to Shareholders and will also be made available to Shareholders on the Company's website at www.neptunems.com. The Investor Presentation is not incorporated by reference in this Prospectus.

(b) **Key elements of the Restructure Plan**

The Restructure Plan is focused on various areas of the Company's business with a view to streamlining the Company's operations and retaining the Company's successful businesses which are likely to return the Company to sustainable profitability.

Essentially the Restructure Plan involves:

- the recapitalisation of the Company's balance sheet (which will be achieved by the Offer);
- a comprehensive operational restructure;
- a total overhead reduction of approximately \$9.5 million per annum;
- a focus on existing service lines that strategically fit with the Company's new business model;

-
- a rationalisation and/or sale or closure of non-core regions and businesses and the sale of underperforming assets; and
 - a refocused service offering and enhanced integration of the Company's service lines.

(c) **Implementation of the Restructure Plan**

The first major changes under the Restructure Plan have already been implemented in the form of a significant reduction in personnel that represents an on-going annual saving of approximately \$5 million.

The Company is in discussions with potential buyers of underperforming assets and businesses.

As set out elsewhere in this Prospectus, the Restructure Plan represents a 'back to basics' philosophical approach for Neptune. The core focus of the Restructure Plan is on profitability, shareholder value, lower risk organic growth, consolidation and concentrating on what the Company does best, in the regions that it knows best and within which it can build critical mass.

4. Risks

There are a number of risk factors, both specific to Neptune and of a general nature, which could adversely impact Neptune's performance and the value of its Shares. Some of these risks can be mitigated by the use of safeguards and appropriate controls, however many are outside the control of the Company. Eligible Shareholders and other investors should consider these risk factors before deciding whether to subscribe for New Shares under the Offer. Eligible Shareholders should also note that this list of risks is not exhaustive, as it is not possible to identify all risks.

Prior to making an investment decision, Eligible Shareholders and other investors should read this Prospectus carefully and in full and consider the risks identified in this section. Eligible Shareholders and other investors should have regard to their own investment objectives and financial circumstances and should consider seeking professional guidance from their accountant, stockbroker, or other professional adviser before deciding whether to apply for New Shares under the Offer.

4.1 Specific risk factors

In addition to the general risk factors noted in section 4.2 below, there are a number of specific risks concerning Neptune (and the Offer) which Eligible Shareholders and potential investors should be aware of. The following is not an exhaustive list, but points to some of the risks that are specific to the Company. Any one or a combination of such risks could affect Neptune adversely and thus the value of any investment in Neptune. The extent of such adversity is difficult to estimate.

Minimum Amount not raised

The Offer is subject to a minimum subscription amount of \$60 million. If the Minimum Amount is not raised, the Offer will be unsuccessful and the Company will be unable to satisfy the terms of the NAB Agreement or the conditions of the Vendor Agreements. The continuing support of the Company's financier, NAB, is subject to the Minimum Amount being raised. While Shareholders will be refunded their Application Monies in full (without interest) in circumstances where the Minimum Amount is not raised, the Company may be in breach of the NAB Agreement and the Vendor Agreements and may not have sufficient working capital to support its continued operations. Were that to occur, the Vendors may take action against the Company for breach of contract, the Company's lenders may enforce their security over the Company or its assets and the Company may become an externally-administered body corporate. In such circumstances, existing Shareholders would be at risk of the loss of some or all of the value of their current investment in the Company.

Shareholder approval

If Shareholder approval for the Entitlement Offer is not obtained at the General Meeting, the Offer will not proceed and the Company will not raise any funds from the Offer. In such circumstances, the Company will be unable to satisfy the terms of the NAB Agreement and certain requirements of the Vendor Agreements. The potential consequences are likely to be similar to those which may eventuate if the Minimum Amount is not raised (as noted above). In addition, the Company will have to investigate other capital raising options to satisfy its working capital requirements, the Vendor Payments and to meet its debt repayment obligations.

Failure to execute Restructure Plan

As foreshadowed in the Company's announcements dated 22 December 2010 and 25 January 2011, and in section 3.2 of this Prospectus, the Company has adopted and commenced to implement a formal Restructure Plan pursuant to which the Company is executing a number of operational and cost saving initiatives directed at improving its ongoing operational and financial performance and which is intended to reduce the Company's overheads and improve its profitability in the near to medium term. While the Company has modeled the financial impact of the proposed initiatives and engaged external consultants to assist with this, there is no guarantee that such initiatives will result in improvements in operational or financial performance of the level expected or required (if at all) or such improvements arising within the near to medium term. The expenses incurred by the Company in preparing and implementing the Restructure Plan may not result in any immediate or future financial benefit to the Company or its businesses. If the Company is unable to successfully execute the Restructure Plan, or there is a significant delay in

its execution, then there would be significant uncertainty surrounding its ability to return to profitability in the future.

Industry downturn and volatility risk

The Company is reliant on the level of activity in the oil and gas, marine and renewable energy industries, which can be cyclical in nature and which depend upon a number of factors outside the control of the Company. The Company also operates in industries that are, by their nature, inherently volatile. A downturn in the oil and gas industry or any other industries in which the Company operates (or the factors upon which those industries depend), or increased volatility in any of those industries, is likely to have an effect on the demand for the Company's services in those industries, which may adversely affect the Company's financial performance.

Key personnel and skilled labour risks

The future success of Neptune depends, in part, on its continued access to experienced and qualified management and operational personnel, including those retained on a contractual basis. The loss of the services of key members of the senior management or operational team or the availability, or cost, of contractors, could have a material adverse effect on the Company. While Neptune seeks to ensure that the services of the personnel necessary to conduct its business are retained, no assurances can be given that Neptune will continue to retain and attract key staff as required by the Neptune businesses, particularly given the specific skill-set required for some of the Company's businesses and the growing shortage of appropriately qualified people in the geographical locations in which the Company operates.

Termination of JLM Mandate

The Entitlement Offer and the Shortfall Offer will be marketed and promoted by the Lead Managers pursuant to the terms of the JLM Mandate, as summarised in section 7.2. Should the JLM Mandate be terminated, there is a risk that the Minimum Amount will not be raised. In such circumstances, the Offer will be unsuccessful and the Company will have to investigate other capital raising options to satisfy its working capital requirements, the Vendor Payments and to meet its debt repayment obligations. The potential consequences are likely to be similar to those which may eventuate if the Minimum Amount is not raised (as noted above).

Restructure of banking facilities and ongoing banking covenants

As set out elsewhere in this Prospectus, the Company has entered into an agreement with NAB which, amongst other things, extends the balance date of the Banking Facilities. All of the Company's facilities have been extended until 31 March 2012. There is no guarantee that by the 31 March 2012 expiry date that the outstanding facilities will be able to be repaid or refinanced, nor that the Banking Facilities will be renewed on favourable terms, if at all. The NAB Agreement contains ongoing banking covenants and other restrictive terms with which the Company will need to comply. In the event that the Company is unable to comply with the banking covenants and other terms, it may lose the support of the Company's financier, NAB. The continuing support of NAB is, amongst other things, subject to the Minimum Amount being raised. The potential consequences of losing NAB's support are likely to be similar to those which may eventuate if the Minimum Amount is not raised (as noted above).

Failure to manage growth and integration

The future results of the Company depend, in part, on management's ability to successfully manage the future growth and integration of the Company's businesses, including those recently acquired by the Company. The inability of management to integrate the various businesses recently acquired by, and operated by, the Company, may have an adverse impact on the financial performance of the Company's businesses and the Company's overall profitability.

Financing risks

The Company's business depends upon the Company's ability to obtain financing for its operations, either through debt or equity financing, the sale of assets or other means. While the Banking Facilities and the funds to be raised under the Offer satisfy the Company's near term financing requirements, there is no assurance that the Company will be successful in obtaining finance to satisfy its future capital requirements. Any additional equity financing may dilute the holdings of Shareholders, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company's debt facilities are not refinanced and need to be repaid, the Company may need to raise additional capital or realise assets for less than their fair value. If the Company requires additional capital in the future, there is no certainty that it will be available and that, if and when needed, it will be available on terms acceptable to Neptune. If adequate

funds are not available on acceptable terms, Neptune may not be able to take advantage of opportunities, develop new products and services or otherwise respond to competitive pressures.

Contract management and execution risks

The Company's ability to retain its existing customers and competitively bid for and win new work is crucial to the ongoing success of the Company and its business. In addition, it is important that the Company executes its contracts on time and within budget, which can be adversely affected by managerial issues, operational delays or breakdowns, project or operational modifications, weather related delays and project cancellations. If Neptune's contract management processes were at any time inadequate or Neptune did not have the personnel required to appropriately supervise and manage contracts, Neptune may be unable to complete work on time and within budget. In such circumstances, this may have an adverse impact on the Company's profitability and ability to attract work, may reduce the Company's reputation in the marketplace and may expose the Company to liability under its customer contracts.

Doubtful debts

The recent global economic climate caused an increase in the provisioning of doubtful debts. Recent new internal controls have been implemented by the Company to mitigate this risk in the future however there is no guarantee that there will not be a further increase in the amount of doubtful debts in the future.

Asset utilisation and profitability

Equipment reliability, availability and asset utilisation impact on the Company's financial performance. Where costly assets are not effectively utilised by the Company as a result of limited workflow or servicing requirements, the Company incurs expenses to retain those assets without receiving any revenue from their use. The Company's ability to effectively manage and limit any asset downtime is critical to the profitable use of its assets.

Regulatory environment

Neptune is exposed to potential future regulations and legislation that apply to both the industry in which it operates and the industries in which its customers operate. There is a risk that any regulatory changes which may arise, amongst other things, from specific incidents in the oil and gas, marine or renewable energy industries, may have an impact on the demand for, or the cost of, deepwater developments, well abandonment and exploration which could adversely affect the Company's financial performance and the demand for its services.

Tendering risks

Although the Company has structured tendering procedures and costs calculation processes, the nature of tendering involves risks in potential underpricing of projects in order to win work. If underpricing occurs then this will affect revenues, cash flows and the overall financial performance of the Company.

Early termination of key contracts by clients

The contractual terms regulating some of the Company's work allows some of the Company's major clients to terminate their projects on short notice under termination for convenience provisions. While such terms are not unusual for contracts in the industries in which the Company operates, the early termination of a contract or contracts may have an adverse impact on the Company's financial performance. In addition, the Company is party to a contract that may be terminated if the Offer is unsuccessful. The quantum of any adverse impact from the termination of contracts to which the Company is a party will vary based on a number of factors, including the value of the contract(s) terminated.

Competition

Neptune operates in a competitive landscape alongside a number of other companies working in the oil and gas, marine and renewable energy industries offering similar services to the Company, such as subsea and pipeline engineering services, offshore asset integrity management services and commercial diving and pipeline stabilisation and grouting services. In addition, Neptune may face competition from new entrants into the industries or the markets it services. Such competition may cause Neptune to lose existing or potential customers, incur costs to improve its services, reduce rates to remain competitive or be forced to adjust its principal activities into areas in which it retains a competitive advantage. Increased competition may have an impact on the Company's profit growth prospects and its financial performance may be adversely affected.

Exchange Rate Risks

A material proportion of Neptune's revenue is derived from overseas markets which exposes the Company to exchange rate risks. Significant sales are denominated in United States dollars and pounds Sterling, as well as other foreign currencies. Income and expenditure of the Company are and will be taken into account in Australian currency, exposing the Company to the fluctuations and volatility of the rate of exchange between the United States dollar, other currencies and the Australian dollar as determined in international markets.

4.2 General risk factors

Investors should be aware that the market price of the Shares may be subject to many unpredictable factors which affect share investments in general, service providers to the oil and gas, marine and renewable energy industries and the Company. General trends in the local and international share markets, local and world economic conditions including the level of economic growth, inflation, interest rates and investor sentiment could all impact on the price of the Shares.

Economic conditions

The performance of Neptune may be significantly affected by changes in local, national and international financial and economic conditions, and particularly conditions which affect the oil and gas, marine and renewable energy industries. Profitability of the business may be affected by factors such as market conditions, interest rates, inflation and demand for its services.

Changes in government policy

Changes in government policy (including fiscal, monetary and regulatory policies at federal, state and local levels in any of the jurisdictions in which the Company has operations or, which govern its contractual obligations), including policies affecting the oil and gas, marine and renewable energy industries may adversely affect Neptune, the industries in which it operates, or its customers.

Geo-political factors

Neptune may be affected by the impact that geo-political factors have on the various world economies or the Australian economy or on financial markets and investments generally or specifically, including investments in the oil and gas, marine and renewable energy industries.

Contractual risks and other legal risks

All agreements entered into by the Company are subject to interpretation. There is no guarantee that the Company will be able to enforce all of its rights under its agreements with third parties on favourable terms, if at all. The introduction of new legislation or amendments to existing legislation by governments, developments in existing common law, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern the Company's operations or contractual obligations, could impact adversely on the assets, operations and therefore on the financial performance and share price of the Company.

Force majeure

Force majeure describes events, including acts of God, fire, flood, earthquakes, war and strikes, beyond the control of a party claiming that any such event has occurred. To the extent that force majeure events occur, they may adversely affect the Company's financial performance, the Company's customers, the Company's ability to operate and the value and price of Shares.

Interest rate risk

Neptune has in place debt facilities subject to variable interest rates. Should interest rates move upward this may increase the overall interest cost to Neptune. Similarly, where interest rates move down, interest costs may reduce. An increase in interest rates may also adversely affect the demand for the Company's products and services, which may affect the Company's profitability and cashflow.

Equity Market Conditions

Neptune, being a company listed on ASX, is subject to the market forces that influence the broad share market trends and the price of securities of individual companies. Accordingly, assuming that the New Shares are granted Official Quotation on ASX, they may trade on ASX at higher or lower prices than the issue price. In addition, there is no certainty as to the trading price that the Shares will assume once the Company's securities resume trading on the ASX (after the voluntary suspension is lifted, anticipated to occur on or about 8 March 2011).

Liquidity and realisation risk

There can be no guarantee that there will be an active market in Shares or that the price of Shares will increase. There may be relatively few buyers or relatively high numbers of sellers of the Shares on the ASX at any given time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares.

Other

Other risk factors include those normally found in conducting business, including litigation resulting from the breach of agreements or in relation to employees (through personal injuries, industrial matters or otherwise) or any other non-insurable risks, delay in resumption of activities after reinstatement following the occurrence of an insurable risk and other matters that may interfere with the business or trade of Neptune.

5. Effect of the Offer on the Company

5.1 Effect of Offer on the Company

Assuming the Maximum Amount is raised, all New Shares are issued and no Shares are issued as a result of the exercise of any existing Options, the principal effects of the Offer will be:

- (a) cash reserves will initially increase by approximately \$80.6 million (before expenses of the Offer and the funds being applied to the uses set out in section 2.2) to enable the Company to pursue its objectives; and
- (b) the number of Shares on issue will increase to 2,060,645,090.

If only the Minimum Amount is raised and assuming no Shares are issued as a result of the exercise of any existing Options, the principal effect of the issue will be:

- (a) cash reserves will initially increase by approximately \$60 million (before expenses of the Offer and the funds being applied to the uses set out in section 2.2) to enable the Company to pursue its objectives; and
- (b) the number of Shares on issue will increase to 1,647,966,324.

Further details of the possible effect of the Offer are set out below.

5.2 Capital Structure

At the date of this Prospectus the Company has 447,966,324 Shares and 14,486,682 unlisted Options on issue. The effect of the Offer on the capital structure of the Company is outlined in the table below. This assumes that all Shares offered under the Offer are issued and that none of the existing Options on issue are exercised prior to the Record Date. This also assumes that the Tri-Surv Vendors and the Company do not agree to convert the Tri-Surv debt to equity, pursuant to the terms of the Tri-Surv Acquisition Agreement, as set out in more detail in section 7.1(c).

Capital structure	Shares		Options [^]
	Minimum number	Maximum number	
Current securities on issue	447,966,324	447,966,324	14,486,682
New Shares to be issued pursuant to the Offer*	1,200,000,000	1,612,678,766	
Total Shares on issue following the Offer*	1,647,966,324	2,060,645,090	

* Due to the entitlements of Option holders to exercise their Options before the Record Date, the maximum number of New Shares to be issued and funds to be raised cannot be definitively determined by the Company as at the date of this Prospectus. The Maximum number and Minimum number referred to assume that no Option holders exercise Options prior to the Record Date.

[^] The existing Options on issue are unlisted and are summarised in section 5.3 below. The terms of all Options on issue provide for the exercise price of the Options to be adjusted in accordance with the formula set out in ASX Listing Rule 6.22.2 following the Entitlement Offer. Accordingly, the exercise price of the Options will be adjusted in this manner.

5.3 Options

The Company currently has 14,486,682 unlisted Options on issue. These Options were issued to either Directors or to employees of the Company pursuant to the Company's employee option scheme. The Options are subject to varied vesting conditions and exercise prices. A summary of the terms of the Options on issue follows:

- 200,000 Options are held by Mr David Agostini (who retired as a Director on 30 November 2010), with each Option having an exercise price of \$0.44 (as adjusted for the Entitlement Offer in accordance with the formula set out in ASX Listing Rule 6.22.2) and which expire on 28 February 2011;

- 4,000,000 Options (all of which have fully vested) are held by Mr Christian Lange, the Company's former Chief Executive Officer, as detailed in the following table:

No. Options	Old Exercise Price [^]	New Exercise Price [^]	Expiry Date
1,000,000	\$0.53	\$0.40	28 February 2016
3,000,000	\$0.63	\$0.50	29 May 2017

[^] The terms of all Options on issue provide for the exercise price of the Options to be adjusted in accordance with the formula set out in ASX Listing Rule 6.22.2 following the Entitlement Offer. Accordingly, the exercise price of the Options will be adjusted in this manner.

- 10,286,682 Options which have been issued under the Company's employee Option scheme, as detailed in the following table:

No. Options	Old Exercise Price	New Exercise Price [^]	Expiry Date
400,000	\$0.61	\$0.48	1 May 2011
2,425,332	\$0.34	\$0.21	30 October 2011
100,000	\$0.60	\$0.479	7 February 2012
100,000	\$0.586	\$0.46	29 March 2012
100,000	\$0.59	\$0.46	29 March 2012
100,000	\$0.59	\$0.46	29 March 2012
600,000	\$0.82	\$0.69	6 June 2012
71,500	\$0.01	\$0.01	23 October 2012
700,000	\$1.23	\$1.10	12 December 2012
819,850	\$0.67	\$0.54	16 April 2013
250,000	\$0.59	\$0.46	5 June 2013
350,000	\$0.82	\$0.69	30 June 2013
300,000	\$0.78	\$0.65	14 August 2013
200,000	\$0.67	\$0.54	17 November 2013
200,000	\$0.69	\$0.56	17 November 2013
100,000	\$0.69	\$0.56	20 November 2013
50,000	\$0.69	\$0.56	24 November 2013
300,000	\$0.47	\$0.34	9 January 2014
700,000	\$0.64	\$0.51	25 June 2014
400,000	\$0.33	\$0.20	29 July 2014
500,000	\$0.78	\$0.65	15 January 2015
400,000	\$0.62	\$0.49	04 February 2015
120,000	\$0.62	\$0.49	10 March 2015
600,000	\$0.58	\$0.45	1 August 2015
400,000	\$0.84	\$0.71	6 June 2012

[^] The terms of all Options on issue provide for the exercise price of the Options to be adjusted in accordance with the formula set out in ASX Listing Rule 6.22.2 following the Entitlement Offer. Accordingly, the exercise price of the Options will be adjusted in this manner to the new exercise prices listed in the table above.

5.4 Revised Banking Facilities

(a) Background

The Company secured conditional revised Banking Facilities on 21 December 2010 and has entered into the NAB Agreement which contains the specific terms and conditions of the Revised Facilities which refinance Neptune's existing bank facilities held with NAB. The revised terms extend the date for complete repayment of the Company's various facilities

until 31 March 2012, with all principal loan amortisations and repayments due under the Multi-option Facility and the Offshore Facility deferred until 30 March 2011 and 7 April 2011 respectively, (although interest and fees will continue to accrue on the unpaid principal and repayments until the date of actual repayment).

(b) **Summary of Banking Facilities**

The following table summarises the amounts currently owed by the Company to NAB under each of its Banking Facilities (amounts set out in the table are based on the balances owing to NAB as at 21 January 2011 and the amounts owing to NAB also assumes a balance date of 21 January 2011).

Facilities	Loan limit	Amount currently owing to NAB	Amount owing to NAB if Maximum Amount raised [^]
Neptune Marine Services Ltd			
Multi-option Facility	A\$19,400,000	A\$19,400,000	Nil
Debtor finance facility	A\$15,000,000	A\$8,239,445	A\$8,239,445
Business credit card	A\$670,000	A\$209,014	A\$209,014
Bridge Facility	GBP15,000,000 (A\$24,489,796)	A\$24,489,796	Nil
Offshore Facility	GBP1,250,000 (A\$2,040,816)	A\$2,040,816	Nil
Bank guarantee	A\$904,000	A\$741,628	A\$741,628
Standby letter of credit [*]	US\$1,885,000 (A\$1,931,155)	A\$1,931,155	A\$1,931,155
Neptune Asset Integrity Services Pty Ltd			
Bank guarantee	A\$884,370	A\$884,368	A\$884,368
Neptune Geomatics Pty Ltd			
Bank guarantee	A\$269,000	A\$115,000	A\$115,000
Neptune Fabrication Services Pty Ltd			
Bank guarantee	A\$655,278	A\$654,480	A\$654,480
Neptune Deeptech Ltd			
Business credit card	GBP80,000 (A\$16,327)	A\$16,327	A\$16,327
Transactions negotiation authority	GBP1,370,000 (A\$2,236,735)	Nil	Nil
Total NAB Facilities			
\$(Australian dollars)	A\$37,782,648	A\$30,243,935	A\$10,843,935
GBP (Pound Sterling)*	GBP17,700,00	A\$26,546,939	A\$16,327
US (US Dollar)*	US\$1,885,000	A\$1,931,155	A\$1,931,155

[^] If less than the Maximum Amount is raised the Company will still satisfy its mandatory repayment obligations as set out in section 5.4(d).

^{*} The foreign currency amounts assume an exchange rate as at 21 January 2011 of A\$1 to GBP0.6125 and US\$0.9760.

^{*} The Company notes that the standby letter of credit is cash backed.

(c) **Conditions precedent to drawdown**

The NAB Agreement contains several conditions to first draw down of funds by the Company, which include the following:

- discharge and release of any security interest (other than an interest approved by NAB) existing over the property secured by NAB;
- the Company entering into an agreement with the Access Management Vendor with respect to the early payment of \$600,000 of the Second Earn-out Payment and the pre-payment of the Third Earn-out Payment by way of 3 payments of \$1,000,000 payable to the Access Management Vendor on each of 15 April, 16 May and 15 June 2011;
- evidence of payment of NAB's legal costs and expenses in relation to negotiation and preparation of, and NAB's entry into, the NAB Agreement;
- an updated valuation for the Vessels being provided to NAB; and
- the Company entering into an agreement with the STS Vendors postponing the date for repayment of the Outstanding STS Payments until such time as the Minimum Amount has been raised.

(d) **Mandatory repayment**

Within one Business Day of the Minimum Amount being raised, the Company must repay to NAB an amount equal to the difference between the gross proceeds received pursuant to the Offer and the sum of A\$35,000,000 for allocation to the Banking Facilities as follows:

- first, towards repayment of the Bridge Facility;
- second, towards repayment of an amount of A\$8,700,000 under the Multi-option Facility;
- third, towards repayment of the Offshore Facility; and
- fourth, towards repayment of the outstanding amount of the Multi-option Facility.

In addition, the Company has agreed to pay the full amount of any proceeds pursuant to the Shortfall Offer (received after the Closing Date) to NAB for allocation to the outstanding amounts of the Company's facilities in accordance with the order of priority set out above (but after payment of the Lead Managers' fee).

The bank has notified the Company that the above mentioned sum of \$35,000,000 will need to be adjusted to cater for the pre-payment to the Access Vendor.

(e) **Fees payable for Banking Facilities**

The Company has agreed to pay up to \$3,000,000 as an extension fee to NAB as follows:

- \$500,000 upon execution of the extension documentation with NAB (or if the Entitlement Offer does not proceed, upon demand by NAB);
- \$1,000,000 upon receipt of the proceeds from the Offer (or if the Offer does not proceed, or is not successful, upon demand); and
- up to \$900,000 on 31 December 2011 (or, if the Offer does not proceed, or is not successful, \$1,500,000 upon demand).

The \$900,000 part of the extension fee payable on 31 December 2011 may be reduced by the Company by \$300,000 for every \$10 million of debt reduction applied to the Senior Facilities from the proceeds of the Offer. Accordingly, if the Maximum Amount is raised, the Company will have to pay an extension fee of \$1,800,000 (being the initial \$500,000, plus

\$1,000,000, plus \$300,000). If only the Minimum Amount is raised, the Company will have to pay an extension fee of \$2,400,000 (being the initial \$500,000, plus \$1,000,000, plus \$900,000). If the Offer is not successful, the Company will have to pay the total extension fee of \$3,000,000.

(f) **Review events**

The NAB Agreement contains a number of “Review Events”, which, if they occur and subsist for a period of 3 Business Days, allow NAB to:

- change any of the terms or conditions of the Banking Facilities, including, without limitation, by imposing financial ratios and requiring the provision of additional security; or
- cancel one or more of the Banking Facilities, in which case, the Company must pay to NAB all money and amounts (in any currency) that is owed to NAB under the cancelled facilities at the time of their cancellation.

A “Review Event” occurs if any one or more of the following occurs (whether or not within the control of the Company or any of its subsidiaries) without NAB’s prior written consent:

- **(milestones)** failure to achieve the following milestones pursuant to the Offer:
 - (i) lodge this Prospectus with ASIC and the ASX by 31 January 2011;
 - (ii) hold the General Meeting by 1 March 2011;
 - (iii) determine whether the Minimum Amount has been raised by 4 March 2011;
 - (iv) allot the Minimum Amount and have such funds available by 9 March 2011; and
 - (v) should the amount raised by the Offer exceed the Minimum Amount, but be less than the Maximum Amount, settle the Shortfall by 1 June 2011;
- **(occurrence of a termination event)** a ‘termination event’ occurs (as defined in the JLM Mandate, being those events summarised in section 7.2(c) of this Prospectus);
- **(control)** any person has voting power (as defined in section 610 of the Corporations Act) in the Company of more than 20% or a takeover offer is made to the shareholders of the Company and in either such case, NAB determines (in its absolute discretion) that it does not wish to continue to provide the facilities to the Company because of any internal or external requirement or policy;
- **(listing)** the Company is:
 - (i) suspended from trading on the ASX for a period of at least 5 consecutive Business Days at any time after 8 March 2011; or
 - (ii) delisted from the ASX for any period;
- **(commencing trading)** if trading in the ordinary securities of the Company recommences on the ASX prior to 8 March 2011;
- **(change of ownership)** any of the Company’s subsidiaries cease to become a wholly owned subsidiary of the Company;
- **(change in control)** there is a change (from that prevailing at the date of execution of the NAB Agreement) in the persons who control, or one or more persons acquire control of, the Company or a subsidiary, where **control** has the meaning given in section 50AA of the Corporations Act and includes the direct or indirect power to direct the management or policies of the entity or to control the membership or voting of the board of directors or other governing body of the entity;

-
- **(debtor book)** the results of any examination of a debtor book of the Company or any subsidiary is unacceptable to NAB; or
 - **(base case financial model)** if, at any time prior to 4 March 2011, or at any time after 4 March 2011 (until such time that the Minimum Amount is raised), the actual financial performance of the Group differs from that shown in the base case financial model (provided to NAB as part of the NAB Agreement) to an extent which, in the opinion of NAB (acting reasonably), is likely to materially affect the business or prospects of the Company, the Australian operations of the Group or the Group taken as a whole or the ability of the Company and certain of its subsidiaries to perform its obligations under certain finance documents and other material agreements identified by NAB (which include certain Vendor Agreements).

(g) **Other key terms of Banking Facilities**

All of the Company's facilities with NAB are secured by first ranking charges and mortgages over the assets and undertakings of Neptune and some of its subsidiaries. Each facility other than the transaction negotiation authority has an interest rate or fee (as applicable). Of these facilities, interest on the business credit card facilities is charged at market rate and interest (or the applicable fee) on each other facility is charged at an interest rate margin increased from the previous margin to 400 basis points above the NAB's indicator bill rates.

6. Financial Information

6.1 Introduction

Set out in this section is the following financial information for the Company prepared by management and adopted by the Directors:

- the Historical Statement of Financial Position as at 31 October 2010; and
- the Historical Statement of Financial Position as at 30 June 2010,

(collectively the **Historical Financial Information**); and

- the Pro Forma Statement of Financial Position of the Company as at 31 October 2010 (**Pro Forma Statement of Financial Position**).

The Directors are responsible for the inclusion of all financial information in this Prospectus.

The Historical Financial Information and the Pro Forma Statement of Financial Position have been reviewed by Ernst & Young who have provided an Investigating Accountants' Report to the Directors.

6.2 Basis of preparation and presentation of the Historical Financial Information and Pro Forma Statement of Financial Position

The Historical Financial Information has been extracted from the underlying books and records of the Company for the period 1 July 2010 to 31 October 2010 and the audited financial statements of the Company for the year ended 30 June 2010.

The financial statements for the year ended 30 June 2010 were audited by Ernst & Young who issued an unqualified opinion on those financial statements with an "emphasis of matter" paragraph regarding a going concern uncertainty. The going concern uncertainty was due to whether the Company would be able to re-negotiate the terms and conditions of its various loans with its bankers. Shareholders should refer to the 2010 Annual Report for additional information with respect to this "emphasis of matter".

The Pro Forma Statement of Financial Position has been based on the reviewed consolidated statement of financial position of the Company as at 31 October 2010, on which an Investigating Accountants' Report has been issued to the Directors by Ernst & Young with an "emphasis of matter" paragraph regarding a going concern uncertainty.

As set out in Note 2 below, the following pro forma adjustments have been made to the reviewed Historical Statement of Financial Position as at 31 October 2010 to compile the Pro Forma Statement of Financial Position at that date:

- the issue of New Shares as contemplated by this Prospectus;
- the recognition of the costs of the Offer;
- the repayment of bridging loans and outstanding interest post 31 October 2010 and before the Offer;
- the repayment of interest bearing debt and outstanding interest post 31 October 2010 and before the Offer;
- the payment of deferred consideration to the Vendors; and
- the cost of the variation to the Banking Facilities.

Two Pro Forma Statements of Financial Position have been presented on the basis of the issue of up to 1,200,000,000 New Shares to raise a minimum of \$60 million and the issue of up to 1,612,678,766 New Shares to raise a maximum of approximately \$80.6 million under the Offer.

The financial information set out in the Prospectus has been prepared in accordance with the recognition and measurement principles (but not all the disclosure requirements) prescribed in Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board. The financial information contained in this Prospectus is presented in an

abbreviated form and does not contain all the disclosures required by the Australian Accounting Standards applicable to annual reports prepared in accordance with the Corporations Act. Additionally, the Historical Statement of Financial Position of the Company as at 31 October 2010 has not been audited.

The financial information in this section should be read in conjunction with:

- the audited financial statements of the Company for the year ended 30 June 2010;
- the summary of significant accounting policies and additional financial disclosures set out in Note 1;
- the Pro Forma Statement of Financial Position assumptions set out in Note 2 below;
- the risk factors set out in Section 4 of this Prospectus; and
- other information contained, or referred to, in this Prospectus.

6.3 Directors' Forecasts

It was determined by the Directors not to include forecast information in this Prospectus.

6.4 Historical and Pro Forma Statements of Financial Position

		Audited Historical	Unaudited Historical		Pro Forma minimum \$60m as at 31 Oct 2010	Pro Forma maximum \$80.6m as at 31 Oct 2010
	Note	as at 30 June 2010 (A\$ '000)	as at 31 Oct 2010 (A\$ '000)	Pro Forma Adjustment Item	(A\$ '000)	(A\$ '000)
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	3	21,781	15,172	a, b, c, d, e, f	34,577	33,373
Trade and other receivables		42,579	26,019		26,019	26,019
Inventories		5,714	6,140		6,140	6,140
Current tax receivable		1,983	1,921	h	1,123	904
Other current assets		6,229	4,567		4,567	4,567
TOTAL CURRENT ASSETS		78,286	53,819		72,426	71,003
NON-CURRENT ASSETS						
Trade and other receivables		2,546	2,301		2,301	2,301
Property, plant & equipment	4	82,384	52,851		52,851	52,851
Deferred tax assets		2,111	900	g, i	2,481	3,055
Intangible assets and goodwill	5	164,071	78,315		78,315	78,315
Other non-current assets		84	86		86	86
TOTAL NON-CURRENT ASSETS		251,196	134,453		136,034	136,608
TOTAL ASSETS		329,482	188,272		208,460	207,611
CURRENT LIABILITIES						
Trade and other payables	6	41,962	41,301	e	32,236	32,236
Interest bearing loans and borrowings	7	39,248	50,279	c, d, f	24,020	4,079
Derivative financial instruments		135	116		116	116
Provisions		1,506	1,742		1,742	1,742
TOTAL CURRENT LIABILITIES		82,851	93,438		58,114	38,173

Historical and Pro Forma Statement of Financial Position (continued...)

		Audited Historical as at 30 June 2010 (A\$ '000)	Unaudited Historical as at 31 Oct 2010 (A\$ '000)	Pro Forma Adjustment Item	Pro Forma minimum \$60m as at 31 Oct 2010 (A\$ '000)	Pro Forma maximum \$80.6m as at 31 Oct 2010 (A\$ '000)
	Note					
NON-CURRENT LIABILITIES						
Trade and other payables	6	2,876	-		-	-
Interest bearing loans and borrowings	7	19,759	1,281		1,281	1,281
Deferred tax liabilities		2,757	1,325	h	527	308
Derivative financial instruments		45	-		-	-
TOTAL NON-CURRENT LIABILITIES		25,437	2,606		1,808	1,589
TOTAL LIABILITIES		108,288	96,044		59,922	39,762
NET ASSETS		221,194	92,228		148,538	167,849
EQUITY						
Contributed equity	8	205,804	209,045	a, b, g	265,969	285,736
Reserves		(2,678)	(22,087)		(22,087)	(22,087)
Retained earnings/(Accumulated losses)	9	18,068	(94,730)	b, f, i	(95,344)	(95,800)
TOTAL EQUITY		221,194	92,228		148,538	167,849

Notes to the Historical and Pro Forma Financial Information

Note 1 - Summary of Significant Accounting Policies

The significant accounting policies adopted in the preparation of the Historical Financial Information and Pro Forma Statement of Financial Position are set out below.

The accounting policies and methods of computation are the same as those adopted in the financial statements of the Company for the year ended 30 June 2010. A copy of the financial statements can be accessed from the Company's website at www.neptunems.com and are contained in the 2010 Annual Report.

Since 1 July 2010, there have been no new standards or interpretations issued, mandatory for annual periods beginning on or after 1 July 2010, that have any effect on the financial position of the Company.

Basis of Preparation

The Historical Financial Information and the Pro Forma Statement of Financial Position have been prepared on a historical cost basis, except for derivative financial instruments and contingent consideration relating to business combinations, which have been measured at fair value.

The accounting policies are consistent for the periods presented.

The financial information is represented in Australian dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

▪ Going Concern

The Directors have prepared the Historical Financial Information on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

As at 31 October 2010 the consolidated entity had a net current asset deficiency of \$39,619,000 (30 June 2010: deficiency of \$4,565,000). The consolidated entity has incurred an operating loss after income tax of \$112,798,000 for the period ended 31 October 2010 (year ended 30 June 2010, profit of \$849,000). As at 31 October 2010 the consolidated entity had cash and cash equivalents of \$15,172,000 (30 June 2010: \$21,781,000).

Since the balance date, all of the Company's outstanding bank facilities have been extended to 31 March 2012 as per the revised Banking Facilities and are subject to the terms and conditions of the NAB Agreement. The Company will be in breach of the revised Banking Facilities if it fails to raise the Minimum Amount by 4 March 2011.

The Directors have reviewed the business outlook and the assets and liabilities of the Company and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Company will continue to be successful in securing additional funds through debt or equity issues as and when the need to raise working capital arises.

The Company is lodging this Prospectus to raise a minimum of \$60,000,000 (maximum of \$80,633,938) before capital raising costs through a non-renounceable entitlement offer to pay down existing debt and provide working capital. The ability of the Company to continue as a going concern is reliant on the successful completion of the Offer (and the Minimum Amount being raised). The Company would need to raise funds via other means if the Offer is not successful.

The Historical Financial Information does not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

▪ **Critical accounting estimates and judgments**

The Directors evaluate estimates and judgments incorporated into the financial information 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, cash flows, 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.

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.

Key Estimates - Contingent consideration

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 and classification of contingent payments disclosed on the statement of financial position.

Key Estimates –Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the Pro Forma Statement of Financial Position.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation. These judgements and assumptions require risk, and in some instances may require changes to the carrying amount of deferred tax assets and deferred tax liabilities recognised in the Pro Forma Statement of Financial Position and the amount of other tax losses and temporary differences not recognised. This could result in a corresponding credit or change to the statement of comprehensive income.

▪ **Basis of Consolidation**

The Pro Forma Statement of Financial Position includes the financial information of the parent entity, Neptune Marine Services Limited and its controlled entities.

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

All controlled entities 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 consistency with those policies applied by the Group.

Where controlled entities have entered the consolidated group during the year, their operating results have been included from the date control was obtained.

Note 2 – Pro Forma Adjustments

The Pro Forma Statement of Financial Position of the Company as at 31 October 2010 has been prepared as if the following proposed and actual transactions had taken place as at 31 October 2010:

- (a) the receipt of \$60,000,000 in proceeds from the issue of 1,200,000,000 shares at \$0.05 each as the minimum subscription and an additional \$20,633,938 in proceeds from the issue of an additional 412,678,766 shares at \$0.05 cents each as the maximum subscription, as contemplated by this Prospectus;
- (b) the payment of estimated capital raising costs (not including any costs payable to NAB for the extension of the Banking Facilities) of \$4,405,000 for the Minimum Amount and additional capital raising costs of \$1,238,000 for the Maximum Amount to be offset against issued share capital. In addition estimated capital raising costs of \$25,000 have been expensed. Total cash costs arising from the capital raising are \$4,430,000 assuming the Minimum Amount is raised and \$5,668,000 if the Maximum Amount is raised;
- (c) the repayment of A\$24,489,796 (assuming the Minimum Amount is raised) to retire the Bridge Facility;
- (d) the repayment of \$1,110,000 of interest bearing debt (assuming the Minimum Amount is raised) and the repayment of \$21,710,000 of interest bearing debt (assuming the Maximum Amount is raised);
- (e) the payment of \$9,065,000 of deferred consideration to the Vendors of acquired businesses;
- (f) the cost of extending bank debt facilities of \$1,500,000 (assuming the Minimum Amount is raised) of which \$659,000 has been offset against debt and \$841,000 expensed and the recognition of an additional expense of \$659,000 (assuming the Maximum Amount is raised) upon additional repayment of debt;
- (g) to reflect the tax benefit of capital raising costs to be realised over 5 years, \$1,329,000 (assuming the Minimum Amount is raised) and \$1,700,000 (assuming the Maximum Amount is raised);
- (h) reclassification from deferred to current tax of \$798,000 (assuming the Minimum Amount is raised) and \$1,017,000 (assuming the Maximum Amount is raised) for the realisation of the foreign exchange gain upon settling GBP debt facilities; and
- (i) tax effect on cost of extending Banking Facilities of \$252,000 (assuming the Minimum Amount is raised) or \$455,000 (assuming the Maximum Amount is raised).

Note 3 - Cash and Cash Equivalents

	Historical as at 30 June 2010 (A\$ '000)	Historical as at 31 Oct 2010 (A\$ '000)	Note	Pro Forma minimum \$60m as at 31 Oct 2010 (A\$ '000)	Pro Forma maximum \$80.6m as at 31 Oct 2010 (A\$ '000)
Cash at bank	21,781	15,172		34,577	33,373
Reconciliation of Pro Forma					
Adjustments to Cash					
Balance as at 31 Oct 2010					15,172
Adjustments:					
Funds raised from the minimum issue					
of 1,200,000,000 shares @ \$0.05			2a)		60,000
Capital raising costs under this prospectus			2b)		(4,430)
Repayment of bridge debt facility			2c)		(24,490)
Repayment of interest bearing debt			2d)		(1,110)
Payment of deferred consideration			2e)		(9,065)
Payment of bank debt extension fees			2f)		(1,500)
Pro forma balance as at 31 Oct 2010 based on minimum subscription					34,577
Funds raised from the further issue of 412,678,766 shares @ \$0.05			2a)		20,634
Additional capital raising costs under this prospectus			2b)		(1,238)
Additional repayment of interest bearing debt			2d)		(20,600)
Pro forma balance as at 31 Oct 2010 based on maximum subscription					33,373

Note 4 - Property Plant & Equipment

	Office Furniture & Equipment (A\$'000)	Leasehold Improvements (A\$'000)	Plant & Equipment (A\$'000)	Motor Vehicle (A\$'000)	ROVs & Vessel (A\$'000)	Construction in Progress (A\$'000)	TOTAL (A\$'000)
Balance at 30 June 2010	2,516	2,205	22,975	753	53,846	89	82,384
Balance at 31 October 2010	2,352	1,251	25,289	165	23,768	26	52,851

(i) Impairment of Vessels

The residual value of the Trident and ROV Supporter were reviewed at 31 October 2010 and as a result an impairment loss of \$14,970,000 was recognised to reduce the carrying amount of these assets to the recoverable amount.

(ii) *Impairment of property, plant and equipment*

Impairment testing was performed and an impairment loss of \$4,857,000 was recognised for the period to 31 October. The recoverable amount was based on value in use calculation.

(iii) *Property, plant and equipment pledged as security for liabilities*

At 31st October 2010, Neptune had a Multi-option Facility (term loan) of \$19,400,000 from NAB. The facility was used to finance the purchase of the Nor Sea vessel (now named *Trident*). The loan is secured through registered mortgages over two vessels known as the *Trident* and *ROV Supporter*, as well as fixed and floating charges over the assets of the Group.

Neptune has entered into finance leases for two of its dive support vessels, being the *Trident* and *ROV Supporter*. These loan facilities are secured through registered charges over each of the *Trident* and the *ROV Supporter*.

Note 5 – Intangible Assets

	Historical as at 30 June 2010 (A\$ '000)	Historical as at 31 Oct 2010 (A\$ '000)
Reconciliation of carrying amount		
Goodwill		
Cost less impairment	161,726	76,047
Development costs		
Cost	2,345	2,268
Total intangibles and goodwill	164,071	78,315
Movements		
Goodwill		
Opening balance	144,267	161,726
Arising on acquisitions during the period	23,513	-
Operational increase/(decrease) in earnings	208	2,845
Impairments	-	(79,690)
Foreign exchange differences	(6,262)	(8,834)
Closing balance	161,726	76,047
Development costs		
Opening balance	1,543	2,345
Additions	1,043	-
Amortisation	(241)	(77)
Closing balance	2,345	2,268
Total intangibles assets	164,071	78,315

Description of the Group's intangible assets and goodwill

Development costs

Development costs are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a remaining 16 year period. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

Impairment losses recognised

An impairment loss of \$79,690,000 on goodwill was recognised for the period to 31 October. The recoverable amount was based on value in use calculation.

Impairment tests for goodwill and intangibles with indefinite useful lives*(i) Description of the cash generating units and other relevant information*

Goodwill acquired through business combinations have been allocated to and are tested at the level of their respective cash generating units for impairment testing for each of the entities as detailed below.

(ii) Carrying amount of goodwill allocated to each of the cash generating units

	Historical as at 30-Jun-10 (A\$ '000)	Historical as at 31-Oct-10 (A\$ '000)
Carrying amount of goodwill		
Allocation to cash generating units:	161,726	76,047
Neptune Geomatics	33,080	18,059
Subsea Stabilisation	25,040	21,780
Neptune Diving Services	5,975	5,975
Neptune Underwater Services	22,673	-
Remotely Operated Vehicles (ROVs)	22,956	5,320
Neptune Fabrication Services	7,135	-
Neptune Subsea Engineering (AUS)	10,205	4,473
Neptune Offshore Services	16,129	-
Neptune Subsea Engineering (UK)	9,022	7,293
Neptune Asset Integrity Services	9,511	13,147
	161,726	76,047

(iii) Key assumptions used in value in use calculations for the cash generating units

The value in use calculations use cash flow projections based on financial budgets approved by the Board covering a one year period. Cash flows beyond the one year period are extrapolated using a Consumer Price Index (CPI) rate of 3% up to 5 years and escalation of 2% up to 15 years thereafter. Pre-tax, risk adjusted discount rates have been applied to these cash flow projections in different regions ranging from 17.09%-22.50% (June 2010: 15.81 – 18.94%).

Management determined budgeted earnings before interest, tax, depreciation and amortisation (EBITDA) based on past performance and its expectations of the future. In determining appropriate discount rates for each unit, regard has been given to the weighted average cost of capital of the entity as a whole and adjusted for country and business risk for each unit.

Note 6 – Trade & Other Payables

	Historical as at 30 June 2010 (A\$ '000)	Historical as at 31 Oct 2010 (A\$ '000)	Note	Pro Forma minimum \$60m as at 31 Oct 2010 (A\$ '000)	Pro Forma maximum \$80.6m as at 31 Oct 2010 (A\$ '000)
CURRENT					
Trade creditors	14,091	10,287		10,287	10,287
Deferred consideration	14,949	17,789		8,724	8,724
Other creditors and accruals	12,922	13,225		13,225	13,225
	<u>41,962</u>	<u>41,301</u>		<u>32,236</u>	<u>32,236</u>
NON-CURRENT					
Deferred consideration	2,876	-		-	-
	<u>2,876</u>	<u>-</u>		<u>-</u>	<u>-</u>
Reconciliation of Pro Forma Adjustments to Trade & Other Payables					
Balance as at 31 Oct 2010					41,301
Adjustments:					
Payment of deferred consideration			2e)		(9,065)
Pro forma balance as at 31 Oct 2010					32,236

Contingent consideration represents the value of contingent consideration resulting from meeting an earnings target expected to be paid in line with the related acquisitions. These are revised at each reporting date based on revised expectations of meeting the earnings target.

Contingent consideration is made up of an estimate of 88% to be settled in cash and 12% in shares to vendors of the acquired subsidiaries based on meeting the expected target that is discounted to account for the time value of money and interest expense. The number of shares to be issued is determined on the fair value at date of settlement.

Note 7 – Interest Bearing Loans and Borrowings - Current

	Historical as at 30 June 2010 (A\$ '000)	Historical as at 31 Oct 2010 (A\$ '000)	Note	Pro Forma minimum \$60m as at 31 Oct 2010 (A\$ '000)	Pro Forma maximum \$80.6m as at 31 Oct 2010 (A\$ '000)
CURRENT					
Hire purchase liability	1,691	867		867	867
Bank loans (and debtor facility)	37,557	49,412		23,153	3,212
	39,248	50,279		24,020	4,079
NON-CURRENT					
Hire purchase liability	922	1,281		1,281	1,281
Bank loans	18,659	-		-	-
Other	178	-		-	-
	19,759	1,281		1,281	1,281
Total Interest Bearing Loans and Borrowings	59,007	51,560		25,301	5,360

Reconciliation of Pro Forma

Adjustments to interest bearing loans and borrowings

Balance as at 31 Oct 2010 51,560

Adjustments:

Repayment of bridge debt facility 2c) (24,490)

Repayment of interest bearing debt 2d) (1,110)

Capitalisation of bank debt extension fees 2f) (659)

Pro forma balance as at 31 Oct 2010 based on minimum subscription

25,301

Additional repayment of current interest bearing debt 2d) (20,600)

Expense of bank debt extension fees 2f) 659

Pro forma balance as at 31 Oct 2010 based on maximum subscription

5,360

The bank loans are secured by charges over the assets of the Group.

- (a) At 31 October 2010, Neptune had a Multi-option Facility (term loan) of \$19,400,000 from NAB at bank bill rate plus a margin of 1.9%. The loan was used to finance the purchase of the Nor Sea (now called *Trident*) vessel. The loan is secured through registered mortgages over two vessels known as the *Trident* and *ROV Supporter*, as well as fixed and floating charges over the assets of the Group. The loan is repayable by instalments of \$700,000 per quarter until 30 September 2011. The remaining portion of the loan is payable as a balloon payment at maturity. During the period the company repaid \$700,000 of the Multi-option Facility.

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- (b) At 31 October 2010, Neptune had a term loan GBP 1,250,000 from NAB at overseas currency rate plus a margin of 2.50%. The loan was used to fund the purchase of Neptune Subsea Engineering Ltd, a UK based acquisition. The loan is secured through fixed and floating charges over the assets of the Group. The loan is repayable by instalments of GBP 250,000 per quarter until 31 December 2011. The remaining portion of the loan is payable at maturity. During the period the Company repaid GBP 500,000 against this loan.
 - (c) At 31 October 2010, Neptune had outstanding borrowings of \$3,736,189 from NAB under an existing short term debtor facility at lending indicator rate plus a margin of 1.5%. The loan is repayable by 30 September 2011. During the period the company repaid \$2,573,198 towards this facility.
 - (d) On 20 November 2009, Neptune borrowed GBP 15,000,000 under the Bridge Facility from NAB at overseas currency rate plus a margin of 2.90%. The loan was used to finance the purchase of Submersible Technology Services Ltd, a UK based acquisition. The loan is secured through fixed and floating charges over the assets of the Group. None of this loan was repaid during the period. Since balance date, the Bridge Facility repayment date has been extended to 31 March 2012.
 - (e) On 31 January 2011 the Company secured revised Banking Facilities with NAB. Section 5.4 of this Prospectus contains further details of the revised Banking Facilities. An extension fee of \$900,000 is payable to NAB on 31 December 2011 (assuming the Offer is successful). This may be reduced on a pro-rata basis for every \$10,000,000 of term debt reduction following the completion of the Offer.
 - (f) A cash flow reconciliation to 21 January 2011 is included in section 2.3.

Note 8 – Contributed Equity

	Historical as at 30 June 2010 (A\$ '000)	Historical as at 31 Oct 2010 (A\$ '000)	Note	Pro Forma minimum \$60m as at 31 Oct 2010 (A\$ '000)	Pro Forma maximum \$80.6m as at 31 Oct 2010 (A\$ '000)
Contributed equity	205,804	209,045		265,969	285,736
No. of shares					
Reconciliation of Pro Forma Adjustments to Contributed Equity					
Ordinary shares					
Balance as at 31 Oct 2010		447,837,776			209,045
Adjustments:					
Funds raised from the minimum issue of 1,200,000,000 shares @ \$0.05		1,200,000,000	2a)		60,000
Capital raising costs under this prospectus			2b)		(4,405)
Tax benefit on capital raising costs			2g)		1,329
Pro forma balance as at 31 Oct 2010 based on minimum subscription		1,647,837,776			265,969
Funds raised from the further issue of 412,678,766 shares @ \$0.05		412,678,766	2a)		20,634
Additional capital raising costs under this prospectus			2b)		(1,238)
Tax benefit on additional capital raising costs			2g)		371
Pro forma balance as at 31 Oct 2010 based on maximum subscription		2,060,516,542			285,736

Note 9 – Retained Earnings/(Accumulated Losses)

	Historical as at 30 June 2010 (A\$ '000)	Historical as at 31 Oct 2010 (A\$ '000)	Note	Pro Forma minimum \$60m as at 31 Oct 2010 (A\$ '000)	Pro Forma maximum \$80.6m as at 31 Oct 2010 (A\$ '000)
Retained earnings/(accumulated losses)	18,068	(94,730)		(95,344)	(95,800)
Reconciliation of pro forma Adjustments to Accumulated Losses					
Balance as at 31 October 2010					(94,730)
Adjustments:					
Costs of capital raising			2b)		(25)
Expense of bank debt extension fees			2f)		(841)
Tax effect on expense of bank debt extension fees			2i)		252
Pro forma balance as at 31 October 2010 based on minimum subscription					(95,344)
Expense of bank debt extension fees			2f)		(659)
Tax effect on expense of bank debt extension fees			2i)		203
Pro forma balance as at 31 October 2010 based on maximum subscription					(95,800)

Note 10 - Significant events after balance sheet date

- (a) The Company has reduced its head count with an estimated on-going annual saving of \$5 million and an up-front cost to the Company of approximately \$750,000.
- (b) The Company has entered into the NAB Agreement which, amongst other things, extends the maturity date of each of the Company's facilities with NAB until 31 March 2012, and has increased the interest rate margins to 400 basis points over the relevant reference rates. Additional information with respect to the revised Banking Facilities is set out in section 5.4.
- (c) The Company has negotiated revised arrangements with the Vendors of acquired businesses on the terms set out in section 7.1. These arrangements require the Company to make a payment of \$9,404,138 to the Vendors.
- (d) The Company is in discussions with a potential buyer of the *ROV Supporter* owned by Neptune and discussions have also commenced for the disposal of some businesses currently operated by Neptune.

Note 11 – Commitments for Expenditure

	Historical as at 30 June 2010 (A\$ '000)	Historical as at 31 Oct 2010 (A\$ '000)
Finance Lease Commitments		
Payable - minimum lease payments		
Not longer than 1 year	1,607	866
Longer than 1 year and not longer than 5 years	1,048	1,314
Longer than 5 years	-	-
Minimum lease payments	2,655	2,180
Less future finance charges	(42)	(34)
Present value of minimum lease payments	2,613	2,146

Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable - minimum lease payments

Not longer than 1 year	2,666	3,246
Longer than 1 year and not longer than 5 years	7,619	8,789
Longer than 5 years	-	-
	10,285	12,035

All operating leases of the Group relate to the leasing of the premises. All leases are payable monthly. These leases have an average life of between one and six years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Note 12 – Contingent Liabilities

- As at 31 October 2010, legal proceedings had been brought against a wholly owned subsidiary of Neptune, being US Underwater Services LLP, pursuant to which some former employees have brought claims arising out of their employment. Although the final amounts of these claims have not been ascertained and are currently subject to negotiation, as at the date of this Prospectus the Directors note that a settlement offer in the amount of US\$150,000 has been presented by the Company's subsidiary, which is currently under consideration.
- A letter of demand has been received by a wholly owned subsidiary of Neptune, being Linkweld Engineering Pty Ltd (now Neptune Fabrication Services Pty Ltd) (**Neptune Fabrication**) seeking an amount of approximately \$5.6 million, pursuant to which it is asserted that Neptune Fabrication is responsible for damage caused to valves that it was engaged to fabricate and test. The Directors have formed the view that the claim has no merit and have notified the claimant that Neptune Fabrication rejects any liability in full.
- Under the NAB Agreement, the Company has agreed to pay up to \$3,000,000 as an extension fee to NAB (being \$500,000 upon execution of the NAB Agreement, which has been paid, \$1,000,000 upon receipt of proceeds from the Offer and between \$300,000 or \$900,000 on 31 December depending on the level of debt remaining outstanding with NAB as at 31 December 2011). The final amount of \$300,000 to \$900,000 payable on 31 December will increase to \$1,500,000 if the Offer is not successful.
- Guarantees

The group has provided the following guarantees to its business associates which commit the group to make payments on behalf of these entities upon failure to perform under the terms of the relevant contracts.

	Historical as at 30 June 2010 (A\$ '000)	Historical as at 31 Oct 2010 (A\$ '000)
Performance guarantees	3,000	2,854
Guarantees related to leases	552	991
Bid bond	1,967	-
Letter of credit	3,532	1,601
	9,051	5,446

7. Material Contracts

Various contracts entered into by the Company or other member of the Group may be material to the Offer. Those contracts which the Directors consider material or the terms of which have not been previously provided to Shareholders, are summarised below. Some items may be defined in this section but not defined in this Prospectus.

7.1 Vendor Agreements

(a) Background

Tri-Surv Acquisition Agreement

On 17 August 2007 Neptune entered into an agreement (being the **Tri-Surv Acquisition Agreement**) to acquire all of the shares in Tri-Surv Pty Ltd (now Neptune Geomatics Pty Ltd) from Messrs Lindsay, Van Der Groen and Kerr (the **Tri-Surv Vendors**).

Pursuant to the Tri-Surv Acquisition Agreement, Neptune was required to pay the Tri-Surv Vendors three deferred payment amounts (comprising both cash and Shares), in consideration for the Tri-Surv Pty Ltd shares. The first deferred payment was due on 15 August 2008 (which has been satisfied by the Company), the second was due on 15 August 2009 (which has been satisfied by the Company) and the third was due on 15 August 2010 (which has not been satisfied) (**Third Deferred Payment**).

The parties have entered into several deeds of variation extending the date for satisfaction of the Third Deferred Payment. By deed of variation dated 18 December 2010, the parties agreed to extend the date for payment of the Third Deferred Payment until the earlier of:

- funds becoming available from the Entitlement Offer, assuming the Minimum Amount is raised; and
- 31 March 2011.

The parties agreed that the Third Deferred Payment would be an amount of \$4,911,766.82 (being a total amount of \$5,361,766.82 which will be offset against the amount of \$450,000, being an amount previously loaned by the Company to the Tri-Surv Vendors) which will be paid by the Company out of the proceeds of the Offer (irrespective of whether the Minimum Amount or the Maximum Amount is raised), as set out in section 2.2 of this Prospectus.

In addition to the payment of \$4,911,766.82, a payment for accrued interest in the amount of \$351,767 will also be satisfied out of the proceeds of the Offer (which accrues at a rate of 20% per annum from 6 December 2010 until the date on which the Third Deferred Payment is made).

Once the Third Deferred Payment (plus accrued interest) has been paid to the Tri-Surv Vendors, the Company will owe no further amounts pursuant to the Tri-Surv Acquisition Agreement.

Access Acquisition Agreement

On 3 July 2008 Neptune entered into an agreement (being the **Access Acquisition Agreement**) to acquire all of the shares in Access Management (WA) Pty Ltd (now Neptune Access Integrity Services Pty Ltd) from Mr S McCarthy (**Access Vendor**).

Pursuant to the Access Acquisition Agreement, Neptune was required to pay the Access Vendor three earn-out payment amounts (comprising both cash and Shares), in consideration for the Access Management (WA) Pty Ltd shares. The first earn-out payment was payable for the year ended 17 July 2009 (which has been satisfied by the Company), the second was payable for the year ended 17 July 2010 (**Second Earn-out Payment**) and

the third was payable for the year ended 17 July 2011 (**Third Earn-out Payment**). Neither the Second Earn-out Payment nor the Third Earn-out Payment have been satisfied by the Company. In December 2010, Neptune entered into a deed of variation with the Access Vendor extending the date for payment of the Second Earn-out Payment until the earlier of:

- funds being available from the Entitlement Offer, assuming the Minimum Amount is raised; and
- 31 March 2011.

The Company has calculated that the Second Earn-out Payment will be in the amount of \$2,823,611 and will be paid by the Company out of the proceeds of the Offer, as set out in section 2.2 of this Prospectus (\$600,000 of which has been pre-paid to the Access Vendor).

As consideration for the extension of the time for satisfaction of the Second Earn-out Payment, Neptune has also agreed to pre-pay part of the Third Earn-out Payment. The Company has agreed to pay the Access Vendor \$3,000,000 in equal monthly payments of \$1,000,000 on each of 15 April, May and June 2011. In addition, Neptune has agreed to amend the formula for the calculation of the Third Earn-out Payment in favour of the Access Vendor (the calculation of the amount of the Third Earn-out Payment is based on a formula regarding the earnings of Access Management (WA) Pty Ltd and Access Management Pte Ltd).

Interest (at a rate of 12% per annum) is payable by the Company on the amount of the Third Earn-out Payment that remains outstanding from 1 April 2011.

Once the Second Earn-out Payment (plus accrued interest) and the pre-payment of the Third Earn-out Payment have been paid to the Access Vendor, the Company will only have to pay the remainder of the Third Earn-out Payment pursuant to the terms of the Access Acquisition Agreement, which is payable after 17 July 2011.

STS Acquisition Agreement

As announced by the Company to the market on 23 November 2009, in November 2009 a wholly owned subsidiary of Neptune, Neptune Scotland Holdings Limited (**Neptune Scotland**) entered into an agreement (being the **STS Acquisition Agreement**) to acquire all of the shares in Submersible Technology Services (Holdings) Limited (now Neptune ROV Services (Holdings) Limited) from Quayle Munro Holdings PLC and Messrs Rodger, Stewart, Welsh and Petrie (**STS Vendors**).

Pursuant to the STS Acquisition Agreement, Neptune was required to pay the STS Vendors three payments (comprising both cash and Shares), in consideration for the Submersible Technology Services (Holdings) Limited shares, being a payment at completion on 20 November 2009 (**Completion Payment**), a working capital adjustment payment (**Working Capital Payment**) and a deferred consideration payment following completion of the financial accounts for the financial year ending 31 December 2009 (**Deferred Consideration Payment**). The Company has paid part of, but has not fully paid any of the Completion Payment, the Working Capital Payment or the Deferred Consideration Payment. In addition, pursuant to the terms of the STS Acquisition Agreement, Neptune Scotland created a provision in the amount of GBP350,000 as a reasonable pre-estimate of amounts that may be payable by Neptune ROV Services (Holdings) Limited to Al Mansoori Specialized Engineering (**Al Mansoori**), pursuant to a potential liability under an exclusive agency agreement (**Agency Payment**).

On 28 January 2011, the parties to the STS Acquisition Agreement reached agreement with respect to the outstanding payments pursuant to which the Company (and Neptune Scotland) has agreed to:

- the release to the STS Vendors of GBP700,000 from funds previously held in escrow; and

-
- pay the STS Vendors either:
 - GBP1,108,195 in cash by 4 March 2011 (which includes the Agency Payment and allows time for the Minimum Amount to be raised); or
 - if payment cannot be made by 4 March 2011, GBP1,158,195 in cash by 27 May 2011 (which includes the Agency Payment and allows time for completion of the Shortfall Offer),

(collectively the **Outstanding STS Payments**).

The amount of GBP1,808,195 or GBP1,858,195 (as the case may be) to be paid to the STS Vendors is in full and final satisfaction of the Outstanding STS Payments. This amount will be satisfied by the Company authorising the release of GBP700,000 from funds currently held in escrow with the balance paid from funds raised pursuant to the Offer (irrespective of whether the Minimum Amount or the Maximum Amount is raised). In addition the Company has agreed to pay accrued interest in the amount of \$81,633 with respect to the Outstanding STS Payments.

Once the Outstanding STS Payments (plus accrued interest) have been paid to the STS Vendors, the Company will owe no further amounts pursuant to the STS Acquisition Agreement.

SES Acquisition Agreement

As previously announced by the Company, Neptune completed the acquisition of Subsea Engineering Services Limited (**SES**) in January 2009, pursuant to the terms of an acquisition agreement (**SES Acquisition Agreement**) between the Company and Messrs Fraser and Parker and Mrs. Fraser and Mrs. Parker (**SES Vendors**).

Pursuant to the Terms of the SES Acquisition Agreement, Neptune was required to pay the SES Vendors three earn-out payments (comprising both cash and Shares), in consideration for the SES shares. As at the date of this Prospectus, the Company has paid the first earn-out payment due to the SES Vendors in accordance with the terms of the SES Acquisition Agreement.

In accordance with the terms of the SES Acquisition Agreement, the Company provided the SES Vendors with an earn-out calculation on 30 January 2011 in order for the second earn-out payment (**SES Payment**) to be calculated. It is expected that negotiations to determine the SES Payment will take place with the SES Vendors throughout February and March 2011 and on this basis the Company has provided for an estimated amount of the SES Payment in section 2.2.

The Company is required to make the third earn-out payment to the SES Vendors in February or March 2012, which will represent the last payment to the SES Vendors.

(b) Due date for Vendor Payments

As set out above, pursuant to the recent variations to the Vendor Agreements, Neptune is now required to pay:

- the Third Deferred Payment and the Second Earn-out Payment to the Tri-Surv Vendors and the Access Vendor respectively on the earlier of funds being available from the Entitlement Offer and 31 March 2011;
- the Outstanding STS Payments by 27 May 2011 (noting that a lesser amount (being interest free) is payable if payment is made by 4 March 2011); and
- the SES Payment by is expected to be negotiated during February and March 2011 and paid during this time.

(c) **Conversion of debt to equity**

The variation agreement to the Tri-Surv Acquisition Agreement requires that the Company negotiate in good faith with the Tri-Surv Vendors concerning the conversion of the Third Deferred Payment into Shares.

If the full amount of the Third Deferred Payment outstanding (being \$4,911,766.82) was converted into Shares at the price of \$0.05 per Share (being the offer price of New Shares pursuant to this Offer), the Tri-Surv Vendors would be issued a further 98,235,336 Shares, representing approximately 4.7% of the Company's issued Share capital assuming all New Shares are issued pursuant to the Offer. If only the Minimum Amount is raised, the Shares issued to the Tri-Surv Vendors would represent 5.9% of the Company's issued Share capital.

As at the date of this Prospectus, the Company has not finalised negotiations with the Tri-Surv Vendors with respect to the conversion of the Third Deferred Payment into equity and there is no certainty that such conversion will take place. Should the Company agree the terms of such a conversion, the market will be updated as appropriate at that time.

(d) **Termination events**

Tri-Surv Acquisition Agreement

In accordance with the variation to the Tri-Surv Acquisition Agreement, the Tri-Surv Vendors may demand immediate payment of the Third Deferred Payment together with all accrued interest and terminate each of the variations to the Tri-Surv Acquisition Agreement if:

- Neptune does not keep the Tri-Surv Vendors updated with respect to the status of the Entitlement Offer;
- the Entitlement Offer is cancelled at any time;
- the Minimum Amount is not raised;
- Neptune does not make complete payment to the Tri-Surv Vendors of the Third Deferred Payment and all accrued interest on 31 March 2011; or
- there is an event of default by Neptune under the terms of the revised Banking Facilities provided by NAB (as summarised in section 5.4 of this Prospectus).

The Tri-Surv Acquisition Agreement also contains additional termination events which are not summarised here, but which allow the Tri-Surv Vendors to terminate the agreement in certain circumstances including where an order is made for the winding up of the Company, where the Company breaches a warranty and where a change of control event occurs.

Access Acquisition Agreement, STS Acquisition Agreement and SES Acquisition Agreement

While the variations to the Access Acquisition Agreement do not contain any additional termination events, the Access Vendor may terminate the Access Acquisition Agreement in various circumstances, including where a material adverse change occurs in respect of the Company, an insolvency event occurs or the Company is in material breach of the agreement.

Neither the STS Acquisition Agreement (nor the agreed terms of variations to that agreement) or the SES Acquisition Agreement contain any specific termination events.

(e) **Action for breach**

Each of the Vendors may take action against the Company (or the Company's subsidiaries, as applicable) for breach of their respective agreements if the Company fails to satisfy the terms of those agreements and variation agreements, as applicable. If the Company fails to pay any of the Vendor Payments by the dates required, the Company will be in default of the relevant Vendor Agreement (as varied and amended) and will also be in breach of the NAB Agreement.

7.2 JLM Mandate

Neptune has entered into the JLM Mandate with the Lead Managers pursuant to which the Lead Managers have agreed to act as structuring advisers, lead managers and bookrunners for the Offer.

Unless otherwise defined in this Prospectus, capitalised terms in this section 7.2 have the meanings given in the JLM Mandate.

(a) **Fees, expenses and indemnities**

The fees payable by Neptune to the Lead Managers for their work in relation to the Offer are as follows (with the fees to be shared equally by the Lead Managers):

- a corporate advisory fee of \$500,000;
- a management fee of 1.0% of the total amount raised under the Offer; and
- a capital raising fee of 5.0% of the total amount raised under the Offer.

Neptune has also agreed to reimburse the Lead Managers for all legal and out of pocket expenses that the Lead Managers incur in carrying out their engagement in relation to the Offer. In the event that the JLM Mandate is terminated by either the Lead Managers or the Company, the Lead Managers will be entitled to the corporate advisory fee of \$500,000 and reimbursement of any incurred or accrued expenses up to the date of termination.

The JLM Mandate contains certain warranties by the Company relating to matters such as the conduct of the Company, the information provided by the Company in relation to this Prospectus and the Company's ability to issue this Prospectus.

Subject to certain exclusions, including liabilities arising from negligence, misconduct or breach of duty, the Company has agreed to indemnify the Lead Managers and their directors, officers, employees and agents from and against all losses, expenses, claims, actions, damages and liabilities arising from, directly or indirectly, the JLM Mandate.

Pursuant to the JLM Mandate, the Company has provided a covenant that it will grant to the Lead Managers the right, but not the obligation, to nominate one qualified candidate to the board of the Company for every \$15,000,000 raised pursuant to the Shortfall Offer with such nomination not to be unreasonably refused by the Company.

(b) **Conditions Precedent**

The Lead Managers will only manage the Entitlement Offer and seek investor applications for the Shortfall Offer if various conditions are satisfied. As at the date of this Prospectus, some of the conditions have been satisfied, however the following conditions remain outstanding:

- no incentives being issued or given to Neptune's management or directors until Neptune reports two consecutive half years with positive net profit after tax, unless otherwise approved by the Lead Managers;
- Neptune's shares not trading on the ASX until after completion of the Offer; and

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- Neptune's senior managers and directors providing written undertakings to the Lead Managers and Neptune that they will take-up their respective Entitlements (this requirement has been waived with respect to Mr Kennan, who will be taking up 50% of his entitlement) and, in the case of management, participate in any Shortfall.

(c) Events of termination

The Lead Managers may terminate their obligations under the JLM Mandate, other than as a result of their breach of the JLM Mandate, at any time, by giving two business days notice of their intention to do so. In addition, the Lead Managers may elect to immediately terminate their obligations under the JLM Mandate if any of the following occur before the latest date that New Shares are issued (including pursuant to the Shortfall Offer):

- the Entitlement Offer not proceeding because of an order made by ASIC, ASX or an investigation or inquiry by either ASIC or ASX into the conduct of Neptune;
- a receiver, liquidator or administrator (or equivalent) is appointed to Neptune or a subsidiary (without the Lead Managers' consent) or any proceedings are commenced against Neptune for its winding up, Neptune enters into or proposes to enter into a scheme of arrangement or a judgement in an amount exceeding \$500,000 is obtained against Neptune and is not set aside or satisfied within 14 days;
- Neptune or a related body corporate suspends payment of its debts generally or is or becomes unable to pay its debts when they are due (including as described in the Corporations Act);
- any director or officer of the Company is charged with an indictable offence;
- the Company or a related body corporate makes or agrees to make an issue of shares or convertible notes, without the prior written consent of the Lead Managers and other than as contemplated under the Offer, pursuant to any existing employee incentive scheme, upon the conversion of convertible securities issued prior to the date of the JLM Mandate, or pursuant to any existing acquisition agreement under which Neptune has agreed to issue shares as part of the purchase price;
- Neptune materially defaults on any term or condition of the JLM Mandate or materially breaches a representation, warranty, obligation or undertaking given or made under the JLM Mandate;
- Neptune materially contravenes its constitution, the Corporations Act, or an ASX Listing Rule;
- a material adverse change occurs in the condition, business, operations, assets, liabilities, financial position and performance, profits, losses and prospects of Neptune;
- an item, transaction or event of a material nature is made public which would reasonably be expected to adversely affect in a material way the decision of an investor to apply for New Shares;
- any adverse or negative publicity or findings of any description against either Neptune or any of its directors or officers that would reasonably be expected to adversely affect in a material way the decision of an investor to subscribe for New Shares;
- any information supplied by Neptune or on its behalf to the Lead Managers in respect of the Entitlement Offer is or becomes false or misleading in any material respect;
- Neptune notifies the Lead Managers that it has withdrawn the Entitlement Offer;
- ASX refuses or does not grant approval to the Official Quotation of the New Shares or approves the Official Quotation and prior to the date the New Shares are allotted withdraws, qualifies or withholds the approval;

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- Neptune fails to use reasonable endeavours to take any action by the time specified in the JLM Mandate; or
 - Neptune's constitution is amended without the prior written consent of the Lead Managers (whose consent cannot be unreasonably withheld or delayed).

7.3 Executive service agreement with former CEO

The Directors have identified the executive service agreement between Mr Christian Lange and the Company (**Service Agreement**) as a material contract, with respect to the termination payments that Mr Lange is entitled to pursuant to the terms of his Service Agreement.

The Service Agreement provides that Mr Lange is entitled to 12 months written notice of the termination of the Service Agreement (unless he is guilty of misconduct). As his Service Agreement was terminated with less than 12 months notice, the Service Agreement provides for the following payments to Mr Lange a payment from the Company equal to the salary payable for the relevant period of notice that should have been given (in this case, a payment equal to 12 months salary), plus superannuation.

The Service Agreement provides for the following additional payments to be made to Mr Lange on termination of employment for any reason:

- a payment in lieu of the annual leave to which he has become entitled during the employment but which has not been taken; and
- a payment for all or any portion of the performance based bonus which may have accrued during the term (the board has determined that there will be no performance based bonus payable to Mr Lange).

In addition, all of the Options to which Mr Lange was entitled (as listed in section 5.3) have now vested and may be exercised by Mr Lange subject to their terms. The Directors note that the exercise prices of Mr Lange's Options (following adjustment in accordance with ASX Listing Rule 6.22.2) are higher than the \$0.05 issue price of the New Shares.

The Company refers shareholders and other persons to its announcement dated 19 January 2011 which noted that 3,000,000 Options held by Mr Lange had lapsed.

As Mr Lange's salary at the time of his departure was \$750,000 per annum, the maximum termination payment he is entitled to is \$750,000 plus superannuation of 9% of the maximum contribution base (being \$15,199.20), annual leave and any portion of the performance based bonus that may have accrued during the term. However, the Company is in the process of negotiating the terms of Mr Lange's termination payment which, as at the date of this Prospectus, have not been finalised.

The Directors note that the Service Agreement contains a restraint which restricts Mr Lange from competing with or interfering with Neptune, or otherwise being engaged in a business similar to Neptune's, for a period of up to two years. The Directors also note that the Company is currently considering its position with respect to the requirement to pay Mr Lange the payments referred to in this section and the Company's rights, obligations and remedies under the Service Agreement generally.

8. Additional Information

8.1 Key terms of the New Shares

The key terms and conditions of issue of the New Shares are as follows:

- (a) the subscription price is \$0.05 per New Share; and
- (b) New Shares issued pursuant to this Offer will rank equally with existing Shares of the Company in all respects.

Further details of the rights and liabilities of the New Shares are set out in section 8.2.

8.2 Rights and liabilities attaching to New Shares

The following is a broad summary (though not necessarily an exhaustive or definitive statement) of the rights and liabilities attaching to all Shares including New Shares, which will be issued pursuant to this Offer. Full details are contained in the Constitution, the Corporations Act and ASX Listing Rules:

(a) Share Capital

All issued Shares rank equally in all respects.

(b) Voting Rights

At a general meeting of the Company, every holder of Shares present in person, by an attorney, representative or proxy has one vote on a show of hands and on a poll, one vote for every Share held.

(c) Dividend Rights

Subject to the rights of holders of shares issued with any special or preferential rights (at present there are none), the profits of the Company which the Directors may from time to time determine to distribute by way of dividend are divisible among the Shareholders according to the amounts paid on the Shares held by them.

(d) Rights on Winding-Up

Subject to the rights of holders with shares with special rights in a winding-up (at present there are none), on a winding-up of the Company all assets which may be legally distributed amongst the members will be distributed in proportion to the Shares held by them respectively.

(e) Transfer of Shares

Shares may be transferred by instrument in any form which complies with the Constitution, the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules.

Where the Company participates in a computerised and electronic system for trading in shares permitted by the ASX Listing Rules, Shares may be transferred by such means in accordance with the ASX Listing Rules and the ASX Settlement Operating Rules. The Directors may refuse to register a transfer of Shares only in those limited circumstances permitted by the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules.

(f) Further Increases in Capital

The allotment and issue of any Shares is under the control of the Directors and, subject to any restrictions on the allotment of Shares imposed by the Constitution, ASX Listing Rules or the Corporations Act, the Directors may allot, issue or grant options over or otherwise dispose of Shares to such persons, with such rights or restrictions as they may from time to time determine.

(g) Variations of Rights Attaching to Shares

Where shares of different classes are issued, the rights attaching to the shares of a class can thereafter only be varied by a special resolution passed at a separate general meeting of the holders of those shares of that class, or with the written consent of the holders of at least three quarters of the issued shares of that class.

(h) General Meeting

Each holder of Shares is entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive notices, accounts and other documents required to be furnished to Shareholders under the Constitution, the Corporations Act and ASX Listing Rules.

A copy of the Constitution is available for inspection, free of charge, at the registered office of the Company.

(i) Alteration to the Constitution

The Constitution can only be amended by a special resolution passed by at least three quarters of the votes of the Shareholders present and voting at a general meeting. At least 28 days written notice must be given of the intention to propose the resolution as a special resolution.

(j) Proportional takeover bids

If offers are made under a proportional takeover bid the Company must refuse to register a transfer giving effect to a takeover contract unless the bid is approved by ordinary resolution of Shareholders. This provision expires 3 years after its adoption or last renewal (this provision was last approved at the Company's 2009 annual general meeting).

(k) ASX Listing Rules

Because Neptune is listed on the ASX, notwithstanding anything in the Constitution, if the ASX Listing Rules prohibit an act being done, the act must not be done. If the ASX Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done, and if a provision is required in the Constitution by the ASX Listing Rules, the Constitution will be treated as containing that provision. If any provision of the Constitution becomes inconsistent with the ASX Listing Rules, the Constitution will be treated as not containing that provision to the extent of the inconsistency.

8.3 Dividend Policy

Neptune does not anticipate paying dividends in respect of the financial year ending 30 June 2011.

8.4 CHESS

The New Shares will participate in CHESS from the date of commencement of quotation. They may be held in uncertificated form (that is, no certificate is issued) on the CHESS subregister under sponsorship of a broker or on the issuer-sponsored subregister.

If a Shareholder or new investor wishes to hold their New Shares on the CHESS subregister under sponsorship of a broker, the Shareholder should provide their HIN (Holder Identification Number) in the space provided in either the Entitlement and Acceptance Form or the Shortfall Offer Application Form accompanying this Prospectus. If a Shareholder or new investor does not provide a HIN, their New Shares will be held on the issuer-sponsored subregister.

Arrangements can be made at any subsequent time to convert a Shareholder's holding from the issuer-sponsored subregister to the CHESS subregister under sponsorship of a broker, or the reverse, by contacting the Share Registry and/or the Shareholder's broker.

8.5 ASX listing, continuous disclosure and documents available for inspection

This Prospectus is issued by the Company in accordance with section 713 of the Corporations Act.

The New Shares to be issued pursuant to this Prospectus are in a class of securities that are continuously quoted securities. This means that the Company's fully paid ordinary shares in the same class as offered by this Prospectus are listed on a registered securities exchange, being ASX, and have been quoted continuously for the past 12 months. It also means that the Company has been subject to the continuous disclosure requirements for listed companies provided for under the Corporations Act and the ASX Listing Rules which require (subject to limited exceptions) continuous disclosure to ASX of any information held by the Company which a reasonable person would expect to have a material effect on the price or value of the Company's shares.

As a disclosing entity, the Company has issued this Prospectus in accordance with the provisions of the Corporations Act applicable to prospectuses for continuously quoted securities.

The Company states that:

- as a disclosing entity under the continuous disclosure regime, it is subject to regular reporting and disclosure obligations;
- copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office; and
- any person may request, and the Company will provide free of charge, a copy of each of the following documents during the application period of this Prospectus:
 - (a) the 2010 Annual Report, being the most recent annual report lodged with ASIC by the Company; and
 - (b) any continuous disclosure notices given by the Company since the lodgement of the 2010 Annual Report and before the lodgement of this Prospectus.

All documents referred to above are separate documents and are not incorporated by reference in this Prospectus.

Having taken such precautions and having made such enquiries as are reasonable, the Company believes that it has complied with the general and specific disclosure requirements of ASX and under the Corporations Act as applicable from time to time throughout the 12 months before the issue of this Prospectus. Other than with respect to the information disclosed in this Prospectus, no information has been excluded from continuous disclosure notices given by the Company in accordance with the ASX Listing Rules which is information that investors and their professional advisers would reasonably require for the purpose of making an informed assessment of:

- the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
- the rights and liabilities attaching to the New Shares and Shares.

As this Prospectus is issued pursuant to section 713 of the Corporations Act, it is required to contain information investors and their professional advisers would reasonably require to make an informed assessment of:

- the effect of the Offer on the Company; and
- the rights and liabilities attaching to the New Shares and Shares.

As such, this Prospectus is not required to provide information regarding the assets and liabilities, financial position and performance, profits and losses and prospects of the Company on the basis that such information is available through continuous disclosure notices given by the Company in accordance with its obligations under ASX Listing Rules and the Corporations Act.

Since the date of the lodgement of the 2010 Annual Report, the following announcements have been made, in reference to the Company to ASX as described below:

Date	Description of Document
31/01/2011	Investor Presentation
28/01/2011	Notice of General Meeting/Proxy Form
25/01/2011	Restructure to non-renounceable entitlement offer
19/01/2011	Capital Raising timetable update
13/01/2011	Appendix 3B
10/01/2011	Notice of General Meeting/Proxy Form
06/01/2011	Appendix 3B
04/01/2011	Neptune secures BHP Billiton Iron Ore wharf works
31/12/2010	Ceasing to be a substantial holder
31/12/2010	Expiry of Quoted Options
31/12/2010	Securities Dealing Policy
22/12/2010	Appendix 3B
22/12/2010	Announces \$80.6 million equity capital raising
14/12/2010	Voluntary Suspension Update
10/12/2010	Response to ASX Query - Director's Interest Notice
09/12/2010	Letter to Optionholders
07/12/2010	Final Director's Interest Notice
30/11/2010	Results of Meeting
30/11/2010	AGM Chairman's Address
29/11/2010	Withdrawal of AGM Resolutions
26/11/2010	Change in venue and time for 2010 AGM
24/11/2010	Neptune Appoints new Chief Executive Officer
23/11/2010	Suspension from Official Quotation
17/11/2010	Trading Halt
16/11/2010	Appendix 3B
01/11/2010	Appendix 3B
28/10/2010	Notice of Annual General Meeting/Proxy Form
22/10/2010	Annual Report to shareholders
20/10/2010	Investor Presentation
20/10/2010	Market Update - Q1 FY 2011
12/10/2010	Appendix 3B
30/09/2010	Full Year Statutory Accounts

8.6 Interests and intentions of Directors

Other than as set out below or elsewhere in this Prospectus, no Director:

- has or had at any time in the last 2 years an interest in the formation or promotion of the Company, or in any property acquired or proposed to be acquired by the Company in connection with the Offer or promotion of the Company, or the Offer; or
- has been paid or agreed to be paid an amount, or has been given or agreed to be given any other benefit, either to induce him to become, or to qualify him as a Director, or otherwise for services rendered by him in connection with the formation or promotion of the Company or the Offer.

The Directors (and their associates) have the following interests in securities of the Company as at the date of this Prospectus:

Director	Shares	Options
Mr Ross Kennan	523,451	Nil
Mr Geoff Newman	58,488	Nil
Mr Robert Scott	143,594	Nil

The following Directors intend to take up the following Entitlements under the Offer:

Director	New Shares
Mr Ross Kennan	942,212
Mr Geoff Newman	210,557
Mr Robert Scott	516,938

8.7 Remuneration

Each of the Directors receives directors' fees from the Company. In the past 12 months, Mr Scott and Mr Newman have received amounts of \$15,000 and \$7,500 respectively in addition to their non-executive directors' fees noted in the 2010 Annual Report for additional duties undertaken with respect to the Company.

Complete details of the directors' fees paid to each of the Directors are set out in the Company's 2010 Annual Report.

8.8 Interests of advisers

Other than as set out in this Prospectus, no person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Prospectus has or had at any time in the last 2 years an interest in the formation or promotion of the Company, or in any property acquired or proposed to be acquired by the Company in connection with the Offer or the formation or promotion of the Company, or in the Offer; or has been paid or agreed to be paid any amount or agreed to be given any other benefit, either to induce him to become, or to qualify him as a Director, or otherwise for services rendered by him in connection with the formation or promotion of the Company or the Offer.

Euroz Securities Limited and Patersons Securities Limited have acted as joint lead managers and bookrunners for the Offer, in respect of which they will receive certain fees which are set out in section 7.2(a). Euroz Securities Limited and Patersons Securities Limited have also received \$2,060,276 and \$141,999 in fees respectively for broking services rendered to the Company in the past two years.

Norton Rose Australia has acted as lawyers to the Company in relation to the Offer and will receive approximately \$250,000 (plus GST and disbursements) for legal services rendered to the Company in connection with the Offer.

Ernst & Young have issued to the Directors an Investigating Accountant's Report with respect to the financial information included in section 6 of this Prospectus and will receive approximately \$100,000 (plus GST and disbursements) for services rendered.

8.9 Expenses of the Offer

The total expenses of the Offer payable by the Company are estimated as approximately \$5.4 million (if the Minimum Amount is raised), or \$6.7 million (if the Maximum Amount is raised), with both amounts including the fee payable to NAB for the extension of the Banking Facilities (but not including the \$500,000 fee paid on execution of the NAB Agreement). The increase in expenses if the Maximum Amount is raised is a result of the increased fee payable to the Lead Managers. These expenses include listing fees, legal fees, printing and other miscellaneous expenses. They will be borne by the Company.

8.10 Application Monies and interest

Moneys received from an applicant on account of New Shares offered under this Prospectus will, until those New Shares are issued, be held by the Company in a bank account established and kept by the Company for the purpose of depositing Application Monies.

To the fullest extent permitted by law, each applicant agrees that such moneys do not bear interest as against the Company and that any interest earned in respect of the Application Monies paid into that account or kept in the separate account belongs to the Company, irrespective of whether or not all or any of the New Shares applied for by that applicant are issued to that applicant.

8.11 Consents

Euroz Securities Limited has consented to being named in this Prospectus in the form and context in which they are named and have not withdrawn their consent as at the date of lodgement of this Prospectus.

Patersons Securities Limited has consented to being named in this Prospectus in the form and context in which they are named and have not withdrawn their consent as at the date of lodgement of this Prospectus.

Norton Rose Australia has consented to being named in this Prospectus in the form and context in which they are named and have not withdrawn their consent as at the date of lodgement of this Prospectus.

Ernst & Young has consented to being named in this Prospectus in the form and context in which they are named and have not withdrawn their consent as at the date of lodgement of this Prospectus.

Computershare Investor Services Pty Ltd has consented to being named in this Prospectus in the form and context in which it is named and has not withdrawn its consent as at the date of lodgement of this Prospectus.

NAB has consented to being named in this Prospectus in the form and context in which it is named and has not withdrawn its consent as at the date of lodgement of this Prospectus.

8.12 Disclaimer of responsibility

Each of the parties referred to in section 8.11:

- does not make, or purport to make, any statement in this Prospectus, nor is any statement in this Prospectus based on any statement of those parties, other than as specified in section 8.11; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of the Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in section 8.11.

9. Directors' Statement

This Prospectus is authorised by Neptune and is lodged with ASIC pursuant to section 718 of the Corporations Act.

Each Director has given and has not withdrawn, before the date of this Prospectus, his consent to the lodgement of this Prospectus with ASIC and to the issue of this Prospectus in accordance with section 720 of the Corporations Act.

A handwritten signature in black ink, appearing to read 'Ross Kennan', with a horizontal line underneath.

Ross Kennan
Chairman, Neptune Marine Services Limited
Dated: 31 January 2011

10. Glossary

\$	Australian Dollars unless otherwise stated.
2010 Annual Report	The Company's annual report for the year ended 30 June 2010, as announced to the ASX on 22 October 2010.
Access Acquisition Agreement	The share acquisition agreement dated 3 July 2008 between the Company and Steven McCarthy, as varied by deeds of amendment in November 2010, December 2010 and January 2011.
Access Vendor	Has the meaning given in section 7.1(a).
Additional Shares	New Shares which Eligible Shareholders may apply for in addition to their Entitlement as described in sections 1.12(a) and 1.13 of this Prospectus.
Application	An application to subscribe for New Shares pursuant to the Offer.
Application Monies	Monies received from applicants in respect of their Applications.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange operated by ASX Limited ACN 008 624 691.
ASX Listing Rules	The official listing rules of the ASX.
ASX Settlement Operating Rules	The operating rules of ASX Settlement and Transfer Corporation Pty Limited ACN 008 504 532.
ASX Waiver	Has the meaning given in section 1.2.
Banking Facilities	All banking facilities held by the Company with NAB, as summarised in section 5.4.
Bridge Facility	The Company's GBP15,000,000 bridge loan banking facility with NAB.
Business Day	Has the meaning given in ASX Listing Rule 19.2.
CHESS	The Clearing House Electronic Subregister System operated by ASX Settlement & Transfer Corporation Pty Limited ACN 008 504 532.
Closing Date	The date on which the Entitlement Offer closes being 5.00 pm (WST) 1 March 2011 or such other earlier or later date as determined by the Company.
Company or Neptune	Neptune Marine Services Limited ACN 105 665 843.
Constitution	The constitution of the Company.
Corporations Act	<i>Corporations Act 2001</i> (Cth).
Directors	The directors of the Company.
Eligible Shareholder	Shareholders with registered addresses in Australia and New Zealand and certain shareholders who are resident in other jurisdictions who contact or are contacted by the Company or the Lead Managers and can demonstrate to the satisfaction of the Company that their participation in the Offer would not constitute a violation of applicable securities laws in that jurisdiction.
Entitlement	The entitlement to subscribe for 3.6 New Shares for every 1 Share held on the Record Date.
Entitlement and Acceptance Form	The entitlement and acceptance form accompanying this Prospectus.
Entitlement Offer	The pro-rata non-renounceable entitlement offer to Eligible Shareholders of 3.6 New Shares for every 1 Share held on the Record

	Date at an issue price of \$0.05 per New Share to raise up to \$80,633,938 before costs.
GBP	Pounds Sterling.
General Meeting	Means the general meeting of the Company to be held on Tuesday, 1 March 2011.
Group	The consolidated group including the Company and each of its subsidiaries.
Ineligible Shareholders	Has the meaning given in section 1.15.
Investor Presentation	The Company's investor presentation dated 31 January 2011 and released to the market on that date.
JLM Mandate	The letter agreement dated 21 December 2010 between the Company and the Lead Managers.
Lead Managers	Euroz Securities Limited ACN 089 314 983 and Patersons Securities Limited 008 896 311.
Maximum Amount	\$80,633,938.
Minimum Amount	\$60,000,000.
Multi-option Facility	The Company's A\$19,400,000 multi-option banking facility with the NAB.
NAB	National Australia Bank Limited ACN 004 044 937.
NAB Agreement	The term debt and working capital facilities agreement dated 31 January 2011 between NAB, the Company and each of the Company's subsidiaries in relation to the Banking Facilities.
Neptune Geomatics	Neptune Geomatics Pty Ltd ACN 108 312 787 (formerly Tri-Surv Pty Ltd).
New Shares	The Shares in the Company offered under this Prospectus, the terms of which are summarised in section 8.
Offer	The Entitlement Offer and, if required, the Shortfall Offer.
Offer Period	The period from 10 February 2011 until the Closing Date.
Official Quotation	The grant by ASX of "Official Quotation" (as that term is used in the ASX Listing Rules) of all the New Shares when allotted.
Offshore Facility	The Company's GBP1,250,000 offshore banking facility with the NAB.
Opening Date	The date on which the Offer opens being 10 February 2011 or such other earlier or later date as determined by the Company.
Option	An option to acquire a Share.
Outstanding STS Payments	Has the meaning given in section 7.1(a).
Privacy Act	<i>Privacy Act 1988</i> (Cth).
Prospectus	This prospectus dated 31 January 2011.
Record Date	5.00pm (WST) on 9 February 2011.
Restructure Plan	The restructure plan prepared by the Company's management and adopted by the Directors on 14 January 2011.
Senior Facilities	The Multi-option Facility, the Bridge Facility and the Offshore Facility, forming part of the Banking Facilities.
Service Agreement	Has the meaning given in section 7.3.

SES Acquisition Agreement	The share purchase agreement dated 25 November 2008 between the Company, Allister and Jennifer Fraser and Hugh and Barbara Parker.
SES Vendors	Has the meaning given in section 7.1(a).
Share	A fully paid ordinary share in the capital of the Company.
Shareholder	The holder of a Share.
Share Registry	Computershare Investor Services Pty Ltd ACN 078 279 277.
Shortfall	The difference between the number of New Shares offered under the Entitlement Offer and the number of New Shares actually applied for by Eligible Shareholders in accordance with their Entitlements.
Shortfall Offer	The offer to Eligible Shareholders and other persons to apply for Shortfall Shares.
Shortfall Offer Application Form	The application form for the Shortfall Offer accompanying this Prospectus.
Shortfall Offer Closing Date	5.00pm Friday, 27 May 2011.
Shortfall Shares	The New Shares comprising the Shortfall.
STS Acquisition Agreement	The sale and purchase agreement dated November 2009 between Neptune Scotland Holdings Limited, Quayle Munro Holdings PLC and Messrs Rodger, Stewart, Welsh and Petrie.
STS Vendors	Has the meaning given in section 7.1(a).
Tri-Surv Acquisition Agreement	The share acquisition agreement dated 17 August 2007 between the Company, Mark Richard Lindsay and Neptune Geomatics, as varied by deeds of amendment dated 20 May 2009, 8 October 2010 and 18 December 2010.
Tri-Surv Vendors	Has the meaning given in section 7.1(a).
Vendors	The Tri-Surv Vendors, the Access Vendor, the STS Vendors and the SES Vendors.
Vendor Agreements	The Access Acquisition Agreement, the Tri-Surv Acquisition Agreement, the STS Acquisition Agreement and the SES Acquisition Agreement.
Vendor Payments	Part of the deferred purchase payments owed to the Vendors in the amount of approximately \$9.4 million, in accordance with the terms of the Vendor Agreements (as amended).
Vessels	The <i>ROV Supporter</i> and <i>Trident</i> .
WST	Western Standard Time.