MERMAID MARINE
AUSTRALIA LIMITED

2005
ANNUAL REPORT

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The business performed very well last year, with the fleet renewal program showing positive effects and growing activity on the supply base producing reliable income. This was an excellent test of Mermaid Marine's (MMA's) business model, as with no contribution from contracting, income still grew. Operating revenue was up for the year and earnings before tax yielded a 14 percent increase on the previous year.

The offshore oil and gas business in Australia's North West is now offering greater opportunities than any seen in the past, with international oil and gas operators forecasting projects worth in excess of $30bn. Woodside's CEO, Mr Don Voelte, when recently announcing the new $5bn Pluto development off Dampier, targeted for LNG production in 2010, said, "we believe we can drive this thing forward at a rate this industry has never seen before", adding that, "fast tracking Pluto would not hinder the even bigger but more remote gas fields off Broome (for production) by 2011". Other projects in the region such as Chevron's Gorgon project and BHP Billiton's Scarborough project are also being pushed hard.

The long term aim has been to establish MMA as the only fully integrated supply base and marine service provider in Australia. Our competitors are boat companies, supply base operators, stevedores, marine labour hire providers, slipway operators and offshore contractors, but only MMA offers all these services together as one strong integrated operator.

Dampier is the central hub of the Greater North West Shelf and the only common user waterfront facility there for oil and gas support services is the Mermaid Supply Base. This asset will continue to be developed as a priority. The wharf is being extended a further 60 meters, a new landing barge ramp has been constructed and new storage and lay down areas are being developed. Rapid delivery of oil and water is now available for fast turn around of supply boats and all activities of rig tender support are being prioritised. The slipway is alone in the region and as well as providing essential common user ship repair services, also offers the framework for an integrated regional engineering service.

In 2000 and with the help of the Broome Port Authority, MMA negotiated with Browse Basin explorers to base their activities locally. The initiative was successful and our company has won every Browse Basin support contract since that time. Exploration has been the sole activity, with commercial development considered a distant dream. However, recent plans announced by Woodside and strong activity by Inpex are accelerating all previously understood time lines.

The plan at Broome is to further secure MMA's position through long term land and infrastructure commitments. Existing facilities are adequate for present use, but access to a new 5ha area has now been negotiated on a long term basis and over time dedicated supply base facilities will be made available to Browse Basin operators as they set up in the area.

Improving financial strength and deeper market penetration has enabled the engagement of senior management to be accelerated and the year in review recorded greater capability in the fields of financial control, operations and personnel and management. With that personnel policy comes safety and training, in which the company has invested heavily with money and time. The results have been impressive, but are no less than demanded by the industry.

MMA is the dominant spot charter operator in the North West, but we will grow the wider marine business by building new vessels for long term contracts. A final business mix of 50% spot charter and 50% contract is the target and there has been good progress with the delivery of a new tug in May and a new landing barge in August. The dynamically positioned Mermaid Investigator for

Chairman's Address

Apache Energy is due for delivery in January 2006, to be followed by another sophisticated vessel for Woodside's Enfield project in the following year. Supported by a demanding market place, these new investments will total $31.5m since January 05.

The 2005 financial year was an important building block for MMA, in which we became a better company by every measure. The year ahead is expected to be even more successful as the bar lifts on the size and demands of the industry we support. These journeys cannot be taken alone and my thanks go to the Managing Director, Jeff Weber and his team at sea and on shore – they have achieved much for us this year. My colleagues on the Board are also deserving of thanks, they are highly effective, united with the simple aim of advancing MMA and with the contribution of their valuable experience and skills, they form a formidable group. Our bankers, auditors, legal and financial advisers, marine specialists, stock and insurance brokers have all made substantial contributions and my sincere thanks are extended to you all for an unstinting and successful effort.

Alan Birchmore
Chairman

Mermaid Carver and Mermaid Storm - off-take support vessels

FINANCIAL SUMMARY

Mermaid Marine Australia continued to consolidate its position in the oil and gas services industry over the last twelve months and in particular continued to increase its exposure to the more consistent production support area.

Group revenue for the year was up reflecting a 33% increase in vessel revenue and a $5 million increase in manning related revenue. Revenue from supply base and slipway activity was broadly in line with last year although earnings were down from these operations. The Company forecast a challenging year for 2005 and the first half pre-tax result of $0.85 million profit on $21 million revenue reflected these expectations. The second half of the year is typically our stronger performing period and once again this was proven to be the case. Revenue and profit improved significantly during this period primarily on the basis of two major offshore construction projects; Apache Energy's John Brookes development and Santos' Mutineer Exeter development. The major part of the manning related activities also came in this period. There was no project work associated with the Mermaid Clough JV undertaken during the last financial year.

Cashflow from operations was stronger again this year, particularly when taking into account last year's cashflow benefited from a $1.0 million income tax benefit. The Company's operating cashflow has effectively doubled over the past two years and should continue to grow as the Company's new vessels start to contribute over the next twelve to eighteen months. The Company's net debt to equity also improved during the year on the back of an $8.4 million capital raising in November and was 34% at the end of the financial year. Gearing will increase during the 2006 financial year but will remain at a reasonable level based on forecast net capital expenditure during the period of $20 million. The capital raising introduced a number of high quality institutional investors onto the Company's register and it is pleasing to note that those who took part in the raising have seen a positive growth in their investment.

The Company recorded a net profit from ordinary activities before tax for the year of $4.0 million, up from $3.5 million the previous year. However net profit after tax reduced to $2.5 million from $4.3 million the previous year due to a net increase in income tax expense in the 2005 financial year over the previous year of approximately $2.3 million.

Earnings per share reduced to 1.96 cents per share from 3.74 cents last year as a result of a net increase in income tax and the increased number of shares on issue from the capital raising. Earnings per share is expected to increase during the next financial year as some of the tenders won over the last eighteen months move to operational phase.

VESSEL OPERATIONS

The Mermaid Storm arrived in Australia in January 2005 and commenced a long term contract with Santos, supporting their highly successful Mutineer/Exeter FPSO (Floating Production, Storage and Offloading) operations. Mermaid Marine was also successful in winning a long term contract with Woodside to provide offtake support services for their Enfield FPSO development which is scheduled to begin production in 2006. To service this operation the Company has recently entered into a contract to construct a state of the art vessel at a cost of approximately A$13.5 million. This vessel, the Mermaid Sound, will be diesel electric propulsion and is one of the first of its type to be built for this type of work. Local naval architects, International Maritime Consultants, designed the vessel and it will be constructed in the same yard as the Mermaid Investigator is currently being constructed. The Mermaid Investigator and the Mermaid Sound comprise a total capital commitment of approximately A$25 million and are indicative of the Company's drive to provide a high quality, innovative and efficient service for our clients.

In addition to the Company's new build programme we have recently taken delivery of two other new vessels; a 46 metre landing craft, the Mermaid Venture, and a 40 metre offshore anchor handling tug, the Mermaid Guardian. The Mermaid Venture will be used to support developments in the North West, particularly where freight is required to be transported to the islands in the region. The Mermaid Guardian is an excellent multi-purpose vessel that will support supply and offtake operations predominantly in the North West but potentially in other oil and gas regions in Australia. This vessel undertook a three month contract in Russia immediately after purchase and is expected in Australia around the end of October.

Managing Director's Review of Operations

Mermaid Marine now provides production offtake support for the following facilities:

- BHP Billiton – Griffin Venture FPSO
- Exxon Mobil – Wandoo
- Chevron Texaco – Barrow Island and Thevenard Island
- ENI – Woolybutt FPSO
- Santos – Mutineer/Exeter FPSO
- Woodside – Enfield FPSO (Due to commence production in 2006)

It is clear from the above that the Company has developed a strong position in the North West Shelf and will continue to build on the expertise associated with supporting offshore production facilities. There are a number of new FPSO developments planned to be commissioned adjacent to the Woodside Enfield FPSO, including Stybarrow for BHP Billiton and Vincent for Woodside, which present new opportunities for the future.

The Mermaid Raider is currently deployed in Bass Strait supporting the Origin Energy Yolla development. There is increased development activity occurring in the Bass Strait region which provides some opportunities for short term construction support work for our vessels. There are also emerging longer term production support operations along the same lines as our North West Shelf model which we will pursue over the next twelve months.

Our small tug and barge fleet in Dampier was well utilised throughout the year supporting the expansion of the Pilbara Iron wharf infrastructure and also construction of the new Bulk Liquids Berth for the Dampier Port Authority. These projects are now near completion so utilisation of these vessels is expected to drop off in the second quarter of the 2006 financial year. There are a number of other port or associated developments scheduled for the second half of the year that will provide opportunities for the smaller fleet.

The Company undertook two major manning contracts during the year. Crews were supplied for the Dive Support Vessel, Rockwater 2, and the Sea Ranger. At the peak of our operations in April 2005, we had approximately 230 marine personnel working offshore. At the same time there were a number of other major offshore projects being undertaken around the country and the demand for marine crews presented a challenge. We expect this issue to be ongoing and are reviewing strategies to secure access to the best possible marine personnel.

Vessel operations is a key contributor to the overall success of the company and is predominantly managed out of our Dampier office. We have committed to a strong management team in Dampier and now consider ourselves to be the best resourced and experienced offshore marine operator in the region. Being able to understand our client's issues and requirements on site and provide appropriate solutions and back up is critical to our ongoing success.

Mermaid Sound artist impression -
under construction to support Woodside's Enfield Project

SUPPLY BASE OPERATIONS

Revenue and earnings for the Dampier Supply Base were broadly in line with the previous year. This was offset by lower earnings from the Broome Supply Base and the Slipway.

During the year the Santos and BHP drilling programmes were supported out of the Dampier Supply Base. This activity highlighted the issue of berth space, particularly when rig tenders from different operations arrived at the same time. Drilling operations are extremely expensive and delays to support vessels are unacceptable. To alleviate this issue the Company has commenced construction of an extension to our current wharf facility such that we can berth two rig tenders at the same time. This extension will also give us another working face for smaller vessels and dramatically increase the flexibility and efficiency of our overall wharf operations. The cost of construction is approximately $6 million and it is expected to be completed by December 2005.

The Dampier Supply Base was used to support offshore construction projects for Santos' Mutineer-Exeter field and Apache's John Brookes development. It is an excellent facility for these types of projects with substantial laydown area adjacent to the wharf. Numerous barges were also mobilised and deployed out of the base for the various wharf construction jobs in the port. To further improve the utility of the base, a landing ramp to cater for roll on roll off cargo was constructed during the year. The ramp is adjacent a large laydown area and in conjunction with our new landing craft, the Mermaid Venture, provides an ideal setup for logistics operations to the islands.

There were expectations of drilling campaigns being run out of Broome during the last financial year but all of these were deferred for a variety of reasons, but primarily due to drilling rig availability. These Browse Basin drilling programmes have now commenced with Woodside currently in the field. Other companies are expected to undertake drilling work out of Broome over the next twelve months and the future of this area is very exciting. The potential for an LNG production facility being developed in this region would appear to be very good with various oil and gas majors targeting the area.

The Slipway docked over twenty external vessels during the year ranging from small tugs to large offshore vessels such as the 71 metre Southern Supporter, operated by P&O Maritime and the 65 metre OSA Voyager, operated by Tidewater Marine. The Company docked a number of its own vessels as well. While earnings are still not satisfactory from this part of the business, the value generated by having access to a repair facility for our vessels in Dampier is significant. In addition, having some control over timing of vessel dockings is a key advantage in relation to positioning vessels around the offshore activities. With the development expected in the region over the next few years there will be increasing demand for marine maintenance services and we are already undertaking a broad range of marine work outside of the slipway which assists in balancing the intermittent nature of the business.

The fundamental issue for the Dampier Supply Base is utilisation. At present it is marginally profitable on approximately 40% utilisation. There are short periods when utilisation is higher than this but there are also periods when it is lower. What is needed is a major ongoing project to increase the utilisation over an extended period of time. Thankfully there are such projects in planning and/or design phase and we are well positioned to provide the support necessary for execution of these projects when they commence.

QUALITY, HEALTH, SAFETY AND ENVIRONMENTAL

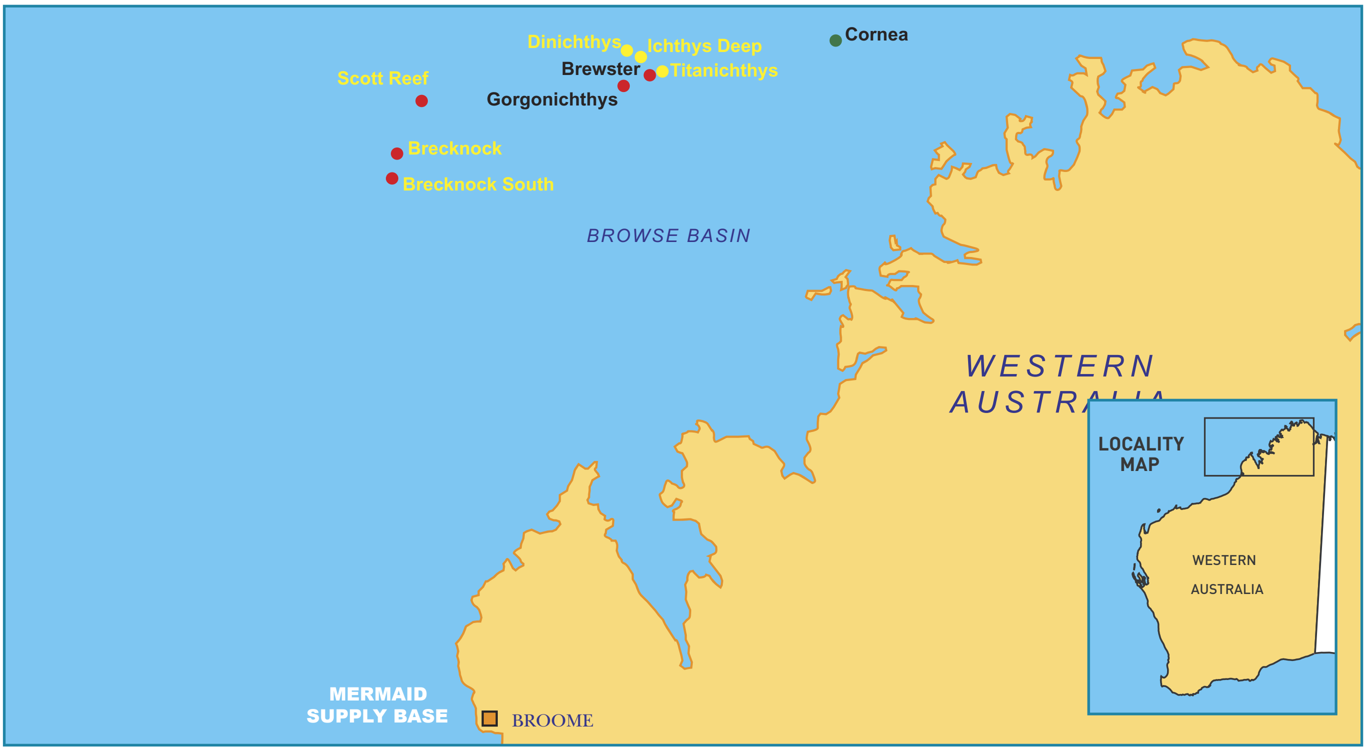
Quality

Mermaid Marine Australia is certified to the Quality Management System Standard ISO 9001:2000. The Company successfully passed its first Triennial Audit in February 2005 and has subsequently had another Surveillance Audit in August 2005.

As a result of our growing business and changes in operating environments including client expectations and requirements, Mermaid Marine is currently undertaking a project to amalgamate its Quality and HSE Management Systems into one consolidated Business Management System. This management system will remain certified to ISO 9001:2000 standard and will also be fully compliant with the ISM Code including any additional requirements by other regulatory bodies, including the Department of Environment and the National Offshore Petroleum Safety Authority (NOPSA).

The structure of the Integrated Business Management System (IBMS) is based on that used by Exxon, known as the Operational Integrity Management System (OIMS). The IBMS

North West Shelf and Browse Basin Oil & Gas Overview



HYDROCARBON DISCOVERIES

- Gas
- Oil
- Oil & Gas
- Mermaid Supply Bases
- Under Development

framework establishes common expectations for controlling risks inherent in the business. The Company has developed an internal website to host the new IBMS documentation and various other information necessary for operation of the Company.

Health and Safety

Mermaid Marine Australia had a total increase in work hours in the 2005 financial year of 179,491 hours. While the frequency rate of incidents has dropped the total number of incidents has increased with the largest increase being in the area of "Injury – No Treatment". This is attributable to the increased awareness of incident reporting among our workforce and it is strongly encouraged. The reporting of even minor incidents assists in assessing and managing risks going forward.

In May 2004, Mermaid Marine employed a HSE Advisor to assist the Business Systems Manager in the more operational areas of HSE Management. This appointment has resulted in a significant increase in awareness to safety and gives employees a point of contact for safety issues. The HSE Advisor spends considerable time with the work force supporting and encouraging safe work practices and ensuring that our systems and processes on the ground are relevant and current.

Environmental Compliance

Mermaid Marine has a comprehensive environmental monitoring regime in place to ensure compliance with all regulatory and community expectations.

Monitoring includes detailed programs for the following areas:

- Mangrove Management and Rehabilitation Program
- Water Quality Monitoring
- Marine Sediment Sampling
- Dust Management
- Weed Control

The Company has recently submitted its 2005 Annual Compliance Report for review by the Department of Environment and will submit its second Triennial Compliance Report in August 2006. This report details activities and progress in the areas of environmental management over the past three years.

PERSONNEL

A number of senior executive positions changed during the year and it is a measure of the Company's development that we have been able to attract high calibre people to the new roles. The Company undertook a review of the organisational structure in Fremantle and Dampier to ensure we were appropriately resourced, had the right reporting structures and had clarity around people's roles and responsibilities.

As a result of this review a decision was made to consolidate the operational divisions of the Company under a single executive and a recruitment programme for a new "General Manager Operations" commenced. After an extensive search we were fortunate to attract David Ross to this role and he joined the Company in July 2005. David was working in Holland as a Commercial Manager for BHP Billiton's Freight Group. David has a strong commercial and marine background and worked for a number of years as a Ship Manager for BHP Billiton in Australia looking after the Capesize vessel fleet. David has responsibility for Vessel Operations, Supply Base Operations and the Slipway.

Peter Raynor joined as Chief Financial Officer in June 2005 replacing Brendan Gore who had been with the Company for five years. Peter brings a broad range of experience as CFO particularly in relation to new business analysis and development and will provide invaluable support as the Company moves forward.

Treena Vivian joined as Human Resources Manager in August 2004 and has proven to be an exceptional manager both in industrial relations and human resources.

People are the key to any successful business and it is imperative there are good people at every level of the Company. It is an area that we have spent a significant amount of time and resources on over the last two years and will continue to do so as part of our drive to continuously improve. I would like to thank everybody in the Company for their efforts over the last twelve months; the executive team in Fremantle, the crews on our vessels, the technical team on the slipway, the logistics team on the supply base and the management team in Dampier. I would also like to thank our clients on whose support we depend.

Jeffrey Weber
Managing Director

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

The Australian Stock Exchange Listing Rule 4.10.3 requires companies to disclose the extent to which they have complied with the best practice recommendations of the ASX Corporate Governance Council. Where a recommendation has not been followed, the company must justify the reasons for the non-compliance. Mermaid Marine Australia Limited's Corporate Governance Statement below is structured with reference to the ASX Corporate Governance Council's "Principles of good governance and best practice recommendations", which are as follows:

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

For further information on corporate governance policies adopted by Mermaid Marine Australia Limited, refer to the company's website:

www.mermaidmarine.com.au

STRUCTURE OF THE BOARD

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors Report on page 12. As defined by the Corporate Governance Council, directors of Mermaid Marine Australia Limited are considered to be independent when they are free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

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

INDEPENDENCE

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

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

Name	Position
A G Birchmore	Chairman
J A Weber	Managing Director
M F Bradley	Executive Director
J H Carver	Non-Executive Director
C M Chew	Non-Executive Director

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

The Chairman, A G Birchmore, is a substantial shareholder of the company and his industry experience, together with that of former executives M F Bradley and J H Carver, significantly increases the collective expertise and knowledge of the Board. That expertise and knowledge is, in turn, further increased by the presence on the Board of C M Chew as representative of our major shareholder PSAM. The ongoing development of these relationships is of strategic importance to the company and is assisted by their presence on the Board. This executive and strategic expertise is then balanced by the quality of the company's two non-executive independent directors in A J Howarth and J A S Mews.

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

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

Name	Term in Office	Name	Term in Office
AG Birchmore	7 years	C M Chew	3 years
J A Weber	3 years	A J Howarth	4 years
M F Bradley	5 years	J A S Mews	7 years
J H Carver	7 years		

For additional details regarding Board appointments, please refer to the company's website.

NOMINATION AND REMUNERATION COMMITTEE

The Board has established a nomination and remuneration committee, which meets at least annually. Its role is to review and recommend appropriate remuneration policies which are designed to meet the needs of the company and to enhance corporate and individual performance by taking into account all factors which it deems necessary to ensure that members of the executive management of the company are motivated to pursue the long-term growth and success of the company within an appropriate control framework and that there is a clear relationship between key executive performance and remuneration.

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

J A S Mews (Chairman)
A J Howarth

For details of the amount of remuneration and all monetary and non-monetary components for each of the five highestpaid (non-director) executives during the year, please refer to page 17 of the Directors' Report. In relation to payment of bonuses, options and other incentive payments, discretion is exercised by the Board by having regard to the overall performance of the Company and the performance of the individual during the period.

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

For details of the number of meetings of the nomination and remuneration committee held during the year and the attendees at those meetings, refer to page 16 of the Directors' Report.

AUDIT COMMITTEE

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

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The members of the audit committee during the year were:

J A S Mews (Chairman)
A G Birchmore
A J Howarth

Their qualifications and expertise for office on this committee are set out in the Directors' Report on page 12.

For details of the number of meetings of the Audit Committee held during the year and the attendance at those meetings, refer to page 16 of the Directors' Report.

PERFORMANCE

The performance of the Board, each Board member and key executives will be constantly reviewed against measurable and qualitative benchmarks as may reasonably be determined from time to time by the Board having regard to accepted, sound corporate governance standards.

The directors of Mermaid Marine Australia Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2005. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

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

MR ALAN GORDON BIRCHMORE

Chairman - Appointed 12 August 1998

Alan has occupied senior management and board appointments in Australia, England, mainland Europe and the United States of America, with direct responsibility over a range of financial, industrial and mining operations. As a Non Executive Director of Bond Corporation Holdings in the UK, he was Managing Director of Airship Industries which, in JV with Westinghouse, was a successful US defence contractor. He was a Director of T.V.am and British Satellite Broadcasting Ltd (Later B Sky B) and Chairman of two privatised Hungarian Government companies. As Chief Executive of the New York-listed Bond International Gold, he was responsible for a worldwide workforce of 6,000 employees in Canada, the United States, South America and Australia. The company developed the Superpit at Kalgoorlie and successfully ran that as Australia's largest gold-mining operation, in joint venture with Homestake Mining of the United States. Alan also sat as a founding Director on the Argyle joint venture, the world's largest diamond mine. In 1990, as a major shareholder, he became Chairman of St Barbara Mines Limited. Once listed and during the time of his stewardship, the company became highly profitable, as a top 10 Australian gold producer. Alan, who retired from the board of St Barbara in 1997, was recently appointed Chairman of the Albany Port Authority. He is also Deputy Chairman of the West Australian Ballet Company, a Director of United Kimberley Diamonds Ltd and a Fellow of the Australian Institute of Company Directors.

MR JEFFREY ANDREW WEBER

Managing Director– Appointed 31 December 2002

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

MR MARK FRANCIS BRADLEY

Director - Appointed 22 September 2000

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

MR JAMES HENRY CARVER

Non-Executive Director - Appointed 29 June 1998

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

MR ANTHONY JOHN HOWARTH AO

Non-Executive Director – Appointed 5 July 2001

Tony worked in the banking and finance industry for over 30 years. His work has involved a number of overseas appointments. He has been the Managing Director of Challenge Bank Limited and the CEO of Hartleys Limited. Currently he is Chairman of Alinta Limited, Chairman of Home Building Society Limited and a Non-Executive Director of AWB Limited. He is also involved in a number of business and community organisations including Chairman of St John of God Health Care Group, a Director of the Australian Chamber of Commerce and Industry, the Rio-Tinto WA Future Fund, the University of Western Australia's Senate, the WA State Council of the Institute of Company Directors, the Prime Minister's Community Business Partnership and the Australia Council's Major Performing Arts Board.

MR JEFFREY ARTHUR SYDNEY MEWS

Non-Executive Director - Appointed 12 August 1998

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

MR CHENG CHEW MING (PETER CHEW)

Non-Executive Director – Appointed 27 November 2002

Peter graduated with first-class honours from the University of Glasgow in 1985, being awarded a Bachelor of Science in Naval Architecture and Ocean Engineering. In 1987 he obtained a Master's in Management Science from the Imperial College of Science and Technology, University of London. Peter, who is currently Vice-President of PSA Marine (Pte) Ltd, has had overall responsibility for development of that company's growth strategy in the offshore oil and gas marine business since 1998. His other responsibilities include mergers and acquisitions, developing relationships with major oil and gas exploration and production companies, and taking charge of overseas joint venture operations. Peter sits on the boards of several companies.

MR RICHARD MALCOLM REID (deceased)

Non-Executive Director - Appointed 4 March 2004, Resigned 17 November 2004

Richard resigned as a director of the company on 17 November 2004 following his resignation from the Clough Group. Initially appointed to the Board on 22 September 2000, Richard resigned his position on 19 November 2003 to become an alternate director to Chris Sutherland. Upon Chris Sutherland's resignation, Richard was reappointed to the Board. A Fellow of the Institute of Chartered Accountants, Richard had extensive experience in senior auditing positions in London, Belgium and Perth. He joined the Clough Group in 1980 and was a director of a number of the Group's subsidiaries, joint ventures and associates. As Finance Director of the Group, Richard was intimately involved in all the Clough Group's major projects and acquisitions for over 20 years, as well as the successful listing of both the parent company, Clough Limited on the ASX in 1998 and of its subsidiary, PT Petrosea Tbk, on the Jakarta Stock Exchange in 1990. His experience in engineering and construction, both within Australia and overseas, was significant, as was his knowledge of finance and management with respect to property and other investments.

MR CHAN KOK TEUN

Alternate Non-Executive Director – Appointed 27 November 2002

Kok Teun is a member of the Institute of Certified Public Accountants of Singapore. He has held various senior finance positions in Singapore, the United States and Europe, among them two US multinational corporations engaged in the oil and gas industry and another with a large Singapore-based engineering and marine services company. Kok Teun is currently the Senior Corporate Services Manager of PSAM.

COMPANY SECRETARY

MR PETER ALAN RAYNOR

Peter was appointed Company Secretary of the company on 20 June 2005, following the resignation of Mr Brendan Gore. Peter is a member of the Australian Society of CPA's with over 20 years corporate experience, having held senior financial and commercial positions in both large private and publicly listed companies.

PRINCIPAL ACTIVITIES

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

- Operating crewed vessel charters;
- Vessel manning, management and logistics;
- Operating supply base facilities and slipway operations; and
- Engineering and labour hire.

REVIEW OF OPERATIONS

A review of operations for the financial year and the results of those operations are set out in the Chairman's Address and the Managing Director's Review of Operations.

DIVIDENDS

No dividends were declared or paid since the start of the financial year.
In respect of the financial year ended 30 June 2005, the directors have not recommended the payment of a dividend.

CHANGES IN THE STATE OF AFFAIRS

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

SUBSEQUENT EVENTS

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

FUTURE DEVELOPMENTS

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

ENVIRONMENTAL REGULATION

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

SHARE OPTIONS

Share options granted to directors and executives:
No options over unissued shares in the company were granted to any directors or executives during the financial year.

Share options exercised during the year:
No shares in the company were issued during or since the end of the financial year as a result of the exercise of any options.

Share options on issue at the end of the financial year:

Options - Series	No. of shares under option	No. Vested	Vesting Date	Grant Date	Expiry Date	Exercise Price $
(1) Issued 17 May 2002	1,295,000	1,295,000	17/05/03	17/05/02	17/05/06	0.44
(2) Issued 6 May 2004	1,670,000	1,670,000	06/05/05	06/05/04	22/04/08	0.40
	2,965,000					

The series (1) and (2) options were issued to employees of the consolidated entity in accordance with the terms and conditions of the Employee Share Option Plan. Further details of the Employee Share Options are disclosed in Note 25 to the financial statements.

Upon exercise, each share option converts to one ordinary share in Mermaid Marine Australia Limited.
Holders of options over unissued shares in the company do not have the right, by virtue of the option, to participate in any share issue of the company.

PSA Marine Options
At the beginning of the financial year there were 3 million PSA Marine options on issue that were granted on 27 November 2002. The PSA Marine options were exercisable at 34 cents per share, with a term of 24 months from their issue date. These options lapsed during the financial year in accordance with their terms.

INDEMNIFICATION OF OFFICERS AND AUDITORS

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

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

DIRECTORS’ MEETINGS

The following table sets out the number of directors’ meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 7 board meetings, 2 audit committee meetings and 2 remuneration committee meetings were held.

Directors	**Board of Directors**		**Audit Committee**		**Remuneration and Nomination Committee**	
	Held	Attended	Held	Attended	Held	Attended
A G Birchmore	7	6	2	2	-	-
J A Weber	7	7	-	-	-	-
M F Bradley	7	6	-	-	-	-
J H Carver	7	7	-	-	-	-
P Chew	7	4	-	-	-	-
A J Howarth	7	6	2	2	2	2
J A S Mews	7	5	2	1	2	2
R M Reid	3	2	-	-	-	-
K T Chan (alternate)	7	-	-	-	-	-

DIRECTORS' SHAREHOLDINGS

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

Directors	**Fully Paid Ordinary Shares Direct**	**Fully Paid Ordinary Shares Indirect**	**Share Options Direct**
A G Birchmore	524,000	11,143,094	-
J A Weber	50,000	-	400,000
M F Bradley	6,666,666	-	-
J H Carver	9,215,826	-	-
P Chew	-	-	-
A J Howarth	-	300,000	-
J A S Mews	-	750,000	-

DIRECTORS' AND EXECUTIVES' REMUNERATION

Remuneration policy for directors and executives:
The remuneration committee reviews the remuneration packages of all directors and executives on an annual basis and makes recommendations to the board. Remuneration packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries, adjusted by a performance factor to reflect changes in the performance of the individual and the company.

Director and executive details:
The directors of Mermaid Marine Australia Limited during the year were:

- A G Birchmore (Chairman)
- J A Weber (Managing Director)
- M F Bradley (Executive)
- J H Carver (Non-Executive)
- P Chew (Non-Executive)
- A J Howarth (Non-Executive)
- J A S Mews (Non-Executive)
- R M Reid (Non-Executive), resigned 17 November 2004
- K T Chan (Alternate - Non-Executive)

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

- B Gore (Chief Financial Officer/Company Secretary), resigned 20 June 2005
- P Raynor (Chief Financial Officer/Company Secretary), appointed 13 June 2005
- E Graham (General Manager – Development)
- B Macgregor (Manager – Vessel Operations), resigned 22 January 2005
- D Verboon (General Manager – Slipway)

Elements of director and executive remuneration:

Remuneration packages contain the following key elements:
(a) Primary benefits – salary/fees, bonuses and non-monetary benefits including the provision of motor vehicles;
(b) Post-employment benefits – superannuation; and
(c) Equity – share options granted under the employee share option plan as disclosed in Note 25 to the financial statements.

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

	Primary			Post Employment			Equity		
2005	Salary & Fees $	Bonus $	Non-monetary $	Super-annuation $	Prescribed benefits $	Other $	Options $	Other Benefits $	Total $
Directors									
A G Birchmore	70,000	-	5,318	6,300	-	-	-	-	81,618
J A Weber	236,530	40,000	23,009	21,287	-	-	-	-	320,826
M F Bradley	158,460	-	-	14,261	-	-	-	-	172,721
J H Carver	135,326	-	3,702	3,150	-	-	-	-	142,178
P Chew	41,725	-	-	-	-	-	-	-	41,725
A J Howarth	43,461	-	-	3,911	-	-	-	-	47,372
J A S Mews	43,461	-	-	3,911	-	-	-	-	47,372
R M Reid	9,450	-	-	-	-	-	-	-	9,450
K T Chan (alternate)	-	-	-	-	-	-	-	-	-
	738,413	40,000	32,029	58,820	-	-	-	-	863,262

DIRECTORS' AND EXECUTIVES' REMUNERATION (CONT.)

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

	Primary			Post Employment			Equity		
2005	Salary & Fees $	Bonus $	Non-monetary $	Super-annuation $	Prescribed benefits $	Other $	Options (i) $	Other Benefits $	Total $
Directors									
B Gore	179,417	-	1,802	14,580	-	-	35,000	-	230,799
P Raynor	5,930	-	-	533	-	-	-	-	6,463
E Graham	143,888	13,888	-	11,700	-	-	11,667	-	181,143
B Macgregor	106,481	-	-	10,322	-	-	-	-	116,803
D Verboon	100,917	5,045	-	9,083	-	-	11,667	-	126,712
	536,633	18,933	1,802	46,218	-	-	58,334	-	661,920

(i) The value placed on options in the table above is based on the valuation at the date of issue using the Black-Scholes model, pro-rated over the period from grant date to vesting date, as set out in Notes 25 and 30 to the financial statements.

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

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

Value of options issued to directors and executives:
The following table discloses the value of options granted, exercised or lapsed during the year:

Directors/Executives	Options Granted: Value at grant date (1) $	Options Exercised: Value at exercise date $	Options Lapsed: Value at time of lapse $	Total value of options granted, exercised and lapsed $	Value of options included in remuneration for the year $	Percentage of total remuneration for year that consists of options %
J A Weber	-	-	-	-	-	-
B Gore	35,000	-	-	-	35,000	15.16
E Graham	11,667	-	-	-	11,667	6.44
B Macgregor	-	-	-	-	-	-
D Verboon	11,667	-	-	-	11,667	9.21

(1) The options were granted on 6 May 2004 and vested 12 months from the grant date. The value of the options is determined at grant date, and is included in remuneration on a proportionate basis from grant date to vesting date.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

NON-AUDIT SERVICES

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or another person or firm on the auditor's behalf) did not compromise the auditor independence requirements of the Corporations Act 2001.

NON-AUDIT SERVICES (CONT.)

In each case, management of the company had sufficient expertise to take responsibility for all decisions made associated with these projects and the auditor did not assume the role of an employee or of management of the company.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 29 to the financial statements.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 20 of this Annual Report.

Signed in accordance with a resolution of directors made pursuant to S.298(2) of the Corporations Act 2001.

On behalf of the Directors

Alan Birchmore
Chairman
Fremantle, 22 September 2005

Deloitte.

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Western Australia 6160

22 September 2005

Dear Board Members

Mermaid Marine Australia Limited

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

As lead audit partner for the audit of the financial statements of Mermaid Marine Australia Limited for the financial year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter McIver

Peter McIver
Partner
Chartered Accountant

Statement of Financial Performance

For the Financial Year ended 30 June 2005

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Revenue from ordinary activities	2	53,379,989	35,132,310	288,928	1,867,293
Share of net (losses)/profits of associate accounted for using the equity method	11	(97,410)	263,595	-	-
Vessel expenses		(32,297,315)	(20,799,768)	-	-
Supply base expenses		(7,075,601)	(6,165,619)	-	-
Engineering and labour hire expenses		(4,816,766)	(436,976)	-	-
Administration expenses		(2,844,677)	(2,113,824)	(13,272)	(11,928)
Borrowing costs		(2,208,729)	(2,335,224)	(17,907)	(30,757)
Profit From Ordinary Activities Before Income Tax (Expense)/Benefit	2,3	4,039,491	3,544,494	257,748	1,824,608
Income tax (expense)/benefit relating to ordinary activities	4	(1,516,099)	755,271	(43,742)	45,839
Profit From Ordinary Activities After Income Tax (Expense)/Benefit		2,523,392	4,299,765	214,006	1,870,447
Net Profit Attributable to Members of the Parent Entity		2,523,392	4,299,765	214,006	1,870,447
Total Changes in Equity Other than those Resulting from Transactions with Owners as Owners	21	2,523,392	4,299,765	214,006	1,870,447
Earnings Per Share					
- Basic (cents per share)	27	1.96	3.75		
- Diluted (cents per share)	27	1.96	3.74		

Notes to the financial statements are included in pages 24 to 56

Statement of Financial Position

As at 30 June 2005

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Current Assets					
Cash assets		13,983,512	6,068,589	3,970,368	2,457,994
Receivables	6	9,772,855	8,516,191	18,165	21,907
Inventories	7	1,281,081	467,694	-	-
Other	10	663,306	918,936	-	-
Total Current Assets		25,700,754	15,971,410	3,988,533	2,479,901
Non-Current Assets					
Investments accounted for using the equity method	11	97,061	494,471	-	-
Other financial assets	8	-	-	41,958,441	33,674,548
Property, plant & equipment	12	65,748,856	60,771,589	-	-
Intangibles	14	-	223,504	-	-
Deferred tax assets	9	37,172	-	-	-
Total Non-Current Assets		65,883,089	61,489,564	41,958,441	33,674,548
Total Assets		91,583,843	77,460,974	45,946,974	36,154,449
Current Liabilities					
Payables	15	6,288,641	5,622,122	4,706	4,706
Interest-bearing liabilities	16	3,417,430	6,406,972	-	-
Provisions	17	699,523	504,645	-	-
Current tax liabilities	18	436,512	-	379,188	-
Total Current Liabilities		10,842,106	12,533,739	383,894	4,706
Non-Current Liabilities					
Interest-bearing liabilities		28,377,249	24,276,642	-	-
Provisions		120,698	129,526	-	-
Deferred tax liabilities		1,309,077	206,871	1,309,077	206,871
Total Non-Current liabilities		29,807,024	24,613,039	1,309,077	206,871
Total Liabilities		40,649,130	37,146,778	1,692,971	211,577
Net Assets		50,934,713	40,314,196	44,254,003	35,942,872
Equity					
Contributed equity	19	47,755,678	39,658,553	47,755,678	39,658,553
Reserves	20	3,763,956	3,763,956	-	-
(Accumulated losses)	21	(584,921)	(3,108,313)	(3,501,675)	(3,715,681)
Total Equity		50,934,713	40,314,196	44,254,003	35,942,872

Notes to the financial statements are included in pages 24 to 56

Statement of Cash Flows

For the Financial Year ended 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		$	$	$	$
Cash Flows From Operating Activities					
Receipts from customers		54,394,814	37,369,070	448	1,854,177
Interest received		303,685	205,309	288,481	181,678
Payments to suppliers and employees		(45,376,105)	(29,429,172)	(9,529)	(163,546)
Income tax (paid)/received		(17,085)	1,023,279	-	45,839
Interest and other costs of finance paid		(2,208,728)	(2,293,606)	(17,907)	(30,757)
Dividends received		300,000	-	300,000	-
Net Cash Provided By Operating Activities	22(a)	7,396,581	6,874,880	561,493	1,887,391
Cash Flows From Investing Activities					
Payments for property, plant and equipment		(12,298,518)	(2,824,949)	-	-
Proceeds from sale of property, plant and equipment		3,900,779	52,870	-	-
Amounts received from/(advanced to) related parties		-	-	(7,146,245)	(4,046,414)
Net Cash Used In Investing Activities		(8,397,739)	(2,772,079)	(7,146,245)	(4,046,414)
Cash Flows From Financing Activities					
Proceeds from issue of shares		8,392,843	-	8,392,843	-
Payment of share issue costs		(295,718)	-	(295,718)	-
Proceeds from HP financing		9,016,025	-	-	-
Proceeds from insurance premium financing		11,789	-	-	-
Repayment of borrowings		(4,041,695)	(937,500)	-	-
Hire purchase principal payments		(4,167,162)	(2,888,709)		-
Net Cash Provided By/(Used In) Financing Activities		8,916,082	(3,826,209)	8,097,125	-
Net Increase/(Decrease) In Cash Held		7,914,923	276,592	1,512,373	(2,159,023)
Cash at Beginning of the Financial Year		6,068,589	5,791,997	2,457,995	4,617,018
Cash at the End of the Financial Year		13,983,512	6,068,589	3,970,368	2,457,995

Notes to the financial statements are included in pages 24 to 56

1. SUMMARY OF ACCOUNTING POLICIES

Financial Reporting Framework

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The financial report has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Significant Accounting Policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

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

(a) Accounts Payable

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

(b) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

(c) Depreciation

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land and investment properties. Depreciation is calculated so as to write off the net cost or other revalued amount of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter. The following rates are used in the calculation of depreciation;

• Leasehold buildings and improvements	2.38% prime costs
• Vessels	4% diminishing value
• Vessel Refits	10% diminishing value
• Plant and equipment	4-40% prime costs
• Motor vehicles	22.5% diminishing value

(d) Employee Benefits

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

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)

Provisions made in respect of wages and salaries, annual leave, and other employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of other employee benefits which are not expected to be settlement with 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date.

(e) Financial Instruments Issued by the Company

Debt and Equity Instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate.

Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been used.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instruments.

(f) Goods and Services Tax

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

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

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

(g) Income Tax

Tax-effect accounting principles are adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the deferred tax assets and deferred tax liabilities, as applicable.

During the previous financial year, the directors elected that the company and all its wholly-owned Australian resident entities would join a tax-consolidated group. As a result, all income tax expenses, revenues, assets and liabilities of the members of the tax-consolidated group are recognised in the financial statements of the parent entity.

The entities in the tax consolidation group have agreed to enter into a tax sharing agreement. As a result of this, the income tax expense/revenue of the parent entity includes the tax contribution amounts paid or payable between the parent entity and subsidiary entities made in accordance with the agreement.

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)

The current and deferred tax assets and liabilities of the parent entity are not reduced by any amounts owing from or to subsidiary entities in accordance with the tax sharing agreement as these amounts are recognised as intercompany receivables and payables.

(h) Interest-Bearing Liabilities

Bills of exchange are recorded at an amount equal to the net proceeds received, with the premium or discount amortised over the period until maturity. Interest expense is recognised on an effective yield basis.

Debentures, bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis.

Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowings.

(i) Inventory

Inventory is valued at the lower of cost and net realisable value.

(j) Investments

Investments in controlled entities are recorded at the lower of cost and recoverable amount. Investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements. Other investments are recorded at the lower of cost and recoverable amount.

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on an accrual basis.

(k) Leased Assets

Hire purchase leased assets classified as finance leases are recognised as assets. The amount initially brought to account is the present value of minimum lease payments.

A hire purchase lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property.

Capitalised hire purchase leased assets are depreciated on a reducing balance basis.

Hire purchase lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are recognised as an expense on a basis which reflects the pattern in which economic benefits from the leased asset are consumed.

(l) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its controlled entities as defined in accounting standard AASB 1024 "Consolidated Accounts". A list of controlled entities appears in Note 32 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidatefinancial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity.

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(m) Receivables

Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts.

Bills of exchange are recorded at amortised cost, with revenue recognised on an effective yield basis.

(n) Recoverable Amount of Non-Current Assets

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

(o) Revenue Recognition

Sale of Goods and Disposal of Assets

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer.

Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Contribution of Assets

Revenue arising from the contribution of assets is recognised when the consolidated entity gains control of the contribution or the right to receive the contribution.

Liabilities Forgiven

The gross amount of a liability forgiven by a credit provider is recognised as revenue.

(p) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is amortised on a straight line basis over a period of 10 years.

(q) Project Development Costs

Project development costs are recognised as an expense when incurred, except to the extent that such costs, in relation to the project, are expected, beyond any reasonable doubt, to be recoverable.

Any deferred project development costs are amortised over the period in which the corresponding benefits are expected to arise, commencing with the commercial operation of the project.

(r) Joint Ventures

Joint Venture Operations

Interests in joint venture operations are reported in the financial statements by including the consolidated entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)

share of any expenses incurred in relation to joint ventures in their respective classification categories.

Joint Venture Entity

Interest in the joint venture entities that are:

- partnerships are accounted for under the equity method in the company and consolidated financial statements; and
- not partnerships are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

(s) Foreign Currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date.

Exchange differences are recognised in net profit or loss in the period in which they arise.

(t) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

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

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

2. PROFIT FROM ORDINARY ACTIVITIES

Profit from ordinary activities before income tax includes the following items of revenue and expense

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Operating Revenue					
Rendering of services		48,263,160	33,815,626	448	1,686,432
Rental revenue		912,365	987,520	-	-
Interest – other entities		303,685	276,294	288,481	180,861
		49,479,210	35,079,440	288,928	1,867,293
Non Operating Revenue					
Proceeds from sale of assets:					
Property, plant and equipment		3,900,779	52,870	-	-
		53,379,989	35,132,310	288,928	1,867,293
Expenses					
Depreciation of non-current assets:					
Leasehold buildings and improvements		991,867	947,987	-	-
Vessels		692,598	487,293	-	-
Vessels – hire purchase		1,016,987	1,026,880	-	-
Plant and equipment		581,138	643,731	-	-
Plant and equipment – hire purchase		110,811	83,887	-	-
		3,393,401	3,189,778	-	-
Amortisation of non-current assets:					
Goodwill		223,504	32,834	-	-
Bad and doubtful debts arising from:					
Other entities		17,682	18,426	-	-
Net foreign exchange loss		17,791	16,438	-	-
		35,473	34,864	-	-
Written down value of fixed assets disposed of:					
Property, plant and equipment		3,927,851	-	-	-
Borrowing costs:					
Interest expense – other entities		1,550,599	1,610,942	17,907	30,757
Finance charges – lease finance charges		658,130	724,282	-	-
		2,208,729	2,335,224	17,907	30,757
Operating leases – rental expenses		271,894	251,671	-	-

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
3. SALES OF ASSETS					
Sales of assets in the ordinary course of business have given rise to the following profits and losses					
Net Profits					
Vessels		344,963			
Property, plant and equipment		4,656	33,771	-	-
		349,619	33,771		
Net Losses					
Vessels		375,892		-	-
Property, plant and equipment		800	22,003	-	-
		376,692	22,003	-	-

4. INCOME TAX

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
(a) The prima facie income tax (expense)/ benefit on pre-tax accounting profit reconciles to the income tax (expense)/ benefit in the financial statements as follows:					
Profit from Ordinary Activities		4,039,491	3,544,494	257,748	1,824,608
Income tax expense calculated at 30% of operating profit		(1,211,847)	(1,063,348)	(77,325)	(547,382)
Permanent differences:					
Depreciation differences		70,057	77,969	-	-
Entertainment		(13,501)	(11,307)	-	-
Legal		-	(15,530)	-	-
Goodwill Amortised		(67,051)	-	-	-
Capital Raising Cost		33,582	-	33,582	-
Other items		29,417	(3,149)	-	-
Tax losses and timing differences recognised for first time		-	936,286	-	547,382
Reversal of tax expense on amendment of prior year returns		-	962,142	-	45,839
Equity share of associates' profit / (loss)		(29,223)	79,079	-	-
Under provision of income tax in previous year		(327,533)	(206,871)	-	-
Impact of the tax consolidation system:					
Current and deferred taxes relating to transactions, events and balances of wholly-owned subsidiaries in the tax consolidated group		-	-	1,481,393	206,871
Net income tax expense arising under tax sharing agreements with subsidiaries in the tax consolidated group		-	-	(1,481,393)	(206,871)
		(1,516,099)	755,271	(43,743)	45,839
Income tax (expense)/benefit attributable to operating profit		(1,516,099)	755,271	(43,743)	45,839

4. INCOME TAX (CONT.)

Tax consolidation system
Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002.

During the 2004 financial year, the directors elected that the Company and all its wholly-owned Australian resident entities would join a tax-consolidated group. As a result, all income tax expenses, revenues, assets and liabilities of the members of the tax-consolidated group are recognised in the financial statements of the parent entity.

The entities in the tax consolidation group have agreed to enter into a tax sharing agreement. As a result of this, the income tax (expense)/revenue of the parent entity includes the tax contribution amounts paid or payable between the parent entity and subsidiary entities made in accordance with the agreement.

The current and deferred tax assets and liabilities of the parent entity are not reduced by any amounts owing from or to subsidiary entities in accordance with the tax sharing agreement as these amounts are recognised as intercompany receivables and payables.

The tax sharing agreement is based on the head entity agreeing to compensate its wholly-owned subsidiaries for the carrying amount of their deferred and current tax balances. Where this agreement results in an onerous contract, the head entity recognises a provision and income tax expense.

5. DIVIDENDS PROVIDED FOR OR PAID
No dividends were paid or declared during the financial year (2004: nil)

	Consolidated		Company	
	2005	2004	2005	2004
	$	$	$	$
Adjusted franking account balance (tax paid basis)	2,839,760	2,893,755	2,839,760	2,893,755

6. CURRENT RECEIVABLES

Trade receivables	6,815,210	6,589,899	-	-
Allowance for doubtful debts	(18,760)	(18,503)	-	-
Other receivables	2,727,569	1,801,279	18,165	21,907
Goods and services tax (GST) recoverable	248,836	143,516	-	-
	9,772,855	8,516,191	18,165	21,907

7. INVENTORIES

Consumables – at cost	1,281,081	467,694	-	-

8. OTHER FINANCIAL ASSETS

NON CURRENT

Loans - wholly-owned controlled entities	-	-	49,643,090	41,059,197
Recoverable amount write down of loans to controlled entities	-	-	(10,209,260)	(10,209,260)
Shares in controlled entities	-	-	2,524,611	2,824,611
	-	-	41,958,441	33,674,548

9. DEFERRED TAX ASSETS
Future income tax benefit
Timing differences attributable to:

Other	37,172	-	-	-

10. OTHER CURRENT ASSETS

Prepayments	663,306	918,936	-	-

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Name of Entity	Principal Activity	Ownership Interest 2005 %	Ownership Interest 2004 %	Consolidated Carrying Amount 2005 $	Consolidated Carrying Amount 2004 $
Associate					
Mermaid Clough Pty Ltd (i)(ii)	Shallow water pipeline installation	50	50	97,061	494,471

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

	Consolidated 2005 $	Consolidated 2004 $
Movement in Investments in Associate		
Equity accounted amount of investment at the beginning of the financial year	494,471	230,876
Transfer of interests in associate to consolidated entity	-	-
Share of (loss)/profit from ordinary activities before income tax expense	(133,295)	283,118
Share of income tax benefit/(expense) related to ordinary activities	35,885	(19,523)
Share of dividend	(300,000)	-
Equity accounted amount of investment at the end of the financial year	97,061	494,471
Summarised Financial Position of Associate		
Current Assets		
Cash	65,369	1,137,237
Receivables	902,415	473,225
Prepayments	17,130	18,022
Non-Current Assets		
Deferred Tax Assets	160,615	84,920
Current Liabilities		
Payables	(951,306)	(561,361)
Tax Liabilities	-	(163,000)
Net Assets	194,223	989,043
Net Profit	194,123	988,943
Share of Reserves Attributable to Associate		
Retained profits		
at the beginning of the financial year	494,471	230,876
at the end of the financial year	97,061	494,471

Contingent Liabilities and Capital Commitments

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

12. PROPERTY, PLANT & EQUIPMENT

Consolidated	Leasehold Buildings and improvements	Vessels	Vessels – hire purchase	Plant and Equipment – at cost	Plant and Equipment – hire purchase – at cost	TOTAL
	$	$	$	$	$	$
Gross Carrying Amount						
Balance at 30 June 2004	34,071,489	8,948,773	19,457,107	5,499,377	1,281,103	69,257,849
Additions	597,130	54,779	10,639,169	888,409	119,035	12,298,522
Disposals	-	(1,015,550)	(3,590,578)	(621,040)	-	(5,227,168)
Transfers	-	1,444,370	(1,444,370)	-	-	-
Balance at 30 June 2005	34,668,619	9,432,372	25,061,327	5,766,747	1,400,137	76,329,203
Accumulated Depreciation						
Balance at 30 June 2004	(1,931,602)	(1,467,708)	(2,552,733)	(2,412,776)	(121,441)	(8,486,260)
Disposals	-	245,104	694,690	359,523	-	1,299,317
Transfers	-	(513,680)	513,680	-	-	-
Depreciation expense	(991,867)	(692,598)	(1,016,987)	(581,138)	(110,811)	(3,393,401)
Balance at 30 June 2005	(2,923,471)	(2,428,882)	(2,361,349)	(2,634,391)	(232,252)	(10,580,345)
Net Book Value						
As at 30 June 2004	32,139,887	7,481,065	16,904,374	3,086,601	1,159,662	60,771,589
As at 30 June 2005	31,745,149	7,003,490	22,699,978	3,132,356	1,167,886	65,748,856

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in Note 2 of the Financial Statements.

12. PROPERTY PLANT AND EQUIPMENT (CONT.)

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Assets Written Down To Recoverable Amount					
Leasehold Buildings and Improvements					
At recoverable amount		2,418,071	2,418,071	-	-
Less subsequent depreciation		(143,639)	(86,089)	-	-
		2,274,432	2,331,982	-	-
At cost		29,470,717	29,807,905	-	-
Total leasehold buildings and improvements		31,745,149	32,139,887	-	-
Vessels					
At recoverable amount		529,393	1,266,573	-	-
Less subsequent depreciation		(108,196)	(158,100)	-	-
		421,197	1,108,473	-	-
At cost		6,582,293	6,372,592	-	-
Total vessels		7,003,490	7,481,065	-	-
Vessels – Hire Purchase					
At recoverable amount		5,456,394	8,214,198	-	-
Less subsequent depreciation		(1,037,618)	(743,001)	-	-
		4,418,776	7,471,197	-	-
At cost		18,281,202	9,433,177	-	-
Total vessels – hire purchase		22,699,978	16,904,374	-	-

Assumptions made in respect of Recoverable Amount

In determining recoverable amount the expected future cash flows associated with the grouping of vessel and supply base activities have been projected for the next 5 years based on current and future forecasts.

13. ASSETS PLEDGED AS SECURITY

In accordance with the security arrangements of liabilities, as disclosed in Note 16 to the financial statements, effectively all non-current assets of the consolidated entity have been pledged as security, except future income tax benefits.
The consolidated entity does not hold title to the equipment under finance lease pledged as security.

	Note	Consolidated		Company	
		2005	2004	2005	2004
		$	$	$	$
14. INTANGIBLES					
Goodwill		256,338	256,338	-	-
Accumulated amortisation		(256,338)	(32,834)	-	-
		-	223,504	-	-
15. CURRENT PAYABLES					
GST payable		465,265	461,759	-	-
Trade payables		3,191,870	3,266,822	-	-
Other payables and accruals		2,631,506	1,893,541	4,706	4,706
		6,288,641	5,622,122	4,706	4,706
16. INTEREST – BEARING LIABILITIES					
CURRENT					
Hire purchase liability – secured (i)	24(a)	2,397,430	5,386,972	-	-
Bank loan – secured (ii)		1,020,000	1,020,000	-	-
		3,417,430	6,406,972	-	-
NON CURRENT					
Hire purchase liability – secured (i)	24(a)	11,683,351	3,844,946	-	-
Bank loan – secured (ii)		16,390,000	20,431,696	-	-
Other Loans		303,898	-	-	-
		28,377,249	24,276,642	-	-

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

(ii) The bank loan is secured by mortgage debentures over the assets and undertakings of certain controlled entities, registered ships mortgages over the vessels of certain controlled entities and a registered mortgage by way of sub-demise of the King Bay Base Lease.

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
17. PROVISIONS					
CURRENT PROVISIONS					
Employee benefits (i)		699,523	504,645	-	-
NON CURRENT PROVISIONS					
Employee benefits (i)		120,698	129,526	-	-

(i) Employee Benefits

The aggregate employee benefits liability recognised and included in the financial statements is as follows.

	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Provision for Employee benefits:				
Current	699,523	504,645	-	-
Non-current	120,698	129,526	-	-
Accruals (i)	149,257	51,179	-	-
	969,478	685,350	-	-

(i) Disclosed as other payables and accruals in Note 15

	Consolidated 2005 No.	Consolidated 2004 No.	Company 2005 No.	Company 2004 No.
Number of employees at end of financial year	179	159	-	-

	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
18. TAX LIABILITIES				
CURRENT TAX LIABILITIES				
Income tax payable	436,512	-	379,188	-
DEFERRED TAX LIABILITIES				
Deferred income tax attributable to entities in the tax consolidation group	1,309,076	206,871	1,309,076	206,871
(i) Entities in the tax consolidation group have entered into a tax sharing agreement. Refer to Note 4 for further information. The provision for deferred income tax has been reduced by future income tax benefits attributable to tax losses by the amount of:	830,357	1,025,371	830,357	1,025,371
19. CONTRIBUTED EQUITY				
Contributed Equity				
139,364,367 fully paid ordinary shares (2004: 114,682,285)	47,755,678	39,658,553	47,755,678	39,658,553

Fully Paid Ordinary Shares	2005 No.	2005 $	2004 No.	2004 $
Balance at beginning of financial year	114,682,285	39,658,553	114,682,285	39,658,553
Issue of shares	24,682,082	8,097,125	-	-
Balance at end of financial year	139,364,367	47,755,678	114,682,285	39,658,553

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

19. CONTRIBUTED EQUITY (CONT.)

Share Options

PSA Marine Options
At the beginning of the financial year there were 3 million PSAM options on issue that were granted on 27 November 2002.

The PSAM Options were exercisable at 34 cents per share, with a term of 24 months from their issue date. During the financial year, the 3 million options lapsed in accordance with their terms.

Employee Share Option Incentive Plan
Refer to Note 25 for details of the Employee Share Option Incentive Plan.

	Consolidated		Company	
	2005 $	2004 $	2005 $	2004 $
20. RESERVES				
Reserves Comprise				
General reserve	3,763,956	3,763,956	-	-

(i) This reserve relates to a Revaluation reserve which was transferred to the General reserve in 2001 on adoption of AASB 1041, where the revalued amounts were deemed to be cost going forward.

21. ACCUMULATED LOSSES

Balance at beginning of financial year	(3,108,313)	(7,408,078)	(3,715,681)	(5,586,128)
Net Profit	2,523,392	4,299,765	214,006	1,870,447
Balance at end of financial year	(584,921)	(3,108,313)	(3,501,675)	(3,715,681)

22. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of Profit/(Loss) from Ordinary Activities After related income tax to net cash flows from operating activities

Profit from ordinary activities after related income tax (expense)/benefit	2,523,390	4,299,765	214,008	1,870,447
Depreciation of non current assets	3,393,401	3,189,778	-	-
Amortisation of non current assets	223,504	32,834	-	-
(Profit)/Loss on sale of property, plant and equipment	27,073	(11,768)	-	-
Increase in provision for income tax	437,722	2,871	6,540	2,871
Share of associates' (profit)/loss (less dividends)	97,410	(263,595)	-	-
Increase in provision for deferred tax	1,065,034	206,871	37,203	-
Changes in net assets and liabilities				
Current and other receivables	(1,260,408)	(1,450,721)	3,742	13,013
Prepayments	255,630	(185,836)	-	2,083
Inventory	(813,387)	(59,771)	-	-
Provisions	186,052	107,429	-	-
Investments	300,000	-	300,000	-
Trade and other creditors	961,160	1,007,023	-	(1,023)
Net cash flows from operating activities	7,396,581	6,874,880	561,493	1,887,391

22. NOTES TO THE STATEMENT OF CASH FLOWS (CONT.)

	Consolidated		Company	
	2005 $	2004 $	2005 $	2004 $
(b) Financing facilities				
Secured loan facilities with various maturing dates through to 2014 and which may be extended by mutual agreement:				
– Amount used	17,410,000	21,451,696	-	-
– Amount unused	-	-	-	-
	17,410,000	21,451,696	-	-
Secured overdraft facility, reviewed annually and payable at call:				
– Amount used	-	-	-	-
– Amount unused	2,500,000	2,500,000	-	-
	2,500,000	2,500,000	-	-

23. EXPENDITURE COMMITMENTS

Lease Commitments
Hire purchase liabilities and non-cancellable operating lease commitments are disclosed in Note 24 to the financial statements.

24. LEASES

	Consolidated		Company	
	2005 $	2004 $	2005 $	2004 $
(a) Hire Purchase Contracts				
Not later than 1 year	3,421,978	5,399,366	-	-
Later than 1 year and not later than 5 years	10,084,864	4,337,649	-	-
Later than 5 years	5,628,120	-	-	-
Minimum future payments	19,134,962	9,737,015	-	-
Less future finance charges	(5,054,181)	(505,097)	-	-
Present Value of minimum lease payments	14,080,781	9,231,918	-	-
Included in the financial statements as:				
Interest bearing liability – current (Note 16)	2,397,430	5,386,972	-	-
Interest bearing liability – non current (Note 16)	11,683,351	3,844,946	-	-
	14,080,781	9,231,918	-	-
(b) Operating Leases				
Not later than 1 year	275,306	251,672	-	-
Later than 1 year and not later than 5 years	867,842	933,143	-	-
Later than 5 years	860,853	819,420	-	-
Aggregate lease expenditure contracted for at balance date	2,004,001	2,004,235	-	-
Aggregate operating lease commitments comprise:				
Office rental commitments	649,079	758,647	-	-
Supply base rental commitments	1,270,783	1,209,620	-	-
Other	84,139	35,968	-	-
	2,004,001	2,004,235	-	-

CORPORATE OFFICE PREMISES

The Company's Mews Road premise is committed under a 5 year arrangement commencing 1 May 2004 with an annual rental of $169,325 per annum.

24. LEASES (CONT.)

SUPPLY BASE

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

Currently under the lease the Company is required to provide cyclone moorings at the Dampier Supply Base by 31 December 2006.

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

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

25. SHARE OPTION INCENTIVE PLAN

The consolidated entity has a Share Option Incentive Plan whereby executives and employees of the consolidated entity with appropriate seniority and length of service have been issued with options over ordinary shares of Mermaid Marine Australia Limited.

The options cannot be transferred and are not quoted on the ASX.

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

The options granted have a twelve month vesting period, expire three years after this vesting period and lapse with the resignation of the employee, whichever is the earlier.

Employee Share Option Plan	**2005 No.**	**2004 No.**
Balance at the beginning of the financial year (i)	4,110,000	1,895,000
Granted during the financial year (ii)	-	2,385,000
Exercised during the financial year (iii)	-	-
Lapsed during the financial year (iv)	(1,145,000)	(170,000)
Balance at the end of the financial year (v)	2,965,000	4,110,000

(i) Balance at the beginning of the financial year

Options - Series	**No.**	**Grant Date**	**Expiry date**	**Exercise price $**
(1) Issued 17 May 2002	1,725,000	17/05/2002	17/05/2006	0.44
(2) Issued 6 May 2004	2,385,000	06/05/2004	22/04/2008	0.40
	4,110,000			

Employee share options carry no rights to dividends and no voting rights.
In accordance with the terms of the employee share option plan, options series (1) and (2), issued 17 May 2002 and 6 May 2004 respectively, vest 12 months following their issue date. In accordance with the terms of the employee share option plan, options may be exercised at any time from their vesting date to the date of their expiry.

25. SHARE OPTION INCENTIVE PLAN (CONT.)

(ii) Granted during the financial year

2005 Options -Series	No.	Grant Date	Expiry/ exercise date	Exercise price $	Fair Value Received $
-	-	-	-	-	-

2004 Options - Series	No.	Grant Date	Expiry/ exercise date	Exercise price $	Fair Value Received $
(2) Issued 6 May 2004	2,385,000	06/05/2004	22/04/2008	0.40	-

In accordance with the terms of the employee share option plan, options issued 6 May 2004 vest 12 months following their issue date.

(iii) Exercised during the financial year

2005 Options - Series	No. of options exercised	Grant date	Exercise date	Expiry date	Exercise price $	No. of shares issued	Fair value received $	Fair value of shares at date of issue $
-	-	-	-	-	-	-	-	-

2004 Options - Series	No. of options exercised	Grant date	Exercise date	Expiry date	Exercise price $	No. of shares issued	Fair value received $	Fair value of shares at date of issue $
-	-	-	-	-	-	-	-	-

(iv) Lapsed during the financial year

The following equity-based instruments issued to employees have lapsed during the reporting period.

Options - Series	2005 No.	2004 No.
(1) Issued 17 May 2002	430,000	170,000
(2) Issued 6 May 2004	715,000	-
	1,145,000	170,000

Options series (1) and (2) are options to purchase ordinary shares at $0.44 and $0.40 respectively per share at any time from their vesting date, being 12 months from the date of their issue, to the date of their expiry. The options carry no voting or dividend rights.

(v) Balance at end of the financial year

2005 Options - Series	No.	Vested No.	Unvested No.	Grant Date	Expiry Date	Exercise price $
(1) Issued 17 May 2002	1,295,000	1,295,000	-	17/05/02	17/05/06	0.44
(2) Issued 6 May 2004	1,670,000	1,670,000	-	06/05/04	22/04/08	0.40
	2,965,000					

2004 Options - Series	No.	Vested No.	Unvested No.	Grant Date	Expiry Date	Exercise price $
(1) Issued 17 May 2002	1,725,000	1,725,000	-	17/05/02	17/05/06	0.44
(2) Issued 6 May 2004	2,385,000	-	2,385,000	06/05/04	22/04/08	0.40
	4,110,000					

25. SHARE OPTION INCENTIVE PLAN (CONT.)

Employee share options carry no rights of dividends and no voting rights. In accordance with the terms of the employee share option plan, options series (1) and (2) vest 12 months following their issue date. In accordance with the terms of the employee share option plan, options may be exercised at any time from their vesting date to the date of their expiry.

The difference between the total market value of options issued during a financial year, at the date of issue, and the total amount received from employees is not recognised in the financial statements except for the purposes of determining directors' and executives' remunerations in respect of that financial year as disclosed in Note 28 to the financial statements. The amounts are disclosed in remuneration in respect of the financial years over which the entitlement was earned.

Consideration received on the exercise of employee options is recognised in contributed equity. During the financial year no options were exercised, hence no amount was recognised in contributed equity arising from the exercise of employee options (2004: $nil).

26. SUBSEQUENT EVENTS

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

27. EARNINGS PER SHARE

	2005 Cents per Share	2004 Cents per Share
Basic earnings per share	1.96	3.75
Diluted earnings per share	1.96	3.74

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

	2005 $	2004 $
Earnings (a)	2,523,392	4,299,765

	2005 No.	2004 No.
Weighted average number of ordinary shares (b)	129,063,334	114,682,285

(a) Earnings used in the calculation of basic earnings per share reconciles to net profit in the statement of financial performance as follows:

	2005 $	2004 $
Net profit	2,523,392	4,299,765
Earnings used in the calculation of basic EPS	2,523,392	4,299,765

(b) The options are considered to be potential ordinary shares and are therefore excluded from the weighted average number of ordinary shares used in the calculation of basic earnings per share. Where dilutive, potential ordinary shares are included in the calculation of diluted earnings per share (refer below).

Diluted Earnings per Share

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

	2005 $	2004 $
Earnings (a)	2,523,392	4,299,765

	2005 No.	2004 No.
Weighted average number of ordinary shares and potential ordinary shares (b)	129,063,334	115,021,538

(a) Earnings used in the calculation of diluted earnings per share reconciles to net profit in the statement of financial performance as follows:

	2005 $	2004 $
Net profit	2,523,392	4,299,765
Earnings used in the calculation of diluted EPS	2,523,392	4,299,765

27. EARNINGS PER SHARE (CONT.)

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

	2005 No.	2004 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	129,063,334	114,682,285
Shares deemed to be issued for no consideration in respect of:		
PSA Marine Options	-	339,253
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	129,063,334	115,021,538

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

	2005 No.	2004 No.
Options -Lapsed	-	2,660,747
Options-Lapsed	2,660,747	3,000,000
Director Options – Lapsed	-	150,000
Employee Options	2,965,000	4,110,000
Employee Options – Lapsed	1,145,000	170,000
	6,770,747	10,090,747

28. REMUNERATION OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

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

- A G Birchmore (Chairman)
- J A Weber (Managing Director)
- M F Bradley (Executive)
- J H Carver (Non-Executive)
- P Chew (Non-Executive)
- A J Howarth (Non-Executive)
- J A S Mews (Non-Executive)
- R M Reid (Non-Executive), resigned 17 November 2004
- K T Chan (Alternate - Non-Executive)

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

- B Gore (Chief Financial Officer/Company Secretary), resigned 20 June 2005
- P Raynor (Chief Financial Officer/Company Secretary), appointed 13 June 2005
- E Graham (General Manager – Development)
- B Macgregor (Manager – Vessel Operations), resigned 22 January 2005
- D Verboon (General Manager – Slipway)

Specified directors' and specified executives' remuneration

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

28. REMUNERATION OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES (CONT.)

Specified directors' remuneration

	Primary			Post Employment			Equity		
2005	**Salary & Fees $**	**Bonus (ii) $**	**Non-monetary $**	**Super-annuation $**	**Prescribed benefits $**	**Other $**	**Options (i) $**	**Other benefits $**	**Total $**
A G Birchmore	70,000	-	5,318	6,300	-	-	-	-	81,618
J A Weber	236,530	40,000	23,009	21,287	-	-	-	-	320,826
M F Bradley	158,460	-	-	14,261	-	-	-	-	172,721
J H Carver	135,326	-	3,702	3,150	-	-	-	-	142,178
P Chew	41,725	-	-	-	-	-	-	-	41,725
A J Howarth	43,461	-	-	3,911	-	-	-	-	47,372
J A S Mews	43,461	-	-	3,911	-	-	-	-	47,372
R M Reid	9,450	-	-	-	-	-	-	-	9,450
K T Chan	-	-	-	-	-	-	-	-	-
Total	738,413	40,000	32,029	52,820	-	-	-	-	863,262

	Primary			Post Employment			Equity		
2004	**Salary & Fees $**	**Bonus (ii) $**	**Non-monetary $**	**Super-annuation $**	**Prescribed benefits $**	**Other $**	**Options (i) $**	**Other benefits $**	**Total $**
A G Birchmore	72,692	-	4,779	6,542	-	-	-	-	84,013
J A Weber	214,401	-	21,174	19,296	-	-	-	-	254,871
M F Bradley	176,536	-	-	15,888	-	-	-	-	192,424
J H Carver	132,213	-	7,790	3,271	-	-	-	-	143,274
P Chew	38,150	-	-	-	-	-	-	-	38,150
A J Howarth	36,346	-	-	3,271	-	-	-	-	39,617
J A S Mews	36,346	-	-	3,271	-	-	-	-	39,617
R M Reid	25,793	-	-	-	-	-	-	-	25,793
C Sutherland	12,400	-	-	-	-	-	-	-	12,400
K T Chan	-	-	-	-	-	-	-	-	-
Total	744,877	-	33,743	51,539	-	-	-	-	830,159

Specified executives' remuneration

	Primary			Post Employment			Equity		
	Salary & Fees $	**Bonus (ii) $**	**Non-Monetary $**	**Super-annuation $**	**Prescribed benefits $**	**Other $**	**Options (i) $**	**Other Benefits $**	**Total $**
B Gore	179,417	-	1,802	14,580	-	-	35,000	-	230,799
P Raynor	5,930	-	-	533	-	-	-	-	6,463
E Graham	143,888	13,888	-	11,700	-	-	11,667	-	181,143
B Macgregor	106,481	-	-	10,322	-	-	-	-	116,803
D Verboon	100,917	5,045	-	9,083	-	-	11,667	-	126,712
Total	536,633	18,933	1,802	46,218	-	-	58,334	-	661,920

	Primary			Post Employment			Equity		
2004	**Salary & Fees $**	**Bonus (ii) $**	**Non-Monetary $**	**Super-annuation $**	**Prescribed benefits $**	**Other $**	**Options (i) $**	**Other Benefits $**	**Total $**
B Gore	174,668	-	-	14,580	-	-	7,000	-	196,248
E Graham	143,888	-	-	12,981	-	-	2,333	-	159,202
B Macgregor	114,687	-	-	10,322	-	-	2,333	-	127,342
D Verboon	108,990	-	-	9,809	-	-	2,333	-	121,132
Total	542,233	-	-	47,692	-	-	13,999	-	603,924

(i) All specified executives were issued share options under the employee share option plan on 6 May 2004. Further details of the options are contained in notes 25 and 30 to the financial statements.

(ii) Mr Weber, Mr Graham and Mr Verboon were granted a cash bonus on 28 June 2005. The bonus was given based on both the performance of the individual and the Company.

	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
29. AUDITORS' REMUNERATION				
Auditor of the Parent Entity				
Auditing the financial report	98,320	85,000	-	-
Other services	208,258	171,791	-	-
	306,578	256,791	-	-

The Auditors of the consolidated financial accounts are Deloitte Touche Tohmatsu.

30. RELATED PARTY AND SPECIFIED EXECUTIVE DISCLOSURES

(a) Equity interests in related parties

(i) Equity interests in controlled entities
Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 32 to the financial statements.

(ii) Equity interests in associates and joint ventures
Details of interests in associates are disclosed in Note 11 to the financial statements.

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

(b) Specified directors' and executives' remuneration
Details of specified directors' and executives' remuneration are disclosed in Note 28 to the financial statements.

(c) Specified directors' and executives' equity holdings

Fully paid ordinary shares issued by Mermaid Marine Australia Limited

	Balance at 1/7/04 No.	Granted as remuneration No.	Received on exercise of options No.	Net Other Change No.	Balance at Reporting Date No.	Balance held nominally No.
Specified Directors						
A G Birchmore	11,667,094	-	-	-	11,667,094	-
J A Weber	-	-	-	50,000	50,000	-
M F Bradley	6,666,666	-	-	-	6,666,666	-
J H Carver	9,750,826	-	-	(535,000)	9,215,826	-
P Chew	-	-	-	-	-	-
A J Howarth	300,000	-	-	-	300,000	-
J A S Mews	1,500,000	-	-	-	1,500,000	-
K T Chan	-	-	-	-	-	-
Specified Executives						
B Gore	-	-	-	-	-	-
P Raynor	-	-	-	-	-	-
E Graham	-	-	-	-	-	-
B Macgregor	-	-	-	-	-	-
D Verboon	-	-	-	-	-	-
	29,884,586	-	-	(485,000)	29,399,586	-

30. RELATED PARTY AND SPECIFIED EXECUTIVE DISCLOSURES (CONT.)

Share options issued by Mermaid Marine Australia Limited

	Balance at 1/7/04	Granted as remuneration	Exercised	Lapsed	Balance at 30/6/05	Balance vested at 30/6/05	Vested but not exercisable	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Specified Directors									
A G Birchmore	-	-	-	-	-	-	-	-	-
J A Weber	400,000	-	-	-	400,000	400,000	-	400,000	-
M F Bradley	-	-	-	-	-	-	-	-	-
J H Carver	-	-	-	-	-	-	-	-	-
P Chew	-	-	-	-	-	-	-	-	-
A J Howarth	-	-	-	-	-	-	-	-	-
J A S Mews	-	-	-	-	-	-	-	-	-
K T Chan	-	-	-	-	-	-	-	-	-
Specified Executives									
B Gore	450,000	-	-	450,000	-	-	-	-	300,000
P Raynor	-	-	-	-	-	-	-	-	-
E Graham	200,000	-	-	-	200,000	200,000	-	200,000	100,000
B Macgregor	100,000	-	-	100,000	-	-	-	-	-
D Verboon	200,000	-	-	-	200,000	200,000	-	200,000	100,000
	1,350,000	-	-	550,000	800,000	800,000	-	800,000	500,000

All employee share options issued to the executives during the financial year were made in accordance with the provisions of the employee share option plan.

Each employee share option converts into 1 ordinary share of Mermaid Marine Australia Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option.

All specified executives were issued share options on 6 May 2004. The fair value of the options issued on 6 May 2004 at their grant date was $0.14.

(d) Other transactions with specified directors and director related entities

(1) Directors Fees:

(i) During the year, a total of $81,618 (2004: $79,234) for directors fees, superannuation and non-monetary benefits were paid to J P Birchmore, a related entity of A G Birchmore. This is reflected in full in Note 28 – Remuneration of Directors.

(ii) During the year a total of $9,450 (2004: $24,793) for directors' fees were paid to Clough Engineering Limited. R M Reid was an executive director of Clough Engineering Limited. This is reflected in full in Note 28 – Remuneration of Directors.

(iii) During the year a total of $41,725 (2004: $38,150) for directors' fees were paid to PSA Marine (Pte) Ltd. P Chew is Vice President of PSA Marine (Pte) Ltd. This is reflected in full in Note 28 – Remuneration of Directors.

(2) Fremantle Premises:

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

30. RELATED PARTY AND SPECIFIED EXECUTIVE DISCLOSURES (CONT.)

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

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

The annual rental is $169,325 per annum plus outgoings. Rental is subject to market reviews every 2½ years during the term, although the rental may not decrease.

Rental and outgoings paid during the financial year amounted to $182,344 (2004: $172,025).

(3) During the year, Business Analysts – Australia, an entity of which J H Carver is a director and shareholder, provided consultancy services to the Company upon negotiated commercial terms. Consultancy services paid during the financial year amounted to $100,326 (2004: $96,690), based upon an agreed market day rate. This is reflected in full in Note 28 – Remuneration of Directors.

(e) Transactions with other related parties

Mermaid Clough Pty Ltd

During the financial year the Company received from Mermaid Clough Pty Ltd (MCJV) amounts totalling $444,703 (2004: $4,243,709) for various vessel charters, supply base and other services. These services were provided at commercial rates.

(f) Transactions within wholly owned group

The wholly owned group includes:

- the ultimate parent entity in the wholly-owned group; and
- wholly-owned controlled entities.

The ultimate parent entity in the wholly-owned group is Mermaid Marine Australia Limited.

Amounts receivable from and payable to entities in the wholly-owned group are disclosed in Note 8 to the financial statements.

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

During the previous financial year, the directors elected for wholly-owned Australian entities within the group to be taxed as a single entity. Mermaid Marine Australia Limited has recognised all tax balances and expenses or benefits in relation to these entities, and a corresponding payable has been recognised in those entities to compensate Mermaid Marine Australia Limited for tax paid on their behalf.

(g) Controlling entity

Mermaid Marine Australia Limited is the ultimate Australian parent entity.

31. SEGMENT REPORTING

	Vessels		Supply Base		Engineering & Labour Hire		Total	
	2005 $	2004 $	2005 $	2004 $	2005 $	2004 $	2005 $	2004 $
Segment Revenues								
Sales to outside customers	35,684,950	26,769,320	7,810,503	7,447,186	5,541,336	388,048	49,036,789	34,604,554
Inter-segment revenue	722,294	743,588	2,265,465	3,250,239		-	2,987,759	3,993,827
Share of net profit of equity accounted investments	-	-		-	(97,410)	263,595	(97,410)	263,595
Other	3,892,179	-	8,500	-	-	-	3,900,679	-
Total	40,299,423	27,512,908	10,084,468	10,697,425	5,443,926	651,643	55,827,817	38,861,976
Eliminations							(2,987,759)	(3,993,827)
Unallocated							442,521	527,756
Total consolidated revenue							53,282,579	35,395,905
Intersegment services are provided for amounts equal to competitive market prices charged to external customers for similar services								
Segment Results								
Segment result	7,279,813	5,969,552	743,402	1,281,567	627,160	214,667	8,650,375	7,465,786
Eliminations							(185,388)	(117,497)
Total							8,464,988	7,348,289
Unallocated							(4,425,497)	(3,803,795)
Profit from ordinary activities before income tax (expense)/ benefit							4,039,491	3,544,494
Income tax (expense) / benefit relating to ordinary activities							(1,516,099)	755,271
Profit from ordinary activities after income tax (expense)/ benefit							2,523,392	4,299,765
Net Profit							2,523,392	4,299,765
Segment assets and liabilities								
Assets								
Segment assets	41,227,221	33,865,439	37,440,008	36,846,973	4,990,016	4,312,619	83,657,245	75,025,031
Eliminations	(1,452,950)	(187,995)	-	-	(4,227,626)	(3,376,469)	(5,680,576)	(3,564,464)
	39,774,271	33,677,444	37,440,008	36,846,973	762,390	936,150	77,976,669	71,460,567
Unallocated assets							13,607,174	6,000,407
Consolidated							91,583,843	77,460,974
Liabilities								
Segment Liabilities	8,023,781	5,203,417	5,178,581	4,501,533	213,562	108,726	13,415,924	9,813,676
Eliminations	(1,431,008)	(736,728)	(4,249,567)	(2,827,736)	-	-	(5,680,575)	(3,564,464)
	6,592,773	4,466,689	929,014	1,673,797	213,562	108,726	7,735,349	6,249,212
Unallocated liabilities							32,913,781	30,897,566
Consolidated							40,649,130	37,146,778

31. SEGMENT REPORTING (CONT.)

	Vessels		Supply Base		Engineering & Labour Hire		Unallocated		Total	
	2005 $	2004 $	2005 $	2004 $	2005 $	2004 $	2005 $	2004 $	2005 $	2004 $
Other segment Information										
Carrying value of equity accounted investments included in segment assets	-	-	-	-	97,061	494,471	-	-	97,061	494,471
Share of net profit/ (loss) of associates accounted for under the equity method	-	-	-	-	(97,410)	263,595	-	-	(97,410)	263,595
Acquisition of segment assets	11,179,364	3,454,828	904,949	994,547	-	-	214,208	35,844	12,298,521	4,485,219
Depreciation and amortisation of segment assets	1,924,360	1,823,703	1,191,971	1,140,905	87,036	119,986	413,538	138,018	3,616,905	3,222,612
Proceeds from Sale of Fixed Assets	3,892,179	-	8,600	-	-	-	-	-	3,900,779	-
Net Book value of Fixed asset Sales	3,923,108	-	3,944	-	-	-	800	-	3,927,852	-

Geographical segments

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

For management purposes, the consolidated entity is organised into three major operating divisions – Vessels, Supply Base and Engineering & Labour Hire.

These divisions are the basis on which the consolidated entity reports its primary segment information. The principal services of each of the divisions are as follows:

- **Vessels** Operating crewed vessel charters, vessel manning, management and logistics;
- **Supply Base** Operating supply base facilities and slipway operations; and
- **Engineering & Labour Hire** Engineering and labour hire.

32. CONTROLLED ENTITIES

	Note	Country of Incorporation	Ownership Interest 2005 %	Ownership Interest 2004 %
Parent Entity				
Mermaid Marine Australia Limited	(i)	Australia		
Controlled Entities				
Mermaid Marine Group Pty Ltd	(ii) (iii)	Australia	100	100
Mermaid Marine Vessel Operations Pty Ltd	(ii) (iii)	Australia	100	100
Mermaid Marine Pty Ltd	(ii) (iii)	Australia	100	100
Mermaid Marine Offshore Pty Ltd	(ii) (iii)	Australia	100	100
Mermaid Marine Charters Pty Ltd	(ii) (iii)	Australia	100	100
Mermaid Supply Base Pty Ltd	(ii) (iii)	Australia	100	100
Dampier Stevedoring Pty Ltd	(ii)	Australia	100	100
Mermaid Manning and Management Pty Ltd	(ii)	Australia	100	100
Mermaid Labour and Management Pty Ltd		Australia	99	99

(i) Mermaid Marine Australia Limited is the head entity within the tax consolidated group.
(ii) These companies are members of the tax consolidated group.
(iii) Pursuant to ASIC Class Order 98/1418, relief has been granted to these wholly owned controlled entities from the Corporations Law requirements for preparation, audit and lodgement of the financial report. As a condition of the Class Order, Mermaid Marine Australia Limited and the controlled entities entered into a Deed of Cross Guarantee on 24 June 1999.

The consolidated statement of financial performance and statement of financial position of entities which are party to the deed of cross guarantee are:

	2005 $	2004 $
STATEMENT OF FINANCIAL PERFORMANCE		
Revenue from ordinary activities	53,094,771	34,721,300
Share of net profits of associate accounted for using the equity method	(97,410)	263,595
Vessel expenses	(32,297,315)	(20,799,768)
Supply base expenses	(7,075,601)	(6,165,619)
Engineering and labour expenses	(4,647,236)	(96,501)
Administrative expenses	(2,844,059)	(2,073,708)
Borrowing costs	(2,208,729)	(2,335,224)
Profit From Ordinary Activities Before Income Tax (Expense)/Benefit	3,924,421	3,514,075
Income tax (expense)/benefit relating to ordinary activities	(1,481,393)	764,731
Profit From Ordinary Activities After Related Income Tax (Expense)/Benefit	2,443,028	4,278,806
Net Profit	2,443,028	4,278,806
Net Profit Attributable to Members of the Parent Entity	2,443,028	4,278,806
Total Changes in Equity Other than those Resulting from Transactions with Owners as Owners.	2,443,028	4,278,806

32 CONTROLLED ENTITIES (CONT.)

	2005 $	2004 $
STATEMENT OF FINANCIAL POSITION		
Current Assets		
Cash assets	13,782,279	5,549,207
Receivables	9,673,355	8,501,899
Inventories	1,281,081	467,694
Other	663,306	918,936
Total Current Assets	25,400,021	15,437,736
Non-Current Assets		
Investments accounted for using the equity method	97,061	494,471
Other financial assets	1,210,504	1,524,844
Property, plant and equipment	65,748,856	60,771,589
Intangibles	-	223,504
Total Non-Current Assets	67,056,421	63,014,408
Total Assets	92,456,442	78,452,144
Current Liabilities		
Payables	6,088,967	5,514,878
Interest-bearing liabilities	3,417,430	6,406,972
Provisions	670,031	504,645
Current tax liabilities	418,891	-
Total Current Liabilities	10,595,319	12,426,495
Non-Current Liabilities		
Payables	1,279,811	1,141,299
Interest-bearing liabilities	28,377,249	24,276,642
Deferred tax liabilities	1,271,905	206,871
Provisions	120,698	129,526
Total Non-Current Liabilities	31,049,663	25,754,338
Total Liabilities	41,644,982	38,180,833
Net Assets	50,811,460	40,271,311
Equity		
Contributed equity	47,755,674	39,658,553
Reserves	3,763,956	3,763,956
(Accumulated losses)	(708,170)	(3,151,198)
Total Equity	50,811,460	40,271,311
(Accumulated Losses)		
(Accumulated losses) at beginning of the financial year	(3,151,198)	(7,430,004)
Net profit	2,443,028	4,278,806
(Accumulated losses) at end of the financial year	(708,170)	(3,151,198)

33. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

The consolidated entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument are as follows:

Recognised Financial Instruments	Statement of Financial Position Notes	Accounting Policies	Terms and Conditions
(i) Financial Assets			
Trade receivables, Other receivables	6	Trade receivables are carried at nominal amounts due less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Credit sales are on 30 day terms.
Loans – related parties	8	Amounts receivable from related parties are carried at nominal amounts due. Interest (when charged) is taken up as income on an accrual basis.	Details of the terms and conditions are set out in note 30.
Shares in controlled entities and associates	8	Investments are recorded at the lower of cost and recoverable amount.	
(ii) Financial Liabilities			
Trade payables	15	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.	Trade payables are normally settled by terms ranging from 7 to 30 days.
Other payables and accruals	15	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.	Other payables and accruals are normally settled by terms ranging from 7 to 30 days.
Hire purchase liability	16	The hire purchase liability is accounted for in accordance with AASB 1008.	At balance date, the consolidated entity had hire purchase agreements with an average lease term of 3.1 years at an average discount rate of 7.83% (2004: 7.41%). The security over the respective assets under the hire purchase agreements is disclosed in note 16.
Bank loan – secured	16	The bank loans are carried at the principal amount. Interest is charged as an expense as it accrues, except to the extent that the borrowings relate to the construction of a capital asset. Where interest accrues on borrowings relating to an asset, the interest is capitalised as part of the cost of the asset.	The bank loans have maturity dates through to 2014, which may be extended by mutual agreement. Interest is charged at the bank's floating rate. Details of the security over the bank loans is set out in note 16.
(iii) Contributed Equity			
Ordinary shares	19	Ordinary share capital is recognised at the fair value of the consideration received by the Company.	Details of shares on issue at balance date are set out in note 19.

There are no unrecognised financial instruments.

33. FINANCIAL INSTRUMENTS (CONT.)

(b) Interest Rate Risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities as at 30 June 2005 were as follows:

Financial Instruments	Floating interest rate $	Fixed interest rate maturing in: 1 year or less $	Between 1 to 5 years $	Over 5 years $	Non interest bearing $	Total carrying amount as per Statement of Financial Position $	Weighted average interest rate
(i) Financial Assets							
Cash	13,983,512	-	-	-	-	13,983,512	5.00
Trade receivables	-	-	-	-	6,815,210	6,815,210	n/a
Other receivables	-	-	-	-	2,727,569	2,727,569	n/a
Total Financial Assets	13,983,512	-	-	-	9,542,779	23,526,291	
(ii) Financial Liabilities							
Trade payables	-	-	-	-	3,191,870	3,191,870	n/a
Other payables and accruals	-	-	-	-	2,631,506	2,631,506	n/a
Hire purchase liability	-	2,397,430	7,358,032	4,325,319	-	14,080,781	7.83
Bank loan – secured	17,410,000	-	-	-	-	17,410,000	5.76
Employee Entitlements	-	-	-	-	820,221	820,221	n/a
Other laons					303,898	303,898	n/a
Total Financial Liabilities	17,410,000	2,397,430	7,358,032	4,325,319	6,947,495	38,438,276	

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

33. FINANCIAL INSTRUMENTS (CONT.)

(b) Interest Rate Risk (cont.)

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities as at 30 June 2004 were as follows:

Financial Instruments	Floating interest rate $	Fixed interest rate maturing in: 1 year or less $	Between 1 to 5 years $	Over 5 years $	Non interest bearing $	Total carrying amount as per Statement of Financial Position $	Weighted average interest rate
(i) Financial Assets							
Cash	6,068,589	-	-	-	-	6,068,589	5.00
Trade receivables	-	-	-	-	6,589,899	6,589,899	n/a
Other receivables	-	-	-	-	1,801,279	1,801,279	n/a
Total Financial Assets	6,068,589	-	-	-	8,391,178	14,459,767	
(ii) Financial Liabilities							
Trade payables	-	-	-	-	3,266,822	3,266,822	n/a
Other payables and accruals	-	-	-	-	1,590,743	1,590,743	n/a
Hire purchase liability	-	5,386,972	3,844,946	-	-	9,231,918	7.41
Bank loan – secured	21,451,696	-	-	-	-	21,451,696	5.53
Employee Entitlements	-	-	-	-	634,171	634,171	n/a
Total Financial Liabilities	21,451,696	5,386,972	3,844,946	-	5,491,736	36,175,350	

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

33. FINANCIAL INSTRUMENTS (CONT.)

(c) Net fair values

The aggregate net fair values of financial assets and liabilities are identical to the carrying amount in the Statement of Financial Position.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Cash and cash equivalents
The carrying amount approximates fair value because of their short term to maturity.

Trade receivables, other receivables and loans
The carrying amount approximates fair value.

Investments
For investments where there is no quoted market price, a reasonable estimate of the fair value is calculated based on the underlying net asset base of the investment.

Trade payables, other payables and accruals
The carrying amount approximates fair value.

(d) Credit risk exposures

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

34. CONTINGENT LIABILITIES

		Company	
		2005 $	2004 $
(a)	Guarantees arising from the deed of cross guarantee with other entities in the wholly-owned group	40,109,851	36,827,957

As detailed in Note 32, the Company has entered into a deed of cross guarantee with certain wholly-owned controlled entities. The amount disclosed as a contingent liability represents total liabilities of the group of companies party to that class order less the liabilities of the Company. The extent to which an outflow of funds will be required is dependent on the future operations of the entities that are party to the deed of cross guarantee being more or less favourable than currently expected. The deed of cross guarantee will continue to operate indefinitely.

(b) An entity in the consolidated entity is a defendant in a legal action involving a claim for damages for personal injury arising from an alleged incident in 1998. The directors are presently obtaining legal advice in relation to the matter and intend to vigorously defend the action bought against the entity concerned. It is currently not practical to estimate an amount for any potential claim.

35. JOINT VENTURE OPERATIONS

Name of Entity	Principal Activity	Output Interest 2005 %	Output Interest 2004 %
Challenge Laybarge	Shallow water pipeline installation	50	50

35. JOINT VENTURE OPERATIONS (CONT.)

The consolidated entity's interest in assets employed in the above joint venture operations is detailed below. The amounts are included in the financial statements and consolidated financial statements under their respective asset categories:

	Consolidated	
	2005	2004
	$	$
Non Current Assets		
Property, Plant and Equipment	2,315,980	2,601,980
Total Assets	2,315,980	2,601,980

Contingent Liabilities and Capital Commitments

The consolidated entity's share of the contingent liabilities, capital commitments and other expenditure commitments of the joint venture operation are nil.

36. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Mermaid Marine Australia Limited ("Mermaid") will be required to adopt Australian Accounting Standards Board ("AASB") equivalents to International Financial Reporting Standards ("AIFRS's"), for its financial reporting at the half year ended 31 December 2005 and the full year ending 30 June 2006. At these dates a first time adopter of AIFRS will be required to restate its comparative financial statements using all AIFRS's, except for AASB 132 Financial Instruments: Disclosure and Presentation, and AASB 139 Financial Instruments: Recognition and Measurement, AASB 4 Insurance Contracts and AASB 6 Exploration for Evaluation of Mineral Resources. For Mermaid this means the preparation of an opening balance sheet in accordance with AIFRS's as at 1 July 2004, with the majority of restatement adjustments being made retrospectively against opening retained earnings.

During the year Mermaid established a project team to manage the transition to AIFRS's who have been working on the project together with independent experts. As a result of these procedures, Mermaid has graded impact area's as either high, medium, or low and has established dedicated project teams to address each of the area's in order of priority as represented by the grading. An AIFRS steering committee has been established to oversee the progress of each of the project teams and make necessary decisions. Regular updates are provided to the audit committee. As Mermaid has a 30 June year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AIFRS's as at 1 July 2004. Set out below are the key area's where accounting policies will change and may have an impact on the financial report.

The amounts disclosed below are a best estimate as at the date of preparing the financial statements and may change due to:

(a) Further work being performed by the AIFRS project team; and

(b) Potential amendments to the AIFRS and interpretations thereof being issued by the standard setters and the International Financial Reporting Interpretations Committee ("IFRIC").

Financial Instruments

The directors have elected to apply the first time adoption exemption available to Mermaid to defer the date of transition of AASB 132 Financial Instruments: Disclosure and Presentation, and AASB 139 Financial Instruments: Recognition and Measurement to 1 July 2005. Accordingly no impacts have been quantified in the 30 June 2005 financial statements.

Impairment of Assets

Under AASB 136 Impairment of Assets, the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the current accounting policy which determines the recoverable amount of an asset on the basis of applying undiscounted cash flows. Under the new policy the recoverability of an asset or cash generating unit will be determined based on discounted cash flows. It is likely the impairment of assets will be recognised sooner and that the amount of any write-downs may be greater. There is not expected to be any adjustment required under A-IFRS in the consolidated entity for the year ended 30 June 2005.

In accordance with AASB 1 First time adoption of Australian equivalents to International Financial Reporting Standards, the carrying amount of goodwill at transition date has been tested for impairment and no initial impairment losses are to be recognised on transition to AIFRS.

36. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT.)

Business Combinations
The adoption of A-IFRS will not significantly impact the carrying amount of goodwill as at 1 July 2004 (the date of transition) as the directors have decided not to restate past business combinations. The directors have deemed the existing AGAAP revaluation as cost as at the date of revaluation. Under A-IFRS, goodwill is not subject to amortisation, but must be tested for impairment annually and whenever there is an indication that goodwill may be impaired. As a result, amortisation expense will decrease by $32,834 (company: $nil) for the financial year ended 30 June 2005.

Plant and Equipment – Asset Revaluation Reserve
'Under AASB 116 Property, Plant and Equipment, the directors have elected to apply the cost model with reference to measuring plant and equipment. The effect of this is the asset revaluation reserve can no longer be used and has been offset against retained earnings as at 1 July 2004. As a result the asset revaluation reserve has been written back to nil, with a corresponding increase to retained earnings of $3,763,956.

Share-Based Payments
Equity-settled share based payments in respect of equity instruments issued after 7 November 2002 that were unvested as at 1 January 2005 are measured at fair value at grant date. The fair value determined at grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the estimated number of equity instruments that will vest. As a consequence on transition to A-IFRS, contributed equity will increase by $29,038 (company: $29,038) and an additional employee benefit expense of $163,667 (company: $163,667) will be recognised in profit and loss for the financial year ended 30 June 2005.

Income Taxes
Under A-IFRS, tax balances are determined using a 'balance sheet' approach, which significantly differs from the current methodology prescribed and applied. Changes in deferred tax assets and deferred tax liabilities will arise as a consequence of the different method of measurement, including increases in deferred tax assets and deferred tax liabilities arising as a consequence of the revaluations of land and buildings and investments in associates.

The impact on the Consolidated Entity's opening balance sheet as at 1 July 2004 will be the recognition of a deferred tax asset of $314,652 and the reversal of the existing deferred tax liability of $206,871

The impact on the Consolidated Entity's closing balance sheet as at 30 June 2005 will be the recognition of a deferred tax liability of $46,807 and an increase in the recorded income tax expense of $46,807.

Tax Consolidation
UIG Interpretation 1052 'Tax Consolidation Accounting' mandates a significantly different manner of accounting for income taxes in tax-consolidated groups compared to the present Australian requirements. The approved Interpretation will be applicable for financial years ending on or after 31 December 2005, and will require that each entity in the tax-consolidated group recognise deferred tax assets (other than unused tax losses and unused tax credits) and deferred tax liabilities relating to its own balances. At the time of this report, the directors have not quantified the impact, if any, of the above in the financial statements.

Retained Earnings – Transitional Adjustments
With limited exceptions, adjustments required on first time adoption of AIFRS are recognised directly in retained earnings, or if appropriate, another category of equity, at the date of transition to AIFRS. The cumulative effect of these adjustments for the consolidated entity will be an increase in retained earnings of $4,256,441 and $177,833 for the company.

Director's Declaration

The directors declare that:

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

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

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

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

In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in Note 32 to the financial statements, will as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

On behalf of the directors

Alan Birchmore
Chairman

Fremantle, 22 September 2005

Deloitte.

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Independent audit report to the members of Mermaid Marine Australia Limited

Scope

The financial report and directors' responsibility
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Mermaid Marine Australia Limited (the company) and the consolidated entity, for the financial year ended 30 June 2005 as set out on pages 15 to 50. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach
We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Deloitte.

Audit Opinion

In our opinion, the financial report of Mermaid Marine Australia Limited is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter McIver

Peter McIver
Partner
Chartered Accountants
Perth, 22 September 2005

Additional Stock Exchange Information

As at 14 September 2005

ORDINARY SHARE CAPITAL

139,364,367 fully paid ordinary shares are held by 1,920 individual shareholders. All issued ordinary shares carry one vote per share.

SUBSTANTIAL SHAREHOLDERS	Number of Shares	% of Issued Capital
Sealion Australia Pte Ltd	23,480,000	16.85
Delmark Investments Pty Ltd	11,130,000	7.99
Mr James Henry Carver	9,215,826	6.61

DISTRIBUTION OF HOLDERS OF ORDINARY SHARES

Size of Holding	Number of ordinary shareholders
1 to 1,000	96
1,001 to 5,000	425
5,001 to 10,000	372
10,001 to 100,000	913
100,001 and over	114
Total	1,920

TWENTY LARGEST SHAREHOLDERS	Number of Shares	% of Issued Capital
Sealion Australia Pte Ltd	23,480,000	16.85
Delmark Investments Pty Ltd	11,130,000	7.99
Mr James Henry Carver	9,215,826	6.61
Mr Mark Bradley	6,666,666	4.78
National Nominees ltd	6,511,653	4.67
Invia Custodian Pty Ltd	6,000,000	4.31
Argo Investments Ltd	5,000,000	3.59
Rubicon Nominess Pty Ltd	4,156,970	2.98
J P Morgan Nominees Australia Ltd	3,342,000	2.40
Citicorp Nominees Pty Ltd	3,129,503	2.25
ANZ Nominees Ltd	1,940,788	1.39
Mr John Paterson	1,200,000	0.86
Jeffery Arthur Sydney Mews and Barbara Lorraine Mews	750,000	0.54
Government Superannuation Office	748,200	0.54
Mrs Barbara Lorraine Mews	632,500	0.45
Neja Pty Ltd	614,700	0.44
Malla Pty Ltd	550,000	0.39
Jeslands Investments Pty Ltd	548,200	0.39
Tynco Nominees Pty Ltd	525.707	0.38
Mr Alan Gordon Birchmore	514,700	0.37
Total	**86,657,413**	**62.18**

VOTING RIGHTS

All ordinary shares carry one vote per share without restriction.

SHAREHOLDER ENQUIRIES

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

Computershare Investor Services
Level 2
45 St Georges Terrace PERTH WA 6000
GPO Box D182 PERTH WA 6840
Telephone: (08) 9323 2000 Facsimile: (08) 9323 2033

CHANGE OF ADDRESS

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

STOCK EXCHANGE LISTING

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

PUBLICATIONS

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