MERMAID MARINE
AUSTRALIA LIMITED

CORPORATE:

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1 March 2006

The Listing Manager
Australian Stock Exchange
Exchange Centre
Level 6
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

RE: HALF YEAR FINANCIAL REPORT

Please find attached the Financial Report for the Company for the half year ended 31 December 2005 together with the supporting Appendix 4D Half Year Report Summary.

By order of the Board
MERMAID MARINE AUSTRALIA LIMITED

PETER RAYNOR
Company Secretary

Appendix 4D
Half Year Report

1. Details of the reporting period and the previous corresponding period

Name of entity: **Mermaid Marine Australia Limited**
ABN: 21 083 185 693
Half year ended: 31 December 2005
Previous half year ended: 31 December 2004

2. Results for announcement to the market

		Percentage change over previous year	$'000
2.1	Revenues from ordinary activities	Up 26%	27,076
2.2	Profit from ordinary activities after tax attributable to members	Up 229%	1,469
2.3	Net profit attributable to members	Up 229%	1,469
2.4	Dividends: No dividends were declared or paid during the period.		
2.5	Record date for determining entitlements to the dividend: N/A		
2.6	Brief explanation of any of the figures reported in 2.1 to 2.4 necessary to enable the figures to be understood: Refer to attached commentary		

3. Net Tangible Asset Backing

	31/12/05	31/12/04
Net tangible asset backing per ordinary security	38 cents	35 cents

4. (i) Control gained over entities during the year

Name of entity:	Nil

(ii) Loss of control of entities during the year

Name of entity:	Nil

5. Dividends

No dividends have been declared or paid for the period ended 31 December 2005.

6. Details of dividend reinvestments plans in operation

The Company has no dividend reinvestment plans in operation.

7. Details of associates and joint venture entities

Equity accounted associates and joint venture entities	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit	
	2005 %	**2004 %**	**31 December 2005 $A'000**	**31 December 2004 $A'000**
Mermaid Clough Pty Ltd	50	50	(92)	13

8. For Foreign entities details of which set of accounting standards is used in compiling the report (International Accounting Standards)

N/A

9. If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification.

N/A

MERMAID MARINE AUSTRALIA LIMITED

ABN 21 083 185 693

Financial Report for the Half Year Ended 31 December 2005

Contents

Directors' Report

The Directors of Mermaid Marine Australia Limited submit herewith the financial report for the half year ended 31 December 2005. In order to comply with the provisions of the Corporations Act 2001, the directors' report as follows:

The names of the directors of the Company during or since the end of the half year are:

- Mr A G Birchmore
- Mr J A Weber
- Mr M F Bradley
- Mr J H Carver
- Mr P Chew (Mr K T Chan alternate for Mr Chew) (resigned 28 November 2005)
- Mr A J Howarth AO
- Mr J A S Mews

Review of Operations

The Company recorded a profit before tax of $2.1 Million for the half year ended 31 December 2005 equating to an increase of 165% on the result for the half year ended 31 December 2004 of $0.79 Million. The result is encouraging, as it was achieved at a time of unprecedented investment in fleet and infrastructure upgrades, but before positive outcomes from these outlays were reflected in trading.

The 6 monthly result was recorded on total operating revenues of $26.7 Million representing an approximate 25% increase on the previous corresponding period. The majority of the revenue increase was attributable to vessels as utilisation improved on the back of new longer term contracts. The after tax result of $1.5 Million represents a 229% increase on last year's result of $0.45 Million.

A more detailed breakdown of the result follows:

<u>Vessel Operations</u>

Operating revenue from vessel activities increased by 33% to $20.7 Million, with earnings before interest and tax increasing by 39% to $3.8 Million. The main driver of this was increased utilisation of the larger fleet, with smaller vessels having relatively low utilisation in the second quarter. Fleet configuration continues to be reviewed as opportunities are taken to replace older marine assets that are achieving lower returns with new more specialised equipment. It is important however to maintain a balance between the smaller and larger fleet to ensure that client's requirements are fully met.

Operating margins on the fleet increased slightly as a percentage of revenue although cost pressures continue, particularly in the North West, where there is considerable competition for a limited pool of available labour. This has affected a range of costs including management and administration and repairs & maintenance. However this is being managed and effective remedies are being implemented as demand for services grow.

As announced in October 2005, MMA has signed a Heads of Agreement to purchase five vessels for $23.8 Million from Total Marine Services (TMS) and to enter into an alliance with them for the provision of marine personnel to MMA's fleet. Both companies remain committed to the transaction which plays to the strengths of each and the sale contracts and agreements are expected to be completed during March 2006. The Alliance will create a more stable environment in which to build MMA's vessel business and at the same time, develop the marine personnel of both companies with career and training opportunities to attract and retain the best.

Directors' Report (continued)

Review of Operations (continued)

Vessel Operations remain MMA's core business as we continue to drive improvements in safety, quality of operations, vessel management and the standard of service to our clients.

The second half will see the delivery of a new flagship, the Mermaid Investigator, and the commencement of operations of this sophisticated vessel will contribute to earnings in the fourth quarter. Construction of the Mermaid Sound for the Woodside Enfield project has commenced with delivery expected late this year.

Acquisition of the five TMS vessels, delivery of two new vessels and replacement of older craft, will take MMA's average fleet age from over 20 years to slightly more than 10 years by the end of 2006, enhancing performance and lowering costs.

<u>Supply Bases</u>

Revenue from the Dampier and Broome Supply Bases increased by 26% to $3.5 Million. Broome Supply Base contributed strongly on the back of a drilling programme in the Browse Basin by Woodside. The Browse Basin is attracting increased interest as a major gas province with a number of companies including Shell, Woodside and Inpex planning drilling programmes over the next 2 years. The Company is currently finalising negotiations with the Broome Port Authority to secure additional land to support the increase of activity in the region.

In Dampier a 65 Metre wharf extension was completed on time and under budget, providing two berths servicing large offshore drilling support vessels and a third berth capable of taking shallower draft vessels of up to 50 metres in length. During construction, day to day operations were fully maintained and the work was completed without any safety or industrial incidents - a credit to all involved particularly the Project Manager and Supply Base Superintendent.

As part of the wharf upgrade, a floating pontoon was installed to provide a platform for the safe transit of crews from smaller vessels, and an effective "work alongside" facility for vessel maintenance. This will dramatically improve the productivity of maintenance activities and will result in lower costs and higher quality repair work. The Company is also in discussion with certain Government authorities, which require similar facilities for mooring and servicing their marine craft in the region.

During the period the Dampier Supply Base renegotiated a three year EBA covering yard, warehousing and wharf activities. This was achieved without any industrial disputation and now provides an excellent working platform for all concerned.

The second half will see an increase in activity on the Dampier Supply Base due to offshore drilling and construction activity. Broome Supply Base will also be fully utilised with a Woodside drilling programme from April.

<u>Slipway</u>

The slipway had a stronger first half and has improved margins. The second half looks equally strong with a range of internal and external vessels in the order book. The slipway is winning an increasing amount of marine related repair and maintenance work and has committed to a number of new supervisory and trade positions. The issue of available labour to undertake additional work continues and is now largely being provided from Fremantle. This has added cost implications for travel and accommodation, but presents an effective solution to the regional labour shortages. Even with these additional expenses, the Slipway still offers an overall time and cost advantage due to the sailing distance to alternative ship repair facilities. Alliances are being built with Fremantle based service providers to ensure a reliable and high quality service on the facility.

Directors' Report (continued)

Review of Operations (continued)

Manning

Until the TMS deal is executed, Mermaid Marine continues to supply marine personnel to various operators in the North West and in Bass Strait. The main contract is with Modec, supplying catering support and casual marine crew for the Modec Venture 11 FPSO at the Santos Mutineer/Exeter field. Mermaid Marine has been a smaller player in this labour market, looking primarily to add value to clients to whom we already provide supply base logistics and marine supply services. Those activities will in future be provided cooperatively through the TMS Alliance.

Management Systems and Safety

MMA continues to commit time and resources to the further development of health, safety, environmental and security systems. In line with industry best practice the concept of "Total Recordable Case Frequency" as our primary measure of historic safety performance has been adopted. This measure has improved performance across the company and we are performing well on industry benchmarks. A new Integrated Business Management System will be implemented to strengthen the link between Safety Management and Quality Management Systems. The platform is used by major oil companies and is intended to embed compatible safety processes within MMA's normal operating procedures.

Environmental monitoring, particularly on the Dampier Supply Base has developed in line with new regulatory requirements. Similarly security compliance within maritime operations is becoming increasingly regimented as the supply base facility and larger vessels are covered by the International Ship and Port Security Code (ISPS). The next twelve months will see Maritime Industry Security Cards rolled out across the industry covering offshore and onshore marine personnel.

Going Forward

The Company is performing strongly during a major transition year, marked by a number of significant long lead time projects moving to operating phase. With the wharf extension completed to meet emerging new demands, the Mermaid Investigator undertaking sea trials and completion of the transaction with TMS, the fleet will grow approximately 90% by value in 2006. These factors will set the company securely on the path of major long term change and sustainable growth.

Since listing in 1998, MMA's business model has been to build effective teams of specialist people, strategic assets and financial strength in readiness for major new energy projects in the North West. This is now taking place, as projects move from the exploration and design phase to construction and operations.

Directors' Report (continued)

Auditor's Independence Declaration

The Auditor's Independence Declaration is included on page 6.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors

ALAN BIRCHMORE
Chairman

Perth, 28 February 2006

Deloitte

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

27 February 2006

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 half-year ended 31 December 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

KEITH F JONES
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent review report to the members of Mermaid Marine Australia Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, selected explanatory notes and the directors' declaration for the consolidated entity for the half-year ended 31 December 2005 as set out on pages 9 to 28. The consolidated entity comprises both Mermaid Marine Australia Limited (the company) and the entities it controlled at the end of the half-year or from time to time during the half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial 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.

Review Approach

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001 and Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations, its changes in equity and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Deloitte.

Auditor's Independence Declaration

The independence declaration provided to the directors of Mermaid Marine Australia Limited on 27 February 2006 would be in the same terms if it was given to the directors on the date this review report is made out.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mermaid Marine Australia Limited is not in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

KEITH F JONES
Partner
Chartered Accountants
Perth WA, 28 February 2006

Directors' Declaration

The directors declare that:

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

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

ALAN BIRCHMORE
Chairman

Perth, 28 February 2006

Consolidated income statement for the half year ended 31 December 2005

	Consolidated Half Year Ended 31/12/05 $	**Consolidated Half Year Ended 31/12/04 $**
Revenue	26,755,009	21,258,767
Other income	320,586	152,772
Share of profits / (losses) of associates and jointly controlled entities accounted for using the equity method	(92,046)	13,254
Vessel expenses	(16,868,278)	(12,736,801)
Supply base expenses	(4,172,794)	(4,314,891)
Engineering & labour hire expenses	(1,349,553)	(1,290,152)
Administration expenses	(1,324,404)	(1,375,722)
Finance costs	(1,171,820)	(917,582)
Profit Before Income Tax Expense	**2,096,700**	**789,645**
Income tax expense	(628,083)	(343,308)
Profit From Continuing Operations	**1,468,617**	**446,337**
Profit for the Period	**1,468,617**	**446,337**
Profit Attributable to Members of the Parent Entity	**1,468,617**	**446,337**
Earnings Per Share:		
Basic (cents per share)	1.05	0.37
Diluted (cents per share)	1.05	0.37

Notes to the financial statements are included on pages 14 to 28.

Consolidated balance sheet as at 31 December 2005

	Consolidated 31/12/05 $	Consolidated 30/06/05 $
Current Assets		
Cash and cash equivalents	6,189,760	13,983,512
Trade and other receivables	14,768,500	9,772,855
Other financial assets	27,179	-
Inventories	1,118,951	1,281,081
Other	1,026,814	663,306
Total Current Assets	**23,131,204**	**25,700,754**
Non-Current Assets		
Investment accounted for using the equity method	5,015	97,061
Property, plant and equipment	78,059,512	65,748,856
Total Non-Current Assets	**78,064,527**	**65,845,917**
Total Assets	**101,195,731**	**91,546,671**
Current Liabilities		
Trade and other payables	6,485,751	6,288,641
Borrowings	3,938,434	3,417,430
Provisions	1,102,367	699,523
Current tax payables	714,274	436,512
Total Current Liabilities	**12,240,826**	**10,842,106**
Non-Current Liabilities		
Borrowings	35,168,901	28,377,249
Provisions	138,173	120,698
Deferred tax liabilities	1,238,579	1,271,905
Total Non-Current Liabilities	**36,545,653**	**29,769,852**
Total Liabilities	**48,786,479**	**40,611,958**
Net Assets	**52,409,252**	**50,934,713**
Equity		
Issued Capital	47,755,678	47,755,678
Reserves	198,627	192,705
Retained earnings	4,454,947	2,986,330
Total Equity	**52,409,252**	**50,934,713**

Notes to the financial statements are included on pages 14 to 28.

Consolidated statement of changes in equity for the half year ended 31 December 2005

Half year ended 31 December 2005

	Ordinary Shares $	Employee equity settled benefits reserve $	Retained earnings $	Total attributable to equity holders of the entity $
Balance at 1 July 2005	**47,755,678**	**192,705**	**2,986,330**	**50,934,713**
Profit for the period	-	-	1,468,617	1,468,617
Total recognised income and expense for the period	-	-	1,468,617	1,468,617
Recognition of share based payments	-	5,922	-	5,922
Balance at 31 December 2005	**47,755,678**	**198,627**	**4,454,947**	**52,409,252**

Half year ended 31 December 2004

	Ordinary Shares $	Employee equity settled benefits reserve $	Retained earnings $	Total attributable to equity holders of the entity $
Balance at 1 July 2004	**39,658,553**	**29,038**	**626,604**	**40,314,195**
Profit for the period	-	-	446,337	446,337
Total recognised income and expense for the period	-	-	446,337	446,337
Recognition of share based payments	-	81,834	-	81,834
Issue of shares	8,097,806	-	-	8,097,806
Balance at 31 December 2004	**47,756,359**	**110,872**	**1,072,941**	**48,940,172**

Notes to the financial statements are included on pages 14 to 28.

Consolidated cash flow statement for the half year ended 31 December 2005

	Consolidated Half Year Ended 31/12/05 $	Consolidated Half Year Ended 31/12/04 $
Cash Flows from Operating Activities		
Receipts from customers	24,593,105	18,905,934
Payments to suppliers and employees	(24,066,002)	(18,427,676)
Interest and bill discounts received	297,755	112,039
Income tax paid	(383,647)	(6,408)
Interest and other costs of finance paid	(1,171,820)	(1,190,543)
Net Cash Used in Operating Activities	**(730,609)**	**(606,654)**
Cash Flows from Investing Activities		
Payments for property, plant and equipment	(14,386,803)	(2,931,706)
Proceeds from sale of property, plant and equipment	95,000	112,600
Net Cash Used in Investing Activities	**(14,291,803)**	**(2,819,106)**
Cash Flows from Financing Activities		
Proceeds from issues of equity securities	-	8,392,843
Payment for share issue costs	-	(295,038)
Proceeds from borrowings	9,012,007	481,523
Repayment of borrowings	(1,783,347)	(3,200,834)
Net Cash Provided by Financing Activities	**7,228,660**	**5,378,494**
Net (Decrease)/Increase in Cash and Cash Equivalents	**(7,793,752)**	**1,952,734**
Cash and Cash Equivalents at the beginning of the Half Year	**13,983,512**	**6,068,589**
Cash and Cash Equivalents at the End of the Half Year	**6,189,760**	**8,021,323**

Notes to the financial statements are included on pages 14 to 28.

Notes to the financial statements for the half year ended 31 December 2005

1. Summary of Accounting Policies

Basis of preparation

The half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards IAS 34 Interim Financial Reporting. The half year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

The consolidated entity changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is discussed in note 3.

The accounting policies set out below have been applied in preparing the financial statements for the half year ended 31 December 2005, the comparative information presented in these financial statements, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 3), the consolidated entity's date of transition, except for the accounting policies in respect of financial instruments. The consolidated entity has not restated comparative information for the financial instruments, including derivatives, as permitted under the first-time adoption transition provisions. The accounting policies for financial instruments applicable to the comparative information are consistent with those adopted and disclosed in the lodged 2005 annual financial report. The impact of changes in these accounting policies on 1 July 2005, the date of transition for financial instruments, is discussed further in note 1 (s).

Significant accounting policies

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

a) Financial instruments issued by the company

Debt and Equity Instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of 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 issued.

Interest and Dividends

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

Notes to the financial statements for the half year ended 31 December 2005 (continued)

1. Summary of Accounting Policies (continued)

b) Income Tax

Current Tax

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

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Notes to the financial statements for the half year ended 31 December 2005 (continued)

1. Summary of Accounting Policies (continued)

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Mermaid Marine Australia Limited is the head entity in the tax-consolidated group.

c) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.
Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

d) Borrowing costs

Borrowing costs are expensed as they are incurred.

e) Financial assets

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

Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements.

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

Financial assets at fair value through profit and loss

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

Held-to-maturity investments

Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Notes to the financial statements for the half year ended 31 December 2005 (continued)

1. Summary of Accounting Policies (continued)

Available-for-sale financial assets

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

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

f) Leased assets

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

Consolidated entity as lessee

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

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

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

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

g) 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 subsidiaries as defined in Accounting Standard AASB 127 Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair vales at the date of the acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of the acquisition, the deficiency is credited to profit and loss in the period of acquisition.

Notes to the financial statements for the half year ended 31 December 2005 (continued)

1. Summary of Accounting Policies (continued)

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

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

h) Impairment of assets

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

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

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

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

i) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the indentifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. Refer also note 1 (h).

Notes to the financial statements for the half year ended 31 December 2005 (continued)

1. Summary of Accounting Policies (continued)

j) Property, plant and equipment

Land and buildings, plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less, where applicable, accumulated depreciation and impairment. Cost includes expenditure that is directly attributed to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.
Depreciation is provided on property, plant and equipment. Depreciation is calculated on a diminishing value basis or straight line basis so as to write off the net cost or other revalued amount of each asset over it's expected useful life to its estimated residual value. Leasehold buildings and improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.
The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following rates are used in the calculation of depreciation:

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

k) Share-based payments

Equity-settled share-based payments granted after 7th November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of a Binomial model. The expected life used in the model has been adjusted based on managements best estimates for the effects of non transferability, exercise restrictions, and behavioral considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entities estimate of shares that will eventually vest.

l) Cash and cash equivalents

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

Notes to the financial statements for the half year ended 31 December 2005 (continued)

1. Summary of Accounting Policies (continued)

m) Derivative financial instruments

The consolidated entity enters into derivative financial instruments to manage its exposure to foreign exchange rate risk.

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

n) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.
Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.
Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Defined Contribution Plans
Contributions to defined contribution superannuation plans are expensed when incurred.

o) Foreign Currency

Foreign currency transactions
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 reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.
Exchange differences are recognised in profit or loss in the period in which they arise.

p) 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.

Notes to the financial statements for the half year ended 31 December 2005 (continued)

1. Summary of Accounting Policies (continued)

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

q) Joint ventures

Jointly controlled assets and operations
Interests in jointly controlled assets and 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 share of any expenses incurred in relation to the joint ventures in their respective classification categories.

Jointly controlled entities
Interests in jointly controlled entities are accounted for under the equity method in the consolidated financial statements.

r) Payables

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.

s) Comparative Information

The Consolidated Entity has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement", as permitted on the first-time adoption of A-IFRS. There are no material differences caused by the effect of changes in the accounting policies for financial instruments on the balance sheet as at 1 July 2005.

Notes to the financial statements for the half year ended 31 December 2005 (continued)

2. Segment Information

	Vessels		Supply Base		Engineering & Labour Hire		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	$	$	$	$	$	$	$	$
Segment Revenues								
Sales to outside customers	20,681,699	15,487,438	4,509,144	4,317,623	1,564,166	1,453,706	26,755,009	21,258,767
Inter-segment revenue	-	-	1,462,185	428,298	-	-	1,462,185	428,298
Total	20,681,699	15,487,438	5,971,329	4,745,921	1,564,166	1,453,706	28,217,194	21,687,065
Eliminations							(1,462,185)	(428,298)
Total consolidated revenue							26,755,009	21,258,767
Segment Results								
Segment result	3,813,421	2,750,637	336,350	(24,918)	122,567	217,094	4,272,338	2,942,813
Eliminations							15,740	(27,650)
Total							4,288,078	2,915,163
Unallocated							(2,191,378)	(2,125,518)
Profit before income tax expense							2,096,700	789,645
Income tax expense							(628,083)	(343,308)
Profit for the period							1,468,617	446,337

Notes to the financial statements for the half year ended 31 December 2005 (continued)

3. Impacts Of The Adoption Of Australian Equivalents To International Financial Reporting Standards

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards (A-IFRS). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards, with 1 July 2004 as the date of transition, except for financial instruments, including derivatives where the date of transition is 1 July 2005.

An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the financial statements for the half year ended 31 December 2005 (continued)

3. Impacts Of The Adoption Of Australian Equivalents To International Financial Reporting Standards (continued)

Effect of A-IFRS on the balance sheet as at 1 July 2004

	Note	Consolidated		
		Superseded policies	Effect of transition to A-IFRS	A-IFRS
		$	$	$
Current Assets				
Cash assets		6,068,589	-	6,068,589
Trade and other receivables		8,516,191	-	8,516,191
Inventories		467,694	-	467,694
Other		918,936	-	918,936
Total Current Assets		**15,971,410**	**-**	**15,971,410**
Non-Current Assets				
Investments accounted for using the equity accounted method		494,471	-	494,471
Property, plant and equipment		60,771,589	-	60,771,589
Intangibles	a	223,504	-	223,504
Total Non-Current Asset		**61,489,564**	**-**	**61,489,564**
Total Assets		**77,460,974**	**-**	**77,460,974**
Current Liabilities				
Payables		5,622,122	-	5,622,122
Interest bearing liabilities		6,406,972	-	6,406,972
Provisions		504,645	-	504,645
Current tax liabilities		-	-	-
Total Current Liabilities		**12,533,739**	**-**	**12,533,739**
Non-Current Liabilities				
Interest-bearing liabilities		24,276,642	-	24,276,642
Provisions		129,526	-	129,526
Deferred tax liabilities		206,871	-	206,871
Total Non-Current liabilities		**24,613,039**	**-**	**24,613,039**
Total Liabilities		**37,146,778**	**-**	**37,146,778**
Net Assets		**40,314,196**	**-**	**40,314,196**
Equity				
Contributed equity		39,658,553	-	39,658,553
Reserves	b,c	3,763,956	(3,734,918)	29,038
Retained profits (Accumulated losses)	f	(3,108,313)	3,734,918	626,605
Total Equity		**40,314,196**	**-**	**40,314,196**

Notes to the financial statements for the half year ended 31 December 2005 (continued)

3. Impacts Of The Adoption Of Australian Equivalents To International Financial Reporting Standards (continued)

Effect of A-IFRS on the income statement for the half year ended 31 December 2004 and the financial year ended 30 June 2005

	Note	Consolidated Half-year ended 31 December 2004			Consolidated Financial year ended 30 June 2005		
		Superseded policies $	Effect of transition to A-IFRS $	A-IFRS $	Superseded policies $	Effect of transition to A-IFRS $	A-IFRS $
Revenue	d	21,411,539	-	21,411,539	53,379,989	(3,900,779)	49,479,210
Share of net profit/(loss) of associate accounted for using the equity method		13,254	-	13,254	(97,410)	-	(97,410)
Vessel expenses	d	(12,736,801)	-	(12,736,801)	(32,297,315)	3,899,979	(28,397,336)
Supply base expenses		(4,314,891)	-	(4,314,891)	(7,075,601)	-	(7,075,601)
Engineering and labour expenses		(1,290,152)	-	(1,290,152)	(4,816,766)	-	(4,816,766)
Administration expenses	a,c, d	(1,310,306)	(65,416)	(1,375,722)	(2,844,677)	(162,867)	(3,007,544)
Finance costs		(917,582)	-	(917,582)	(2,208,729)	-	(2,208,729)
Profit before income tax expense		**855,061**	**(65,416)**	**789,645**	**4,039,491**	**(163,667)**	**3,875,824**
Income tax expense	e	(343,308)	-	(343,308)	(1,516,099)	-	(1,516,099)
Profit from continuing operations		**511,753**	**(65,416)**	**446,337**	**2,523,392**	**(163,667)**	**2,359,725**
Profit for the period		**511,753**	**(65,416)**	**446,337**	**2,523,392**	**(163,667)**	**2,359,725**
Profit attibutable to members of the parent entity		**511,753**	**(65,416)**	**446,337**	**2,523,392**	**(163,667)**	**2,359,725**

Notes to the financial statements for the half year ended 31 December 2005 (continued)

3. Impacts Of The Adoption Of Australian Equivalents To International Financial Reporting Standards (continued)

	Note	Consolidated 31 December 2004 Superseded policies $	Consolidated 31 December 2004 Effect of transition to A-IFRS $	Consolidated 31 December 2004 A-IFRS $	Consolidated 30 June 2005 Superseded policies $	Consolidated 30 June 2005 Effect of transition to A-IFRS $	Consolidated 30 June 2005 A-IFRS $
Current Assets							
Cash assets		8,021,323	-	8,021,323	13,983,512	-	13,983,512
Trade and other receivables		17,009,394	-	17,009,394	9,772,855	-	9,772,855
Inventories		871,901	-	871,901	1,281,081	-	1,281,081
Other		1,366,595	-	1,366,595	663,306	-	663,306
Total Current Assets		**27,269,213**	**-**	**27,269,213**	**25,700,754**	**-**	**25,700,754**
Non-Current Assets							
Investments accounted for using equity accounted method		507,725	-	507,725	97,061	-	97,061
Property, plant and equipment		58,911,346	-	58,911,346	65,748,856	-	65,748,856
Intangibles	a	207,087	16,417	223,504	-	-	-
Deferred tax assets	e	-	-	-	37,172	-	37,172
Total Non-Current Asset		**59,626,158**	**16,417**	**59,642,575**	**65,883,089**	**-**	**65,883,089**
Total Assets		**86,895,371**	**16,417**	**86,911,788**	**91,583,843**	**-**	**91,583,843**
Current Liabilities							
Payables		8,180,854	-	8,180,854	6,288,641	-	6,288,641
Interest bearing liabilities		4,720,545	-	4,720,545	3,417,430	-	3,417,430
Provisions		851,261	-	851,261	699,523	-	699,523
Current tax liabilities		-	-	-	436,512	-	436,512
Total Current Liabilities		**13,752,660**	**-**	**13,752,660**	**10,842,106**	**-**	**10,842,106**
Non-Current Liabilities							
Interest-bearing liabilities		23,616,877	-	23,616,877	28,377,249	-	28,377,249
Provisions		105,117	-	105,117	120,698	-	120,698
Deferred tax liabilities	e	496,962	-	496,962	1,309,077	-	1,309,077
Total Non-Current liabilities		**24,218,956**	**-**	**24,218,956**	**29,807,024**	**-**	**29,807,024**
Total Liabilities		**37,971,616**	**-**	**37,971,616**	**40,649,130**	**-**	**40,649,130**
Net Assets		**48,923,755**	**16,417**	**48,940,172**	**50,934,713**	**-**	**50,934,713**
Equity							
Contributed equity		47,756,359	-	47,756,359	47,755,678	-	47,755,678
Reserves	b,c	3,763,956	(3,653,084)	110,872	3,763,956	(3,571,251)	192,705
Retained profits	f	(2,596,560)	3,669,501	1,072,941	(584,921)	3,571,251	2,986,330
Total Equity		**48,923,755**	**16,417**	**48,940,172**	**50,934,713**	**-**	**50,934,713**

Notes to the financial statements for the half year ended 31 December 2005 (continued)

3. Impacts Of The Adoption Of Australian Equivalents To International Financial Reporting Standards (continued)

Effect of A-IFRS on the cash flow statement for the financial year ended 30 June 2005

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

Notes to the reconciliation of income and equity

a) Goodwill

The consolidated entity has elected not to restate business combinations that occurred prior to the date of transition to A-IFRS, and accordingly, the carrying amount of goodwill at the date of transition has not changed.

However, goodwill, which was amortised under superseded policies, is not amortised under A-IFRS from the date of transition. The effect of the change is an increase in the carrying amount of goodwill by $16,417 and an increase in net profit before tax of $16,417 for the half-year ended 31 December 2004. There is no change under A-IFRS in the financial year ended 30 June 2005 as the full balance of goodwill was written off under superseded policies. There is no tax effect as deferred taxes are not recognised for temporary differences arising from goodwill for which amortisation is not deductible for tax purposes.

b) 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 property, 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.

c) Share-Based Payments

Equity-settled share based payments in respect of equity instruments issued after 7 November 2002 that were unvested as at 1 July 2005 are measured at fair value at grant date. The fair value determined at grant date of equity-settled share-based payments in 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, the equity settled benefits reserve will increase by $29,038 (company: $29,038) and an additional employee benefit expense for the half year ended 31 December 2004 and the financial year ended 30 June 2005 of $81,834 and $163,667 will be recognised in profit and loss with a corresponding increase in the employee equity settled benefits reserve.
These adjustments had no material tax or deferred tax consequences.

d) Revenue

Under superseded policies, the consolidated entity recognised the gain or loss on disposal of property, plant and equipment on a gross basis by recognising the proceeds from sale as revenue, and the carrying amount of the property, plant and equipment disposed as an expense. Under A-IFRS, the gain or loss on disposal is recognised on a net basis, and is classified as income or an expense, rather than revenue. Accordingly, the gross amounts have been reclassified within the income statement for A-IFRS reporting purposes.

Notes to the financial statements for the half year ended 31 December 2005 (continued)

3. Impacts Of The Adoption Of Australian Equivalents To International Financial Reporting Standards (continued)

Notes to the reconciliation of income and equity (continued)

e) Income tax

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

Under A-IFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases.

For the purposes of the reconciliations, deferred tax assets and deferred tax liabilities have not been offset against each other.

The adoption of A-IFRS had no material effect on deferred tax balances.

f) Retained Earnings

The effect of the above adjustments on retained earnings is as follows:

		Consolidated		
	Note	**1 Jul 2004**	**31 Dec 2004**	**30 Jun 2005**
Transfer from asset revaluation reserve	b	3,763,956	3,763,956	3,763,956
Share based payments to equity	c	(29,038)	(29,038)	(29,038)
Expensing share based payments	c	-	(81,834)	(163,667)
Reverse AGAAP Goodwill amortisation	a	-	16,417	-
Total adjustment to retained earnings		**3,734,918**	**3,669,501**	**3,571,251**
Attributable to members of the parent entity		**3,734,918**	**3,669,501**	**3,571,251**