News Release

28 February 2004

Mermaid Marine announces strong finish to first half profit

The Directors of Mermaid Marine Australia Limited today announced a profit before tax of \$855K for the half-year ended 31st December 2004.

The Company's chief executive officer, Mr Jeffrey Weber said "After experiencing a difficult first quarter, which prompted the Company to issue guidance on full year earnings, the second quarter saw a significant improvement in trading performance. The final result to 31st December 2004 exceeded both the original and amended 6 month forecast and he is confident that the full year result will comfortably exceed all earlier expectations".

Revenue for the first half of \$22 million was higher than the \$16 million recorded in the previous corresponding period primarily due to increased vessel activity and growing manning related revenue. Margin however was lower due to lower project related activity and one-off costs associated with implementation of a number of structural changes across the Group.

Operating revenue from the core vessel business increased by 32% to \$15.5 million with earnings before interest and tax of \$2.75 million or 43% higher than the first half last year. The Company sold the Mermaid Explorer and the Mermaid Reunion and took delivery of the Mermaid Storm which commenced a long term contract with Santos in January 2005. The fleet reconfiguration plan is therefore on track with the expectation of taking delivery of three new vessels over the next 12 months and continued retirement of older vessels.

It is increasingly evident that the Dampier Supply Base will become a valuable and consistent contributor to Mermaid Marine's earnings over the next 12 months. Supply Base activity however, was lower compared to the same period last year with revenues down by 9% to \$2.8 million in Broome and Dampier. Earnings on the Dampier Supply Base were affected by a number of additional costs associated with setting up for the new Federal Government Security Code and upgrading infrastructure for new clients. A number of Browse Basin drilling programmes were deferred, these programmes will still be undertaken and contribute to earnings in the latter part of this financial year. The Slipway had a quiet start to the financial year but the second half is looking promising based on firm bookings.

The last 6 months saw progress in the area of marine manning, generating revenue of \$1.5 million. At this level the Company still has only a very small share of the market and is looking to grow this business particularly in areas where clients are existing group customers.

Mr Weber went on to say that "The Company expects a significant improvement in the second half and beyond based on an increasingly consistent revenue stream. We have matured as an organization over the last 2 years and are now well placed strategically and operationally to take advantage of the expected rapid development on the North West Shelf".

Further information can be obtained from:

Mr Alan Birchmore, Chairman
Mermaid Marine Australia Limited
Ph: (08) 9431 7431 (office) or 0400 404 453 (mobile)

Mr Jeffrey Weber, Chief Executive Officer
Mermaid Marine Australia Limited
Ph: (08) 9431 7431 (office) or 0418 855 275 (mobile)

21 PAGE(S) INCLUDING THIS PAGE

MERMAID MARINE
AUSTRALIA LIMITED

CORPORATE:

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28 February 2005

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

Dear Sir/Madam

RE: ANNOUNCEMENT OF DECEMBER 2004 HALF YEAR RESULT

Please find attached Appendix 4D and the Financial Report for the half year ended 31 December 2004.

By order of the Board
MERMAID MARINE AUSTRALIA LIMITED

BRENDAN GORE
Company Secretary

DAMPIER Mermaid Supply Base
Mermaid Road, Dampier WA 6713
TEL: (+61) 8 9144 4099 **FAX:** (+61) 8 9144 4088
EMAIL: dampier@mermaidmarine.com.au

BROOME Mermaid Supply Base Broome
1 Port Drive, Broome WA 6725
TEL (+61) 8 9192 2200 **FAX** (+61) 8 9192 2281
EMAIL broome@mermaidmarine.com.au

DARWIN Mermaid Supply Base Darwin
Perkins Shipping Base
Frances Bay Drive, Darwin NT 0801
TEL (+61) 8 8981 4966 **FAX** (+61) 8 8981 4266

Appendix 4D

Half yearly report

Name of entity

MERMAID MARINE AUSTRALIA LIMITED

ABN or equivalent company reference	Half year ended ('current period')
21 083 185 693	31 DECEMBER 2004

For announcement to the market

Extracts from this report for announcement to the market. $A'000

Revenues from ordinary activities	up/~~down~~	34%	to	21,425
Profit (loss) from ordinary activities after tax attributable to members	~~up~~/down	-	to	512
Net profit (loss) for the period attributable to members	~~up~~/down	-	to	512

Dividends	Amount per security	Franked amount per security
Interim dividend	Nil	Nil
Previous corresponding period	Nil	Nil

+Record date for determining entitlements to the dividend: NOT APPLICABLE

Brief explanation of any of the figures reported above and short details of any other item(s) of importance not previously released to the market:

N/A

NTA backing	Current period	Previous corresponding period
Net tangible asset backing per +ordinary security	0.35	0.33

+ See chapter 19 for defined terms.

Control gained over entities having material effect

Name of entity (or group of entities)	N/A

Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) since the date in the current period on which control was +acquired	N/A
Date from which such profit has been calculated	N/A
Profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period	N/A

Loss of control of entities having material effect

Name of entity (or group of entities)	N/A

Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the current period to the date of loss of control	N/A
Date to which the profit (loss) in item 14.2 has been calculated	N/A
Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) while controlled during the whole of the previous corresponding period	N/A
Contribution to consolidated profit (loss) from ordinary activities and extraordinary items from sale of interest leading to loss of control	N/A

Dividends (in the case of a trust, distributions)

Date the dividend (distribution) is payable	N/A
+Record date to determine entitlements to the dividend (distribution) (ie, on the basis of proper instruments of transfer received by 5.00 pm if +securities are not +CHESS approved, or security holding balances established by 5.00 pm or such later time permitted by SCH Business Rules if +securities are +CHESS approved)	N/A

Amount per security

		Amount per security	Franked amount per security at % tax	Amount per security of foreign source dividend
Interim dividend:	Current year	- ¢	- ¢	- ¢
	Previous year	- ¢	- ¢	- ¢

+ See chapter 19 for defined terms.

Interim dividend (distribution) on all securities

	Current period $A'000	Previous corresponding period - $A'000
+Ordinary securities *(each class separately)*	-	-
Preference +securities *(each class separately)*	-	-
Other equity instruments *(each class separately)*	-	-
Total	**-**	**-**

The +dividend or distribution plans shown below are in operation.

The last date(s) for receipt of election notices for the +dividend or distribution plans	N/A

Any other disclosures in relation to dividends (distributions). *(For half yearly reports, provide details in accordance with paragraph 7.5(d) of AASB 1029 Interim Financial Reporting)*

Details of aggregate share of profits (losses) of associates and joint venture entities

Group's share of associates' and joint venture entities':	Current period $A'000	Previous corresponding period - $A'000
Profit (loss) from ordinary activities before tax	21	-
Income tax on ordinary activities	8	-
Profit (loss) from ordinary activities after tax	13	-
Extraordinary items net of tax	-	-
Net profit (loss)	13	-
Adjustments	-	-
Share of net profit (loss) of associates and joint venture entities	**13**	**-**

+ See chapter 19 for defined terms.

Material interests in entities which are not controlled entities

The economic entity has an interest (that is material to it) in the following entities. *(If the interest was acquired or disposed of during either the current or previous corresponding period, indicate date of acquisition ("from dd/mm/yy") or disposal ("to dd/mm/yy").)*

Name of entity	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit (loss)	
Equity accounted associates and joint venture entities	Current period	Previous corresponding period	Current period $A'000	Previous corresponding period - $A'000
Mermaid Labour & Management Pty Ltd *(MLM became a controlled entity on 7/05/03)*	99%	99%	-	-
Mermaid Clough Pty Ltd	50%	50%	13	-
Total			**13**	**-**
Other material interests				
Total		**N/A**	**N/A**	**N/A**

Foreign Entities

For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards)

N/A

Audit Dispute or Qualification

For all entities, if the +accounts are subject to audit dispute or qualification, a description of the dispute or qualification should follow:

Nil

MERMAID MARINE AUSTRALIA LIMITED

(ACN 083 185 693)

Financial Report for the Half-Year Ended 31 December 2004

Financial Report for the Half Year Ended 31 December 2004

Contents

Directors Report

The Directors of Mermaid Marine Australia Limited submit herewith the financial report for the half-year ended 31 December 2004. 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)
- Mr A J Howarth AO
- Mr J A S Mews

Summary Review of Operations

The Company recorded a profit before tax of $855K for the half year ended 31 December 2004.

After experiencing a difficult first quarter, which prompted the Company to issue guidance on full year earnings, the second quarter saw a significant improvement in trading performance. The final result to 31st December 2004 exceeded both the original and amended 6 month forecast and has given confidence that the full year estimate will also be comfortably exceeded.

The profit was recorded on total revenues of $22 million compared to a pre-tax profit of $1.1 million on revenues of $16 million in the previous corresponding period. Overall margin was therefore lower, due primarily to reduced project related activity, and a number of structural changes were implemented which will support higher levels of reliable earnings for the future. After tax earnings of $512k are difficult to compare with the result last year of $2.24 million which had the benefit of a substantial tax credit.

A brief overview of each of the business units follow:

Vessel Operations

Operating revenue from core vessel activities increased by 32% to $15.5 million. Earnings before interest and tax of $2.75 million were 43% higher than the corresponding period last year. With expectations of some major projects on the North West Shelf commencing soon, capability at Dampier has been boosted with additional operational staff and resources. Costs have therefore increased, but are offset by higher and more reliable utilization.

The Company's program to secure a better balance between contracted and spot revenues continues. Older vessels, the Mermaid Explorer and Mermaid Reunion were sold, construction commenced on the 54 metre multi-purpose vessel, Mermaid Investigator, the offshore utility vessel Mermaid Storm arrived in December to take up a long term contract with Santos and a further two new vessels are under consideration for acquisition during this half.

To support this fleet improvement program, a capital raising was undertaken in November/December 2004, when a total of $5 million was raised through a placement to institutional investors, augmented by a further $3.4 million through a shareholder's share purchase plan on identical terms. The new vessels are largely contracted and will progressively improve the quality of vessel earnings as they enter service.

Supply Bases

Revenues from supply base activities decreased by 9% to $2.8 million primarily due to drilling programs in the Browse basin which were forecast but deferred. This had a negative effect at Broome, but the work is substantial and will proceed later in the year.

Dampier supply base revenue was in line with last year. Increased security requirements following the introduction of the ISPS code and a number of one-off costs associated with upgrades and new contracts resulted in lower immediate earnings, but will yield results in later months.

Supply Base utilisation is growing and the period saw support for the following activities:

- Santos Mutineer/Exeter Development
- Clough/Subsea 7 pipe lay and subsea completions (Mutineer/Exeter)
- BHP Billiton Production and Drilling
- Heavy Lift cargoes for the Burrup Fertiliser Project (The largest of these was 800 tonnes, emphasizing the value of the Heavy Load Out Wharf for large module based projects)
- Clough/Woodside – Cossack Wannea work over programme
- Modec Venture 11 logistics support
- McDermott's – Apache John Brookes Development
- Dampier Port wharf upgrades – Bulk Liquid Berth and Hamersley Iron wharf upgrade

The planned wharf extension on the Dampier Supply Base has not yet commenced as construction of a landing barge ramp received a higher priority and has now been completed. However, the wharf extension is warranted both on a business case and for capability reasons and will be commenced as soon as practicable. Approvals are in hand.

Slipway

The Slipway had a quiet start with activity picking up in November and December. The second half is promising as a number of vessels are either booked or are in the bidding process. Labour for engineering and boiler making continues to be a major challenge in the North West, but the Slipway has now gained widespread support amongst vessel operators in the region and interest from a wider range of potential users is growing.

Manning

The last 6 months saw progress in the area of marine manning, winning new contracts which generated revenues of $1.5 million compared to $317k in the previous corresponding period. This activity is a natural progression from those areas where the Company has established logistics based services and we will target specific manning contracts where the "One stop shop concept" offers value to the client.

Management Systems and Safety

The Company continues to pursue a number of Management Systems initiatives with an emphasis on Quality, HSE training and awareness programmes. The continuous workdays free of "lost time injuries" (LTIs) demonstrate the worth of these efforts.

- Vessel Operations – 1162 days
- Dampier Supply Base – 499 days
- Broome Supply Base – 1795
- Slipway – 1260 days

Second Half Outlook

The Company expects a much improved result over that recorded for the first half and remains confident of a continuous improvement in earnings. Core operations are now well positioned and resourced to meet rapidly developing North West Shelf activity.

Auditor's Independence Declaration.

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

Signed in accordance with a resolution of directors.

On behalf of the directors

ALAN BIRCHMORE
Chairman

Perth 25th February 2005

Deloitte.

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

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

22 February 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 review of the financial statements of Mermaid Marine Australia Limited for the half-year ended 31 December 2004, 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 review

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter McIver

Peter McIver
Partner
Chartered Accountants

Deloitte.

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

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Independent review report to the members of Mermaid Marine Australia Limited

Scope

We have reviewed the financial report of Mermaid Marine Australia Limited for the half-year ended 31 December 2004 as set out on pages 9 to 16. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The disclosing entity's directors are responsible for the financial report. 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 Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, 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 and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been 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.

Auditor's Independence Declaration

The independence declaration provided to the Directors of Mermaid Marine Australia Limited on 22 February 2005 would be in the same terms if it was given to the Directors on the date this review report is made out.

Deloitte.

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:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date

(ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001

(b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter J McIver
Partner
Chartered Accountants
Perth WA, 28 February 2005

Directors' Declaration

The directors declare that:

(a) The attached financial statements and notes thereto comply with Accounting Standards;

(b) The attached financial statements and notes thereto give a true and fair view of the financial position and performance of the consolidated entity;

(c) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and

(d) 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.

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 25th February 2005

Consolidated Statement of Financial Performance for the Half Year Ended 31 December 2004

	Consolidated Half Year Ended 31/12/04 $	**Consolidated Half Year Ended 31/12/03 $**
Revenue from Ordinary Activities	21,411,539	15,983,918
Share of net profits of associates and joint ventures accounted for using the equity method	13,254	-
Vessel expenses	(12,736,801)	(9,451,865)
Supply base expenses	(4,314,891)	(3,130,279)
Engineering & Labour Hire expenses	(1,290,152)	(330,055)
Administration expenses	(1,310,306)	(1,022,080)
Borrowing costs	(917,582)	(932,009)
Profit from Ordinary Activities Before Income Tax Expense	**855,061**	**1,117,630**
Income tax (expense)/benefit relating to ordinary activities	(343,308)	1,121,403
Profit From Ordinary Activities After Related Income Tax Expense	**511,753**	**2,239,033**
Net Profit	**511,753**	**2,239,033**
Net Profit Attributable to Members of the Parent Entity	**511,753**	**2,239,033**
Total Changes in Equity Other than those Resulting from Transactions with Owners as Owners	**511,753**	**2,239,033**
Earnings Per Share		
Basic (cents per share)	0.429	1.95
Diluted (cents per share)	0.429	1.95

Notes to the financial statements are included on pages 13 to 16.

Consolidated Statement of Financial Position as at 31 December 2004

	Consolidated 31/12/04 $	Consolidated 30/6/04 $
Current Assets		
Cash assets	8,021,323	6,068,589
Receivables	17,009,394	8,516,191
Inventories	871,901	467,694
Current tax assets	-	-
Other	1,366,595	918,936
Total Current Assets	**27,269,213**	**15,971,410**
Non-Current Assets		
Investment accounted for using the equity method	507,725	494,471
Other financial assets	-	-
Property, plant and equipment	58,911,346	60,771,589
Intangibles	207,087	223,504
Total Non-Current Assets	**59,626,158**	**61,489,564**
Total Assets	**86,895,371**	**77,460,974**
Current Liabilities		
Payables	8,180,854	5,622,122
Interest-Bearing liabilities	4,720,545	6,406,972
Provisions	851,261	504,645
Total Current Liabilities	**13,752,660**	**12,533,739**
Non-Current Liabilities		
Payables	-	-
Interest-bearing liabilities	23,616,877	24,276,642
Provisions	105,117	129,526
Deferred tax liabilities	496,962	206,871
Total Non-Current Liabilities	**24,218,956**	**24,613,039**
Total Liabilities	**37,971,616**	**37,146,778**
Net Assets	**48,923,755**	**40,314,196**
Equity		
Contributed Equity	47,756,359	39,658,553
Reserves	3,763,956	3,763,956
Retained profits	(2,596,560)	(3,108,313)
Total Equity	**48,923,755**	**40,314,196**

Notes to the financial statements are included on pages 13 to 16.

Consolidated Statement of Cash Flows for the Half-Year Ended 31 December 2004

	Consolidated Half Year Ended 31/12/04 $	Consolidated Half Year Ended 31/12/03 $
Cash Flows from Operating Activities		
Receipts from customers	18,905,934	18,075,114
Payments to suppliers and employees	(18,427,676)	(15,044,597)
Dividends received	-	-
Interest and bill discounts received	112,039	185,833
Income tax (paid)/received	(6,408)	1,196,403
Interest and other costs of finance paid	(1,190,543)	(905,431)
	(606,654)	**3,507,322**
Cash Flows from Investing Activities		
Payments for property, plant and equipment	(2,931,706)	(1,234,321)
Proceeds from sale of property, plant and equipment	112,600	22,523
Amounts advanced to related parties	-	(10,881)
Amounts advanced to non-related parties	-	-
	(2,819,106)	**(1,222,679)**
Cash Flows from Financing Activities		
Proceeds from issues of equity securities	8,392,843	-
Payment for share issue costs	(295,038)	-
Proceeds from borrowings	481,523	-
Repayment of borrowings	(3,200,834)	(2,084,378)
Other	-	-
	5,378,494	**(2,084,378)**
Net Increase in Cash Held	**1,952,734**	**200,265**
Cash at the Beginning of the Half Year	**6,068,589**	**5,791,997**
Cash at the End of the Half Year	**8,021,323**	**5,992,262**

Notes to the financial statements are included on pages 13 to 16.

Notes to the Financial Statements for the Half Year Ended 31 December 2004

1 Basis of Preparation

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 1029 'Interim financial Reporting'. The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the 2004 annual financial report.

Significant Accounting Policies

The accounting policies adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the 2004 annual financial report.

2 Dividends

No interim or final dividends were paid or declared in relation to 2004 and 2005 half-years.

3 Contingent Liabilities

An entity in the consolidated entity has become aware of a potential claim for damages for personal injury arising from an alleged incident in 2002. The directors are presently obtaining legal advice in relation to the matter and intend to vigorously defend any action brought against the entity concerned.

4. Segment Information

	Vessels		Supply Base		Engineering & Labour Hire		Unallocated		Total	
	2004 $	2003 $	2004 $	2003 $	2004 $	2003 $	2004 $	2003 $	2004 $	2003 $
<u>Segment Revenues</u>										
Sales to outside customers	15,487,438	11,724,931	4,317,623	3,756,391	1,493,992	316,763	112,486	185,833	21,411,539	15,983,918
Inter-segment revenue	-	5,200	428,298	1,337,403	-	-	218,448	173,754	646,746	1,516,357
Share of net profit of equity accounted investments	-	-		-	13,254	-		-	13,254	-
Total	15,487,438	11,730,131	4,745,921	5,093,794	1,507,246	316,763	330,934	359,587	22,071,539	17,500,275
Eliminations									(646,746)	(1,516,357)
Total consolidated revenue									21,424,793	15,983,918
<u>Segment Results</u>										
Segment result	2,750,637	1,918,249	(24,918)	343,003	217,094	(13,292)			2,942,813	2,247,960
Eliminations									(27,650)	(117,100)
Total									2,915,163	2,130,860
Unallocated									(2,060,102)	(1,013,230)
Profit/(Loss) from ordinary activities before income tax expenses									855,061	1,117,630
Income tax (expense) / benefit relating to ordinary activities									(343,308)	1,121,403
Profit/(Loss) from ordinary activities after related income tax expense									511,753	2,239,033
Net Profit/(Loss)									511,753	2,239,033

5. Impact Of Adopting Australian Equivalents To International Financial Reporting Standards

The Australian Accounting Standards Board (AASB) has issued Australian equivalents to International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The Company has commenced reviewing the transition from its current policies to the AASB equivalents to IFRS. The Company has allocated resources and engaged expert consultants to review, identify and conduct business impact assessments to isolate key areas that will be affected by this transition. The Company's audit committee is being regularly updated with the results of both the internal review and the external consultant's reports and assessments. The adoption of the AASB equivalents to IFRS will be first reflected in the Group's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006. At this stage the Company has not been able to reliably quantify the impacts on the financial statements.

Under AASB1 the Consolidated entity, in complying with Australian equivalents to IFRS for the first time is required to restate its comparative financial statements to amounts reflecting the application of Australian equivalents to IFRS to that comparative period. Most adjustments on transition to Australian equivalents to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

Key areas where accounting policies are likely to change and may impact on the financial statements of the Consolidated Entity include the following:

Income Tax

The consolidated entity currently recognises deferred taxes by accounting for the differences between accounting profits and taxable income, which give rise to 'permanent' and 'timing' differences. Under A-IFRS, deferred taxes are measured by reference to the 'temporary differences' determined as the difference between the carrying amount and the tax base of assets and liabilities recognised in the balance sheet.

Because A-IFRS has a wider scope than the entity's current accounting policies, it is likely that the amount of deferred taxes recognised in the balance sheet will increase. The likely impact of these changes on deferred tax balances has not currently been determined.

Financial Instruments

Under current Australian GAAP, financial assets and financial liabilities are recognised at cost. On adoption of A-IFRS, in particular AASB 139 "Financial Instruments: Recognition and Measurement", the consolidated entity will be required to classify financial instruments into various specified categories. The five categories and basis of measurement are:

- financial asset or financial liability measured at fair value through the statement of financial performance;
- held to maturity investments measured at amortised costs, subject to impairment;
- loans and receivables measured at amortised cost, subject to impairment;
- available for sale assets measured at fair value with changes in fair value measured directly in equity; and
- financial liability measured at amortised cost.

The classification of the instrument will affect the instrument's subsequent measurement. The consolidated entity is evaluating the different options available, but has not made any determination at reporting date of the accounting to be adopted, and consequently, the impact of the change on the financial statements cannot yet be quantified.

Share Based Payments

Share-based compensation forms part of the remuneration of employees of the consolidated entity (including executives) as disclosed in the notes to the financial statements. The consolidated entity does not recognise an expense for any share-based compensation granted. Under A-IFRS, the consolidated entity will be required to recognise an expense for such share-based compensation. Share-based compensation is measured at the fair value of the share options determined at grant date and recognised over the expected vesting period of the options. A reversal of the expense will be permitted to the extent non-market based vesting conditions (eg. service conditions) are not met. The entity will not retrospectively recognise share-based payments vested before 1 January as permitted under A-IFRS first time adoption.

The recognition of the expense will decrease the consolidated entity's opening retained earnings on initial adoption of A-IFRS and increase share capital by the same amount for share-based payments issued after 7 November 2002 but not vested before 1 January 2005. Similar impacts will also occur in future periods, however quantification of the impact on equity and in the income statement of the existing share options granted as remuneration has not been completed at the reporting date.

Property, Plant and Equipment

On transition to A-IFRS, the entity has several options in the determination of the cost of each tangible asset, and can also elect to use the cost or fair value basis for the measurement of each class of property, plant and equipment after transition. At the date of this report, the entity has not decided which options and measurement basis will be adopted and the likely impacts therefore cannot be determined.

Impairment of Assets

Non-current assets are written down to recoverable amount when the asset's carrying amount exceeds recoverable amount.

Under A-IFRS, both current and non-current assets are tested for impairment. In addition, A-IFRS has a more prescriptive impairment test, and requires discounted cash flows to be used where value in use is used to assess recoverable amount. Consequently, on adoption of A-IFRS, a further impairment of certain assets may need to be recognised, thereby decreasing opening retained earnings and the carrying amount of assets – the consolidated entity has not yet determined the impact, if any, of any further impairment which may be required. It is not practicable to determine the impact of the change in accounting policy for future financial reports, as any impairment or reversal thereof will be affected by future conditions.