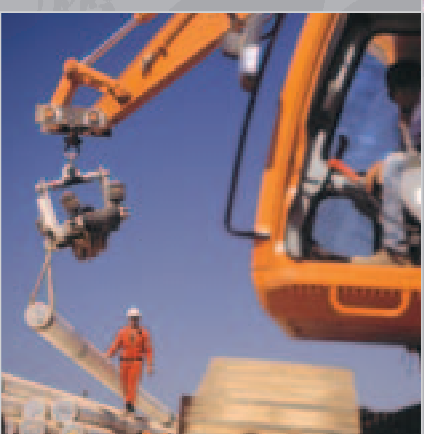
Mermaid Marine

Annual Report **2004**



MERMAID MARINE AUSTRALIA LIMITED

A.C.N. 083 185 693

CORPORATE DIRECTORY

DIRECTORS

Alan Birchmore, Chairman
Jeffrey Weber, Director, CEO
Mark Bradley, Director
James Carver, Non-Executive Director
Chew Cheng Ming, Non-Executive Director
Anthony Howarth, Non-Executive Director
Jeff Mews, Non-Executive Director
Richard Reid, Non-Executive Director

COMPANY SECRETARY

Brendan Gore

REGISTERED OFFICE

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AUDITORS

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Chartered Accountants
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Telephone: 61 8 9365 7000
Facsimile: 61 8 9365 7001

SOLICITORS

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Telephone: 61 8 9488 3700
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BANKERS

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PERTH WA 6000
Telephone: 61 8 9441 9200
Facsimile: 61 8 9441 9282

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Chairman's Address

During the year Woodside Energy Limited secured a new $25 billion contract for the sale of LNG to China. Chevron and their Gorgon Partners have a Letter of Intent, also from China, which subject to a final decision on the project early next year, will supply the first liquefied natural gas from their proposed $11 billion project. We are also aware that Exxon Mobil have a study team in place looking at development options for the Jansz field, another very large regional gas accumulation. Governments both State and Federal are assisting producers secure orders from a number of overseas markets including a $25 billion order from South Korea. It is understood that BHP Billiton are working preliminary feasibilities on a large gas reservoir off Onslow with LNG development in mind. Chevron's new gas find off the coast is in early stages of exploration and appraisal, but the field is well located in relation to Pilbara infrastructure and unlike their other regional interests, is owned 100% and could prove to be a significant regional driver.

These very large projects are in addition to a number of significant new committed offshore oil developments, such as Woodside's Vincent Enfield, Santos' Mutineer Exeter and Apache's ongoing development of oil from inshore Carnarvon Basin. Further to these fields there has also recently been a spate of announced discoveries (Ravensworth, Crosby, Stickle, Stybarrow, and Laverda) by Apache and BHP Billiton off Exmouth in the last 12 months. We know that both companies are hopeful of turning these finds into commercial FPSO developments.

The infrastructure and services requirements to support Australia's energy business are both daunting and exciting. For Mermaid Marine, modest benefit was gained earlier this year assisting with the inshore section of Woodside's new trunkline for Train 4 and a future Train 5. The Company has been involved in a number of one off project forays, but recognising the much larger and ongoing opportunities of this exponentially expanding workplace, a great deal remains to be done. Our Company will press on with infrastructure development, skills, and added equipment to meet the rapidly expanding requirements and opportunities now being presented.

Good progress was made with those efforts this year, as new more powerful vessels were added to the fleet as older units are being retired. Supply base equipment is being upgraded and work on a 64 metre extension to the wharf, plus a roll on roll off ramp at Dampier will commence over coming months. Mermaid Marine is now offering the only fully integrated service in the North West, producing a genuine one stop shop for all offshore operators. The business now comprises a comprehensive fleet of 19 utility vessels and barges, offering wide capability and back up. Located in Dampier, our Company operates the only common user waterfront supply base, made up of 13 hectares, with associated wharf equipment and slipway. This facility is supported by another seafront supply base in Broome to cover our Client's needs in the Browse Basin. This mix of purpose built infrastructure, specialist equipment, industry expertise and reliability from mutually supportive activities are the foundation blocks for a business unique in Australia.

Mermaid Marine's choice to commit our efforts to the oil and gas industry in Australia's North West is proving to be correct. Since putting all our eggs in that basket, the North West Shelf has become Australia's largest oil producer and with very large gas reserves, is now emerging as a World class player in the liquefied natural gas (LNG) industry. ConocoPhillips are well advanced with their LNG processing plant for the Timor Sea gas and the spread of these multi billion dollar projects from Dampier to Darwin, demonstrates strong international support for Australia as a reliable and competent long term supplier of this sought after product to an energy hungry world.

Just being in the right place at the right time is not enough to guarantee success: Standards are the highest by every measurement; environmental, safety, reliability, competence and competitiveness are just a few. Therefore it is not surprising that services to the offshore oil and gas industry are generally the province of large players. As a small to medium sized company, Mermaid Marine is meeting that challenge by developing our strategic strengths as we can and joining those with the assets and skills offered by others. The Mermaid Clough Joint Venture has been profitable, winning 6 of the last 7 available contracts in the shallow water pipelay market. PSA Marine, our largest shareholder, is making a very considerable contribution by allowing generous access to their fleet, contacts and experience. Other strategic relationships are under discussion.

Safety has been a constant focus and good performance in this area is essential. It is an unbending requirement of the companies we serve and no less than our own intention, to send our people home from work in the same good health that they arrived. It is therefore encouraging at the 30th June to note that the Dampier Supply Base registered 315 days free of lost time injuries, Broome 1,611 days, vessels 978 days and slipway 1,076.

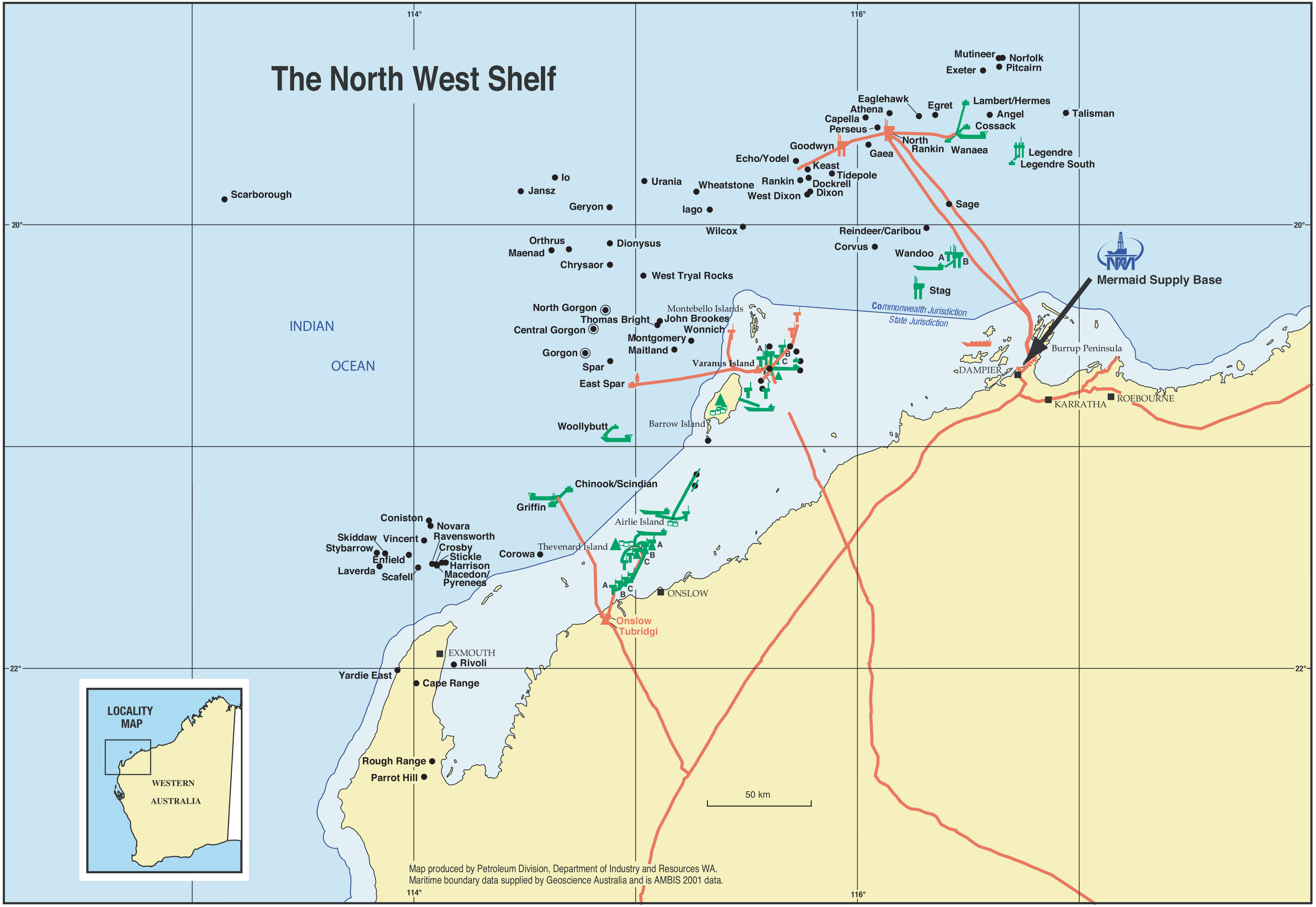
After tax profit for the year of $4.3 million was assisted by a tax credit and provided an acceptable and sound base for the future. Predictability has become an important focus, as much of the work is cyclical. That will not change but we will overcome this by moving as rapidly as possible to secure a greater percentage of longer term contracts to underwrite the fluctuations commonly experienced in the industry. Good progress was made in that direction this year as contracted income increased to 27% towards a target across the Company of 50% or more.

Mermaid Marine has had a solid year by almost every measurement, but we are encouraged that better lies ahead as we grow and earn our place within one of our Country's fastest growing sectors. The industry is securely based, encouraging our enthusiastic participation in the offshore energy sector which plays such a major role in Australia's life, prosperity and future. On behalf of the Board, I express our thanks for the often difficult and challenging contribution our people make to this nationally important business and assure our shareholders and supporters of our continued best efforts to increase and improve their position in the very promising time ahead.

Alan Birchmore
Chairman

Under Construction - Mermaid Investigator

The North West Shelf



The last 12 months has seen the Company continue to pursue longer-term contracts across the organisation as part of our strategy to improve the quality of our ongoing earnings. This is not to abandon our traditional marine hire market, which is still a critical part of the Company's core business, but position the Company to become more relevant in the offshore exploration, construction, inspection and maintenance areas on an efficient shared services basis.

Group revenue for the year was in line with last year at $42.3m. This included $35.1m income from our main operating activities representing a 32% increase on the previous year. The Mermaid Clough JV contributed $7.2m million in revenue primarily attributable to the Linda Pipelay project.

There were a number of positive developments during the year that ensured performance improved substantially over last year and also provided the foundations for a more sustainable earnings profile. While the next 12 months continues to be challenging, growth prospects for 2006 and beyond are extremely encouraging. The successes of note that impacted this year's performance include:

- Providing a range of services to contractors undertaking Woodside's trunkline expansion project during the first half;
- Attracting Santos to our Supply Base to undertake their Mutineer Exeter development programme; and
- Involvement in the Linda Platform installation and undertaking the Linda Pipelay Project through the Mermaid/Clough JV.

In addition, and of ongoing benefit, the Company secured a number of contracts:

- Supply and tanker offtake support for the BHP Billiton Griffin Venture;
- Tanker offtake support for the ENI Woollybutt Field; and
- Supply Base support for BHP Billiton Petroleum drilling.

The year culminated in the successful tendering of a new vessel which we will build and operate mainly to support Apache Energy's offshore operations. This is a five-year contract and when free from duties to Apache, will provide services to a range of other offshore operators. The vessel will be 54 metres in length, classified DP1 (dynamically positioning), with a 4-point mooring system and will provide:

- ROV & Dive Support;
- Survey;
- Cargo ; and
- Maintenance and construction support.

The vessel will be constructed in China at the Cheoy Lee yard, a shipbuilder well known to our major shareholders, PSA Marine, who are currently constructing the internationally successful Z-Tech range of tugs there. Construction will take approximately 16 months and will contribute to our earnings in the second half of next financial year. It is worth noting that Mermaid Marine was instrumental in placing two of the new Z-tech design tugs with BHP Billiton at their Port Hedland iron ore operation, providing direct experience with the product quality out of the Cheoy Lee yard.

Mermaid Carver - Offtake Support

Mermaid Marine also secured an additional offshore tug during the year Some propulsion work is required, but when completed it will be a significant addition to our fleet and supports our objective of being the major supplier of offtake services in the region. The new vessel is expected to be on station at Dampier by December 2004.

The Company undertook a pipelay project for Apache Energy in the second half of the year through the Mermaid/Clough Joint Venture. This was completed profitably and with excellent safety and environmental performance. Operations were disrupted by two cyclones but their effects were overcome and the job was completed to the full satisfaction of our client. The Joint Venture has developed considerable expertise in shallow water pipelay projects and holding a pipelay barge in Dampier gives consistent support for our clients. There are no expectations for any pipelay projects in the next financial year, but a number are projected in the following 12 months, which will again be targeted through the Joint Venture Company.

There was limited manning work undertaken during the year, but it is a service in which we do have expertise and it will continue to be a target in specific areas. This business will not be a major contributor in the short term, but has potential to profitably expand the service offered to our clients in an area of increasing demand.

Quality, safety and environmental systems and performance attracted significant management focus and progress. Our quality management system is based on continuous improvement and the aim is to do that through a culture of mutual responsibility where employees are given the tools and systems to account for their own safety and that of their colleagues and workmates. This is an effective method for improvement and it is pleasing that the occurrence of serious injury to our people has been reduced dramatically. The incidence of minor injuries over the last 12 months has also been reduced and remain a principle focus. Environmentally, there have been no reportable incidents over the last 12 months and we continue to explore every avenue to reduce the risks of environmental incidents through our people, policies and processes.

VESSEL OPERATIONS

Vessel operations are Mermaid Marine's foundation and will continue to be a critical driver of growth and core earnings into the future. Revenue from vessel operations increased by approximately 30% to over $26 million, the majority of which was due to major offshore projects during the year, however the Company also substantially increased its contracted vessel related revenue. Contract work has grown over the last 2 years from approximately 5% to 27% of total vessel revenue. This is an encouraging development and one which will improve further, as the new equipment comes on stream.

Mermaid Eagle - Oil Tanker Support NW Shelf

Larger vessels had a utilisation of approximately 60% during the year and this compares favourably to the previous corresponding period. The smaller fleet, including barges recorded approximately 30%, which again is an improvement on last year but leaves scope for further improvement. These vessels are primarily in the spot market however and utilisation is highly dependent upon offshore maintenance and development projects. Our small tugs also provide rig shift support for shallow water operations and are utilised extensively in pipelay projects.

While the Company has made good progress in management and utilisation the renewal program continues. The strategy is to have a modern highly versatile fleet and effectively do more with less. This process takes time but progress over the last 2 years is an endorsement of the strategy.

SUPPLY BASE OPERATIONS

The first half of the year saw our Dampier Supply Base move into profit based on higher activity supporting the Woodside Trunkline project. Improving margins were a clear indicator that the Dampier Supply Base is becoming an increasingly valuable contributor and driver of the overall business mix. The second half saw activity drop off to some extent as some of the major offshore projects were completed.

During the year we welcomed Santos to our Dampier Supply Base and celebrated loading out our first 100 Santos supply vessels with an unblemished safety record. Santos is currently developing the Mutineer-Exeter field, which will be operational in 2005. Also BHP Billiton Petroleum's drilling team joined the production team as clients on our Dampier Supply Base. In addition the following companies were supported in a range of activities from Dampier:

- Atwood Oceanics
- Barclay Mowlem
- Clough Offshore
- Diamond Offshore
- Halliburton Australia
- McConnell Dowell
- Mid-Continent Equipment
- Sedco Forex International
- Technip Oceania
- Western Geco

The Broome Supply Base operation was kept busy for most of the year supporting the Inpex drilling programme, which was completed in February. Broome is the logical support base for operations in the Browse Basin and while most activity there is driven by exploration, there are high expectations that the region will support a gas production facility in the future. There are up to three drilling programmes operating out of Broome during the next financial year and a significant lift in drilling support is expected during FY 05/06. Our Broome operation also involves a vessel retrieval and launching service for the small fleet operating out of the port.

The Dampier slipway had reduced demand from external clients this year. Ship repair is cyclical based around periodic survey periods and fluctuations are normal. The business is increasing its non-slipway associated marine repair work to assist in balancing demand and improving margins. The slipway undertook a number of emergency dockings during the period demonstrating the safety and financial benefits of the facility to regional operators.

Overall, supply base operations effectively broke even for the financial year. While this is a significant improvement on last year, the return on capital is not yet at an acceptable level but the trend is very encouraging. Large infrastructure investments have long lead times, and the progress made over the last 12 months gives confidence in the earnings potential of this asset. Land on the Burrup Peninsular is becoming increasingly scarce and the benefit of waterfront access makes the Dampier Supply Base a logical support centre for the upcoming major offshore developments, including Gorgon.

QA/HSE & SECURITY

The financial year recorded a continued drive for improved safety and environmental performance and the results of this effort are extremely pleasing. Additional key personnel have bolstered the QA/HSE department and the training budget has been increased to ensure that we remain professionally competent across the board in these key areas. We had one lost time injury during the year across all operations, caused by a piece of faulty equipment, which has now been rectified by the supplier.

During the year the Company has been regularly audited by our major customers, a process we support to ensure that systems and processes function at the highest level and our people are kept informed of new developments in the industry.

Another major development during the year was the implementation of the international security requirements for marine and port operations effective from July 2004. This process has involved significant implementation costs and has an ongoing cost imposition for the Company. But as a private port and vessel operator there are strict requirements for the monitoring and control of personnel and goods flowing through the facilities. Mermaid Marine is now fully accredited and certified against these new regulations.

EMPLOYEES

The Company continued the drive to attract, develop and maintain highly competent and motivated people. Our objective is to become the supplier of choice in the offshore oil and gas marine support services and this can only be done through competent people developing and applying appropriate policies and processes. Mermaid Marine is the only marine company to make a significant commitment to maintaining a highly competent management team in the region, ensuring that we are best placed to provide the highest level of service.

The Company is now well serviced by our operational and administrative personnel and I pay tribute to their efforts and successes during the year. It is on this foundation that our future depends.

Jeffrey Weber
Chief Executive Officer

500 tonne lift at the Heavy Loadout Wharf

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 format of the Corporate Governance Statement has changed in comparison with the previous year due to the introduction of the Australian Stock Exchange Corporate Governance Council's (the Council's) "Principles of Good Corporate Governance and Best Practice Recommendations" (the Recommendations). In accordance with the Council's recommendations, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. Mermaid Marine Australia Limited Corporate Governance Statement is now structured with reference to the Corporate Governance Council's principles and 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 our 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 9. 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.

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 eight Board members in total, the following six 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	Name	Position
A G Birchmore	Chairperson	C M Chew	Non-Executive Director
J A Weber	Director, CEO	R M Reid	Non-Executive Director
M F Bradley	Executive Director		
J H Carver	Non-Executive Director		

Therefore the majority of the Board are not considered by the Board to be independent. The skills, experience and expertise of the directors is included in the Directors' Report on page 9.

The Chairman, A G Birchmore, is a substantial shareholder of the Company and his industry experience, together with that of our former executives M F Bradley and J H Carver, significantly increase 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 and R M Reid as representatives of our major shareholders PSAM and Clough. The ongoing development of these relationships is of strategic importance to the Company and is assisted by the presence of the partners' representatives 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
A G Birchmore	6 years	C M Chew	2 years
J A Weber	2 years	A J Howarth	3 years
M F Bradley	4 years	J A S Mews	6 years
J H Carver	6 years	R M Reid	1 year [Previously 4 years]

For additional details regarding Board appointments, please refer to our website.

NOMINATION AND REMUNERATION COMMITTEE

The Board has established a nomination and remuneration committee, which meets at least annually, to ensure that the Company has available to it a Board with the appropriate competencies to enable it to effectively discharge its mandate. 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 (appointed 23 July 2003)

R M Reid

A G Birchmore (resigned 23 July 2003)

For details of the amount of remuneration and all monetary and non-monetary components for each of the five highest-paid (non-director) executives during the year, please refer to page 13 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 12 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 9.

For details of the number of meetings of the Audit Committee held during the year and the attendance at those meetings, refer to page 12 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.

Mermaid's Dampier Supply Base facing West with Toll adjoining to the North and Woodside to the West

Your directors submit their annual financial report for the financial year ended 30 June 2004. In order to comply with the provisions of the Corporations Act 2001, the Directors' Report is as follows.

Below are profiles of the directors in office during or since the end of the financial year.

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. In the UK he was Managing Director of Airships Industries/JV with Westinghouse winning A$300m US defence contract. He was Director of Tuam and British Satellite Broadcasting (Later B Sky B), Chairman of two privatised Hungarian Government companies – Quarrying and International trade. 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 of the United States. Alan also sat on the Argyle joint venture, as one of the three principals during the period in which it developed 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, registering market capitalisation growth from $12 million to over $440 million. 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 and a Fellow of the Australian Institute of Company Directors.

JEFFREY ANDREW WEBER

Director , Chief Executive Officer - 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 Chief Executive Officer of Mermaid Marine, Jeff oversees all of the Company's business lines.

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.

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 in-depth 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.

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.

ANTHONY JOHN HOWARTH AO

Non-Executive Director -

Appointed 5 July 2001

Tony Howarth 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 on the board of the Rio-Tinto WA Future Fund. He is also Chairman of St John of God Health Care Group and a director of the Australian Chamber of Commerce and Industry. He is involved with a number of business and community organisations including the University of Western Australia's Senate, the WA State Council of the Institute of Company Directors, the Prime Ministers Community Business Partnership and the Australia Council's Major Performing Arts Board.

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 a Founding Governor of the Malcolm Sargent Cancer Fund for Children in Western Australia.

RICHARD MALCOLM REID

Non-Executive Director -

Appointed 4 March 2004

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 is 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 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, is significant, as is his knowledge of finance and management with respect to property and other investments.

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.

CHRISTOPHER GLEN SUTHERLAND

Non Executive Director – Resigned 4 March 2004

Chris Sutherland was appointed a director on 19 November 2003 and resigned during the year.

PRINCIPAL ACTIVITIES

Mermaid'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.

There have been no significant changes to these activities during the financial year, other than those detailed in the Chairman's Report and/or in the Review of Operations and Activities.

DIVIDEND

No dividends have been paid or declared since the start of the financial year.

In respect of the financial year ended 30 June 2004 the directors have not recommended the payment of a dividend.

REVIEW OF OPERATIONS

A review of operations for the financial year and the results of those operations are set out in the Review of Operations and Activities.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Chairman's Report and Review of Operations set out matters that have had a significant effect on the state of affairs of Mermaid. Other than those, there were no significant changes in the Company's state of affairs during the financial year.

SUBSEQUENT EVENTS

On 17 September 2004, the Company signed a Memorandum of Understanding with Toll Energy Logistics Pty Ltd. The agreement commenced immediately to pursue common business interests in the offshore oil and gas regions of Australia's North West.

To meet the added activity the Company will develop an inner harbour landing ramp on their facility and pursue the acquisition of a new landing barge.

FUTURE DEVELOPMENTS

The Chairman's Report and Review of Operations and Activities 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

Mermaid continues to maintain its environmental management system in accordance with the requirements of the Department of Environmental Protection.

SHARE OPTIONS

As at the date of this report the Company had a total of 7,110,000 unissued shares under option as follows:

PSA Marine Options

As at the date of this report PSA are entitled to purchase an aggregate of 3 million ordinary shares in the Company.

At the beginning of the financial year there were 6 million PSAM options on issue that were granted on 27 November 2002.

The PSAM Options are exercisable in two (2) tranches. A tranche of 3 million options was exercisable at 31 cents per share, with a term of 12 months from their issue date, and a further tranche of 3 million options is exercisable at 34 cents per share, with a term of 24 months from their issue date.

During the financial year, the first tranche of 3 million options lapsed in accordance with their terms.

Employee Share Options

In accordance with the provisions of the Company's Employee Share Option Plan as at the date of this report employees are entitled to purchase an aggregate of 4,110,000 ordinary shares in the Company.

At the beginning of the financial year, there were 1,895,000 May 2006 Employee Options on issue, granted on 17 May 2002 at an issue price of 44 cents per share that have an expiry date of 17 May 2006.

During the financial year, an aggregate of 170,000 May 2006 Employee Options lapsed in accordance with their terms. At the end of the financial year, employees are entitled to purchase an aggregate of 1,725,000 ordinary shares in Mermaid on or before 17 May 2006.

During the financial year a total of 2,385,000 options were issued to employees (April 2008 Employee Options). The April 2008 Employee Options were issued on 6 May 2004 at an issue price of 40 cents per share and have an expiry date of 22 April 2008.

Director Share Options

At the beginning of the financial year, there were 150,000 Director Options on issue, granted on 24 July 2001 at an issue price of 80 cents per share that had an expiry date of 24 July 2003.

No options were granted to directors during the financial year.

During the financial year, an aggregate of 150,000 Director Options lapsed in accordance with their terms. At the date of this report, there are no Director Options on issue. Note, the 400,000 Options held by J. Weber were issued as Employee Share Options. Refer above for further details.

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 or interest issue of the Company or of any other body corporate or registered scheme.

Further details of the Employee Option Plan are disclosed in Note 25 to the financial statements.

INDEMNITIES AND INSURANCE PREMIUMS FOR OFFICERS AND AUDITORS

During the financial year, Mermaid paid a premium for a contract insuring all of the directors of the Company, the company secretaries and all executive officers of Mermaid against any liability incurred by such director, secretary or executive officer during the course of their duties as such director, secretary or executive officer 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 policy does not allocate an identifiable part of the premium to specific directors or officers. Accordingly, the premium paid has not been apportioned to directors' remuneration.

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 against a liability incurred as such officer or auditor.

DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each director whilst they were a director of the Company. During the financial year, 7 board meetings, 3 audit committee meetings and 3 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	7	3	3	-	-
J A Weber	7	7	-	-	-	-
M F Bradley	7	7	-	-	-	-
J H Carver	7	7	-	-	-	-
P Chew	7	1	-	-	-	-
A J Howarth	7	6	3	2	3	3
J A S Mews	7	7	3	3	3	3
R M Reid	7	6	-	-	3	3
K T Chan (Alternate)	7	1	-	-	-	-
C G Sutherland	5	5	-	-	-	-

DIRECTORS' SHAREHOLDINGS

As at the date of this report, directors' interests in shares and options of the Company are as follows:

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

DIRECTORS' AND EXECUTIVES' REMUNERATION

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

- A G Birchmore (Chairman)
- J A Weber (Chief Executive Officer)
- 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)
- K T Chan (Alternate - Non-Executive)
- C G Sutherland (Non-Executive), resigned 4 March 2004

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

- B Gore (Chief Financial Officer/Company Secretary)
- E Graham (General Manager – Development)
- B Macgregor (Manager – Vessel Operations)
- D Verboon (General Manager – Slipway)

Directors' and executives' remuneration

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 Company.

2004	Primary Salary & Fees $	Primary Bonus $	Primary Non-monetary $	Post Employment Super-annuation $	Post Employment Prescribed benefits $	Other $	Equity Options $	Other benefits $	Total $
Directors									
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	-	33,473	51,539	-	-	-	-	830,159

	Primary Salary & Fees $	Primary Bonus $	Primary Non-Monetary $	Post Employment Super-annuation $	Post Employment Prescribed benefits $	Other $	Equity Options (i) $	Other Benefits $	Total $
Executives									
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) Options Granted – includes the executive and employee share plan as disclosed in note 25 to the financial statements. 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. The above disclosure is made in order to comply with the requirements of the Australian Securities and Investment Commission.

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, 28 September 2004

Statement of Financial Performance

For the financial year ended 30 June 2004

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
Revenue from ordinary activities	2	35,132,310	27,031,298	1,867,293	2,829,900
Share of revenue from associates' activities		7,185,650	15,580,226	-	-
Group Revenue		42,317,960	42,611,524	1,867,293	2,829,900
Share of revenue from associates' activities		(7,185,650)	(15,580,226)	-	-
Total Revenue from Ordinary Activities		35,132,310	27,031,298	1,867,293	2,829,900
Share of net profits of associate accounted for using the equity method	11	263,595	523,005	-	-
Vessel expenses		(20,799,768)	(23,644,012)	-	-
Supply base expenses		(6,165,619)	(10,942,441)	-	-
Engineering and Labour Hire expenses		(436,976)	(291,895)	-	-
Administrative expenses		(2,113,824)	(2,230,928)	(11,928)	(20,448)
Corporate expenses		-	-	-	(10,209,260)
Borrowing costs		(2,335,224)	(1,920,649)	(30,757)	(73,936)
Profit/(Loss) From Ordinary Activities Before Income Tax Benefit	2,3	3,544,494	(11,475,622)	1,824,608	(7,473,744)
Income tax benefit relating to ordinary activities	4	755,271	802,870	45,839	3,765
Profit/(Loss) From Ordinary Activities After Related Income Tax Benefit		4,299,765	(10,672,752)	1,870,447	(7,469,979)
Net Profit/(Loss)		4,299,765	(10,672,752)	1,870,447	(7,469,979)
Net Profit/(Loss) Attributable to Members of the Parent Entity		4,299,765	(10,672,752)	1,870,447	(7,469,979)
Total Changes in Equity Other than those Resulting from Transactions with Owners as Owners.	21	4,299,765	(10,672,752)	1,870,447	(7,469,979)
Earnings/(Loss) Per Share					
- Basic (cents per share)	27	3.75	(10.23)		
- Diluted (cents per share)	27	3.74	(10.23)		

Notes to the financial statements are included in pages 23 to 61

Statement of Financial Position

As at 30 June 2004

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
Current Assets					
Cash assets		6,068,589	5,791,997	2,457,994	4,617,017
Receivables	6	8,516,191	7,065,470	21,907	34,920
Inventories	7	467,694	407,923	-	-
Current tax assets	9	-	2,871	-	2,871
Other	10	918,936	733,100	-	2,083
Total Current Assets		15,971,410	14,001,361	2,479,901	4,656,891
Non-Current Assets					
Investments accounted for using the equity method	11	494,471	230,876	-	-
Other financial assets	8	-	-	33,674,548	29,421,263
Property, plant & equipment	12	60,771,589	59,517,250	-	-
Intangibles	14	223,504	256,338	-	-
Total Non-Current Assets		61,489,564	60,004,464	33,674,548	29,421,263
Total Assets		77,460,974	74,005,825	36,154,449	34,078,154
Current Liabilities					
Payables	15	5,622,122	4,625,608	4,706	5,729
Interest-bearing liabilities	16	6,406,972	5,920,911	-	-
Provisions	17	504,645	431,206	-	-
Total Current Liabilities		12,533,739	10,977,725	4,706	5,729
Non-Current Liabilities					
Payables	15	-	75,600	-	-
Interest-bearing liabilities	16	24,276,642	26,842,533	-	-
Provisions	17	129,526	95,536	-	-
Deferred tax liabilities	18	206,871	-	206,871	-
Total Non-Current Liabilities		24,613,039	27,013,669	206,871	-
Total Liabilities		37,146,778	37,991,394	211,577	5,729
Net Assets		40,314,196	36,014,431	35,942,872	34,072,425
Equity					
Contributed equity	19	39,658,553	39,658,553	39,658,553	39,658,553
Reserves	20	3,763,956	3,763,956	-	-
Retained profits/(Accumulated losses)	21	(3,108,313)	(7,408,078)	(3,715,681)	(5,586,128)
Total Equity		40,314,196	36,014,431	35,942,872	34,072,425

Notes to the financial statements are included in pages 23 to 61

Statement of Cash Flows

For the financial year ended 30 June 2004

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
Cash Flows from Operating Activities					
Receipts from customers		37,369,070	28,108,859	1,854,177	2,719,089
Interest received		205,309	145,430	181,678	140,868
Payments to suppliers and employees		(29,429,172)	(23,952,696)	(163,546)	(59,762)
Income tax received/(paid)		1,023,279	157,962	45,839	(7,975)
Interest and other costs of finance paid		(2,293,606)	(1,920,649)	(30,757)	(85,132)
Dividends Received		-	880,985	-	880,985
Net Cash Provided By Operating Activities	22(a)	6,874,880	3,419,891	1,887,391	3,588,073
Cash Flows from Investing Activities					
Payments for property, plant and equipment		(2,824,949)	(5,062,620)	-	-
Proceeds from sale of property, plant and equipment		52,870	128,683	-	-
Amounts received from (advanced to) related parties		-	167,918	(4,046,414)	(7,432,358)
Net Cash Used In Investing Activities		(2,772,079)	(4,766,019)	(4,046,414)	(7,432,358)
Cash Flows from Financing Activities					
Proceeds from issue of shares		-	7,047,500	-	7,047,500
Payment of Share Issue Costs		-	(91,289)	-	(91,289)
Repayment of Borrowings		(937,500)	(120,000)	-	-
Hire purchase principal payments		(2,888,709)	(2,427,621)	-	-
Net Cash (Used In)/ Provided By Financing Activities		(3,826,209)	4,408,590	-	6,956,211
Net Increase/(Decrease) in Cash Held		276,592	3,062,462	(2,159,023)	3,111,926
Cash at the Beginning of the financial year		5,791,997	2,729,535	4,617,017	1,505,091
Cash at the End of the financial year	22(b)	6,068,589	5,791,997	2,457,994	4,617,017

Notes to the financial statements are included in pages 23 to 61

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) Capital Gains Tax

No provision has been made for capital gains tax which may arise in the event of sale of revalued assets as no decision has been made to sell any of these assets.

(d) Capitalisation of Borrowing Costs

Borrowing costs directly attributable to capital assets under construction are capitalised as part of the cost of those assets.

(e) Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two (2) workings days, net of outstanding bank overdrafts.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(f) 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

(g) 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.

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.

(h) 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.

(i) 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.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(j) 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 rate in deferred tax assets and deferred tax liabilities, as applicable.

During the 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.

(k) 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.

(l) Inventory

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

(m) 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.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(n) 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.

(o) 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 consolidated financial 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.

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

(p) 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.

(q) 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.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(r) 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.

(s) 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.

(t) 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.

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

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(v) 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.

(w) 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.

Dividends

A provision is recognised for dividends when they have been declared, determined or publicly recommended by the directors.

2. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES

Profit/(Loss) from ordinary activities before income tax includes the following items of revenue and expense

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
Operating Revenue					
Rendering of services		33,815,626	25,234,474	1,686,432	1,773,130
Rental Revenue		987,520	590,762	-	-
Interest – other entities		276,294	145,430	180,861	140,868
Dividend from associate entity		-	-	-	915,902
Equity share of associates' profits		263,595	523,005	-	-
		35,343,035	26,493,671	1,867,293	2,829,900
Non Operating Revenue					
Proceeds from partial surrender of lease and easement		-	900,000	-	-
Proceeds from sale of assets Property, plant and equipment		52,870	128,683	-	-
Net transfers from provisions Employee Benefits		-	31,949	-	-
		52,870	1,060,632	-	-
Expenses					
Depreciation of non-current assets					
Leasehold buildings and improvements		947,987	950,335	-	-
Vessels		487,293	416,008	-	-
Vessels – hire purchase		1,026,880	921,353	-	-
Plant and equipment		643,731	695,967	-	-
Plant and equipment – hire purchase		83,887	50,157	-	-
Amortisation of non-current assets					
Goodwill		32,834	-	-	-
Net bad and doubtful debts arising from: Other entities		18,426	54,441	-	-
Net foreign exchange loss		16,438	8,023	-	-
Borrowing costs:					
Interest expense – other entities		1,610,942	1,214,661	30,757	73,936
Finance charges – lease finance charges		724,282	705,988	-	-
Operating leases – rental expenses		251,671	245,223	-	-
Recoverable amount write-down on non-current assets					
Vessels		-	6,376,279	-	-
Supply Base		-	5,272,729	-	-
Loans to controlled entities		-	-	-	10,209,260

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
3. SALES OF ASSETS					
Sales of assets in the ordinary course of business have given rise to the following profits and losses					
Net Profits					
Property, plant and equipment		33,771	937,350	-	-
Net Losses					
Property, plant and equipment		22,003	49,285	-	-

4. INCOME TAX

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
(a) The prima facie income tax (expense) benefit on pre-tax accounting profit/(loss) reconciles to the income tax (expense) benefit in the financial statements as follows:					
Profit/(Loss) from Ordinary Activities		3,544,494	(11,475,622)	1,824,608	(7,473,744)
Income tax (expense)/benefit calculated at 30% of operating profit/(loss)		(1,063,348)	3,442,686	(547,382)	2,242,123
Permanent differences:					
Permanent depreciation differences		77,969	8,261	-	-
Entertainment		(11,307)	(9,661)	-	-
Legal		(15,530)	(14,097)	-	-
Other items		(3,149)	(9,090)	-	(1,200)
Tax losses and timing differences recognised for first time		936,286	-	547,382	-
Future income tax benefit no longer required		-	(518,220)	-	-
Future income tax benefit not meeting recognition criteria		-	(3,602,585)	-	561,324
Provision for deferred income tax no longer required		-	1,341,474	-	-
Non-deductible provision on intercompany loans		-	-	-	(3,062,778)
Reversal of tax expense on amendment of prior year returns		962,142	-	45,839	-
Equity share of associates' profit		79,079	164,102	-	-
Rebateable dividend		-	-	-	264,296
Under provision of income tax in previous year		(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		-	-	206,871	-
Net income tax expense/(benefit) arising under tax sharing agreements with subsidiaries in the tax consolidated group		-	-	(206,871)	-
		755,271	802,870	45,839	3,765
Income tax (expense)/benefit attributable to operating profit/(loss)		755,271	802,870	45,839	3,765
(b) Future income tax benefits not bought to account as assets:					
Tax losses – revenue		-	1,386,225	-	-
Timing differences		-	821,015	-	-
		-	2,207,240	-	-

4. INCOME TAX (continued)

The taxation benefit of tax losses and timing differences not bought to account will only be obtained if:

(i) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;

(ii) the Company continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) no changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the loss.

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 financial year, the directors elected that the Company and all its wholly-owned Australian resident entities would join a tax-consolidated group as from 1 July 2002. 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 (2003: nil)

	Consolidated		Company	
	2004	2003	2004	2003
	$	$	$	$
Adjusted franking account balance (tax paid basis)	2,893,755	3,693,525	2,893,755	3,520,505

	Consolidated		Company	
	2004	2003	2004	2003
	$	$	$	$
6. CURRENT RECEIVABLES				
Trade receivables	6,589,899	4,504,941	-	-
Allowance for doubtful debts	(18,503)	(592)	-	-
Other receivables	1,801,279	2,386,725	21,907	34,920
Goods and services tax (GST) recoverable	143,516	174,396	-	-
	8,516,191	7,065,470	21,907	34,920
7. INVENTORIES				
Consumables – at cost	467,694	407,923	-	-
8. OTHER FINANCIAL ASSETS				
NON CURRENT				
Loans - wholly-owned controlled entities	-	-	41,059,197	36,805,912
Recoverable amount write down of loans to controlled entities	-	-	(10,209,260)	(10,209,260)
Shares in controlled entities	-	-	2,824,611	2,824,611
	-	-	33,674,548	29,421,263
9. TAX ASSETS				
CURRENT				
Income tax receivable	-	2,871	-	2,871
10. OTHER CURRENT ASSETS				
Prepayments	918,936	733,100	-	2,083
	918,936	733,100	-	2,083

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Name of Entity	Principal Activity	Ownership Interest 2004 %	Ownership Interest 2003 %	Consolidated Carrying Amount 2004 $	Consolidated Carrying Amount 2003 $
Associate					
Mermaid Clough Pty Ltd (i) (ii)	Shallow water pipeline installation	50	50	494,471	230,876
				494,471	230,876

(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 2004 $	Consolidated 2003 $
Movement in Investments in Associate		
Equity accounted amount of investment at the beginning of the financial year	230,876	846,194
Transfer of interests in associate to consolidated entity	-	(222,422)
Share of profit from ordinary activities before income tax expense	283,118	757,436
Share of income tax expense related to ordinary activities	(19,523)	(234,431)
Share of dividend	-	(915,901)
Equity accounted amount of investment at the end of the financial year	494,471	230,876
Summarised Financial Position of Associate		
Current assets		
Cash	1,137,237	327,488
Receivables	473,225	756,735
Prepayments	18,022	26,649
Non-current assets		
Plant and equipment	-	-
Deferred Tax Assets	84,920	-
Current liabilities		
Payables	(561,361)	(451,125)
Tax Liabilities	(163,000)	(197,894)
Provisions	-	-
Other	-	-
Non-current liabilities		
Deferred tax liabilities	-	-
Net Assets	989,043	461,853
Net Profit	988,943	461,753
Share of Reserves Attributable to Associate		
Retained profits		
at the beginning of the financial year	230,876	606,194
at the end of the financial year	494,471	230,876

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 AND 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 2003	33,373,273	7,991,053	17,621,310	5,153,769	1,186,632	65,326,037
Additions	698,216	349,009	2,456,482	850,230	131,282	4,485,219
Disposals	-	-	(11,974)	(428,422)	(113,011)	(553,407)
Transfers	-	608,711	(608,711)	(76,200)	76,200	-
Balance at 30 June 2004	34,071,489	8,948,773	19,457,107	5,499,377	1,281,103	69,257,849
Accumulated Depreciation						
Balance at 30 June 2003	(983,615)	(789,633)	(1,719,227)	(2,166,059)	(150,253)	(5,808,787)
Disposals	-	-	2,592	396,702	113,011	512,305
Transfers	-	(190,782)	190,782	312	(312)	-
Depreciation expense	(947,987)	(487,293)	(1,026,880)	(643,731)	(83,887)	(3,189,778)
Balance at 30 June 2004	(1,931,602)	(1,467,708)	(2,552,733)	(2,412,776)	(121,441)	(8,486,260)
Net Book Value						
As at 30 June 2003	32,389,658	7,201,420	15,902,083	2,987,710	1,036,379	59,517,250
As at 30 June 2004	32,139,887	7,481,065	16,904,374	3,086,601	1,159,662	60,771,589

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

Leasehold Buildings and Improvements carried at cost were valued during 2003 using an independent valuer which assessed the value at $36.2 million. The valuation was based on a depreciated replacement cost basis.

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $

12. PROPERTY PLANT AND EQUIPMENT (continued)

	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
Assets written down to recoverable amount				
Leasehold buildings and improvements				
At recoverable amount	2,418,071	2,418,071	-	-
Less subsequent depreciation	(86,089)	(28,539)	-	-
	2,331,982	2,389,532	-	-
At cost	29,807,905	30,000,126	-	-
Total leasehold buildings and improvements	32,139,887	32,389,658	-	-
Vessels – at cost				
At recoverable amount	1,266,573	1,266,573	-	-
Less subsequent depreciation	(158,100)	(54,249)	-	-
	1,108,473	1,212,324	-	-
At cost	6,372,592	5,989,096	-	-
Total vessels – at cost	7,481,065	7,201,420	-	-
Vessels – hire purchase – at cost				
At recoverable amount	8,214,198	8,214,198	-	-
Less subsequent depreciation	(743,001)	(247,667)	-	-
	7,471,197	7,966,531	-	-
At cost	9,433,177	7,935,552	-	-
Total – Vessels – hire purchase – at cost	16,904,374	15,902,083	-	-

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.

14. INTANGIBLES

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
Goodwill		256,338	256,338	-	-
Accumulated amortisation		(32,834)	-	-	-
		223,504	256,338	-	-

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
15. PAYABLES					
CURRENT					
GST Payable		461,759	214,688	-	-
Trade payables		3,266,822	2,636,072	-	-
Other payables and accruals		1,893,541	1,774,848	4,706	5,729
		5,622,122	4,625,608	4,706	5,729
NON CURRENT					
Other payables and accruals		-	75,600	-	-
		-	75,600	-	-
16. INTEREST – BEARING LIABILITIES					
CURRENT					
Hire purchase liability – secured (i)	24(a)	5,386,972	3,830,911	-	-
Bank loan – secured (ii)		1,020,000	2,090,000	-	-
		6,406,972	5,920,911	-	-
NON CURRENT					
Hire purchase liability – secured (i)	24(a)	3,844,946	8,152,533	-	-
Bank loan – secured (ii)		20,431,696	18,690,000	-	-
		24,276,642	26,842,533	-	-

(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.

17. PROVISIONS

	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
CURRENT PROVISIONS				
Employee benefits (i)	504,645	431,206	-	-
NON CURRENT PROVISIONS				
Employee benefits (i)	129,526	95,536	-	-

(i) Employee Benefits
The aggregate employee benefits liability recognised and included in the financial statements is as follows.
Provision for Employee benefits:

	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
Current	504,645	431,206	-	-
Non-current	129,526	95,536	-	-
Accruals (i)	51,179	430,180	-	-
	685,350	956,922	-	-

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

	Consolidated 2004 No.	Consolidated 2003 No.	Company 2004 No.	Company 2003 No.
Number of employees at end of financial year	159	134	-	-

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
18. TAX LIABILITIES					
DEFERRED TAX LIABILITIES					
Deferred income tax attributable to entities in the tax consolidation group		206,871	-	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:	1,025,371	-	1,025,371	-

19. CONTRIBUTED EQUITY

Contributed Equity				
114,682,285 fully paid ordinary shares (2003: 114,682,285)	39,658,553	39,658,553	39,658,553	39,658,553
Fully paid ordinary shares carry one vote per share and carry the right to dividends	39,658,553	39,658,553	39,658,553	39,658,553

	2004		2003	
Fully Paid Ordinary Share Capital	No	$	No	$
Balance at beginning of financial year	114,682,285	39,658,553	90,402,285	32,562,342
Issue of shares	-	-	24,280,000	7,096,211
Balance at end of financial year	114,682,285	39,658,553	114,682,285	39,658,553

Share Options

PSA Marine Options

At the end of the financial year PSA are entitled to purchase an aggregate of 3 million ordinary shares in the Company.

At the beginning of the financial year there were 6 million PSAM options on issue that were granted on 27 November 2002.

The PSAM Options are exercisable in two (2) tranches. A tranche of 3 million options was exercisable at 31 cents per share, with a term of 12 months from their issue date, and a further tranche of 3 million options is exercisable at 34 cents per share, with a term of 24 months from their issue date.

During the financial year, the first tranche of 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.

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
20. RESERVES					
Reserves Comprise					
		3,763,956	3,763,956	-	-
General reserve (i)		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. RETAINED PROFITS

Balance at beginning of financial year	(7,408,078)	3,264,674	(5,586,128)	1,883,851
Net Profit/(Loss)	4,299,765	(10,672,752)	1,870,447	(7,469,979)
Balance at end of financial year	(3,108,313)	(7,408,078)	(3,715,681)	(5,586,128)

	Note	Consolidated		Company	
		2004	2003	2004	2003
		$	$	$	$

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/(Loss) from ordinary activities after related income tax	4,299,765	(10,672,752)	1,870,447	(7,469,979)
Depreciation of non current assets	3,189,778	3,033,820	-	-
Amortisation of non current assets	32,834	-	-	-
(Profit)/Loss on sale of property, plant and equipment	(11,768)	(888,065)	-	-
Dividend receivable from controlled entity	-	-	-	(34,920)
Share of associates' (profit)/loss (less dividends)	(263,595)	392,896	-	-
Recoverable amount write down	-	11,649,008	-	10,209,260
Increase / (Decrease) in provision for income tax	2,871	-	2,871	(14,225)
(Increase) / Decrease in future income tax benefit	-	518,219	-	-
Increase / (Decrease) in provision for deferred tax	206,871	(1,341,474)	-	-
Changes in net assets and liabilities				
Current and other receivables	(1,450,721)	(677,865)	13,013	945,959
Prepayments	(185,836)	(85,957)	2,083	1,250
Inventory	(59,771)	233,635	-	-
Provisions	107,429	93,706	-	-
Current payables	1,007,023	1,164,720	(1,023)	(49,272)
Net cash flows from operating activities	6,874,880	3,419,891	1,887,391	3,588,073

(b) Reconciliation of cash

Cash balance comprises:

Cash at bank	6,068,589	5,791,997	2,457,994	4,617,017

(c) Non-Cash Financing and Investing Activities

During the financial year, the consolidated entity acquired property, plant and equipment through hire purchase and bank loans to the value of $1,746,379. These acquisitions are not reflected in the statement of cashflows.

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $

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

(d) Financing facilities

Secured loan facilities with various maturing dates through to 2014 and which may be extended by mutual agreement:					
– Amount used		21,451,696	20,780,000	-	-
– Amount unused		-	-	-	-
		21,451,696	20,780,000	-	-
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	-	-

(e) Controlled Entity Acquired

Consideration					
800,000 ordinary shares		-	140,000	-	-
		-	140,000	-	-
Fair Value of Net Assets Acquired					
Current Assets					
Receivables		-	44,973	-	-
Non-current assets					
Receivables		-	2,441	-	-
Deferred tax assets		-	41,691	-	-
Current Liabilities					
Payables		-	(37,443)	-	-
Net assets acquired		-	51,662	-	-
Goodwill on acquisition		-	88,338	-	-
		-	140,000	-	-
Net Cash Outflow on Acquisition					
Cash consideration		-	-	-	-
Less cash balances acquired		-	-	-	-
		-	-	-	-

23. EXPENDITURE COMMITMENTS

Lease Commitments

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

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $

24. LEASES

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
(a) Hire Purchase Contracts					
Not later than 1 year		5,399,366	4,499,064	-	-
Later than 1 year and not later than 5 years		4,337,649	8,746,719	-	-
Later than 5 years		-	-	-	-
Minimum future payments		9,737,015	13,245,783	-	-
Less future finance charges		(505,097)	(1,262,339)	-	-
Hire purchase liability		9,231,918	11,983,444	-	-
Included in the financial statements as:					
Interest bearing liability – current (note 16)		5,386,972	3,830,911	-	-
Interest bearing liability – non current (note 16)		3,844,946	8,152,533	-	-
		9,231,918	11,983,444	-	-
(b) Operating Leases					
Not later than 1 year		251,671	225,511	-	-
Later than 1 year and not later than 5 years		933,143	348,023	-	-
Later than 5 years		819,420	897,460	-	-
Aggregate lease expenditure contracted for at balance date		2,004,234	1,470,994	-	-
Aggregate operating lease commitments comprise:					
Office rental commitments		758,647	130,801	-	-
Supply base rental commitments		1,209,620	1,287,660	-	-
Other		35,968	52,533	-	-
		2,004,235	1,470,994	-	-

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 $156,961 per annum.

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

A Share Option Incentive Plan has been established 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.

Employee Share Options

In accordance with the provisions of the Company's Employee Share Option Plan as at the date of this report employees are entitled to purchase an aggregate of 4,110,000 ordinary shares in the Company.

At the beginning of the financial year, there were 1,895,000 May 2006 Employee Options on issue, granted on 17 May 2002 at an issue price of 44 cents per share and have an expiry date of 17 May 2006.

During the financial year, an aggregate of 170,000 May 2006 Employee Options lapsed in accordance with their terms. At the end of the financial year, employees are entitled to purchase an aggregate of 1,725,000 ordinary shares in Mermaid on or before 17 May 2006.

During the financial year a total of 2,385,000 were issued to employees (April 2008 Employee Options). The April 2008 Employee Options were issued on 6 May 2004 at an issue price of 40 cents per share and have an expiry date of 22 April 2008.

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 directors, executives and employees is not recognised in the financial statements except for the purposes of determining directors' and executives' remuneration in respect of that financial year as disclosed in note 28 to the financial statements.

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 or interest issue of the Company or of any other body corporate or registered scheme.

The market value of Mermaid Marine Australia Limited's ordinary shares at 30 June 2004 was 32.5 cents.

The consolidated entity has an ownership-based remuneration scheme for employees. The number of options granted in accordance in accordance with the provisions of the scheme, as approved by shareholders at an annual general meeting.

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	**2004** **No.**	**2003** **No.**
Balance at the beginning of the financial year (i)	1,895,000	3,332,500
Granted during the financial year (ii)	2,385,000	-
Exercised during the financial year (iii)	-	-
Lapsed during the financial year (iv)	(170,000)	(1,437,500)
Balance at the end of the financial year (v)	4,110,000	1,895,000

(i) Balance at the beginning of the financial year

Options	**No.**	**Grant Date**	**Expiry date**	**Exercise price $**
May 2006 Options	1,895,000	17/05/2002	17/05/2006	0.44
	1,895,000			

Employee share options carry no rights to dividends and no voting rights.

In accordance with the terms of the employee share option plan, options issued during the year ended 30 June 2002, 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 the date of the vesting period to the date of their expiry.

25. SHARE OPTION INCENTIVE PLAN (continued)

(ii) Granted during the financial year

2004 Options	No.	Grant Date	Expiry/ exercise date	Exercise price $	Fair Value Received $
April 2008 Options	2,385,000	06/05/2004	22/04/2008	0.40	-
	2,385,000				

2003 Options	No.	Grant Date	Expiry/ exercise date	Exercise price $	Fair Value Received $
nil	-	-	-	-	-
	-				

In accordance with the terms of the employee share option plan, options issued during the year ended 30 June 2004, vest 12 months following their issue date.

(iii) Exercised during the financial year

No options were exercised during the years ended 30 June 2003 and 30 June 2004.

2004 Options	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 $
May 2006 Options	-	17/05/02	17/05/03	17/05/06	0.44	-	-	-
April 2008 Options	-	06/05/04	06/05/05	22/04/08	0.40	-	-	-
	-					-	-	-

2003 Options	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 $
May 2006 Options	-	17/05/02	17/05/03	17/05/06	0.44	-	-	-
	-					-	-	-

(iv) Lapsed during the financial year

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

Options	2004 No.	2003 No.
November 2002 Options	-	1,072,500
May 2006 Options	170,000	365,000
	170,000	1,437,500

Options series 'November 2002 Options' and 'May 2006 Options' are options to purchase ordinary shares at $0.58 and $0.44 respectively per share at any time from the date of their issue to the date of their expiry. The options carry no voting or dividend rights.

25. SHARE OPTION INCENTIVE PLAN (continued)

(v) Balance at end of the financial year

2004 Options	No.	Vested No.	Unvested No.	Grant Date	Expiry Date	Exercise price $
May 2006 Options	1,725,000	1,725,000	-	17/05/02	17/05/06	0.44
April 2008 Options	2,385,000	-	2,385,000	06/05/04	22/04/08	0.40
	4,100,000					

2003 Options	No.	Vested No.	Unvested No.	Grant Date	Expiry Date	Exercise price $
May 2006 Options	1,895,000	1,895,000	-	17/05/02	17/05/06	0.44
	1,895,000					

Employee share options carry no rights of dividends and no voting rights.

In accordance with the terms of the employee share option plan, options issued during the year ended 30 June 2003, 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 the date of the vesting period 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 executives and 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 disclosed in remuneration in respect of the financial years over which the entitlement was earned.

Consideration received on the exercised of executive options is recognised in contributed equity. During the financial year no options were exercise, hence no amount was recognised in contributed equity arising from the exercise of executive and employee options (2003: $nil).

Director Options

At the beginning of the financial year, there were 150,000 Director Options on issue. These were granted on 24 July 2001 at an issue price of 80 cents per share and had an expiry date of 24 July 2003.

On 24 July 2003, an aggregate of 150,000 Director Options lapsed in accordance with their terms.

At year end there were no Director Options on issue.

26. SUBSEQUENT EVENTS

On 17 September 2004, the Company signed a Memorandum of Understanding with Toll Energy Logistics Pty Ltd. The agreement commenced immediately to pursue common business interests in the offshore oil and gas regions of Australia's North West.
To meet the added activity the Company will develop an inner harbour landing ramp on their facility and pursue the acquisition of a new landing barge.

27. EARNINGS PER SHARE

	2004 Cents per Share	2003 Cents per Share
Basic earnings per share	3.75	(10.23)
Diluted earnings per share	3.74	(10.23)

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:

	2004 $	2003 $
Earnings (a)	4,299,765	(10,672,752)

	2004 No.	2003 No.
Weighted average number of ordinary shares (b)	114,682,285	104,289,189

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

	2004 $	2003 $
Net profit/(loss)	4,299,765	(10,672,752)
Earnings used in the calculation of basic EPS	4,299,765	(10,672,752)

(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:

	2004 $	2003 $
Earnings (a)	4,299,765	(10,672,752)

	2004 No.	2003 No.
Weighted average number of ordinary shares and potential ordinary shares (b)	115,021,538	104,289,189

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

	2004 $	2003 $
Net profit/(loss)	4,299,765	(10,672,752)
Earnings used in the calculation of diluted EPS	4,299,765	(10,672,752)

(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:

	2004 No.	2003 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	114,682,285	104,289,189
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	115,021,538	104,289,189

27. EARNINGS PER SHARE (Continued)

(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.

	2004 No.	2003 No.
Options	2,660,747	6,000,000
Options-Lapsed	3,000,000	-
Director Options	-	150,000
Director Options – Lapsed	150,000	-
Employee Options	4,110,000	1,895,000
Employee Options – Lapsed	170,000	1,437,500
	10,090,747	9,482,500

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 (Chief Executive Officer)
- 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)
- K T Chan (Alternate - Non-Executive)
- C G Sutherland (Non-Executive), appointed 19 November 2003, resigned 4 March 2004

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

- B Gore (Chief Financial Officer/Company Secretary) – employed by Mermaid Marine Vessel Operations Pty Ltd
- E Graham (General Manager – Development) – employed by Mermaid Marine Vessel Operations Pty Ltd
- B Macgregor (Manager – Vessel Operations) – employed by Mermaid Marine Vessel Operations Pty Ltd
- D Verboon (General Manager – Slipway) – employed by Mermaid Marine Vessel Operations Pty Ltd

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 (Continued)

2004	Primary			Post Employment			Equity		
	Salary & Fees $	Bonus $	Non-monetary $	Super-annuation $	Prescribed benefits $	Other $	Options $	Other benefits $	Total $
Specified Directors									
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

2004	Primary			Post Employment			Equity		
	Salary & Fees $	Bonus $	Non-Monetary $	Super-annuation $	Prescribed benefits $	Other $	Options $	Other Benefits $	Total $
Specified Executives									
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

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 note 25 to the financial statements.

29. AUDITORS' REMUNERATION

	2004 $	2003 $	2004 $	2003 $
Auditor of the Parent Entity				
Auditing the financial report	85,000	89,000	-	-
Other services	171,791	151,825	-	-
	256,791	240,825	-	-

30. RELATED PARTY AND SPECIFIED EXECUTIVE DISCLOSURES

(1) Equity interests in related parties

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.

Equity interests in associates and joint ventures

Details of interests in associates is disclosed in note 11 to the financial statements.

Equity interests in other related parties

There are no equity interests in other related parties.

(2) Specified directors' and executives' remuneration

Details of specified directors' and executives' remuneration are disclosed in note 28 to the financial statements.

(3) Specified directors' and executives' equity holdings

Fully paid ordinary shares issued by Mermaid Marine Australia Limited

	Balance at 1/7/03 No.	Granted as remuneration No.	Received on exercise of options No.	Net Other Change No.	Balance at 30/6/04 No.	Balance held nominally No.
Specified Directors						
A G Birchmore	11,667,094	-	-	-	11,667,094	-
J A Weber	-	-	-	-	-	-
M F Bradley	6,666,666	-	-	-	6,666,666	-
J H Carver	9,891,665	-	-	(140,839)	9,750,826	-
P Chew	-	-	-	-	-	-
A J Howarth	200,000	-	-	100,000	300,000	-
J A S Mews	1,500,000	-	-	-	1,500,000	-
R M Reid	-	-	-	-	-	-
K T Chan	-	-	-	-	-	-
C G Sutherland	-	-	-	-	-	-
Specified Executives						
B D Gore	-	-	-	-	-	-
E Graham	-	-	-	-	-	-
B Macgregor	-	-	-	-	-	-
D Verboon	-	-	-	-	-	-
Total	29,925,425	-	-	(40,839)	29,884,586	-

30. RELATED PARTY AND SPECIFIED EXECUTIVE DISCLOSURES (Continued)

Executive share options issued by Mermaid Marine Australia Limited

	Balance at 1/7/03	Granted as remuneration	Exercised	Lapsed	Balance at 30/6/04	Balance vested at 30/6/04	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	150,000	-	-	150,000	-	-	-	-	-
J A S Mews	-	-	-	-	-	-	-	-	-
R M Reid	-	-	-	-	-	-	-	-	-
K T Chan	-	-	-	-	-	-	-	-	-
C G Sutherland	-	-	-	-	-	-	-	-	-
Specified Executives									
B D Gore	150,000	300,000	-	-	450,000	150,000	-	150,000	-
E Graham	100,000	100,000	-	-	200,000	100,000	-	100,000	-
B Macgregor	-	100,000	-	-	100,000	-	-	-	-
D Verboon	100,000	100,000	-	-	200,000	100,000	-	100,000	-
	900,000	600,000	-	150,000	1,350,000	750,000	-	750,000	-

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 options 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.

During the financial year no options were exercised by specified directors and executives. Further details of the options granted during the year are contained in note 25 to the financial statements.

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.

The following related party transactions occurred during the financial year:

30. RELATED PARTY AND SPECIFIED EXECUTIVE DISCLOSURES (Continued)

(4) Transactions with directors and director related entities

(a) Directors Fees

(i) During the year, a total of $79,234 (2003: $80,877) for directors fees and superannuation 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 $24,793 (2003: $38,150) for Directors' fees were paid to Clough Engineering Limited. R M Reid is 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 $12,400 (2003: Nil) for Directors' fees were paid to Clough Services Pty Ltd. C G Sutherland was an officer of Clough Services Pty Ltd. This is reflected in full in note 28 – Remuneration of Directors.

(iv) During the year a total of $38,150 (2003: 20,417) 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.

(b) Fremantle Premises

(i) 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.

(ii) During the year, the Company exercised its right to renew the term of the lease for a further 5 years commencing 1 May 2004.

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

(iv) The annual rental is $156,961 per annum plus outgoings. Rental is subject to market reviews every 2½ years during the term, although the rental may not decrease.

(v) Rental and outgoings paid during the financial year amounted to $172,025 (2002: $171,597).

(c) 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 $96,690 (2002: $108,326), based upon an agreed market day rate. This is reflected in full in Note 28 – Remuneration of Directors.

(5) Transactions with other related parties

Mermaid Clough Pty Ltd

During the financial year the Company received from Mermaid Clough Pty Ltd (MCJV) amounts totalling $4,243,709 (2003: $6,767,856) for various vessel charters, supply base and other services. These services were provided at commercial rates.

(6) 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 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.

(7) Controlling entity

Mermaid Marine Australia Limited is the ultimate Australian parent entity.

31. SEGMENT REPORTING

	Vessels		Supply Base		Engineering & Labour Hire		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	$	$	$	$	$	$	$	$
Segment Revenues								
Sales to outside customers	26,769,320	20,700,255	7,447,186	6,052,909	388,048	-	34,604,554	26,753,164
Inter-segment revenue	743,588	650,353	3,250,239	3,080,949	-	-	3,993,827	3,731,302
Share of net profit of equity accounted investments	-	-	-	-	263,595	523,005	263,595	523,005
Total	27,512,908	21,350,608	10,697,425	9,133,858	651,643	523,005	38,861,976	31,007,471
Eliminations							(3,993,827)	(3,731,302)
Unallocated							527,756	278,134
Total consolidated revenue							35,395,905	27,554,303

Intersegment services are provided for amounts equal to competitive market prices charged to external customers for similar services

	Vessels 2004	Vessels 2003	Supply Base 2004	Supply Base 2003	Engineering & Labour Hire 2004	Engineering & Labour Hire 2003	Total 2004	Total 2003
Segment Results								
Segment result	5,969,552	(2,943,758)	1,281,567	(4,767,964)	214,667	223,809	7,465,786	(7,487,913)
Eliminations							(117,497)	(114,268)
Total							7,348,289	(7,602,181)
Unallocated							(3,803,795)	(3,873,441)
Profit/(Loss) from ordinary activities before income tax expenses							3,544,494	(11,475,622)
Income tax (expense) / benefit relating to ordinary activities							755,271	802,870
Profit/(Loss) from ordinary activities after related income tax expense							4,299,765	(10,672,752)
Net Profit/(Loss)							4,299,765	(10,672,752)
Segment assets and liabilities								
Assets								
Segment assets	33,865,439	33,118,493	36,846,973	35,301,697	4,312,619	4,858,608	75,025,031	73,278,798
Eliminations	(187,995)	-	-	(1,902)	(3,376,469)	(3,926,029)	(3,564,464)	(3,927,931)
	33,677,444	33,118,493	36,846,973	35,299,795	936,150	932,579	71,460,567	69,350,867
Unallocated assets							6,000,407	4,654,958
Consolidated							77,460,974	74,005,825
Liabilities								
Segment Liabilities	5,203,417	4,465,596	4,501,533	4,477,859	108,726	206,700	9,813,676	9,150,155
Eliminations	(736,728)	(1,054,954)	(2,827,736)	(2,872,977)	-	-	(3,564,464)	(3,927,931)
	4,466,689	3,410,642	1,673,797	1,604,882	108,726	206,700	6,249,212	5,222,224
Unallocated liabilities							30,897,566	32,769,170
Consolidated							37,146,778	37,991,394

31. SEGMENT REPORTING (Continued)

	Vessels		Supply Base		Engineering & Labour Hire		Unallocated		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	$	$	$	$	$	$	$	$	$	$
Other segment Information										
Carrying value of equity accounted investments included in segment assets	-	-	-	-	494,471	230,876	-	-	494,471	230,876
Share of net profit of associates accounted for under the equity method	-	-	-	-	263,595	523,005	-	-	263,595	523,005
Acquisition of segment assets	3,454,828	7,055,000	994,547	2,403,250	-	2,500	35,844	60,225	4,485,219	9,520,975
Depreciation and amortisation of segment assets	1,823,703	1,625,115	1,140,905	1,121,985	119,986	132,018	138,018	154,702	3,222,612	3,033,820

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

		Country of Incorporation	Ownership Interest 2004 %	Ownership Interest 2003 %
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:

STATEMENT OF FINANCIAL PERFORMANCE	2004 $	2003 $
Revenue from ordinary activities	34,721,300	27,031,298
Share of net profits of associate accounted for using the equity method	263,595	523,005
Vessel expenses	(20,799,768)	(23,644,012)
Supply base expenses	(6,165,619)	(10,942,441)
Engineering and labour expenses	(96,501)	(291,895)
Administrative expenses	(2,073,708)	(2,230,458)
Borrowing costs	(2,335,224)	(1,920,649)
Profit/(Loss) From Ordinary Activities Before Income Tax Expense	3,514,075	(11,475,152)
Income tax (expense) benefit relating to ordinary activities	764,731	788,288
Profit/(Loss) From Ordinary Activities After Related Income Tax Expense	4,278,806	(10,686,864)
Net Profit/(Loss)	4,278,806	(10,686,864)
Net Profit/(Loss) Attributable to Members of the Parent Entity	4,278,806	(10,686,864)
Total Changes in Equity Other than those Resulting from Transactions with Owners as Owners.	4,278,806	(10,686,864)

32. CONTROLLED ENTITIES (Continued)

STATEMENT OF FINANCIAL POSITION

	2004 $	2003 $
Current Assets		
Cash assets	5,549,207	5,788,955
Receivables	8,501,899	6,973,689
Inventories	467,694	407,923
Current tax assets	-	2,871
Other	918,936	733,100
Total Current Assets	15,437,736	13,906,538
Non-Current Assets		
Investments accounted for using the equity method	494,471	230,876
Other financial assets	1,524,844	1,133,924
Property, plant and equipment	60,771,589	59,517,250
Intangibles	223,504	256,338
Total Non-Current Assets	63,014,408	61,138,388
Total Assets	78,452,144	75,044,926
Current Liabilities		
Payables	5,514,878	4,544,233
Interest-bearing liabilities	6,406,972	5,920,911
Provisions	504,645	431,206
Total Current Liabilities	12,426,495	10,896,350
Non-Current Liabilities		
Payables	1,141,299	1,218,002
Interest-bearing liabilities	24,276,642	26,842,533
Deferred tax liabilities	206,871	-
Provisions	129,526	95,536
Total Non-Current Liabilities	25,754,338	28,156,071
Total Liabilities	38,180,833	39,052,421
Net Assets	40,271,311	35,992,505
Equity		
Contributed equity	39,658,553	39,658,553
Reserves	3,763,956	3,763,956
Retained profits / (Accumulated losses)	(3,151,198)	(7,430,004)
Total Equity	40,271,311	35,992,505
Retained Profits / (Accumulated Losses)		
Retained Profits / (Accumulated losses) at beginning of the financial year	(7,430,004)	3,256,860
Net profit / (loss)	4,278,806	(10,686,864)
Accumulated losses at end of the financial year	(3,151,198)	(7,430,004)

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 2.25 years at an average discount rate of 7.41% (2003: 7.20%). 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 (Continued)

(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 2004 are as follows:

Financial Instruments	Floating interest rate $	Fixed interest rate maturing in: 1 year or less $	Over 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 (Continued)

(b) Interest Rate Risk (continued)

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities as at 30 June 2003 are as follows:

Financial Instruments	Floating interest rate	Fixed interest rate maturing in:			Non interest bearing	Total carrying amount as per Statement of Financial Position	Weighted average interest rate
		1 year or less	Over 1 to 5 years	Over 5 years			
	$	$	$	$	$	$	
(i) Financial Assets							
Cash	5,791,997	-	-	-	-	5,791,997	3.55%
Trade receivables	-	-	-	-	4,504,349	4,504,349	n/a
Other receivables	-	-	-	-	2,386,725	2,386,725	n/a
Total Financial Assets	5,791,997	-	-	-	6,891,074	12,683,071	
(ii) Financial Liabilities							
Trade payables	-	-	-	-	2,636,072	2,636,072	n/a
Other payables and accruals	-	-	-	-	1,779,877	1,779,877	n/a
Hire purchase liability	-	3,830,911	8,152,533	-	-	11,983,444	7.20%
Bank loan – secured	20,780,000	-	-	-	-	20,780,000	4.89%
Employee Entitlements	-	-	-	-	526,742	526,742	n/a
Total Financial Liabilities	20,780,000	3,830,911	8,152,533	-	4,942,691	37,706,135	

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

(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.

33. FINANCIAL INSTRUMENTS (Continued)

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	
	2004 $	2003 $
(a) Guarantees arising from the deed of cross guarantee with other entities in the wholly-owned group	36,827,957	37,904,290

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 2004 %	Output Interest 2003 %
Challenge Laybarge	Shallow water pipeline installation	50	50

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	
	2004 $	2003 $
Non Current Assets		
Property, Plant and Equipment	2,601,980	2,710,396
Total Assets	2,601,980	2,710,396

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 STANDARD

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 consultants 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.

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

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.

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 Company and 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.

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, 28 September 2004

Additional Stock Exchange Information

As at 28 September 2004

ORDINARY SHARE CAPITAL

- 114,682,285 fully paid ordinary shares are held by 2,099 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	20.47
Clough Engineering Limited	15,807,385	13.78
Delmark Investments Pty Ltd	11,115,300	9.69
Mr James Henry Carver	9,710,826	8.47
Mr Mark Bradley	6,666,666	5.81

DISTRIBUTION OF MEMBERS AND THEIR HOLDINGS

Size of Holding	Number of ordinary shareholders
1 to 1,000	89
1,001 to 5,000	588
5,001 to 10,000	515
10,001 to 100,000	843
100,001 and over	64
Total	2,099

TWENTY LARGEST SHAREHOLDERS

	Number of Shares	% of Issued Capital
Sealion Australia Pte Ltd	23,480,000	20.47
Clough Engineering Limited	15,807,385	13.78
Delmark Investments Pty Ltd	11,115,300	9.69
Mr James Henry Carver	9,710,826	8.47
Mr Mark Bradley	6,666,666	5.81
JAS & BL Mews	1,500,000	1.31
JP Morgan Nominees Australia	1,068,000	0.93
Neja Pty Ltd	600,000	0.52
Mr Alan Gordon Birchmore	500,000	0.44
Citicorp Nominees Pty Ltd	464,250	0.40
Jeslands Investments Pty Ltd (Jerusalem Retirement A/C)	453,500	0.40
Malla Pty Ltd	400,000	0.35
Mrs Sigrun Sprake	400,000	0.35
Chriswall Holdings Pty Limited	360,000	0.31
Mrs Mitsuko Sunshine Luestner	348,015	0.30
Mr George Michael Karakatsanis	321,000	0.28
Mr John Haddon Mitchell	300,000	0.26
Offshore Installation Services Pty Ltd	300,000	0.26
Perpetual Custodians Limited	300,000	0.26
UBS Private Clients Australia Nominees Pty Ltd	288,800	0.25
Total	74,383,742	64.84

Additional Stock Exchange Information

As at 28 September 2004

SHAREHOLDER INFORMATION (Continued)

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.

Independent Audit Report

To the Members of Mermaid Marine Australia Limited

Deloitte.

SCOPE

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cashflows, 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 2004 as set out on pages 20 to 62. 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.

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

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 2004 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

P MCIVER
Partner
Chartered Accountant

Perth, WA 28 September 2004

The liability of Deloitte Touche Tohmatsu, is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).