MERMAID MARINE
AUSTRALIA LTD

MERMAID MARINE AUSTRALIA LIMITED • ANNUAL REPORT 2006

Annual Report 06

MERMAID MARINE AUSTRALIA LIMITED
A.B.N. 21 083 185 693

CORPORATE DIRECTORY

DIRECTORS
Tony Howarth, Chairman
Jeffrey Weber, Managing Director
James Carver, Executive Director
Alan Birchmore, Non-Executive Director
Mark Bradley, Non-Executive Director
Jeff Mews, Non-Executive Director

COMPANY SECRETARY
Peter Raynor

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SOLICITORS
Allens Arthur Robinson
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BANKERS
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CHAIRMAN'S ADDRESS

The 2006 year has been a watershed year for Mermaid Marine Australia (MMA) with improved performance from all the operating divisions of the company. The company is pleased to report a net profit after tax of $9.2 million, up 290% on the previous year. Earnings per share of 6.60 cents were a significant improvement on the previous year's earnings of 1.83 cents.

While the result benefited from a profit after tax of $3.7 million from the sale of the company's manning business, the underlying performance was up approximately 100% on last year.

The improved performance of the company was also reflected in its share price which increased over the last 12 months from 35 cents at 30 June 2005 to 60 cents at 30 June 2006, delivering a total return to shareholders during the year of 71%. This is an excellent outcome for MMA shareholders and we look forward to continuing to improve, grow and create value for you our shareholders.

Your company is still in a strong growth phase and has needed continued ongoing capital investment. This has required your Directors to make capital investment decisions with the resultant impact on capital management.

An outcome of this is that again, this year, no dividend was declared. However, with the improved performance evident particularly in the last half of the 2006 financial year, which has continued into the 2007 year, the reinstatement of dividends is a priority for Directors during the current financial year.

The 2006 financial year saw the company continue to invest in its key strategic infrastructure in the North West of Western Australia. In excess of $45 million was invested; over $40 million in its vessel fleet and $5 million to expand the wharf at its Dampier supply base. This investment positions your company well to continue to participate in the strong growth forecast for the North West Shelf region of Western Australia. Woodside, Chevron and BHP Billiton all have plans for major developments in the North West Shelf and Carnarvon Basin and our presence in this area puts us in good shape to take advantage of these projects. There is also a significant exploration programme planned for the Browse Basin region over the next two years with a reasonable expectation of production facilities being developed in this area. To cater for this growth MMA has committed to expanding the supply base infrastructure in Broome.

CHAIRMAN'S ADDRESS

Ultimately, success is dependent upon having good customers, being able to service those customers well and add value to their operations. MMA has an excellent customer base of high quality offshore oil and gas operators and the ongoing challenge of the Board and Management is to match their high standards of compliance; health and safety, environmental, regulatory, security and governance. The Board is committed to supporting the policies, processes and resources required to ensure the highest standard of compliance throughout the company. During the year Board members have been directly involved in major audits and reviews and this has the twin benefit of ensuring that the Board remains informed and visible in relation to governance. We will continue this involvement going forward.

On other Board matters, our inaugural Chairman, Alan Birchmore, announced in August 2006 that he intended standing down as Chairman after leading the company for 8 years. It was through Alan's vision, commitment and guidance that MMA has positioned itself into a key strategic support services company to the oil and gas industry in the North West of Western Australia. This has been an outstanding achievement.

Alan will continue as a Director with the company and I would like to thank Alan for his contribution during his tenure as Chairman. I am looking forward to my new role within MMA and to an exciting period of growth and development. Market conditions remain favourable and MMA has built a solid platform on which it can grow.

I would also like to acknowledge the efforts of the MD, Jeff Weber, and his management team who ultimately are responsible for converting strategy into results.

Finally I would like to thank my other Board colleagues who have provided great guidance and leadership during the year and who add significant value to the governance of your company through a diversity of skills and experience.

Tony Howarth
Chairman

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

Introduction

Since its public float in 1998 Mermaid Marine Australia Ltd (MMA) has set itself the objective of becoming a major force in the Australian Offshore Oil and Gas services industry through the provision of an integrated range of services. Following the completion of the Dampier Supply Base expansion a review was undertaken by the Board in 2003 which reaffirmed the strategy and initiated an accelerated fleet renewal programme. It is pleasing to see the results of the strategy and subsequent review now emerging. In response to this, we have changed our logo during the year to better reflect our focus on marine operations and management of the land sea interface. It is with much pride that we are now rolling out our new logo onto our vessels, supply bases and offices.

Financial Summary

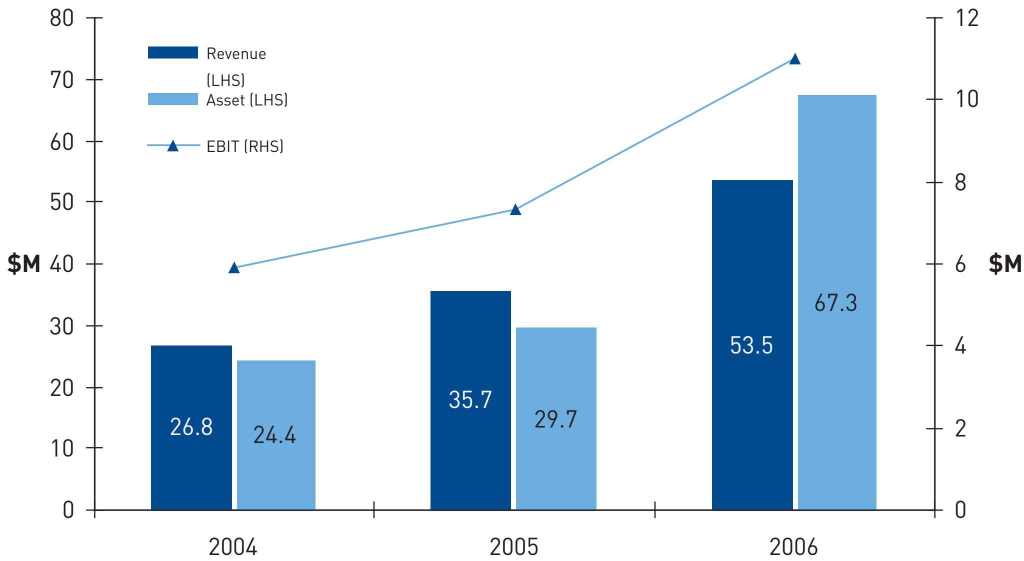
MMA has now increased pre-tax profit every year for the last three years.The 2006 operating result before tax was almost double that of the previous year. Our operating performance, combined with an abnormal profit of $4.4 million from the sale of our manning business to Integrated Group Ltd (IGL), resulted in a pretax profit of $12.2 million for the year. With after tax earnings of $9.2 million, MMA increased earnings per share by 266% from 1.8 cents to 6.6 cents. By any measure it was a good year.

Revenue from ordinary activities increased by 35% to $66.8 million. Vessel revenue again provided the bulk of the increase growing by 50% to $53.5 million. The commitment to fleet development has resulted in substantial growth in revenue and earnings over the last three years as evidenced in the graph below.

While noting the performance of our vessel operations, the improved contribution from our supply base and slipway operations over the last 12 months is equally pleasing. Combined revenue from the supply base and slipway operations grew by 40% during the year to $14.1 million and earnings before interest and tax increased by 175% to $2.0 million. Although this represents a significant improvement, we see substantial capacity for further improvement from higher asset utilisation, particularly from our Dampier Supply Base. Our Supply Base operation is critical in that it gives us the ability to provide our clients with an integrated service from our base, across our wharf and onto our vessels and makes us unique in the North West.

To further strengthen our position in the market, MMA undertook a substantial capital investment programme during the year. The programme culminated in the $23.8 million purchase of five vessels from the Integrated Group as part of a larger transaction that also saw the sale of our manning business to them. As a result of this transaction and our new vessel building programme, net debt increased during the year from $17.8 million to $50.3 million. However, cashflow from operating activities increased by $4.2 million to $11.5 million, more than offsetting the increase in interest payments. Net assets increased during the year by $9.6 million to $60.5 million and our net tangible asset backing per share increased by 4 cents to 43 cents per share.

Vessels



Vessel Operations

A highlight for the year was the delivery of our new vessel, the Mermaid Investigator in April 2006. This is the most expensive vessel purchased by the company to date and its delivery was the culmination of more than three years of planning, design and construction. In December 2003 Apache Energy issued a tender for design and construction of a vessel to support their ongoing offshore maintenance and development activities. Apache Energy recognised that, in order to secure a vessel which met the exacting standards for safety, environmental and operational performance in offshore operations, it needed to provide a commitment through a long term contract. MMA was successful in winning a five year contract. The contract guaranteed a specified per annum number of days utilisation by Apache and allowed MMA to market the vessel to other clients for the remainder of the year. MMA, in collaboration with Apache and other users of the vessel such as Fugro, developed the final design parameters with a local naval architect firm, International Maritime Consultants. Hong Kong based Cheoy Lee Shipyards Ltd was selected to construct the vessel at their new shipyard in southern China. The vessel, delivered in April, went straight to work and has undertaken complex operations for Apache and other clients in the North West Shelf. It is an excellent example of how MMA is able to provide high quality assets, at highly competitive rates, based on our model of shared services.

Another main highlight for the year was the completion of the transaction with IGL. The transaction was equally positive for both companies and focuses each business on their core capabilities. With the acquisition of the vessels, MMA is able to better service its clients offering increased flexibility and capability across the fleet. IGL is now Australia's largest provider of marine and rig crews. With the addition of MMA's manning requirements, IGL is increasingly able to leverage their scope and scale to attract and retain high quality personnel. With the current and future growth in the offshore Oil and Gas industry, the ability to source highly motivated and trained marine crews is absolutely critical for MMA. Our alliance with IGL gives us a significant strategic advantage. The acquired vessels all went to work immediately and, with the manning transition completed, the alliance is now focused on exploring new opportunities for growth and development.

Overall vessel utilisation increased during the year to an average of around 75% from around 65% the previous year. In addition, our contracted vessel revenue has increased to over 50% of our total revenue. This was a target we set ourselves three years ago and we are very pleased to have achieved it. One of the other targets was to reduce our fleet's average age to around 10 years and we are well on our way to achieving this. Below is a list of vessels that we have either purchased or built since 2003, highlighting the substantial increase in capability we have achieved through our investment programme.

Vessel Acquisitions 2003 – 2006

Year Purchased	Vessel Name	Year Built	Length (metres)	Horsepower	Type
2003	Mermaid Carver	2000	32	1750	Offshore ASD Tug
2005	Mermaid Guardian	2005	40	4000	AHTS
2005	Mermaid Storm	1993	34	4000	Offshore ASD Tug
2005	Mermaid Venture	2005	46	600	Landing Craft
2006	Mermaid Constructor	2003	76.2	N/A	Barge
2006	Mermaid Endeavour	1995	35	4000	Offshore ASD Tug
2006	Mermaid Investigator	2006	54	3600	MPV-DPI
2006	Mermaid Provider	1999	45	4000	AHTS
2006	Mermaid Resource	1996	45	2600	Fast Response Uility Vessel
2006	Mermaid Supporter	2001	45	4800	AHTS

Total number of new vessels: 10
Average age of new vessels: 6

Our strategy of leveraging our core vessel operations business is paying dividends and, to meet the emerging requirements of an industry that is going through a major growth cycle, we will continue to pursue further opportunities to expand and upgrade our fleet.

Supply Base Operations

While the performance of our vessel division has been excellent, one should not overlook the dramatic improvement in our supply base and slipway operations. The performance of these operations and the scope for further improvement as the market develops in the North West Shelf and Browse Basin regions, provides the company with additional growth opportunities.

Dampier

MMA identified some time ago that in order to meet increasing demand for berth space at our Dampier supply base, we would need to add to our original wharf infrastructure. Construction on the agreed design commenced in October 2005. The construction was undertaken "in house" and the 66 metre extension was completed in December 2005, on time and under budget. This was an outstanding achievement and remains a credit to everyone involved. It was especially notable that it was completed without any injuries to personnel and completed while maintaining continuous operations on our original wharf facility. The wharf extension allows MMA to service two rig tenders simultaneously with additional capacity on the back of the main wharf to berth smaller vessels. While the wharf extension was under construction, we also installed a floating pontoon facility to enhance the safety of our crews transiting from vessels and also to improve our efficiency in maintaining the smaller fleet. This facility has been an enormous success, both in terms of safety and productivity. These infrastructure developments have added significant value to our overall operations and have positioned the company to take advantage of future developments.

The picture below shows the completed wharf extension with three of the company's vessels tied up alongside the main face and a jack up rig on the inside face. A small craft can be seen leaving the floating pontoon facility.

The Dampier supply base had a relatively quiet first half but activity picked up in the second half towards capacity levels. The table below sets out the major clients and projects undertaken throughout the year.

Fugro	Geotechnical programme - Gorgon Project
Technip	Subsea connections – Woodside Enfield and Perseus over Goodwin Projects
PAME	Spool pieces – Enfield Project
BHPB Petroleum	Drilling – Jacala Well
Santos	Drilling – Mutineer Exeter
Austral	Tug Pen Upgrade – Pilbara Iron
Clough	Mobilisation – LNG Jetty Construction

There were also a large number of major vessel mobilisations undertaken at the Dampier Supply Base to support a range of clients including Covus, Fugro and Benthic. Our ability to manage these complex vessel setup projects across our own wharf, using our own workforce and equipment is unique in Dampier and adds significant value for our clients.

There remains substantial opportunity in the Dampier Supply Base business - utilisation is still around an average of 40%. However, the major projects that are being planned for offshore North West Shelf could consume our remaining capacity and, correspondingly, improve our earnings and return on capital. These major projects are taking shape and it is reasonable to expect that further developments within this business will occur during the 2007 financial year.

Broome

MMA has had a relatively small supply base operation in Broome for the last five years supporting intermittent drilling activities for a range of clients. Broome is the logical staging point to service the Browse Basin, one of the best prospective gas development regions in Australia. Currently Woodside, Inpex and Shell have permits in the Browse Basin. Over the next two years, all three companies are undertaking major exploration programmes that have high potential to progress to production operations in the region.

To meet the increase in demand for supply base services in Broome, MMA is planning a major upgrade of facilities in the port. Work has already commenced to develop a casing yard and we are finalising long term leases on MMA's current supply base facility and a new five hectare block of land. Our intention is to construct a new supply base facility on the newly leased five hectare block that will include office accommodation, laydown areas, warehouses and tubular storage areas. The timing of the development will be tailored to meet our client's requirements.

Our Broome business represents a key part of our long term growth plans. To ensure we are ideally positioned to take advantage of expected future developments, we are investing now in line with demand.

Dampier Slipway

The Dampier Slipway had its busiest year on record and subsequently delivered the best earning performance to date. A total of 37 vessels were docked during the year, 15 of these were MMA vessels with the remainder being owned by a range of vessel operators in the region. This is one of the more challenging businesses we manage due to the difficult conditions under which our personnel operate. Despite this, we now have in place a professional workforce that covers electrical, mechanical and structural trades. The quality of our workforce allows us to offer our clients a range of services both on the slipway and externally. In addition to maintaining our own vessels, we currently provide maintenance services to a number of other vessel operators in the region. This has helped balance the intermittent nature of the business and has resulted in improved earnings.

Beyond its earnings contribution, the value of the Dampier slipway in managing the maintenance and survey requirements of our fleet is significant, providing MMA with a competitive advantage in the region. MMA has committed to upgrading equipment and infrastructure during the 2007 financial year to further improve the safety of our operations and improve the services provided to internal and external clients.

Quality Management Systems

Integrated Business Management Systems (IBMS)

MMA is certified to the Quality Management System ISO 9001:2000. The company is currently in its fourth year of certification with two certification audits undertaken in the 2006 financial year.

The project initiated in 2005 to amalgamate all management systems (Quality, Environment and Health and Safety) to form an Integrated Business Management System is progressing well; Vessel Operations was completed in March 2006. For other areas, system implementation is being developed according to a structured project plan, which shall see all departments operating under the integrated system by December 2006.

The 2006 year has seen a dramatic increase in the number of internal and external audits conducted, predominantly in the Vessel Operations division due to the inclusion of 6 new vessels to the fleet and an increased internal audit focus from the company.

Environmental

To ensure ongoing compliance with all regulatory and community expectations, MMA has continued to develop its comprehensive environmental monitoring programmes in the past financial year. This has involved an increase in monitoring of both sediment and water quality.

A proposal to upgrade the drainage system servicing the Dampier Supply Base Slipway facility was submitted and approved by the Department of Environment. Improvements will include:

- Installation of two Stormwater Treatment Units
- Bitumising of Slipway Hardstand area

The upgrades are due to be completed in 2006 and will ensure the highest standards of environmental compliance.

The company submitted its second Triennial Report in August 2006 detailing the management plans implemented and results from all monitoring. Response from the Department of Environment has been positive.

Health and Safety

MMA has seen an increase of approximately 40,000 work hours over the 2006 financial year whilst also achieving a significant improvement in safety performance. During the year MMA was able to reduce the main recordable injury frequency by 55% which, given the growth during the year, is an exceptional result for everybody involved.

In the past year, there has been an increased focus on training. This follows the implementation of a structured training matrix and dedicated training coordinator. It has included the training of our HSE Advisor in the Workplace Training and Assessment module to better facilitate onsite training.

The implementation of the IBMS has resulted in a review of our Incident Reporting, Recording and Investigation processes. One of many positive outcomes of the review was a newly developed Incident Report that can be transmitted electronically improving response times from management as required.

Security

MMA has a number of Security Plans in place to ensure compliance with the International Ship and Port Security Code (ISPS). During the 2006 financial year all security plans were audited by the Department of Transport and Regional Services as part of their ongoing audit schedule. The next 12 months will see the implementation of the Maritime Security Identification Card legislation and MMA has commenced the required processes for compliance. The acquisition of new vessels over the last 12 months has resulted in an increase in ISPS regulated vessels.






People

I am a firm believer that success is driven by people. MMA has had a successful year, and much of what has been achieved could not have been possible without the dedication and determination of the people who work for the company. During the year the company took on several major projects, including the Dampier wharf extension and the IGL transaction. These and many other smaller, but still significant, developments placed an enormous amount of pressure on the team as turnover in the second half increased by almost 50% on the first half and operating profit before tax increased by almost 300%.

As MMA continues to grow, having competent and motivated people becomes increasingly important. I would like to thank everybody that contributed to our success during the year. I would like to extend our welcome also, to the number of new members of our team. Our thanks are also extended to all our clients and our suppliers, on whom our ongoing success is critical.

Jeffrey Weber
Managing Director


MERMAID INVESTIGATOR

CORPORATE GOVERNANCE STATEMENT

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

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

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

For further information on corporate governance policies adopted by Mermaid Marine Australia Limited, refer to the company's website: www.mma.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 14. As defined by the Corporate Governance Council, directors of Mermaid Marine Australia Limited are considered to be independent when they are free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

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

Independence

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

Of the six Board members in total, the following four directors 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
Mr J Weber	Managing Director
Mr A Birchmore	Non-Executive Director
Mr M Bradley	Non-Executive Director
Mr J Carver	Executive Director

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

Mr Alan Birchmore is a substantial shareholder of the company and his industry experience, together with that of former executives Mr Mark Bradley and Mr Jim Carver, significantly increases the collective expertise and knowledge of the Board. This expertise and knowledge is balanced by the quality of the company's two non-executive independent directors in Mr Tony Howarth (Chairman) and Mr Jeffrey 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
Mr A Birchmore	8 years
Mr J Carver	8 years
Mr J Mews	8 years
Mr M Bradley	6 years
Mr A Howarth	5 years
Mr J Weber	4 years

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

Nomination and Remuneration Committee

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

The nomination and remuneration committee comprised the following members throughout the year:
Mr A Howarth (Chairman)
Mr J Mews

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 19 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 17 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:
Mr J Mews (Chairman)
Mr A Birchmore
Mr A Howarth

Their qualifications and expertise for office on this committee are set out in the Directors' Report on page 14.

For details of the number of meetings of the Audit Committee held during the year and the attendance at those meetings, refer to page 17 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.


A J Howarth


J A Weber


J H Carver

The directors of Mermaid Marine Australia Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2006. In order to comply with the provisions of the Corporations Act 2001, the directors' report as follows:

DIRECTORS

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

MR ANTHONY (TONY) JOHN HOWARTH AO

Non-Executive Director – Appointed 5 July 2001, Chairman – Appointed 1 August 2006

Tony was appointed Chairman of the company on 1 August 2006 having served as a non-executive director of the company for the previous five years. Tony worked in the banking and finance industry for over 30 years. His work has involved a number of overseas appointments. He has been the Managing Director of Challenge Bank Limited, the CEO of Hartleys Limited and the former Chairman of Alinta Limited. Currently Tony is the Chairman of Home Building Society Limited and a Non-Executive Director of AWB Limited. He is also involved in a number of business and community organisations including Chairman of St John of God Health Care Group, Deputy President of the Australian Chamber of Commerce and Industry and a Director of the Chamber of Commerce and Industry WA. He is a member of Rio-Tinto's WA Future Fund, the University of Western Australia's Senate, the WA State Council of the Institute of Company Directors, the Prime Minister's Community Business Partnership and is the Deputy Chair of the Australia Council's Major Performing Arts Board.

MR JEFFREY ANDREW WEBER

Managing Director– Appointed 31 December 2002

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

MR JAMES HENRY CARVER

Executive Director - Appointed 29 June 1998

Captain James Carver is a Ships' Master with over 30 year's 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.

MR ALAN GORDON BIRCHMORE

Non-Executive Director - Appointed 12 August 1998, Chairman – Resigned 1 August 2006

Alan was chairman at the initial public listing of Mermaid Marine in 1998 and remained in that role until 1 August 2006. He 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 Airship Industries which, in JV with Westinghouse, was a successful US defence contractor. He was a Director of T.V. am and British Satellite Broadcasting Ltd (later B Sky B) and as

A G Birchmore

M F Bradley

J A S Mews

Chairman, privatised 2 Hungarian Government companies for London institutions. As Chief Executive of the New York-listed Bond International Gold, he was responsible for a worldwide workforce of 6,000 employees in Canada, the United States, South America and Australia. The company developed the Superpit at Kalgoorlie and successfully ran that as Australia's largest gold-mining operation, in joint venture with Homestake Mining of the United States. Alan also sat as a founding Director on the Argyle joint venture, the world's largest diamond mine. In 1990, as a major shareholder, he became Chairman of St Barbara Mines Limited at listing, and during the time of his stewardship, the company became highly profitable, as a top 10 Australian gold producer. He retired from the board of St Barbara in 1997. He is currently Chairman of the Albany Port Authority, Deputy Chairman of the West Australian Ballet Company, a Director of United Kimberley Diamonds Ltd, Chairman of Bauxite Australia and a Fellow of the Australian Institute of Company Directors.

MR MARK FRANCIS BRADLEY

Non-Executive Director - Appointed 22 September 2000

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

MR 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. Jeff is currently a director of NKWE Platinum Ltd. As well as being a past Chairman of the Western Australian division of the Taxation Institute of Australia, Jeff is currently a Member of the Salaries and Allowances Tribunal for the State of Western Australia and was a Founding Governor of the Malcolm Sargent Cancer Fund for Children in Western Australia.

MR CHENG CHEW MING (PETER CHEW)

Non-Executive Director – Appointed 27 November 2002, Resigned 28 November 2005

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.

COMPANY SECRETARY

MR PETER ALAN RAYNOR

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

PRINCIPAL ACTIVITIES

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

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

REVIEW OF OPERATIONS

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

DIVIDENDS

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

In respect of the financial year ended 30 June 2006, the directors have not recommended the payment of a dividend.

CHANGES IN THE STATE OF AFFAIRS

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

SUBSEQUENT EVENTS

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

FUTURE DEVELOPMENTS

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

ENVIRONMENTAL REGULATION

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

SHARE OPTIONS

Share options granted to directors and executives

During and since the end of the financial year an aggregate of 1,900,000 share options were granted to the following directors and executives of the company:

Directors and Executives	Number of options granted	Issuing entity	Number of ordinary shares under option
Mr J Weber	600,000	Mermaid Marine Australia Ltd	600,000
Mr D Ross	500,000	Mermaid Marine Australia Ltd	500,000
Mr P Raynor	500,000	Mermaid Marine Australia Ltd	500,000
Mr T Graham	100,000	Mermaid Marine Australia Ltd	100,000
Mr S Smith	100,000	Mermaid Marine Australia Ltd	100,000
Mr S Lee	100,000	Mermaid Marine Australia Ltd	100,000

Share options on issue at year end or exercised during the year

Details of unissued shares under option at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of options $	Expiry date of option
Mermaid Marine Australia Ltd	1,340,000	Ordinary	0.40	22 April 2008
Mermaid Marine Australia Ltd	600,000	Ordinary	0.40 (a)	15 November 2009
Mermaid Marine Australia Ltd	600,000	Ordinary	0.40 (a)	7 December 2009
Mermaid Marine Australia Ltd	2,080,000	Ordinary	0.48 (b)	19 May 2011

(a) These share options can only be exercised in maximum tranches of 200,000 options during their exercise period subject to the share price of the company achieving certain levels as detailed in note 22.

(b) These share options can only be exercised during their exercise period subject to the share price of the company being equal to or greater that 70 cents as detailed in note 22.

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

Details of shares issued during or since the end of the financial year as a result of exercise of an option are:

Issuing entity	Number of shares issued	Class of shares	Amount paid for shares $	Amount unpaid on shares $
Mermaid Marine Australia Ltd	663,000	Ordinary	0.44	Nil
Mermaid Marine Australia Ltd	50,000	Ordinary	0.40	Nil

INDEMNIFICATION OF OFFICERS AND AUDITORS

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

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

DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 7 board meetings, 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
Mr A Howarth	7	7	3	3	3	3
Mr A Birchmore	7	7	3	3	-	-
Mr J Weber	7	7	-	-	-	-
Mr M Bradley	7	7	-	-	-	-
Mr J Carver	7	7	-	-	-	-
Mr J Mews	7	7	3	3	3	3
Mr P Chew (resigned 28 November 2005)	3	1	-	-	-	-

DIRECTORS' SHAREHOLDINGS

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

Directors	Fully Paid Ordinary Shares Direct	Fully Paid Ordinary Shares Indirect	Share Options Direct
Mr A Howarth	385,000	329,400	-
Mr J Weber	550,000	-	600,000
Mr J Carver	-	9,600,826	-
Mr A Birchmore	514,700	11,515,000	-
Mr M Bradley	5,666,666	-	-
Mr J Mews	1,135,000	-	-
Mr P Chew	-	-	-

REMUNERATION REPORT

Remuneration policy for directors and executives

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

Director and executive details

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

- Mr A Howarth (Non-Executive Director), (Chairman – Appointed 1 August 2006))
- Mr J Weber (Managing Director)
- Mr J Carver (Executive Director)
- Mr A Birchmore (Chairman – resigned 1 August 2006), (Non-Executive Director)
- Mr M Bradley (Non-Executive Director)
- Mr J Mews (Non-Executive Director)
- Mr P Chew (Non-Executive Director) resigned 28 November 2005

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

- Mr D Ross (General Manager – Operations)
- Mr P Raynor (Chief Financial Officer/Company Secretary)
- Mr T Graham (Business Development Manager)
- Mr S Smith (Marine Manager)
- Mr S Lee (Supply Base Manager)

Elements of director and executive remuneration

Remuneration packages contain the following key elements:

(a) Primary benefits – salary/fees, bonuses and non-monetary benefits including the provision of motor vehicles;

(b) Post-employment benefits – superannuation; and

(c) Equity – share options granted under the Managing Director, Senior Executive and Employee share option plans as disclosed in notes 22 and 25 to the financial statements.

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

	Short Term Employee Benefits			Post Employment			Equity		
2006	Salary & Fees $	Bonus $	Non-monetary $	Super-annuation $	Prescribed benefits $	Other $	Options (i) $	Other benefits $	Total $
Directors									
Mr A Howarth	45,000	-	-	4,050	-	-	-	-	49,050
Mr J Weber	232,235	98,866	27,729	21,446	-	-	29,215	-	409,491
Mr J Carver	135,000	-	3,920	3,150	-	-	-	-	142,070
Mr Birchmore	70,000	-	4,736	6,300	-	-	-	-	81,036
Mr M Bradley	70,000	-	-	6,300	-	-	-	-	76,300
Mr J Mews	45,000	-	-	4,050	-	-	-	-	49,050
Mr P Chew	-	-	-	-	-	-	-	-	-

The following table discloses the remuneration of the 5 highest remunerated executives of the company and group executives of the consolidated entity:

	Short Term Employee Benefits			Post Employment			Equity		
2006	Salary & Fees $	Bonus $	Non-monetary $	Super-annuation $	Prescribed benefits $	Other $	Options (i) $	Other benefits $	Total $
Executives									
Mr D Ross	155,451	28,050	7,128	14,850	-	-	16,665	-	222,144
Mr P Raynor	119,335	23,240	2,557	10,740	-	-	16,665	-	172,537
Mr T Graham	143,054	15,736	-	12,874	-	-	1,221	-	172,885
Mr S Smith	116,514	23,677	15,785	11,836	-	-	1,221	-	169,033
Mr S Lee	91,363	25,500	42,289	8,222	-	-	1,221	-	168,595

(i) The value placed on options in the tables above is based on the valuation at the date of issue using the Binomial model, pro-rated over the period from grant date to vesting date, as set out in notes 22 and 25 to the financial statements.

Elements of remuneration related to performance:

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

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

Value of options issued to directors and executives:

The following table discloses the value of options granted, exercised or lapsed during the year:

Directors / Executives	Options Granted: Value at grant date (i) $	Options Exercised: Value at exercise date $	Options Lapsed: Value at time of lapse $	Total value of options granted, exercised and lapsed $	Value of options included in remuneration for the year (i) $	Percentage of total remuneration for year that consists of options %
Mr J Weber	72,805	190,000	-	262,805	29,215	7.13
Mr D Ross	80,926	-	-	80,926	16,665	7.50
Mr P Raynor	80,926	-	-	80,926	16,665	9.66
Mr T Graham	15,915	47,500	-	63,415	1,221	0.71
Mr S Smith	15,915	-	-	15,915	1,221	0.72
Mr S Lee	15,915	-	-	15,915	1,221	0.72

(i) The options were granted during the year and vest at various dates – refer Note 22. The value of the options is determined at grant date, and is included in remuneration on a proportionate basis from grant date to vesting date.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

NON-AUDIT SERVICES

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or another person or firm on the auditor's behalf) did not compromise the auditor independence requirements of the Corporations Act 2001.In each case, management of the company had sufficient expertise to take responsibility for all decisions made associated with these projects and the auditor did not assume the role of an employee or of management of the company.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 26 to the financial statements.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 21 of this Annual Report.

ROUNDING OFF OF AMOUNTS

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the director's report and financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

Tony Howarth
Chairman
Fremantle, 14 September 2006

Deloitte.

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

14th September 2006

Dear Board Members

Mermaid Marine Australia Limited

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

As lead audit partner for the audit of the financial statements of Mermaid Marine Australia Limited for the financial year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Keith Jones
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

INCOME STATEMENT

For the financial year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Revenue	2	66,812	49,505	404	289
Other income	2	4,284	(27)	-	-
Share of net profits/(losses) of associate accounted for using the equity method	8	122	(97)	-	-
Vessel expenses		(42,540)	(28,398)	-	-
Supply base expenses		(7,916)	(7,075)	-	-
Engineering and labour hire expenses		(2,366)	(4,817)	-	-
Administration expenses		(3,089)	(3,007)	(93)	(177)
Finance costs		(3,078)	(2,209)	-	(18)
Profit before income tax expense	2	**12,229**	**3,875**	**311**	**94**
Income tax (expense)/benefit	3	(3,021)	(1,516)	511	(44)
Profit for the year		**9,208**	**2,359**	**822**	**50**
Profit attributable to members of the parent entity		**9,208**	**2,359**	**822**	**50**
Earnings Per Share					
- Basic (cents per share)	24	6.60	1.83		
- Diluted (cents per share)	24	6.60	1.83		

Notes to the financial statements are included in pages 27 to 70.

BALANCE SHEET

As at 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Current Assets					
Cash and cash equivalents	19(a)	6,027	13,983	41	3,970
Trade and other receivables	5	20,550	9,773	18	18
Inventories	6	1,942	1,281	-	-
Other	7	624	663	-	-
Total Current Assets		**29,143**	**25,700**	**59**	**3,988**
Non-Current Assets					
Investments accounted for using the equity method	8	219	97	-	-
Other financial assets	9	-	-	47,018	40,682
Property, plant & equipment	10	107,015	65,749	-	-
Deferred tax assets	3(c)	-	-	-	24
Total Non-Current Assets		**107,234**	**65,846**	**47,018**	**40,706**
Total Assets		**136,377**	**91,546**	**47,077**	**44,694**
Current Liabilities					
Trade and other payables	12	14,586	6,289	9	4
Borrowings	13	4,401	3,417	-	-
Other financial liabilities	14	11	-	-	-
Provisions	15	789	700	-	-
Current tax payables	3(b)	1,623	436	1,623	436
Total Current Liabilities		**21,410**	**10,842**	**1,632**	**440**
Non-Current Liabilities					
Borrowings	13	51,967	28,377	-	-
Provisions	15	178	121	-	-
Deferred tax liabilities	3(c)	2,322	1,272	-	-
Total Non-Current Liabilities		**54,467**	**29,770**	**-**	**-**
Total Liabilities		**75,877**	**40,612**	**1,632**	**440**
Net Assets		**60,500**	**50,934**	**45,445**	**44,254**
Equity					
Issued capital	16	48,047	47,755	48,047	47,755
Reserves	17	259	193	270	193
Retained earnings/(accumulated losses)	18	12,194	2,986	(2,872)	(3,694)
Total Equity		**60,500**	**50,934**	**45,445**	**44,254**

Notes to the financial statements are included in pages 27 to 70.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2006

Consolidated Financial Year ended 30 June 2006

	Ordinary shares $'000	Employee equity settled benefits $'000	Hedging $'000	Retained earnings $'000	Total attributable to equity holders of the entity $'000
Balance at 1 July 2005	47,755	193	-	2,986	50,934
Profit for the year	-	-	-	9,208	9,208
Hedge of firm commitment	-	-	(11)	-	(11)
Total recognised income and expense for the year	-	-	(11)	9,208	9,197
Issue of shares	292	-	-	-	292
Recognition of share based payments	-	77	-	-	77
Balance at 30 June 2006	**48,047**	**270**	**(11)**	**12,194**	**60,500**

Consolidated Financial Year ended 30 June 2005

	Ordinary shares $'000	Employee equity settled benefits $'000	Hedging $'000	Retained earnings $'000	Total attributable to equity holders of the entity $'000
Balance at 1 July 2004	39,658	29	-	627	40,314
Profit for the year	-	-	-	2,359	2,359
Total recognised income and expense for the year	-	-	-	2,359	2,359
Issue of shares	8,097	-	-	-	8,097
Recognition of share based payments	-	164	-	-	164
Balance at 30 June 2005	**47,755**	**193**	-	**2,986**	**50,934**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2006

Company Financial Year ended 30 June 2006

	Ordinary shares $'000	Employee equity settled benefits $'000	Retained earnings (accumulated losses) $'000	Total attributable to equity holders of the entity $'000
Balance at 1 July 2005	47,755	193	(3,694)	44,254
Profit for the year	-	-	822	822
Total recognised income and expense for the year	**-**	**-**	**822**	**822**
Issue of shares	292	-	-	292
Recognition of share based payments	-	77	-	77
Balance at 30 June 2006	**48,047**	**270**	**(2,872)**	**45,445**

Company Financial Year ended 30 June 2005

	Ordinary shares $'000	Employee equity settled benefits $'000	Retained earnings (accumulated losses) $'000	Total attributable to equity holders of the entity $'000
Balance at 1 July 2004	39,658	29	(3,744)	35,943
Profit for the year	-	-	50	50
Total recognised income and expense for the year	**-**	**-**	**50**	**50**
Issue of shares	8,097	-	-	8,097
Recognition of share based payments	-	164	-	164
Balance at 30 June 2005	**47,755**	**193**	**(3,694)**	**44,254**

CASH FLOW STATEMENT

For the financial year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Cash Flows from Operating Activities					
Receipts from customers		64,545	54,394	-	-
Interest received		430	304	404	288
Payments to suppliers and employees		(49,597)	(45,376)	(11)	(9)
Income tax paid		(784)	(17)	(379)	-
Interest and other costs of finance paid		(3,045)	(2,208)	-	(18)
Dividends received		-	300	-	300
Net Cash Provided By Operating Activities	19(c)	11,549	7,397	14	561
Cash Flows from Investing Activities					
Payments for property, plant and equipment		(17,186)	(3,271)	-	-
Proceeds from sale of property, plant and equipment		103	3,901	-	-
Amounts received from/(advanced to) related parties		-	-	(4,235)	(7,146)
Net Cash (Used In)/Provided by Investing Activities		(17,083)	630	(4,235)	(7,146)
Cash Flows from Financing Activities					
Proceeds from issue of shares		292	8,393	292	8,393
Payment of share issue costs		-	(296)	-	(296)
Proceeds from borrowings		2,641	-	-	-
Repayment of borrowings		(5,355)	(8,209)	-	-
Net Cash (Used In)/ Provided by Financing Activities		(2,422)	(112)	292	8,097
Net Increase/(Decrease) in cash and cash equivalents		(7,956)	7,915	(3,929)	1,512
Cash and cash equivalents at the beginning of the financial year		13,983	6,068	3,970	2,458
Cash and cash equivalents at the end of the financial year		6,027	13,983	41	3,970

Notes to the financial statements are included in pages 27 to 70.

1. SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

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 Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

The financial statements were authorised for issue by the directors on 14 September 2006

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

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 consolidated entity changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the company's and consolidated entity's financial position, financial performance and cash flows is discussed in note 33.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 33), the consolidated entity's date of transition, except for the accounting policies in respect of financial instruments. The consolidated entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information and the impact of changes in these accounting policies on 1 July 2005, the date of transition for financial instruments, is discussed further in note 1(v).

1. SUMMARY OF ACCOUNTING POLICIES (continued)

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

Significant Accounting Policies

a) Financial instruments issued by the company

Debt and Equity Instruments

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

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and Dividends

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

b) Income Tax

Current Tax

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

Deferred Tax

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

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

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

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

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

Current and deferred tax for the period

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

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Mermaid Marine Australia Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 3 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

c) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

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

d) Borrowing costs

Borrowing costs are expensed as they are incurred.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

e) Financial assets

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

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

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

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

Financial assets at fair value through profit and loss

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

Loans and receivables

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

f) Leased assets

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

Consolidated entity as lessee

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

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

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

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

g) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in note 29 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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

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

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

h) Impairment of assets

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

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

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

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

1. SUMMARY OF ACCOUNTING POLICIES (continued)

i) Goodwill

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

j) Property, plant and equipment

Leasehold buildings and improvements, plant and equipment and equipment under finance lease are stated at cost less, where applicable, accumulated depreciation and impairment. Cost includes expenditure that is directly attributed to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a diminishing value basis or straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold buildings and improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following rates are used in the calculation of depreciation:

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

k) Share-based payments

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

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

l) Cash and cash equivalents

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

m) Derivative financial instruments

The consolidated entity enters into derivative financial instruments to manage its exposure to foreign exchange rate risk. Further details of derivative financial instruments are disclosed in note 30 to the financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit and loss immediately unless the derivative is designated and effective as a hedging instrument in which event, the timing of the recognition in profit and loss depends on the nature of the hedge relationship. The consolidated entity has designated the derivatives as the hedge of the foreign exchange risk of a firm commitment (cash flow hedge).

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

n) Employee benefits

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

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

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

Defined Contribution Plans

Contributions to defined contribution superannuation plans are expensed when incurred.

o) Foreign Currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except that exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer to note 1(m)).

1. SUMMARY OF ACCOUNTING POLICIES (continued)

p) Goods and services tax

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

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

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

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

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

q) Joint ventures

Jointly controlled assets and operations

Interests in jointly controlled assets and operations are reported in the financial statements by including the consolidated entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories.

Jointly controlled entities

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

r) Payables

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

s) Inventories

Inventories are valued at the lower of cost and net realisable value.

t) Provisions

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

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.

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 virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

u) Revenue recognition

Sale of goods and disposal of assets

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Rendering of services

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

Dividend and interest revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset

v) Comparative Information – financial instruments

The Consolidated Entity has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement", as permitted on the first-time adoption of A-IFRS.

The accounting policies applied to accounting for financial instruments in the current financial year are detailed in notes 1(a) to 1(u). The following accounting policies were applied to accounting for financial instruments in the comparative financial year:

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) Financial instruments issued by the company

Transaction Costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

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

c) Borrowings

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 borrowing.

d) 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)

v) Comparative Information – financial instruments (continued)

e) 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.

f) 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.

Effect of changing the accounting policies for financial instruments

There are no material differences caused by the effect of changes in the accounting policies for financial instruments on the balance sheet as at 1 July 2005.

AASB Accounting Standards not yet effective

At the reporting date, several new accounting pronouncements have been issued by the Australian Accounting Standards Board (AASB) but are not yet effective. The directors intend to apply these acccounting pronouncements only in the annual reporting period the pronouncement becomes effective. Other than as described below, the directors consider that the new pronouncements will have no significant impact on the financial performance, financial position or the cash flows of the company or the consolidated entity, other than requiring, in certain instances, additional disclosures to be made compared to those presently disclosed:

AASB 2005-9 'Amendments to Australian Accounting Standards' principally amends AASB 139 'Financial Instruments: Recognition and Measurement' in relation to financial guarantee contracts. This Accounting Standard is effective for annual reporting periods beginning on or after 1 January 2006 and will first apply to the company and consolidated entity for the financial year ending 30 June 2007.

On adoption of AASB 2005-9, the company and the consolidated entity will be required to measure financial guarantee contracts initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described in note 1(u).

The directors have not yet assessed the extent of the impact that initial application of the accounting standard will have on the financial report.

Accounting Standard AASB 119 Employee Benefits (December 2004) has been issued by the AASB but not adopted by the consolidated entity as it is not effective until annual reporting periods beginning on or after 1 January 2006. The consolidated entity will adopt the revised Accounting Standard from 1 July 2006. Application of the revised Accounting Standard will have no impact on the consolidated entity's financial position and results in the period of initial application.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
2. PROFIT FROM OPERATIONS				
a) Revenue from continuing operations consisted of the following items:				
Rendering of services	65,276	48,289	-	-
Rental revenue	1,106	912	-	-
Interest – other entities	430	304	404	289
	66,812	49,505	404	289
b) Profit before income tax				
Profit before income tax has been arrived at after crediting/(charging) the following gains and losses from operations:				
Gain/(loss) on disposal of :				
Property, plant and equipment	(116)	(27)	-	-
Sale of business	4,400	-	-	-
	4,284	(27)	-	-
c) Profit before income tax has been arrived at after charging the following expenses.				
Depreciation of non-current assets:				
Leasehold buildings and improvements	1,068	992	-	-
Vessels	803	693	-	-
Vessels – hire purchase	1,550	1,016	-	-
Plant and equipment	601	581	-	-
Plant and equipment – hire purchase	128	111	-	-
	4,150	3,393	-	-
Bad and doubtful debts arising from:				
Other entities	57	17	-	-
Net foreign exchange loss	34	18	-	-
	91	35	-	-
Finance costs:				
Interest expense – other entities	1,475	1,551	-	18
Finance charges – lease finance charges	1,603	658	-	-
	3,078	2,209	-	18
Operating leases – rental expenses	270	272	-	-
Employee benefit expense:				
Share based payments:				
Equity settled share based payments	77	164	-	-

3. INCOME TAX

(a) Income tax recognised in profit or loss

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Tax expense/(income) comprises:				
Current tax expense	2,544	451	83	44
Deferred tax expense/(income) relating to origination and reversal of temporary differences	1,071	737	-	-
Adjustment recognised in the current year in relation to the current tax of prior years	-	328	-	-
Benefits arising from previously unrecognised tax losses, tax credits or temporary differences of a prior period that is used to reduce - current tax expense	(594)	-	(594)	-
Total tax expense/(income)	3,021	1,516	(511)	44

The prima facie income tax expense/ (benefit) on pre-tax accounting profit from operations reconciles to the income tax expense/ (benefit) in the financial statements as follows:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Profit from operations	12,229	3,875	311	94
Income tax expense calculated at 30%	3,669	1,162	93	28
Depreciation differences	(7)	(70)	-	-
Entertainment	15	14	-	-
Capital Raising Cost	(34)	(34)	(34)	-
Other items	8	87	24	16
Unused tax capital losses and tax offsets not recognised as deferred tax assets	(594)	-	(594)	-
Equity share of associates' profit / (loss)	(36)	29	-	-
	3,021	1,188	(511)	44
Under provision of income tax in previous year	-	328	-	-
	3,021	1,516	(511)	44

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Current tax assets and liabilities

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Current tax liabilities				
Income tax payable attributable to:				
Parent entity	(511)	7	(511)	7
Entities in the tax consolidated group	2,131	350	2,131	350
Other	3	79	3	79
	1,623	436	1,623	436

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(c) Deferred tax balances				
Deferred tax assets comprise:				
Temporary differences	-	-	-	24
	-	-	-	24
Deferred tax liabilities comprise:				
Temporary differences	2,322	1,272	-	-
	2,322	1,272	-	-

Taxable and deductible temporary differences arise from the following:

	Opening balance $'000	Charged to income $'000	Closing balance $'000
2006		**Consolidated**	
Gross deferred tax liabilities:			
Property, plant and equipment	(1,270)	(496)	(1,766)
Inventory	(384)	(199)	(583)
Receivables	(168)	(147)	(315)
Other	(29)	(37)	(66)
	(1,851)	(879)	(2,730)
Gross deferred tax assets			
Provisions	437	(29)	408
Other	142	(142)	-
	579	(171)	408
Total	**(1,272)**	**(1,050)**	**(2,322)**
2005			
Gross deferred tax liabilities:			
Property, plant and equipment	(1,280)	10	(1,270)
Inventory	(133)	(251)	(384)
Receivables	(29)	(139)	(168)
Other	(13)	(16)	(29)
	(1,455)	(396)	(1,851)
Gross deferred tax assets			
Provisions	190	247	437
Other	1,058	(916)	142
	1,248	(669)	579
Total	**(207)**	**(1,065)**	**(1,272)**
2006		**Company**	
Gross deferred tax liabilities:			
Other	-	-	-
	-	-	-
Gross deferred tax assets			
Other	24	(24)	-
	24	(24)	-
Total	24	(24)	-
2005			
Gross deferred tax liabilities:			
Other	-	-	-
	-	-	-
Gross deferred tax assets			
Other	37	(13)	24
	37	(13)	24
Total	**37**	**(13)**	**24**

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
3. INCOME TAX (continued)				
Unrecognised deferred tax balances				
The following deferred tax assets have not been brought to account as assets:				
Tax losses - capital	234	828	234	828

Tax consolidation

Relevance of tax consolidation to the consolidated entity

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Mermaid Marine Australia Ltd. The members of the tax-consolidated group are identified at note 29.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Mermaid Marine Australia Ltd and each of the entities in the tax-consolidated group will agree to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement to be entered into between members of the tax-consolidated group will provide for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

4. DIVIDENDS PROVIDED FOR OR PAID

No dividends were paid or declared during the financial year (2005: nil).

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Adjusted franking account balance (tax paid basis)	3,843	3,058	3,681	2,971
5. CURRENT TRADE AND OTHER RECEIVABLES				
Trade receivables	16,468	6,815	-	-
Allowance for doubtful debts	(74)	(19)	-	-
Other receivables	2,928	2,728	18	18
Goods and services tax (GST) recoverable	1,228	249	-	-
	20,550	9,773	18	18
6. CURRENT INVENTORIES				
Consumables – at cost	1,942	1,281	-	-
7. OTHER CURRENT ASSETS				
Prepayments	624	663	-	-

8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Name of Entity	Principal Activity	Country of Incorporation	Ownership Interest 2006 %	Ownership Interest 2005 %	Consolidated Carrying 2006 $'000	Consolidated Carrying 2005 $'000
Associate **Mermaid Clough Pty Ltd (i) (ii)**	Shallow water pipeline installation	Australia	50	50	219	97

(i) The reporting date of Mermaid Clough Pty Ltd (MCJV) is 30 June. The consolidated entity acquired a 50% ownership interest in MCJV in August 2002.

(ii) Pursuant to a shareholder agreement the consolidated entity has the right to cast 50% of the votes at MCJV shareholder meetings.

	Consolidated 2006 $'000	Consolidated 2005 $'000
Share of Associates profit or loss:		
Share of profit/(loss) before income tax expense	175	(133)
Income tax (expense)/benefit	(53)	36
Share of associates' profit/(loss)	122	(97)
Summarised Financial Position of Associate:		
Current assets		
Cash	21	65
Receivables	1,041	902
Prepayments	-	17
Non-current assets		
Deferred Tax Assets	54	161
Current liabilities		
Payables	(678)	(951)
Tax Liabilities	-	-
Net Assets	438	194
Revenue	1,045	36
Net profit/(loss) before income tax	350	(266)

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.

Dividends Received from Associates

During the year the consolidated entity received no dividends (2005:$300 thousand) from its associate.

9. OTHER FINANCIAL ASSETS

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
NON CURRENT				
Loans - wholly-owned controlled entities	-	-	54,702	48,366
Impairment of loans to controlled entities	-	-	(10,209)	(10,209)
Shares in controlled entities	-	-	2,525	2,525
	-	-	47,018	40,682

10. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Leasehold Buildings and improvements - at cost $'000	Vessels -at cost $'000	Vessels hire purchase -at cost $'000	Plant and equipment -at cost $'000	Plant and equipment hire purchase -at cost $'000	TOTAL $'000
Gross Carrying Amount						
Balance at 1 July 2004	34,072	8,948	19,457	5,499	1,281	69,257
Additions	597	55	10,639	889	119	12,299
Disposals	-	(1,015)	(3,591)	(621)	-	(5,227)
Transfers	-	1,444	(1,444)	-	-	-
Balance at 1 July 2005	34,669	9,432	25,061	5,767	1,400	76,329
Additions	4,697	250	39,724	607	356	45,634
Disposals	(250)	-	-	(80)	-	(330)
Balance at 30 June 2006	39,116	9,682	64,785	6,294	1,756	121,633
Accumulated Depreciation						
Balance at 1 July 2004	(1,931)	(1,468)	(2,554)	(2,413)	(121)	(8,487)
Disposals	-	245	695	360	-	1,300
Transfers	-	(514)	514	-	-	-
Depreciation expense	(992)	(693)	(1,016)	(581)	(111)	(3,393)
Balance at 1 July 2005	(2,923)	(2,430)	(2,361)	(2,634)	(232)	(10,580)
Disposals	33	-	-	79	-	112
Depreciation expense	(1,068)	(803)	(1,550)	(601)	(128)	(4,150)
Balance at 30 June 2006	(3,958)	(3,233)	(3,911)	(3,156)	(360)	(14,618)
Net Book Value						
As at 30 June 2005	31,745	7,003	22,700	3,132	1,168	65,749
As at 30 June 2006	35,157	6,450	60,874	3,138	1,396	107,015

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

11. ASSETS PLEDGED AS SECURITY

In accordance with the security arrangements of liabilities, as disclosed in Note 13 to the financial statements, all non-current assets of the consolidated entity have been pledged as security, except deferred tax assets.

The consolidated entity does not hold title to the equipment under finance lease pledged as security.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
12. CURRENT TRADE AND OTHER PAYABLES				
GST payable	1,303	465	-	-
Trade payables	9,754	3,192	-	-
Other payables and accruals	3,529	2,632	9	4
	14,586	6,289	9	4
13. BORROWINGS				
CURRENT				
At amortised cost (2005: cost):				
Hire purchase liability – secured (i)	3,381	2,397	-	-
Bank loan – secured (ii)	1,020	1,020	-	-
	4,401	3,417	-	-
NON CURRENT				
At amortised cost (2005: cost):				
Hire purchase liability – secured (i)	33,956	11,683	-	-
Bank loan – secured (ii)	18,011	16,390	-	-
Other Loans – unsecured	-	304	-	-
	51,967	28,377	-	-

(i) The hire purchase liability is secured by a charge over the respective assets - refer note 21(a).

(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 Dampier Supply Base Lease.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
14. OTHER CURRENT FINANCIAL LIABILITIES				
Foreign currency forward contracts	11	-	-	-
15. PROVISIONS				
CURRENT				
Employee benefits	789	700	-	-
NON CURRENT				
Employee benefits	178	121	-	-

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
16. ISSUED CAPITAL				
140,027,367 fully paid ordinary shares (2005: 139,364,367)	48,047	47,755	48,047	47,755

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	Company 2006 No.'000	Company 2006 $'000	Company 2005 No.'000	Company 2005 $'000
Fully Paid Ordinary Shares				
Balance at beginning of financial year	139,364	47,755	114,682	39,658
Issue of shares under Share Option Incentive Plan-note 22	663	292	24,682	8,097
Balance at end of financial year	140,027	48,047	139,364	47,755

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

Share Options

In accordance with the provisions of the Share Option Incentive Plan, as at 30 June 2005, executives and employees held options over 2,965,000 ordinary shares, in aggregate, with 1,295,000 of those options expiring 17 May 2006 and the remainder on 22 April 2008.

As at 30 June 2006, executives and employees held options over 4,705,000 ordinary shares, in aggregate, with 1,390,000 of those options expiring 22 April 2008, 600,000 on 15 November 2009, 600,000 on 7 December 2009 and 2,115,000 on 19 May 2011.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
17. RESERVES				
Reserves Comprise				
Employee equity-settled benefits	270	193	270	193
Hedging	(11)	-	-	-
	259	193	270	193
Employee equity-settled benefits reserve				
Balance at beginning of financial year	193	29	193	29
Share based payment	77	164	77	164
Balance at end of financial year	270	193	270	193

The employee equity settled benefits reserve arises on the grant of share options to executives and employees under the company share option plans. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share based payments to employees is made in note 22 to the financial statements.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Hedging reserve				
Balance at beginning of financial year	-	-	-	-
Foreign exchange contract loss recognised	(11)	-	-	-
Balance at end of financial year	(11)	-	-	-

The hedging reserve represents hedging losses recognised on the effective portion of cash flow hedges. The cumulative deferred loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non financial hedged item, consistent with the applicable accounting policy.

18. RETAINED EARNINGS

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Balance at beginning of financial year	2,986	627	(3,694)	(3,744)
Net Profit	9,208	2,359	822	50
Balance at end of financial year	12,194	2,986	(2,872)	(3,694)

19. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cashflow statement is reconciled to the related items in the balance sheet as follows:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Cash and cash equivalents	6,027	13,983	41	3,970

(b) Non cash financing and investing activities

During the financial year, the consolidated entity acquired property, plant and equipment with an aggregate value of $27.6 million which was financed by hire purchase agreements and the proceeds of sale of the manning business. These acquisitions are not reflected in the cashflow statement.

During the financial year the company disposed of its manning business for a total of $4.4million. The proceeds from sale were used to partially finance the acquisition of vessels above and are not reflected in the cash flow statement.

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

(c) Reconciliation of profit for the year to net cash flows from operating activities

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Profit for the year	9,208	2,359	822	50
Depreciation of non current assets	4,151	3,393	-	-
Amortisation of non current assets	-	223	-	-
(Gain)/Loss on sale of property, plant and equipment	(4,283)	27	-	-
Provision for doubtful debts	55	-	-	-
Equity settled share based payment	77	164	77	164
Increase/(Decrease) in current tax payable	1,187	438	(379)	7
Share of associates' (profit)/loss	(122)	97	-	-
Increase/(Decrease) in deferred tax liabilities	1,049	1,065	(511)	36
Change in net assets and liabilities				
Current trade and other receivables	(10,832)	(1,260)	-	4
Prepayments	39	256	-	-
Inventories	(661)	(813)	-	-
Provisions	(364)	186	-	-
Investments	-	300	-	300
Trade and other payables	12,045	962	5	-
Net cash flows from operating activities	11,549	7,397	14	561

(d) Financing facilities

Secured loan facilities with various maturing dates through to 2014 and which may be extended by mutual agreement:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
- Amount used	19,031	17,410	-	-
- Amount unused	10,522	-	-	-
	29,553	17,410	-	-

20. COMMITMENTS FOR EXPENDITURE

(a) Lease Commitments

Hire purchase liabilities and non-cancellable operating lease commitments are disclosed in Note 21 to the financial statements.

(b) Capital expenditure commitments

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Plant and equipment				
Not longer than 1 year	10,522	-	-	-
Longer than 1 year and not longer than 5 years	-	-	-	-
Longer than 5 years	-	-	-	-
	10,522	-	-	-

21. LEASES

Finance leases relate to vessels and equipment with lease terms of up to 5 years. The consolidated entity has options to purchase the equipment for a nominated amount at the conclusion of the lease agreements.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(a) Hire Purchase Contracts				
Not later than 1 year	6,113	3,422	-	-
Later than 1 year and not later than 5 years	36,251	10,085	-	-
Later than 5 years	4,863	5,628	-	-
Minimum future payments	47,227	19,135	-	-
Less future finance charges	(9,890)	(5,055)	-	-
Present value of minimum lease payments	37,337	14,080	-	-
Included in the financial statements as:				
Interest bearing liability - current - note 13	3,381	2,397	-	-
Interest bearing liability - non current -note 13	33,956	11,683	-	-
	37,337	14,080	-	-
(b) Operating Leases				
Not later than 1 year	275	275	-	-
Later than 1 year and not later than 5 years	697	868	-	-
Later than 5 years	779	861	-	-
Aggregate lease expenditure contracted for at balance date	1,751	2,004	-	-
Aggregate operating lease commitments comprise:				
Office rental commitments (i)	480	649	-	-
Supply base rental commitments (ii)	1,189	1,271	-	-
Other	82	84	-	-
	1,751	2,004	-	-

(i) Office Rental Commitments:

The Company's Mews Road premises in Fremantle is committed under a 5 year arrangement commencing 1 May 2004 with an annual rental of $169 thousand per annum.

(ii) Supply Base Rental Commitments:

Supply base rental commitments represents the lease of the Dampier 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.

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).

22. SHARE OPTION INCENTIVE PLANS

The consolidated entity has established the Managing Director, Senior Executive and Employee Share Option Incentive Plans whereby executives and employees of the consolidated entity have been issued with options over ordinary shares of Mermaid Marine Australia Limited.

Upon exercise, each share option converts into one ordinary share of Mermaid Marine Australia Ltd. No amounts are paid or are payable by the recipient on receipt of the options. The options carry no rights of dividends and no voting rights. Holders of options do not have the right, by virtue of the option, to participate in any share issue of the company. The options may be exercised at any time from their vesting date to the date of their expiry.

The options are not quoted on the ASX.

The following share based payment arrangements were in existence during the year:

Options -Series	Number	Grant Date	Expiry Date	Exercise price $	Fair Value at grant date $
(1) Issued 17 May 2002 (a)	1,295,000	17 May 2002	17 May 2006	0.44	n/a
(2) Issued 22 April 2004 (a)	1,670,000	22 April 2004	22 April 2008	0.40	0.14
(3) Issued 15 November 2005 (b)	600,000	15 Nov 2005	15 Nov 2009	0.40	0.13
(4) Issued 7 December 2005 (b)	600,000	7 Dec 2005	7 Dec 2009	0.40	0.18
(5) Issued 19 May 2006 (c)	2,115,000	19 May 2006	19 May 2011	0.48	0.21

(a) In accordance with the terms of the respective share option plans, the options issued on 17 May 2002 and 22 April 2004 vest 12 months after their date of issue.

(b) In accordance with the terms of the Managing Director and Senior Executive share option plans, the options issued on 15 November 2005 and 7 December 2005 vest upon their issue. The options will be issued in tranches of 200,000 options on the first, second and third anniversaries of the respective option plan dates. The first tranche of options may be exercised if the price of the Mermaid Marine Australia Ltd shares traded on the ASX is equal to or greater than 50 cents for a period of at least 5 consecutive trading days during the exercise period of the options. The second tranche may be exercised if the share price of the company's shares traded on the ASX is equal to or greater than 65 cents for a period of at least 5 consecutive trading days during the exercise period of the options and the third tranche of options may be exercised if the share price of the company's shares traded on the ASX is equal to or greater than 70 cents for a period of at least 5 consecutive trading days during the exercise period of the options.

(c) In accordance with the terms of the employee share option plan, the options issued on 19 May 2006 vest 24 months after their issue date. The options may be exercised following their vesting date if the price of the Mermaid Marine Australia Ltd shares traded on the ASX is equal to or greater than 70 cents for a period of at least 5 consecutive trading days following the grant date and prior to the expiry date of the options.

The weighted average fair value of the share options granted during the year was $0.19. Options were priced using a binomial option pricing model. Where relevant, the theoretical value of the options has been adjusted for any market related vesting conditions.

Inputs into the model	Option series (3)	Option series (4)	Option series (5)
Grant date share price	$0.355	$0.37	$0.455
Exercise price	$0.40	$0.40	$0.48
Expected volatility	59%	59.24%	59.24%
Option life	4 years	4 years	5 years
Dividend yield	0%	0%	0%
Risk free rate	5.39%	5.00%	5.54%

The following reconciles the outstanding share options granted under the managing director, senior executives and employee share option plans at the beginning and end of the financial year:

Employee Share Option Plan	2006 Number of options	2006 Weighted average exercise price	2005 Number of options	2005 Weighted average exercise price
Balance at the beginning of the financial year	2,965,000	0.42	4,110,000	0.42
Granted during the financial year	3,315,000	0.45	-	-
Exercised during the financial year (i)	(663,000)	0.44	-	-
Expired / lapsed during the financial year	(912,000)	-	(1,145,000)	-
Balance at the end of the financial year (ii)	4,705,000	0.44	2,965,000	0.42
Exercisable at end of the financial year	1,390,000	0.40	2,965,000	0.42

(i) Exercised during the financial year

The following share options were exercised during the financial year:

Options - Series	Number exercised	Exercise date	Share price at exercise date
(1) Issued 17 May 2002	663,000	17 May 2006	0.47

(ii) Balance at end of the financial year

The following share options were outstanding at the end of the financial year:

Options - Series	Number	Exercise price $	Expiry Date
(2) Issued 22 April 2004	1,390,000	0.40	22 April 2008
(3) Issued 15 November 2005	600,000	0.40	15 November 2009
(4) Issued 7 December 2005	600,000	0.40	7 December 2009
(5) Issued 19 May 2006	2,115,000	0.48	19 May 2011
Total	4,705,000		

23. SUBSEQUENT EVENTS

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

24. EARNINGS PER SHARE

	2006 Cents per share	2005 Cents per share
Basic earnings per share	6.60	1.83
Diluted earnings per share	6.60	1.83

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:

	2006 $'000	2005 $'000
Earnings (a)	9,208	2,359

	2006 No.'000	2005 No.'000
Weighted average number of ordinary shares for the purposes of basic earnings per share (b)	139,446	129,063

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

	2006 $'000	2005 $'000
Net profit	9,208	2,359
Earnings used in the calculation of basic EPS	9,208	2,359

(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:

	2006 $'000	2005 $'000
Earnings (a)	9,208	2,359

	2006 No.'000	2005 No.'000
Weighted average number of ordinary shares and potential ordinary shares (b)	139,566	129,063

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

	2006 $'000	2005 $'000
Net profit	9,208	2,359
Earnings used in the calculation of diluted EPS	9,208	2,359

(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:

	2006 No.'000	2005 No.'000
Weighted average number of ordinary shares used in the calculation of basic EPS	139,446	129,063
Shares deemed to be issued for no consideration in respect of:		
Employee Options	120	-
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	139,566	129,063

(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.

	2006 $'000	2005 $'000
Options-Lapsed	-	2,661
Employee Options	3,410	2,965
Employee Options – Lapsed	330	1,145
	3,740	6,771

25. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel of Mermaid Marine Australia Limited during the year were:

- Mr A Howarth (Non-Executive Director , Chairman – appointed 1 August 2006)
- Mr A Birchmore (Chairman – resigned 1 August 2006, Non-Executive Director)
- Mr J Weber (Managing Director)
- Mr M Bradley (Non-Executive Director)
- Mr J Carver (Executive Director)
- Mr J Mews (Non-Executive Director)
- Mr P Chew (Non-Executive Director, resigned 28 November 2005)
- Mr D Ross (General Manager – Operations)
- Mr P Raynor (Chief Financial Officer / Company Secretary)
- Mr T Graham (Business Development Manager)
- Mr S Smith (Marine Manager)
- Mr S Lee (Supply Base Manager)

Key management personnel compensation policy

The remuneration committee reviews the remuneration packages of all key management personnel 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.

The remuneration packages of the non executive and executive directors do not include any cash bonus or share based payment component.

25. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

The remuneration package of the managing director, Mr J Weber, included a cash bonus component of up to 35% of the base salary for the 2006 financial year (2005: 20%) which was linked to a number of specified key performance targets for the company. In addition, during the 2006 financial year, Mr Weber was granted options under the managing director incentive option plan. Under the plan Mr Weber is entitled to receive up to 600,000 options over a period of three years. The issue of the options are subject to a number of market and non market conditions being met as detailed below and in note 22.

The remuneration packages of the other key management personnel for the 2006 financial year include a cash bonus component of up to 18% (2005: 10%) of the base salary which is linked to a number of specified key performance targets for the company. In addition, during the 2006 financial year, the other key management personnel were granted options under the senior executive and employee option plans as detailed below and in note 22.

Key management personnel compensation

The aggregate compensation of the key management personnel of the consolidated entity and the company is set out below:

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
Short term employee benefits	1,542,165	1,367,810	-	-
Post-employment benefits	103,818	99,038	-	-
Other long term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share based payments	66,208	58,334	-	-
	1,712,191	1,525,182	-	-

Note: All key management personnel are employed by Mermaid Marine Vessel Operations Pty Ltd, a wholly owned subsidiary of Mermaid Marine Australia Ltd.

The compensation of each member of the key management personnel of the consolidated entity is set out opposite:

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2006

	Short term employee benefits				Post Employment benefits				Share-based payment				
									Equity-settled				
2006	Salary & Fees $	Bonus (i) $	Non-monetary $	Other $	Super-annuation $	Other $	Other long term employee benefits $	Termination benefits $	Shares & units $	Options & rights $	Cash Settled $	Other $	Total $
Mr A Birchmore	70,000	-	4,736	-	6,300	-	-	-	-	-	-	-	81,036
Mr J Weber	232,235	98,866	27,729	-	21,446	-	-	-	-	29,215	-	-	409,491
Mr M Bradley	70,000	-	-	-	6,300	-	-	-	-	-	-	-	76,300
Mr J Carver	135,000	-	3,920	-	3,150	-	-	-	-	-	-	-	142,070
Mr A Howarth	45,000	-	-	-	4,050	-	-	-	-	-	-	-	49,050
Mr J Mews	45,000	-	-	-	4,050	-	-	-	-	-	-	-	49,050
Mr P Chew	-	-	-	-	-	-	-	-	-	-	-	-	-
Mr D Ross	155,451	28,050	7,128	-	14,850	-	-	-	-	16,665	-	-	222,144
Mr P Raynor	119,335	23,240	2,557	-	10,740	-	-	-	-	16,665	-	-	172,537
Mr T Graham	143,054	15,736	-	-	12,874	-	-	-	-	1,221	-	-	172,885
Mr S Smith	116,514	23,677	15,785	-	11,836	-	-	-	-	1,221	-	-	169,033
Mr S Lee	91,363	25,500	42,289	-	8,222	-	-	-	-	1,221	-	-	168,595
Total	1,222,952	215,069	104,144	-	103,818	-	-	-	-	66,208	-	-	1,712,191

	Short term employee benefits				Post Employment benefits				Share-based payment				
									Equity-settled				
2005	Salary & Fees $	Bonus (i) $	Non-monetary $	Other $	Super-annuation $	Other $	Other long term employee benefits $	Termination benefits $	Shares & units $	Options & rights $	Cash Settled $	Other $	Total $
Mr A Birchmore	70,000	-	5,318	-	6,300	-	-	-	-	-	-	-	81,618
Mr J Weber	236,530	40,000	23,009	-	21,287	-	-	-	-	-	-	-	320,826
Mr M Bradley	158,460	-	-	-	14,261	-	-	-	-	-	-	-	172,721
Mr J Carver	135,326	-	3,702	-	3,150	-	-	-	-	-	-	-	142,178
Mr P Chew	41,725	-	-	-	-	-	-	-	-	-	-	-	41,725
Mr A Howarth	43,461	-	-	-	3,911	-	-	-	-	-	-	-	47,372
Mr J Mews	43,461	-	-	-	3,911	-	-	-	-	-	-	-	47,372
Mr R Reid	9,450	-	-	-	-	-	-	-	-	-	-	-	9,450
Mr B Gore	179,417	-	1,802	-	14,580	-	-	-	-	35,000	-	-	230,799
Mr P Raynor	5,930	-	-	-	533	-	-	-	-	-	-	-	6,463
Mr T Graham	143,888	13,888	-	-	11,700	-	-	-	-	11,667	-	-	181,143
Mr B Macgregor	106,481	-	-	-	10,322	-	-	-	-	-	-	-	116,803
Mr D Verboon	100,917	5,045	-	-	9,083	-	-	-	-	11,667	-	-	126,712
Total	1,275,046	58,933	33,831	-	99,038	-	-	-	-	58,334	-	-	1,525,182

25. KEY MANAGEMENT PERSONNEL COMPENSATION (cont'd)

(i) Mr Weber and other key management personnel were granted cash bonuses for the 2006 and 2005 financial years. The bonuses were granted on 30 June each year and the respective amounts were subject to a number of specified key performance targets being achieved.

(ii) Mr Weber was granted a total of 600,000 share options under the Managing Director Incentive Option Plan on 15 November 2005. Mr Ross and Mr Raynor were each granted 300,000 share options under the Senior Executive Incentive Option Plan on 7 December 2005 and 200,000 share options under the Employee Share Option Plan on 19 May 2006. Mr Graham, Mr Smith and Mr Lee were each granted 100,000 share options under the Employee Share Option Plan on 19 May 2006. No employee share options were granted during the previous financial year. Further details of the share options are contained in notes 22 and 27 to the financial statements.

26. AUDITORS' REMUNERATION

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
Auditor of the Parent Entity				
Audit or review of the financial report	115,320	98,320	-	-
Taxation services	98,510	52,278		
Other non-audit services	16,600	155,980	-	-
	230,430	306,578	-	-

The Auditors of Mermaid Marine Australia Ltd are Deloitte Touche Tohmatsu.

27. RELATED PARTY DISCLOSURES

(a) Equity interests in related parties

(i) Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 29 to the financial statements.

(ii) Equity interests in associates and joint ventures

Details of interests in associates and joint ventures are disclosed in Note 8 to the financial statements.

(iii) Equity interests in other related parties

There are no equity interests in other related parties.

(b) Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 25 to the financial statements.

(c) Key management personnel equity holdings

Fully paid ordinary shares of Mermaid Marine Australia Limited

2006	Balance at 1 July 2005	Granted as compensation	Received on exercise of options	Net Other Change	Balance at 30 June 2006	Balance held nominally
	No.	No.	No.	No.	No.	No.
Mr A Howarth	329,400	-	-	385,000	714,400	-
Mr A Birchmore	11,668,700	-	-	361,000	12,029,700	-
Mr J Weber	50,000	-	400,000	100,000	550,000	-
Mr M Bradley	6,666,666	-	-	(1,000,000)	5,666,666	-
Mr J Carver	9,215,826	-	-	385,000	9,600,826	-
Mr J Mews	750,000	-	-	385,000	1,135,000	-
Mr D Ross	-	-	-	200,000	200,000	-
Mr P Raynor	-	-	-	300,000	300,000	-
Mr T Graham	39,400	-	100,000	110,000	249,400	-
Mr S Lee	15,000	-	-	-	15,000	-

2005	Balance at 1 July 2004	Granted as compensation	Received on exercise of options	Net Other Change	Balance at 30 June 2005	Balance held nominally
	No.	No.	No.	No.	No.	No.
Mr A Howarth	300,000	-	-	29,400	329,400	-
Mr A Birchmore	11,667,094	-	-	1,606	11,668,700	-
Mr J Weber	-	-	-	50,000	50,000	-
Mr M Bradley	6,666,666	-	-	-	6,666,666	-
Mr J Carver	9,750,826	-	-	(535,000)	9,215,826	-
Mr J Mews	1,500,000	-	-	(750,000)	750,000	-
Mr T Graham	39,400	-	-	-	39,400	-

Share options of Mermaid Marine Australia Limited

2006	Balance at 1/7/05	Granted as remuneration	Exercised	Lapsed	Balance at 30/6/06	Balance vested at 30/6/06	Vested but not exercisable	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Mr J Weber	400,000	600,000	400,000	-	600,000	-	-	-	-
Mr D Ross	-	500,000	-	-	500,000	-	-	-	-
Mr P Raynor	-	500,000	-	-	500,000	-	-	-	-
Mr T Graham	200,000	100,000	100,000	-	200,000	100,000	-	100,000	-
Mr S Smith	30,000	100,000	-	-	130,000	30,000	-	30,000	-
Mr S Lee	115,000	100,000	-	40,000	175,000	75,000	-	75,000	-

2005	Balance at 1/7/04	Granted as remuneration	Exercised	Lapsed	Balance at 30/6/05	Balance vested at 30/6/05	Vested but not exercisable	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Mr J Weber	400,000	-	-	-	400,000	400,000	-	400,000	-
Mr B Gore	450,000	-	-	450,000	-	-	-	-	300,000
Mr T Graham	200,000	-	-	-	200,000	200,000	-	200,000	100,000
Mr B Macgregor	100,000	-	-	100,000	-	-	-	-	-
Mr D Verboon	200,000	-	-	-	200,000	200,000	-	200,000	100,000

27. RELATED PARTY DISCLOSURES (continued)

All share options issued to the executives during the financial year were made in accordance with the terms of the respective share option plans.

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

During the financial year 500,000 share options (2005: nil) were exercised by key management personnel at an exercise price of 44 cents per option for 500,000 ordinary shares in Mermaid Marine Australia Ltd (2005: nil). No amounts remain unpaid on the options exercised during the financial year at year end.

Further details of the share option plans and of the share options granted during the financial year are contained in notes 22 and 25.

(d) Transactions with key management personnel

(1) Directors Fees:
During the year, a total of $81,036 (2005: $81,618) for directors fees, superannuation and non-monetary benefits were paid to Mr J Birchmore, a related entity of Mr A Birchmore. This is reflected in full in Note 25 – Remuneration of Directors.

(2) Fremantle Premises:
The Achiever Partnership, a related entity of Mr A Birchmore and Mr J 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.

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

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

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

Rental and outgoings paid during the financial year amounted to $203,661 (2005: $182,344).

(3) During the year, Business Analysts – Australia, an entity of which Mr J Carver is a director and shareholder, provided consultancy services to the Company upon negotiated commercial terms. Consultancy services paid during the financial year amounted to $100,000 (2005: $100,326), based upon an agreed market day rate. This is reflected in full in Note 25 – Remuneration of Directors.

(e) Transactions with other related parties

Transactions involving other related parties

During the financial year the Company received from Mermaid Clough Pty Ltd (MCJV) amounts totalling $nil (2005: $444 thousand) for various vessel charters, supply base and other services. These services were provided at commercial rates.

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

Transactions involving the parent entity

During the year, Mermaid Marine Australia Ltd recognised a net receivable of $2,131 thousand (2005:$350 thousand) from its wholly owned subsidiaries for their tax payable for the current period.

Amounts receivable from entities in the wholly-owned group are disclosed in Note 9 to the financial statements.

(f) Parent entity

Mermaid Marine Australia Limited is the ultimate Australian parent entity.

28. SEGMENT REPORTING

	Vessels		Supply Base		Engineering & Labour Hire		Total	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Segment Revenues								
Sales to outside customers	53,555	35,685	9,961	7,811	2,781	5,541	66,297	49,037
Inter-segment revenue	62	722	4,158	2,265	-	-	4,220	2,987
Total	53,617	36,407	14,119	10,076	2,781	5,541	70,517	52,024
Eliminations							(4,220)	(2,987)
Unallocated							515	468
Total consolidated revenue							66,812	49,505
Intersegment services are provided for amounts equal to competitive market prices charged to external customers for similar services								
Segment Results								
Segment result	11,016	7,280	2,045	743	4,936	627	17,997	8,650
Eliminations							(33)	(185)
Total							17,964	8,465
Unallocated							(5,735)	(4,590)
Profit before income tax expense							12,229	3,875
Income tax (expense)							(3,021)	(1,516)
Profit for the year							9,208	2,359
Segment assets and liabilities								
Assets								
Segment assets	88,397	39,774	42,010	37,440	624	762	131,031	77,976
Unallocated assets							5,346	13,570
Consolidated							136,377	91,546
Liabilities								
Segment liabilities	13,659	6,593	1,778	929	75	213	15,512	7,735
Unallocated liabilities							60,365	32,877
Consolidated							75,877	40,612

	Vessels		Supply Base		Engineering & Labour Hire		Unallocated		Total	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Other segment Information										
Carrying value of equity accounted investments included in segment assets	219	97	-	-	-	-	-	-	219	97
Share of net profit/(loss) of associates accounted for under the equity method	122	(97)	-	-	-	-	-	-	122	(97)
Acquisition of segment assets	40,985	11,180	4,558	905	-	-	91	214	45,634	12,299
Depreciation and amortisation of segment assets	2,656	1,924	1,308	1,192	87	87	100	414	4,151	3,617
Proceeds from sale of fixed assets	-	3,892	103	9	4,400	-	-	-	4,503	3,901
Net book value of fixed asset sales	-	3,923	218	4	-	-	-	1	218	3,928

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.

29. SUBSIDIARIES

	Note	Country of Incorporation	Ownership Interest 2006 %	Ownership Interest 2005 %
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 income statement and balance sheet of entities which are party to the deed of cross guarantee are:

	2006 $'000	2005 $'000
INCOME STATEMENT		
Revenue	71,087	53,094
Share of net profits of associate accounted for using the equity method	122	(97)
Vessel expenses	(42,540)	(32,297)
Supply base expenses	(7,916)	(7,076)
Engineering and labour expenses	(2,478)	(4,647)
Administrative expenses	(3,165)	(2,844)
Finance costs	(3,078)	(2,209)
Profit before income tax expense	12,032	3,924
Income tax (expense)/benefit	(3,021)	(1,481)
Profit for the year	9,011	2,443

BALANCE SHEET

	2006 $'000	2005 $'000
Current Assets		
Cash and cash equivalents	6,014	13,782
Trade and other receivables	20,532	9,674
Inventories	1,942	1,281
Other	624	663
Total Current Assets	29,112	25,400
Non-Current Assets		
Investments accounted for using the equity method	219	97
Other financial assets	959	1,249
Property, plant and equipment	107,015	65,748
Total Non-Current Assets	108,193	67,094
Total Assets	137,305	92,494
Current Liabilities		
Trade and other payables	14,482	6,089
Borrowings	4,401	3,417
Other financial liabilities	11	-
Provisions	789	670
Current tax payables	1,643	419
Total Current Liabilities	21,326	10,595
Non-Current Liabilities		
Trade and other payables	1,210	1,280
Borrowings	51,967	28,377
Deferred tax liabilities	2,444	1,310
Provisions	178	121
Total Non-Current Liabilities	55,799	31,088
Total Liabilities	77,125	41,683
Net Assets	60,180	50,811
Equity		
Issued capital	48,047	47,755
Reserves	259	193
Retained earnings	11,874	2,863
Total Equity	60,180	50,811
Retained earnings		
Retained earnings at beginning of the financial year	2,863	619
Net profit	9,011	2,244
Retained earnings at end of the financial year	11,874	2,863

30. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The consolidated entity only enters into financial instruments on the directive of the board of directors to hedge specific identified risks.

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates as a result of a vessel being constructed under a USD defined contract. The consolidated entity has entered into a forward foreign exchange contract to hedge the risk associated with this contract.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(c) Foreign currency risk management

The group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved parameters utilising forward foreign exchange contracts.

Forward foreign exchange contracts

The consolidated entity has entered into forward foreign exchange contract to cover specific foreign currency payments required under a vessel construction contract.

The following table details the forward foreign currency contracts outstanding as at reporting date:

	Average exchange rate		Foreign currency		Contract value		Fair value	
Outstanding Contracts	**2006 $**	**2005 $**	**2006 FC'000**	**2005 FC'000**	**2006 $'000**	**2005 $'000**	**2006 $'000**	**2005 $'000**
Buy US Dollars								
Less than 3 months	0.735	-	5,850	-	7,962	-	(10)	-
3 to 6 months	0.734	-	1,950	-	2,655	-	(1)	-
Total							(11)	

As at reporting date the aggregate amount of unrealised losses under forward foreign exchange contracts relating to anticipated future transactions is $11 thousand (2005:nil). In the current year, these unrealised losses have been deferred in the hedging reserve to the extent the hedge is effective.

(d) 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 2006 were as follows:

Financial Instruments	Variable interest rate	Fixed maturity dates:			Non interest bearing	Total carrying amount as per Balance Sheet	Weighted average interest rate %
	$'000	1 year or less $'000	Between 1 to 5 years $'000	Over 5 years $'000	$'000		
(i) Financial Assets							
Cash	6,027	-	-	-	-	6,027	4.16
Trade receivables	-	-	-	-	16,468	16,468	n/a
Other receivables	-	-	-	-	2,928	2,928	n/a
Total Financial Assets	6,027	-	-	-	19,396	25,423	
(ii) Financial Liabilities							
Trade payables	-	-	-	-	9,754	9,754	n/a
Other payables and accruals	-	-	-	-	3,529	3,529	n/a
Hire purchase liability	-	4,988	29,149	3,200	-	37,337	7.59
Bank loan – secured	19,031	-	-	-	-	19,031	8.14
Foreign currency forward contract	-	-	-	-	11	11	n/a
Employee Entitlements	-	-	-	-	967	967	n/a
Other loans	-	-	-	-	-	-	n/a
Total Financial Liabilities	19,031	4,988	29,149	3,200	14,261	70,629	

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

30. FINANCIAL INSTRUMENTS (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 2005 were as follows:

Financial Instruments	Variable interest rate	Fixed maturity dates:			Non interest bearing	Total carrying amount as per Balance Sheet	Weighted average interest rate %
	$'000	1 year or less $'000	Between 1 to 5 years $'000	Over 5 years $'000	$'000		
(i) Financial Assets							
Cash	13,983	-	-	-	-	13,983	5.00
Trade receivables	-	-	-	-	6,815	6,815	n/a
Other receivables	-	-	-	-	2,728	2,728	n/a
Total Financial Assets	13,983	-	-	-	9,543	23,526	
(ii) Financial Liabilities							
Trade payables	-	-	-	-	3,192	3,192	n/a
Other payables and accruals	-	-	-	-	2,632	2,632	n/a
Hire purchase liability	-	2,397	7,358	4,325	-	14,080	7.83
Bank loan – secured	17,410	-	-	-	-	17,410	7.86
Employee Entitlements	-	-	-	-	820	820	n/a
Other loans	-	-	-	-	304	304	n/a
Total Financial Liabilities	17,410	2,397	7,358	4,325	6,948	38,438	

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

(e) 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.

(f) Fair value of financial instruments

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2005:net fair value).

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair value of foreign currency forward contracts, including hedging assets and liabilities, are calculated using quoted prices and market rates.
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cashflow analysis.

(g) Liquidity risk management

The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

31. Contingent Liabilities

	Company 2006 $ '000	Company 2005 $ '000
(a) Guarantees arising from the deed of cross guarantee with other entities in the wholly-owned group	74,084	39,952

As detailed in Note 29, 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.

32. Joint Venture Operations

Name of Entity	Principal Activity	Output 2006 %	Interest 2005 %
Mermaid Clough Pty Ltd	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 2006 $ '000	Consolidated 2005 $ '000
Non Current Assets		
Property, Plant and Equipment	2,030	2,316
Total Assets	2,030	2,316

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.

33. IMPACT OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

		Consolidated			Company		
	Note	Superseded policies $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000	Superseded policies $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Current Assets							
Cash assets		6,069	-	6,069	2,458	-	2,458
Trade and other receivables		8,515	-	8,515	22	-	22
Inventories		468	-	468	-	-	-
Other		919	-	919	-	-	-
Total Current Assets		**15,971**	**-**	**15,971**	**2,480**	**-**	**2,480**
Non-Current Assets							
Investments accounted for using equity accounted method		494	-	494	-	-	-
Other financial assets		-	-	-	33,675	(244)	33,431
Property, plant and equipment		60,772	-	60,772	-	-	-
Deferred tax assets		-	-	-	-	37	37
Intangibles	a	223	-	223	-	-	-
Total Non-Current Asset		**61,489**	**-**	**61,489**	**33,675**	**(207)**	**33,468**
Total Assets		**77,460**	**-**	**77,460**	**36,155**	**(207)**	**35,948**
Current Liabilities							
Payables		5,622	-	5,622	5	-	5
Interest bearing liabilities		6,407	-	6,407	-	-	-
Provisions		504	-	504	-	-	-
Current tax liabilities		-	-	-	-	-	-
Total Current Liabilities		**12,533**	**-**	**12,533**	**5**	**-**	**5**
Non-Current Liabilities							
Interest-bearing liabilities		24,277	-	24,277	-	-	-
Provisions		129	-	129	-	-	-
Deferred tax liabilities		207	-	207	207	(207)	-
Total Non-Current liabilities		**24,613**	**-**	**24,613**	**207**	**(207)**	**-**
Total Liabilities		**37,146**	**-**	**37,146**	**212**	**(207)**	**5**
Net Assets		**40,314**	**-**	**40,314**	**35,943**	**-**	**35,943**
Equity							
Contributed equity		39,659	-	39,659	39,659	-	39,659
Reserves	b,c	3,764	(3,735)	29	-	29	29
Retained profits (Accumulated losses)	f	(3,109)	3,735	626	(3,716)	(29)	(3,745)
Total Equity		**40,314**	**-**	**40,314**	**35,943**	**-**	**35,943**

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

	Note	Consolidated			Company		
		Superseded policies $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000	Superseded policies $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Revenue	d	53,380	(3,900)	49,480	289	-	289
Share of net profit/(loss) of associate accounted for using the equity method		(97)	-	(97)	-	-	-
Vessel expenses	d	(32,297)	3,898	(28,399)	-	-	-
Supply base expenses		(7,076)	-	(7,076)	-	-	-
Engineering and labour expenses		(4,817)	-	(4,817)	-	-	-
Administration expenses	a,c,d	(2,845)	(162)	(3,007)	(13)	(164)	(177)
Finance costs		(2,209)	-	(2,209)	(18)	-	(18)
Profit before income tax expense		4,039	(164)	3,875	258	(164)	94
Income tax expense	e	(1,516)	-	(1,516)	(44)	-	(44)
Profit from continuing operations		2,523	(164)	2,359	214	(164)	50
Profit for the period		2,523	(164)	2,359	214	(164)	50
Profit attributable to members of the parent entity		2,523	(164)	2,359	214	(164)	50

33. IMPACT OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Effect of A-IFRS on the balance sheet as at 30 June 2005

	Note	Consolidated			Company		
		Super-seded policies $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000	Super-seded policies $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Current Assets							
Cash assets		13,983	-	13,983	3,970	-	3,970
Trade and other receivables		9,773	-	9,773	18	-	18
Inventories		1,281	-	1,281	-	-	-
Other		663	-	663	-	-	-
Total Current Assets		**25,700**	**-**	**25,700**	**3,988**	**-**	**3,988**
Non-Current Assets							
Investments accounted for using equity accounted method		97	-	97	-	-	-
Other financial assets		-	-	-	41,958	(1,276)	40,682
Property, plant and equipment		65,749	-	65,749	-	-	-
Intangibles		-	-	-	-	-	-
Deferred tax assets		37	-	37	-	24	24
Total Non-Current Asset		**65,883**	**-**	**65,883**	**41,958**	**(1,252)**	**40,706**
Total Assets		**91,583**	**-**	**91,583**	**45,946**	**(1,252)**	**44,694**
Current Liabilities							
Payables		6,289	-	6,289	4	-	4
Interest bearing liabilities		3,417	-	3,417	-	-	-
Provisions		700	-	700	-	-	-
Current tax liabilities		436	-	436	379	57	436
Total Current Liabilities		**10,842**	**-**	**10,842**	**383**	**57**	**440**
Non-Current Liabilities							
Interest-bearing liabilities		28,377	-	28,377	-	-	-
Provisions		121	-	121	-	-	-
Deferred tax liabilities	e	1,309	-	1,309	1,309	(1,309)	-
Total Non-Current liabilities		29,807	-	29,807	1,309	(1,309)	-
Total Liabilities		**40,649**	**-**	**40,649**	**1,692**	**(1,252)**	**440**
Net Assets		**50,934**	**-**	**50,934**	**44,254**	**-**	**44,254**
Equity							
Contributed equity		47,755	-	47,755	47,755	-	47,755
Reserves		3,764	(3,571)	193	-	193	193
Retained profits	f	(585)	3,571	2,986	(3,501)	(193)	(3,694)
Total Equity		**50,934**	**-**	**50,934**	**44,254**	**-**	**44,254**

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

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

Notes to the reconciliation of income and equity

a) Goodwill

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

However, goodwill, which was amortised under superseded policies, is not amortised under A-IFRS from the date of transition. There is no change under A-IFRS in the financial year ended 30 June 2005 as the full balance of goodwill was written off under superseded policies. There is no tax effect as deferred taxes are not recognised for temporary differences arising from goodwill for which amortisation is not deductible for tax purposes.

b) Plant and Equipment – Asset Revaluation Reserve

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

c) Share-Based Payments

For the financial year ended 30 June 2005, share based payments of $163 thousand (company:$163 thousand) (included in administration expenses) which were not recognised under the superseded policies were recognised under A-IFRS, with a corresponding increase in the employee equity settled benefits reserve.

These adjustments had no material tax or deferred tax consequences.

d) Revenue

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

e) Income tax

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

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

Under A-IFRS, deferred tax balances of wholly owned subsidiaries in a tax consolidated group are not recognised by the head entity. These balances were recognised under the superseded policies.

The effect of the above adjustments on the deferred tax balances are as follows:

	Consolidated 1 July 2004 $'000	Consolidated 30 June 2005 $'000	Company 1 July 2004 $'000	Company 30 June 2005 $'000
Derecognition of deferred tax balances of wholly owned subsidiaries	-	-	(244)	(1,333)
Net increase/(decrease) in deferred tax balances	-	-	(244)	(1,333)

f) Retained Earnings

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

	Note	Consolidated 1 July 2004 $'000	Consolidated 30 June 2005 $'000	Company 1 July 2004 $'000	Company 30 June 2005 $'000
Transfer from asset revaluation reserve	b	3,764	3,764	-	-
Share based payments to equity	c	(29)	(29)	(29)	(29)
Expensing share based payments	c	-	(164)	-	(164)
Total adjustment to retained earnings		**3,735**	**3,571**	**(29)**	**(193)**
Attributable to members of the parent entity		**3,735**	**3,571**	**(29)**	**(193)**

DIRECTORS' DECLARATION

The directors declare that:

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

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

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

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

In the directors opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in Note 29 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

Tony Howarth
Chairman

Fremantle, 14 September 2006

Deloitte.

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Independent audit report to the members of Mermaid Marine Australia Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Mermaid Marine Australia Limited (the company) and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 22 to 70. 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 Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

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 Accounting Standards in Australia and the Corporations Act 2001 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, their changes in equity 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.

Member of
Deloitte Touche Tohmatsu

Deloitte.

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.

Audit Opinion

In our opinion, the financial report of Mermaid Marine Australia Limited is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

(b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

DELOITTE TOUCHE TOHMATSU

Keith Jones
Partner
Chartered Accountants
Perth, 14 September 2006

ADDITIONAL STOCK EXCHANGE INFORMATION

As at 5 September 2006

ORDINARY SHARE CAPITAL

140,077,367 fully paid ordinary shares are held by 2,047 individual shareholders.

All issued ordinary shares carry one vote per share.

SUBSTANTIAL SHAREHOLDERS

	Number of Shares	% of Issued Capital
Thorney Pty Ltd	14,715,502	10.51
Invesco Australia Ltd	11,360,490	8.11
Delmark Investments Pty Ltd	11,130,000	7.95
Sawtell Pty Ltd (Jim Carver A/c)	9,600,826	6.85

DISTRIBUTION OF HOLDERS OF ORDINARY SHARES

Size of Holding	Number of ordinary shareholders
1 to 1,000	115
1,001 to 5,000	488
5,001 to 10,000	417
10,001 to 100,000	908
100,001 and over	119
Total	2,047

TWENTY LARGEST SHAREHOLDERS

	Number of Shares	% of Issued Capital
Invia Custodian Pty Limited (Black A/C)	14,715,502	10.51
Delmark Investments Pty Ltd	11,130,000	7.95
National Nominees Limited	9,883,857	7.06
Sawtell Pty Ltd (Jim Carvers A/C)	9,600,826	6.85
Rubicon Nominees Pty Ltd	6,375,456	4.55
Mr Mark Bradley	5,666,666	4.05
J P Morgan Nominees Australia Limited	5,368,401	3.83
Argo Investments Limited	5,000,000	3.57
Citicorp Nominees Pty Limited	3,844,631	2.74
The Australian National University Investment Section	3,200,000	2.28
Mr John Paterson	1,500,390	1.07
Akir Pty Ltd	1,115,765	0.8
RBC Dexia Investor Services Aust Nom. P/ L(BKCust A/C)	937,797	0.67
JAS Mews & BL Mews (Mews Secondary Account)	750,000	0.54
Annapurna Pty Ltd	700,000	0.5
Mr Darryl James Smalley	675,830	0.48
Mrs Barbara Lorraine Mews	632,500	0.45
Beaulin Pty Ltd	600,000	0.43
Jeslands Investments Pty Ltd (Jerusalem Retire. A/C)	571,900	0.41
Mr Jeffrey Weber	550,000	0.39
Total	82,819,521	59.13

ADDITIONAL STOCK EXCHANGE INFORMATION

As at 5 September 2006

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.

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