

31st January 2017

Companies Announcements Office

Australian Securities Exchange

Electronic Lodgement

QUARTERLY ACTIVITY REPORT (3 MONTHS TO 31st DECEMBER 2016)

REVIEW OF OPERATIONS

Clever Buoy Technology

The Company's near shore shark detection system, Clever Buoy, was selected by the Western Australian State Government for a pilot installation at City Beach in the Perth metropolitan area.

The \$500,000 project funds a Clever Buoy deployment between the groynes at City Beach. Installation commenced in mid-December and the system will be operating for a trial period up to 31st March 2017. The deployment is aimed at providing the various State Agencies with an opportunity to assess the system's effectiveness in local conditions, its ability to be integrated into existing operations, and potential suitability for use at other sites along the Western Australian coastline.

As part of the further development and refinement of the Clever Buoy technology, the Company commenced a collaborative research project with the NSW Department of Primary Industries and University of Technology Sydney. The project involves a Clever Buoy deployment near Hawks Nest at Port Stephens for a 4-week period to observe and independently verify white shark detections. The activity will provide further independent validation of the shark detection technology and improve the capability of the software that supports the system.

The Company continues to receive a significant number of expressions of interest from around the world in relation to the deployment of the Clever Buoy system. The incidence of shark activity in recent years has had a significant effect on domestic and international tourism and its direct effect on local communities, where beach activity and water sports feature prominently. SMS has been working with local councils, state and federal governments on the approval and funding process to deploy Clever Buoy for beach safety across high risk locations in Australia and is currently engaged with a number of private organisations with additional applications of the technology.

Visual Technology - SAMS

In November, SMS announced the outcome of a successful trial of SAMSTM Visual Technology at Mossel Bay in South Africa, following a comprehensive independent field trial by the University of Western Australia Oceans Institute.

The trial was conducted in a location within a known active population of white sharks to provide a statistically valid data set for robust scientific evaluation. The results of the study have presented scientifically valid confirmation of the effectiveness of one of the SAMSTM Visual Technologies as an effective deterrent in respect of mitigating the risk of shark attack. In replicated trials of the SAMSTM disruptive colouration technology with more than 111 great white shark encounters, the sharks took an average of 90 seconds to engage with the un-baited black 'control' neoprene versus between 5-6 minutes for the un-baited neoprene containing the SAMSTM disruptive colouration patterning.

Based on these findings, the UWA testing confirmed that without the direct influence of bait, the disruptive colouration significantly delayed great white sharks (*Carcharodon carcharias*) from interacting when compared with black neoprene.

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Therefore, under a typical-use scenario, the SAMS disruptive colour technology can have beneficial effects in reducing the likelihood of a negative encounter with a shark by allowing a diver more time to leave the area in the event of a shark encounter.

Other variations of SAMS™ technologies were also trialled as part of this work by UWA and while scientific evidence continues to mount for patterns that disrupt visual contrast being effective for a swimmer, diver or surfer at surface, in these most recent tests, a statistically valid number of surface engagements was not achieved for robust analysis. The company will continue to focus future research and product development activities for its SAMS™ visual disruptive technology.

Whilst the SAMS™ technology has thus far been primarily focused on a consumer market in licensing arrangements to wetsuit, watercraft and ocean equipment manufacturers as a personal deterrent, these latest research results are expected to have significant implications for Occupational Health & Safety (OH&S) for users of this equipment in commercial applications.

The Company attended the Annual Global Diving Equipment and Marketing Association Trade Show (DEMA) in the USA in November. Attendance at the Show provided exposure for the Company's SAMS™ and Clever Buoy technologies to 9,000 credentialed experts in the global diving industry from Dive, Wetsuit & Equipment Manufacturers to Coastal Resort Hotels and Tourism Industry bodies. Significant leads were developed from this event and the team is engaged with some significant international companies.

The Seabin Project

The company has continued its active involvement in the development and commercialisation of Seabin Pty Ltd, a revolutionary environmental technology for cleaning rubbish and floating or suspended waste from marina and protected water environments.

During the period the team at Seabin have been refining prototypes and developing production moulds in preparedness of commercialisation in the first half of 2017.

For more information, visit:

<http://www.seabinproject.com>

Post Period Activity

On the 17th January 2017, the Company announced the successful completion of a Licence Agreement with global surf brand, Rusty, to incorporate the world-leading Shark Attack Mitigation Systems (SAMS™) visual technology into their Australian surfboard portfolio.

Rusty is a global player in the surfboard marketplace, with its signature R Dot logo found in surf shops all over the world. Known for their cutting-edge designs and heritage, their quality surfboards have served several generations of avid surf followers. The Agreement forms a platform from which further global distribution will follow through the Rusty network.

The Company finalised its Research and Development Tax Incentive claim for the 2016 financial year. This claim will result in a rebate in excess of \$350,000 for the company.

For further information, please contact:

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

SHARK MITIGATION SYSTEMS LIMITED

ABN

77 149 970 445

Quarter ended ("current quarter")

31 DECEMBER 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	110	142
1.2 Payments for		
(a) research and development	(183)	(392)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(40)	(125)
(d) leased assets	-	-
(e) staff costs	(205)	(326)
(f) administration and corporate costs	(39)	(99)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	8
1.5 Interest and other costs of finance paid	-	(1)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(354)	(793)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(131)	(131)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(d) intellectual property	(5)	(5)
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(136)	(136)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(5)	(12)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	(5)	(12)

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	2,333	2,779
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(354)	(793)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(136)	(136)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(5)	(12)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	1,838	1,838

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,838	2,303
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,838	2,303

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
62
-

Includes salaries paid to directors, as well as superannuation paid on behalf of directors. Also includes corporate and accounting services paid to a company associated with one of the directors.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
-
-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	79
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	70
9.4 Leased assets	-
9.5 Staff costs	176
9.6 Administration and corporate costs	133
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	457

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	N/A	N/A
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:

Director and Company Secretary

Date: 31 January 2017

Print name: David M McArthur

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.